



Uptake of Corporate Social Responsibility (CSR) by European SMEs and start-ups

Final Report



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European Innovation Council and SMEs
Executive Agency (EISMEA)
Innovation ecosystems, SMP / Entrepreneurship and Consumers

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ABSTRACT

This study examines the level of Corporate Social Responsibility (CSR) amongst small and medium-sized enterprises (SMEs) across selected EU Member States, (potential) candidate countries participating in COSME programme and eight economic sectors. It also provides a CSR policy support typology, an overview of EU and national-level support relevant to SMEs and policy recommendations targeted at three levels, namely EU-level policy makers, national authorities and business support organisations as well as independent business associations/organisations. Study findings conclude that while most SMEs (97%) perform some kind of activities that can be labelled as CSR, the extent of their actions are very diverse. The extent of CSR uptake is determined by multiple factors, namely the company level of maturity, size, as well as the sector or country in which it operates. As a result, multiple pathways to encourage CSR uptake are required. However, most importantly SMEs need support when it comes to integrating CSR into their daily business operations without incurring trade-offs, as finding the business case for CSR remains the most relevant challenge.

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ABBREVIATIONS

B2B	Business-to-Business
B2C	Business-to-Consumer
BITCI	Business in the Community Ireland
CAP	The common agricultural policy
CEE	Central and Eastern Europe
CEF	Connecting Europe Facility
CMO	Contract Manufacturing Organisation
COSME	The programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises
CPME	Confederation of Small and Medium-sized Enterprises in France
CSR	Corporate Social Responsibility
CSR Europe	European Business Network for Corporate Social Responsibility
DG	Decision Gates
DG EMPL	The Commission's Directorate-General for Employment, Social Affairs and Inclusion
DG GROW	The Commission's Directorate General for Internal Market, Industry, Entrepreneurship and SMEs
EaSi	EU Programme for Employment and Social Innovation
EC	European Commission
EEN	Enterprise Europe Network
EFTA	European Free Trade Association
EIT	European Institute of Technology and Innovation
EMAS	EU Eco-Management and Audit Scheme
EMS	Environmental Management System
EREK	European Resource Efficiency Knowledge Centre
ESG	Environmental, Social and Governance criteria
EU	The European Union
FAO	Food and Agriculture Organization of the United Nations
GDPR	General Data Protection Regulation
GPP	Green Public Procurement
GRI	Global Reporting Initiative
HR BCSD	Croatian Business Council for Sustainable Development
ILO	International Labour Organization
IRMA	The Initiative for Responsible Mining Assurance
ISME	The Irish Small and Medium Enterprises Association
ISO	International Organization for Standardization
LAVA	Responsible Business Association Lithuania
NCP	OECD National Contact Points
NeSoVe	The Network Social Responsibility in Austria
NFRD	The EU non-financial reporting directive
NGO(s)	Non-Governmental Organization(s)
NOPEF	The Nordic Project Fund
OECD	Organization for Economic Co-operation and Development
OiRA	Online interactive Risk Assessment
OSH	Occupational Safety and Health
PF4EE	Private Finance for Energy Efficiency
R&D	Research and Development
RBC	Responsible Business Conduct
RBF	Responsible Business Forum
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SIA	Social Impact Accelerator
SME(s)	Small and medium-sized enterprise(s)
SRI	Socially Responsible Investing
ToR	Terms of Reference
TURKONFED	Turkish Enterprise and Business Confederation
TUSIAD	Turkish Industry and Business Association

UN	The United Nations
UNDP	United Nations Development Programme
USAID	The US Agency for International Development
WBCSD	World Business Council for Sustainable Development
WKO	Austrian Chamber of Commerce

EXECUTIVE SUMMARY

Introduction to the study and the methodological framework

The overall objective of the study 'Uptake of Corporate Social Responsibility (CSR) by European small and medium sized enterprises (SMEs) and start-ups' was to report on current levels of take-up of CSR codes of conduct and internal action plans for CSR and sustainability within European SMEs and start-ups, paying particular attention to variations between Member States, regions of Europe and specific sectors of the economy. The study covers small and medium-sized enterprises as defined by the European Commission. Geographically, it covers 15 EU Member States and three (potential) candidate countries participating in the COSME programme (Turkey, Serbia, and North Macedonia), while sectoral coverage includes eight economic activity areas, namely agro-food, banking, finance and insurance, textile and garment, transport, retail trade, pharmaceuticals, mining and quarrying, and the tourism and hospitality industries.

Throughout the study, we refer to CSR uptake and CSR activities simultaneously as CSR/sustainability activities to emphasise that the study was meant to capture the variety of activities SMEs undertake that result in a positive social and/or environmental impact. CSR/sustainability activities should, ideally, extend beyond legal requirements – respect for non-binding principles and standards is perceived as the main feature of CSR. In this study we distinguished seven areas of action in accordance with the broadly adopted ISO 26000 Guidance Standard on Social Responsibility (ECOLOGIA, 2011). The seven areas are as follows: decent work, consumer issues, the environment, community involvement and development, human rights, responsible business relations (supply chains), and organisational governance. Disclosure of enterprise information regarding business operations is considered as a separate area of activity that is conceptually distinct from the activity areas described above.

The analysis provided in this report is based on extensive desk research, two surveys (survey of SMEs and survey of business support organisations), and an interview programme with business representatives and policymakers at the EU and national levels. It should be pointed out that due to positive bias in the SME survey (SMEs that chose to participate are more likely to be interested in CSR/sustainability and conduct such activities), study results provide a somewhat optimistic picture. That being said, the results are useful for comparing CSR/sustainability uptake in relation to various SME features, such as size, age, sector, activities abroad, etc.

CSR/sustainability uptake amongst European SMEs: state of play

Study results have shown that most SMEs (approx. 97%) perform some kind of activities that can be labelled as CSR. However, SMEs tend to under- or over-state the level of their commitments, and it remains difficult to accurately assess or compare any data based on self-reporting. Ultimately, this points to a lack of understanding amongst SMEs themselves on what constitutes CSR/sustainability and how it should be articulated.

When it comes to specific CSR actions, SMEs pay most attention to the areas of decent work (80.2%) and consumer issues (71.7%) because they directly benefit their businesses. Decent work practices help to ensure employee motivation and retention, - a key area of concern for most SMEs, while consumer satisfaction helps to maintain a stable client base. Commitment to environment-friendly practices seems high (70.7%), but in fact, the level

of commitment seldom extends to more substantial actions. Most companies conduct ordinary activities such as recycling or reducing plastic waste by opting for paper packaging. Companies involved in manufacturing or sourcing operations tend to be more involved with activities that bring less harm to the environment.

Activities related to human rights (55.5%) and community involvement (54.8%) are amongst the least performed by SMEs because they are not perceived as directly relevant to company operations, while at the same time requiring additional capacity and sometimes investment. Companies in the service industries tend to be more concerned with such activities and especially in ensuring workforce diversity and/or offering training opportunities. The area of good governance is also perceived as largely irrelevant by many SMEs (64.1% were said to conduct any activities in this area). It is, just like the notion of CSR itself, commonly associated with large enterprises. This is especially the case for small, family-owned enterprises where any formal structures are regarded as unnecessary.

Finally, responsible business relations and especially supply chain diligence have been gaining wide-spread notice over the last few years and will become increasingly important in the future. SMEs, however, find it difficult to ensure proper conduct, and in fact, are commonly on the receiving end of supplier policies – large buyers may pressure smaller companies to comply with specific regulations or demands. This can have a positive impact on CSR uptake but can also be perceived as coercion. Overall, 66.4% of SMEs said they conduct some sort of activity to ensure responsible business relations, and businesses with a strategic outlook on CSR/sustainability were more likely to do so.

The level of engagement across all of the CSR areas mentioned above is very diverse, with some SMEs going just beyond minimum legal requirements, while others conduct extensive activities with clear impacts. The majority, however, tend to conduct activities that require little to no additional efforts outside of ordinary legal obligations and purely voluntary CSR/sustainability practices remain more limited.

Common SME approaches to CSR/sustainability action

The study looked into four different approaches to CSR/sustainability amongst companies. The findings are as follows, per each group:

- **Companies with a sustainable business model (sustainability at the core).** Such companies are young, small (even self-employed), and conduct activities outside the EU. Data has shown that young and dynamic companies (e.g. start-ups) are almost two times more likely to run a fully sustainable business. Most of them benefit the environment and operate within sectors better-placed to have a sustainable business model (e.g. retail, tourism or agro-food). They require networking and partnership opportunities to access new markets, and also need more exposure.
- **Companies with a CSR/sustainability strategy (sustainability as a priority).** More than a quarter of study participants (27.5%) said they have a CSR/sustainability strategy in place. However, statistically speaking, a “typical” European SME is not likely to have a business strategy, because sustainability strategies are most prevalent amongst the larger and better-established SMEs (more than 50 employees, over 21 years of age). These companies tend to operate in manufacturing sectors in the Northern or Western EU. They value partnerships and information as a means to expand/benefit their business.

- **Companies without a CSR/sustainability strategy but that might be planning for one (sustainability as a noted concern).** Small (10-49 empl.), average age (6-20 years of age), interested in accessing foreign markets. They especially lack human resources and knowledge for transforming business practices.
- **Companies without a CSR/sustainability strategy, not planning on one (sustainability undifferentiated from “business as usual”).** Micro-enterprises or self-employed (esp. in retail), common in labour-intensive industries such as agro-food or transport, where competition is price-based. Also, quite prevalent in Central and Eastern Europe, as well as amongst companies that operate only within the home market. Such companies often do not see the business case for CSR, need tailored support and regulation remains a strong incentive.

The SME approach to CSR/sustainability also determines to what extent a company is likely to publicly disclose information on its activities. SMEs without a strategic outlook on CSR/sustainability tend not to share information about their activities because the costs of reporting outweigh the benefits. Overall, a larger share of SMEs that participated in the survey do not follow any information disclosure practices (only 37.6% said they did). The SMEs that do tend to publicly disclose any information mostly do this in an ad hoc manner by posting about their activities on social media. SMEs that have a sustainable business model or a CSR/sustainability strategy tend to publish such information more often because it is tied to the company’s competitive advantage.

Drivers and barriers to CSR/sustainability uptake amongst SMEs

Key reasons for SMEs to take-up CSR/sustainability activities and their implications are as follows:

- **Ethical motivation** (68.5%). For a significant portion of SMEs, ethical motivation to reduce negative impacts on society and/or the environment was said to be the primary reason to engage in CSR/sustainability activities. This means that SME owners and top managers need to be aware of and understand the benefits/added value of CSR/sustainability practices.
- **Expectations set by buyers** (55.3%) and **customer demand** (53.2%). Whichever of these relationships is prioritised by an SME mostly depends on the sector in which it operates and the precise position (more upstream or downstream) it occupies within the supply chain. If CSR/sustainability is prioritised by clients, expectations will trickle down to SME operations. If present, this pressure can be a strong driver to take up CSR/sustainability. However, in cases where clients do not care, SMEs are also unlikely to be interested.
- **Increase employee motivation and retention** (50%). SMEs value their employees as a core asset, hence the business case for improving working conditions is very clear.
- **Meet requirements set by law** (49.5%). This remains an important driver that helps to raise, for example, labour or environmental standards in many countries, but at the same time limits room for conducting activities on a truly voluntary basis.

The business case for other activities does not seem as clear-cut. While increasing cost savings and efficiency or innovation performance were important for some, it was much lower down the line than could have been expected. SMEs struggle to perceive the positive

benefits of CSR practices on costs, efficiency, or even revenue and market share. In fact, while SMEs claimed that no perceived economic benefit was amongst the least significant barriers to activities (31.5% said it was a significant or very significant barrier), the overall results of this study show that the **lack of a clear and viable business case for CSR/sustainability** constitutes a major and possibly a key barrier to CSR/sustainability uptake amongst SMEs. CSR/sustainability is not a priority to many stakeholders that SMEs are involved with, hence the limited action. Other barriers and their implications are as follows:

- **Lack of financial and human resources.** The financial aspect stems from limited budgets with which SMEs operate and any medium-to-long-term investments are approached as a risk. Lack of human resources is really a lack of time from both the owner-manager and the employees. This should be taken into account when designing support measures by offering simple and straightforward solutions that SMEs would find highly accessible.
- **Lack of awareness on available support programmes.** In some instances, there is an actual lack of support. For example, in some countries, very little attention is paid to SMEs and their needs and most tools or support programmes are only relevant to large multinational companies. In other instances, it is simply a lack of knowledge on what could be useful. SMEs, given their constant lack of resources, find it difficult to undertake a detailed assessment on the kind of support available and the kind of support they need.
- **Lack of practical knowledge.** Many SMEs are well-aware of the concepts of CSR/sustainability. However, they lack the purely operational kind of knowledge to be able to integrate CSR/sustainability principles into daily business without making substantial trade-offs or taking on serious risks.

Finally, the COVID-19 pandemic has caused significant disruption. Many enterprises, particularly SMEs, will simply seek to remain viable and avoid bankruptcy. Some 70% of SMEs said their revenues had declined because of the pandemic, while 28% feared they would have to cancel growth projects (de Vet et al., 2021). SMEs that approached CSR/sustainability as their competitive advantage prior to the COVID-19 pandemic are likely to have already benefited from their approach. However, given the impact of the pandemic, many SMEs are unlikely, at least in the short-term, to regard CSR/sustainability action as a priority.

Policy support needs to encourage CSR/sustainability uptake amongst SMEs

The support needs of SMEs reflect the diversity of the SMEs themselves and can range from simple guidelines or standards to sophisticated partnership and networking opportunities. Various context factors, such as the sector or country within which an SME operates have a strong influence in shaping support needs. Overall, additional finances were said to be the most sought-after type of support. Good practice examples from other companies or organisations were said to be the second most important support for SMEs, while information and knowledge or free initial consulting on how to integrate sustainability into business operations were third and fourth respectively. For SMEs that prioritise CSR/sustainability, networking opportunities and partnerships are important – they can provide better access to various resources and information, enable entrepreneurs to build partnerships with like-minded peers, provide guidance on reporting, help increase leverage to ensure higher compliance with various standards from larger companies or suppliers, etc. Networks can also provide significant support for SMEs that source from or operate in third countries. SMEs without a CSR/sustainability strategy or business model would more

likely benefit from measures tailored to specific business needs based on such features as company size or their particular economic sector; additional human resources are relevant to SMEs that plan on introducing a CSR/sustainability strategy.

EU level policies and initiatives

The EU has set-up extensive strategic commitments with respect to various areas of action, as well as specific industry areas. This sets the tone for future policy in many EU Member States and especially countries within Central and Eastern Europe (e.g. the Green Deal is a major tone-setting commitment). However, SMEs are not always sufficiently included and/or informed about expectations and, especially when it comes to responsible conduct, the amount of diverging information can be difficult to manoeuvre. Furthermore, this commitment is not necessarily appropriately reciprocated at the national level nor accompanied by appropriate support measures. In the future, additional EU-level directives and regulations directly linked to company CSR/sustainability efforts are expected to be introduced. Legislation for mandatory due diligence or the Corporate Sustainability Reporting Directive, while not directly relevant for SMEs, are expected to have an impact via large buyers. As a result, SMEs will need additional support if they are asked to report their CSR/sustainability impacts. Finally, while the EU, together with other international bodies, already provides numerous toolkits and guidelines with respect to specific CSR areas or sectors, SMEs do not necessarily find this support accessible, are unaware of it, or it is not sufficiently tailored to their needs.

National level policies and the role of national contexts for CSR uptake in SMEs

CSR uptake amongst SMEs, as well as the prevalence and complexity of policy measures, depend on multiple factors such as the structure of national economies, the level of economic development, the traditions of social dialogue and the level of stakeholder engagement, as well as the existing policy and regulatory frameworks. As a result, depending on national context, certain CSR action areas or specific activity themes tend to be given a stronger priority, or are more likely to be reported. This makes country-comparison difficult – there is lack of a clear uniform understanding on which activities should be reported as responsible/sustainable conduct. Likewise, regional disparities are significant in terms of policy support provided. This is particularly apparent in government approaches and the types of stakeholders that can be named as the driving forces for higher CSR/sustainability uptake.

- **In Northern Europe, CSR can be placed under the broad label of sustainable growth.** It appears that many SMEs have successfully combined economic competitiveness with sustainability considerations, a strict regulatory environment and considerable tax contributions. The Nordic countries are also known for strong stakeholder dialogue and a supporting culture of trust among institutions, businesses and society. This is also reflected in the high number of initiatives that are implemented in cooperation with stakeholder groups.
- **Western European countries such as Germany, Austria and France are often characterised by a strong presence of the government,** extensive social security systems and institutionalised forms of stakeholder participation. Business activities in different CSR areas often take implicit forms and are not labelled as CSR – in fact, they are often a legal obligation or are commonly expected by stakeholders. At the same time, there are many voluntary initiatives undertaken by various partnership groups either on a sectoral or another basis.

- **The uptake of CSR/sustainability in Spanish, Italian and Greek SMEs appears to be uneven.** Compliance with existing legislation is often considered a special merit as the level of corruption and informality is still relatively high in countries such as Italy or Greece while with regard to CSR/sustainability policy support measures, institutions appear to be more active in Italy and Spain than in Greece. Overall, 'soft' policy support measures dominate in Southern Europe. A facilitation of dialogue, support to small grassroots initiatives and civil society organisations are highly prevalent.
- **The public administrations in Central and Eastern Europe are highly aware of the developments taking place in other EU countries, yet they do not fully 'internalise' these changes.** Implementation of declared commitments seems to be a concern of only the few organisations that are directly responsible for it. Most CSR-related policy actions appear to be concentrated within several civil society organisations and/or business networks and are dominated by multinational and large enterprises.
- Western Balkan countries that fall under the scope of this study, namely Serbia and North Macedonia, as well as separately Turkey, have harmonised their legal frameworks with the EU and have set strategic goals towards achieving the Sustainable Development Goals. However, **the implementation of these goals and even the enforcement of existing legislation is questionable.** Most companies still have a narrow understanding of CSR; some SMEs do not even comply with basic legislation (issues such as corruption, informal employment and even child labour in the case of Turkey are still prevalent).

Recommendations to encourage further CSR/sustainability uptake amongst SMEs

Proposed recommendations stem from the results of this study and address three target groups, namely the European Commission (EU-level policy makers), national authorities and business support organisations/sectoral associations.

Recommendations to the European Commission (EU-level policy makers)

1. **Communicate expectations.** Currently, a clear and **operational understanding on what constitutes CSR/sustainability** and how it should be perceived in a business and particularly in an SME context, is lacking. Hence, the EU could propose a clear framework with defined concepts that could be used to shape the discussion and communicate expectations for SMEs across different settings.
2. **Facilitate monitoring and reporting.** SMEs are facing more and more pressure from large buyers, consumers and/or investors to showcase their CSR/sustainability efforts. However, most SMEs do not follow any information disclosure practices because they lack the knowledge and the capacity to do so. This is also relevant when it comes to supply chain monitoring. Hence, in light of the Corporate Sustainability Reporting Directive proposal, voluntary reporting standards and tools tailored to SME needs are necessary. The standards could also function as a self-assessment or monitoring tool that is both simple and sufficiently informative. In addition, a relatively straightforward and easy-to-use *voluntary* supply chain due diligence framework for SMEs to help undertake supply chain due diligence could be proposed. The framework should support SMEs in determining, preventing and managing risks in their supply chains, as well as providing guidelines/support on how to ensure compliance.

3. **Support industry-level schemes.** The most significant impact with respect to CSR/sustainability uptake can be achieved if action is targeted at solving the most pressing concerns prevalent within each economic sector. The EU can support the development of coherent sectoral policies and ensure that SMEs within each sector are sufficiently included.
4. **Build capacity to ensure a more level playing field.** Given the variety of cultural contexts and the diversity of commonly accepted business practices and standards, the EU can lead efforts in capacity-building with respect to CSR/sustainability uptake amongst national authorities, sectoral associations and business support organisations. An extensive package for knowledge-sharing activities that includes support on how to integrate CSR/sustainability into business operations and online tools for sustainability monitoring/management, as well as reporting, will need to be provided to SMEs.
5. **Enable better information-sharing, networking and partnership opportunities with respect to third countries.** Supply chain due diligence may be ensured by finding long-term reliable partners in other countries, which further serves to increase company resilience to external shocks. However, most SMEs find it difficult to conduct business in developing countries. As a result, SMEs willing to trade or invest directly in third countries should be supported with information on regional specifics, opportunities, and local networks.
6. **Ensure more extensive regulation of third-country imports.** Currently, European SMEs struggle to compete with companies that operate outside the EU and adhere to lower labour as well as environmental standards. More rigorous enforcement and monitoring of compliance is needed to make sure that companies on the home market are sufficiently protected. Proposing a legislative framework for importers from third countries may be considered.

Recommendations to national authorities

Some kind of national policy measures to encourage the uptake of CSR/sustainability are more or less present across all EU Member States and some initiatives also exist in the Western Balkans and Turkey. However, disparities across European regions can be high. As a result, not all recommendations will be as equally relevant to national authorities within different countries.

1. **Commit to increasing the responsibility/sustainability of all enterprises.** There are large differences in how the expectation for companies to become more responsible/sustainable are communicated across EU Member States. Sustainable and responsible industry needs to be articulated as a policy objective on a national level. National authorities should work on a **national-level commitment** to responsible/sustainable business and involve various stakeholders (businesses, non-governmental organisations, civil society organisations) to encourage voluntary participation and positive peer-pressure (esp. multi-stakeholder partnerships).
2. **Foster the business case for CSR/sustainability.** National authorities can play a strong role in fostering the business case for CSR/sustainability by setting up demand-side instruments and ensuring that irresponsible/unsustainable enterprises struggle to continue doing “business as usual”. This includes, but is not limited to, the following:
 - a) Prioritising responsible/sustainable companies in public procurement

- b) Developing financial measures to steer companies away from less desirable industry/company conduct in specific areas. Instead of more usual tax credits, this ought to take the form of a Pigovian tax, where less responsible conduct costs more to maintain (e.g. the polluter-pays principle).
 - c) Given that most Member States offer various financial support measures to SMEs (grants, subsidies, etc.), they can be combined with CSR/sustainability criteria, similar to those applied in public procurement procedures.
3. **Support industry- or country-specific measures.** Initiatives, programmes and schemes set up within specific industries and/or countries as well as regions have proven to be relatively successful in fostering more responsible/sustainable company conduct. National authorities may support highly targeted programmes that help tackle country- or industry-specific issues within business.
 4. **Support stakeholder forums, local networks and/or public-private partnerships.** Various partnerships and networks can be a very valuable form of support for CSR/sustainability uptake, especially given the environment of mutual peer-learning, resource exchange and positive pressure they enable. Already existing networks, forums and other channels should be used to promote CSR/sustainability uptake amongst companies. This can take the form of “knowledge/experience clusters” in sectors where large purchasers and small suppliers gather to discuss and agree on certain sustainability standards/norms, specific requirements or similar.
 5. **Provide sufficient information and tools tailored to SME needs.** While there is a substantial amount of available information related to CSR, business sustainability, business and human rights, or similar topics, this information in many instances does not suit specific SME needs. National authorities may ensure that SMEs are provided with sufficient information via national business support organisations (a “one-stop-shop” could be considered).
 6. **Ensure legal compliance.** Extensive legislative measures and rigorous enforcement mechanisms remain an important means of setting a minimum baseline for business conduct. Hence, national authorities ought to strengthen institutional capacity to enforce legal compliance within companies both at the EU and national levels.

Recommendations to business support organisations and sectoral associations

The following recommendations are addressed towards business support organisations:

1. **Provide SMEs with relevant and sufficient information on CSR/sustainability integration into business operations.** SMEs require straightforward, highly accessible and extremely well-targeted support when it comes to CSR/sustainability action. Business support organisations are ideally placed for determining the type of support they need and recommending appropriate sources/suggestions, etc.
2. **Provide SMEs with access to networking and partnership opportunities that can positively impact CSR/sustainability uptake.** SMEs, and especially those that already somewhat appreciate the business case for CSR, would benefit from various partnership opportunities.

The following recommendations are addressed towards sectoral associations:

1. **Commit to increasing the responsibility/sustainability of all enterprises within a sector or amongst association members.** Each sector ought to agree

on a strategic commitment for improving sector-specific areas that hinder the more responsible/sustainable conduct of companies along the value chain.

2. **Provide SMEs with relevant and sufficient information on CSR/sustainability and especially tailored support and practical tools.**

Sectoral business associations may provide SMEs with the necessary sector-specific information or tools to tackle issues. Other business associations may deliver less tailored, but nonetheless relatively well-targeted information on certain CSR areas or concrete issues.

3. **Develop industry-specific schemes or programmes to address industry needs with respect to supply chain diligence or other relevant themes.**

Sectoral associations are best-placed to lead industry-specific schemes or programmes that would address issues across the whole sector. The textile and garment industry has emerged as a good example, with many sectoral initiatives available to support companies.

INTRODUCTION

Study objectives

The overall objective of the study 'Uptake of Corporate Social Responsibility (CSR) by European small and medium sized enterprises (SMEs) and start-ups' is to map, assess and report on current levels of take-up of CSR codes of conduct and internal action plans for CSR and sustainability within European SMEs and start-ups, paying particular attention to variations between Member States, regions of Europe and specific sectors of the economy.

Up to now, there has been little analysis or data on the uptake of CSR by smaller companies and start-ups, the impact of measures on their ability to grow and innovate, and the ways in which the adoption of strong CSR can help them to grow and become more sustainable.

The specific objectives of this study are as follows:

1. Assess the current level of uptake of CSR/RBC and sustainability strategies by SMEs and start-ups and identify barriers and obstacles that prevent SMEs from developing such activities
2. Collect, analyse and discuss good practices with regard to CSR/RBC and sustainability activities in SMEs, presenting illustrative examples of relevant and replicable dimensions of CSR/RBC activities
3. Collect and analyse national and EU level support measures that help SMEs draw up and implement CSR/RBC and sustainability strategies
4. Propose recommendations for effective delivery mechanisms of CSR/RBC support at national and EU levels.

Study scope

The scope of this study is limited by enterprise size, geographic location and economic activity areas. The study only covers small and medium-sized enterprises as defined by the European Commission. Geographically, the study covers 15 EU Member States and three (potential) candidate countries participating in the COSME programme (Turkey, Serbia, and North Macedonia). The sectoral coverage of this study includes eight economic activity areas, namely agro-food, banking, finance and insurance, textile and garment, transport, retail trade, pharmaceuticals, mining and quarrying, and the tourism and hospitality industries.

In terms of CSR actions, in this study we distinguish seven areas of action in accordance to the broadly adopted ISO 26000 Guidance Standard on Social Responsibility (ECOLOGIA, 2011): decent work, consumer issues, the environment, community involvement and development, human rights, responsible business relations (supply chains), and organisational governance. Disclosure of enterprise information regarding business operations is a separate area of activity that is conceptually distinct from the activity areas described above.

Scope and limitations of this report

This report comprises the results of the study, including feedback and results from the consultation of key stakeholders, two surveys, a selection of good practices, and the description and an analysis of the policies and initiatives fostering uptake of CSR in SMEs at the EU level and in the 18 selected countries.

Study findings showcase large variations between SME uptake of CSR/sustainability depending on their level of maturity, their size, as well as the sector or country in which they operate. This report tries to capture the extent of this diversity and determine which pathways would be the most beneficial to encourage further uptake of CSR/sustainability, especially taking into account that a one-size-fits-all approach in this case is both unfeasible and undesirable.

The analysis provided in this report is based on extensive desk research, two surveys (survey of SMEs and survey of SME support organisations), and an interview programme with business representatives and policymakers at the EU and national levels. The key limitations of this report have to be noted:

- First, delays in data collection and the somewhat poorer than expected quality of responses due to the pandemic. The **timing** of the survey **coincided with the second wave of the COVID-19** pandemic across Europe. Given that as many as 74% of SMEs were said to have been impacted, direct business concerns were more pressing at the time. As a result, the surveys ran longer and the response rate was lower than could be expected under different circumstances. The SME survey was conducted from February 17th to May 7th, 2021. Cleaning of the data was completed by May 17th. The impact of the Covid-19 pandemic on CSR practices is also discussed in the report.
- The second limitation concerns the breadth and depth of the analysis with regard to the CSR activities of SMEs and relevant policies. As noted above, a large variety of action areas fall under the broader CSR/RBC/sustainability umbrella. Each of the areas can be studied in more depth and each is supported by targeted policies, including specific regulatory measures. For the purpose of this study, we focus less on vertical policies (targeting specific CSR action areas such as decent work or environmental sustainability) and more on horizontal policies, targeting CSR uptake by SMEs and relevant for all action areas.

Report structure

The report specifies the following elements in more detail:

- The methodology and research framework of the study ([Chapter 1](#))
- Overview of key trends of CSR uptake by European SMEs and start-ups, including key obstacles and the need for support ([Chapter 2](#))
- Mapping of sustainable business models and sustainability strategies ([Chapter 3](#))
- CSR uptake by activity areas ([Chapter 4](#)) and by economic sectors ([Chapter 5](#))
- Policies fostering uptake of CSR in SMEs ([Chapter 6](#)). This chapter provides a typology of policy support measures, discusses EU-level and national level policies and initiatives fostering the uptake of CSR in SMEs (including the national context and uptake of CSR in European regions), and provides an analysis of policy availability to cover key barriers faced by SMEs discussed in the previous chapters.
- Conclusions and recommendations ([Chapter 7](#)). This chapter summarises the key takeaways from the study and provides suggestions for policy action at the EU- and national-levels, as well as recommendations to business support organisations.

Additionally, the report includes four Annexes, namely the list of interviewed institutions ([Annex 1](#)), list of literature sources ([Annex 2](#)), final survey questionnaires ([Annex 3](#)), and an in-depth analysis of national level context for CSR uptake and policy measures available for SMEs in each of the 18 selected countries ([Annex 4](#)).

1. METHODOLOGY AND RESEARCH FRAMEWORK

This chapter on methodology includes a brief description of the overall conceptual approach, the scope of this study, and key primary data collection methods relevant for this report.

1.1. Key concepts of the study

1.1.1. Defining Corporate Social Responsibility

The European Commission (EC) defined Corporate Social Responsibility (CSR) as “**the responsibility of enterprises for their impacts on society**” almost a decade ago, in the (renewed) EU Strategy for Corporate Social Responsibility (European Commission, 2011). This definition of CSR remains relevant and forms the starting point of this study. An alternative yet similar term, Responsible Business Conduct (RBC), is used by the OECD (OECD, 2011). It highlights similar activity areas, but also points towards compliance with laws, even if they are poorly enforced. Full definitions are provided in Table 1 below.

The two definitions make it clear that both CSR and RBC address genuine enterprise engagement with their social and environmental surroundings. This relationship between business, society and the environment is also a central issue for sustainable development. While in the past sustainability had been strongly associated with purely environmental issues, it is now widely accepted that economic and social concerns are just as equally important (Beal, 2014). As such, sustainable development within the business context has come to be closely associated with CSR and RBC (Beal, 2014) and some argue that, in purely practical terms, all three concepts are synonymous.

Table 1. Definitions of relevant terms and commonly associated keywords.

Term	Definition	Associated keywords
Corporate social responsibility (CSR)	To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of maximising positive impacts and identifying, preventing, and mitigating possible adverse impacts.	Corporate, voluntary, ethical, philanthropy, mitigation of adverse impacts, human rights, social impact
Responsible business conduct (RBC)	Responsible business conduct (RBC) means complying with laws , such as those on respecting human rights, environmental protection, labour relations and financial accountability, even where these are poorly enforced . It also involves responding to societal expectations communicated by channels other than the law, e.g. inter-governmental organisations, within the workplace, by local communities and trade unions, or via the press.	Accountability, compliance, transparency
Sustainable enterprise	A sustainable enterprise is an organization that can anticipate and meet the needs of present and future generations of customers and stakeholders through creating and innovating new business strategies and activities that accelerate positive social change, protect and preserve environmental integrity, while enhancing business performance .	Sustainability, environment-friendly, green, positive social impact

Source: European Commission (2011). A Renewed EU Strategy 2011-14 for Corporate Social Responsibility, OECD (2011); *OECD Guidelines for Multinational Enterprises*. OECD Publishing; Zu L. (2013) Sustainable Enterprise Development. In: Idowu S.O., Capaldi N., Zu L., Gupta A.D. (eds) *Encyclopaedia of Corporate Social Responsibility*. Springer, Berlin, Heidelberg.

The European Commission has taken a holistic and integrated approach that prioritises practical policy action over theoretical distinctions in conceptualising CSR/RBC/sustainability (European Commission, 2019a) (including relevant Sustainable Development Goals¹). At the same time, while these terms are closely related, each carries its own nuanced meaning, **which can hinder dialogue on these matters and add obscurity with respect to the goals to be achieved**. For the purpose of this study, we refer to CSR uptake and CSR activities simultaneously as CSR/sustainability activities to emphasise that **the study was meant to capture the variety of activities SMEs undertake that result in a positive social and/or environmental impact**.

However, it should nonetheless be noted that differences in these terms need to be taken into account if the discourse and support for responsible enterprise engagement is to be further developed and maintained. This is especially true when considering **SMEs** – they **are likely to disassociate themselves from terms such as CSR or RBC** because they implicitly refer to corporate endeavours and corporate-level issues. At the same time, the concepts of sustainability and sustainable business practice can be elusive as well as misleading when thinking about SME activities. Very few will be able to implement activities that result in a positive social as well as environmental impact, and many are still unclear on how their business operations can address this. The following differences between the terms CSR, RBC and sustainable business should be taken on-board:

- **CSR** remains associated with philanthropy and various **purely voluntary social endeavours** (Sales, 2019), **more commonly used for PR purposes** than to address systematic long-term issues **within large enterprises**². Such activities are perceived as non-essential “nice-to-haves” that might have little to do with actually reducing the adverse negative impact of daily business operations. Within this context, it also remains questionable to what extent policymakers should be involved with providing support for these kinds of activities because CSR should essentially remain business-led. At the same time, CSR entails activities that should take into account the needs of multiple stakeholders (see [section 1.1.4.](#)), and in the face of climate change, globalisation, and an increasing awareness of human rights violations, many (Martinuzzi et al., 2011) question whether it is appropriate to refer to many CSR actions as voluntary.
- **RBC**, on the other hand, is associated more with company **accountability, compliance** and **overall transparency**. The definition of RBC explicitly outlines that RBC means, first and foremost, complying with laws (OECD, 2011). While this is certainly important and remains extremely relevant with respect to certain activities and sectors (e.g. prevalence of undeclared work, see [section 4.1.](#)), in the case of SMEs it only serves to communicate negative requirements rather than expectations for positive efforts (i.e. SMEs understand that it is enough to not engage in illegal activities of any kind and if any unethical practises are not prohibited, they see no issue in doing them). Furthermore, overly rigorous accountability and transparency requirements can be perceived as a serious additional administrative burden by SMEs and instead of nudging them towards responsible conduct, result in mock-compliance (see [section 4.6.](#)).
- **Sustainability and sustainable business practice** are terms that have slowly taken centre-stage over the last decade. Politicians, business and society at large are increasingly using the term “sustainability” in discourses on a variety of human activities, which are conducted by keeping in mind their social and environmental

¹ The Sustainable Development Goals were put forward as a means to implement the 2030 Agenda for Sustainable Development and are therefore in line with the definition of sustainable development.

² More information is available at: <http://oecdinsights.org/2016/01/22/2016-csr-is-dead-whats-next/>

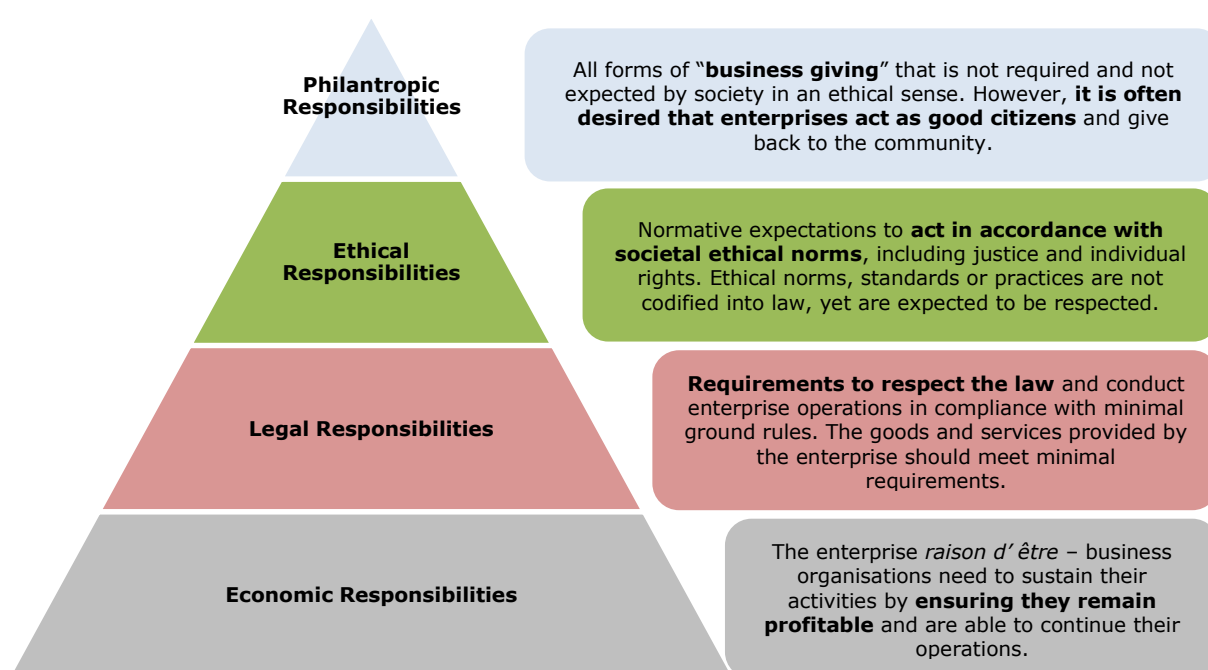
impact. However, the term remains strongly associated with various “green” activities. This can result in misunderstandings amongst consumers and SMEs, whereby social concerns are perceived as potential trade-offs in favour of reducing negative environmental impacts. Such perceptions can deter certain types of SMEs from putting in additional efforts, especially as “sustainability” in some instances becomes associated with upper-tier consumers who only make up a small niche segment.

Ultimately, the terms reflect certain expectations with respect to business conduct and when it comes to SMEs, the communication of them remains essential. Inspiration can be taken from CSR front-runner countries where expectations for business conduct are high and are communicated accordingly via a range of support measures (see [Chapter 6](#)).

1.1.2. Activities that constitute CSR/sustainable conduct

For the purpose of this study, we consider that CSR activities should, ideally, **extend beyond legal requirements**. Figure 1 below presents one of the most widely used graphic depictions of corporate responsibilities, with additional commentary that explains each segment.

Figure 1. Carroll’s pyramid of CSR, following a four-part definition of corporate responsibilities.



Source: Authors’ elaboration based on Carroll, A. B. (2016). Carroll’s pyramid of CSR: taking another look. *International Journal of Corporate Social Responsibility* 1(1). DOI 10.1186/s40991-016-0004-6.

Table 2 below provides specific examples of enterprise activities under each responsibility category.

Table 2. Enterprise responsibility categories and their corresponding activities.

Responsibility category	Activity examples
Economic responsibilities	Making a regular profit from ongoing business operations, ensuring business cost-effectiveness, investing in business growth, having a business growth and/or marketing strategy, engaging in fair competition, providing jobs, paying wages. Additionally, this could include investment into research, development and innovation, training activities, infrastructure investments or similar, but these are not considered essential for all businesses.
Legal responsibilities	Ensuring that all business operations are performed in accordance with existing law and regulations. This may include paying taxes, ensuring transparency of enterprise operations, not engaging in bribery or other corrupt practices, complying with occupational health and safety standards, respecting labour laws and employee rights, respecting customers' rights.
Ethical responsibilities	Preventing ethical norms from being compromised to achieve business goals, e.g. by not violating human rights where they are poorly enforced, by not causing unnecessary harm to animals, by refusing to engage in practices that could be detrimental to the local environment, etc.; ensuring that all business operations are environmentally friendly e.g. by adopting a zero-waste approach, by reducing emissions, by using renewable energy in their operations, by promoting the re-use of their products etc.; engaging and benefiting enterprise stakeholders, e.g. by engaging in social dialogue, by ensuring equal opportunities to everyone through additional efforts, by paying fair wages to suppliers, etc.
Philanthropic responsibilities	All forms of "business giving" such as giving monetary resources without expecting gain (hence different from investment), product and service donations, employee volunteering, community development activities, and similar acts of generosity for the public good.

Source: Authors' elaboration based on Carroll, A. B. (2016). Carroll's pyramid of CSR: taking another look. *International Journal of Corporate Social Responsibility* 1(1); Martinuzzi A., Krumay, B., Pisano, U. (2011) *Focus CSR: The New Communication of the EU Commission on CSR and National CSR Strategies and Action Plans*. ESDN Quarterly Report No 23. European Sustainable Development Network; United Nations Global Compact (2014). *Guide to Corporate Sustainability. Shaping a Sustainable Future*.

The typology of corporate responsibilities proposed above clearly illustrates that while purely voluntary philanthropic actions are desired, they are not necessarily sufficient to classify an enterprise as socially responsible. There are many examples³ when enterprises are engaged in seemingly philanthropic activities but do not respect ethical norms and, as a result, may not be considered socially responsible. According to Carroll (2016), ethical responsibility, in fact, permeates all other responsibility categories and ought to be at the core of all enterprise activities. The level of conduct expected from enterprises should, broadly speaking, allow **society to anticipate behaviour that could easily be transposed into future laws**. Such conduct would lead to **maximising positive impact** while at the same time harming no one. This means that regarding CSR as entirely voluntary might lead to a false interpretation of an enterprise's intentions and activities. Finally, enterprises are expected to fulfil all responsibilities simultaneously, hence, economic and legal responsibilities also remain very important (Carroll, 2016). Ideally, meeting all of the said responsibilities should enable the enterprise to become a **sustainable organisation** (see Table 1 in [section 1.1.1](#) for a definition).

³ For example, some companies, while publicly showing commitment to CSR and donating to various causes, continue to source materials from places that are known for child labour or slave labour. Several pharmaceutical companies have been labelled as irresponsible for marketing addictive drugs or testing products on the poor, while simultaneously making public donations to healthcare institutions.

Within the last three decades⁴, it has become increasingly important that **businesses adapt their business models to fit the principles of sustainable development**. This means that meeting ethical obligations is slowly becoming an integral part of regular business operations. Thus, the operations themselves yield a positive impact on societal issues or the environment. In other words, balancing economic, societal and environmental benefits is becoming a question of strategic importance (Martinuzzi et al., 2011). Businesses are starting to develop entirely new **ways of making a profit that are, from the get-go, based on ethical principles and sustainability concerns** rather than starting to develop their business and only then, as a matter of secondary consequence, finding ways to contribute to societal issues.

Hence, while there are many definitions and typologies of CSR (Martinuzzi et al., 2011), the classic division of enterprise responsibilities allows distinguishing between activities that:

- Are essential for the existence of any enterprise,
- Extend beyond basic requirements, and as a result, may positively affect society or the environment.

For the purpose of this study, **we focus on activities that are mainly, although not exclusively, related to an enterprise's ethical responsibilities**. In other words, we consider **respect for non-binding principles and standards as the main feature of CSR** and a key criterion that enables to follow EU strategy, which explicitly notes that the development of CSR should be company-led. Furthermore, we also acknowledge the importance of sustainable development and wish to pay extra attention to enterprise activities that aim **to fully integrate ethical concerns within their ordinary economic business operations**, whereby direct business profit originates from activities that are also beneficial to society at large. This is what we understand by the explicit mention of core business strategy (in relation to various concerns) in the definition of CSR (European Commission, 2011).

Finally, an enterprise's legal responsibilities also remain somewhat important for the present assignment for the following three reasons:

- Some legal responsibilities need additional efforts to be properly respected. For example, gender equality could be seen as a legal responsibility that has been poorly implemented and therefore requires additional efforts.
- Some European countries have already introduced regulatory measures that are not yet prevalent in many other countries and would be considered ethical standards elsewhere (e.g. green procurement practices). In such instances, these measures have become legally binding, but overall, the prevalence of such regulatory constraints remains relatively rare⁵.
- Legal requirements are not equally enforced across the world and many enterprises, especially when buying supplies from developing countries, may involuntarily contribute to such violations. This is especially relevant for human rights because international norms, such as the UN Guiding Principles on Business and Human

⁴ We take the widely known Brundtland Report (United Nations (1987). *Our Common Future*. Oxford University Press, Oxford) as an approximate starting point for environmental and sustainability policies.

⁵ Multiple examples are offered in Change in context (2018). *Government policy to stimulate international responsible business conduct*. Commissioned by the Ministry of Foreign Affairs of the Netherlands.

Rights, are not legally binding and are often violated across supply chains worldwide (Human Rights Watch, 2016).

1.1.3. The extent of CSR

To capture the extensiveness of CSR activities, it is necessary to clarify what is meant by **adverse impact**. According to the definition of CSR, identifying, preventing, and mitigating possible adverse impacts is imperative for any enterprise (European Commission, 2011). The OECD *Guidelines for Multinational Enterprises* (OECD, 2011) help to distinguish between the types of impact that enterprises may have. The table below (**Klauda! Nerastas nuorodos šaltinis.3**) provides their overview with explanations and relevant examples.

Table 3. Enterprise adverse impact types, their explanations, and examples.

Impact type	Explanation	Example
Directly caused by the enterprise	This refers to all outcomes that result from regular business operations. Businesses are directly responsible for such impact.	The enterprise fails to pay its employees fair wages.
Contributed to by the enterprise	This refers to impact caused by enterprise activities to another entity, which then commits detrimental actions. It could also refer to enterprise activities that cause a negative impact in combination with the activities of another enterprise.	The enterprise cancels an order from its supplier last-minute, who then has to delay paying wages to its workers.
Directly linked to enterprise operations	This refers to impact that is caused indirectly by a business relationship. In other words, the enterprise may purchase products or services from another enterprise that might be conducting various unethical practices. While a business entity is not responsible for the operations of another business, it is, however, responsible for engaging with this enterprise and, in this way, implicitly accepting unethical rules of conduct.	The enterprise buys its supplies from another enterprise that is known to engage in child labour.

Source: OECD (2011). *OECD Guidelines for Multinational Enterprises*. OECD Publishing; OECD (2016). *OECD Dual Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector*. Draft version, February 2016.

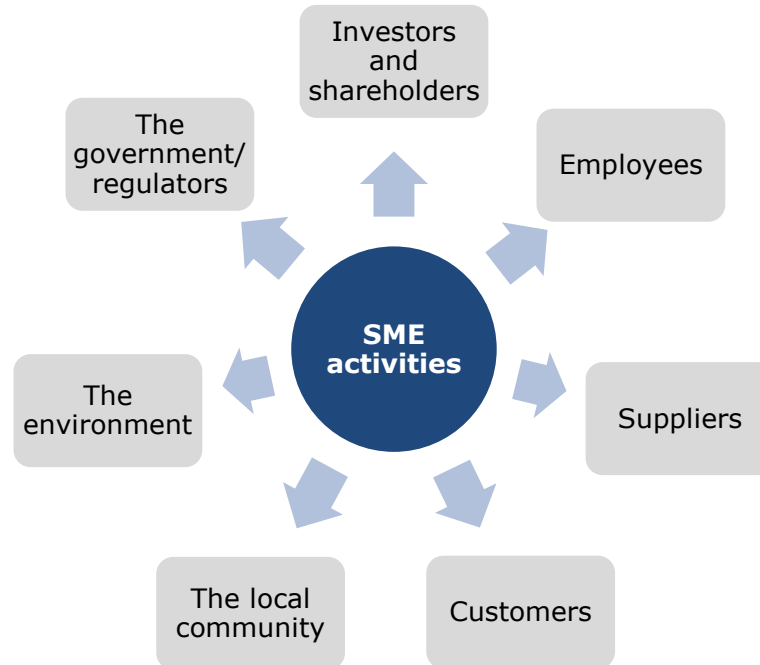
If an enterprise causes any of the impacts described above, it cannot be considered socially responsible. This means that enterprises should take notice of how their business activities not only cause, but also **indirectly contribute to various outcomes that could be detrimental to several stakeholder groups**. Within this context, the process of **due diligence** has been emphasised as a key tool to address both actual and potential adverse impacts (Freeman, 2010).

1.1.4. The beneficiaries of CSR

The definition of CSR clearly states that multiple concerns should be integrated in enterprise activities in “close collaboration with their stakeholders” (European Commission, 2011). The stakeholders, in this case, are ideally **everyone who might be directly or indirectly affected by enterprise activities**. While primarily shareholders were seen as the sole enterprise stakeholders (Freeman, 2010), this paradigm has been slowly changing

to include not only internal stakeholders (such as employees) but also external stakeholders (such as local communities or the environment) of an enterprise's economic activity. **Klaida! Nerastas nuorodos šaltinis.** 2 showcases the main stakeholder groups⁶.

Figure 2. CSR Stakeholder groups.



Source: Authors' elaboration based on Freeman, E. R. (2010). *Strategic Management: A Stakeholder Approach*. Cambridge University Press, New York.

CSR practices within a single enterprise may contribute to several of these groups and not necessarily cover all of them. However, the key principle behind stakeholder involvement is that the benefit from the value of enterprise activities should not be reserved only for direct company shareholders but rather extended to as many groups as possible. Furthermore, enterprise activities should not be detrimental to any of these groups. Finally, active stakeholder engagement is a process that centres on identifying and understanding the expectations of enterprise stakeholders as well as building trust between them. As such, the enterprise also benefits from this exercise (Vo, 2011).

1.1.5. The areas of CSR action

CSR principles are commonly understood in relation to internationally recognised principles and guidelines that contain distinctly identified areas of activity. For example, the ten principles of the United Nations Global Compact are organised in accordance to four key areas, namely human rights, labour, environment and anti-corruption (United Nations Global Compact, 2014). The OECD *Guidelines for Multinational Enterprises* refer to the same areas but also include consumer interests, science and technology, competition, taxation (OECD, 2011). The ILO *Tri-partite Declaration of Principles Concerning Multinational Enterprises and Social Policy* (ILO, 2017) are thematically focused on

⁶ There are several different typologies of CSR stakeholders and others might differentiate between internal and external stakeholders or include additional groups such as business partners, inter-governmental bodies, indigenous peoples, future generations or other. For the purpose of this assignment, we chose to limit ourselves to seven mutually exclusive categories, but if benefits to other stakeholder groups are explicitly noted and/or emphasised, we take them into account.

fundamental principles pertaining to employment, industrial relations, labour standards and rights at work, while the *UN Guiding Principles on Business and Human Rights* cover all aspects related to human rights. The definition of CSR proposed by the EC Strategy for CSR also points towards areas of social, environmental, ethical, human rights and consumer concerns, while the OECD definition of RBC mentions human rights, environmental protection, labour relations and financial accountability. All these principles and guidelines are useful when thinking about a framework for CSR that would enable to classify enterprise activities. Last, but not least, sustainable development, including the 17 Sustainable Development Goals as outlined by the UN and endorsed by the EU, also suggests relevant activity areas.

In this study, we distinguish **seven areas of action in accordance to the broadly adopted ISO 26000 Guidance Standard on Social Responsibility** (ECOLOGIA, 2011). The EC has endorsed the ISO 26000 standard as one of the key internationally recognized references in the EU Strategy for CSR (European Commission, 2011). EC representatives participated during the development (ISO, 2017) of the ISO 26000 standard and the EU Strategy for CSR was renewed soon after the ISO 26000 standard was published in 2010. The standard remains a widely used reference for CSR by both public and private organisations.

Most importantly, however, the typology of enterprise activities suggested within the ISO 26000 framework seems the **most applicable within the context of SMEs** and includes all the major areas of activity mentioned in other international key guiding documents. The EC, together with EFTA, has co-financed the publication of a Small Business Standards User Guide for European SMEs on ISO 26000 Guidance on Social Responsibility (Small Business Standards, 2016). The user guide is meant to help identify those recommendations that could be relevant for SMEs and showcases examples from all activity areas except organisational governance. Hence, this classification allows us to differentiate between practices and understand the areas which SMEs might prioritise or which might be more (or equally) relevant for different economic sectors. While the concept of sustainable development was said to be more familiar to many SMEs than the notions of CSR or RBC (Spence & Painter-Morland, 2010), using the three pillars of sustainable development would be too broad to clearly identify the areas of concern. The table below (Table 4) presents activity areas, their explanations and activity examples under each area in more detail.

Table 4. CSR activity areas, their explanations and activity examples.

Activity area	Explanation	Activity examples
Decent work	This refers to the fair treatment of all workers, decent employment conditions and engagement in social dialogue. It includes respect for freedom of association (incl. the right to collective bargaining), elimination of all forms of forced labour, and elimination of discriminatory practices.	Regularly involving employees in the decision-making process; taking additional precautions to guarantee health and safety at the workplace; taking work/life balance into account by ensuring decent working hours.
Consumer issues	This refers to business relationships with their consumers. It means providing customers with accurate and helpful information (incl. truthful advertising), minimizing risks when using enterprise products, providing support services and recall procedures and most importantly, encouraging sustainable consumption.	Designing products so that they can easily be reused, repaired, or recycled; reducing waste by minimizing packaging material and/or offer recycle and disposal services; ensuring the highest quality of products by using quality materials; providing detailed information on the production process.
The environment	This refers to impact caused by enterprise activities to the natural environment. It includes reducing environmental risk, bearing the cost of pollution (polluter pays), not harming the local ecosystems and, if possible, improving air, water, and soil conditions.	Using renewable energy resources; adapting new technologies to reduce emissions; introducing production techniques that benefit the environment; minimising water waste during the production process.
Community involvement and development	This refers to business responsiveness and positive contribution ranging from the local community to the wider international society.	Assisting persons in need by offering job opportunities (e.g. migrants or persons with disabilities); allocating some employee working hours to volunteering activities; providing assistance (e.g. training) to persons to start their own business; partnering with indigenous peoples to ensure that enterprise activities benefit instead of destroy the local culture.
Human rights	This refers to the respectful treatment of all individuals, regardless of their personal characteristics. It includes actively respecting and protecting human rights as well as ensuring that businesses are not passively complicit in human rights abuses of any kind.	Investing additional efforts to ensure equal opportunities for disadvantaged groups (e.g. by introducing non-discriminatory hiring practices); Avoiding purchasing supplies from enterprises that are exploiting workers, in e.g. cases of conflict.

Activity area	Explanation	Activity examples
Responsible business relations (supply chains)	This refers to business relationships with other businesses and especially their suppliers. It means that businesses should respect the rule of law when dealing with other enterprises down or up the value chain, honour agreements, ensure fair compensation for services/products and select socially and environmentally responsible suppliers.	Selecting suppliers that are not engaging in human rights violations; carefully monitoring the supply chain to identify any risks; purchasing products that are certified as eco-friendly.
Organisational governance	This refers to any of the ways a business is run on its daily basis. Ideally, business management should be accountable, transparent, ethical and take into consideration stakeholder interests.	Not conducting illegal activities (e. g. tax avoidance or money laundering); having a CSR strategy; ensuring all employees follow-through on CSR commitments.

Source: Authors' elaboration based on *Handbook for Implementers of ISO 26000, Global Guidance Standard on Social Responsibility*. Designed by Ecologia for Small and Medium Sized Businesses, May, 2011; United Nations Global Compact (2014). *Guide to Corporate Sustainability. Shaping a Sustainable Future*; Small Business Standards (2016). *Small Business Standards User Guide for European SMEs on ISO 26000 Guidance on Social Responsibility*. Second edition.

Disclosure of enterprise information regarding business operations is considered a separate area of activity that is conceptually distinct from the activity areas described above. Disclosure of enterprise information refers to transparent communication and accountability with regard to all other activity areas.

1.2. Scope of the study

This scope of this study is limited by enterprise size, geographic location, and economic activity areas.

Enterprise size

The study only covers **small and medium-sized enterprises** as defined by the European Commission⁷. Table 5 below provides the types of enterprises considered within this study.

Table 5. Types of enterprises considered within this study

Company category	Employee count
Medium-sized	50-249
Small	10-49
Micro-enterprise	1-9
Self-employed	1

Geographic coverage

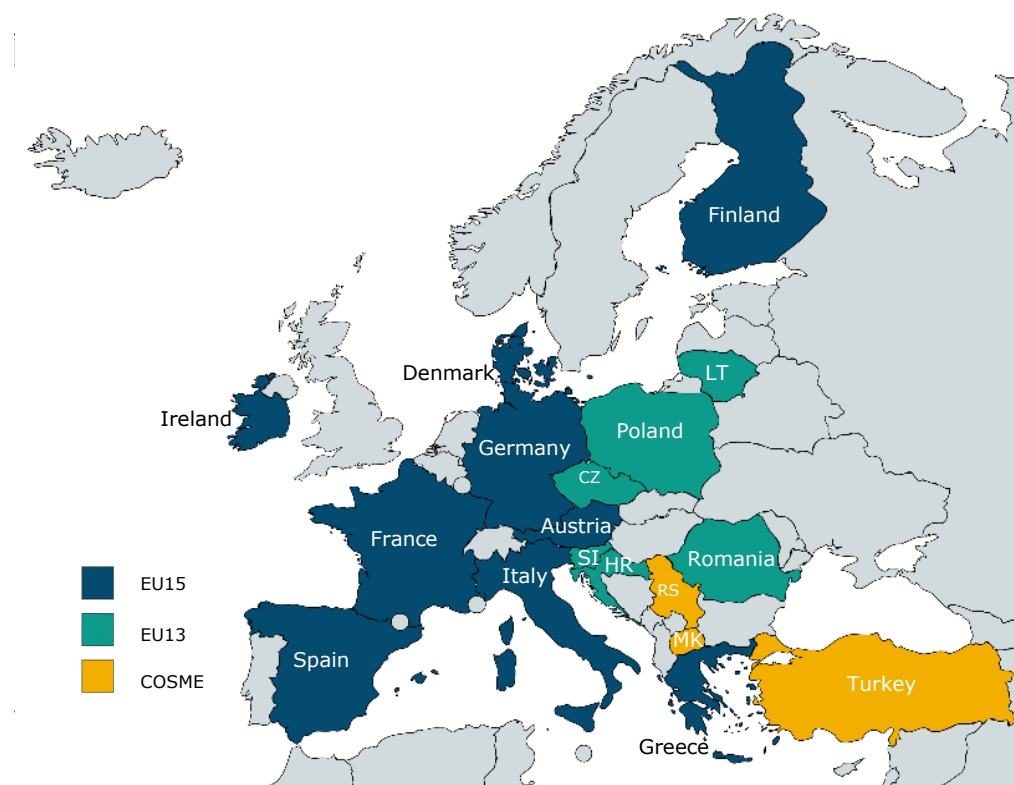
This study covers 18 countries across Europe that were selected based on their EU entry date, country size, the ease of doing business as a criterion reflecting the socioeconomic and business situation in the country, as well as criteria related to corporate social responsibility, in order to include leading countries in the sample.

⁷ More information is available at: https://ec.europa.eu/growth/smes/sme-definition_en

This study **covers 18 countries** across Europe (see Figure 3), of which:

- 9 countries joined the EU before 2004 (EU15)
- 6 countries joined the EU in 2004 or later (EU13)
- 3 countries belong to (potential) candidate countries and are participants in the COSME programme.

Figure 3. Geographical scope of the study



Note: EU15 represents the countries that joined the EU before 2004; EU13 represents countries that joined the EU in 2004 or later; COSME represents (potential) candidate countries participating in the COSME programme.
Source: Visionary Analytics.

Sectoral coverage

The sectoral coverage of this study includes eight economic activity areas. These economic activity areas were chosen to provide good coverage of types of sectors, including primary, manufacturing, and services companies. This allowed for extending the scope of the study through coverage of a large variety of CSR/sustainability activities and risk areas. The precise NACE Rev. 2 definitions of each sector are provided in **Klaida! Nerastas nuorodos šaltinis.6Klaida! Nerastas nuorodos šaltinis.** below.

Table 6. Sectoral coverage of the study based on economic activity areas

Sector	NACE code(s)
Agro-food	A01 (Crop and animal production, hunting and related service activities); C10 (Manufacture of food products); C11 (Manufacture of beverages)
Textile and garment	C13 (Manufacture of textiles); C14 (Manufacture of wearing apparel); C15.2 (Manufacture of footwear)
Transport	H49 (Land transport and transport via pipelines); H50 (Water transport) and H51 (Air transport)

Sector	NACE code(s)
Retail trade	G45.32 (Retail trade of motor vehicle parts and accessories); G47 (Retail trade, except of motor vehicles and motorcycles)
Pharmaceuticals	C21 (Manufacture of basic pharmaceutical products and pharmaceutical preparations);
Mining and quarrying	B05 (Mining of coal and lignite); B06 (Extraction of crude petroleum and natural gas); B07 (Mining of metal ores); B08 (Other mining and quarrying); B09 (Mining support service activities)
Tourism and hospitality	I55 (Accommodation); I56 (Food and beverage service activities); N79 (Travel agency, tour operator reservation service and related activities)
Banking, finance and insurance	K64 (Financial service activities, except insurance and pension funding); K65 (Insurance, reinsurance, and pension funding, except compulsory social security); K66 (Activities auxiliary to financial services and insurance activities)

1.3. Data collection methods

The results of this study were obtained by synthesising findings from the following data sources:

- **Existing literature.** Primary and secondary sources, including EU and national legal documents, studies, academic literature, various publications, reports, and other available information were taken into account whenever appropriate. The full list of sources is provided in [Annex 2](#).
- **Survey of SMEs** in countries and sectors within the scope of this study. The survey results provide the backbone of the study findings. This methodological approach and its limitations for this study are discussed in more detail below ([section 1.3.1.](#)).
- **Survey of SME support organisations** in countries and sectors within the scope of this study. The results of this survey were mostly used to inform country-level analysis on the uptake of CSR amongst SMEs in a particular country and to collect data on available policy measures. The approach to this survey and its results are discussed in more detail below ([section 1.3.2.](#)).
- **Interviews with policymakers** at the EU and national levels. Interviews served to better understand existing policy support in relation to perceived policy needs with respect to CSR uptake amongst SMEs. A total of 22 interviews were conducted⁸. A full list of organisations interviewed is provided in [Annex 1](#).
- **Interviews with business representatives** representing both general and sectoral business associations. These interviews served to better understand the drivers, barriers and needs of SMEs when it comes to CSR uptake. A total of 17 interviews were conducted⁹. A full list of organisations interviewed is provided in [Annex 1](#).
- **Mapping of measures to support the uptake of CSR** was conducted to gain a better overview of available support for SMEs that are willing to uptake CSR practices. The mapping was conducted based on desk research, both surveys and interviews with policymakers and business representatives.

⁸ The interviews were not necessarily conducted with individual persons. In some interviews, as many as 4 persons were present.

⁹ Likewise, some interviews were conducted with groups of persons.

All the sources above feed into the qualitative and quantitative analysis further presented in this report. Likewise, all comparative assessments of CSR uptake and policy support available across countries and sectors are based on the said data sources. To ensure the anonymity of respondents, the authorships of all claims and arguments made are not explicitly referred to.

1.3.1. SME survey

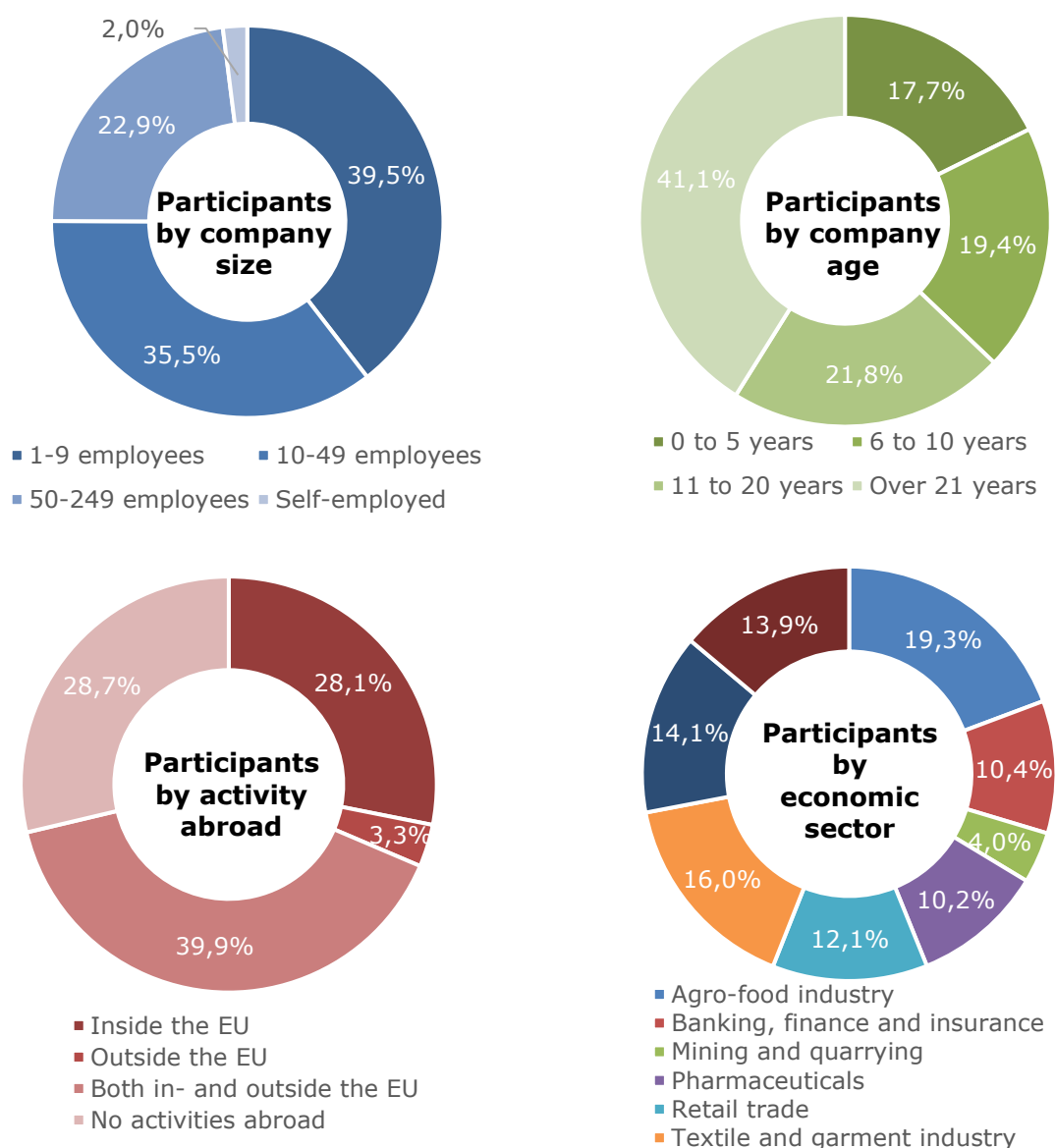
The SME survey was conducted from February 17th to May 7th, 2021. SMEs were invited to participate by direct outreach or via various business associations and organisations that agreed to disseminate the survey. The survey was directly disseminated to approx. 22,900 companies. However, the response rate was around 4-5%, because SMEs were not interested in participating. The following reasons contributed to the low response rate:

- The **timing** of the survey **coincided with the second wave of the COVID-19** pandemic across Europe. Given that as many as 74% of SMEs were said to have been impacted, direct business concerns were more pressing at the time. As a result, the response rate was lower than could be expected under different circumstances.
- The **survey was relatively long and complex**, which contributed to SMEs unwillingness to participate. Although the survey was designed bearing in mind the need to ensure accessibility to as many respondents as possible - with most questions requiring a selection from a list of pre-defined options - many SMEs nonetheless found it too demanding. Approx. 12.5% of respondents who opened the survey abandoned it after the first page of the survey introduction and another 10% abandoned it after the second page that contained basic identification questions on company location, sector, size, etc.
- The **survey was likely perceived as irrelevant** by most SMEs. In other words, SMEs find the issues of CSR/RBS or sustainability as generally unimportant for their business and, as a result, are not interested in participating in surveys about them.

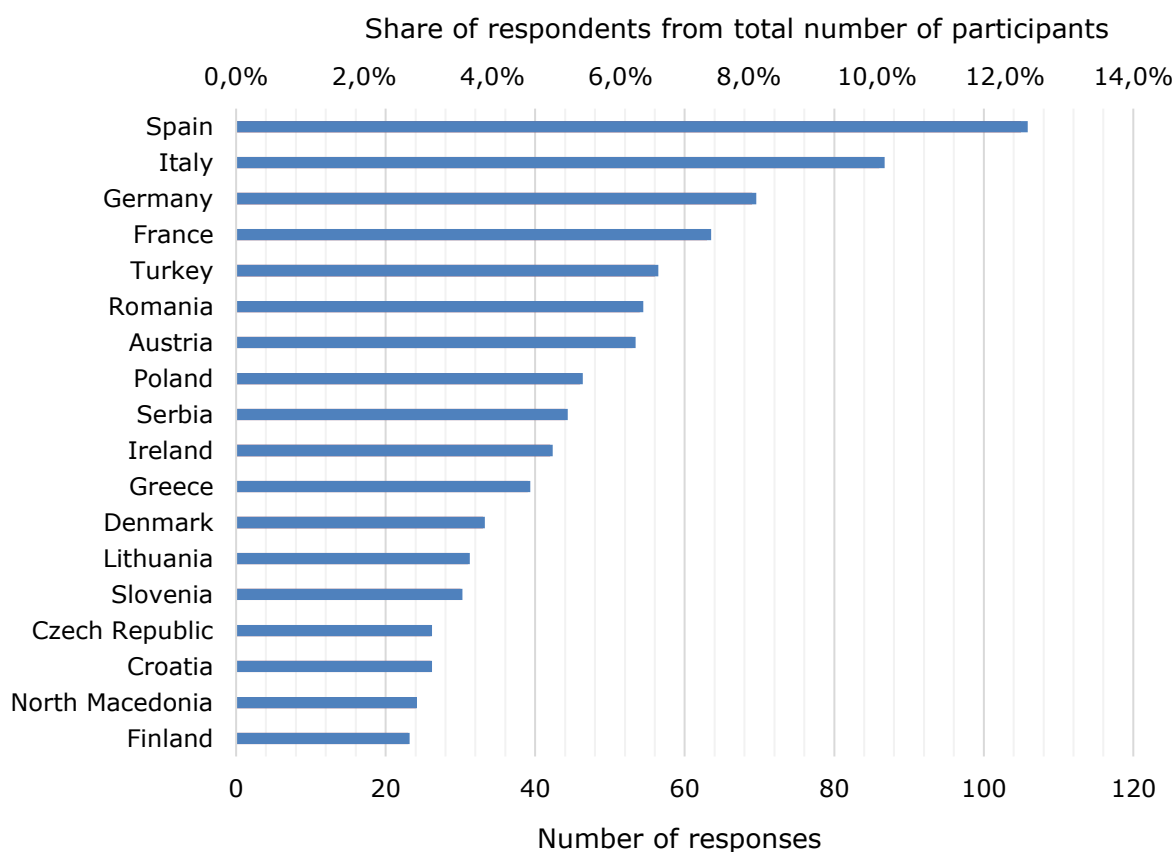
The reasons described above have contributed to a key limitation within the study, namely the **positive bias of results**. The **SMEs that chose to participate** and took the time to answer the survey questions **are more likely to be engaged in various CSR/sustainability practices** than could be expected from an average European SME. The low response rate especially points to the fact that a large share of SMEs most likely does not prioritise CSR/sustainability over direct business concerns. Hence, when looking at study results, it is extremely important to consider this positive bias and to keep in mind that **the study provides a somewhat optimistic picture**. However, at the same time, **survey results are useful** when looking at specific tendencies and **comparing SME engagement** in particular CSR areas, sectors, countries or company features such as size, age, activities abroad or approach to CSR/sustainability. These results, when interpreted against contextual data collected from other sources (literature, interviews, SME support organisation survey) provide valuable insight into CSR uptake by European SMEs.

A total of 850 responses were included in the analysis. Figures under the heading “Figure 4” and “Figure 5” below illustrate the distribution of survey respondents by company size, age, activity abroad, sector and country.

Figure 4. Distribution of survey respondents by size, age, activity abroad and sector.



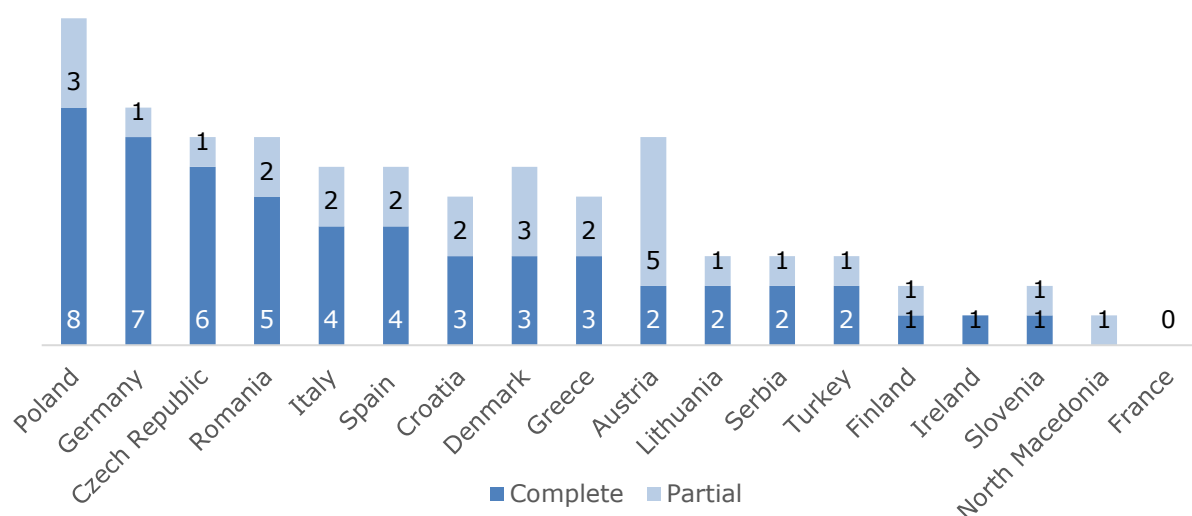
Source: SME survey, 2021

Figure 5. Distribution of survey respondents by country

Source: SME survey, 2021.

1.3.2. SME support organisation survey

The SME support organisation survey was conducted from February 16th to May 1st, 2021. SME support organisations were invited to participate by direct outreach through the survey dissemination platform or via the EEN. **A total of 83 responses were included in the analysis.** However, it must be emphasised that the quality of most responses was quite poor and, as a result, limited information was obtained from this exercise. The distribution of respondents is provided in Figure 6 below. From the organisations that participated, 39 represented national level organisations (47%) and 44 represented regional-level organisations (53%).

Figure 6. Number of respondents from each country.

Source: SME support organisation survey, 2021.

The response rate from SME support organisations was limited (17.7%) mainly due to the fact that CSR/sustainability issues are horizontal and cover several specific areas and, as a result, **institutions seldom have a department or a dedicated group of persons working on it.** This translated into a limited willingness and capacity to participate in the survey, as representatives were unable to report on all aspects in a fair manner. This issue also became prevalent during stakeholder interviews where, in some instances, a sole or even a few knowledgeable persons were difficult to identify.

The survey addressing SME support organisations mainly focused on collecting the following answers to open-ended questions:

- The main drivers and barriers to CSR uptake experienced by SMEs or start-ups
- The existence of various policy support measures to encourage the uptake of CSR
- The need for additional policy measures or specific support
- Good practices of sustainability/CSR uptake by SMEs or start-ups.

The answers collected from the SME organisation survey are integrated in the analysis by referencing business representatives or stakeholders while protecting the anonymity of the respondent.

2. CSR UPTAKE BY EUROPEAN SMES AND START-UPS: OVERVIEW OF KEY TRENDS

This chapter provides an overview of key trends with respect to CSR/sustainability uptake amongst European SMEs. The first section contains findings on the level of awareness with respect to CSR or similar concepts amongst SMEs and distinguishes between four different CSR/sustainability approaches that SMEs tend to follow, depending on their perception of CSR/sustainability. This is followed by a brief summary on CSR activity areas that SMEs tend to be the most active in and how they tend to approach them. The second section contains findings on the level of engagement in CSR/sustainability practices most commonly prevalent amongst SMEs. The third and fourth sections respectively discuss the main drivers and barriers to CSR/sustainability uptake by SMEs. The last section within the chapter is dedicated to providing a summary of main SME policy support needs as reported by SMEs, SME representatives and business support organisations.

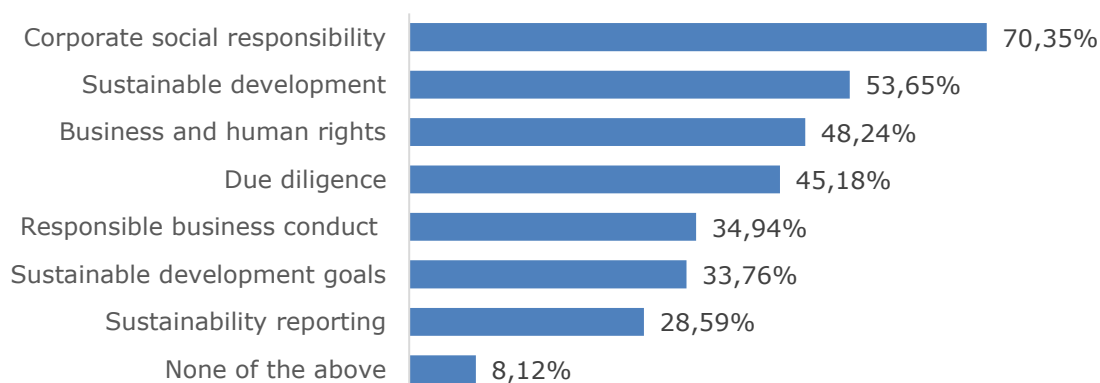
2.1. CSR uptake across Europe

There is a general consensus amongst business representatives, policy makers and representatives of business support organisations that all companies are becoming increasingly aware of the importance of integrating sustainability within business operations. During the past several years, attention to sustainability and social responsibility concerns has been growing and most stakeholders believe that these issues have now firmly taken centre-stage. As a result, many companies, irrespective of their size, are growing more attentive towards the fact that introducing more responsible and sustainable business practices may be expected from them.

2.1.1. Familiarity with CSR concepts

The SME survey results show that **SMEs are already somewhat familiar with the concept of CSR or other, closely related concepts** (see Figure 7). Naturally, the concept of CSR was selected as the most familiar one because the invitation to participate in the SME survey explicitly referred to it. However, a significant number of respondents were also familiar with the concepts of sustainable development or business and human rights. Only a small share of SMEs (8.1%) had no knowledge of any CSR-related concepts, hence it seems fair to say that SMEs are, on the most general level, familiar with the discourse surrounding CSR and sustainability.

Figure 7. Familiarity with concepts amongst SMEs.



Note: Total (N)=850.

Source: SME survey (2021).

It is unsurprising that a **large share of SMEs said they were unfamiliar with sustainability or non-financial reporting** as they are not required to conduct any reporting activities and very few choose to do so. However, the fact that only a third of all survey participants were familiar with Sustainable Development Goals (SDGs) was unexpected. In some countries, such as [Finland](#), [Denmark](#), [Ireland](#) or [Spain](#), SMEs are quite familiar with SDGs due to extensive efforts at policy levels to use SDGs as a reference point. However, for a majority of countries this does not seem to be the case and hence, **SDGs remain a vague and far-removed notion for many SMEs.**

And yet, while companies are growing aware of sustainability issues in relation to business operations, this does not necessarily result in concrete action. First, **“awareness” by no means should be interpreted as sufficient knowledge for definite and targeted action.** Many SMEs still lack the basic know-how when it comes to assessing their company’s activities or determining which particular aspects warrant further attention (see [section 2.5.](#)). Secondly, despite a general awareness, SMEs vary significantly in how they approach and communicate about CSR activities. Some are very systematic, thorough, and outspoken about their commitments, while others are not at all. To better capture the range of variation amongst SMEs within this study, we outlined four groups based on their engagement in CSR/sustainability practices. These groups are presented in Table 7 below.

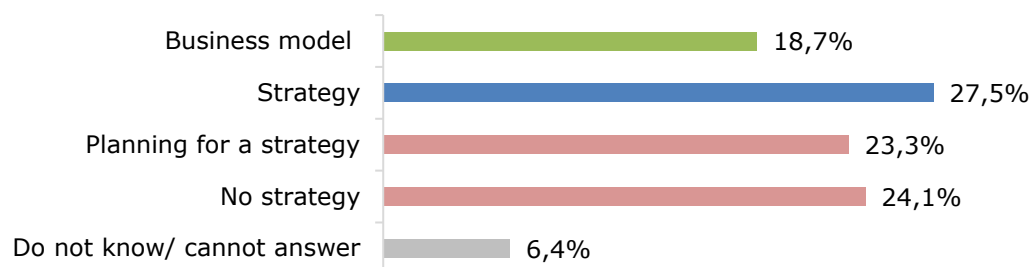
Table 7. SME categories according to their relation to CSR/sustainability.

Relation to CSR/sustainability	Explanation	Level of maturity with respect to CSR/sustainability
CSR/sustainability at the core (sustainable business model)	A company’s entire business model is based on sustainable conduct . It generates profit from activities that have a positive impact on societal issues or the environment. Sustainable products or services are the company’s selling point and competitive advantage.	The activities from which a company generates profit are (or should be) sustainable by default. The company founders are conscious and aware of how they integrate sustainability into their daily operations. Such companies tend to publicly disclose information on their practices.
CSR/sustainability as a strategy	A company systematically integrates CSR/sustainability within its operations and proposes solutions to reduce negative impacts (or increase the positive). Often this company has a CSR/sustainability strategy.	Such companies tend to be innovative and forward-looking when it comes to business development. They approach CSR/sustainability not only from an ethical standpoint, but also as an opportunity to grow and strengthen their business. As a result, company founders tend to keep track of their activities (including KPIs) and conduct them in a more rigorous manner. Such companies are relatively likely to publicly disclose information on their practices.

Relation to CSR/sustainability	Explanation	Level of maturity with respect to CSR/sustainability
CSR/sustainability as a noted concern (may be planning for a strategy)	A company conducts some type of CSR activity in addition to its usual business operations . These activities can be quite formal or more informal but still regular. The company is conscious of its efforts and, in some cases, may be planning to take its activities even further by introducing a sustainability strategy.	Such companies are aware of the benefits of CSR/sustainability, but they perceive it as a question of trade-offs. They already conduct some activities and might want to contribute more, but the necessary additional investments are seen as too risky. As a result, activities remain less systematic and less likely to address essential company operations. Such companies are unlikely to publicly disclose information on their practices.
CSR/sustainability undifferentiated from "business as usual"	A company might engage in CSR activities, but it has no need and/or capacity to articulate them as exceptional . Any CSR activities are treated as the "normal" thing to do.	In this case, articulation of CSR activities constitutes a major obstacle for understanding a company's level of engagement. The company will carry out its business activities and might incorporate ethical/sustainability considerations from personal conviction without labelling it as such. Such companies do not publicly disclose information on their practices.

Source: Authors' elaboration based on study data.

A significant share of SMEs that participated in this study do not have a CSR/sustainability strategy nor base their entire business model on sustainability (see Figure 8). However, such companies may be planning for a strategy or to conduct some sort of activities without it. Their relationship to CSR/sustainability is best captured by the third category of SMEs that **acknowledge CSR/sustainability as a noted concern**. When it comes to a more systematic and rigorous CSR uptake, this sounds promising. However, given the lack of incentives and the prevalence of various barriers (see sections [2.4](#) and [2.5](#)), this transition will require support. All the more so, as companies with a strategic approach to CSR/sustainability tend to implement activities that result in a more positive impact. Such companies do not shy away from looking into essential business operations and really put efforts into addressing complex issues rather than sticking with the basics (e.g. improve production processes rather than focus on packaging). Finally, while almost a quarter of the study participants claimed to base their entire business model on sustainability, it would be misleading to believe that they all belong to a group of SMEs that regard CSR/sustainability as their competitive advantage. A fair share of them would in fact belong to the last group of SMEs that has trouble differentiating "business as usual" from CSR practices.

Figure 8. Share of SMEs by their relation to CSR/sustainability.

Note: Total (N)=850.

Source: SME survey (2021).

It is commonly argued that SMEs, by their very size and strongly localised presence, are intrinsically more responsible than large enterprises because they are embedded within the community in which they operate and, as a result, tend to show greater care with respect to their reputation and the well-being of their employees. It is difficult to accurately assess to what extent such claims are true. However, the results of the SME survey show that **most SMEs** (approx. **97%**¹⁰) under the scope of this study **do perform some type of activity that can be understood as CSR. However, these activities vary widely in their scope, complexity, and level of engagement.** It remains much more difficult to define the extent of their responsibility, i.e. to grasp the substance and actual impact of activities rather than simply acknowledge the fact of their existence. There are some SMEs that do not engage in any CSR/sustainability practices at all, but they seem to be a very small group (approx. 3% in the case of this study).

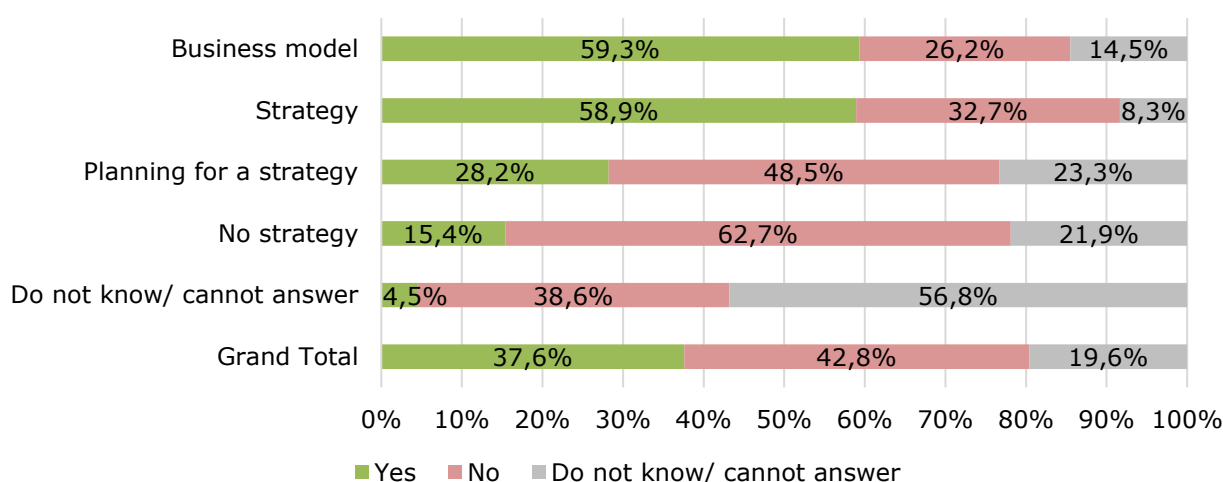
Within this context, the ability of SMEs to articulate their commitments to CSR/sustainability is paramount. However, **SMEs tend to under- or over-state the level of their commitments.** For some SMEs socially responsible conduct seems to be a perfectly normal and self-evident part of their business and they do not think it important to display it as an exceptional practice. This is especially noticeable amongst businesses that do not regard CSR or sustainability as their competitive advantage because they see little to no added value in such communication or reporting activities (Fassin, 2008). Several survey respondents claimed that certain practices were “just a part of who we are” or pointed out that they “already worked as one small family, keeping good relations between each other and our clients”. At the same time, some SMEs exaggerate their responsible actions. For example, a certain share of SME survey participants indicated that their whole business model was based on responsible conduct. Yet, upon further investigation of the answers provided, it became clear that they conflate their economic responsibility of running a profitable business with social responsibility to their employees or customers. In other words, some SMEs take their business model as responsible in the basic sense that it provides a livelihood to a group of people and benefits them to the extent possible or provides a product that specific customers need. In some instances, SMEs claimed that their products had a positive social impact by default. This was the case for some pharmaceutical products as the means to save lives or even financial products that were not necessarily green but were simply stated as being ethical and necessary for

¹⁰ Not all SMEs that participated in the survey fully completed the questionnaire. As a result, the number of responses between questions varies considerably, and, given the design of the questionnaire, a precise share of those who did not indicate any activity in relation to those who did, cannot be estimated. Only 22 SMEs from around 704 did not indicate any activities, therefore the overall share is 3% and 97% respectively.

customers. That is not to say that such practices should not be considered responsible, but rather raises the question as to how such businesses compare with others and whether more can be expected from them. Ultimately, this points to a **lack of understanding amongst SMEs themselves on what constitutes CSR/sustainability** and how it should be articulated.

Lack of comprehension and articulation goes hand in hand with a public disclosure of information on CSR/sustainability activities – SMEs without a strategic outlook on CSR/sustainability tend not to share information about their activities (see Figure 9). The most straightforward reason given is that the costs of reporting are much higher for SMEs than large companies (Fassin, 2008) and unless there is a good reason to do so (i.e. CSR/sustainability is part of a company's *raison d'être*), they prefer not to invest their precious time and resources (see [section 4.8.](#)).

Figure 9. Public disclosure of information, depending on a company's relationship with CSR/sustainability.



Note: Total (N) =689

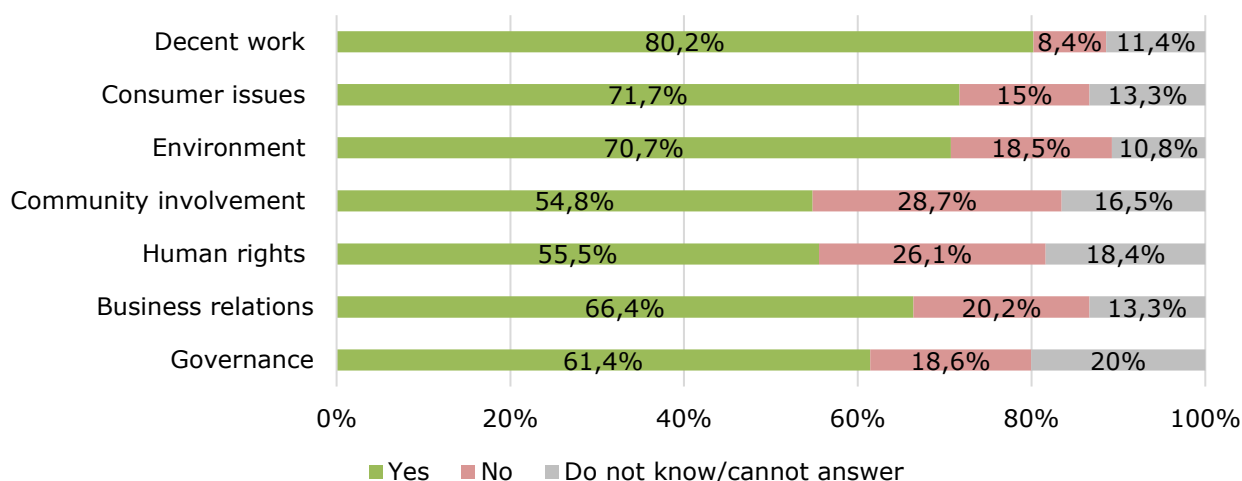
Source: SME survey (2021).

2.1.2. SME commitments across CSR areas

SME commitments within each of the seven CSR areas are discussed in more detail within [Chapter 4](#) of this study, however Figure 10 below provides an overview of the aggregate survey data for each CSR area for comparison purposes. As expected, **SMEs pay the most attention to the areas of decent work and consumer issues**. These two areas are the ones most directly relevant to SMEs because their benefits for daily business are clear. Decent work practices help to ensure employee motivation and retention - a key area of concern for most SMEs. Given its crucial role in maintaining a stable client base, consumer satisfaction was naturally picked as the second most prioritised area. However, once again it is important to stress that **the level of engagement within these areas is very diverse**, with some SMEs going just beyond the minimum legal requirements and others really striving to put forth employee well-being and/or customer needs as an undisputed priority. Business support organisation representatives largely agree and also point out that legislation with respect to labour rights and consumer law play a significant part in how SMEs approach these issues. The same is true of all other CSR areas, but due to their lesser priority for business operations overall, the likelihood of SMEs taking more extensive action is greatly diminished. The area of human rights is, unfortunately, a very good

example of this – only slightly more than half of all SMEs were said to conduct any activities within this area and those who did were mostly concerned with human rights in the workplace (90%) and more seldomly with any other activities (see [section 4.5.](#)).

Figure 10. Overall engagement in CSR amongst SMEs by CSR area.



Note: Total (N)=754, except Consumer issues, total (N)=721, Environment, total (N)=697, Community involvement, total (N)=708, Human rights, total (N)=686, Fair business, total (N)=682, Governance, total (N)=679.

Source: SME survey (2021).

It must be noted that **human rights, however, is overall a relatively vague and theoretical concept for many SMEs** because they rarely deal with it in practice (note the share of respondents who selected the “Do not know” option). First, many SMEs operate on a very local level - or at least they do within the EU - so they are less directly exposed to serious violations that take place in third countries. And secondly, while SMEs do import goods from such countries, they can only exercise limited leverage to enforce any standards or ensure compliance on their own. Lastly, those SMEs that are putting forth additional efforts with respect to human rights are those that consider the topic as being something closer to home – their practices often entail a diverse workforce and a general respect for human rights at the workplace (see [section 4.5.](#)). Likewise, activities within the area of business relations and especially supply chain due diligence are not as frequent because they are not a part of the business model (e.g. fair trade) and the SMEs are more concerned with managing direct business operations. Businesses struggle to apply the principles of supply chain diligence in practice because they seldom have the time and resources to investigate beyond their immediate suppliers. In some cases, they simply choose to “buy local” as the most responsible means of action but, yet again, this does not guarantee that the purchased products were produced or their parts sourced in a responsible manner (see [section 4.6.](#)). SMEs and their supplier relationships are more than anything based on mutual trust.

Community involvement and development was, surprisingly, an area where SMEs said they were the least engaged. This is in stark contrast to claims that companies tend to recognise philanthropic community activities as the first course of action with respect to CSR. However, much previous research has mainly focused on large enterprises and, hence their findings are not necessarily applicable to small enterprises (Idowu et al., 2015). Various community involvement activities are often used as means for large enterprises to boost visibility and improve reputation. In this case, it is clear that **SMEs are less likely to use**

philanthropic activities as means to improve their image and reputation before local communities than large enterprises. Many stakeholders believe that SMEs are more honest in their approach to CSR because they rarely use it as a marketing strategy. This claim is partly supported by the fact that, indeed, the activities most commonly done for public relations purposes are the least popular amongst SMEs. Furthermore, SMEs operate on relatively modest budgets and if they are willing to spend their profits responsibly, they choose to invest in their personnel or business instead. Finally, in some countries there is a notable lack of tradition to cooperate with entities other than ordinary business partners and especially with NGOs or civil society organisations. This was noted by policy makers as well as business support organisation representatives and was pointed out as a hindering factor.

SMEs' commitment to reduce **negative environmental impacts** seems, on the surface, quite popular. However, here, just like in other CSR areas, the level of commitment seldom extends to substantial action. Most simply conducted activities such as recycling or reducing plastic waste by opting for paper packaging (see [section 4.3.](#)). On a positive note, SMEs conduct activities in the area of good governance more than expected. SME owners clearly place value in accountability, transparency, and ethical conduct in the way a business is run, even if it employs a limited number of persons (see [section 4.7.](#)). Business support organisation representatives claim that social pressure and consumer demand for transparency, especially in some countries such as [Denmark](#) or [Germany](#), are forcing SMEs to adopt more rigorous governance practices.

Finally, it must be emphasised that **respondents selected areas** in which they were active and which **they considered problematic within their particular** (country or sector-specific) **context**. As a result, some SMEs indicated a higher level of engagement in some areas, even if the actual substance of those engagements did not necessarily differ from practices that are quite usual for other SMEs elsewhere (e.g. see [Annex 4](#) on [Serbia](#) and [Germany](#)). The issue of self-perceived responsibility in this case is especially acute and tendencies to under- or over-state the level of engagements are very clear.

2.2. Level of engagement in CSR or sustainability practices

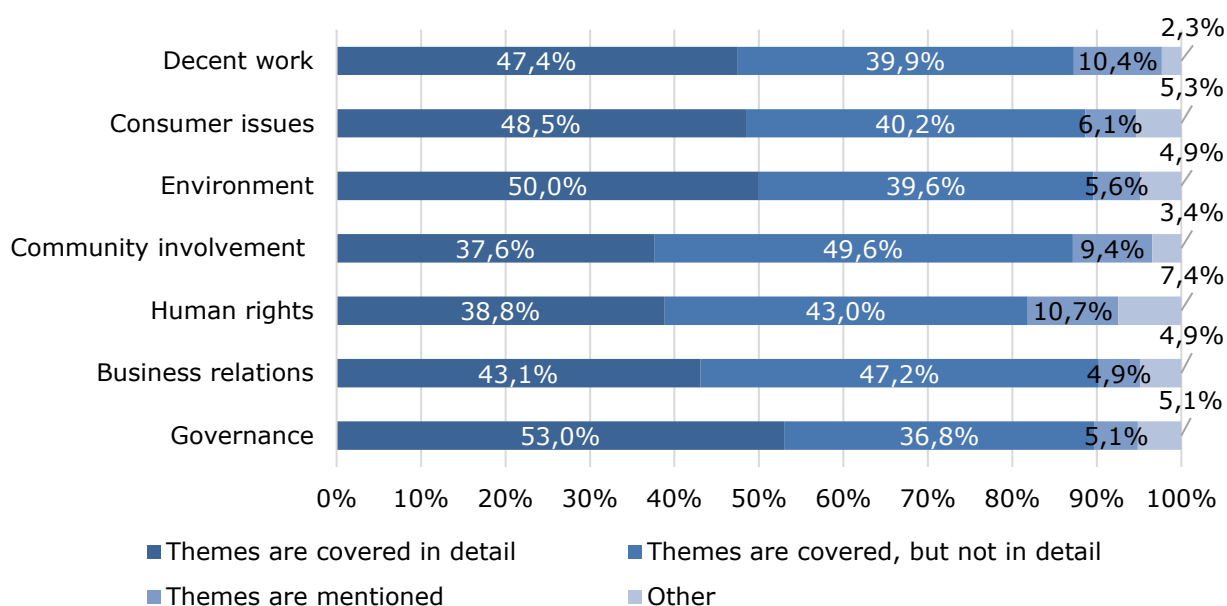
SMEs with a serious commitment to CSR/sustainability tend to approach all CSR areas in a more systematic way. This might seem obvious but it is important to emphasise that **clear-cut commitment leads to activities that result in more serious impact**. A systematic level of engagement in most CSR areas tends to be more thought-through, regular, and address the more essential aspects of business operations. The latter aspect is especially important – while it is clear that many companies conduct some sort of CSR/sustainability activities, **SMEs without a CSR/sustainability strategy are more likely to stick to more basic activities and are more likely do so on an informal basis** (Vo, 2011). While previous studies¹¹ (Perrini et al., 2007) argue that for many SMEs the process by which they meet their social responsibility goals is likely to remain informal and intuitive, the results of this study suggest that at least some level of formality can be beneficial and, to some extent, should be encouraged.

The SME survey showed that SMEs with a sustainability strategy that addresses a particular CSR area tend to cover it in detail, while SMEs without a sustainability strategy conduct

¹¹ Irish Department of Business, Enterprise and Innovation (2020). *CSR for SMEs*. Available at: <http://www.csrhub.ie/csr-for-smes/#>.

activities on an informal, even if regular, basis (see Figures 11 and 12 respectively). Two notable exceptions are organisational governance and human rights. In the first case, given its relationship to daily business management procedures, some kind of formal approach, even for SMEs, is warranted. The case of human rights seems more unusual. However, as was mentioned earlier, SMEs approach the question of human rights as an extension of labour law. That being said, issues that surround non-discrimination and inclusion are clearly perceived as a part of formal hiring procedures that SMEs follow. Finally, SMEs with a business strategy tend to address more serious issues than the ones without one (see [Chapter 4](#), each section separately).

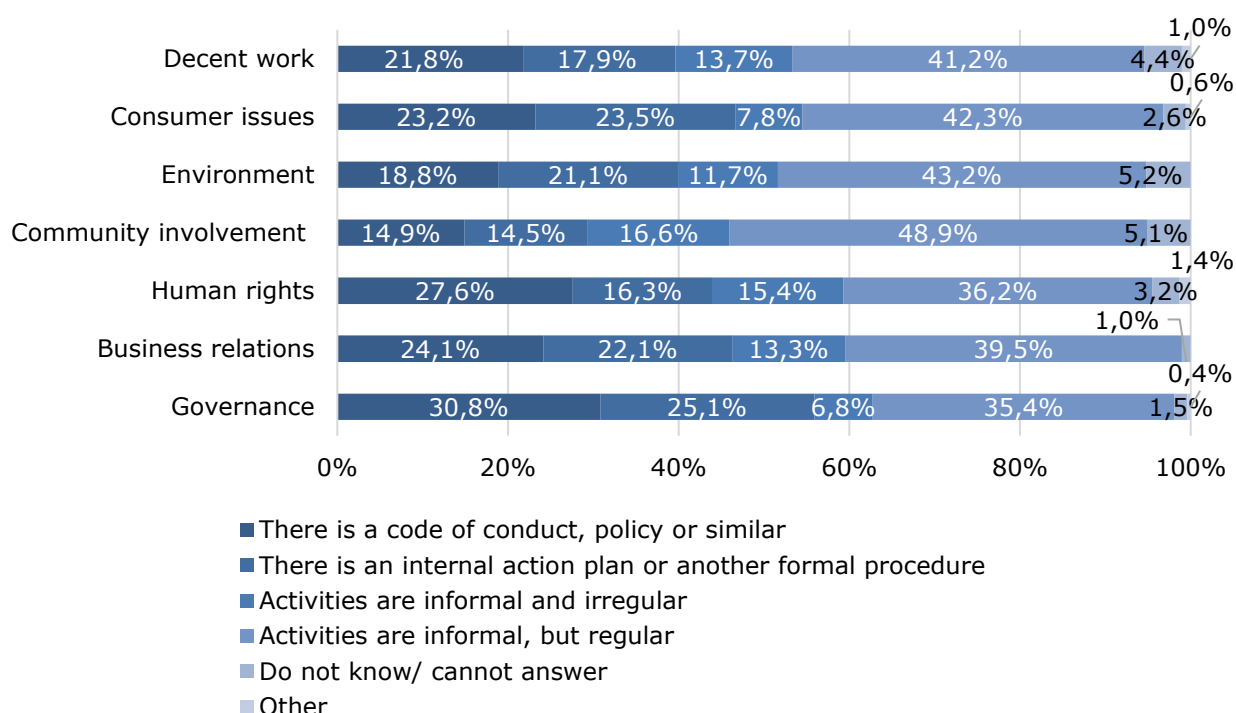
Figure 11. Engagement level in CSR areas amongst SMEs with a strategy.



Note: Decent work, total (N)=169, Consumer issues, total (N)=128, Environment, total (N)=140, Community involvement, total (N)=109, Human rights, total (N)=115, Business relations, total (N)=119, Governance, total (N)=113.

Source: SME survey (2021).

Figure 12. Engagement level in CSR areas amongst SMEs without a strategy.



Note: Decent work, total (N)=386, Consumer issues, total (N)=345, Environment, total (N)=308, Community involvement, total (N)=235, Human rights, total (N)=221, Business relations, total (N)=294, Governance, total (N)=263.

Source: SME survey (2021).

Finally, SMEs without a sustainability strategy tend to share information about their practices to a much smaller extent (see Figure 9 in [section 2.1.](#)). Given the informal nature of their engagement, it follows quite naturally that SMEs in this case are not always fully aware on what kind of information they could or even should share with their clients, shareholders, or investors. **Without a formal commitment, the level of conscious monitoring and articulation of a positive impact is clearly lacking.**

2.3. Key drivers for CSR or sustainability uptake and reported benefits

SMEs, by their very nature, are strongly embedded and dependent upon the local context within which they operate. This is both a blessing and a limiting factor for most SMEs – they are able to pick-up, quickly adjust, and evolve in response to shifting trends but, at the same time, they are perceived¹² as having little control of their external environment. This paradox is closely mirrored in the key reasons why SMEs uptake CSR practices. **Expectations set by buyers** and **customer demand** are amongst the most important reasons that drive CSR uptake (see Figure 13). Business support organisation representatives also claim these drivers to be key – as many as 74.3% said that expectations set by buyers were important or very important¹³ to SMEs. Improving an image before customers is believed to be less important, with 52.6% of business support

¹² The amount of leverage an SME may exercise in the supply chain is subject to individual circumstances. There are instances where SMEs can and do exercise substantial leverage.

¹³ 17.9% of business support organisation representatives said expectations set by buyers were very important and another 56.4% said they were important.

organisation representatives claiming this was a relevant factor for CSR/sustainability uptake¹⁴.

Figure 13. Reasons for carrying out sustainability practices/CSR amongst SMEs.



Note: Total (N)=626.

Source: SME survey (2021).

The complexity of the two key drivers for SMEs deserves a more thorough explanation:

- Meeting the requirements and expectations set by buyers** entails both business-to-business (B2B) and business-to-consumer (B2C) relationships. Whichever of these relationships is prioritised by an SME mostly depends on the sector in which it operates and the precise position (more upstream or downstream) it occupies within the supply chain. For many SMEs, B2B relationships commonly entail a position somewhere in the middle between purchasing materials or components and selling their production to larger clients. In this case, the larger client sets the rules and makes the demands – **if CSR/sustainability is prioritised by large clients, requirements will trickle down to particular SMEs**. This dynamic has been often picked up on by legislators and policy makers (for example, see [France](#)) but it does not always benefit SMEs. They end up facing pressure from clients to meet specific sourcing/production requirements, without receiving any support. They ultimately bear the cost of demands only to retain an important client that for SMEs can sometimes contribute to a significant share of turnover. At the same time, **this pressure is clearly one of the strongest drivers for CSR uptake**, and especially in CEE countries (see [Annex 4](#)). The exact opposite also applies – if large buyers care less, SMEs lack the incentive to invest. Hence, an opportunity for forming a virtuous cycle via increased pressure on meeting standards is definitely there, yet it needs to be approached with caution (see [section 4.6.](#)). The dynamics of the B2C relationship, when SMEs directly

¹⁴ 16.3% of business support organisation representatives said improving image before customers was very important, and another 36.3% said it was important.

respond to CSR/sustainability demands, functions in a similar way, except large buyers are replaced by consumers. On the surface, this relationship dynamic might seem a bit more beneficial to SMEs because consumers seem to be willing to cover the costs of sustainable products/services. Unfortunately, this is not the case. Multiple stakeholders stressed that there is a significant gap between what consumers say and how they actually behave. While **many consumers maintain they are influenced by sustainability claims** with respect to the products they buy, **they still base their purchasing decisions largely on price**. As a result, SMEs that orient themselves towards environmentally and socially conscious consumers tend to operate in the so-called niche markets within a higher price range.

- **Improving image and reputation before customers and local communities** closely relates to the B2C relationship dynamic. The needs and values of the local customers and/or the community within which an SME finds itself are mirrored back via its activities. This has often been noticed in small family firms that operate in a tight-knit community (Ryan et al., 2010) and, as a result, tend to be very socially responsible. In that case, an SME is naturally expected to take a more socially responsible attitude towards its employees and customers because deep personal ties oblige the SME owners to respond in a proper manner. This can have both positive and negative implications, depending on the expectations that a local community sets for small businesses. In other words, **if the local community cares, so does the SME**, and if local community expectations are low, the SME will also act accordingly. It is clear that this driver is extremely important for the ways in which SMEs behave and that positive pressure to maintain a good reputation within local communities can result in more impact than most other drivers. This trend is strongly visible in countries such as [Germany](#) or [Italy](#) (see relevant sections in [Annex 4](#)).

Despite these two drivers for CSR uptake, **many SMEs are first and foremost value-driven**. Many stakeholders emphasised the fact that SME owners are driven by an entrepreneurial spirit of doing something they perceive as valuable. In other words, the activities to which an SME commits itself are already somewhat imbued with an attitude of “doing the right thing”. They do it with passion and a need for self-realisation. This is evident from the previous findings on how SMEs believe their activities are already in line with a sustainable business model when that is actually not the case (see [section 2.1.](#)). Accordingly, for a significant portion of SMEs, an **ethical motivation to reduce a negative impact on society and/or the environment was said to be the primary reason** to engage in CSR/sustainability activities (see Figure 13). Survey participants claimed that responsible conduct was simply “about being normal and good” or bringing “pride and peace” to the SME owner and employees. This has certain implications for encouraging further uptake of CSR/sustainability:

- SME owners and top managers need to be aware of and interested in the benefits of CSR/sustainability practices. The owner-manager is really the central figure within an SME who steers the company in accordance to his/her vision and translates personal values into company activities (Vo, 2011). Hence, **CSR/sustainability needs to be prioritised by the owner-manager** on a personal level. This requires both significant awareness and the capacity to transform that awareness into concrete action.
- **Motivation, just like basic awareness, is a necessary but not sufficient condition for engaging in CSR/sustainability practices**. SMEs need further incentives to act upon this motivation and they especially need to understand the

added value it brings to their business without resulting in trade-offs. The question of trade-offs is particularly important and complex – SMEs have limited financial and human resources and the costs, as well as the risks associated with any additional activities, are perceived to be high. Previous studies suggest that SMEs orient themselves towards sustainability only when such activities do not conflict with or compromise business interests (Kautonen et al., 2020). SMEs will dedicate resources if they are ethically motivated to do so *and* see how it will benefit their business on a relatively short-term horizon. In other words, the **ethical motivation needs to be reinforced with a clear business case for CSR/sustainability**.

The *business case for CSR* for SMEs has been made multiple times by academics (Knudson, 2018), policy makers and business representatives alike. On the most basic level, it is widely believed that CSR/sustainability practices for SMEs result in increased cost savings, increased revenue and market share, improved innovation performance and, consequently, increased company competitiveness. Increased employee motivation and retention as well as improved image and reputation are also commonly cited amongst the benefits. However, in light of the SME survey results, these assumptions need to be re-assessed. It is clear that **SMEs perceive their employees as their most important asset and they acknowledge the so-called business case in ensuring their well-being** (decent work practices are clearly prioritised by the majority of SMEs, see [section 2.1.](#)). Accordingly, increasing employee motivation and retention was the fourth most important motivation for engaging in CSR practices (see Figure 13).

The business case for other activities does not seem as clear-cut. While increasing cost savings and efficiency or innovation performance were important for some, it was much lower down the line than could have been expected. Business support organisation representatives believe that increasing cost savings is a relatively strong motivating factor for SMEs, with as many as 54.4% claiming it was an important or very important driver¹⁵. However, only 38.8% of SMEs said it was a reason to take up CSR/sustainability practices. The difference in reported drivers for accessing new markets was even larger – business support organisation representatives believe that as many as 48.1% of SMEs are motivated by this, yet in fact only 24.4% of surveyed SMEs said this was the case (see Figure 13). This could partly be explained by the fact that **SMEs struggle to see the positive benefits of CSR practices on costs, efficiency, or even revenue and market share**. That is to say that even though CSR/sustainability activities might eventually lead to such benefits, SMEs do not readily perceive them and, as a result, are not motivated by them (OECD, 2018). For example, previous studies show that SMEs tend to view environmental measures as draining profits and show little willingness to adopt various green technologies, despite the existent business case¹⁶.

Increasing resilience to external shocks is believed to be another key reason why SMEs should be interested in CSR practices (Knudson, 2018) - the disruptions caused during the COVID-19 pandemic being an excellent case-in-point. However, less than a quarter of survey participants (23.6%, see Figure 13) said this was an important reason to conduct CSR/sustainability activities. **Only companies with a CSR/sustainability strategy placed a greater priority on increasing resilience** (32.7% selected this option). In light of the expectation that all businesses, including SMEs, after having experienced major

¹⁵ 19% of business support organisation representatives said increasing cost savings was very important and another 35.4% said it was important.

¹⁶ A survey conducted amongst SMEs in Scotland and Northern Ireland showed that only 36% of companies said they were likely to invest in improving environmental performance over the next 12 months (OECD, 2021, NetRegs, 2016).

disruptions in their business operations during the pandemic (OECD, 2021a), will turn towards more sustainable practices, these survey findings are cause for some concern.

Many enterprises, particularly SMEs, will simply seek to remain viable and avoid bankruptcy. In fact, some stakeholders point out that **SMEs**, and in some sectors in particular (e.g. tourism and hospitality, or retail (de Vet et al., 2021) **will prioritise company survival over any other concerns**. Some 70 percent of SMEs said their revenues had declined as a result of the pandemic, with severe knock-on effects. One in five was concerned they might default on loans and have to lay off employees, while 28% feared they would have to cancel growth projects. In aggregate, more than half felt their businesses might not survive longer than 12 months—despite the fact that 20% of those surveyed had already taken advantage of various forms of government assistance aimed at easing their financial distress, such as tax breaks or payments to furlough staff (de Vet et al., 2021). SMEs that approached CSR/sustainability as their competitive advantage prior to COVID-19 are likely to have already benefited from their approach. However, while such companies might be used as examples to prove the business case for CSR, other SMEs will not necessarily be interested, unless specific CSR activities really help them bounce back into business (McKinsey, 2020).

Supply chains is surely an area where positive developments can be expected (see [section 4.6.](#)) but the extent and substance of any activities are yet to be seen. However, SME efforts in other CSR areas, such as decent work or the environment (see sections [4.1.](#) and [4.3.](#) respectively), are likely to remain more modest.

Meeting requirements set by regulations remains an important driver that helps to raise labour or environmental standards in many countries, but, at the same time, limits room for conducting activities on a truly voluntary basis. To some extent, this explains why in countries with less demanding regulatory frameworks (e.g. see [Turkey](#), and in contrast [Austria](#) and [Germany](#)) CSR uptake might seem higher. For all companies, but especially **for SMEs, there is a fine line between regulatory compliance and additional efforts** – some SMEs struggle to ensure strict compliance with all regulatory demands, hence any activities beyond the legal “threshold”, irrespective of their substance, will be displayed as CSR efforts (esp. see [section 4.2.](#) on consumer issues). In this case, what helps to differentiate the extent to which an SME is willing to go beyond legal requirements is how strategic they tend to be in their approach. For SMEs without a CSR/sustainability strategy or business model, meeting requirements set by law was amongst the top 3 reasons to take up CSR, while for companies with a sustainability strategy or business model, other reasons were more important (5th in both cases, but for SMEs with a business model only 38% said it was one of the reasons). However, business support organisation representatives believe that meeting requirements set by regulators is not only an important, but somewhat of a key driver for most SMEs – 63.8% said it was either important or very important for SMEs¹⁷. The stark contrast between SMEs (49.5% said they were motivated by this) and business support organisation representatives in this case only adds to the fact that, for any average SME, regulation remains a very relevant driver, and for those already engaged in CSR/sustainability practices (such as the sample of this study) – it remains less so.

Finally, it is worthwhile to note once again that **SMEs are largely unmotivated by contributing to SDGs with which many are unfamiliar** (see Figure 13). SDGs remain

¹⁷ 25% of business support organisation representatives said requirements set by law were very important and another 38.8% said it was important.

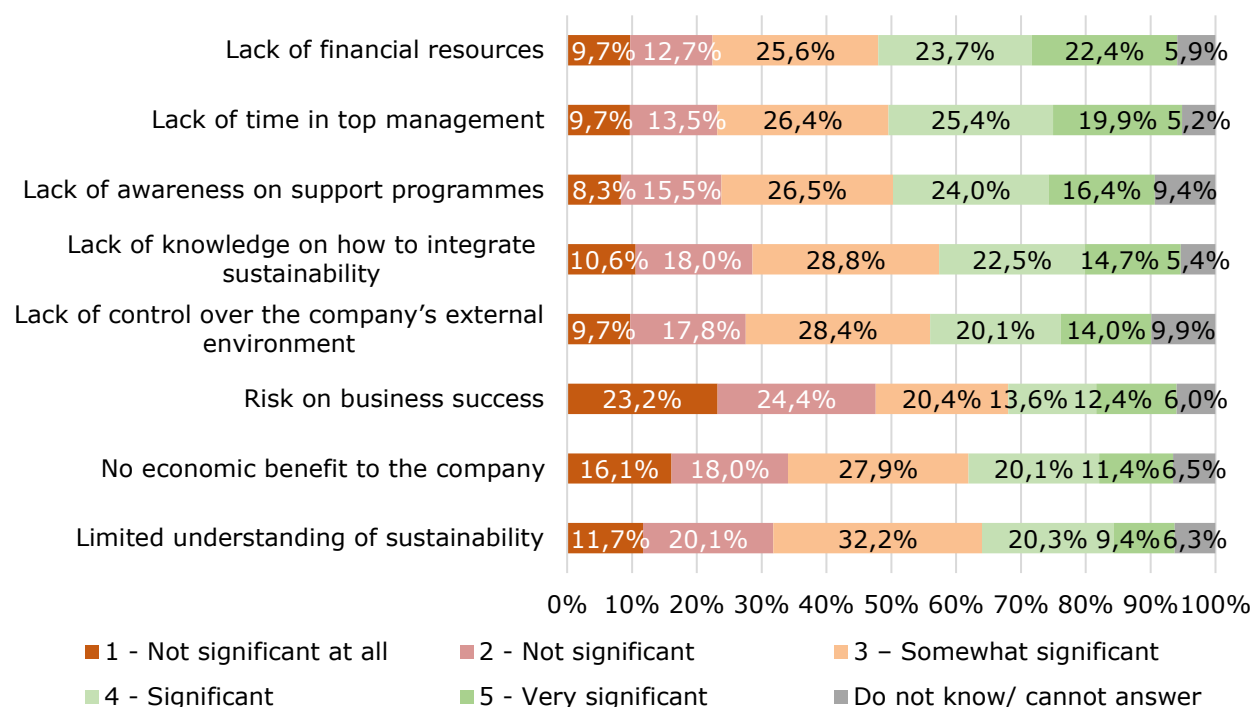
a far-removed concept from the reality in which the majority of European SMEs operate. While some stakeholders believe that SDGs can serve as a business-friendly communication tool on CSR/sustainability practices, it would take significant efforts to convince SMEs of this. Likewise, in contrast to large enterprises, SMEs rarely find themselves pressured by various NGOs or Civil Society Organisations. They might be pressured indirectly via the supply chains of larger enterprises that absorb such pressure and shield SMEs. According to business representatives, some sectors such as textile and garment, pharmaceutical or mining industries, have been in the limelight for the last few years and the pressure has indirectly impacted SMEs. However, even in this case, the position of SMEs within a longer value-chain and the relationship with larger clients play a significant role.

2.4. Key barriers to CSR or sustainability uptake

Just like drivers, the key barriers to CSR uptake amongst SMEs are closely linked to their distinguishing features, namely their size and a strongly localised presence. **Lack of financial and human resources were**, unsurprisingly, identified by SMEs themselves to be **the most significant barriers** to CSR (see Figure 14). Business support organisation representatives tend to agree – a significant share (67.6%) of representatives surveyed claimed that a lack of time for top management and/or human resources was an important, or even very important, factor preventing SMEs from engaging in activities, while a lack of financial resources was noted as a less important, but nonetheless significant barrier (59.5%)¹⁸.

The financial aspect stems from the generally limited budgets with which SMEs operate. SMEs tend to operate on relatively short-term horizons and any medium-to-long-term investments are approached as a considerable risk. Lack of human resources is really, in the case of SMEs, a lack of time from both the owner-manager and the employees. In contrast to large enterprises, SMEs simply do not have additional human resources (or, as is the case in some large companies, whole departments) that could dedicate even a fraction of their time to address CSR/sustainability matters. Furthermore, other and more pressing issues often emerge that need to be dealt with, hence unless CSR/sustainability is a priority, SMEs will dedicate their resources elsewhere. While the lack of financial and human resources cannot be easily addressed via policy support, this should, however, be taken into account when designing support measures. In the most basic and practical terms, this means **developing simple and straightforward solutions that SMEs would find highly accessible**.

¹⁸ Lack of time in top management and/or human resources was said to be a very important barrier by 24.7% of SME support organisation representatives, while another 42.9% said it was an important barrier. Lack of financial resources was said to be a very important barrier by 25.3% and an important barrier by 34.2% of SME support organisation representatives.

Figure 14. Significance of barriers for introducing sustainability practices/CSR into business operations amongst SMEs.

Note: Total (N)=615.

Source: SME survey (2021).

Lack of awareness on available support programmes for CSR/sustainability activities was also amongst the top barriers for higher CSR/sustainability uptake reported by SMEs. This does not imply that unless support is available SMEs will not adopt responsible practices. Instead, it simply points towards the lack of awareness on additional incentives for SMEs, which they might find valuable. The issue here is twofold (see [section 2.5.](#)) – first, **SMEs**, given their constant lack of resources, **find it difficult to undertake a detailed assessment on the kind of support available and the kind of support they need**. And secondly, **such support in some instances may be rather limited**. In some countries, very little attention is paid to SMEs and their needs, and generally, most tools or support programmes have been developed with large multinational companies in mind. According to some business support organisation representatives, in some countries there are limited awareness-raising activities oriented towards CSR/sustainability in SMEs. Furthermore, the greater part of support available to SMEs is highly “vertical” in nature, where they may receive support for a specific issue or area, without however, **integrating CSR with company operations in a more wholesome manner** (see [Chapter 6](#)). The latter aspect is especially significant – business support organisation representatives were keen to point out that SMEs struggle to implement CSR/sustainability practices in a more strategic way, as they lack a thorough understanding of how such practices can complement their existing business model.

Lack of practical knowledge on how to integrate CSR/sustainability into business operations is a strong barrier to many SMEs and one that can be addressed with appropriate policy actions. It is a more significant issue than a limited understanding of what CSR/sustainability is about. It was already pointed out (see [section 2.1.](#)) that SMEs are well-aware of the concepts of CSR/sustainability as well as their theoretical implications. However, they lack the purely operational kind of knowledge to be able to

integrate CSR/sustainability principles into their daily business without making substantial trade-offs or taking on serious risks (see [section 2.5.](#)). Business support organisation representatives believe that a lack of practical knowledge on how to integrate sustainability into business operations is actually the most significant barrier preventing SMEs from taking up CSR/sustainability practices¹⁹. According to one business organisation's representative: *"There are no cookbooks for SMEs/start-ups on CSR implementation, especially at the company level. So, the lack of knowledge is extensive."*

Lack of control over a company's external environment constitutes the **SMEs' lack of leverage** that is commonly acknowledged as an important barrier for CSR (Vo, 2011; Laudal, 2011). The survey results make it clear that SMEs find such a lack of leverage **somewhat problematic, but the extent of this issue is difficult to assess** even for the SMEs themselves (note the share of SMEs that indicated "Do not know/cannot answer" option for this barrier). SMEs heavily depend on external circumstances, which can be a strong driver to CSR uptake (see [section 2.3.](#)), but if CSR/sustainability is not valued by their external environment, it doesn't mean that a company will not conduct any activities at all. In other words, if SME owners-managers see the value in CSR/sustainability, the failure of other stakeholders to grasp its benefits has a limited effect on business decisions. In that respect, this barrier is not equivalent to other barriers such as a lack of finances or human resources because it prevents action only insofar as a company lacks the motivation and perhaps additional support to uptake CSR/sustainability.

Finally, fewer companies than expected said they are reluctant to take up CSR/sustainability practices because they see no economic benefit or even a risk to their current business operations. This naturally stems from key motivations behind CSR/sustainability uptake amongst SMEs – they are motivated by ethical concerns and customer demand (see [section 2.3.](#)), the latter of which already incorporates a business case for CSR/sustainability for SMEs. However, the results of this study indicate that, in fact, **lack of a clear and viable business case for CSR/sustainability constitutes** a major and **possibly key barrier** to CSR/sustainability uptake amongst SMEs. CSR/sustainability is not a priority to the many stakeholders that SMEs are involved with. For example, business support organisation representatives argue that SMEs supplying other business clients do not find sustainability a key priority or a so-called "sales argument" and public procurement schemes in many EU countries still tend to choose offers with the lowest price.

2.5. Main SME policy support needs

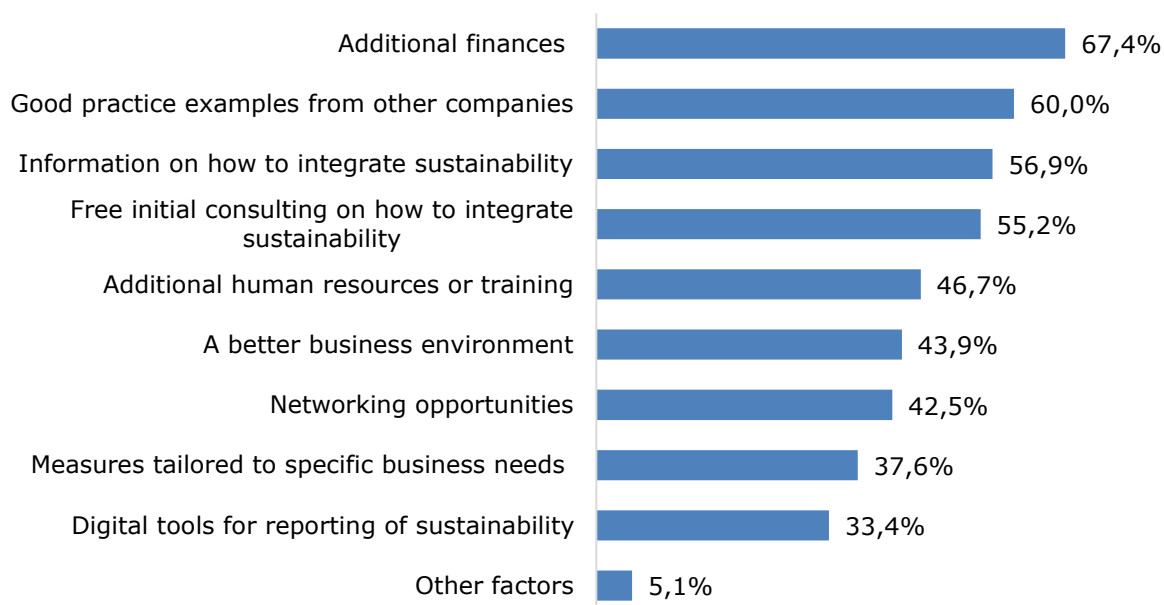
The support needs of SMEs reflect the diversity of the SMEs themselves and can range from simple guidelines or standards to sophisticated partnership and networking opportunities. Various context factors, such as the sector or country within which an SME operates, have a strong influence in shaping support needs. The particular CSR activity area on which an SME wants to focus is also important and would need to be approached via the appropriate means.

Once again, it is clear that key policy needs to closely follow from both the drivers and the barriers. Additional finances to carry out activities was said to be the most relevant support need (see Figure 15). **CSR/sustainability practices**, and especially more systematic ones such as transforming production processes or auditing suppliers, **can be a serious**

¹⁹ 28.8% of business support organisation representatives said that lack of practical knowledge was a very important barrier and another 47.5% said it was an important barrier - a total of 76.3% of respondents.

investment for SMEs. Furthermore, **such an investment carries its own risk** and is comparable to R&D investment – the activities may end up costing more than expected for very limited returns on investment, if any at all. **Commercial gains might be low** if customers attribute little value to sustainability. There is a limited guarantee when introducing such activities for the first time, hence many SMEs, unless they are really at the forefront of sustainable technology, tend to adopt simple and basic cost-saving measures (e.g. efficient light bulbs) instead of changing essential company processes (OECD, 2018). Funding opportunities are available for SMEs interested in turning sustainability challenges into innovation opportunities, the most notable of which are innovation programmes such as Horizon Europe, or funding provided via a plethora of national R&D/eco-innovation measures (or support for social enterprises). However, such funding is most relevant to innovative companies that are likely to perceive CSR/sustainability as their business model or strategy. Other types of companies can benefit from various subsidies and financial instruments established mostly on a national level (although in many instances funded by the EBRD or ERDF, esp. in CEE countries) to adopt green energy and resource efficiency technologies, such as the purchase of photovoltaics or water waste management technologies. However, an overview of the Green Action Plan for SMEs stressed that the lack of knowledge amongst SMEs with respect to energy efficiency remains a challenge (Doranova, 2018). This challenge also extends to other CSR areas and **for most SMEs this lack of practical knowledge remains the most pressing concern.**

Figure 15. Support needed for CSR/sustainability uptake amongst SMEs (already conducting some activities).



Note: Total (N)=583.

Source: SME survey (2021).

Good practice examples from other companies or organisations were said to be the second most important support for SMEs (see Figure 15). This really comes to the core of what SMEs are most concerned with when it comes to CSR/sustainability – while they are aware and perhaps internally motivated to make their business operations more responsible/sustainable, they **lack the basic know-how** on the multiple ways this can be realised. The issue here is not about the “what” or the “why”, but really the “how”, namely

1) how a certain area of concern is approached, 2) how an appropriate practice is developed and finally, 3) how does it really function on a day-to-day basis. In this particular respect, various toolkits or guidelines are of little help to SMEs because they remain unsure of how to apply them in practice. Ensuring that responsible conduct doesn't negatively impact a company's turnover is also a part of these concerns. Multiple stakeholders point out that entrepreneurs are eager to learn from their peers through very particular, tangible examples. This approach has been taken up and encouraged by some organisations in the form of good practice sharing platforms that can function either with respect to a specific theme (e.g. see [4.3 section](#) on environment), sector or even on a cross-sectoral basis.

SMEs' needs for information and knowledge or free initial consulting on how to integrate sustainability into business operations are simply another means for SMEs to access practical know-how. As a result, they are also high on the list for support needs. However, there is something to be said when it comes to various forms of informational support (see [Chapter 6](#)) – **while SMEs might be keen on receiving such support, they do not always have the time and internal capacity to put it to good use.** Some stakeholders remarked that there was so much information out there that it was difficult to follow-up and distinguish between what is and is not relevant for a small business.

Given that SME owners-managers often oversee most company operations, they are simply overwhelmed with the amount of material they need to take into account. In that regard, SMEs require **highly accessible, extremely well-targeted, and user-friendly platforms**²⁰ or other means of information sharing (a possible "one-stop-shop" solution was mentioned). Currently, most tools and guidelines are better suited to the needs of large companies, which have the internal resources to take such information on board (Kechiche & Soparnot, 2012). Formal systems of environmental management have thus not been very successful amongst SMEs because their complexity precludes adoption by smaller structures.

Furthermore, this leads to yet another issue, namely SME outreach. Stakeholders raise concerns that currently, **despite some support already being available, SMEs are not aware of it** (see Figure 14 in [section 2.4.](#)). This is very relevant for all kinds of support measures, but especially for informational support, because it tends to be overlooked amongst the vast stream of other information. These concerns also extend to the upcoming CSRD amendment that is expected to be accompanied by reporting standards for SMEs. While the standards could offer opportunities for SMEs, it remains a challenge to communicate and raise awareness amongst SMEs on their existence and potential benefits.

Networking opportunities with businesses, organisations and experts are a less preferred means of support. To SMEs without a CSR/sustainability strategy, networks are most likely perceived as having little to offer in their uptake of CSR activities (only 35% selected this option). However, for SMEs with a CSR/sustainability strategy, networking opportunities are high on the list of support means (50% selected this option). Indeed, many stakeholders agree that **for SMEs that prioritise CSR/sustainability, networks have a lot to offer** – they can provide better access to various resources and information, enable entrepreneurs to build partnerships with like-minded peers, provide guidance on reporting, help increase leverage to ensure higher compliance with various standards from larger companies or suppliers, and in some cases even carry out audits of their suppliers for a fee. **Networks can also provide significant support for SMEs that source from or operate in third countries.** In this case, networks can provide relevant information

²⁰ Ideally, it would be a single platform that SMEs know of and trust.

on the country, and even the specific region, where sourcing takes place, or even help SMEs to find responsible business partners there (see sections [4.5.](#) and [4.6.](#)). However, once again, such help is only relevant to SMEs that are actively seeking ways to promote due diligence in their supply chains in the first place.

Instead of networks, **SMEs without a CSR/sustainability strategy or business model would more likely benefit from measures tailored to specific business needs**, based on such features as company size or a particular economic sector (43% selected this option). This strongly ties in with the fact that such companies struggle to see the business case for CSR/sustainability and believe that specific measures would serve as a means of pre-defining their needs.

Unsurprisingly, **additional human resources are relevant to SMEs that plan on introducing a CSR/sustainability strategy** (59% selected this option). For other SMEs, this was much less relevant. It seems paradoxical that a lack of human resources was said to be one of the key barriers for CSR uptake (see [section 2.4](#)), yet it was not equally as relevant when it came to required support. However, upon further investigation, it has become clear that a **lack of human resources is most acute at the early stage of CSR activity uptake**, namely when 1) specific actions need to be decided on, and 2) a process of implementation needs to be established. In terms of policy support for SMEs, this hints towards some sort of **external means to facilitate business transformation** (e.g. business consultants) that is no longer necessary once that transformation is complete.

A better business environment, where sustainability is prioritised by various groups (investors, consumers, suppliers), **remains very relevant for SMEs whose business model is based on sustainability** (50% selected this option). Under better circumstances, sustainable businesses would be able to use their competitive advantage to an even larger extent, resulting in business growth. The same cannot be said of other businesses, and while they do believe that a better business environment would have a positive impact, other means of support remain much more relevant.

Finally, given that many SMEs are not concerned with CSR/sustainability reporting, because they see little value in it (see [section 4.8.](#)), **digital tools for reporting were said to be the least necessary type of support**. Preference for this support was consistently low among all SMEs, irrespective of their age, size or approach to CSR. The only notable exception was the textile and garment industry, which tends to engage in formal reporting more often than other sectors and therefore sees more value in digital reporting tools (see [section 5.5.](#)).

3. SUSTAINABLE BUSINESS MODELS AND SUSTAINABILITY STRATEGIES

This chapter discusses the two types of companies that devote significant attention to CSR/sustainability practices, namely SMEs with sustainability as their core business model and SMEs with CSR/sustainability strategies. As discussed in [section 2.1.1.](#), there is a main difference between the two types:

- **Sustainable business models:** A company's entire business model is based on sustainable conduct. It generates profit from activities that have a positive impact on societal issues or the environment. Sustainable products or services are the company's selling point and competitive advantage. The activities from which a company generates profit are (or should be) sustainable by default. Such companies tend to publicly disclose information on their practices.
- **CSR/sustainability as a strategy:** A company systematically addresses CSR/sustainability in its operations and proposes some attempt to reduce its negative impact (or increase the positive). Often this company has a CSR/sustainability strategy. Such companies tend to be innovative and forward-looking when it comes to business development overall. They approach CSR/sustainability not only from an ethical standpoint, but also as an opportunity to develop their business. Such companies are likely to publicly disclose information on their practices.

While both types of companies prioritise CSR/sustainability, their specific characteristics could not be more different – sustainable business models are more often picked up by young and small companies, while sustainability strategies are implemented by larger and older enterprises. This leaves a particular segment of smaller companies that perceive CSR/sustainability as a noted concern but lack the motivation and the means to conduct more substantial activities. Such companies could take stock of certain aspects that could be strategically beneficial to their business (e.g. a specific CSR area or a very particular activity). In other words, combining CSR/sustainability and business development can be a good approach, even if it is not taken up in its entirety as the adoption of a CSR/sustainability strategy. A **key element that can be picked up by all companies**, irrespective of their size or commitment, are **targets or KPIs** set in CSR areas that matter the most to their business.

3.1. Sustainable business models

The key issue with identifying sustainable business models was already discussed in [section 2.1.](#) – some survey participants claimed their business model benefited employees or customers by default of its existence. However, while data from the SME survey regarding the prevalence of sustainable business models should be treated with caution, it does allow one to draw some tentative conclusions on the types of companies most likely to have a sustainable business model in place. It is clear that **young enterprises** are more likely to set up sustainable businesses that **mostly benefit the environment**. Furthermore, certain sectors, such as retail or tourism, are better placed to have such business models in place than others, such as transport and logistics or the mining industry.

3.1.1. Prevalence of sustainable business models

It remains difficult to estimate the exact prevalence of sustainable business models due to the reasons already discussed in [Chapter 2](#). Furthermore, sustainable business models are

very diverse and may cover a variety of business activities (see next section), which makes any comparisons or assessments on their level of sustainability difficult.

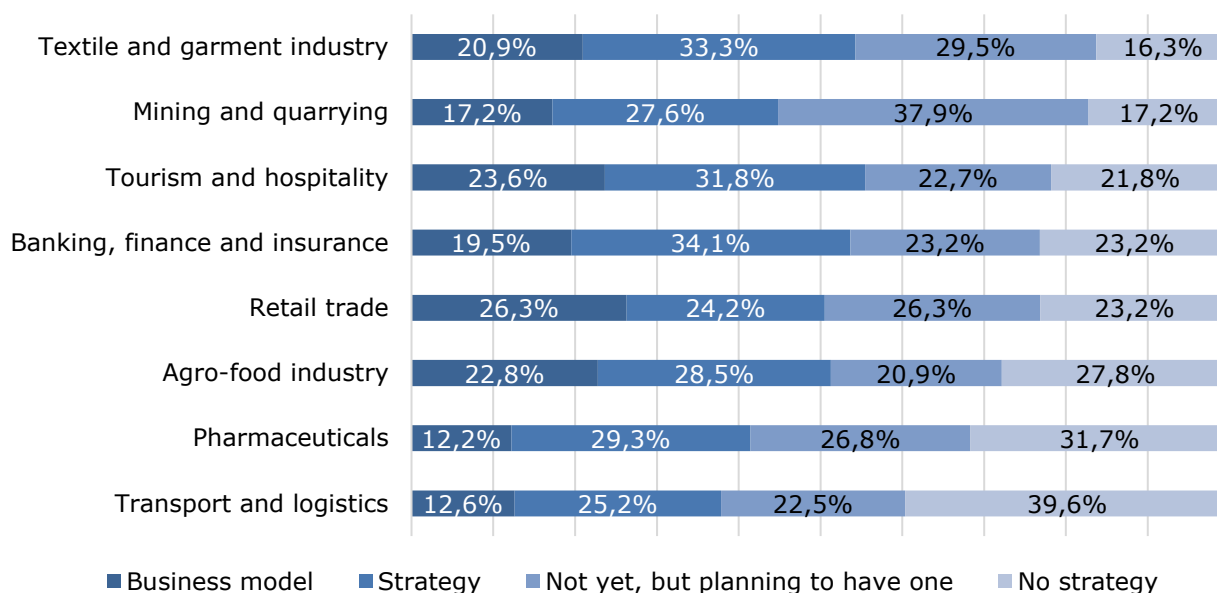
Data collected via the SME survey mostly confirms anecdotal evidence that **young and dynamic companies (e.g. start-ups) are almost two times more likely to run a fully sustainable business** than other types of companies²¹. These companies are also more likely to be:

- **Small**²² or even start out as a so-called “one-man-show”, namely as a self-employed person (23.5% of such companies are run by one person).
- **Conduct activities outside their own country**, but remain mostly limited within the borders of the EU. SMEs that have no international presence are amongst the least likely to follow a sustainable business model (16%).

Finally, **not all economic sectors are well-placed to introduce sustainable business models**. For some, switching to an all-sustainable business model might be especially difficult because their economic activities rely on inherently unsustainable operations and their standing with respect to a circular economy needs to be properly assessed. Energy-intensive industries, such as the extractives sector (raw materials), or transport and logistics, are particularly problematic in that respect. It is clear that the **sectors most likely to have a sustainable business model in place were also well-placed to do so in terms of the sector in which they operate** (see Figure 16). The case for a sustainable business model in the retail, agro-food and tourism industries currently remains more straightforward and significantly more achievable when compared to other sectors under the scope of this study. For example, a sustainable business model in the retail industry most commonly entails eco-shops of various shapes and sizes. Some might sell only environmentally friendly objects, others might also incorporate a social mission. Likewise, SMEs within the sustainable tourism segment are likely to follow a very similar approach to retailers and either incorporate a social mission (e.g. accessible tourism services) or focus on environmentally friendly practices (e.g. zero-emission hotels or rural tourism). Finally, the agro-food industry has been steadily growing mindful of its environmental impact, hence growth in various sustainable practices within the industry is likely to be reflected in the survey responses.

²¹ 32% of companies below 5 years of age were said to follow a sustainable business model as opposed to older companies, of which only 16% said so.

²² 22% of sustainable businesses are amongst companies with up to 9 employees as opposed to larger companies where 16% were said to follow sustainable business models.

Figure 16. Percentage of companies having a sustainable business model or a strategy, by economic sector.

Note: Total (N)=796.

Source: SME survey (2021).

3.1.2. Main features: areas and types of activities

Ideally, a sustainable business model should take into account both its environmental and social impacts. However, that is not always the case and companies working towards positive social or environmental impacts tend to already see themselves as sustainable. Hence, sustainable business models fall into one of three categories, as described in Table 8 below.

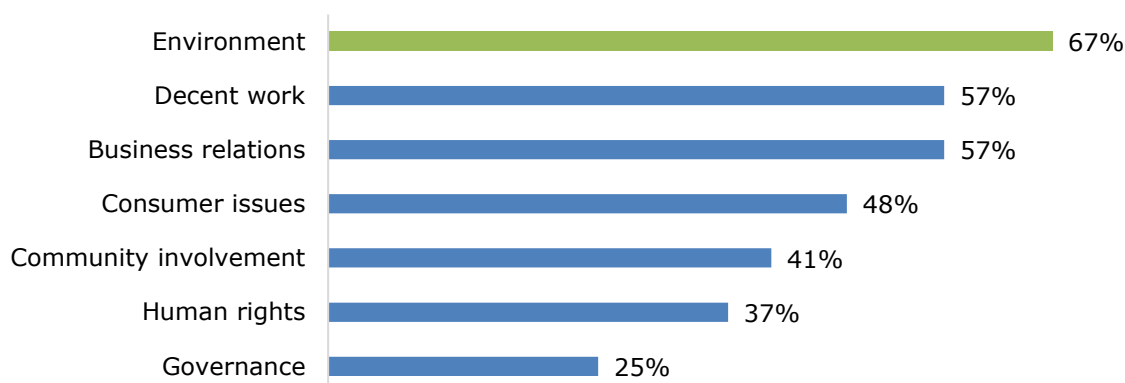
Table 8. Types of sustainable business models by their defining characteristics

Type of business model	Defining characteristics	Examples of enterprise activities
Environmentally responsible enterprise (eco-innovator)	Generates profit from benefiting the environment.	Enterprises that develop and/or adopt green technology, focus on recycling materials or otherwise approach and benefit from the environment in the least harmful way (e.g. sustainable farming practices) belong to this category.
Socially responsible enterprise	Generates profit from benefiting a particular social group or addressing a social mission.	Enterprises may focus on providing a service or product to a vulnerable group (e.g. accessible tourism) or contribute to social development initiatives (e.g. fair trade with a specific community in need). Social enterprises also fall under this category.
All-round sustainable enterprise	Generates profit from activities that have positive social and environmental impacts.	Enterprises are likely to follow an integrated organisational culture where all activities are undertaken with a clear vision on what they can achieve both for the enterprise and for society at large.

Source: Authors' elaboration, based on Ryan, A., O'Malley, L., & O'Dwyer, M. (2010). Responsible business practice: re-framing CSR for effective SME engagement. *European Journal of International Management*, 4(3), 290-302.

The precise extent on which types are most common across the EU is not very clear, but **the environmentally responsible enterprise was the most common type** between SME survey respondents (see Figure 17).

Figure 17. CSR areas addressed by business models.



Note: Total (N)=159.

Source: SME survey (2021).

Then again, **the areas to be addressed by the chosen business model are also largely dependent on the sector within which a company operates**. In this case, a large share of companies within the retail sector said they follow a sustainable business model. As a result, there is a substantial share of companies that base their model on responsible business relations because this particular area is crucial to their business (see [section 5.3.](#)). The environment is an important area for most sectors and business models in this area can be developed within a wide range of industries. Finally, labour practices and consumer issues are the two areas many selected by default as the very reason for their company's existence (see [section 2.1.](#)), even if the company did not operate under what is defined as a sustainable business model within this study.

Specific activities covered by sustainable business models are quite varied. Box 1 provides several examples of sustainable business models that were identified during this study. These practices exemplify a strongly integrated approach to sustainability that is not easily transferable to other enterprises. At the same time, this approach is what differentiates such SMEs from others and enables them to retain their competitive advantage.

Box 1. Examples of sustainable business models.

Rifuzl is a Slovenian grocery store that promotes zero-waste shopping. They encourage shoppers to bring their own packaging and avoids plastic waste. Furthermore, most of their products are locally sourced and organic. The store aims to set reasonable prices that are affordable for a wide segment of society. At the same time, *Rifuzl* seeks to maintain a good relationship with their suppliers by offering them a fair and prompt payment for their products.

fairafrik is a social business that produces premium quality organic chocolate from tree to bar in rural Ghana. Although Africa's raw materials have always been used for the production of chocolate, it was rarely ever produced in the country of the cocoa's origin. *fairafrik* aims to reverse this trend and increase Africa's share of the value chain as much as possible. In 2020, *fairafrik* had established a factory that could directly employ around 85 people in rural Ghana, supporting the development of the local economy and creating mid-market jobs in the sector.

Source: SME survey (2021) and <https://rifuzl.si/>, <https://fairafrik.com/>

3.2. Sustainability strategies

3.2.1. Prevalence of sustainability strategies

More than a quarter (27.5%) of SME survey participants said their business had adopted a CSR/sustainability strategy (see Figure 8 in [section 2.1.1.](#)). Similar to the case of sustainable business models, this seems a rather optimistic result, and especially because a “typical” business most likely to have a business strategy, statistically speaking, does not coincide with a typical European SME (see Table 9 below). The SME survey showed that **sustainability strategies are most prevalent amongst larger and better-established SMEs**²³ that are also more likely to have the resources and the capacity to address CSR/sustainability in a strategic way as compared to smaller SMEs. In that respect, they are more similar to large enterprises, yet the smaller scale of their operations makes them better placed to integrate CSR/sustainability practices.

Table 9. Features of SMEs with sustainability strategy vs. typical SMEs

Feature	Typical European SME	SME with a sustainability strategy
Size	Micro-enterprise, up to 9 employees	Medium enterprise, 50 to 249 employees
Age	Varied	Over 21 years of age
Markets	Conducts business locally	Conducts business operations outside the EU

Source: SME survey (2021).

While the uptake of CSR/sustainability strategies by sector remains closely linked to company **size**, it **is not the only determining factor**. The textile and garment industry, together with the banking, finance and insurance sector, are the most likely to adopt a sustainability strategy (see Figure 16 in [section 3.1.1.](#)). Respondents from the latter sector were more likely to represent larger companies²⁴, but the textile and garment industry has been under increasing pressure to become more sustainable and various initiatives to support CSR/sustainability uptake are likely to have had a positive impact on this trend (see [section 5.5.](#)). These two sectors were closely followed by SMEs within the tourism and hospitality and pharmaceutical sectors, none of which had a disproportionately high share of larger SMEs participating.

The transport and logistics sector has the lowest share of companies with a sustainability strategy²⁵ and is amongst the least engaged in CSR/sustainability practices overall due to the type of economic activities performed (see [section 5.2.](#)). SMEs within the retail sector were also amongst the least likely to have a sustainability strategy. However, the sector is mostly dominated by family-owned micro-enterprises²⁶ that seldom need to approach sustainability in a strategic way. Finally, the agro-food industry, while somewhat closer to industries with a higher sustainability strategy uptake, is also largely dominated by micro-enterprises, hence the prevalence of sustainability strategies was slightly lower than the average.

²³ 42% of enterprises with 50-249 employees had a CSR/sustainability strategy in place as opposed to the average and 33.5% of enterprises over 21 years of age had a CSR/sustainability strategy. 31% of SMEs with operations both in- and outside of the EU had a CSR/sustainability strategy.

²⁴ 47.7% of enterprises within the banking, finance, and insurance sector had 50-249 employees as opposed to 23% of the survey average.

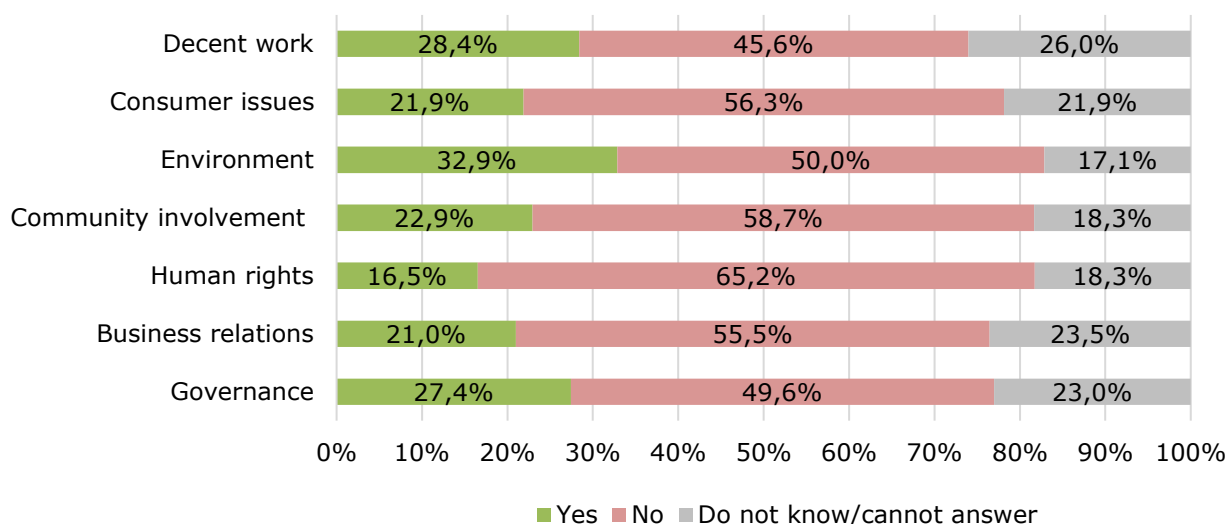
²⁵ The mining and quarrying industry also seems to have a small number of companies with a sustainability strategy, however, due to the low number of responses (34), no definite conclusions can be made.

²⁶ 61% of sector respondents represented an SME with fewer than 9 employees as opposed to 42% of the survey average.

3.2.2. Main strategy features: activities, targets, and resources

An SME with a CSR/sustainability strategy already demonstrates a certain level of commitment that results in activities with more substantial impact. Such SMEs address more essential business operations and tackle issues in a more systematic and formalised manner. However, variation between commitments within strategies can also be significant. Some SMEs develop strategies that include specific goals and targets for CSR/sustainability actions, which are also clearly linked to business operations. And yet, **a majority of SMEs do not set any measurable targets** or key performance indicators (see Figure 18). Furthermore, SMEs that do set such targets will not necessarily be determined to meet them.

Figure 18. Usage of key performance indicators by CSR areas amongst SMEs.



Note: Decent work, total (N)=169, except, Consumer issues, total (N)=128, Environment, total (N)=140, Community involvement, total (N)=109, Human rights, total (N)=115, Business relations, total (N)=119, Governance, total (N)=113.

Source: SME survey (2021).

Targets to monitor environmental impacts are amongst the most common because they are simply taken and adapted from existing international targets, such as science-based targets for companies²⁷, or those set by policy makers (e.g. Paris Agreement). Such targets are easy to define and quantify based on well-established methodologies. However, while these targets are easy to establish, **they can be difficult to monitor for SMEs** due to specific knowledge and technical requirements. Targets for decent work, if they are monitored at all, are also established in accordance with various standards commonly applied in human resource management practices. Finally, targets in other areas, with the expectation of governance that commonly includes basic financial KPIs, tend to be rare. These areas entail monitoring social impacts or benefits that remain difficult to define.

Table 10 below showcases the various targets SMEs set for each CSR area.

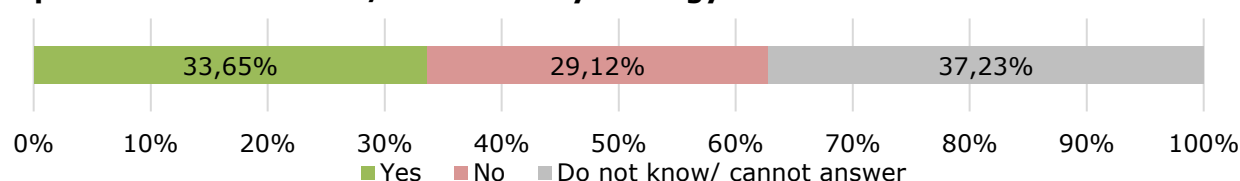
²⁷ For more information, see: <https://www.wri.org/initiatives/science-based-targets>

Table 10. Examples of targets set by SMEs, by CSR area

CSR area	Examples of common targets or KPIs
Decent work	One-on-one interviews to monitor employee well-being based on set criteria, share of employees participating in training/hours spent in training per employee, severity and/or frequency of OHS accidents, gender equality indicators (positions occupied and gender pay gap), hours spent on overtime, salary level in comparison to country average, etc.
Consumer issues	Benchmarks in consumer satisfaction surveys, service delivery time, number of customer complaints and their causes, response time in case of complaints, specific KPIs for product quality and safety, share of sustainable or adapted products sold in relation to other products, etc.
Environment	Specific targets for energy, water and/or fuel consumption levels, targets for CO ₂ or other gas emissions, share of energy sourced from renewable sources, amount of various materials (un-)used or recycled (especially if reducing waste is a priority), amount of food waste (target at zero), share of products/product parts developed from recycled materials, number of trees planted, number of animals protected.
Community involvement and development	Number of persons or programme participants to which support had been provided, number of projects/initiatives or programmes supported, follow-up on persons or groups to ensure the success of delivered support, share of income from products/services targeting particular groups.
Human rights	Number of persons that benefited from support, number of employees trained on relevant topics (diversity, inclusion, corruption, human rights' risks, etc.), workforce diversity statistics (gender equality, inclusion of various groups).
Business relations	Number of suppliers committed to the company's CSR/sustainability code of conduct (e.g. by signing a charter), number of certified products purchased from suppliers, number of corruption alerts, number of supplier misconduct reports, benchmarks for third-party audits.
Governance	Financial indicators (revenue, profit, cash flow, etc.), scheduled meetings with employees, performance in accordance with ISO or other standards.

Source: SME survey (2021).

Only a third of all SMEs (33.65%) with a CSR/sustainability strategy in place or under way plan to dedicate additional resources for its implementation (see Figure 19). Companies with a CSR/sustainability strategy already in place were more likely to dedicate additional resources to its implementation (43.8%) as opposed to companies that are only planning on introducing one (21.9%), while larger companies are more likely to dedicate additional resources overall (45%). This naturally relates to resources available to SMEs, which tend to be limited. When resources had been foreseen, they included a dedicated person or team for CSR/sustainability activities and a set budget. Most commonly, **one or two full-time persons were said to work on these issues** within the company. In some cases, employees dedicated a fraction of their time, e.g. 0.2 or 0.5 of full-time employment.

Figure 19. Share of SMEs planning to dedicate additional resources to the implementation of a CSR/sustainability strategy.

Note: Total (N) = 419.

Source: SME survey (2021).

3.3. Key drivers and barriers for CSR/sustainability uptake

The key drivers and barriers for CSR/sustainability uptake amongst companies with sustainability strategies or business models are largely in line with general trends, which are discussed in [sections 2.3.](#) and [2.4.](#) of this report. However, some notable exceptions exist and need to be emphasised. These exceptions are summarised in Table 11 below.

Table 11. Drivers and policy support needs for companies with sustainable business models or CSR/sustainability strategies.

Relation to CSR/sustainability	Drivers	Policy support needs
CSR/sustainability at the core (sustainable business models)	<ul style="list-style-type: none"> - Aware and willing to contribute to SDGs²⁸. - Care about increasing revenue and market share²⁹. 	<ul style="list-style-type: none"> - Do not perceive regulation as an incentive³⁰. - Believe they would benefit from a better business environment (see section 2.5.). - Value networking opportunities and partnership opportunities as a means of accessing new markets.
CSR/sustainability as a priority (CSR/sustainability strategy)	<ul style="list-style-type: none"> - Clearly see the business-case for sustainability. - Driven by opportunities to increase cost savings and efficiency³¹, improve innovation performance³², and increase resilience to external shocks³³. - Interested in gaining better access to finance (improving image before investors)³⁴. - Interested in gaining access to foreign markets³⁵. 	<ul style="list-style-type: none"> - Measurable targets or key performance indicators remain rare. - Value networking and partnership opportunities, because they can provide better access to various resources and information and enable building partnerships with like-minded peers.

Source: SME survey (2021).

²⁸ 30.2% as opposed to the survey average of 17.4%

²⁹ 26.4% as opposed to the survey average of 20.8%.

³⁰ 38% as opposed to the survey average of 49.5%.

³¹ 42.4% as opposed to the survey average of 38.8%.

³² 46.6% as opposed to the survey average of 32.4%.

³³ 32.7% as opposed to the survey average of 23.6%.

³⁴ 29% as opposed to the survey average of 22.4%.

³⁵ 31% as opposed to the survey average of 24.2%,

4. CSR UPTAKE BY ACTIVITY AREAS

This chapter looks at SME activities within each CSR area in more detail. Each section begins with a short overview of relevant legislation to better understand the possible scope and extent of voluntary efforts in relation to mandatory requirements. This overview is followed by a comprehensive assessment of how SMEs approach activities within each area, which efforts they perceive as the most beneficial and why, and what kind of challenges SMEs struggle with when undertaking certain activities. Each section includes both quantitative and qualitative findings from survey data with respect to particular activities in each area. Finally, some sections provide suggestions where additional support or efforts would be needed and offer examples of policy support whenever appropriate. Table 12 below provides a summary of findings in an easily accessible form.

Table 12. Summary of findings for each CSR area and remaining challenges.

CSR area	Level of uptake	Remaining challenges
Decent work	High in all sectors due to strong legislation across the EU and need to retain employees.	<ul style="list-style-type: none"> - Risks to labour right abuses in labour-intensive industries where undeclared work is prevalent. - Limited employee development opportunities, especially in companies without a strategic commitment. - Social dialogue and employee participation remains mostly informal. - Effects of digitalisation on employee OSH and well-being is an emerging concern in all industries.
Consumer issues	Relatively high in most , but especially in consumer-facing sectors (retail and tourism) due to dependence on consumer satisfaction. EU and national legislation contribute significantly to levelling the requirements for consumer protection.	<ul style="list-style-type: none"> - Consumer demand amongst the top drivers for CSR uptake, however, consumer-awareness is limited and choice remains based on price. - Provision of all relevant information for consumers with respect to CSR or sustainability remains a challenge. - Limited action to promote sustainable consumption. - Lack of clear definitions and understanding hinder better protection of vulnerable groups.
Environment	High in some sourcing or manufacturing companies because they understand the “business case” for green tech. More moderate in service industries such as retail, finance, and transport.	<ul style="list-style-type: none"> - Products or services that respond to environmental concerns tend to occupy niche markets and often target upper-tier consumers. - SMEs with a strategic commitment implement more impactful solutions and are more willing to adopt new “green” technologies. - Limited attention to the protection of biodiversity or fight against deforestation in favour of activities to reduce green gas emissions or waste.
Community involvement	Comparatively limited in all sectors , except for certain service industries, such as tourism and the financial sector. SMEs perceive such activities as non-essential .	<ul style="list-style-type: none"> - Requires capacity of close cooperation amongst local stakeholders, which SMEs lack. - Lack of knowledge, awareness of beneficial partnership opportunities and an understanding of how partnerships can help with business development. - Very limited community development in third countries because SMEs seldom directly invest there given their substantial lack of knowledge.

CSR area	Level of uptake	Remaining challenges
Human rights	Comparatively limited in most sectors . The textile and garment industry is the most active due to increasing societal pressure, awareness of existing risks, and available sectoral support.	<ul style="list-style-type: none"> - Limited understanding of possible risks and insufficient capacity to track and mitigate them. - Lack of leverage, lack of capacity to audit suppliers, and lack of information on ground-level when dealing with third countries. - SMEs with a strategic commitment are more likely to screen suppliers for abuses than other enterprises via audits, screening questionnaires, or purchasing from certified suppliers. However, these activities are limited.
Business relations	Moderate in most sectors, but SMEs in manufacturing industries tend to be more active in this area because their business operations and reputation are strongly dependent on specific suppliers.	<ul style="list-style-type: none"> - Business relations are a priority for SMEs with a strategic approach, but they constitute a minority. - Pressure from large buyers amongst top drivers of CSR uptake, but it implies additional costs for SMEs in obtaining certificates/management systems and also may be perceived as coercion. - Lack of clear and transparent requirements from large companies. - Negative impacts of competition based on illicit practices in global value chains. - Lack of capacity to assess and mitigate supply chain risks given the lack of leverage, awareness of sector, or location-specific risks and trustworthy/accurate information provided by suppliers. This results in questionable SME liability for transgressions.
Governance	Moderate in most sectors, but more prevalent in sectors where transparency is necessary to ensure credibility, i.e. pharmaceuticals and financial services.	<ul style="list-style-type: none"> - Large companies more likely to conduct activities, with formalised processes and sometimes KPIs. - Small companies attribute limited value to such activities. - Transparency to employees or their inclusion is limited in most companies.

Source: Authors' elaboration based on study data.

Analysis provided in this chapter makes it clear that SMEs commonly conduct activities that require little to no additional efforts outside ordinary legal obligations. Purely voluntary CSR/sustainability practices remain more limited because they entail additional investment or capacity (see Table 13 below). **SMEs are mostly concerned with benefiting their most immediate stakeholders, namely employees and customers**, both of which also coincide with what is perceived as the local community within which an SME operates. The government/regulators are relevant insofar as they set the baseline and point towards certain societal expectations, which greatly vary from country to country (see [Chapter 6](#) and [Annex 4](#)). Other stakeholders remain less important and SMEs devote less attention to bringing value for them. Accordingly, SMEs are mostly concerned with the direct impact of their business operations, especially as they encounter difficulties in assuming any control over any adverse impacts. Finally, it is important to stress that the level of engagements within all areas can be very diverse, depending on multiple factors, such as the country and sector within which the company operates, its approach to CSR/sustainability, as well as its size. Specific examples of these activities are provided under each section, bearing in mind relevant contextual details. Table 13 below illustrates

how internal and external requirements for each CSR area are perceived by SMEs, which play a decisive role in whether an SME will uptake activities in a specific area.

Table 13. Internal and external requirements for CSR/sustainability action in each area as perceived by SMEs.

CSR area	Legal compliance	Perceived benefit to business	Customer pressure	Requires capacity	Requires investment
Decent work	Yes	Yes	No	No	Sometimes
Consumer issues	Yes	Yes	Yes	No	No
Environment	Yes	Sometimes	Yes	Sometimes	Yes
Community involvement	No	No	Sometimes	Yes	Sometimes
Human rights	No	No	Sometimes	Yes	Sometimes
Business relations	Sometimes	Sometimes	Sometimes	Sometimes	Yes
Governance	Sometimes	Sometimes	Sometimes	Sometimes	Yes

Source: Authors' elaboration based on study data.

4.1. Decent work

Labour regulation across Europe is extensive, and labour standards are high when compared to many other parts of the world. Multiple EU directives³⁶ set minimum standards for working conditions and an EU framework for employee involvement at the workplace is available³⁷. Individual Member States have their own additional legal obligations in place, which may differ considerably, depending on each country's economic, social, and cultural traditions. However, while a strong legal framework helps to avoid certain indecent work practices, it does not guarantee that companies will treat their employees and workers with appropriate dignity and respect. Companies across Europe exhibit considerable differences in how far they are willing to go in their efforts to ensure decent work. Furthermore, as additional risks to employee safety and well-being emerge, mainly due to technological change driven by digitalisation, expectations for companies to put in additional efforts remain high.

Ensuring decent working conditions is a top priority for most SMEs, irrespective of their size, age, or area of activity (see Figure 10 in [section 2.1.](#)). SMEs tend to value their employees both due to strong personal relations within the company and the high costs associated with employee turnover (Eurofound, 2016). For SMEs, **personnel is a key social investment** for which they take full responsibility (Ibid). In countries or specific industries where the demand for skilled (or even unskilled) labour is high (e.g. [Czech Republic](#), see [Annex 4](#)), employers are really looking for a means to improve working conditions and retain their staff.

³⁶ For example, Directive (EU) 2019/1152 of the European Parliament and of the Council of 20 June 2019 on transparent and predictable working conditions in the European Union.

³⁷ Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community - Joint declaration of the European Parliament, the Council, and the Commission on employee representation.

However, companies operating within certain countries or industries, especially those in which low-skilled manual labour is prevalent (such as agro-food, transport, and logistics, also tourism), struggle to respect even the most basic labour standards. **SMEs**, just by virtue of their size, are not an exception. Quite the contrary – they **may be more involved in the practice of undeclared work**. Stakeholders emphasised that family-run SMEs such as small local retailers or small farms tend to rely on family members to share the workload. These family members, however, are not covered by official employment contracts. This results in all the negative consequences of undeclared work, namely low- or even unpaid work, reduced or no social security coverage, and diminished company tax returns³⁸. In such countries or sectors, expectations for responsible action on behalf of businesses are also much lower. Indeed, some SMEs that participated in the survey explicitly referred to their conscious efforts in ensuring that “everyone is covered by an employment contract” as a responsible activity. Within this context, both stakeholders and policymakers emphasise that **risks to labour rights abuses are most acute in sectors with a large informal economy**. Furthermore, **this applies to companies that operate both within and outside the EU**.

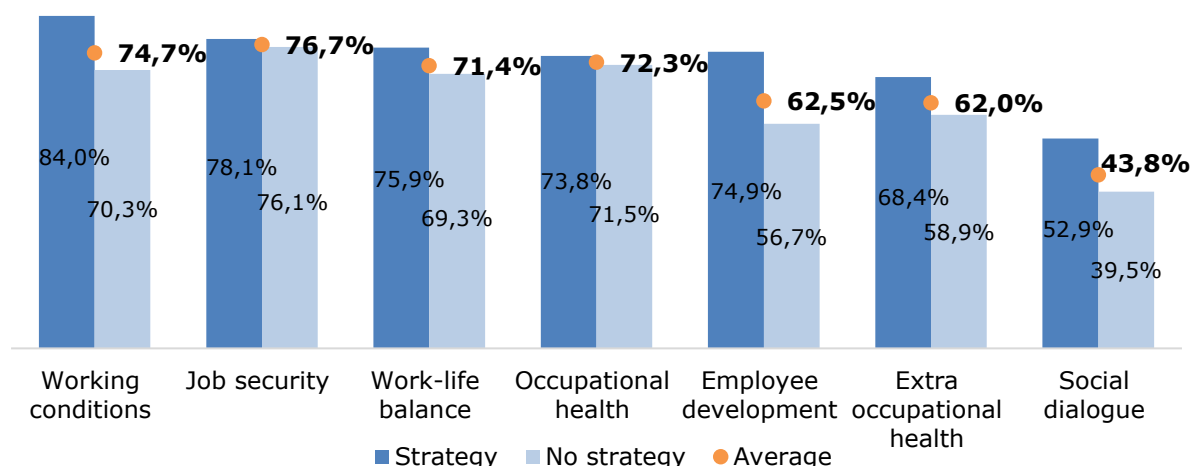
To better grasp the variety of activities covered by SMEs, we outlined the following types of decent work practices:

- Guarantee to job security and legal employment
- Decent working conditions and social protection (e.g. paying more than a statutory minimum wage for low-skilled workers, extra pay for overtime, etc.)
- Social dialogue (e.g. collective bargaining)
- Work-life balance (e.g. flexible working hours, parental leave, sabbatical, etc.)
- Measures to ensure occupational health and safety (OSH)
- Extra efforts to ensure occupational health and safety, extending beyond legal requirements (e.g. during the COVID-19 pandemic)
- Opportunities for employee development (e.g. training, job-rotation)
- Other practices not covered by those above

Figure 20 below provides coverage of decent work practice types amongst European SMEs by separating those with a sustainability strategy from those without. Collected data makes it clear that **responsible SMEs tend to respect the most regulated areas** (e.g. legal employment or measures to ensure OSH) **but efforts in other areas tend to diverge**. Naturally, SMEs that consider their employees a strategic priority tend to be more active in all areas than those that do not³⁹. However, given that such enterprises are generally larger and better-established, they have more resources available to invest in their employees.

³⁸ More information available at: <https://www.eurofound.europa.eu/topic/undeclared-work>

³⁹ Also, for the whole area of decent work, 89.6% of SMEs with a sustainability strategy said they included activities in their strategies. 76.6% of SMEs without a sustainability strategy said they conducted activities.

Figure 20. Decent work practices covered by SMEs, by practice type.

Note: Total (N) = 584.

Source: SME survey (2021).

The largest differences between SME efforts towards their employees is observed in attitudes towards employee development. This is an especially problematic area for most SMEs and is extensively covered in other studies and reports (Eurofound & Cedefop, 2020). The key aspect to note here is that SMEs can and do implement activities in this area if the benefits clearly outweigh the cost of daily business operations. Survey respondents indicated the existence of training development plans, regular training activities, participation in life-long learning programmes, and job rotation opportunities. SMEs without a strategic commitment also specified that they had some type of training policy for employees, which consisted of in-house training activities or annual training vouchers.

A notable difference in SME efforts is also observed with respect to ensuring good working conditions. For larger and better-established SMEs, this really comes down to **offering various employment perks**. Such SMEs might provide benefits comparable to those in large companies, for example, cover private health insurance or employee retirement schemes, offer gym memberships or vouchers for cultural and sports events, provide free snacks at the workplace, or find other means of boosting employee motivation and retention. Such perks are emphasised to be part of a company's culture and companies willing to attract skilled employees are especially keen on providing them (incl. start-ups that are noted for their distinct emphasis on employee well-being in their communication strategies). However, these types of benefits are not always feasible for other companies to implement and they are not always what employees benefit from the most. **Decent and fair remuneration remains critical, but not always followed-through.** Some survey participants said that they paid above the statutory minimum wage to their employees, and for some sectors that would already qualify as being over the industry "standard". A fair number of SMEs said they offered **premiums for personal occasions** such as employee birthdays, marriage, childbirth, or death of family members. These types of initiatives closely **reflect the family-like dynamic of most SMEs**. More formal or rigorous remuneration processes were rarely mentioned in the survey. However, a few enterprises had established profit-sharing schemes for employees (through bonuses or a set share from company profit).

Box 2. Polish CSR Guide to a Safe and Sustainable Work Environment.

The CSR Guide to a Safe and Sustainable Work Environment helps companies in Poland implement CSR policies associated with employee relations, wellbeing, and decent working conditions. The guide indicates what actions companies should take to develop responsible policies with an aim to ensure the health and safety of employees and support work-life balance, thus increasing the quality of work and employee satisfaction. The publication also contains a database of good practises and a list of control questions that will help identify activities that companies are obliged to implement in accordance with the law and actions that they could implement voluntarily as part of their corporate social responsibility policy agenda. The CSR Guide to a Safe and Sustainable Work Environment was created by the Team for Sustainable Development and Corporate Social Responsibility, a body of the Minister of Finance, Funds and Regional Policy, and launched in 2021.

Source: <https://www.gov.pl/web/fundusze-regiony/wspieramy-rozwoj-odpowiedzialnych-polityk-pracowniczych-inauguracja-przewodnika-csr-po-bezpiecznym-i-zrownowazonym-srodowisku-pracy>

The level of employee involvement in decision-making and respect for employee autonomy reflects one of the most substantial efforts on behalf of employers to provide decent workplaces. Employee involvement in decision-making is partly covered by social dialogue practices, but the area of organisational governance also includes a sub-area for employee participation (see [section 4.7.](#)). The results of this survey are largely in line with observations already made in other studies, namely that **social dialogue in SMEs is largely informal** and seldom perceived on the same terms as social dialogue in larger enterprises (ILO, 2018). A few companies said they engaged in collective bargaining on a sectoral level, **but, for most, social dialogue entails some kind of informal procedures for involving employees in decision making** that are nonetheless quite regular. Open and transparent dialogue with employees on a regular basis was emphasised by several SMEs as a company priority. Finally, some larger companies had formal HR procedures and a dedicated person to ensure employee well-being. This is, once again, more applicable and feasible for larger companies.

Compliance with **OSH requirements** within SMEs are also quite varied. Some SMEs simply follow all regulations applicable to workplace safety, while others also implement additional measures. For example, some conduct extensive trainings for employees who deal with increased OSH risks or make sure that only certified employees conduct particular tasks. The **COVID-19 pandemic has brought worker safety and work-life balance** especially into focus. Within this context, many companies, including SMEs, introduced measures such as voluntary weekly testing, regular disinfection, contactless communication and introduced a more flexible approach to working from home. The latter, however, has brought difficulties in maintaining a healthy work-life balance. Blurred boundaries between the two has resulted in decreased mental health and well-being, most notably for women and young persons (Eurofound, 2020). Inspiration can be taken from companies that have long been striving to ensure a balanced lifestyle for their employees. SMEs have taken quite opposing approaches to the issue – some offer flexible working hours, while others emphasise a strict working schedule (e.g. strict business closing hours and regular resting periods). This may be related to the types of economic activities conducted, with the first approach more beneficial for standard office jobs and the second to jobs dependent on external factors (e.g. retail, manufacturing, etc.).

However, as technology evolves, policymakers warn that labour policies will need to evolve alongside it. **Digitalisation is expected to have a profound impact** on workers' OSH,

mental and physical well-being, as well as the types of jobs performed. **Until legislation addresses all concerns, private enterprises will be left to their own means** of ensuring proper conduct. In this case, adopting a human-centric approach to technologies could be essential (European Commission, 2021a).

Finally, while ensuring **decent work in supply chains** is more extensively covered under sections 4.5. and 4.6., a few remarks that need to be made here. The EU is committed to promoting decent work worldwide and claims that a violation of labour rights must never be a competitive advantage (European Commission, 2020a). This approach is beneficial to SMEs because it helps to maintain labour standards within the home market by ensuring a level playing field. Large companies may be tempted to source from third countries due to lower prices that are a direct result of low wages and poor working conditions. This also puts pressure on local SMEs that supply large companies – they must either lower their own labour standards (e.g. resort to informal work practices) or rely on cheap imports themselves. Hence, wider EU efforts in encouraging countries to respect ILO standards via development aid and trade policy is welcomed by business representatives. At the same time, ensuring respect for labour rights already has its limitations within the home EU market but it becomes even more challenging when third countries are involved. For example, there are instances when a first-tier supplier claims to ensure decent working conditions to its employees but then manufactures a part of its production in a “hidden” site of which even diligent buyers are unaware. The “hidden” site might employ informal workers, lack basic OSH standards, or even allow child labour. These instances may also be much closer to home than many realise and take place just outside the EU in countries such as Turkey (ILO, 2021a). Auditing can help address these issues to some extent, but even that is not always the case.

Hence, **for SMEs, indecent work practices pose a double issue – very few practice due diligence and are capable of ensuring the fair treatment of workers in their own supply chains** (reasons discussed in section 4.5.) **while at the same time they struggle to remain competitive when faced with less responsible enterprises** from other parts of the world. As one survey respondent put it, *“Our activities only cost time and money and make us uncompetitive. We do it anyway for moral/ethical reasons, even though unscrupulous competitors take customers from us through imports from China, because customers only look at prices, not sustainability.”*

4.2. Consumer issues

Consumer rights, just like labour standards, **are covered by extensive legislation in EU Member States**. EU consumer law is quite substantial, covering unfair commercial practices such as untruthful advertising or aggressive marketing techniques, rules on information provision for products or services, reclaim and purchase cancellation rights, and product pricing⁴⁰. Member States differ in how they transpose EU directives into their own law, which sometimes results in additional obligations to companies. Furthermore, some sectors, such as the pharmaceutical industry, are subject to very strict and specific regulations with respect to their products. With the New Consumer Agenda (European Commission, 2020) on the way, standards to ensure consumer protection and benefit are bound to become even higher. The agenda includes proposals for additional legislation to ensure consumer protection online (e.g. address online commercial practises) and place more emphasis on consumer law enforcement. The agenda also includes actions to

⁴⁰ More information available at: https://ec.europa.eu/info/law/law-topic/consumers/review-eu-consumer-law-new-deal-consumers_en#directives-covered-by-the-new-deal-for-consumers-legislative-proposals

encourage more sustainable consumption and the means to protect consumers against greenwashing via the provision of accurate information on product durability or repairability. And yet, when it comes to consumer rights, according to policymakers, **companies continue to have plenty of room for improving business practices**. The COVID-19 pandemic revealed not only the magnitude to which companies can engage in consumer scams, but also the extent of care and respect for their customers that companies may show.

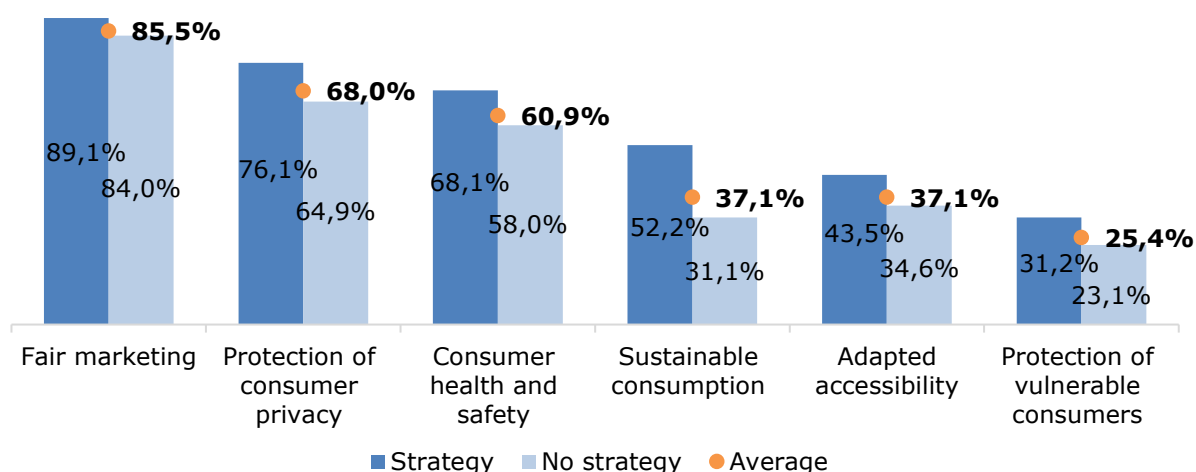
For SMEs, consumer benefit is their second most-important priority after employees (see Figure 10 in [section 2.1.2.](#)). After all, consumer demand is amongst the top drivers of CSR/sustainability uptake in SMEs (see [section 2.3.](#)). In consumer-facing sectors such as retail and tourism, consumer satisfaction constitutes an utmost priority, hence SMEs in those sectors are more active in this area⁴¹. However, yet again, the standards a company adheres to greatly depends on the local context. The extent to which consumer protection is respected in each EU Member State can be compared via the Consumer Conditions Index (European Commission, 2019b), the results of which point towards significant variation. This diversity further translates into specific company practices. Some SMEs believe that their key responsibility as a business lies in offering a **“fair product for a fair price”**, or, in other words, offering affordable and accessible products to their customers. Others may be more mindful of consumer needs via regular **consumer surveys, personalised service (e.g. customer support via social media), and loyalty programmes**. The latter types of activities are quite popular amongst SMEs. And even though policymakers stress that **consumer law** is and should remain a back-stop to protect consumers against fraudulent activities, the survey results from this study show that it **continues to remain a baseline that companies perceive as being their responsibility to maintain**.

For the purpose of this study, we outlined the following types of practices that benefit consumers:

- Fair marketing: providing clear, accurate and credible information about products or services
- Adapted accessibility to products, services and/or distribution premises (e.g. for persons with disabilities)
- Protection of vulnerable or disadvantaged consumers (e.g. taking into account needs of the elderly or children)
- Promotion of sustainable consumption (e.g. by offering recycling services)
- Consumer health and safety protection (e.g. zero-contact during the COVID-19 pandemic)
- Protection of consumer privacy and data security
- Other practices not covered by those above

Figure 21 provides coverage of practice types benefiting consumers amongst European SMEs by separating those with a sustainability strategy from those without one. Similar to the area of decent work, the collected data makes it clear that **SMEs tend to respect the most regulated areas** (e.g. fair marketing or protection of consumer privacy), **but activities in other areas are substantially lower**.

⁴¹ 83.1% of SMEs in the retail sector and 79% of SMEs in the tourism and hospitality sector conducted activities in this area as opposed to the survey average of 71.8%.

Figure 21. Practices to ensure consumer benefit amongst SMEs, by practice type.

Note: Total (N)=488.

Source: SME survey (2021).

The majority of SMEs said they conducted fair marketing by providing clear, accurate and credible information about products or services. Given that fair marketing is to a large extent required by law, and especially with respect to products that can have an impact on consumers' health (e.g. food and beverages, pharmaceuticals), it constitutes an extremely fine line between obligatory and voluntary activities. SMEs simply indicated that they followed the rules, provided clear and accurate information on their products, conducted non-aggressive marketing, and ensured transparency in prices and sales. Likewise, most companies said they had standard product reclaim procedures. At the same time, SME efforts in this area should not be underestimated – **ensuring full compliance with consumer law can be a struggle**. According to policymakers, SMEs do not have the internal capacity (esp. access to lawyers) to take stock of all the requirements and misunderstandings can be common. The **Consumer Law Ready training programme** was developed for European SMEs to provide them with the essential knowledge they need when entering C2B relations (see Box 3 below). The programme takes into account discrepancies between the legal obligations within EU Member States and covers all the key areas of consumer law relevant for SMEs.

Box 3. Consumer Law Ready

Consumer Law Ready is a European **training programme** launched in 2017 and funded by the European Parliament and the European Commission. The programme targets SMEs with the aim to help them **understand and comply with the latest EU Consumer Laws**, to improve customer service, and increase customer trust.

The programme works at different levels. Firstly, the European Consumer Organisation (BEUC), its partners, specialist trainers, and legal experts train a "lead trainer", one national trainer per country. Subsequently, the lead trainer trains 20-30 regional trainers, who later can train SMEs in **local courses**.

Alternatively, SMEs can also learn the content of the **training online**, where the information is presented in a digestible manner and flexible format (e.g., online courses, quizzes, videos, reading material). The training of national or local trainers is free of charge, however, SMEs might be charged for local training courses.

The programme offers **five learning modules** on consumer law:

- 1) Pre-contractual informational requirements (i.e., what do companies have to inform customers about)
- 2) Right of withdrawal (i.e., specific questions about consumers sending back the products they received or bought)
- 3) Consumer rights and guarantees (i.e., obligations of traders in case of malfunction of the product)
- 4) Unfair commercial practices and contract terms (i.e., what is allowed in advertising and what terms cannot be used in contracts)
- 5) Dispute resolution (i.e., the rights and obligations of companies when in a dispute with the customer).

These courses are developed in local languages and tailored to national contexts and specificities. Those SMEs that complete the training must test their knowledge using quizzes, e-tests and **obtain a certificate in consumer law** accredited by the European Commission.

The programme also serves as a forum for SMEs to engage with other businesses, ask questions and gain knowledge from experts and peers.

Despite being successful and therefore extended beyond its original expiry date in 2019, Consumer Law Ready has a few limitations. Firstly, training material risks being outdated considering that the process of transposing EU regulations into national legislation can be long. Secondly, SMEs seek very specific advice and guidelines (e.g., for a particular sector or type of company), which is beyond the scope of the project.

Source: Consumer Law Ready <https://www.consumerlawready.eu/> and stakeholder interviews.

Protection of consumer privacy to most companies simply means respecting the General Data Protection Regulation (GDPR). Only a few companies indicated any other data protection activities such as the use of cloud storage accessible only with an authorised signature, adding a higher level of security on their data, or having certified ISO 27001 for information security management. Similar attitudes are prevalent when it comes to consumer health and safety – in this case, **SMEs claim to comply with consumer safety legislation.** Yet, when it comes to consumer safety, imports from third countries are starting to become an issue due to the emergence of e-commerce. E-commerce enables private direct imports from various places across the globe and the safety of such products cannot be checked. SMEs can be impacted by this issue as well if they attempt to source materials/products from third countries and later use them in their own processes.

When it comes to purely voluntary activities in the areas of sustainable consumption, adapted accessibility, or protection of vulnerable or disadvantaged groups – **the share of SMEs taking action is much lower.** Promotion of sustainable consumption as a means to support the green transition is amongst the top five areas in the EU's New Consumer Agenda (European Commission, 2020b). However, it is clear that SMEs are only moderately active in this area⁴². Furthermore, actions within this area are likely to be more integrated with a company's business model or strategy. SMEs were said to encourage sustainable consumption by offering customers products made from recycled and/or ethically sourced materials, offer repair services, or carry out awareness-raising activities on the social or environmental impacts of certain products/services. Some countries (e.g. [Austria](#), see

⁴² If a positive bias is taken into account, the share of companies conducting activities would be even lower.

[Annex 4](#)) have introduced measures to encourage sustainable consumption, but the impacts of those actions on SMEs remain to be seen.

Activities that entail adapted accessibility for customers or protection of vulnerable groups are also relatively rare. With respect to the first, SMEs simply offer wheelchair access for the disabled. The question of vulnerable consumers, however, is more complex. According to business representatives, currently **there is the lack of a clear definition on who can be considered vulnerable consumers** and, as a result, **this is followed by a lack of comprehension on how they should be protected**. Many SMEs simply said they provided specific products for various groups, such as persons with allergies, elderly people or children. One SME said that it works with programmes that support underrepresented groups and was committed to selling part of its production in poor countries without making a profit during the pandemic.

Finally, multiple stakeholders emphasise that, despite positive tendencies, **raising consumer-awareness with respect to CSR/sustainability remains relevant**. Consumer choice, despite claims of environmental or social concerns (see [section 4.3](#) below), continues to be based on price. Sustainable products tend to cost more, however, neither the consumer, nor the retailers or producers along the value chain are willing to pay the price. Unless consumers grow fully aware of their actions and shift to purchasing more responsibly made/sourced products, businesses will be slow to change their practices. At the same time, empowering consumers to make such decisions requires all businesses, including SMEs, to provide more extensive information on CSR/sustainability practices. This, however, remains a rather demanding undertaking for most SMEs (see [section 4.8](#)).

4.3. Environment

The need to address and mitigate the consequences of climate change and environmental degradation has led world leaders to sign a major global treaty, namely the Paris Agreement, as well as to adopt the framework of Sustainable Development Goals. To meet its international commitments, the EU has put forward the **European Green Deal**, which sets out an ambitious policy package to reduce greenhouse gas emissions and preserve Europe's natural environment. Prior to these developments, the EU and its Member States were said to have **the most extensive as well as strict environmental legislation in the world**⁴³, but when it comes to environmental protection and mitigation of climate change, it is insufficient. Industry needs to adopt new technologies as well as new ways of producing, while sustainability needs to be taken into consideration in the delivery of services. Within that context, SMEs are also expected to adapt. Policy support to develop and adopt green technologies is available at the EU and national levels (see [Chapter 6](#)) and some SMEs are putting very innovative solutions on the market. However, many are also simply tagging along - they perceive "greening" as being compliant with environmental legislation and if they choose to undertake any additional activities, they tend to do so in a piecemeal manner, without really integrating them into their business models (OECD, 2018). This comes down to integrating "end-of-pipe" technologies rather than examining and improving the entire production process.

⁴³ More information available at: https://eur-lex.europa.eu/summary/chapter/environment.html?root_default=SUM_1_CODED%3D20%2CSUM_2_CODED%3D2001&locale=en

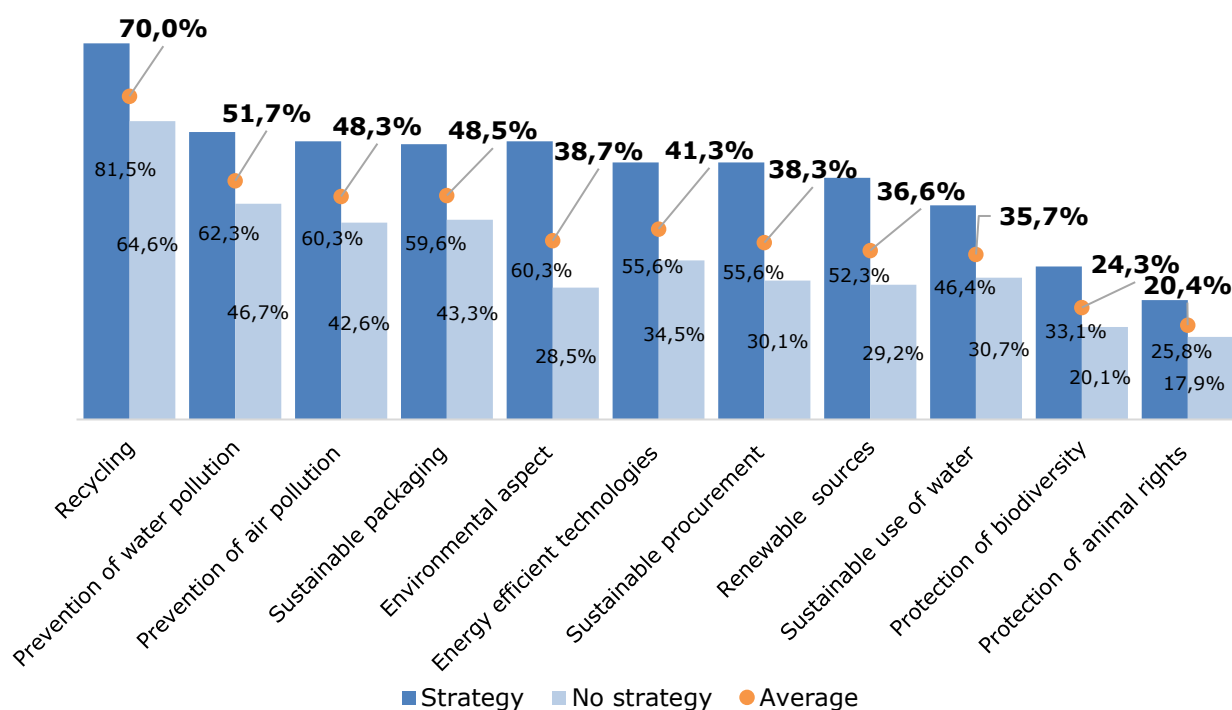
More than anything, consumer demand for environment friendly products is said to be driving companies, including SMEs, towards adapting their business models. More than half of EU consumers (58%) claim to be influenced by environmental claims when making purchases (European Commission, 2019c). However, stakeholders point out that, in fact, only **a limited share of consumers are prepared to pay the premium price for environmentally sustainable products**. As a result, sustainability has become a concern for companies operating in niche markets. While a large share of SMEs in this study said they conducted activities within this area (70.7%, see Figure 10 in [section 2.1.](#)), the actual substance of activities is in fact more limited. Action in areas that have been gaining more widespread attention over the last few years, namely deforestation and biodiversity loss, remains rare. Once again, these issues in the most practical sense are too far removed for SMEs to engage.

For the purpose of this study, we outlined the following types of practices that benefit the environment:

- Prevention of air pollution (dust, chemicals, various gases, etc.)
- Prevention of water pollution
- Climate protection by use of renewable energy sources
- Climate protection by use of energy efficient technologies or other means
- Reduction of waste in the production process
- Efficient and sustainable use of water in the production process
- Recycling
- Protection of animal rights (e.g. preventing animal cruelty)
- Protection of biodiversity, natural habitats, and wildlife, fight against deforestation
- Consideration of the environmental aspect in product development
- Sustainable procurement practices (e.g. purchasing eco-certified products)
- Sustainable packaging (e.g. use of recyclable/recycled materials for packaging etc.)
- Other practices not covered by those above

Figure 22 below provides coverage of practice types benefiting the environment amongst European SMEs by separating those with a sustainability strategy from those without one. Compared to other CSR activity areas, the **differences between the types of activities conducted by SMEs with and without a CSR/sustainability strategy are the most substantial**. Even though 65.2% of SMEs without a serious commitment to CSR/sustainability said they conducted some kind of activities, the absolute majority of such activities were limited to recycling, pollution prevention and sustainable packaging initiatives. SMEs with a CSR/sustainability strategy approached their environmental impact in a more rigorous manner – these enterprises were much more likely to consider environmental aspects in product development (e.g. eco design or circular design), apply energy efficient technologies, use energy from renewable sources, or look for means to ensure the sustainable use of water.

Enterprises that implement such activities are also more likely to establish targets or set KPIs. This partly relates to the fact that these types of activities are financially supported in many EU Member States (see [Chapter 6](#) and [Annex 4](#)) and companies with a CSR/sustainability strategy were a little bit more likely to benefit from them than other enterprises. However, **all SMEs pay little attention to the protection of biodiversity** – an area that policymakers believe enterprises should place more efforts into respecting (see Box 6 below).

Figure 22. CSR themes specific to the area of environment.

Note: Total (N)=470.

Source: SME survey (2021).

Based on the answers provided in the SME survey, the following activities seem to be especially prevalent:

- **Recycling** practices most commonly entail ordinary waste disposal by sorting it into paper, plastic, organic, etc. waste. However, sometimes recycling also entails more extensive activities that involve collaboration with local waste management entities. For example, some SMEs sell their industrial waste or cooperate with waste managers that collect waste produced on a large scale.
- **Prevention of water or air pollution.** SMEs may adopt technologies that enable them to minimise negative impact. However, sometimes, for example in the case of water pollution, reducing a negative impact is mandated by law.
- **Efforts to reduce waste** were said to be quite common as well. Enterprises reported a variety of activities, such as using anaerobic digestion to eliminate waste, having a rigorous approach to reduce food waste, or participating in upcycling initiatives (especially the textile and garment sector SMEs). Some companies also used leftovers to manufacture other products.
- **Sustainable packaging activities** mostly entail a switch from plastic packaging to paper or cardboard. However, some companies said they use glass or biodegradable containers and one SME said it had been involved in projects that aim to create biodegradable plastic from PE plastic waste.

The adoption of energy efficient technologies, sustainable use of water in the production process or the decision to opt for renewable energy sources all come down to investments into particular technological solutions. SMEs with a sustainability strategy that operate in goods-producing sectors such as agro-food, pharmaceuticals or textile and garment industries are the most likely to do so. Means to generate renewable energy also tend to be adopted by companies in other sectors and basically entail the instalment of

photovoltaics on manufacturing or service facilities (e.g. hotels). Examples of how companies may be supported in doing this more effectively are provided in Boxes 4 and 5 below.

Box 4. Chambers of Commerce and Industry France: a platform with a myriad of answers about CSR.

Chambers of Commerce and Industry France helps businesses from any economic sector in France plan and implement CSR/sustainability practices, most notably in relation to the environment. It provides training on topics such as environmental assessment and impact study, implementation of management tools for polluted sites and soils, carrying out an energy visit in a company, waste regulations, prevention of pollution of industrial water, management of chronic health risks and more. On its website, it also publishes tips about how to successfully plan a business, carry out business diagnostics, gives information about the regulatory environment in France, funding and more topics. The Chambers of Commerce and Industry France website is valuable because it helps businesses to effectively incorporate CSR/sustainability practices in their corporate policy framework.

Source: <https://www.cci.fr/>

Box 5. Sustainable Energy Authority of Ireland (SEAI): a resourceful guide for increasing energy efficiency.

The Sustainable Energy Authority of Ireland (SEAI) is an agency that helps SMEs from all economic sectors in Ireland make their energy consumption practices more sustainable. It provides five-step guidance for companies reaching for more efficient energy use: 1) energy use self-assessment and looking for alternatives, 2) developing an energy management plan, 3) energy consumption audit, 4) upgrading energy use practices by implementing concrete changes, 5) performance monitoring and reporting. The five-step plan is extensive and includes tools and resources, such as the SEAI Energy Academy, a free of charge e-learning platform where businesses can learn about renewable energy sources and sustainable energy consumption management in business, workshops, a variety of grants based on different energy efficiency strategies developed, guides and workbooks. Moreover, not only does the audit procedure evaluate companies' energy use, but it also helps them find energy-use opportunities that can lower their energy bills by up to 30%.

Source: <https://www.seai.ie/business-and-public-sector/small-and-medium-business/>

Some SMEs tend to conduct workshops or trainings for employees to ensure they are respectful to the environment, limit resource use and otherwise maintain environment friendly conduct during all business operations.

Unfortunately, SMEs are seldom involved in activities to protect biodiversity, natural habitats, and wildlife, or to fight against deforestation. This area has often been overlooked in favour of focusing on other priorities, such as greenhouse gas emissions or waste. The extent of a company's dependency on nature and its relationship to natural resources should be taken into account by both companies and policymakers to a larger extent. Stakeholders believe that SMEs would benefit from measures that could help companies perceive the value of nature for their business, and, consequently, promote a business case for these activities (see Box 6 below).

Box 6. The EU Business @ Biodiversity Platform

The EU Business @ Biodiversity Platform was launched by the European Commission and serves as a **forum for dialogue and policy interface** helping business to better understand the link between business activities and nature. The main goal of the platform is to **raise awareness about biodiversity and encourage businesses to integrate natural capital and biodiversity considerations into their daily operations**. All businesses can join the Platform. Currently, around 300 entities from multiple sectors, countries, EU trade associations, NGOs, public authorities, governments, and international organisations are part of it. Members receive opportunities to network and collaborate with peers, gain thematic knowledge (i.e. how to assess, measure, report impacts and dependencies on natural capital and biodiversity), engage with policy makers at EU level, access key information on recent policy developments and funding opportunities and discover business partners and opportunities.

The Platform has **three workstreams**, each responsible for developing thematically relevant tools and methods:

i) Methods workstream works on assessing methodologies and metrics for identifying, measuring, valuing, and disclosing companies' impacts and dependencies on biodiversity. For example, the workstream has launched the Biodiversity Measurement Navigation Wheel as a decision framework to help companies select the most suitable measurement approaches.

ii) Pioneers workstream facilitates dialogue and cooperation between leading financial institutions and businesses, it publishes papers on multiple relevant topics and hosts the Finance and Biodiversity Community to accelerate the process of learning.

iii) Mainstreaming workstream promotes the integration of biodiversity within the decision-making processes in businesses and financial institutions by showcasing its environmental and economic benefits, providing them with tools, encouraging pioneers to engage with their supply chain, engaging with industry associations and other networks to raise awareness.

Tools and resources that financial institutions and businesses can use to account for their impacts and dependencies on biodiversity and natural capital include 16 case studies on the real-life application of biodiversity measurement approaches, studies, reports, guidance, vocabulary of common terms, and information on funding opportunities.

Source: The EU Business @ Biodiversity Platform

https://ec.europa.eu/environment/biodiversity/business/index_en.htm; Stakeholder interviews.

4.4. Community involvement and development

Community involvement and development constitute purely voluntary activities that are commonly interpreted as **business philanthropy**. When it comes to CSR/sustainability uptake, the value of such activities should not be underestimated – business support to local communities can take very diverse forms that extend beyond *ad hoc* charitable donations. If undertaken in their most substantial sense, **they can have a significant impact** on the development and well-being of specific communities. Yet, **effective community related activities require close cooperation amongst local stakeholders**. Businesses need to work closely with locally active non-profits, NGOs, or other societal organisations. Public-private partnerships can also be used as a means for businesses to boost their positive societal and/or environmental impact. SMEs, characterised by a close relationship to the local community, should be well-placed to

conduct these activities. However, the survey results have shown that **community involvement and development activities were much less prevalent amongst SMEs than expected** (see Figure 10 in [section 2.1.](#)). Only slightly more than half of survey participants (54.9%) conducted any activities within this area.

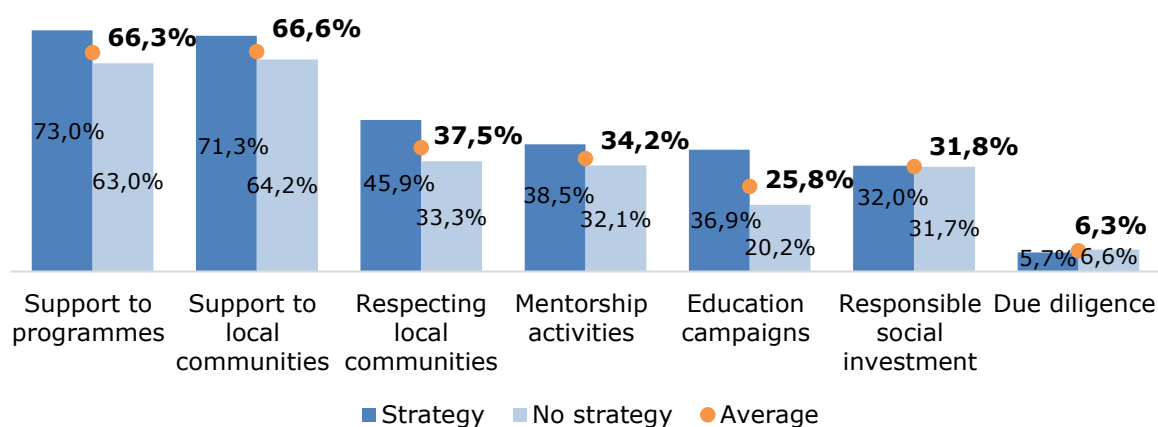
SMEs in countries with a strong cooperation and networking tradition tend to be more extensively and more substantially involved in such activities. This approach is best exemplified by Italian SMEs that often implement initiatives with NGOs, Church organisations, foundations, or social cooperatives. The other type of approach towards community development, namely ad hoc engagement via donations, is generally more common overall, but it is especially well reflected in practices undertaken by SMEs in [Greece](#) or [Poland](#) (see [Annex 4](#)). Finally, community involvement activities are more common amongst SMEs that operate both within and outside of the EU⁴⁴. In that case, they may entail various collaboration programmes that support communities in developing countries.

For the purpose of this study, we outlined the following types of practices that benefit consumers:

- Support to programmes or initiatives in areas such as education, culture, health, or environment
- Support to economic development of local communities (e.g. purchasing local products)
- Respect of local communities' needs and values (e.g. partnering with locals to protect culturally valued sites, limiting valuable resource use, etc.)
- Due diligence in areas (potentially) affected by armed conflicts
- Direct help to communities in need (e.g. affected by natural disasters or specific diseases)
- Responsible social investment (e.g. providing job opportunities to migrants or persons with disabilities)
- Mentorship and knowledge-sharing activities (e.g. assistance to young persons in starting their own business)
- Education or awareness-raising campaigns on the use of specific products or services
- Other practices not covered by those above.

Figure 23 below provides coverage of practice types benefiting communities amongst European SMEs, by separating those with a sustainability strategy from those without. It is clear that **donations to various programmes and the purchase of local products are the two most common activities** conducted by SMEs. Other practices are conducted to a much smaller extent and, considering that a large share of SMEs did not indicate any activities within this area, they can be considered very rare (esp. responsible social investment or due diligence in areas affected by armed conflicts).

⁴⁴ 61.9% of SMEs that conduct operations inside and outside of the EU carried out activities within this area as opposed to the survey average of 54.9%

Figure 23. Practices to benefit communities amongst SMEs, by practice type.

Note: Total (N)=365.

Source: SME survey (2021).

Based on the answers provided in the SME survey, the following activities seem to be especially prevalent:

- **Supporting sports.** This mostly entails financial support to local sports teams, various sports clubs and activities, or well-performing athletes. This support sometimes includes a social mission, such as encouraging diversity in/through sports or supporting sports for the disabled.
- **Supporting local institutions and programmes.** This mostly entails financial donations to local hospitals, charities, or organisations. However, SMEs may also contribute by donating specific equipment (e.g. medical devices) or part of its own production (e.g. manufactured clothing or textiles). Sometimes support can be given to international organisations (e.g. UN programmes) but this is less common. SMEs within the banking, finance and insurance sector are most likely to conduct such activities⁴⁵.
- **Supporting the training and employment of young people.** Some SMEs offer internship or apprenticeship opportunities, others provide student visits to company facilities, or encourage knowledge-exchange within the local industry ecosystem (e.g. with other companies or universities). This is more common in companies that required a skilled workforce (e.g. SMEs in the pharmaceutical sector⁴⁶), and they approach such activities in a strategic way.
- **Supporting employment of vulnerable groups.** This partly overlaps with activities under the area of human rights (see [section 4.5.](#)), yet SMEs perceive such activities as benefiting the local community. These activities entail employment of disabled persons, culturally discriminated persons (e.g. the Roma or migrants), or otherwise disadvantaged groups (e.g. women who suffered gender violence or trafficking). In some cases it can also entail provision of a livelihood for persons in developing regions. Some companies participate in programmes, others initiate such activities by themselves.

⁴⁵ 74% of SMEs within the banking, finance and insurance sector that were active in community involvement selected support to programmes or initiatives as opposed to the survey average of 66.3%.

⁴⁶ 45% of SMEs within the pharmaceutical company that were active in community involvement selected mentorship and knowledge-sharing activities as opposed to the survey average of 34.2%.

- **Supporting educational campaigns or programmes.** These types of initiatives are often based on partnerships with local education providers or other institutions. For example, programmes for financial literacy are common in the financial sector; SMEs may develop collaboration projects with schools to raise awareness on certain topics (e.g. sustainable fashion, environmental protection, health or financial literacy), or invite schoolchildren to company premises for project activities. Other initiatives may include collaborations with other businesses in the region to promote local gastronomy or local cultural events (e.g. tours or heritage visits).
- **Buying local.** A fair number of SMEs said they always tried to buy local and promote locally-made products. This ties in with supply chain diligence – these SMEs tend to source from local producers, which makes their supply chains shorter and more transparent (see [section 4.6.](#)). A few single SMEs that do source outside their neighbourhood said they did not engage in business with countries under sanctions, or increased monitoring in high-risk countries (in this case Myanmar specifically). **Very few companies conducted due diligence** in countries affected by armed-conflicts, mostly because SMEs under the scope of this study do not source materials from such countries. For example, the Conflict Minerals Regulation⁴⁷ mostly affects SMEs in the jewellery business or industrial manufacturing (e.g. electronics, automotive, medical devices etc.) (European Commission, 2017).

Some SMEs said to conduct very specific activities, such as partnerships with local fire stations, when companies provided training grounds in return for regular OSH training to employees, partnerships with associations that offered emergency services for disadvantaged groups (e.g. migrants or homosexuals in this case), or partnerships with associations to reduce food waste. All these practices entail tight cooperation between local stakeholders, and sufficient capacity and knowledge on how such activities can benefit multiple parties. Similar practices in cooperation with local stakeholders in third countries were rare. Only a couple of SMEs said they were engaged with communities in Burkina Faso and Sierra Leone. Finally, the mining and quarrying sector stands out with respect to community development activities – mining and quarrying activities have a strong impact on local inhabitants and, as a result, should preferably be carried out only in mutual agreement. Most SMEs that participated in the survey said they respected the local communities' needs and values⁴⁸ (e.g. stakeholders were included in project planning and their needs were integrated into development).

Activities in the area of community involvement and developing **require strong networks, as well as substantial capacity** from both the businesses and the stakeholders involved, and both can be developed via policy support measures. Business support organisation representatives agree, and emphasise that a lack of tradition of cooperation with any stakeholders that are not business partners, and especially civil society organisations, is a serious obstacle to more significant engagement in this area.

4.5. Human rights

Human rights within the business context are commonly associated with numerous illicit practices that occur in business operations in developing economies worldwide. These

⁴⁷ More information available at: <https://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/>

⁴⁸ 73% of SMEs in the mining and quarrying sector that conducted activities within the area of community involvement said they took into consideration local communities' needs and values, as opposed to the survey average of 38%.

practices might be forbidden by international law but rigorous enforcement and compliance is lacking due to weak (or corrupt) governments. The UN Guiding Principles on Business and Human Rights (United Nations, 2011) provide extensive guidelines for States and companies to prevent, address and remedy human rights abuses, and large enterprises with operations in developing countries are encouraged to respect them. However, SMEs tend to operate on a very local level, hence to most **SMEs human rights is first and foremost about diversity and non-discrimination**. Serious human rights abuses can and do take place down the supply chain of SMEs, but it can be too far upstream the supply chain for them to realise, be able to track, and consequently mitigate any potential adverse impacts. At the same time, even recognising the value of diversity at the workplace is not a given. Overall, only slightly more than over a half of all SMEs that participated in the survey were concerned and involved in activities benefiting human rights (55.5%). **Human rights was an area within which SMEs are least likely to conduct any activities** after community involvement and development. Business support organisation representatives point out that human rights may be treated as a non-issue across many businesses, either because companies believe they are already doing enough, or because they do not see it as an area where any activities are needed at all.

At the same time, SMEs that conduct activities within the area of human rights tend to address them in a more careful and systematic way. In other words, **activities within the area**, if conducted at all, **are more likely to be carried out in accordance to a code of conduct or another formal procedure** (see Figure 11 in [section 2.2.](#)). A number of survey participants indicated they had an official protocol, ethics charter, internal regulations or some sort of policy **to guarantee equal opportunities, non-discrimination and protection against harassment** for all current and potential employees. Some areas of concern that have been gaining ground over the last few years are also becoming more addressed by SMEs. For example, multiple SMEs have extended their efforts to ensure gender equality at the workplace by taking additional measures, e.g. monitoring the gender pay-gap, enabling better conditions for parental-leave, and allowing more flexibility for employees with children, which greatly benefits women.

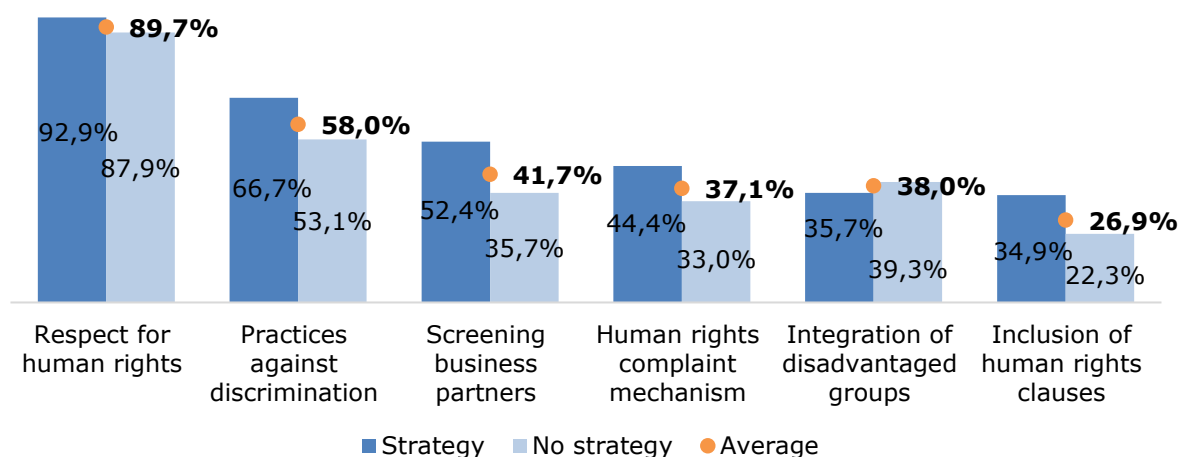
For the purpose of this study we outlined the following types of practices in the area of human rights:

- Respect for human rights at the workplace (e.g. freedom of association)
- Integration of disadvantaged groups (e.g. refugees, ethnic minorities, etc.)
- Practices against discrimination and harassment (e.g. discrimination against women, the LGBTQ+ community, etc.)
- Screening suppliers/ business partners for human rights abuses (e.g. child labour)
- Human rights due diligence: assessing potential human rights' abuses in company operations and preventing them
- Human rights grievance/complaint mechanism through which any abuse can be reported and remedied by the company
- Inclusion of human rights clauses in company contracts or agreements
- Other practices not covered by those above.

Figure 24 below provides coverage of practice types in the area of human rights amongst European SMEs, by separating those with a sustainability strategy from those without. The **majority of SMEs said they respected human rights at the workplace and some indicated additional activities to prevent discrimination**. Other activities were significantly less common. However, **SMEs with a strategic approach to CSR said they were quite engaged in screening suppliers/business partners** for human rights

abuses. In this case, SMEs operating within the textile and garment industry especially stand out – these companies were likely to have a CSR/sustainability strategy and were amongst the most likely to screen their suppliers for human rights abuses⁴⁹. SMEs within the mining industry and pharmaceuticals were also more likely to conduct activities in the area due to sector-specific concerns (see relevant sections in [Chapter 5](#)).

Figure 24. Practices in the area of human rights amongst SMEs, by practice type.



Note: Total (N)=350.

Source: SME survey (2021).

EU-level action on the protection and promotion of human rights is just as extensive as in other areas, such as decent work or consumer rights⁵⁰. However, compliance even within the borders of the EU is not a given. Discrimination, harassment, human trafficking, and other forms of abuse remain prevalent. Furthermore, according to Human Rights Watch, the pandemic has further contributed to increased racist and xenophobic incidents, hate speech both on- and off-line, or gender-based violence, amongst other issues (Human Rights Watch, 2021a). Disrespect for and discrimination against certain groups of people (e.g. the Roma or migrants) are a result of deeply ingrained societal norms, accompanied by wide-spread stereotypes, both of which can be difficult to address by companies alone. Business representatives emphasise that **SMEs, given their localised presence, are really a reflection of local trends** – if certain stereotypes are prevalent, but an SME owner-manager would like to hire persons from more diverse backgrounds, the other employees will not be accepting of them. As a result, while some SMEs might see the business case for diversity and the dynamics it can bring to the workplace, it may be difficult to ensure that everyone will be accepting. Survey participants had the following **diversity practices** in place:

- **Internal regulations/charters/protocols** that cover themes of inclusion, diversity, and ethics at the workplace, accompanied by **channels to report any unwanted activities**.

⁴⁹ 66% of all SMEs that were active in the human rights area said they screened suppliers. For SMEs with a CSR/sustainability strategy that share was even higher, namely 71%.

⁵⁰ A full list of EU legislation and activities related to human rights is available here: <https://eur-lex.europa.eu/summary/chapter/1301.html>, and more reader-friendly information is provided in the EU Annual Report on Human Rights and Democracy in the World, available at: https://eeas.europa.eu/sites/default/files/annual_report_e-version.pdf

- Formalised **hiring practices** that paid extra attention to ensure that specific groups are represented (e.g. women), or that only the most professional candidates, irrespective of their background, are covered.
- **Educational activities for employees** to ensure respect for their colleagues.
- Employment of **persons from disadvantaged groups**. Examples included providing employment to persons with disabilities, the Roma, members of the LGBTQ+ community, migrants, and refugees.

Overall, diversity practices have also been increasingly supported with policy action, such as Diversity Charters that are now present in countries such as Poland, Croatia, or France (see Box 7 below for an example from the latter).

Box 7. Diversity Charter: a commitment to diversity and non-discrimination.

The Diversity Charter is a commitment text created with an aim to motivate French companies to reflect the values of diversity and inclusivity in the workplace and their corporate policy framework. The Charter is composed of six main commitments: 1) raise awareness and train directors and managers; 2) promote the application of the principle of non-discrimination; 3) promote the representation of the diversity of French society; 4) communicate commitment; 5) promote social dialogue with employee representatives; 6) regularly assess the progress made.

Companies from any economic sector can sign the charter. By doing that, they contribute to promoting good and fair working conditions, which also benefits the company's performance in the long-term. The Diversity Charter was created in 2004 by Claude Bébéar, Yazid Sabeg, Laurence Mehaignerie and is promoted by the *Les entreprises pour la Cité*, a business support organisation.

Source: <https://www.charte-diversite.com/charte-de-la-diversite/>

When it comes to external business partners and suppliers, SME action is significantly more limited. Of course, many SMEs said they sourced from local suppliers and, as a result, were not concerned with human rights abuses in their supply chains. However, those companies that said they engaged in this type of practice were conducting the following:

- **Relying on supplier or business partner reputation.** Some SMEs said they did not conduct any business with companies that were known to engage in illicit practices.
- **Screening business partners via questionnaires.** Some SMEs said they sent our screening questionnaires and asked if suppliers met all the criteria. If they did, signed contracts sometimes included a reference to this questionnaire, whereby the contract can be terminated if certain unwanted practices are discovered.
- **Auditing suppliers.** Very few SMEs conduct audits along the supply chain themselves, as this can be extremely costly. However, if an SME conducts business with only a few key suppliers, they may do it themselves. Others address this issue by joining networks where audits are conducted for a fee. Audits can be used to ensure that the first level of screening via questionnaires is based on truthful information.
- **Purchasing from certified suppliers.** This type of activity was very rare for SMEs, especially as suppliers will not always have the means to obtain certain certificates or SMEs themselves might not be aware of them (see [section 4.8.](#)).

A few SMEs indicated they had **obtained some sort of certification or label for respecting human rights**. For example, one company was said to have obtained SA8000 certification⁵¹, which entails third-party auditing to ensure that a company meets certain social standards. Others mentioned obtaining the Fair Wear⁵², WRAP⁵³ or Fair Trade (specifically UTZ⁵⁴) labels. However, once again, these kinds of activities are more of an exception than the norm for many SMEs (see [section 4.8.](#)).

Stakeholders tend to disagree to what extent SMEs have the capacity to ensure compliance with human rights in their supply chains. First, SMEs lack the leverage to enforce compliance, because they are unlikely to be the only client for a specific supplier. In some instances, e.g. when purchasing precious metals, alternative suppliers might be scarce or operate under very similar circumstances. Secondly, unless they are a part of some third-party auditing scheme (which is also not always reliable), they have no means of really knowing whether suppliers respect human rights. Contrary to large enterprises, SMEs might have only a few suppliers, but the process of auditing and managing risk is already sufficiently complex for them not to engage. However, other SMEs can have many suppliers or operate within extremely long and complex value chains, which they have no control over (see [section 4.6.](#)). Finally, SMEs might be unaware and/or unconcerned about risks in their supply chains. They may source from countries or even a supplier that engages in illicit practices without suspecting any issues.

And yet, according to some, ensuring respect for human rights for SMEs is feasible. Plenty of **information is available on the possible risks and mitigation measures that a company can take**. For example, the European Commission has developed a guide to human rights, specifically tailored to SMEs⁵⁵. It includes guiding questions for enterprises to consider with respect to both internal company operations and those outside the enterprise, as well as practical examples on how each of the 29 human rights can be directly or indirectly abused by a company. **Lack of information on the ground level can be addressed by contacting local NGOs, civil society organisations, trade unions, or any other locally active stakeholders**. However, while the latter is especially effective in preventing human rights abuses in value chains, SMEs still find it hard to do and **such support is said to be lacking**. Companies are largely uninformed on country or even regional specifics that could entail instances of corruption, child labour, or other issues. Some countries, such as Germany or the Netherlands, support SMEs via its embassies and local networks in third countries that SMEs want to trade with, but some stakeholders argue that more extensive EU-level coordination in this area would be desirable (e.g. through the External Action Service). Ideally, such support can be matched with capacity-building programmes in those countries or regions to ensure that local stakeholders are compliant with international law (as is already being done via FTAs as they sometimes include clauses on ratification of ILO labour standards or other international agreements and development cooperation programmes⁵⁶). SMEs can contribute to by providing job opportunities and decent working conditions. However, given that SMEs are much less involved than expected in multi-stakeholder partnerships - even on a local level - this approach might have its own obstacles for implementation. Furthermore, while SMEs import from third countries, they are less likely to invest there

⁵¹ For more information, see: <http://www.saasaccreditation.org/certification>

⁵² For more information, see: <https://www.fairwear.org/>

⁵³ For more information, see: <https://wrapcompliance.org/>

⁵⁴ For more information, see: <https://utz.org/>

⁵⁵ My business and human rights. A guide to human rights for small and medium-sized enterprises. Full guidelines are available at: <https://media.business-humanrights.org/media/documents/files/documents/SME-BHR-guide-EU.pdf>

⁵⁶ For example, the EU Switch to Green Flagship Initiative is exemplary in that respect.

than large companies. According to policymakers, SMEs find it difficult to conduct business in developing countries and more support is needed.

Finally, respect for human rights closely ties in with decent work, community, and environmental issues. For example, the COVID-19 pandemic has caused approximately 114 million people to lose their jobs worldwide⁵⁷, which, due to loss of income for many families, may lead to increased instances of child labour⁵⁸ and worker exploitation. Similarly, activities contributing to environmental degradation, such as deforestation or water pollution, can be detrimental to certain communities and livelihoods. **Companies need to be aware of multiple risks** in their value chains, which is not always the case. For some sectors, such as textile and garment, awareness-raising campaigns and tools to identify risks have resulted in positive outcomes, but the same cannot be said of other industry areas (see section below).

4.6. Responsible business relations (supply chains)

The area of responsible business relations, and especially relationships with suppliers, has been gaining widespread notice over the last few years. While previously the focus of CSR/sustainability was oriented towards addressing direct enterprise impact via environmental or social measures, now both consumers and enterprises are growing increasingly aware of the need to know where a particular material or product comes from. The long and complex globalised supply chains carry substantial environmental and social risks to communities across the world. As a result, policymakers, NGOs and Civil Society organisations are calling for better supply chain monitoring. Increasing attention is exemplified by EU and national-level efforts to introduce legislation into an area where previously there was none. France has introduced the duty of vigilance law in 2017 (see [France](#) in [Annex 4](#)), the first of its kind in the EU, while Germany has agreed on a mandatory due diligence proposal that should have been put to a vote in June, 2021 (see [Germany](#) in [Annex 4](#)). Other countries, such as Austria, Finland, Belgium, or Denmark are also considering options⁵⁹. On the EU-level, the Conflict Minerals Regulation and the EU Timber Regulation, and especially the former, are perceived as pioneering legislation of this kind, but they cover very specific raw materials and geographic locations. Policymakers are now progressing towards proposing a horizontal and mandatory EU system of due diligence for supply chains⁶⁰. However, **SMEs are largely exempt⁶¹ from mandatory due diligence under both the EU and national level proposals**. At the same time, SMEs are also part of global value chains and **are likely to be impacted through obligations in contractual agreements with large companies**. Furthermore, policymakers tend to emphasise that SMEs, despite their size, have the same responsibilities to ensure proper conduct and should strive to mitigate risks for adverse environmental or social impacts.

Survey results have shown that **activities amongst SMEs in this area are not as common as in multiple other areas** (e.g. decent work, environment, consumer issues) but are a little more prevalent than voluntary community development activities or an

⁵⁷ For more information, see:

https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_767028.pdf

⁵⁸ For more information, see: <https://www.hrw.org/news/2021/05/26/covid-19-pandemic-fueling-child-labor>

⁵⁹ For more information, see: <https://www.business-humanrights.org/en/latest-news/national-regional-movements-for-mandatory-human-rights-environmental-due-diligence-in-europe/>

⁶⁰ For more information, see:

[https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659299/EPRS_BRI\(2020\)659299_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659299/EPRS_BRI(2020)659299_EN.pdf)

⁶¹ Publicly listed and high-risk SMEs could be included within the EU mandatory due diligence legislation. On the national level, mandatory due diligence is only applicable to large enterprises.

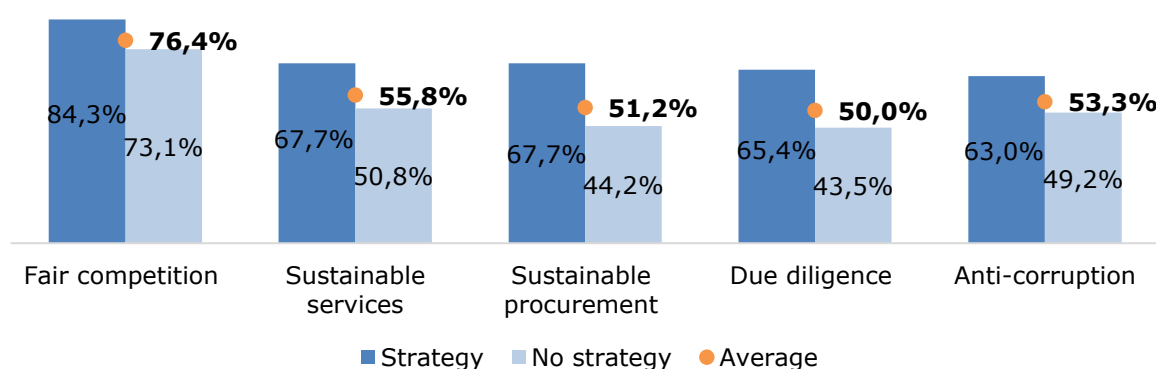
engagement in the human rights area (see Figure 10 in [section 2.1.](#)). A total of 66.4% of survey participants were said to conduct some sort of activities to ensure responsible business relations and businesses with a strategic outlook on CSR/sustainability were more likely to do so⁶².

For the purpose of this study, we outlined the following types of practices in the area of responsible business relations:

- Supply chain due diligence (e.g. screening suppliers for environmental or human rights violations)
- Sustainable business services, such as logistics, warehousing, distribution and/ or customer service
- Sustainable procurement practices (e.g. purchasing eco-certified products)
- Fair competition (e.g. avoiding unethical business practices against competitors)
- Anti-corruption in purchasing practices
- Other practices not covered by those above.

Figure 25 below provides coverage of practice types to ensure responsible business relations amongst European SMEs by separating those with a sustainability strategy from those without one. In this case, just as within the area of environment (see [section 4.3.](#)), **differences between SMEs with and without a CSR/sustainability strategy in conducting activities are significantly larger than in other CSR areas.** Hence, it is clear that **responsible conduct vis-à-vis other enterprises is perceived to be beneficial for overall business success from a strategic perspective.** Sustainable procurement and due diligence practices especially stand out – SMEs without a CSR/sustainability strategy are much less likely to conduct these activities and, overall, their prevalence remains limited⁶³.

Figure 25. Practices in the area of business relations amongst SMEs, by practice type.



Note: Total (N)=428.

Source: SME survey (2021).

Once again, activities to ensure fair competition were the most prevalent amongst SMEs because they require little additional effort outside of ordinary legal obligations.

⁶² 76.3% of SMEs with a CSR/sustainability strategy were said to conduct activities within this area as opposed to 63% of SMEs without a CSR/sustainability strategy.

⁶³ When calculated against the total number of companies that responded whether they conducted any activities in this area, the total share is much lower – supply chain due diligence is conducted by 31% of all survey participants and sustainable procurement is conducted by 32%.

Furthermore, **SMEs are more commonly found on the receiving end of unfair trading practices due to pressure from large buyers**⁶⁴. Large enterprises can abuse their position vis-à-vis SMEs without serious repercussions because most unfair practices do not fall under competition law as most actors are in a strong, but not yet dominant position⁶⁵. See Box 8 below for an example from Ireland on an attempt to resolve this issue.

Box 8. Prompt Payment Code: an initiative to improve relations between businesses and suppliers.

Prompt Payment Code is a portal that aims to strengthen a particular CSR practice in businesses relations – implementation of the prompt payment system. The portal gives information about the adoption of the Code and specific practices entailed in it. Companies of any size and from all sectors of the economy can become signatories to the Prompt Payment Code. By signing up, they pledge to pay suppliers on time, provide clear guidance on payment procedures and dispute resolution, as well as respond quickly and encourage adoption of the code throughout suppliers' supply chains. The Prompt Payment Code was launched in 2015 by the Department of Enterprise, Trade and Employment of the Government of Ireland and is maintained by this department and several business associations.

Source: <https://www.gov.ie/en/publication/c20d7-about-the-prompt-payment-portal/#background-to-the-prompt-payment-code>

At the same time, **pressure from large companies can also have a positive impact – it serves as an incentive for SMEs** to adopt certificates, improve production, or meet specific CSR/sustainability requirements (see [section 2.3.](#)). In some countries within the CEE or the Western Balkans and Turkey, this mechanism is a strong driver for CSR/sustainability uptake within local companies (see [Annex 4](#)). However, such pressure is not necessarily well received by SMEs themselves because it is **perceived as coercion and implies additional costs**:

- Some SMEs and their representatives argue that **supplier codes of conduct are not infrequently used by large companies to assume unrestricted control of their suppliers**. This can entail introducing specific financial requirements (e.g. in some instances, large clients were said to mandate profit margins on their subcontractors), production processes, or decisions on company management. However, it is “sold” as CSR, assuming an ethically superior stance vis-à-vis smaller companies. These assumptions can be especially unacceptable if they imply the “preaching” of certain values that smaller companies already abide by on their own terms or perceive them as unimportant/irrelevant to their business. In other words, SMEs might perceive CSR/sustainability requirements as an infringement of their autonomy. In some cases, SMEs are also aware that larger companies are not fully compliant with the CSR/sustainability criteria that they are attempting to preach, which results in so-called “mock compliance” (Stekelorum, 2020). In dealings with companies in third countries, such pressure can even be interpreted as a colonialist approach and result in strong push-back from local enterprises or even policymakers.
- According to stakeholders, **implementing CSR/sustainability practices for SMEs can be much less demanding than proving their existence**. Certificates

⁶⁴ This is especially prevalent in the agro-food sector, hence the EU directive on unfair trading practices in business-to-business relationships in the agricultural and food supply chain. More information is available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1557237500431&uri=CELEX:32019L0633>.

⁶⁵ For more information, see: https://ec.europa.eu/competition/publications/annual_report/2019/part1_en.pdf

can often be used as proof of responsible conduct, but they do not necessarily cover certain sector specifics or they can be rather costly to implement. To resolve this issue, after the adoption of the mandatory due diligence law in France, the national CSR platform (fr. *Plateforme RSE*) has begun to experiment with sectoral B2B labelling schemes (see Box 9 below). The sectoral approach is said to be beneficial for taking into account the specific needs of each sector and the common framework should make the developed labels clearly recognized and credible.

Box 9. Sectoral CSR Label schemes under the French CSR Platform.

CSR Labels (fr. *Lablles RSE*) is an initiative of the French CSR Platform, which aims to address the issue of the proliferation of many different CSR labels by **introducing common principles that would help to deduct if the label is sufficiently robust and credible**. The project is relevant for VTEs, SMEs and ETIs which, contrary to large enterprises in France, are not subject to regulations and can only enhance their commitment to CSR by obtaining certifications, labels, participating in networks. Such context determined that CSR label landscape in France is full of many different CSR labels. The initiative addresses the fact that 64% of French people have difficulties in obtaining correct information about the products they purchase from companies and trust companies to give them enough information on the manufacture of those products.

The CSR Platform conducted 18 month-long research with 340 companies and 18 professional federations and formulated **24 recommendations** for government, companies, professional federations and researchers, encouraging them to take up the topic of the proliferation of CSR labels. The recommendations are structured around three requirements: i) the need for an robust approach to ensure quality of the benchmark and of the labelling, ii) the challenge of recognising and promoting sectoral CSR labels, and iii) the need for long-term credibility and generalisation of the CSR labelling approach.

10 principles that would ensure the credibility of CSR Labels according to the CSR Platform's research are as follows: 1) robustness (actions taking into account specific issues of the sector and going beyond the obligatory regulations); 2) materiality of commitments (the issues and objectives can be evaluated objectively and relate to objective impacts); 3) continuous improvement (the criteria of the certification system must be periodically revised to continuously improve it); 4) benefit for society and environment (indicators and objectives associated with CSR issues should be taken into account when awarding the label); 5) representability (the project must be representative of the sector, the governance of the label ensures relevant stakeholders are involved); 6) non-compensation (insufficient performance on a certain criteria cannot be compensated on better performance on another criteria); 7) separation of competences (the evaluation of the results of the audited party can only be validated by an independent party not related to the company; the decision to award the label must be taken impartially); 8) transparency (the content of benchmarks and the information behind the label must be transparent, accessible to the public); 9) exemplarity (the organisation with a CSR label must communicate transparently its CSR actions); 10) accessibility (the labelling process must be accessible to all VTEs, SMEs and ETIs).

Source: Plateforme RSE, available at: <https://www.strategie.gouv.fr/publications/labels-rse-propositions-labels-rse-sectoriels-destines-aux-tpe-pme-eti>, Labels RSE. Propositions pour des labels RSE sectoriels destinés aux TPE, PME et ETI, available at: https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs-2021-plateforme-rse-avis-labels-rse-fevrier_0.pdf, and stakeholder interview.

Unfair trading practices on a global level are an even more serious challenge for all European companies, and especially for SMEs. **SMEs are impacted when faced with competition from companies that engage in illicit practices in third countries.** Such companies benefit from a so-called legal void that commonly exists in developing countries. Despite a moral obligation to respect some sort of requirements, the lack of strict regulations and enforcement results in business practices that range from mildly concerning to truly abhorrent. However, the COVID-19 pandemic caused significant disruptions in global supply chains. As a result, discussions on the risks associated with global trade and the fragmentation of international production⁶⁶ have taken centre-stage. According to OECD, the pandemic has brought to light both the strengths and the weaknesses of global value chains. Within this context, scholars, experts, and policymakers argue that building more resilient production networks, increasing company risk awareness as well as improving transparency in value chains are of essence⁶⁷. Accordingly, European companies are looking for ways to shorten their supply chains, reduce risks and diversify suppliers. All of this may lead to more transparency and regulation that could level the playing field for all companies. At the same time, a relevant share of SMEs also conducts business with third countries (either via imports or production facilities). As a result, they were also impacted by disruptions. According to an EU-wide survey undertaken amongst SMEs, **74% experienced disruptions in their supply chains, but two thirds of them had no plan in place on how to handle them**⁶⁸. Hence, it is clear that while some SMEs already conduct activities within this area, others will need support.

To ensure supply chain due diligence, SMEs conduct the same activities as described under human rights diligence (see [section 4.5.](#)), namely relying on supplier or business partner reputation, screening business partners via questionnaires or checklists, auditing suppliers, or purchasing from certified or local suppliers. These activities might be further accompanied by close collaboration between the supplier and the SME, when, similarly to large enterprises, medium-sized companies will undertake more extensive communication and support activities to ensure that suppliers comply with CSR/sustainability requirements. This can entail capacity-building activities and trainings that in some cases can be cheaper than supplier audits. Multiple **SMEs emphasised that they take great care in selecting suppliers in the first place** because their business operations and business reputation is at stake. In this case, SMEs tend to establish very close and long-term partnerships with their suppliers. However, this is more feasible for SMEs that operate more upstream. For companies operating more downstream of the supply chain, it can be difficult. However, in that case various networks and partnership approaches can be extremely valuable for SMEs.

The key challenge for SMEs when it comes to supply chain management is twofold:

- **It can be difficult to determine how much risk SMEs are exposed to and whether they can be held liable.** SMEs in consumer-facing sectors such as retail or hospitality are right at the end of the supply chain and while they might attempt sourcing goods from reliable importers, they are not necessarily fully aware of how the products were made or how the materials were sourced. SMEs that are closer to the middle of a supply chain, and especially closer upstream, can be more aware

⁶⁶ OECD Policy Responses to Coronavirus (COVID-19) (2021). Global value chains: Efficiency and risks in the context of COVID-19. Available at: <https://www.oecd.org/coronavirus/policy-responses/global-value-chains-efficiency-and-risks-in-the-context-of-covid-19-67c75fdc/>

⁶⁷ Ibid.

⁶⁸ More information available at: <https://www.brusselsnetwork.be/sme-survey-on-supply-chain-disruption-in-europe-due-to-covid-19/>

of risks and also somewhat more liable for any adverse impacts. However, **liability remains a serious concern for SMEs due to their lack of leverage.**

- **Lack of leverage** is a second key challenge for SMEs when conducting due diligence. **SMEs**, and especially smaller companies, **find it difficult to ensure compliance** because they have significantly less bargaining power than large companies (Stekelorum, 2020) and very little capacity to enforce sanctions. In case of conflict, a supplier is much less likely to feel threatened by an order cancellation that comes from an SME than a large enterprise. Furthermore, such disruptions can be risky and detrimental to the SME itself. The upside is that, according to some stakeholders, SMEs tend to source locally and have fewer suppliers', which makes supply chain due diligence more manageable. Yet there is limited evidence to support this claim. SMEs can operate within very long and complex supply chains in any sector of the economy where material/product traceability remains a serious obstacle. Furthermore, local sourcing is not a viable option for many companies, especially for specific raw materials that are scarce in Europe.

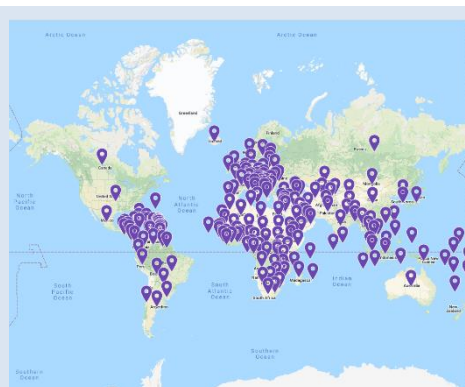
To avoid such risks and ensure responsible sourcing, some SMEs opt for sustainable services, such as packaging services, or environmentally responsible transportation and engage in sustainable procurement practices by purchasing certified raw materials or products. Some SMEs emphasise that they only work with certified manufacturers, workshops, or artisans. However, even certified suppliers are not always reliable (see sections [4.5.](#) and [4.8.](#)). Generally, environmental due diligence in supply chains remains difficult to assess. There are no uniform international guidelines comparable to ILO Labour standards that could be used for environmental risk assessment.

Business representatives and policymakers emphasise that **SMEs need tailored support to ensure due diligence.** Such tailored support should mainly take into account the following aspects:

- **Sector** in which a company operates. Due diligence in specific sectors will have its own challenges due to the types of activities conducted (see [Chapter 5](#) for sectors covered in this study). For SMEs, mitigating all possible risks can be demanding, hence sectoral guidelines should help to determine which specific risks are the most acute. The OECD guidelines within specific sectors can be taken as exemplary in this case, however, they are too complex for SMEs to follow, and more straightforward solutions are needed.
- **Geographic location** from where a company sources its products/materials. In this case, a map for risk-assessment was said to be a potentially valuable resource (see Box 10 below). However, further support via local networks, embassies and contact points in third countries would be beneficial (see [section 4.5.](#)).

Box 10. CSR Risk Check tool and interactive world map.

MVO Nederland network for entrepreneurs developed the **CSR Risk Check** to help companies identify and address CSR risks in countries across the globe. The risk assessment tool is targeted at companies that export to, import from or have production facilities outside the Netherlands. The Risk Check Tool is free and easy-to-use, available in English, Dutch and German. It gives companies a chance to overview CSR-related issues they may face when producing or purchasing a particular product in a specific country. The tool asks users to select a product or service they provide and its country of origin and then provides the list of possible CSR risks within the company and with other entities in the supply chain. The tool serves as a useful starting point to manage CSR risks in supply chain.



The tool also includes a constantly updated **interactive world map**, where CSR risks (including their short descriptions and sources for further information) prevalent in all the countries are mapped. In addition, the platform also integrates information on the **good practises** of companies that have encountered, reduced, or prevented CSR risks in their supply chains. The users can use these examples to get inspired to act. The interactive checklist allows users to learn how they can tackle the risks in their supply chain more effectively. The tool also has a page tracking **legislative developments around due diligence** in Europe.

Source: CSR Risk Check, available at: <https://www.mvorisicochecker.nl/en>

Finally, EU-level legislation on mandatory due diligence is perceived by policymakers and business representatives as a beneficial means for ensuring a level playing field for all companies. They believe it would help to ensure that illicit practices are less prevalent and companies that conduct due diligence are not out-competed by businesses that may engage and benefit from harmful activities. Furthermore, they emphasise that a consistent set of requirements at the EU level would be more desirable than an abundance of differentiated national legislative frameworks, which result in confusion and additional administrative burdens. Finally, they argue for a low-phase approach to SMEs that entails a comfortable transitional period as well as tools to support this transition. At the same time, the question remains as to what extent SMEs have the capacity to conduct supply chain due diligence in the first place.

4.7. Organisational governance

Organisational governance could more often be seen as a serious concern for large enterprises because corporate management is dependent upon a relatively strict and complex hierarchical structure. Ensuring accountability, transparency, and ethical conduct at all levels of the enterprise, namely management, the board of directors, shareholders and employees, is not easy given the sheer number of people involved and the extent of daily operations happening simultaneously across the globe. As a result, a collective commitment to CSR must be guaranteed and organisational governance is an important activity area for multinational enterprises. SMEs, in contrast, are rarely in need of such practices, given the limited number of employees and the much smaller scope of their operations. However, survey results have shown that **some SMEs place substantial**

value in good business governance. Furthermore, **activities within this area tend to be formalised** (see Figures 11 and 12 in [section 2.2.](#)) and more likely to be assessed against KPIs (see Figure 18 in [section 3.2.2.](#)). Naturally, larger enterprises are significantly more likely to engage in good governance practices than smaller ones⁶⁹.

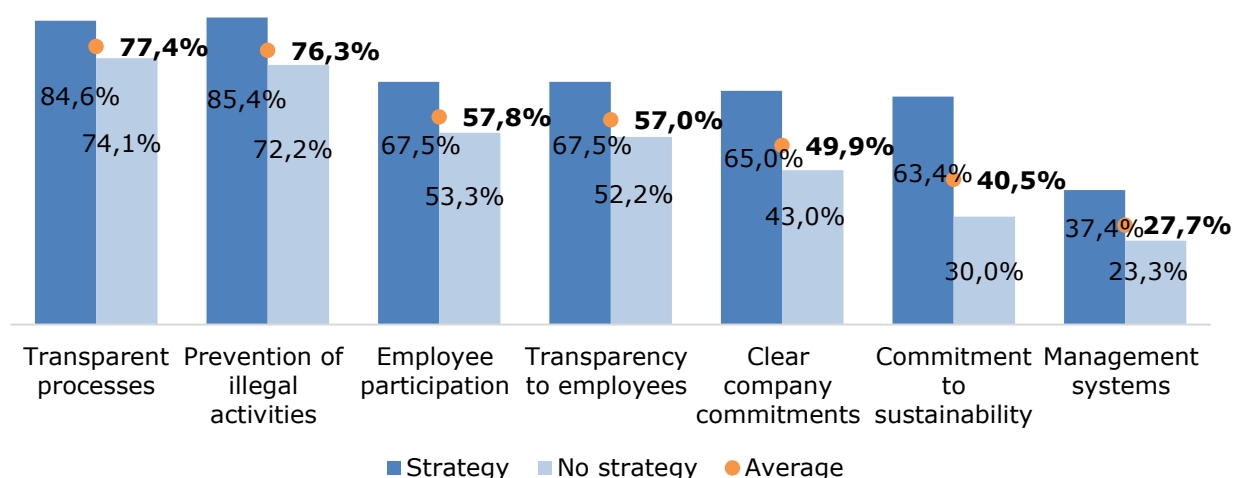
Better governance of SMEs can result in more rapid business growth, attracting investments, and overall long-term sustainability. However, SMEs perceive good governance, just like the notion of CSR itself, as a matter for large enterprises. This is especially the case for small, family-owned enterprises, where any formal structures are regarded as unnecessary, but it is also applicable to companies where the owner also takes on the role of manager (ACCA, 2015). At the same time, business support organisation representatives notice that some SMEs are becoming increasingly pressured to showcase transparency to customers or consumers, hence good governance procedures are becoming more and more appealing.

For the purpose of this study, we outlined the following types of practices in the area of organisational governance:

- Clear and transparent process of decision making in the company (e.g. formal governance procedures)
- Prevention of illegal activities of any kind (e. g. mechanisms against tax avoidance, money laundering, bribery, etc.) and protection of whistle-blowers
- Clear procedures to ensure follow-through of company commitments (e.g. a CSR strategy)
- Transparency about financial and/or other company performance indicators to employees and shareholders (e.g. delivery of annual financial and non-financial reporting on the company's business activities)
- Regular employee participation in decision making
- Internal commitment to investing in green/sustainable solutions for company operations
- Management systems in accordance with ISO or another standard
- Other practices not covered by those above

Figure 26 below provides coverage of practice types to ensure good governance amongst European SMEs, by separating those with a sustainability strategy from those without one. Once again, **practices requiring little efforts outside of the legal requirements tend to be common** in contrast to more voluntary activities. **Commitment to sustainability stands out** as a key activity **where the fundamental difference in attitudes between companies** that perceive CSR/sustainability as a priority and those that perceive it as a noted concern **is visible**.

⁶⁹ 78.2% of larger SMEs (50-249 employees) said they conducted activities within this area as opposed to the survey average of 61.4%. 56.4% of all smaller companies were said to conduct such activities.

Figure 26. Practices in the area of governance amongst SMEs, by practice type.

Note: Total (N)=393.

Source: SME survey (2021).

Most SMEs were said to have transparent processes and measures to prevent illegal activities. Several survey respondents noted that this was naturally inherent due to company size, others, however, emphasised that transparency was systematically communicated to all stakeholders involved in business operations, including suppliers, as a core value. Such **communication on transparency can be a part of a company's strategy or business model**, ensuring good reputation and credibility. It is especially relevant for the pharmaceutical and financial industries and SMEs in those sectors were likely to place efforts in this area⁷⁰. For example, the EFPIA has established a code for the disclosure of payments to healthcare professionals, whereby companies must openly declare any payments made to participate in meetings, conferences and consultancy or advisory boards⁷¹. SMEs partake in this commitment via their membership affiliation with EFPIA.

Efforts to include employees in decision making and transparency on company financial and/or other performance indicators are less common than expected. In this case, similarly to practices within the areas of decent work or environmental impact, **practices are very uneven amongst SMEs**. Some have introduced regular procedures through which employees are fully informed on company performance and their views are taken into account, while others operate under a strict hierarchy and limit employee involvement to discuss only matters directly related to work duties. For example, SMEs may hold scheduled meetings with all employees twice a year to discuss company performance or conduct formalised discussions/forums before important business decisions are made.

Finally, management **systems in accordance with ISO or other standards were overall quite rare amongst SMEs**⁷². The most common systems in place were ISO 9001

⁷⁰ 83% of SMEs within the pharmaceutical and 90% in the banking, finance, and insurance sectors said they actively ensured clear and transparent processes within the company as opposed to the survey average of 77.4%.

⁷¹ More information available at: <https://www.efpia.eu/relationships-code/disclosure-of-payments-to-hcps/>

⁷² When calculated against the total number of companies that responded whether they conducted any activities in this area, the total share is much lower – only 16% of survey participants were said to have a management system in place.

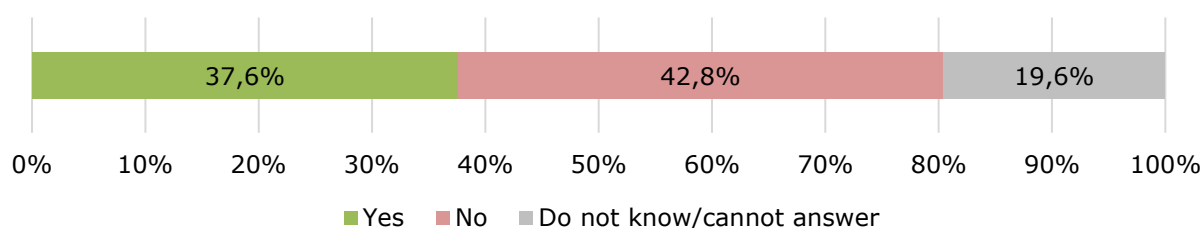
together with ISO 14001, the latter of which is an Environmental Management System (EMS) that enables companies to measure their environmental impact. A few SMEs were said to have obtained specific management systems that are relevant for particular industries, e.g. the ISO 22000 for food safety management, ISO 13485 for medical devices, ISO 50001 for energy management, ISO 27001 for information security management, and ISO 45001 for OSH. A few were said to follow the ISO 26000 standard for social responsibility. Other kinds of certifications were rare. For example, a few companies were said to comply with various certificates relevant for the pharmaceutical industry (GMP, GDP)⁷³ or food manufacturing (IFS, RSPO, BRC, Halal and/or Kosher certificates). Only a very few companies said they complied with GRI and/or EMAS.

It should be noted that management systems could be more prevalent amongst SMEs active in the manufacturing sector, which was not included within the scope of this study. However, even in that case, the survey results show that SMEs are reluctant to uptake such practices. SME owners' attitudes towards such management standards are neatly summarised in the following opinion, *"A family business with fewer than 100 employees does not need any 'governance procedures', ISO certification, and CSR strategies in order to deal with each other and involve employees in a normal way. There is a lot of formal nonsense in large companies that, for God's sake, shouldn't be imposed on small companies as well."*

4.8. Public disclosure of information

A larger share of **SMEs** that participated in the survey **do not follow any information disclosure practices** (see Figure 27). While large enterprises are subject to requirements outlined within the NFRD, SMEs are seldom required to disclose any information on their activities. As a result, unless information disclosure practices are somehow integrated with a particular business case for CSR/sustainability, SMEs have little reason to engage (see Figure 9 in [section 2.1.](#)). For example, an eco-shop selling specific products is likely to publish information on its environmental or social impact because this also serves to advertise its products. For companies without a business model or CSR/sustainability strategy, the costs of disclosing information simply outweigh the benefits. Some SMEs explicitly said they saw no need in doing this and the time required was simply too precious to waste.

Figure 27. Information disclosure practices amongst SMEs.



Note: Total (N)=689.

Source: SME survey (2021).

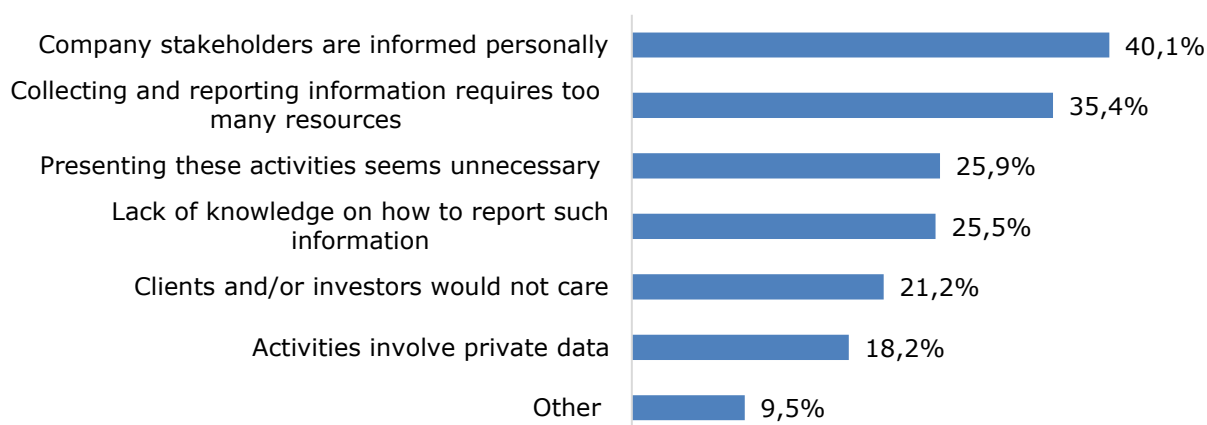
Figure 28 below displays the key reasons why SMEs said not to publicly share information about their business activities. There are some differences between SMEs that have a CSR/sustainability strategy, a sustainable business model or neither of them, and this

⁷³ Companies within the pharmaceutical industry were the most likely to have any management systems in place, with 43% of SMEs that conduct any practices within this area selecting this option.

needs to be taken into account. **Lack of knowledge on how to report activities** was significantly more prevalent amongst **companies without a well-established approach to CSR/sustainability**⁷⁴. Interestingly, they were much less likely than other companies to claim that publicly disclosing these activities was inappropriate or unnecessary⁷⁵. As one survey respondent put it, *"A responsible family-run company does not need a "policy" to peddle in a glossy brochure or on the internet."*

However, the top two reasons, namely the fact that **stakeholders are personally informed**, while **collecting and reporting information require too many resources** are the key obstacles, with the latter being especially important. Business support organisation representatives tend to agree – 77.8% of representatives said that time and a lack of resources was a key issue. Indeed, **SMEs rarely have the capacity to collect and analyse relevant data** – first of all, they are seldom sufficiently aware on which data needs to be collected and, secondly, they might not have the technical means of accessing it (e.g. lack the technical capacity to calculate their CO2 footprint or lack access to information on the production facilities from which they source materials). When considering any obligations for reporting, this aspect especially needs to be taken into account. In other words, just like in the case of CSR/sustainability practices, SMEs tend to struggle with knowing *how* to undertake a specific action rather than the action itself.

Figure 28. Reasons not to disclose information amongst SMEs.



Note: Total (N)=274.

Source: SME survey (2021).

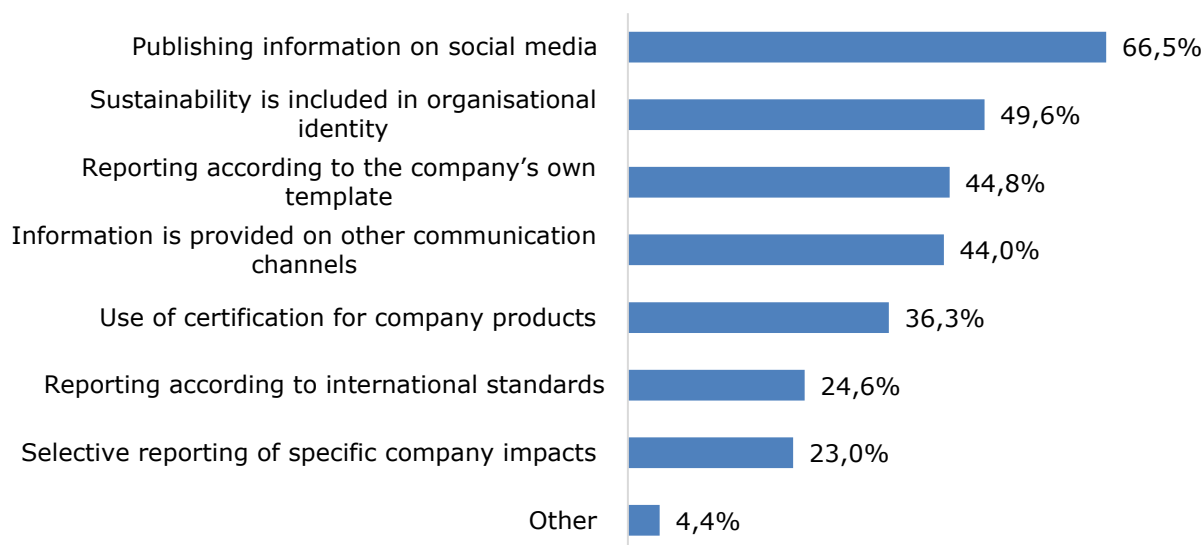
SMEs that do tend to publicly disclose any information mostly do this in an ad hoc manner by posting about their activities on social media. This really follows from the mostly informal and unsystematic approach of the activities themselves. SMEs that tend to conduct CSR/sustainability-related activities in a more systematic way, once the activities are established, stick with the same process and, as a result, simply include them in their company's organisational identity, provide them on a website/brochure or similar. Even if activities result in extensive impacts, SMEs do not commonly set any targets or KPIs to monitor them. Within this context, most types of reporting are simply unfeasible for SMEs. Reporting according to a company's own template really comes down to stating certain singular aspects about the activities conducted, such as emphasising the amount of

⁷⁴ 31% of SMEs that did not have a CSR/sustainability strategy or business model said this was an important reason, as opposed to 16% and 18% of SMEs from the other two groups.

⁷⁵ 22% of SMEs that did not have a CSR/sustainability strategy or business model said this was an important reason, as opposed to 35% and 33% of SMEs from the other two groups.

resources saved (e.g. reduced CO2 emissions, reduced food waste, etc.) or the positive impact achieved (e.g. planted number of trees, number of persons benefited from a programme, etc.).

Figure 29. Types of information disclosure amongst SMEs.



Note: Total (N)=248.

Source: SME survey (2021).

Reporting according to international standards is not that common amongst SMEs because these kinds of standards were mostly developed with large enterprises in mind for purposes that are seldom applicable to SMEs. Accordingly, medium-sized SMEs are more likely to engage in this⁷⁶, as they are likely to have the required financial and especially human resources (e.g. a dedicated CSR reporting department). Selective reporting of specific company impacts is even less common because it requires a custom selection of monitoring targets or KPIs that most SMEs find too cumbersome.

Finally, a comment with respect to various **labels and certificates** needs to be made. Labelling and certification can be a relatively straightforward way of communicating the specific business practices a company follows, such as manufacturing eco-friendly products, engaging in fair trade, or ensuring decent work in supply chains. The label or certificate already contains a pre-defined set of criteria that a company needs to meet without having to collect any additional data once the certificate or label is obtained. A label or certificate can be used as a mark of credibility to customers, as well as help to easily differentiate responsibly sourced or manufactured products from the rest. The latter is especially relevant because it can incentivise customers and, consequently, bring a financial reward to CSR/sustainability activities conducted by the enterprise. However, labelling and certification as a means to disclose information on company activities is not that popular amongst SMEs, with only slightly more than a third of companies that disclose information following this approach (see Figure 29). Taken overall, only **16% of all SMEs that participated in the survey had obtained some sort of certificate or label**. This approach is significantly more common amongst SMEs with a CSR/sustainability strategy

⁷⁶ 35.7% of SMEs with 50-249 employees that publicly disclose information said they reported information in accordance with international reporting standards (18.5% of all SMEs with 50-249 employees).

or a sustainable business model⁷⁷, and amongst SMEs in the textile and agro-food industries⁷⁸. However, even in their cases, labels or certificates were obtained far less than could be expected. SME lack of interest in labels or certificates is mainly due to the following reasons:

- **Limited knowledge on the various types of labelling and certification schemes.** There is a large variety of labels and certificates that a company can obtain, depending on the types of activities it conducts and the country in which it operates. For example, the Ecolabel Index⁷⁹ lists a total of 455 various labels that may be applicable to specific products (e.g. coffee, bio-fibres or cotton, furniture, specific metals, etc.) or were developed in specific countries and even regions (e.g. the EU geographical indication schemes⁸⁰). A plethora of labels and certification schemes also exists for ethical or fair trade. As a result, it can be difficult and time-consuming to select which label would be the most appropriate and beneficial to the activities of a specific SME.
- **Lack of customer awareness and preference for certified or labelled products.** Labels or certificates are beneficial only insofar as they influence customer choice. However, limited customer awareness of what a particular label/certificate stands for and what the benefits are of purchasing such a product as opposed to one without a label/certificate. Some companies conduct their own awareness-raising activities to promote such products, however that is not a feasible option for most. Furthermore, while some customers might be aware of what a label/certificate stands for, they are not necessarily willing to pay for it. Multiple sources claim that labels do not necessarily translate into higher profits for companies because customers are not motivated to pay the price premium (Yenipazarli, 2015). This lack of customer preference for certified or labelled products is a major obstacle for many SMEs. Finally, this lack of preference also goes hand-in-hand with inherent contradictions when it comes to product labelling and sustainability concerns – locally sourced products, e.g. vegetables or fruit, are not necessarily grown in an environmentally friendly way, while textiles made in a local factory are unlikely to have any fair trade or ethical trade certificates (e.g. see [Annex 4 on Croatia](#)). SMEs, given their localised presence, might be aware of this and will not obtain any labels or certificates unless they operate abroad⁸¹.
- **Limited credibility of labelled or certified products.** The credibility of some schemes is sometimes called into question because organisations responsible for them do not always operate with full transparency or themselves might run into difficulties when conducting audits. For example, certain certification schemes, such as the Roundtable on Sustainable Palm Oil (RSPO) was strongly criticised after a study found that operations conducted under this label were no better than the non-

⁷⁷ 32.9% of SMEs with a business model that disclose information had obtained a label or certificate (19% of all SMEs with a business model), and 51.1% of SMEs with a CSR/sustainability strategy had obtained a label or certificate (29% of all SMEs with a CSR/sustainability strategy). 20.9% of SMEs without a serious commitment to CSR/sustainability that disclose information had obtained a label or certificate (4.5% of all SMEs in this category).

⁷⁸ 52.4% of SMEs that publicly disclosed information within the agro-food sector said they had a label or certificate (17.6% of SMEs in the sector overall) and 56.5% of SMEs within the textile and garment industry said they had a label or certificate (19.8% of SMEs in the sector overall).

⁷⁹ Ecolabel Index contains a global directory of ecolabels that are available in 199 countries and 25 industry sectors. More information is available at: <http://www.ecolabelindex.com/>

⁸⁰ Explanation of EU geographical indication schemes is available at: https://ec.europa.eu/info/food-farming-fisheries/food-safety-and-quality/certification/quality-labels/quality-schemes-explained_en#geographicalindications

⁸¹ SMEs that conduct activities outside of the EU are almost twice as likely to have a certificate or label when compared to SMEs that operate within the borders of the EU (46% as opposed to 27%).

certified ones⁸². Likewise, organic cotton production has been exposed in the past and continues to struggle with fraudulent certificates – some SMEs that participated in the survey specifically referred to instances of more organic cotton being sold under various labels than is grown across the globe⁸³. Various labelling and certification initiatives are mostly privately run and, as a result, not as rigorously subjected to public scrutiny. In this case, the issue of “who audits the auditor” remains to be addressed. Consequently, both the consumers and the SMEs remain somewhat sceptical with respect to such labels and certificates.

- **Lack of comparability between labels or certificates.** Given the wide variety of existent labels and certificates, it can sometimes be difficult to assess which ones require meeting more demanding standards and, ultimately, what sort of standards are even included. This results in confusion on behalf of the customers and, as a result, deters SMEs as well.
- **Lack of resources to obtain a specific label or certificate.** Meeting all the criteria and obtaining a label or certificate can be financially costly. For SMEs, this investment can be significant, while its benefits are not fully clear or even worthwhile.

⁸² Courtney L Morgans et al (2018). Evaluating the effectiveness of palm oil certification in delivering multiple sustainability objectives. *Environmental Research Letters*, 13 06403.

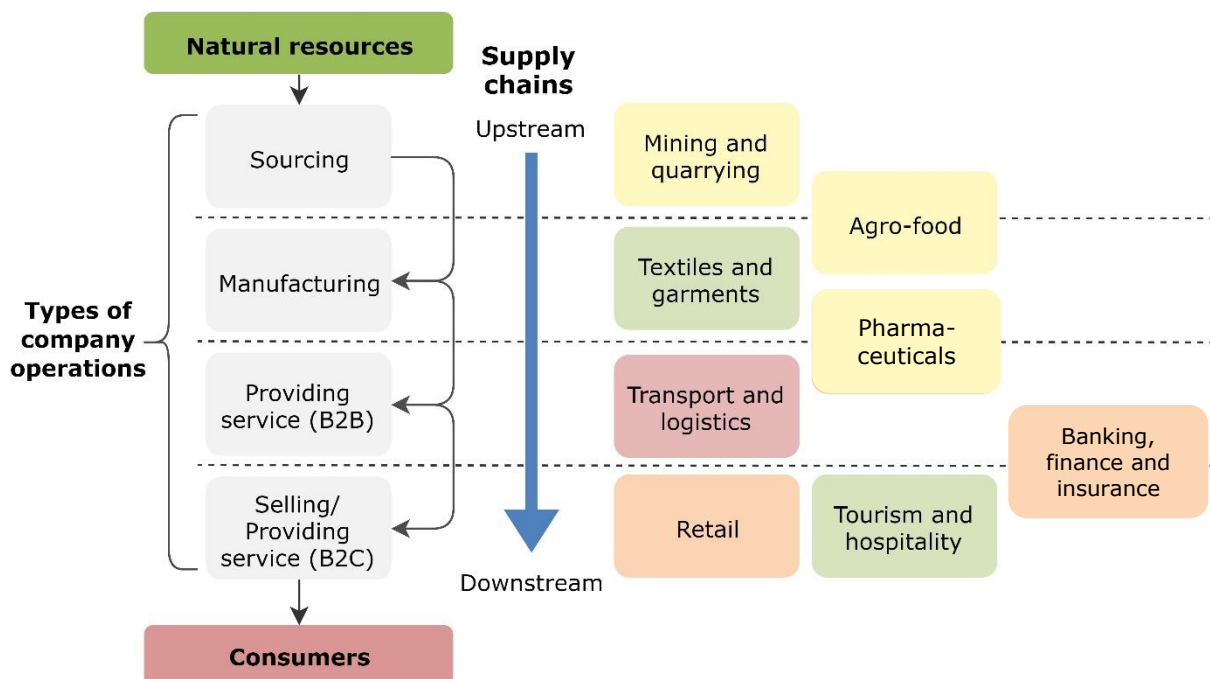
⁸³ For example, see a recent publication on fraudulent organic cotton certification in India and China: <https://www.themds.com/markets/the-organic-cotton-trap.html>

5. CSR UPTAKE BY ECONOMIC SECTORS

This chapter looks at CSR/sustainability uptake by SMEs within each sector under the scope of this study. Similarly to Chapter 4, each section begins with a short overview of the relevant context details including the extent of legislation within the sector, important developments (e.g. strategies), and existing challenges. This overview is followed by a comprehensive assessment of how SMEs approach activities within the sector, which activities they tend to prioritise and why, and what kind of incentives for CSR/sustainability uptake they would benefit from. Table 14 below (pages 103-104) provides a brief summary on each sector, with a focus on sector-specific opportunities and challenges when it comes to CSR and sustainability uptake.

Analysis provided in this chapter makes it clear that **SMEs commonly conduct activities that are directly linked to their business operations**. As a result, **sector-specific aspects need to be taken into account** when thinking about fostering CSR/sustainability uptake. Accordingly, while the essential drivers behind higher CSR/sustainability uptake are largely common for all SMEs (see [section 2.3.](#)), some of them are strongly dependent on which part of the supply chain companies find themselves. Figure 30 below provides an illustration of which place of the supply chain companies within specific sectors are more likely to find themselves in and, accordingly, serves to showcase which CSR areas might be of more direct relevance to their needs.

Figure 30. Business operations in specific sectors within the supply chain.



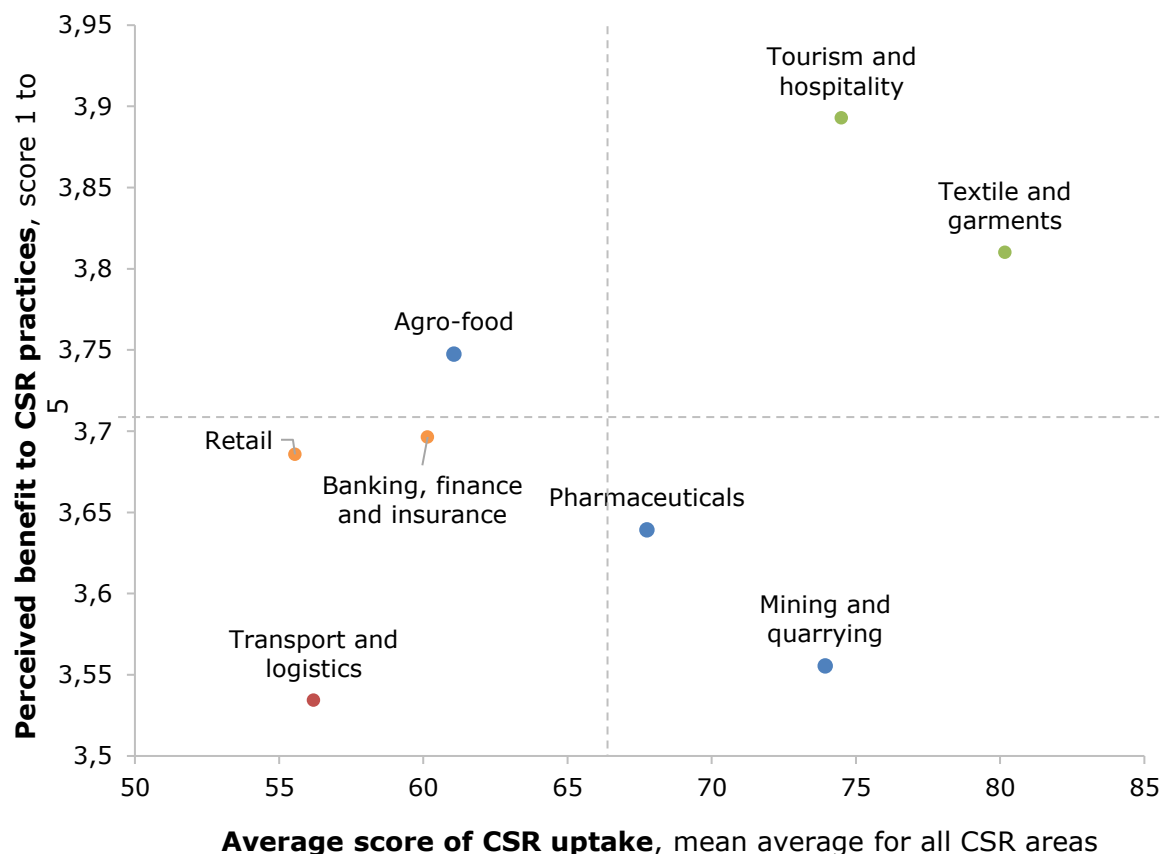
Source: Authors' elaboration based on study data.

From Figure 30 above, it is clear that for consumer-facing sectors such as retail or tourism and hospitality, consumer demand will be a much stronger driver than for the mining and quarrying or transport and logistics sectors. The latter are more dependent on the uptake and diffusion of technologies, similar to the textile and garment industry, because they are more likely to work with natural resources. Overall, action to ensure environmental sustainability will be more directly relevant to companies that deal with sourcing operations, while responsible business relations will inevitably be more critical to

companies that strongly rely on B2B relations. Such companies will not necessarily be as exposed to consumer pressure. However, the textile and garment industry in this case is an exception – it has been increasingly subject to societal pressure to ensure responsible conduct and, as a result, it demonstrates a very high level of CSR/sustainability uptake when compared to other sectors (see Figure 31 below). The perceived “business case” for CSR/sustainability practices in the industry is much higher and, accordingly, so is the willingness to adopt specific practices. Similarly, the agro-food industry has been under increasing pressure, but in this case stark contrasts between sustainable enterprises and those conducting “business as usual” have emerged. The perceived benefit to CSR/sustainability is therefore growing (see Figure 31 below), but it is not necessarily matched by activity uptake for the whole industry. Finally, the pharmaceutical and the banking, finance and insurance sectors are more likely to commit to activities within the social sphere, but they tend to see limited benefits in the business case for CSR/sustainability due to the role their products occupy within the overall economy. As such, their CSR/sustainability uptake is more conditioned by existing regulatory frameworks.

Figure 31 below further serves to illustrate that CSR/sustainability uptake for SMEs within specific industries is very closely tied to the perceived business case (perceived benefit) of activities. In those instances where perceived benefit is low, regulatory frameworks play a substantial role in setting standards for conduct (mining and quarrying and the pharmaceutical industry being notable examples of this).

Figure 31. CSR/sustainability uptake in relation to perceived benefit of practice for each sector.



Source: SME Survey (2021).

Table 14. CSR uptake in economic sectors alongside identified opportunities and remaining challenges.

Sector	CSR uptake	Opportunities	Challenges
Agro-food industry	Moderate uptake, which hides stark contrasts between companies.	<ul style="list-style-type: none"> - Strong business case for CSR/sustainability in niche markets (esp. for certified production). - Growing interest in sustainably sourced and manufactured products from consumers. - Growing awareness amongst producers on the need to tackle climate change and environmental degradation due to direct negative impacts on production. 	<ul style="list-style-type: none"> - Limited CSR uptake in SMEs that operate outside niche markets due to price sensitivity. Price is a key factor for most consumers. - Large variety of labels and certificates, some of which lack credibility. Their comparison and assessment is a challenge for both SMEs and consumers. - High risk of labour and human rights abuses due to prevalence of undeclared work. - High risk of adverse environmental impacts in supply chains from third countries.
Transport and logistics	Low uptake, competition remains based on price rather than quality of services.	<ul style="list-style-type: none"> - Some companies place efforts with respect to the prevention of air pollution, especially if this translates to reduced costs (economical driving). - Regulatory requirements remain a strong incentive and can play a significant role. Standards, tax rates, or other measures can be effective. 	<ul style="list-style-type: none"> - Weak business case for CSR/sustainability because demand for sustainable transport services from other industries remains low. - Lack of consumer demand is tied to a lack of information on company sustainability efforts. - CSR uptake with respect to environment strongly dependent on technology development and diffusion. - High risk of labour rights abuses due to prevalence of undeclared work.
Retail trade	Uptake below average , due to limited consumer interest despite opposite claims.	<ul style="list-style-type: none"> - Strong business case for CSR/sustainability in niche markets. - Reactive to consumer demand. Consumer-awareness that translates to purchasing decisions remains key. - More involved in local community initiatives and prefer to source locally. 	<ul style="list-style-type: none"> - Dominated by family-owned micro-enterprises, hence lack of leverage and capacity limits higher CSR uptake. - Business case for CSR remains limited to niche markets, other SMEs much less likely to engage. - Information disclosure on products can contribute to incentivising customers, but retailers are unable to provide full information. - Risk of labour rights abuses due to undeclared work. - Limited policy support available.
Pharmaceuticals	Quite moderate uptake due to extensive regulations and limited business-case for CSR.	<ul style="list-style-type: none"> - Transparency and product safety are key. SMEs put in efforts to ensure legal compliance, adopt management standards, and maintain good relations with suppliers. - CSR activities focus on working conditions, diversity practices, and employee development because attracting skilled personnel is crucial. - Strong dependence on investors makes SMEs more familiar with reporting standards. 	<ul style="list-style-type: none"> - High level of regulation limits voluntary activities. - Lack of time very acute and the business case for CSR/sustainability rather limited. - Customer demand not a strong incentive due to the nature of production. - Investors require SMEs to provide information in accordance with their own standards, which can be time-consuming and confusing for SMEs (esp. in cases where several investors are present). Companies would benefit from unified standards.

Sector	CSR uptake	Opportunities	Challenges
Textile and garment industry	High uptake due to strong customer and institutional pressure	<ul style="list-style-type: none"> - Growing awareness amongst companies and consumers on the industry's negative environmental and social impacts. - Increasing efforts to safeguard human rights across supply chains. - Responsible business relations gaining priority, labels and certificates becoming a popular means of selecting responsible suppliers. - More likely to disclose information than other industries. - Considerable support available via partnerships, sectoral associations, or labels and standards. 	<ul style="list-style-type: none"> - Price remains an important factor, with most companies required to produce in third countries to reduce costs. - Supply chain traceability remains difficult to achieve due to complex value chains and lack of capacity. This makes extensive environmental or human rights due diligence for SMEs difficult. - Limited technology upgrading and innovation hinders the development and adoption of more environment friendly solutions, especially with respect to textile recycling and resource use. - Standard reporting tools or digital solutions for traceability in supply chains are needed.
Mining and quarrying	Moderate uptake, driven by compliance with regulations and pressure from local communities	<ul style="list-style-type: none"> - Compliance with regulations remains an important incentive for CSR uptake. - SMEs with a strategic outlook care to maintain good relations with local community representatives, NGOs. - SMEs with a strategic outlook tend to extensively address environmental issues, esp. water use. - Opportunities to recover critical and other raw materials from waste and landfills remain unexplored. - Responsible enterprises would benefit from favourable differentiation and exposure to consumers or clients via label/industry standards or similar. 	<ul style="list-style-type: none"> - Despite efforts by the EU, each Member State has a distinct legal framework with considerable differences between how companies are allowed to operate. - Innovative, circular solutions are lacking, while the sector's role in the circular or more sustainable economy remains unclear. - High environmental costs (disfigurement of local landscape, increased water pollution and waste) and occupational safety and health hazards remain key issues. - Local communities' needs not always addressed during operations.
Tourism and hospitality	High uptake, but regional disparities are very high	<ul style="list-style-type: none"> - Consumer preferences are changing towards more sustainable services. - SMEs increasingly dedicate attention to measures that protect the environment, e.g. reducing food waste, using sustainable packaging, ensuring efficient use of water and energy. - SMEs are increasingly keen on obtaining the EU Ecolabel for Tourist Accommodation Services that helps to address some environmental concerns. 	<ul style="list-style-type: none"> - Limited capacity by SMEs to invest in CSR because the sector operates on low profit margins and was heavily affected by the pandemic. - Subject to shadow economy and informal/unstable employment (compliance with legislation needs to be addressed). - Accessibility of services to specific groups (seniors, children, persons with disabilities) can be improved. - Respecting and addressing the needs of local inhabitants is lacking in some countries as attention to consumers takes precedence (overtourism).
Banking, finance, and insurance	Uptake below average , largely driven by compliance with regulations and accountability to stakeholders	<ul style="list-style-type: none"> - A highly regulated sector with strict governance procedures that companies tend to respect. - Has potential to increase the level of sustainability among businesses by applying sustainability criteria into lending and investment strategies. 	<ul style="list-style-type: none"> - SMEs in this sector do not sufficiently acknowledge their indirect impact on sustainability. Activities related to their office operations rather than green finance solutions are more common. - Clarifications and awareness-raising are needed both for the investors and their clients when it comes to EU regulations.

Source: Authors' elaboration based on study data.

5.1. *Agro-food industry*

The food supply sector constitutes approx. 8% of total employment in the EU. The majority of companies within the sector are SMEs and farming remains a predominantly family activity⁸⁴. The modern agriculture and food production industry plays a significant role in less-industrialised economies (e.g. Romania), while the success of some advanced countries in these markets (e.g. Denmark) suggest the potential to improve. The key issue areas can be identified as follows:

- **Environmental issues**, as the sector contributes to climate change, land degradation, water resource depletion and deforestation, asking for efficient cultivation methods that do not overexploit natural resources (as well as ensure animal welfare).
- Challenges in the areas of **decent work and human rights**, related to informal and seasonal work, especially prevalent among women, migrants and even children.
- **Responsible business relations**, especially in terms of suppliers outside the EU (e.g. European food producers extensively rely on palm oil as one of the main ingredients, which poses risks of deforestation and detrimental working conditions for plantation workers).
- **Consumer issues**, as the sector has to meet the demand for safe and reliable sources of nutrition. Responsible consumption challenges related to food waste are also prevalent (in this respect, the challenge is interconnected with the retail and tourism and hospitality sectors).

Both EU and national-level policies to support and develop the industry are extensive. European policy sets a global standard for responsible farming and food that is safe and of a high quality. The **Common Agriculture Policy (CAP)** plays a key role in offering a number of instruments to address the challenges of climate change and the sustainable management of natural resources. The policy instruments range from compulsory obligations to be met in order to receive CAP funding (e.g. crop diversification), funding for innovation, and voluntary, targeted measures that are beneficial for the environment⁸⁵. Furthermore, the recently adopted **Farm-to-Fork strategy**⁸⁶ is expected to really help the industry transition towards greater sustainability and address social and environmental challenges across the whole food value chain. The strategy draws attention to urgent issues that range from farming methods and animal welfare to food packaging and the promotion of sustainable and healthy consumption. The ambition goes beyond EU borders, striving to promote international standards in third countries. In this respect, offering tailored solutions and guidance to SMEs without creating an additional administrative burden will be of great importance (not only in the agro-food industry, but also in the retail and hospitality sectors).

CSR uptake amongst SMEs active in the sector by CSR areas does not substantially differ from the overall survey average (see [Chapter 2](#) and Figure 30 below). Likewise, the level of engagement with respect to these practices also follows the same pattern – SMEs with

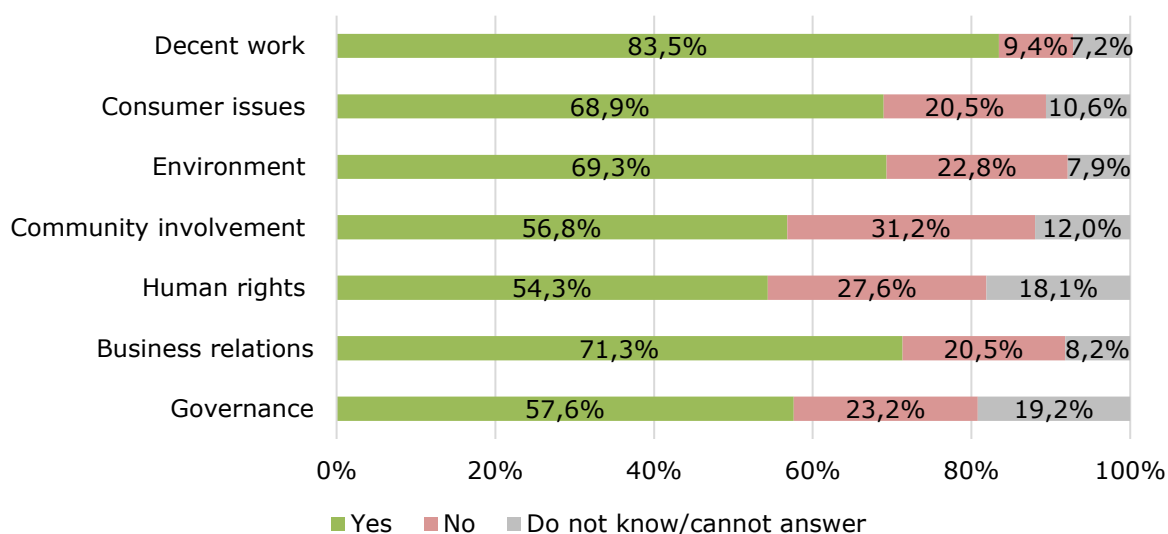
⁸⁴ More information available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Farmers_and_the_agricultural_labour_force_-_statistics

⁸⁵ European Commission. The CAP and climate change. Available at: https://ec.europa.eu/info/food-farming-fisheries/sustainability/environmental-sustainability/climate-change_en

⁸⁶ European Commission (2020). Farm to Fork Strategy. Available at: https://ec.europa.eu/food/system/files/2020-05/f2f_action-plan_2020_strategy-info_en.pdf

a sustainability strategy tend to cover activities in detail, while SMEs without a sustainability strategy retain a more informal approach (see [section 2.2.](#)).

Figure 32. Engagement in CSR amongst agro-food SMEs, by CSR area.



Note: Total (N)=139, except Consumer issues, total (N)=132, Human rights and Environment, total (N)=127 for each area, Community involvement, and Governance, total (N)=125 for each area Business relations, total (N)=122.

Source: SME survey (2021).

However, SMEs within the agro-food sector are more likely to conduct activities related to the **prevention of water pollution**⁸⁷, use of **sustainable packaging**⁸⁸ as well as **protection of biodiversity**, natural habitats and wildlife, fight against deforestation⁸⁹. In light of the industry's context, results suggest that the more responsible and sustainability-inclined SMEs are aware of some of the key issues within the agro-food industry and are actively looking for ways to address them. For instance, consideration of the environmental aspect in product development, protection of biodiversity and animal rights were quite common among those with a strategic CSR/sustainability approach. However, these practices were much rarer among the rest of the SMEs in the sector, implying stark contrasts within the sector.

While the integration and equal treatment of disadvantaged groups, such as women, migrants or seasonal workers, also remains a relevant issue within the agro-food industry (OECD/FAO, 2016), SMEs were **less likely to conduct activities against discrimination and harassment** than the survey average (47%, as opposed to the survey average of 58%).

Box 11. Origin Green: the pioneering national support measure for SMEs.

Origin Green is a national programme aiming to make the food and drink industry more sustainable and competitive by helping Irish businesses from farming, food and drink manufacturing, retail and foodservice (catering) sectors set sustainability targets,

⁸⁷ 71% of SMEs within the industry that conduct activities related to the environment indicated this, as opposed to the survey average of 48.3%

⁸⁸ 59% of SMEs within the industry that conduct activities related to the environment indicated this, as opposed to the survey average of 48.5%

⁸⁹ 36% of SMEs within the industry that conduct activities related to the environment indicated this, as opposed to the survey average of 24.3%

implement CSR/ sustainability practices and maintain them. Origin Green conducts extensive audits in 53,000 farms that are made up of farm-level sustainability surveys, preparation of reports that provide feedback of businesses environmental performance in practices associated with six feedback points: 1) General Farm Performance, 2) Carbon footprint, 3) Greenhouse gasses, 4) Nutrient management, 5) Grassland management, 6) Farm health and safety. Audits recur every 18 months to give businesses a point of measuring their progress. Besides that, participating businesses provide a self-assessment report.

The programme equips businesses with CSR knowledge, allows them to benchmark their performance and progress with peers, makes it easier for them to improve gaps in relation to environmental sustainability practices, creates a network of participating companies where they can share best practices, and helps businesses plan their future practices according to regularly updated and evidence-based advice from Origin Green. Origin Green was launched by Bord Bia in 2012 and a committee made up of representatives from Bord Bia, Farm Organisations, Teagasc, the Food Safety Authority of Ireland (FSAI), the Department of Agriculture, Food and the Marine (DAFM) and other technical experts as well as consulting company Mabett contribute to the development of this programme.

Source: <https://www.origingreen.ie/>

Finally, SMEs within the agro-food industry are just as unlikely to publicly disclose information as any average SME. However, in case they choose to do so, **they are significantly more likely to obtain labels or certificates** (52.4%, as opposed to the survey average of 36.3%) or provide information on various company communication channels (61.9%, as opposed to the survey average of 44%). Indeed, the agro-food sector boasts an exceptionally large variety of labels and certificates. These labels and certificates range from globally established and very well-known schemes, such as the Rainforest Alliance (UTZ)⁹⁰, Fairtrade⁹¹ or RSPO⁹², to EU schemes, such as the EU Quality labels⁹³ or the EU organic farming certificate⁹⁴, to national and sometimes very niche labels, such as ICEA certifica in Italy. According to stakeholders, some retailers offer their own labels which are often not trustworthy. A more harmonised framework and reinforcement of credibility is needed in this respect to set a level playing field.

In the survey, most SMEs (67.2%) indicated ethical motivation as a driving factor for CSR/sustainability. However, previous research shows that this is often not the case in the agriculture sector – for instance, in Poland organic farming is largely **stimulated by subsidies from the EU**, suggesting a pragmatic rather than ethical motivation (see Box 12). Meeting the requirements and expectations set by buyers is another significant driver (indicated by 62.9% of SMEs). Indeed, consumer attitudes are leaning towards more **sustainable consumption** (this is also encouraged on the EU and national levels) – for instance, Danish consumers are spending around 344 Euros on organic food per year⁹⁵. Some SMEs are responding to these trends by adapting sustainable business models, and this is visible through the widespread use of labels (see paragraph above). However, **price**

⁹⁰ More information available at: <https://www.rainforest-alliance.org/find-certified>

⁹¹ More information available at: <https://www.fairtrade.net/act/get-certified>

⁹² More information available at: <https://rspo.org/>

⁹³ More information available at: https://ec.europa.eu/info/food-farming-fisheries/food-safety-and-quality/certification/quality-labels/quality-schemes-explained_en

⁹⁴ More information available at: https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming/organics-glance_en

⁹⁵ Statista (2021). Organic food market: leading countries 2019, based on consumption per capita. <https://www.statista.com/statistics/263077/per-capita-revenue-of-organic-foods-worldwide-since-2007/>

remains the key factor for most consumers (esp. in Central and Eastern Europe). Therefore, despite the fact that consumer demand for sustainable products is growing, it is unlikely to be enough to change the majority of SMEs' practices in the short-term.

Box 12. Barriers to the development of organic farming in Poland.

Since the country's accession to the EU in 2004, Poland saw a rapid development of organic farming and, by 2013, had the third largest number of organic farms in the EU. During that period, organic farmers were financially supported under two agri-environmental programmes, as allocated by the European Agricultural Fund for Rural Development. A large group of new farmers came into existence, however, they were poorly linked to the organic food market and were mostly driven by financial subsidies. These new organic farm owners did not have the capacities to achieve high volumes of production and found it difficult to sell their products on local markets or through distribution channels. In fact, Polish consumers spend less than one tenth of what EU consumers spend on average on organic food. The instability of regulations and granting conditions added to the farmers' uncertainty. This led to a rapid decline of organic farming in recent years, as access to financial support did not outweigh economic risks. The remaining farmers are also driven by pragmatic rather than ethical reasons, as nearly three-quarters of them said they would discontinue organic production in the absence of support.

Source: Łuczka & Kalinowski, 2020.

According to stakeholders, increasing due diligence requirements and a strict monitoring of certifications might be the answer, yet it should be accompanied with **practical guidance for SMEs**. It would be especially hard for SMEs to trace back their supply chain to the level of raw materials, as they often reach out to commodities overseas. Therefore, sectoral-level partnerships are needed (including policymakers in EU trade) to come up with the best approach, which could then lead to SME-tailored guidance (see Box 13 below for an example).

Box 13. GISCO and FONAP: initiatives for more sustainability in the cocoa and palm oil sectors.

German Initiative on Sustainable Cocoa (GISCO) and **The Forum for Sustainable Palm Oil (FONAP)** are partnering platforms that aim to facilitate the exchange of ideas on making cocoa and palm oil production more environmentally and socially responsible. These two resources are especially important for the agro-food sector, however their sourcing practices are known to be problematic from a CSR/sustainability perspective.

GISCO is a joint initiative by the German Federal Government, the German sweets and confectionery industry, the German retail grocery trade, and civil society. This multi-stakeholder initiative aims to improve the livelihood of cocoa farmers and their families as well as to increase the proportion of certified cocoa according to sustainability standards. To achieve these objectives, the members of GISCO closely liaise with the governments of cocoa producing countries. The platform also organizes international events for the members of its network, like seminars and conferences, as well as publishes informational materials on a variety of topics, like sustainability in supply chains, standards and certifications, workers' rights and empowerment. Furthermore, the platform provides access to a list of cocoa producing and importing countries. Finally, it publishes visual and interview material concerning the implementation of

CSR/sustainability practices in the cocoa industry and articles about challenges in the industry and legislative initiatives aimed at minimizing them.

FONAP was established in 2013 as an association of stakeholders and the German Ministry of Food and Agriculture (BMEL). FONAP seeks to improve oil certification systems to help German, Austrian and Swiss companies become more responsible with respect to palm oil trading. To achieve that, it provides information about palm oil and gives advice about different options for responsible oil trading and the creation of sustainable supply chains. Moreover, it has published a list of additional sources of information about the availability of certified palm oil, palm kernel oil and derivatives, and details of potential suppliers that are committed to CSR standards in their supply chains. Finally, it regularly runs training sessions and seminars for its members, and it can provide information on preparing for certification. In addition, SMEs have access to FONAP's guidelines on the procurement of certified palm oil.

Source: <https://www.kakaoforum.de/en/>, <https://www.forumpalmoel.org/en/welcome>

5.2. *Transport and logistics*

The transport and logistics sector is inherently problematic from an environmental point of view – the sector, by default of its activities, is responsible for a quarter of all EU CO₂ emissions⁹⁶, with 94% of European transport dependent on oil. Hence, reaching the ambitious objective of the EU Green Deal, namely, to reduce transport emissions by 90% by 2050, will require significant effort. The EU has put forward a comprehensive, yet extensive policy package for the sector under the **Sustainable and Smart Mobility Strategy**⁹⁷, which includes a total of 82 actions⁹⁸. Amongst others, the strategy contains an agenda for a low-emission mobility system that is expected to enable SMEs within the transport sector to make savings from reduced fuel consumption, a new EU label for tyres that should promote fuel-efficient tyres, and an action plan for batteries that ought to enable a transition towards clean energy in the automotive sector. However, the sector is slow to transform, especially as price-based competition amongst companies is high and sustainable solutions are perceived as costly as well as overly reliant on infrastructure (e.g. see [Annex 4](#) on [Austria](#)). At the same time, challenges within the social domain are also prevalent – even though EU regulations on working conditions within the sector are extensive⁹⁹, operators in some countries engage in a range of illicit practices that range from disrespecting employees' right to rest to undeclared employment to exploitation of migrant workers. Finally, the sector employs approx. 5% of the European workforce, of which only 22% are women. Experts believe that efforts to make the sector more attractive for women could result in better working conditions within the sector overall and should therefore be encouraged¹⁰⁰. Within this context, SMEs in the transport and logistics sector can expect to be nudged towards higher CSR/sustainability uptake.

However, when compared to other sectors, **SMEs operating within the transport and logistics sector showcase the lowest CSR/sustainability uptake**. The prevalence of activities under all CSR areas, with the exception of human rights, is consistently lower

⁹⁶ More information available at: https://ec.europa.eu/transport/themes/sustainable_en

⁹⁷ More information available at: https://eur-lex.europa.eu/resource.html?uri=cellar:5e601657-3b06-11eb-b27b-01aa75ed71a1.0001.02/DOC_1&format=PDF

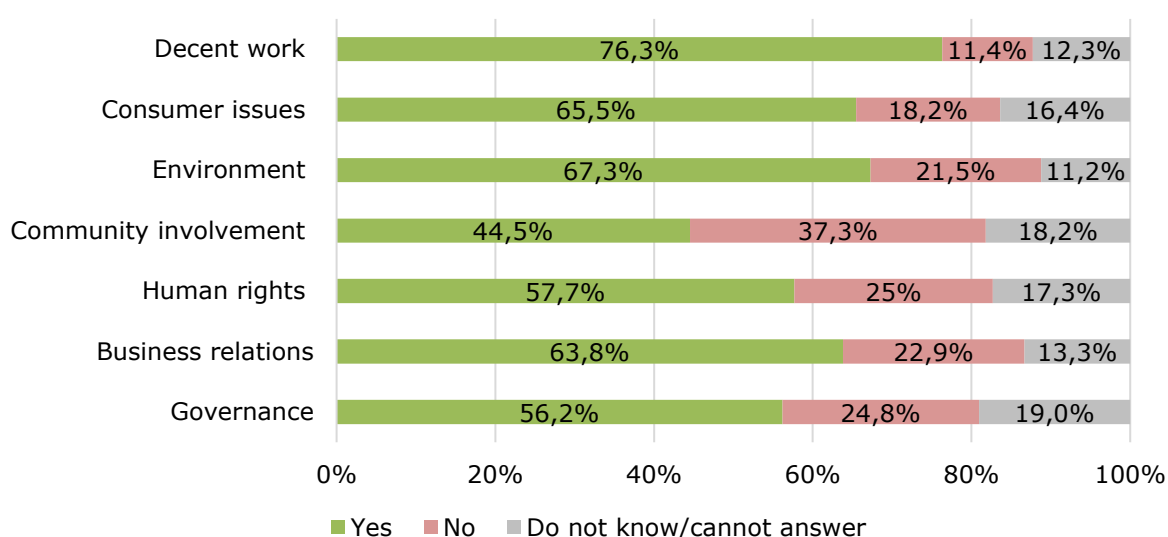
⁹⁸ More information available at: https://eur-lex.europa.eu/resource.html?uri=cellar:5e601657-3b06-11eb-b27b-01aa75ed71a1.0001.02/DOC_2&format=PDF

⁹⁹ More information available at: https://ec.europa.eu/transport/modes/road/social-provisions_en

¹⁰⁰ More information available at: <https://op.europa.eu/en/publication-detail/-/publication/6f833428-54f9-11e9-a8ed-01aa75ed71a1>

than the overall survey average (see Figure 31 below and Figure 10 in [Chapter 2](#)). Furthermore, unlike SMEs in other sectors, where some CSR areas received little attention, but others were highly prioritised, no clear priority areas emerged for SMEs within the transport and logistics industry. Bearing in mind the sector's specifics, additional efforts in the areas of decent work and environment could have been expected, yet that did not prove to be the case. Due to the relatively limited uptake of CSR/sustainability activities, SMEs within the transport and logistics industry **are also the least likely to disclose information about their CSR/sustainability practices**¹⁰¹. SMEs that chose to do so mostly limited themselves to the usual means such as social media or other ordinary channels¹⁰². Overall, SMEs within the sector remain **doubtful about the benefit of CSR/sustainability practices for their business and are mostly motivated by meeting regulatory requirements**¹⁰³. 16% of survey respondents within this area said the practices were not beneficial at all or not beneficial, while 15% said they did not know. This was the most negative evaluation when compared to other sectors. Accordingly, sustainable business models or strategic commitments to CSR/sustainability are rare amongst sector SMEs.

Figure 33. Engagement in CSR amongst transport and logistics SMEs, by CSR area.



Note: Total (N)=114, except Consumer issues and Community involvement, total (N)=110 for each area, Environment, total (N)=107, Human rights, total (N)=104, Business relations and Governance, total (N)=105 for each area.

Source: SME survey (2021).

Despite a moderate uptake of CSR/sustainability activities, some SMEs in the sector were slightly more likely to place efforts with respect to **prevention of air pollution**. In this case, slightly more than half of the SMEs (57%) that conducted activities to benefit the

¹⁰¹ Only 28.1% of SMEs within the sector said they share information, as opposed to the survey average of 37.6%.

¹⁰² Some SMEs also conduct formal reporting in accordance to international reporting standards. However, the sample of SMEs in the sector that publishes information was very small, namely 25 SMEs. 11 of those SMEs said they conduct formal reporting in accordance to international reporting standards. This is a relatively large share from such a small sample, but it can in no way be considered representative.

¹⁰³ Meeting the requirements set by law/regulations was much more important to SMEs within this sector than the survey average (58.1%, when compared to the average of 49.5%) and other factors, such as ethical motivation or expectations set by buyers, were not more significant (58.1% for both).

environment were said to place additional efforts to prevent air pollution¹⁰⁴. For example, companies were said to conduct trainings or workshops for their employees to ensure the optimised use of vehicles and to reduce CO2 emissions (economical driving). One company indicated using the Euro 6 emission standards, another mentioned environment-friendly trucks. Others were said to use intermodal transport models, which are less polluting. And yet, while prevention of air pollution is the most problematic aspect for the industry from a CSR/sustainability perspective, its solution **largely depends on technology development and diffusion** (Transport & Environment, 2019). Investments continue to be made to foster transport R&D on both the EU- and national-levels¹⁰⁵ as well as by manufacturing companies themselves, but it will take time until developments are picked up by SMEs within the sector.

SMEs within the sector are also a little more likely to prefer **sustainable business services**, such as warehousing, distribution and/or customer service, than most SMEs (65%, as opposed to the survey average 56%). This stems from the sector's specifics, whereby companies work with such services more commonly than other sectors. However, **the overall low preference for sustainable business services from other industries¹⁰⁶ hinders CSR/sustainability uptake in the transport and logistics sector**. Customer demand remains insufficient to create the necessary incentive for higher CSR/sustainability uptake already prevalent in other sectors such as the textile and garment or the agro-food industries. At the same time, the lack of customer demand is strongly tied to a lack of availability, information, and control when willing to opt for more sustainable transportation. Companies within other sectors struggle to find appropriate transportation solutions they can trust. In this respect, the transport and logistics sector remains problematic when attempting to form a virtuous sustainability cycle.

According to stakeholders, decarbonisation of the transport sector is only achievable in conjunction with a broader climate action framework. In practice, this means more effective policies that push towards the uptake of zero-emission technologies, such as performance standards, fuel tax rates, or similar (Transport & Environment, 2019). Furthermore, battery-electric and hydrogen technologies should be prioritised. Such regulatory incentives, while highly unpopular, might be an effective tool to nudge all companies, including SMEs within the sector, to become more environmentally responsible (e.g. see [Annex 4](#) on [Austria](#)). In addition, given that meeting regulatory requirements is one of the key motivating factors for SMEs in the sector, it will remain a strong incentive, irrespective of whether any other support becomes available. At the same time, **SMEs within the sector do not yet perceive the case for CSR/sustainability, and this could be something to address with appropriate policy support measures**. The ongoing investments into other modes of transport such as trains (e.g. the Shift2Rail programme¹⁰⁷), can create an incentive for the sector to adapt. And yet, while high competitiveness and price sensitivity within the sector are relevant factors that definitely play a role in lower CSR/sustainability uptake, a combination of support measures could be valuable. For example, dissemination of relevant good practice examples, free consulting services, and networking opportunities with potential customers or suppliers were said to be attractive options by survey participants. However, rigorous enforcement of already existent regulatory requirements remains relevant and companies within the

¹⁰⁴ As opposed to the survey average of 48.3%. At the same time, calculated against all companies in the sector that participated in the survey, this amounts to a mere 37%, which is only slightly above the survey average of 33%.

¹⁰⁵ For example, more extensive information on the implementation of the EU's Transport Research and Innovation agenda can be explored here: <https://trimis.ec.europa.eu/>

¹⁰⁶ Only 32% of all SMEs prefer sustainable business services.

¹⁰⁷ More information available at: <https://shift2rail.org/>

sector need to be made aware that illicit practices will not be tolerated (e.g. see [Lithuania](#) in [Annex 4](#)).

5.3. Retail trade

Retail trade, similar to the agro-food industry, is dominated by small and often family-owned enterprises. Small and medium sized retailers constitute 9% of companies within the industry, while micro-enterprises, employing less than 10 persons, make up 91% (approx. 3.57 million enterprises in total). Put together, SMEs employ 70% of the sector's workforce, roughly equivalent to 20 million people¹⁰⁸. Retailers occupy a unique role within the supply chain as intermediaries between product suppliers and consumers. This, together with size, are the two key factors that determine how SMEs within the sector tend to approach CSR/sustainability. Retailers are eager to respond to increasing consumer demand for sustainable products, yet they have limited capacity to ensure that their produce is made in a socially and environmentally responsible manner. Furthermore, given the discrepancy between consumer claims and their behaviour (see [section 4.3.](#)), **SMEs struggle to maintain a balance between sourcing and selling sustainable products and simply keeping business going by offering their products at a low price.** Survey results have shown that only 24% of all SMEs within the retail sector chose to purchase sustainable products¹⁰⁹.

The results of the SME survey closely follow these trends. **Consumer satisfaction** is crucial to business success and, as a result, SMEs place substantial efforts in this area (see Figure 32 below). Consumer health and safety as well as their privacy and data security were said to be especially important¹¹⁰. Likewise, given the role that small retailers play in their local communities, they were **a little more involved in community-oriented activities** than the survey average. Such activities often entail support to and participation in local initiatives (e.g. community events)¹¹¹ or responsible sourcing from local suppliers¹¹². However, sourcing from local suppliers does not always guarantee that products are sustainable from an environmental point of view (see [section 4.6.](#) and [Annex 4](#) on [Croatia](#)). Due to a retailer's position in the supply chain, responsible business relations with suppliers ought to be a priority for most. However, SMEs within the sector are less likely to conduct activities in this area when compared to other SMEs. This is due to the size of enterprises within the sector – **micro-enterprises are unlikely to conduct activities in this area and are especially unlikely to conduct supply chain due diligence**¹¹³. Likewise, less than half of micro-enterprises conduct activities to benefit human rights¹¹⁴. Retailers are no exception and indicated limited involvement for activities in this area. According to stakeholders, **companies within the sector tend to rely on information provided by manufacturers and producers** and, as a result, are dependent on the trustworthiness of their claims.

¹⁰⁸ More information available at: <https://www.eurocommerce.eu/retail-and-wholesale-in-europe/facts-and-figures.aspx>

¹⁰⁹ This is lower than the survey average of 26%.

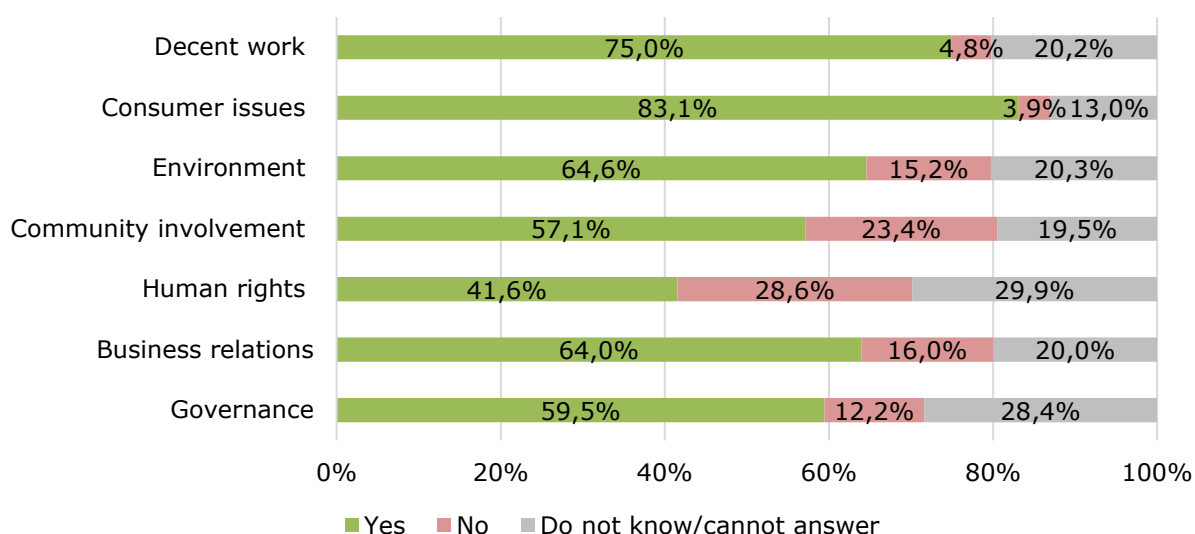
¹¹⁰ 71% and 79% of SMEs that conducted activities for consumer benefit said they engaged in these activities respectively.

¹¹¹ 76% of SMEs that conducted activities in this area were said to support programmes or initiatives in areas such as education, culture, health or the environment, as opposed to the survey average of 66.3%.

¹¹² 74% of SMEs that conducted activities in this area were said to support the economic development of local communities and especially via the purchase of local products, as opposed to the survey average of 66.6%.

¹¹³ 42% of micro-enterprises that conducted any activities within the area of responsible business relations said they engage in supply chain due diligence and only 23.8% from all micro-enterprises said that they did.

¹¹⁴ 48.7% of micro-enterprises were said to conduct activities in the area of human rights.

Figure 34. Engagement in CSR amongst retail trade SMEs, by CSR area.

Note: Total (N)=84, except Community involvement, total (N)=77, Human rights, total (N)=77, Environment, total (N)=79, Business relations, total (N)=75, Governance, total (N)=74, Consumer issues, total (N)=77.

Source: SME survey (2021).

It should be noted that SMEs within retail are also more likely to conduct activities with respect to **sustainable packaging** and **sustainable business services**. The latter is especially prominent amongst retailers that have a CSR/sustainability strategy. Retailers with a serious commitment to CSR/sustainability are also more likely to promote sustainable consumption by providing information about their products and sell products that consider the environmental aspect in product development¹¹⁵. These companies were also a little more likely to conduct supply chain due diligence. However, overall, such companies within the industry were not as common as in other sectors – retailers were amongst the least likely to have a CSR/sustainability strategy (see Figure 16 is [section 3.1.1.](#)).

However, ensuring decent working conditions in the sector remains somewhat problematic. While three quarters of SMEs said they conducted activities within this area (see Figure 32 above), efforts to provide job security and legal employment¹¹⁶, ensure decent working conditions and social protection¹¹⁷, as well as engage in social dialogue¹¹⁸ were all said to be much less prevalent in the sector than the survey average. The sector is also amongst those more likely to take part in the informal economy (see section 4.1.). As a result, ensuring compliance with labour law remains relevant.

SMEs in the sector are unlikely to publicly disclose information on their business activities¹¹⁹, more so since their capacities in this area are quite limited. That is to say, unless SMEs themselves engage in manufacturing activities, specifically request such

¹¹⁵ 50% of SMEs in the sector with a CSR/sustainability strategy that conduct activities with respect to consumer issues said they promoted sustainable consumption (as opposed to the survey average of 37%). Likewise, 48% of SMEs in the sector with a CSR/sustainability strategy that conduct activities to benefit the environment said they considered the environmental aspect in product development (as opposed to the survey average of 38.7%).

¹¹⁶ 68% of SMEs that conducted activities in the area of decent work selected this option as opposed to the survey average of 77%.

¹¹⁷ 63% of SMEs that conducted activities in the area of decent work selected this option as opposed to the survey average of 75%.

¹¹⁸ 32% of SMEs that conducted activities in the area of decent work selected this option as opposed to the survey average of 44%.

¹¹⁹ 35.6% of SMEs within the sector said they disclosed information as opposed to the survey average of 37.6%.

information from suppliers, or trade only in sustainable products, they have no control over and no knowledge of the production process.

Policy support seems rather limited for SMEs within retail, but this is mainly due to their position in the supply chain – policy support tends to address more upstream activities that entail resource extraction or manufacturing. Accordingly, SMEs within the sector were more likely to claim that a **lack of awareness on available support programmes was a significant or even very significant barrier to engage in CSR/sustainability activities**¹²⁰. Given that retailers operate as intermediaries within supply chains, various partnership approaches and alliances that help to increase leverage and exercise due diligence vis-à-vis suppliers could be interesting and almost half of SMEs (49%) in the sector said they would benefit from networking opportunities. However, more importantly, small retailers claim that a better business environment where sustainability is prioritised by suppliers, investors, or customers would be more beneficial¹²¹. This clearly refers to consumer demand, which seems to be driven by sustainability concerns, yet does not necessarily translate into actual purchasing decisions. At the same time, consumers are only able to make responsible choices if they are provided with all the relevant information in a clear manner (e.g. see the Bewusst Kaufen initiative, Box 14 below). Stakeholders emphasise that retailers, suppliers, and manufacturers or producers **are well aware on who is responsible for providing such information, where, and to what extent**. Retailers are at the end of the supply chain and while they can have leverage in determining which products are sold to consumers, they will find it difficult to oversee the complex supply chains of the multitude of products they sell. For this, stakeholders believe, small retailers will need sector-specific guidance and tools.

Box 14. Bewusst Kaufen: an initiative that teaches about sustainable consumption.

Bewusst Kaufen is an initiative that promotes sustainable consumption in food and non-food industries (clothing and hygiene, electronics, stationary supplies, etc.) and education on sustainable development, responsible business growth and climate action. Bewusst Kaufen was initiated by the Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology of Austria. The initiative offers consumers a comprehensive information platform and showcases environment-friendly courses of action. For example, it provides consumers with information on how to keep products in the fridge for an optimal length of time and therefore, there is less food waste. The portal also includes The Label-Kompass online database that provides descriptions of over 250 quality labels used in the Austrian retail sector. Finally, the Bewusst Kaufen initiative publishes articles about energy and water use, packaging, minimalism, green mobility, the sharing economy and other topics related to the environment.

Source: <https://www.bewusstkaufen.at/uber-bewusst-kaufen/>

¹²⁰ 20% of SMEs in the sector said this was a very significant, and 21% said this was a significant, barrier to conduct activities, as opposed to the survey average of 16.4% and 24% respectively.

¹²¹ 54% of SMEs in the sector said this would be relevant, as opposed to the survey average of 44%.

5.4. Pharmaceuticals

The pharmaceutical industry in Europe is characterised by the strong presence of a few very large companies¹²². However, SMEs play a distinctive role within the industry's landscape as drivers of innovation. According to EFPIA and EMA, SMEs play a major role in the development of new medicines and especially in segments with lower market potential, such as infectious and rare diseases¹²³. As a result, SMEs within the sector commonly undertake extensive R&D as well as clinical and pre-clinical trials, but when it comes to manufacturing and bringing their product to the market, they tend to outsource these activities or cooperate with large companies. Furthermore, **the pharmaceutical industry is highly regulated** when compared to other industries, with strict provisions for all phases of drug development from clinical trials to manufacture, wholesale and the advertising of medicinal products¹²⁴. All these factors play a determining role on where they stand with respect to CSR/sustainability uptake. SMEs tend to mostly focus on offering good working conditions and opportunities for employee development, ensuring workplace diversity, engaging in collaborations with local higher education institutions, and maintaining transparency in all their business operations. The latter is perceived to be especially important because the risk associated with transgression is simply too high for SMEs. And while the **EU Pharmaceutical Strategy for Europe**¹²⁵ highlights the need to diversify supply chains, transition to more sustainable manufacturing methods, reduce waste, and especially prevent the residue of medicinal products from reaching water and soil, SMEs, by default of their activities in the industry, have little leverage over these issues. Unless their products are specifically designed with these issues in mind, SMEs do not have the capacity or the willingness to address them¹²⁶.

Survey results show that SMEs within the pharmaceutical industry are indeed most active within the areas of **human rights** and **responsible business relations** when compared to the survey average (see Figure 33 below and Figure 10 in [Chapter 2](#)). In fact, only SMEs within the textile and garment industry were more active with respect to the former. Of course, activities in areas such as decent work, consumer issues, or the environment remain prevalent overall, but this is largely in line with general trends. For SMEs within the industry, human rights really translates to practices **against discrimination and harassment, as well as diversity policies**¹²⁷. For example, multiple SMEs said they applied the Code of Conduct for Recruitment of Researchers¹²⁸. Others placed additional efforts in ensuring gender balance in their companies. Generally, the industry is said to have the highest share of female employment for all industrial sectors¹²⁹.

SMEs tend to place additional attention to responsible business relations once they enter a relationship with a contract manufacturing organisation (CMO). A trustworthy and credible CMO is a priority when it comes to the manufacture of pharmaceutical products

¹²² More information available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:Manufacture_of_pharmaceuticals_statistics_-_NACE_Rev._2#Structural_profile

¹²³ More information available at: <https://www.efpia.eu/about-medicines/development-of-medicines/smes-in-europe/>

¹²⁴ Complete EU legal framework for medicinal products for human use is accessible here: https://ec.europa.eu/health/documents/eudralex/vol-1_en#dir

¹²⁵ More information available at: https://ec.europa.eu/health/sites/default/files/human-use/docs/pharma-strategy_report_en.pdf

¹²⁶ 25% of all SMEs within the industry said they took into account the environmental aspect when designing their products.

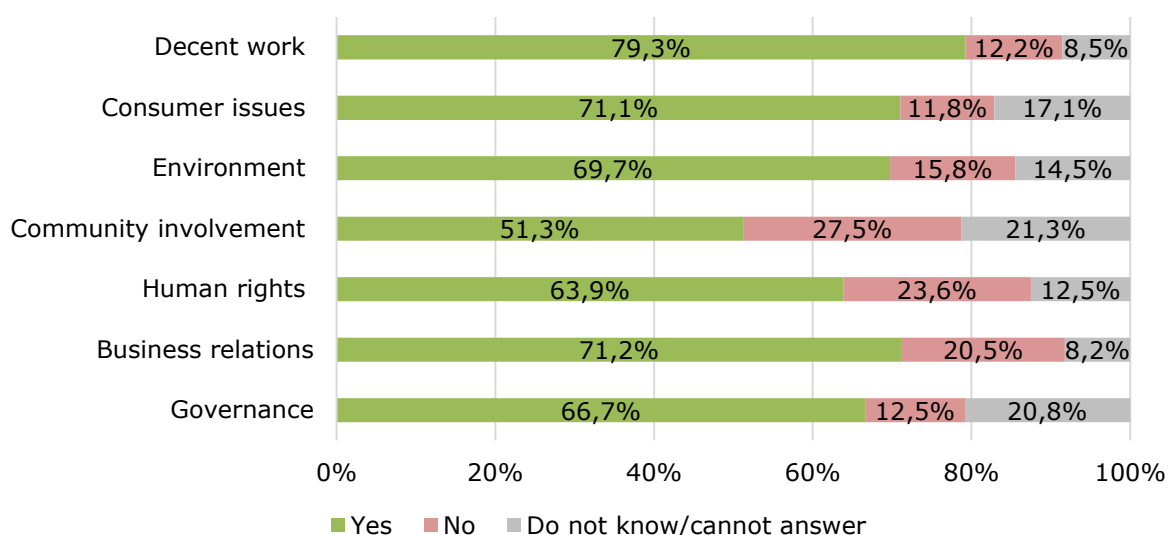
¹²⁷ 67% of SMEs within the industry that conducted activities in the area of human rights said they conducted activities against discrimination and harassment, as opposed to the survey average of 58.7%.

¹²⁸ More information available at: <https://euraxess.ec.europa.eu/jobs/charter/code>

¹²⁹ More information available at: <https://www.efpia.eu/media/413646/eu-industrial-and-pharmaceutical-strategy-an-opportunity-to-drive-europe-s-health-and-growth.pdf>

due to product safety. Companies might audit manufacturers to ensure that manufacturing takes place in accordance with all standards. CMOs tend to source materials themselves and SMEs are not necessarily directly involved in that part of the process. However, security concerns can arise due to the specific substances being sourced and, in these instances, SMEs would like to have more leverage, control, or at least some means of ensuring that manufacturers will meet all requirements.

Figure 35. Engagement in CSR amongst pharmaceutical SMEs, by CSR area.



Note: Total (N)=82, except Community involvement, total (N)=80, Human rights and Governance, total (N)=72 for each area, Business relations, total (N)=73, Consumer issues and Environment, total (N)=76 for each area. Source: SME survey (2021).

SMEs operating within the pharmaceutical industry tend to engage in various education¹³⁰ and mentorship activities¹³¹ more than average due to their R&D-intensive activities that require a qualified workforce. Likewise, given their need for transparency both in front of consumers and investors, SMEs place more emphasis on avoiding unethical business practices¹³² and having clear and transparent processes of decision-making in the company¹³³. To ensure that products meet all safety and quality standards, a fair share of companies have acquired a management system in accordance with the ISO or other standard¹³⁴. Finally, SMEs with a CSR/sustainability strategy were twice as likely to engage in the protection of animal rights as an average SME (42%, as opposed to the survey average of 20%).

Just like most SMEs, companies within the pharmaceutical industry are not very likely to publicly disclose information on their business activities (35.7% of SMEs indicated that they did). However, given their dependency on investors, they are more familiar with financial reporting standards, which they tend to pass down. In instances where several

¹³⁰ 74% of SMEs within the industry that conducted activities in the area of community involvement said they provided support to educational programmes, as opposed to the survey average of 66.3%.

¹³¹ 45% of SMEs within the industry that conducted activities in the area of community involvement said they conducted mentorship and knowledge-sharing activities, as opposed to the survey average of 34.2%.

¹³² 82% of SMEs within the industry that conducted activities in the area of governance said they placed efforts to ensure fair competition, as opposed to the survey average of 76.4%.

¹³³ 83% of SMEs within the industry that conducted activities in the area of governance said they placed efforts to ensure clear and transparent decision-making, as opposed to the survey average of 77.4%.

¹³⁴ 43% of SMEs within the industry that conducted activities in the area of governance said they had a management system in place, as opposed to the survey average of 27.7%.

investors provide SMEs with capital, they need to provide information in accordance to several different standards, which is extremely time-consuming on their part. Consequently, **companies in the sector are more likely to benefit from unified sustainability reporting standards as suggested by the CSRD** (see Chapter 6). However, improving image before potential investors was not indicated as an important driver to uptake CSR/sustainability practices because investors are only interested in the product, not its sustainability. Likewise, for exactly the same reasons, SMEs in the industry are less motivated by drivers common for other SMEs such as requirements and expectations set by buyers (only 40.3%, as opposed to survey average of 55.3%) and improving the image and reputation before customers or local communities (only 41.9% as opposed to survey average of 53.2%). Overall, the **business case for CSR/sustainability in the pharmaceutical industry seems rather limited**. Only companies within the transport and logistics (see section 5.2.), and the mining and quarrying (see section 5.6.) industries assigned less value to CSR/sustainability activities. Furthermore, SMEs in the sector lack the time and/or human resources as well as awareness on available support programmes to conduct more extensive activities. These two barriers, while significant to most sectors (see section 2.4.), are especially acute in the case of pharmaceutical companies. As a result, the level of uptake remains rather moderate.

5.5. Textile and garment industry

The textile and garment industry is one of the most internationalised sectors, with suppliers in different corners of the world and many production stages. The industry employs 1.5 million people across more than 160,000 companies in the EU, most of which are SMEs¹³⁵. The global race towards cheapest products has led to a **deterioration of social and environmental conditions**. 2013 saw a breaking point in the industry when the Raza Plaza building in Bangladesh, which housed five garment factories, collapsed and resulted in over 1,000 deaths and another 2,500 injured employees¹³⁶. Since then, the textile and garment industry has been under significant pressure to ensure appropriate environmental and social conditions in third countries. Furthermore, when it comes to manufacturing, it remains one of the most **resource-intensive** sectors. At the same time, it is estimated that **less than 1% of all textiles are recycled into new ones** (Ellen MacArthur Foundation, 2017), which makes textile waste a serious concern.

Transforming the textile and garment industry into a more socially responsible, circular economy model **requires system-level change**. Given that the textile sector is highly globalised, EU-level initiatives are necessary to set a level playing field. The EU already has put forward strict social and environmental, as well as various quality standards that apply to textile products. These are outlined in the Green Deal, the Sustainable Chemicals strategy, EU Trade strategy and other strategic frameworks. In 2021, further efforts were announced, namely the Sustainable products initiative and **the EU Strategy for sustainable textiles**¹³⁷. The latter aims to “boost the EU market for sustainable and circular textiles, including the market for textile reuse, address fast fashion and drive new business models”.

¹³⁵ More information available at: <https://euratex.eu/facts-and-key-figures/>

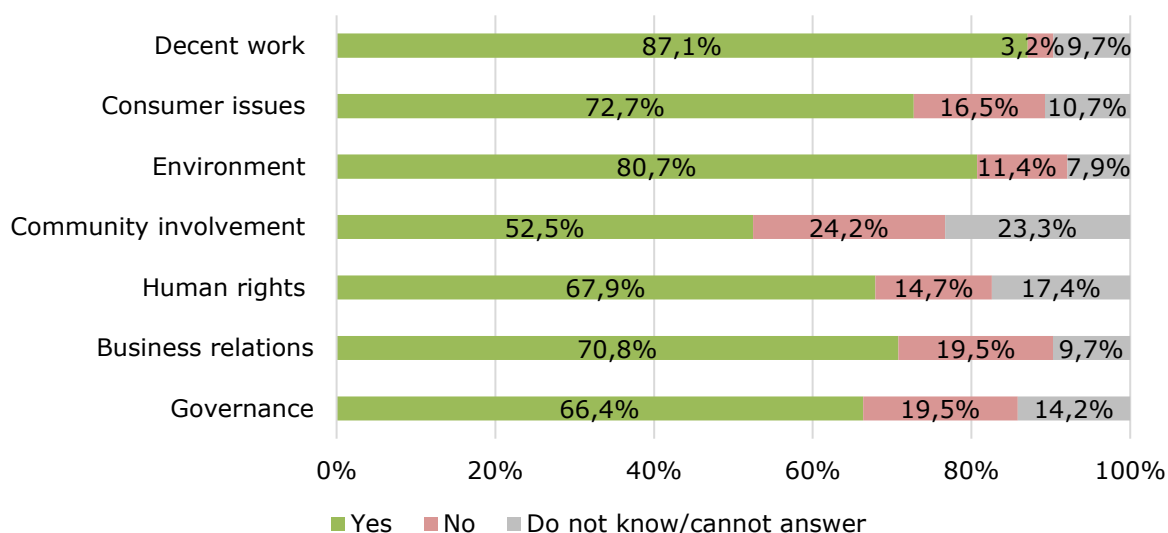
¹³⁶ More information available at: https://www.ilo.org/global/topics/geip/WCMS_614394/lang--en/index.htm

¹³⁷ More information available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12822-EU-strategy-for-sustainable-textiles_en

Due to these developments, SMEs are also increasingly required to address ethical and suitability concerns. The trend is already visible in these survey results:

- SMEs operating in the textile and garment industry reported a **higher-than-average engagement in all CSR areas**, except for community involvement.
- In the area of decent work, SMEs were **the least likely to offer opportunities for employee development**. However, upskilling of employees will play an increasingly important role in the sector due to automation.
- A large share of SMEs reported being active in the area of **the environment**. The majority of them indicated sustainable packaging (70.0%), consideration of the environmental aspect in product development (64.4%), prevention of water pollution (64.4%) and sustainable procurement practices (61.1%).
- In comparison to other sectors, SMEs in the textile and garment industry **were the most likely to take human rights into account**. Many of these companies stated that they screen their suppliers for human rights abuses (65.7%) and have a human rights grievance mechanism (52.9%). A smaller share (45.7%) also said they included human rights clauses in company contracts.
- 70.8% of companies claimed to have **responsible business relations**. Among them, sustainable procurement practices (e.g. purchasing eco-certified products) were more prevalent than having a supply chain due diligence mechanism (indicated by 75.3% and 64.3% respectively). It appears that certifications provide an easier way for SMEs to decide on selecting supplier products, rather than evaluating the suppliers themselves.

Figure 36. Engagement in CSR amongst textile and garment SMEs, by CSR area.



Note: Total (N)=124, except Consumer issues, total (N)=121, Community involvement, total (N)=120, Human rights, total (N)=109, Environment, total (N)=114, Business relations and Governance, total (N)=113 for each area.

Source: SME survey (2021).

Furthermore, textile and garment companies were **the most likely to share information** about their CSR/sustainability practices when compared to other sectors¹³⁸. However, companies that chose to disclose information rarely did so by formal reporting (23.9%)

¹³⁸ 41.6% of SMEs within the industry said they publicly shared information, as opposed to the survey average of 37.6%.

and prefer other means. In particular, the use of **labels** or **certifications** was mentioned more frequently (56.5%) than the survey average (36.3%).

To SMEs within the industry, ethical motivation and meeting the requirements set by buyers were two major and equally important drivers (indicated by 76.9% of respondents). Unsurprisingly, this was followed by improving their image before customers and local communities (64.4%). It is also striking that Turkish companies within this sector gave particular importance to gaining access to new foreign markets (72.7%). Indeed, Turkish textile manufacturers have put in efforts to meet the requirements set by the EU¹³⁹, its largest trading partner. According to stakeholders, the pandemic has influenced EU companies to outsource their production closer to home, providing more opportunities for Turkish SMEs in the industry and encouraging them to further increase their social and environmental standards.

However, many barriers prevail. The textile and garment industry is very price-sensitive, often leaving SMEs with **insufficient resources to invest in innovations** and technology upgrades (e.g. tech enabling recycling). Currently, even relatively technologically advanced companies are being pressured to transfer some of their activities abroad. According to one SME owner, even when their company replaced most manual labour with machinery, labour-intensive tasks (such as sewing) have remained unavoidable. Therefore, these production processes continue to be outsourced to third countries where labour costs are low. Supply chain due diligence is crucial in this respect, however, SMEs face the **issue of traceability**, as they lack the knowledge and capacity to monitor their supply chains.

At the same time, to help companies become more energy efficient, the textile industry has put forward industry-specific tools and support (see Box 15 below).

Box 15. Energy Made-to-Measure: a library of tools to measure energy efficiency.

Energy Made-to-Measure is a platform that provides support to SMEs in the textile and clothing industry with increasing the energy efficiency of their operations. The platform was launched in 2016 by EURATEX, ENEA (European Network of Environmental Authorities), and partners from the EU-funded SESEC, ARTISAN and SET (Save Energy in Textile SMEs) initiatives. It contains information about the legal obligations and financial incentives at national and EU levels in relation to increasing energy efficiency, best practice examples and self-assessment software tools, namely SET (self-assessment tool specific for textile manufacturing processes) and ESS (self-assessment tools specific for clothing manufacturing). The former collects data about textile manufacturers' energy consumption and production, gives indexes based on this data, offers solutions, and allows them to benchmark their performance with other platform users, while the later helps textile manufacturers assess their energy efficiency policies. This way, the initiative helps businesses correct the gaps in their energy use and achieve more sustainable energy consumption.

Source: <https://em2m.eu/>

¹³⁹ More information available at: <https://www.globenewswire.com/news-release/2021/05/27/2237028/0/en/Turkish-Textile-Industry-Seeks-Global-Partnerships-in-Post-Covid-Era.html>

Currently, the industry is undergoing a paradigm change in the following two directions:

- **Recycling of textiles.** On average, a single consumer in the EU discards around 11kg of textiles per year and most of these textiles end up in landfills (ETC/WMGE, 2019). Hence, policymakers, research institutions, and businesses are collaborating on finding innovative solutions that would radically **improve recycling** by transforming clothing design, collection, and reprocessing. This puts SMEs and start-ups in a favourable position due to their flexibility and close proximity to their customers. For instance, a Finnish collaborative initiative between local researchers, start-ups, and clothing brands “**Relooping Fashion**” serves as an illustrative pilot project of cotton clothing recycling (Ellen MacArthur Foundation, 2017). Likewise, EURATEX, together with the European Apparel and Textile Confederation, has unveiled a large-scale initiative called **ReHubs**¹⁴⁰, targeted at industrial upcycling of textile waste. The initiative aims to establish 5 recycling hubs which would upcycle materials by collecting, sorting, processing, and recycling industrial, pre-consumer and post-consumer textile waste across the whole of Europe.
- **Supply chain due diligence.** Given that most textile production takes place outside of the EU, the risk of human rights abuses and environmental harm is significantly higher. However, supply chains in the textile industry are extremely complex and companies struggle to keep track of all the adverse impacts they may be contributing to. Finding the means to address these issues requires collaborative efforts. Digital tools, allowing an increase to the ability to trace the entire production chain, are being developed (e.g. eBIZ 4.0 by Euratex¹⁴¹), as well as partnering initiatives, such as the “Partnership for Sustainable Textiles” (see Box 40 in section 6.4.5.) in Germany (see [Annex 4](#)) or “amfori”¹⁴² on an international level.

While the overall level of CSR uptake by SMEs within the textile and garment industry is comparatively high, country-level disparities exist. SMEs across Western Europe, especially in Germany and Austria, tend to place more substantial efforts in safeguarding human rights and ensuring responsible business relations, including supply chain due diligence. Support provided by the German **Partnership for Sustainable Textiles**¹⁴³ or the **Fair Wear Foundation**¹⁴⁴ have clearly had a positive impact in promoting and facilitating activities in these areas. German and Austrian SMEs can access information that is specifically relevant for the industry, e.g. supply chain risks, potential infringement of labour rights, human rights grievance mechanisms etc.

5.6. Mining and quarrying

There were around 17,500 enterprises operating with mining and quarrying within the EU in 2017. Although 98.9% of these companies are SMEs, they employ less than a half of all the employees in the sector, because the industry is dominated by a limited number of international enterprise groups that operate across continents and often engage in the extraction of fossil fuels or other high-value raw materials. Meanwhile, the smaller-sized companies typically serve a local market in low-value, widely available products (for example, construction materials, such as stone, clay and sand, or other industrial materials that are later used in the manufacture of glass or concrete).¹⁴⁵

¹⁴⁰ More information available at: <https://euratex.eu/wp-content/uploads/Recycling-Hubs-FIN-LQ.pdf>

¹⁴¹ More information available at: <https://ebiz-tcf.eu/>

¹⁴² More information available at: <https://www.amfori.org/content/about-amfori>

¹⁴³ More information available at: <https://www.textilbuendnis.com/en/>

¹⁴⁴ More information available at: <https://www.fairwear.org/>

¹⁴⁵ More information available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Mining_and_quarrying_statistics_-_NACE_Rev._2#Structural_profile

Despite the fact that extraction of raw materials plays an important role in the economy and employment, public perception of the sector is rather negative. All forms of mining and quarrying unavoidably carry environmental and social costs, such as the following:

- **Disfigurement of the local landscape** and negative effects on wildlife and nature. Moreover, abandoned quarries sometimes become potential places for municipal and industrial waste disposal (Baczyńska et al., 2018).
- **Other environmental risks**, such as increased pollution, potential for ground subsidence, or changes to the local supply and quality of water. Mining by its nature consumes a lot of water resources, possibly resulting in water contamination with dangerous substances.
- **Occupational safety and health hazards**. In small-scale open-pit mining, such risks can occur due to landslides, major rock falls, explosions, machinery, as well as prolonged exposure to dust, vibration or noise (ILO, 2001).

In this respect, the EU has established the co-ordinated network of protected areas **Natura 2000** as well as two **EU directives on Habitats and on Birds** that determine the relationship between conservation and land use. In 2010, a guidance document¹⁴⁶ was published on behalf of the European Commission, aiming to promote cooperation between diverse stakeholders and offering tools to contribute positively to the environment, including mitigation measures and the rehabilitation of extraction sites. Despite the Commission's efforts to have a unified approach towards permitting procedures for exploration and extraction activities, each Member State has a different legal framework in place (Pellegrini, 2016). Even in countries that are considered good practice examples (e.g. the Finnish Network for Sustainable Mining, see Box 16 below), conflicts between the local community, civil society, and extraction companies still arise (see Box 17 below).

Box 16. The Sustainable Mining Network in Finland.

The Sustainable Mining Network seeks to define prerequisites for sustainable mining in Finland and strengthen the sector's self-regulation mechanisms. This network offers access to online courses about business responsibility in the mining industry, and two toolkits. The toolkit on mining provides guidelines on increasing stakeholder engagement, profiling of the company's operations, assessing risk in the mining environment, examples of corporate social investment projects that companies can participate in, and instructions on writing the company's CSR management plan. The second toolkit has a very similar structure but concerns mineral prospecting.

The network also publishes articles about various topics, like other countries' experiences in making their mining industry more sustainable. Moreover, the Sustainable Mining Network has published three guides and a series of 19 case studies about mining and exploration companies in Finland. It has drafted operating principles for the mineral exploration system. It provides a platform for sharing knowledge and experience and advocates the building and introduction of more environmentally responsible practices in businesses in Finland. The Innovation Fund SITRA initiated the creation of The Sustainable Mining Network, but it has been an independent entity since 2015.

Source: <https://www.kaivosvastuu.fi/>

¹⁴⁶ European Commission (2010). Guidance on undertaking new non-energy extractive activities in accordance with Natura 2000 requirements.

Furthermore, in 2008, the Commission launched a **Raw Materials Initiative** and an **Extractive Waste Directive**, aiming to ensure a fair and sustainable supply of raw materials both from global markets and within the EU. However, EU Member State policies continued to focus more on the utilisation of inert waste materials in construction, rather than on an innovative reprocessing of waste and supply of secondary raw materials through recycling. The recovery of critical and other raw materials from mining waste and landfills would greatly benefit the EU economy, as they are irreplaceable in modern technology (e.g. telephone batteries), solar panels, wind turbines, electric vehicles, etc. This creates a new opportunity for innovative SMEs and start-ups to offer solutions to a more resource-efficient, sustainable raw materials sector (European Commission, 2018a). However, small mining and quarrying companies often lack the resources and knowledge to adapt the technology that could lead to a more responsible, safer and circular business model¹⁴⁷.

Box 17. The challenge of establishing a responsible mining policy in Finland

In 2017, the Finnish mining and quarrying industry accounted for 0.3% of GDP and provided 3 thousand direct jobs. At the start of the decade major new mines were opened, and this led to intensified debates on mining activities. Critical voices with respect to the sustainability of mining have been increasingly, sharing their views on the negative impacts of mining activities.

In recent years, the Finnish mining industry saw multiple scandals related to mining companies ignoring the needs and concerns of local communities and nature conservation activists. For example, an Australian company chose to go through with a mining project in the Finnish Valkeakoski mine despite opposition and concerns that it might pollute water springs in the area. Multiple inquiries and complaints were filed to the police and even the Supreme Administrative Court about the project, as well as a protest took place calling to suspend operations in the area.

The company has been reported to claim that since Finnish authorities and the judiciary take a long time to make decisions and address appeals against the company, it will have time to continue its activities and drain the mine. This type of practice can be seen as business taking advantage of the Finnish legal system.

Finnish mining legislation seems to be favourable to mining companies and not efficient in protecting the environment. The **Finnish Mining Act** has been criticised for certain shortcomings. For example, in some cases it allows companies to exploit minerals without a permit and the environmental damage they cause is often not compensated. In addition, loopholes in the tax law result in companies exploiting them to evade taxes. The Government has been reluctant to address the problems of the mining industry, failing to see the need to amend Finnish mining legislation. Despite that, Finnish NGOs (e.g. The Finnish Association for Nature Conservation) has been pushing for reform of the mining legislation to ensure responsible mining practices.

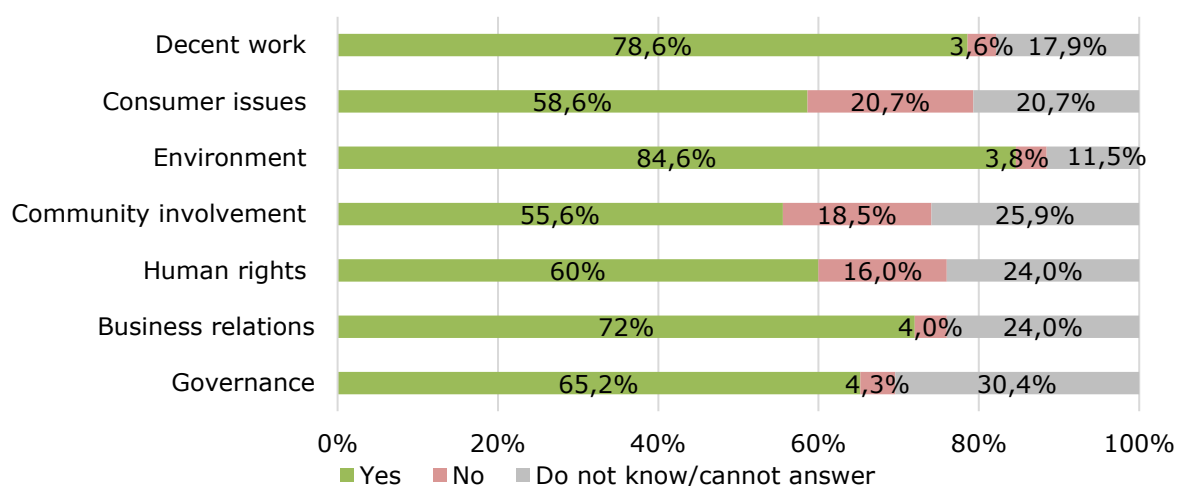
Sources: Finnwatch (2019). "The problems of the mining industry have been known for a long time", <https://finnwatch.org/fi/blogi/596-kaivoslain-ongelmat-olleet-tiedossa-jo-pitkaaen>; Ministry of Employment and the Economy (2013). Making Finland a leader in the sustainable extractive industry-action plan, <https://tem.fi/documents/1410877/3437254/Making+Finland+a+leader+in+the+sustainable+extractive+industry+04072013.pdf>; OECD (2017) Local Content Policies in Minerals-Exporting Countries. The case of Finland, <https://www.oecd.org/trade/topics/trade-in-raw-materials/documents/trade-raw-materials-finland-country-note.pdf>

¹⁴⁷ More information available at: <https://h2020-minethegap.eu/the-project/>

In the SME survey, mining and quarrying companies demonstrated **the lowest response rate** in comparison to other sectors (a total of 34 responses were collected). Although the small number of responses makes it particularly difficult to draw conclusions for the whole sector, the following trends should be taken into account:

- SMEs in this sector were the least likely to have a CSR/sustainability strategy (indicated by 23.5%) or a sustainable business model (14.7%) in comparison to other sectors.
- 84.6% of companies claimed to address **environmental concerns** in their activities (the highest result when compared to other sectors). Prevention of water pollution and the sustainable use of water were the most prevalent answers in this area (indicated by 86.4% and 63.6% of respondents). Several respondents mentioned giving detailed attention to these issues – analysing the potential risks to water, atmosphere, biodiversity, and including preventive and corrective measures. Regular checks by authorities were also mentioned as a contributing factor to continuous improvements.
- **Decent work practices** were indicated as an activity area by 78.6% of the respondents. Taking occupational safety and health risks into account, this is a somewhat moderate result in comparison to the survey average of 80.2%. However, some of the respondents described strict measures to ensure employee health and safety (regular trainings and drills, professional supervision, risk analysis to prevent landslides and rockslides, protective equipment, etc.).
- Overall, efforts towards the **local community** were indicated just by over a half of the respondents (55.6%). Among those that declared such efforts, respect for the local community's needs and values was indicated most frequently (73.3%). Interestingly, companies with a CSR/sustainability strategy were much more likely to engage in such practices. This finding suggests that having a strategic CSR approach can really increase stakeholder involvement.
- Aspects such as consumer issues, meeting the expectations set by buyers or public information sharing about CSR/sustainability activities did not appear very important to these SMEs. This may be explained by the fact that these companies mostly engage in business-to-business relations and, therefore, **marketing efforts towards end-consumers are not very relevant** to them.

Figure 37. Engagement in CSR amongst mining and quarrying SMEs, by CSR area.



Note: Total (N)=29, except Community involvement, total (N)=27, Human rights and Business relations, total (N)=25 for each area, Environment, total (N)=26, Governance, total (N)=23, Decent work, total (N)= 28.
Source: SME survey (2021).

For SMEs in the sector, ethical motivation (85.7%), alongside compliance with regulations were key motivating factors (61.9%). However, as noted previously, the level of strictness and enforcement of the regulations varies from country to country. Just as frequently (61.9%), SMEs selected the option of 'improving the image and reputation before consumers or local communities' as a motivating factor. Furthermore, in comparison to other sectors, these SMEs were the most concerned with reducing pressure from NGOs (23.8%). **Maintaining a good relationship with the local community** and civil society is, indeed, **an issue that is not always addressed** when giving permits to open new mining sites. The involvement of authorities or local governments as mediators should be considered in this regard, especially where a mutual dialogue between the extractive companies and local communities has not yet been established.

According to stakeholders, **having a label** for responsible mining companies could be beneficial, as it would increase transparency and positively differentiate them from competitors in third countries, which currently dominate the EU market. In this respect, the Initiative for Responsible Mining Assurance (IRMA) has already developed a certified standard for industrial scale mine sites, which could serve as the basis for such a label. Finally, the sector is increasingly affected by the need for **digitalisation and circular economy solutions**. Therefore, support for research and innovation activities, including for SMEs, is needed. In fact, SMEs can already benefit from tailored EU-level initiatives such as the EIT Raw Materials¹⁴⁸ or MINE.THE.GAP¹⁴⁹, a Horizon 2020 project which provides direct financial support through innovation vouchers.

5.7. Tourism and hospitality

The tourism and hospitality sector is one the most heavily affected by the COVID-19 pandemic, with lockdown restrictions threatening the survival of many small hotels, restaurants, and tour operators. Furthermore, the sector is largely dominated by SMEs that operate on low profit-margins and relatively small budgets for investment (esp. family-owned businesses). Therefore, continued short-term financial support is essential to the survival of the sector. Additionally, it will also need help to rebuild better and more sustainably. The pandemic has, in fact, shifted consumer preferences to greener options that bring them closer to nature¹⁵⁰. The post-pandemic future brings the opportunity to address some long-standing issues in the sector, namely:

- **Limiting negative environmental impacts** at tourist destinations, including the use of natural resources and waste production. Food waste is the most prominent type of hospitality waste¹⁵¹. Furthermore, during the pandemic, take-away and food delivery options were used more frequently, heightening the issue of single-use plastics in packaging. In regard to hotels, energy and water efficiency are also relevant.
- **Respect to the socio-cultural authenticity** of host communities and their inclusion. Overcrowding of tourists or so-called 'overtourism' can negatively impact the daily life of inhabitants and push out locals from spaces that become 'reserved' for tourists. On the other hand, certain regions are often disregarded as not attractive enough to become tourist destinations. For instance, the tourism model in Turkey is largely based on the 'sun and sea' package, creating regional disparities between the coastline and the inner parts of the country (Egresi, 2016).

¹⁴⁸ More information available at: <https://eitrawmaterials.eu/>

¹⁴⁹ More information available at: <https://h2020-minethegap.eu/>

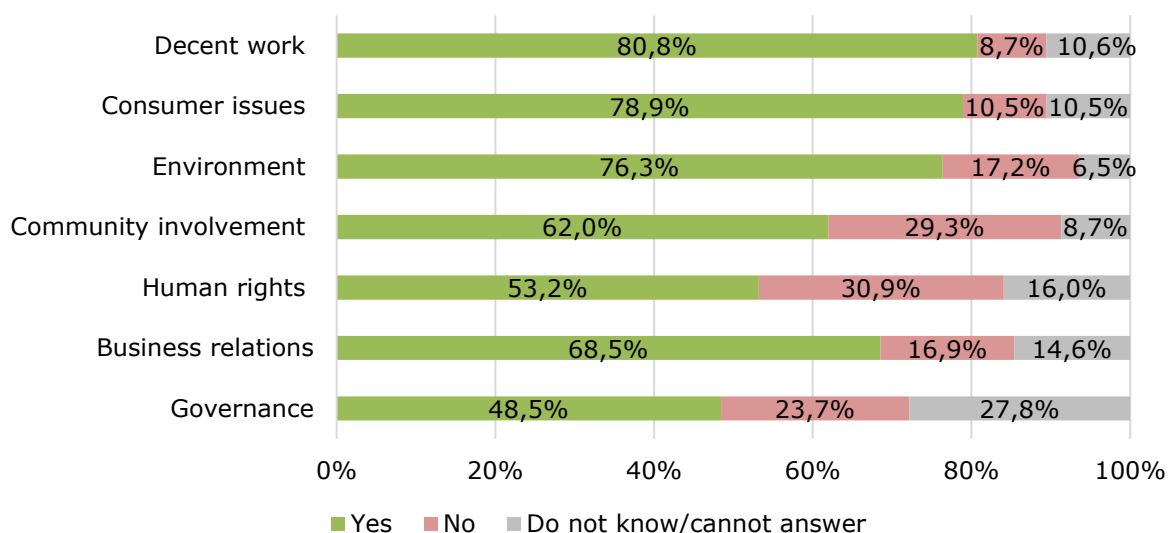
¹⁵⁰ More information available at: <https://digital-strategy.ec.europa.eu/en/news/european-commission-partners-tourism-industry-and-leading-european-businesses-boost-patronage>

¹⁵¹ More information available at: <https://www.hospitalitynet.org/news/4095679.html>

- **Accessibility** of tourism services for seniors, people with disabilities, and travellers with children. Although European countries have legislative frameworks that require making premises of public spaces accessible, this is often not ensured by businesses (e.g. hotels and restaurants) as it is seen as an unnecessary and costly investment (see case study on “Sano Touring” in the Good Practice Document).
- **Employment and working conditions.** The shadow economy and informal employment are prevalent issues in the sector, while seasonality also affects the job security and stability of many low-skilled workers.

In the SME survey, companies operating in the tourism and hospitality sector were likely to follow the general trends of the survey in terms of CSR/sustainability priority areas. However, certain aspects stand out as more important:

- The level of engagement in **decent work** practices was very similar to the general survey results, except for the fact that less SMEs mentioned participating in social dialogue (34.1% in comparison to the survey average of 52.4%). Indeed, the sector is characterised by seasonal, temporary work, making it difficult for workers to seek representation.
- Activities to ensure **consumer satisfaction and benefit** were indicated by 78.9% of SMEs, as opposed to the survey average of 71.7%. This is unsurprising, given that SMEs in this sector deliver consumer-facing services, similarly as in retail. Within this area, ensuring consumer health and safety as well as promotion of sustainable consumption (e.g. recycling) were stressed more frequently than in other sectors. While the first aspect is surely a result of the pandemic, the latter one shows increased concern in consumption patterns.
- SMEs operating in this sector also reported higher-than-average engagement in terms of **the environment**. Apart from recycling, companies mentioned the efficient use of energy and water resources, sustainable packaging, and purchasing practices more often than the survey average. Nevertheless, only less than half of the companies engaged in these activities, suggesting a need for further improvement.
- Naturally, SMEs in this sector were more inclined towards **community involvement** than the survey average. Among the 62.0% of companies that did claim to be active in this area, the following practices were frequently mentioned: purchasing of local products (78.6%); support for community initiatives (69.6%); respect for their needs and values, e.g. by protecting culturally valued sites (57.1%). However, one would expect that such activities would be at the core of the business model in the tourism and hospitality sector. Therefore, the rather moderate level of engagement suggests that a significant share of SMEs are somewhat detached from their local communities.

Figure 38. Engagement in CSR amongst tourism and hospitality SMEs, by CSR area.

Note: Total (N)=104, except Consumer issues, total (N)=95, Environment, total (N)=93, Community involvement, total (N)=92, Human rights, total (N)=94, Business relations, total (N)=89, Governance, total (N)=97.

Source: SME survey (2021).

41.6% of SMEs operating in the tourism and hospitality sector claimed to **share information** on their CSR/sustainability practices, yet only 4.8% did it through formal reporting. Most commonly, such information was shared through social media channels (78.6%). Although the use of labels was not a popular option among survey respondents, stakeholders reported that various labels, including the **EU Ecolabel for Tourist Accommodation Services**, are quite popular. The label's criteria focus on environmental hotspots such as the over-consumption of water and energy, waste management and the use of toxic substances¹⁵².

Alongside ethical motivation (indicated by 72.2%), SMEs placed particular importance on **improving image and reputation before customers and local communities** (63.3%). However, it is important to ensure that the naturally understandable attention to customers does not come at the expense of local communities and the environment.

The 2007 Commission Communication's **Agenda for sustainable and competitive European tourism**, seeks to ensure that balance. Furthermore, there were other more recent calls to action in terms of **food-waste** (EU Farm-to-Fork strategy and the SDG 12, calling to ensure sustainable consumption and production patterns); **accessible tourism**¹⁵³ and **low season tourism**¹⁵⁴. Most recently, the European Parliament called for a new European strategy to make tourism cleaner, safer, and more sustainable, which would include the establishment of a new EU agency for tourism.

According to stakeholders, the sector operates on low profit margins, especially after the economic crisis. Therefore, **financial support** (e.g. subsidies to install accessibility infrastructures, energy saving, or waste management technologies) is a crucial aspect. Moreover, R&D activities should be encouraged – for instance, if the use of plastics in food containers is to be banned, restaurants should be supported in **finding affordable**

¹⁵² Source: https://ec.europa.eu/environment/ecolabel/documents/tourist_accommodation_factsheet.pdf

¹⁵³ More information available at: https://ec.europa.eu/growth/sectors/tourism/offer/accessible_en

¹⁵⁴ More information available at: https://ec.europa.eu/growth/sectors/tourism/offer/seniors-youth_en

alternative solutions to replace them. **Digitalisation** of the sector is also increasingly important, e.g. app development to reduce direct contact in services, as well as digital tools that allow one to track and manage tourism flows in order to avoid overtourism in certain locations. Lastly, **raising consumer awareness** is crucial to make consumers willing to pay a higher price for more sustainable services, as well as to encourage them to try out off-the-beaten-path experiences. In some EU countries, for example Croatia (see Box 18 below), seasonal tourism results in largely unsustainable practices that are harmful to the environment and local communities.

Box 18. Tourism and hospitality sector in Croatia.

The tourism and hospitality sector is one of the most significant sectors for the Croatian economy. In 2018, it was reported that international tourists' expenditure in Croatia amounted to almost 20% of GDP, which was the largest share in the EU (Orsini and Ostojic, 2018). However, the business model followed by the industry is largely seasonal (high peaks in summer months), which means that local businesses operating within the sector find it challenging to sustain their operations all-year-round. According to a Croatian business representative, some entities within the sector are entirely profit-driven and are willing to increase revenue at any cost during the high season without, however, making any significant investments. Such entities are mostly made up of private house owners and sometimes various short stay accommodation venues. This translates to a sizeable contribution to negative environmental, and to a lesser extent, social impact. For example, the crowding of tourists during the summer months negatively impacts the environment, especially in the areas of waste management and energy consumption (ibid.). At the same time, it must be said that other entities are highly motivated to improve their services and are increasingly putting efforts into the sustainability of their business. Such entities may consist of larger and better-established businesses with the necessary financial resources or smaller, more innovative and socially responsible, companies that base their entire business model on sustainable conduct. While such disparities are relatively common for other sectors as well, when it comes to the Croatian tourism and hospitality sector, the situation calls for additional attention, as the sector is a major source of income for the entire country.

Source: Authors' elaboration based on Orsini and Ostojic, 2018 and stakeholder interviews.

5.8. Banking, finance, and insurance

Companies operating in banking, finance and insurance largely differ from the rest of the sectors discussed in the study. While they do not have a physical supply chain, sustainability improvements "stem from how and where they choose to spend money, and the partners they select to act on their behalf" (Ecovadis, 2017). Besides the need to ensure that their clients are not involved in illicit activities such as money laundering, the first issue largely relates to **factoring environmental, social and governance (ESG) criteria** into lending and investment strategies. This means that the financial sector can arguably do more than any other industry to increase the level of sustainability in global business. In fact, the largest European banks are already making significant commitments to provide green finance. However, smaller entities in this sector are relatively reluctant to disclose their impacts on sustainability (EY, 2020). This partly relates to choosing one's suppliers – the banking, finance and insurance sector is **largely dependent on outsourced processes** (such as ICT, billing, or data processing), therefore procurement professionals should pay significant attention to ensure that their business partners are not suspect for any unethical practices (Ecovadis, 2017). All of this comes down to

transparency and clear **governance** procedures as financiers have to acknowledge their responsibility not only to their clients, but also to governments and people affected by their activities at large.

The banking, finance and insurance sector in the EU is amongst the most regulated sectors in the EU, as multiple regulations and directives apply¹⁵⁵. The latest ones relate to meeting the ambitions set by the Paris Agreement and the European Green Deal. While significant amounts of public money are already being dedicated to these goals, it will not be enough to make the EU climate-neutral by 2050. To mobilise private investments, the Commission has been developing a comprehensive **sustainable finance agenda** since 2018, which aims to promote the inclusion of environmental and social characteristics in investment decision-making and in advisory processes. In March 2021, the **Sustainable Finance Disclosure Regulation**¹⁵⁶ (SFDR) entered into force, requiring all entities in the financial sector with more than three employees to disclose the impact of sustainability on financial returns and the impact of investment decisions on sustainability to their clients. Furthermore, a unified green classification system, the **EU Taxonomy**, is currently being developed to provide guidance for policy makers, industry, and investors in determining if an economic activity is environmentally sustainable or not. However, investors lack sufficient and reliable information from potential clients, as the current Non-Financial Reporting Directive (NFRD) only applies to a limited number of large companies and, in many cases, the information provided is of poor quality. Thus, the new **Corporate Sustainability Reporting Directive** (CSRD) should benefit investors by helping them get needed information from a larger scope of companies and to manage potential risks.

The SME survey findings suggest that there is a lot of room for improvement when it comes to CSR/sustainability in the financial sector. The following trends have emerged:

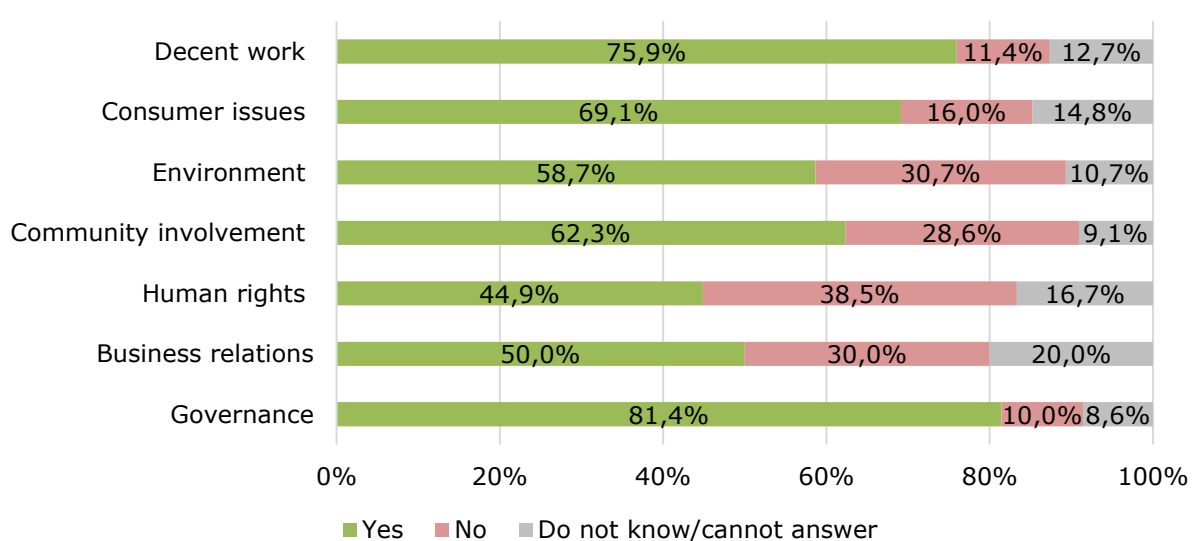
- Over a half of respondents (55.6%) were familiar with the concept of **sustainability reporting/non-financial reporting**, which is almost twice as many as the survey average (28.6%). While this seems like a positive outcome, at the same time, it proves that a significant share of smaller financial market players is not yet acquainted with either the SFDR or the upcoming CSRD.
- 31.8% of companies were said to have a CSR/sustainability strategy in place and 18.2% of them believed that their entire business model was based on sustainability. While those with a CSR strategy mostly named voluntary activities (e.g. sponsorship and volunteering organised by their HR department), those with a sustainable business model based it on 'access to credit at fair and reasonable rates' or adapting ESG principles in their investment strategies.
- In terms of specific CSR areas, organisational **governance** was given exceptional priority. Among the 81.4% of companies that declared commitment with respect to this area, 90.4% said they had clear and transparent decision-making processes, while another 82.7% claimed to prevent illegal activities of any kind. A somewhat smaller share of companies (73.1%) mentioned being transparent about financial and/or other company performance indicators to employees and shareholders.
- Surprisingly, only half (50.0%) of the respondents mentioned **responsible business relations** as part of their CSR/sustainability activities. Merely 34.3% of the companies indicated having sustainable procurement practices. Nevertheless, this may be partially explained by the small size of the companies, as they outsource less of their activities to subcontractors.

¹⁵⁵ For example see: https://ec.europa.eu/info/law/law-topic/eu-banking-and-financial-services-law_en

¹⁵⁶ More information available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088>

- The relatively low level of engagement in addressing **environmental issues** suggests that SMEs in this sector do not fully acknowledge their indirect impact on the environment. Most of the respondents mentioned only the activities that directly relate to their company, such as recycling or adapting energy efficient technologies at the office.
- With regard to other aspects, responses mainly follow the other general trends of the survey. A somewhat higher level of engagement is visible in terms of **offering opportunities for employee development**, as well as ensuring the **protection of consumer privacy and data security**, both of which are crucial for long-term business success.

Figure 39. Engagement in CSR amongst banking, finance, and insurance SMEs, by CSR area.



Note: Total (N)=81, except Decent work, total (N)=79, Environment, total (N)=75, Community involvement, total (N)=77, Human rights, total (N)=78, Business relations, total (N)=80, Governance, total (N)=70.

Source: SME survey (2021).

SMEs within this sector were **the most likely to publicly share information** about their CSR/sustainability practices (43.8% as opposed to 37.6% of the survey's average). Over half of these companies (51.7%) did so by formal reporting in accordance with international reporting practices and a similar share of companies said they reported their activities according to the company's own template. Although these results are significantly higher than the survey's average, it should be noted that the current level of disclosure practices is not sufficient to meet the aims of the Sustainable Finance Agenda.

With respect to increasing EU regulations, **further clarification and awareness raising are needed both to investors and their clients**. According to stakeholders, current regulations are rather ambiguous, which limits both the degree of investors' engagement in sustainability (e.g. asking their clients to disclose sustainability related information before granting them financial support), as well as the degree of data available from the companies' side. It is often the case that green (or social) innovations are disregarded as too risky by investors, without taking into account their potential positive impact in the long-term. SMEs operating in the financial market still consider ethical motivation as the key driving factor for CSR/sustainability activities (indicated by 59.4% of respondents), without framing it as something that will be financially beneficial in the future.

6. POLICIES FOSTERING UPTAKE OF CSR IN SMES

This chapter discusses policy support available to SMEs and start-ups. First, we provide a typology of policy support measures, which is followed-up by a section on EU-level and national level policies and initiatives fostering uptake of CSR in SMEs (including the national context and uptake of CSR in European regions). Finally, we provide an analysis of policy availability to cover key barriers faced by SMEs that were discussed in the previous chapters. An in-depth analysis of the national level context for CSR uptake and policy measures per country is provided in [Annex 4](#) to this report.

6.1. Policy support typology

There are several classifications used to classify public policy activities in relation to CSR. Most of them are quite similar and identify four or five key types of policy actions. After collecting data on the various types of policy measures available, a more detailed typology of activities emerged. Table 15 provides a typology of policy measures, the types of activities conducted within each type, an explanation of what they entail and the benefits they can bring. The expected impact of all these policies is the same, namely increased CSR uptake by enterprises, however, their direct objectives may differ because they respond to different enterprise needs with regard to CSR. Policy measures tailored for the sector in which a company operates or a specific CSR area also fall within one of the seven categories below.

Table 15. Public policy types to encourage the uptake of CSR and their respective explanations.

Type	Types of activities	Explanation	Benefits
Strategic commitments	Strategies	Strategic commitments are about adopting a coherent overall approach . They are an important pre-condition for policy action, but they are insufficient to effectively foster CSR uptake from a purely operational perspective.	They provide direction and can be used to draw attention and raise awareness with respect to specific issues. Pledges or charters can contribute to fostering purely voluntary CSR activities that companies can take pride in participating.
	Action plans		
	Other documents (pledges, charters, etc.)		
Regulatory (legal)	/	National governments (or the EU) use regulatory measures to define the minimum requirements (standards) that apply to businesses. The main tools in this case are laws, directives, and regulations.	Regulatory measures are beneficial for levelling out the playing-field. They set a baseline for business conduct that needs to be maintained, while anything below is not (or should not be) tolerated.
Financial	Grants or subsidies	These policies are standard financial incentives that are introduced to encourage specific behaviours .	Financial measures are beneficial when companies are looking for ways to implement activities that imply substantial costs. Most often, this amounts to the development or uptake of specific technologies, but tax incentives may be effective in promoting all sorts of CSR-related activities (e.g. VAT tax relief on repair services).
	Tax incentives		
	Prizes		
	Other (loans, equity funds, or other instruments)		

Type	Types of activities	Explanation	Benefits
Informational / Educational	Guidelines	The key aim of informational policies is to raise awareness of CSR between stakeholders and sometimes provide tools on how to best approach CSR in particular cases (e.g. in a specific sector).	Information is crucial for companies to become aware of CSR/sustainability issues in the first place, and then to gain knowledge on how to best approach and implement activities. The different types of informational activities actually follow from which kind of information is most relevant for a company – if a company is fully prepared to implement activities on its own, a toolkit may be sufficient, but in other cases, trainings or consultancy services would be more appropriate.
	Tools/ toolkits		
	Good practices		
	Publications		
	Awareness-raising campaigns		
	Databases		
	Training (on- or off-line)		
	Consultancy		
Partnering	Other		
	Platforms and forums	This refers to various efforts that are carried out by means of bringing stakeholders together . The key aim is to enable stakeholders to benefit from each other's partnerships.	Partnering measures can offer multiple benefits, such as peer learning, capacity building, fostering cooperation through which solutions to various issues can be found, enabling discovery of business partners, as well as forming alliances to increase collective leverage or fostering more effective uptake of specific practices.
	Networks or alliances		
Disclosing and promoting	Other		
	Labels	Disclosing and promoting measures help to showcase a specific product or a company as responsible/sustainable in accordance with an acknowledged standard.	These measures are beneficial to companies because they facilitate the implementation of practices in according pre-defined criteria and, furthermore, enable companies to provide information to (potential) customers on these practices in a comprehensive manner. As a result, they can be used as incentives to prioritise responsible/sustainable companies, leading to financial rewards.
	Certificates		
	Awards		
	Other (e.g. reporting tools, seals)		
Hybrid	/	Hybrid policy measures combine several policy types mentioned above. Hybrid measures use a “reinforcing” approach by effectively combining several measures described above. For example, a network or alliance can offer partnerships together with guidelines or toolkits etc.	These types of measures are very beneficial insofar as they offer a complete “package” that addresses several steps of a specific issue and, by doing so, make it much easier for enterprises to engage. For example, they can provide them with information as well as certain services that help them to take action.

Source: Authors' elaboration based on Steurer, R., Margula, S., Martinuzzi, A. (2012): Public Policies on CSR in Europe: Themes, Instruments, and Regional Differences. *Corporate Social Responsibility and Environmental Management*, 19, 206-227, stakeholder interviews and the policy mapping database.

6.2. International and EU-level policies and initiatives facilitating CSR uptake in SMEs

The EU has been very active in its efforts to encourage and support the uptake of CSR/RBC and Business and Human Rights issues as part of its work on the United Nations 2030 Agenda for Sustainable Development and the associated Sustainable Development Goals (SDG)¹⁵⁷. These efforts are very extensive and they are covered in great detail in multiple other reports and documents¹⁵⁸. Within this study, we focus on activities that are mainly targeted at SMEs, or, in the case of regulatory measures, may result in significant impact. Furthermore, limited attention is given to overly specific support in certain areas or sectors due to their abundance. Below we discuss key policy measures in accordance with the typology provided above (see Table 17).

6.2.1. Strategic commitments

The European Green Deal forms the basic ground upon which most strategic commitments relevant to SMEs, stand. The Green Deal is further complemented by commitments in the areas of trade policy and international partnerships, as well as a continued emphasis on inclusion and protection of vulnerable groups. When it comes to CSR/sustainability, the EU **SME Strategy for a sustainable and digital Europe**¹⁵⁹ is the most directly relevant to SMEs. The strategy is meant to support SMEs in leading two transitions, namely the digital transformation and the transition to a circular economy. The strategy foresees helping to build SME capacity for these transitions, upgrade the European Enterprise Network with sustainability advisors and expand the Digital Innovation Hubs to help SMEs integrate digital innovations.

Other relevant strategies are discussed under each sector for which they apply (see [Chapter 5](#)). Furthermore, the Strategy on the rights of persons with disabilities 2021-2030, or the EU Strategy on the Rights of the Child, as well as the EU Biodiversity Strategy for 2030 are relevant insofar as they ought to set the direction for broader activities that, in the long-run, may contribute to a higher uptake of specific CSR/sustainability activities in SMEs. In addition, the EU has committed to promoting the decent work agenda worldwide and has been increasingly set on incorporating clauses to address human rights, decent work or environmental standards/targets¹⁶⁰. This should have a positive effect on European SMEs in the long-run, as it will reduce the risks of negative adverse impact in company supply chains.

6.2.2. Regulatory measures

Certain CSR areas or specific economic sectors are subject to extensive EU level legislation. Labour law, consumer rights or environmental protection all have established rigorous regulatory standards that are further complemented by additional national level

¹⁵⁷ European Commission (2019). Commission Staff Working Document. *Corporate Social Responsibility, Responsible Business Conduct, and Business & Human Rights: Overview of Progress*. SWD (2019) 143 final.

¹⁵⁸ The EU Annual Report on Human Rights and Democracy in the World from 2019 provides a comprehensive overview of key actions undertaken by EEAS, the European Commission and EU delegations around the world to protect human rights. Available at: https://eeas.europa.eu/sites/default/files/annual_report_e-version.pdf, the Commission Staff Working Document presents an extensive overview of progress in the area of CSR/RBC and Business and Human Rights. Available at: [https://ec.europa.eu/transparency/documents-register/detail?ref=SWD\(2019\)143&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=SWD(2019)143&lang=en) ,

¹⁵⁹ European Commission (2020). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. An SME Strategy for a sustainable and digital Europe. COM (2020) 103 final.

¹⁶⁰ More information available at: <https://ec.europa.eu/trade/policy/policy-making/sustainable-development/>

requirements (see sections [4.1.](#), [4.2.](#) and [4.3.](#)). Ultimately, enforcement and compliance with these frameworks remains key and each Member State is responsible for ensuring proper conduct. Likewise, companies within sectors such as pharmaceuticals or banking, finance and insurance (see sections [5.4.](#) and [5.8.](#)) must respect industry-specific regulations. However, several additional EU-level directives and regulations, more horizontal in their scope, yet directly linked to company CSR/sustainability efforts, have been or are expected to be introduced. They are likely to impact SMEs as well, even though they will not necessarily be required to meet the same legislative standards as large companies. Table 9 below provides an overview of these legislative changes and, based on data collected during this study, describes the potential positive and negative impacts on SMEs.

Table 16. Upcoming EU-level legislative changes and their potential impact on SMEs.

Directive or regulation	Description	Potential impact on SMEs	
Legislation for mandatory due diligence	No specific proposal has been published yet, but options for an EU law on due diligence are being explored. Most generally, companies subject to this law would be required to identify, prevent, mitigate, and account for actual or potential human rights and environmental impacts in their own operations or the supply chain according to a certain standard of care (EPRS, 2020).	Positive	- Can contribute to levelling the playing field for SMEs, both within the internal market and with respect to companies that operate both in and outside the EU.
		Negative	- SMEs lack the technical capacity to conduct due diligence and the leverage to enforce compliance. This may result in a significant administrative burden that most companies, especially after the COVID-19 pandemic, are unable to cope with.
Corporate Sustainability Reporting Directive	The CSRD builds on the NFRD with the aim of bringing financial and non-financial reporting onto equal footing. The proposal includes a clear framework for what needs to be reported, reporting tools and a requirement for auditing to determine whether the reported information is accurate. The directive should be applicable to large companies and listed SMEs, while other SMEs will be able to report on a voluntary basis.	Positive	- Separate and simplified reporting standards are foreseen for SMEs, which should make reporting easier. - The standards should allow for more clarity and transparency for SMEs that supply to large enterprises. - SMEs will be encouraged to report by making their information more accessible to investors via the European single access point.
		Negative	- SMEs will not be able to comply with the same standards as large companies and they can be negatively impacted by large companies passing down their reporting requirements. - Many SMEs will lack the capacity to collect the required information and will need additional support on how to properly do this.

Directive or regulation	Description	Potential impact on SMEs	
EU Taxonomy Regulation	The EU Taxonomy provides a classification system to environmentally sustainable activities. It sets a clear framework for companies, investors, and policymakers to assess activities from a sustainability perspective. The Taxonomy is also accompanied by an IT tool, namely the taxonomy compass that makes it easier to navigate the taxonomy ¹⁶¹ .	Positive	Certain types of SMEs (i.e. those with a serious approach to sustainability) should benefit from: - More transparency and clarity regarding sustainable investment. - Prevention of greenwashing that negatively affects truly sustainable companies.
		Negative	Can result in application criteria that hinders companies from accessing finance: - Only companies with sustainable practices in place rather than companies only transitioning to higher CSR/sustainability uptake would be eligible for funding. - SMEs will not have the capacity for collecting and providing all the necessary data and only those who can profit from consultancy services will be eligible for funding.

Source: Authors' elaboration based on stakeholder interviews.

Certain legislative measures linked to CSR in specific sectors, such as the EU Timber or the Conflict Minerals Regulations, are more relevant to industries that fall outside the scope of this assignment (e.g. manufacturing). However, policymakers emphasise that these regulations exemplify a specific approach to handling irresponsible conduct and developing legislation with regards to it. Specifically, the Conflict Minerals Regulation was adopted on the basis of OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. It is extremely limited in its scope (covers three metals from specific geographic locations) and the responsibility of compliance is mostly limited to direct importers – they must obtain the necessary information and ensure that these minerals have been sourced in accordance to what is obliged by the regulation. Furthermore, this legislative change was accompanied by the Due Diligence toolkit¹⁶² for SMEs developed by the European Commission, as well as the business-led Responsible business alliance¹⁶³, both of which provided timely practical support for companies in complying with these requirements. The regulation does not cover manufactured products that may contain traces of so-called "conflict-minerals", nor other areas or minerals that are also highly problematic from a CSR/sustainability perspective. All this serves to illustrate the complexities involved in proposing this kind of legislation. Support as well as technical assistance is crucial to ensure that companies are able to fully comply, but even in that case compliance with all provisions can be tricky due to many issues such as limited means to monitor traceability, lack of leverage to ensure compliance, and unclear responsibilities of entities within the supply chain (i.e. who is liable for what).

The European Green Deal also plays a key role in driving EU-level legislative change. To tackle climate change and reduce greenhouse gas emissions at least 55% by 2030, the

¹⁶¹ More information available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

¹⁶² European Commission (2020). Due diligence ready! More information available at: https://ec.europa.eu/growth/sectors/raw-materials/due-diligence-ready_en

¹⁶³ More information available at: <http://www.responsiblebusiness.org/>

European Commission has put forward a comprehensive package “Fit for 55”¹⁶⁴ that contains a set of legislative proposals. These proposals have been combined to ensure a coherent policy approach to reducing emissions. SMEs are expected to be directly affected by a number of these changes, such as the Effort Sharing Regulation¹⁶⁵, which proposes stronger emission reduction targets for each Member State for specific sectors and small industries or the stronger CO2 emissions standards for cars and vans that ought to accelerate the transition to zero-emission mobility¹⁶⁶.

Finally, additional directives are foreseen in the near future. For example, the European Commission has indicated that a legislative proposal with respect to minimising the risk of deforestation and forest degradation associated with products placed on the EU market is to be expected (European Commission, 2020c). However, it is currently unclear what it will entail and to what extent it would impact SMEs.

6.2.3. Financial measures

When it comes to CSR, financial measures or incentives tend to be rare. Rather than covering a range of CSR-related activities, most financial measures are oriented towards very specific and singular activities. EU-level support addresses the following:

- **Support for developing new technologies.** For example, while the EU research and innovation programme Horizon Europe was developed with sustainability and the SDGs in mind (European Commission, 2021b), SMEs may receive grants for conducting R&D and bringing their products onto the market. Support is provided to SMEs developing high-risk technologies that may contribute to a radical transformation of the market. There are various financial instruments available as well (e.g. EIT Knowledge and Innovation Communities or the EIC Accelerator), but the general idea is the same, namely to promote the development of technologies that can contribute to reducing negative environmental impacts.
- **Support for adoption of already existent technologies.** For example, Private Finance for Energy Efficiency (PF4EE), launched by the European Commission together with the EIB, supports SMEs in accessing adequate and affordable financing to adopt technologies that increase energy efficiency. The Connecting Europe Facility (CEF) is also a similar instrument that supports investments in transport, energy, and digital infrastructures.
- **Support to social entrepreneurship.** The EU Programme for Employment and Social Innovation (EaSI) or the previous European Fund for Strategic Investment (EFSI) (now part of InvestEU) are oriented at supporting social enterprises. Microcredit and microloans are available to vulnerable groups, as well as funding for social enterprises. Similar to support available for the development of new technologies, there are also complimentary instruments such as the Social Impact Accelerator (SIA).

As such, these **measures are most relevant to SMEs that already have a sustainable business model or a CSR/sustainability strategy**. Financial measures are more common on national levels, but they also tend to follow a similar rationale and are developed with the same goals in mind (e.g. support to R&D, eco-innovation, social entrepreneurship etc.). However, national level measures may also include tax incentives, which can be an interesting and effective way of promoting specific CSR practices.

¹⁶⁴ More information available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3541

¹⁶⁵ More information available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2021:555:FIN>

¹⁶⁶ More information available at: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52021PC0556>

Countries such as France, Italy, Austria, and Germany have proposed such measures and they could offer up examples for more innovative ways of fostering CSR/sustainability uptake (see [section 6.4.3.](#)).

Finally, the EU post-COVID-19 recovery instrument NextGenerationEU¹⁶⁷ features several funds that would dedicate a share of funding to facilitating the green and digital transition of SMEs as was foreseen in the EU SME Strategy for a sustainable and digital Europe before the pandemic. The Recovery and Resilience Facility¹⁶⁸ is the centrepiece of this instrument, but programmes relevant to SMEs, such as InvestEU and Horizon Europe, will also offer more funding opportunities. The pandemic is regarded as an opportunity to “build back a greener, more digital and more resilient Europe”, however, it remains to be seen how SMEs will respond to this, especially as many are currently more interested in survival than anything else. Policymakers emphasise that expectations for transitioning to more sustainable activities for SMEs need to be clear and that corresponding conditions for obtaining financial support must be explicit. OECD recommends that governments use CSR/sustainability standards to condition support (OECD, 2021a).

6.2.4. Informational measures

There are several informational support measures developed at the EU-level and specifically targeted at SMEs. Various toolkits and guidelines are available with respect to specific CSR areas or sectors such as the following:

- **Due Diligence Support System** *Due Diligence Ready!*¹⁶⁹ targeted at SMEs that include minerals and metals in their supply chains.
- **Guidance on due diligence for EU businesses**¹⁷⁰ was developed to address the risk of forced labour in company operations and supply chains. It provides the practical aspects of due diligence as well as an overview of international standards that are relevant for combatting forced labour.
- **Guide to human rights for SMEs** (European Commission, 2012) to help SMEs comprehend how their enterprise might contribute to preventing human rights abuses.
- **Tips and Tricks for Advisors, Corporate Social Responsibility for SMEs** (Knopf & Mayer-Scholl, 2013) is meant to be advice to SMEs on how to improve the quality and quantity of their CSR. It provides information on how to develop a CSR roadmap for SMEs and outlines three focus areas, namely sustainable value chains, new business models, and communication tools.
- The **European Resource Efficiency Knowledge Centre** (EREK)¹⁷¹, helps SMEs find solutions on issues related to energy, material, water, and waste problems as well as cut costs. The Centre contains a database for resource efficiency support programmes and tools, good practice examples, and a self-assessment tool for SMEs.

¹⁶⁷ More information available at: https://ec.europa.eu/info/strategy/recovery-plan-europe_en#nextgenerationeu

¹⁶⁸ More information available at: https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en

¹⁶⁹ European Commission (2020). *Due diligence ready!* More information available at: https://ec.europa.eu/growth/sectors/raw-materials/due-diligence-ready_en

¹⁷⁰ More information available at: https://trade.ec.europa.eu/doclib/docs/2021/july/tradoc_159709.pdf

¹⁷¹ More information available at: <https://www.resourceefficient.eu/en>

- **OiRA sectoral tools**¹⁷², developed by sectoral partners at the EU and national levels. They enable SMEs to carry out risk assessments for meeting occupational health and safety conditions.

There are specific projects or programmes as well, such as the Consumer Law Ready programme to address consumer issues (see Box 3 in [section 4.2.](#)), or the “We value nature” project that provides training resources for companies interested in the natural capital accounting approach¹⁷³. Additional support is also provided by various international organisations. The most well-known are the OECD Guidelines for sectors such as the agro-food industry or the garment and footwear sector, but there are several other initiatives, such as the Global Compact Self-Assessment tool¹⁷⁴ or the Circular¹⁷⁵ (see Box 19 below) initiative run by BusinessEurope that showcases good examples.

Box 19. Circular: an extensive case study database.

Circular is an industry platform that operates as a web tool showcasing how European SMEs contribute to the circular economy. It provides sector-relevant good practice examples and an extensive list of case studies on how companies have adopted circular solutions. The tool is relevant to companies operating in 21 industries. Examples can also be sorted by country. By using the knowledge base offered by Circular, companies learn to solve challenges, have an opportunity to publicly show their commitment to circular economy policies, expand their partner network and influence policy decisions in the EU. Furthermore, the tool provides an analysis of common trends and barriers that companies face in becoming more circular, which can be further picked-up by policy makers. Currently, there are 13 relevant challenges identified when launching circular business models, such as high costs, lack of demand, missing definitions and/or standards, various technical barriers, legal issues, etc. The tool is mainly managed by BusinessEurope with the aim of complementing actions by the European Commission, the European Economic and Social Committee (EESC) as well as the European Investment Bank (EIB).

Source: <http://www.circular.eu/>

However, **SMEs do not necessarily find this support accessible, are unaware of it, or it is not sufficiently tailored to their needs.** Most of the support available on EU or international levels already requires a certain awareness with respect to CSR/sustainability matters and a keen sense of what could be improved in company operations (see Box 20 below). Furthermore, much of that support is provided as toolkits, guidelines, and sometimes training materials that are more applicable to large enterprises, while SMEs are mostly interested in concrete good practice examples. The EEN should make consultancy services via local **sustainability advisors** available, who would be meant to provide practical guidance to SMEs in becoming more sustainable. This would be very valuable, however still insufficient, especially having in mind human rights or supply chain diligence. To address the latter, SMEs require very specific information on the ground level, which is also currently rather limited.

Finally, international **sectoral associations are well placed to provide information** under various formats, especially when it comes to sector-specific CSR/sustainability risks.

¹⁷² OiRA Tools. More information available at: <https://oiraproject.eu/en/oiratools>

¹⁷³ More information available at: <https://wevaluenature.eu/training-resources>

¹⁷⁴ More information available at: <https://globalcompactselfassessment.org/>

¹⁷⁵ More information available at: <http://www.circular.eu/sectors>

For example, Euratex launched the Energy Made-to-Measure information campaign¹⁷⁶ to empower over 300 companies, notably SMEs, to become more energy efficient. The campaign also included self-assessment tools and best practise examples specifically tailored to the textile and garment industry (see [section 5.5.](#))

Box 20. SME Climate Hub: library of tools and resources.

SME Climate Hub is a global initiative that aims to mainstream climate action and build business resilience by providing an extensive library of tools and resources specifically designed for or highly accessible to SMEs. SMEs can find guides, case studies, webinars, and reports on 6 areas of action, namely 1) committing to meet international climate targets (i.e. making the SME Climate Commitment to halve their emissions by 2030), 2) measuring and reporting emissions, 3) integrating climate in their business strategy, 4) reducing business emissions, 5) reducing value chain emissions, and 5) contributing to climate action in society. The SME Climate Hub was developed by the International Chamber of Commerce, the Exponential Roadmap Initiative, the We Mean Business coalition and the United Nations Race to Zero Campaign.

Source: <https://smeclimatehub.org/tools/>

6.2.5. Partnering measures

Partnering measures can be very beneficial for promoting CSR/sustainability uptake and especially if they are combined with capacity-building activities, such as trainings, guidance, consultancy, or even good practice examples. EU partnership schemes under the development cooperation in third countries exemplify this approach. For example, the EU's flagship programme SWITCH to Green¹⁷⁷ supports EU partnership countries with trainings, learning events, network gatherings and exchange of experience to foster the transition to a more sustainable economy. Multiple projects have been funded in developing countries and many of them are based on local public-private partnerships. Local authorities are provided with support in developing policies, while local companies, and especially SMEs, are provided with incentives and tools to undertake activities that lead to economic development. These schemes are also often undertaken together with international organisations, such as the ILO, UN, FAO, AU, OECD and multiple others. For example, the CLEAR Cotton project (see Box 21) has been undertaken in cooperation with ILO and FAO.

¹⁷⁶ More information available at: <https://em2m.eu/>

¹⁷⁷ More information available at: <https://www.switchtogreen.eu/home/>

Box 21. CLEAR Cotton project to eliminate forced and child labour.

The CLEAR Cotton project supports the elimination of child labour and forced labour in the cotton, textile, and garment value chains in target producing countries, namely Burkina Faso, Mali, Pakistan, and Peru. The project is co-funded by the Development Cooperation Instrument of the EU, and the ILO, while project activities are conducted by the ILO in cooperation with the Food and Agriculture Organisation (FAO). The project is oriented towards multiple beneficiaries and involves several partners from local governments, employers' and workers' organisations to private sector entities, NGOs, civil society organisations and the media.

CLEAR Cotton project activities entail a combination of research, value chain mapping, risk assessment, and capacity-building activities. Part of the activities will entail the development of community-based multi-stakeholder monitoring and remedial mechanisms, support to due diligence initiatives, awareness-raising with respect to the prevalence of child and forced labour in the sector, as well as strengthening the livelihoods of local families so that they would not need to engage in child labour.

Source: ILO (2018). Eliminating child labour and forced labour in the cotton, textile, and garment value chains. An integrated approach. Available at:

https://www.ilo.org/wcmsp5/groups/public/@ed_norm/@ipec/documents/publication/wcms_650172.pdf

However, when it comes to European SMEs, the majority of them are removed from these developments as they seldom directly engage with developing countries. During this study, only a few SMEs were identified as working with communities in Burkina Faso and Sierra Leone (see [section 4.4.](#)) and policymakers notice that SMEs are reluctant to invest in these countries due to a lack of knowledge and overall support. At the same time, facilitating international networks that could bring together responsible SMEs from developing and European countries has been suggested as something potentially of interest. The African European Entrepreneurs Platform showcases this kind of matchmaking platform that is meant to help African and European entrepreneurs directly connect and match their business interests (see Box 22 below). Such partnerships are based on a mutual long-term benefit and trust, hence greatly diminish the likelihood of unsustainable and illicit business activities.

Box 22. African European Entrepreneurs Platform.

The African European Entrepreneurs Platform was launched in the aftermath of the first EU-Africa SME Summit, held on 20 and 21st of March, 2019 at the European Committee of Regions in Brussels. The Platform is a collaborative effort from European Entrepreneurs CEA-PME, the Pan African Chamber of Commerce and Industry PACCI, and national members like BVMW/Der Mittelstand and is supported by the GIZ/German Cooperation. The Platform enables SMEs to do the following:

- **Find business partners** without traveling. Companies can present their offers and projects, and, accordingly, search for other companies whose profiles meet their needs on the platform's marketplace.
- **Meet business partners** virtually or face-to-face. Round table discussions of projects to help companies define their ideas and connect with others are organised on a regular basis. Online networking sessions are also organised.
- **Learn about opportunities** via events and webinars.

The platform is free of charge and it also features a resource library.

Source: <https://www.african-european-entrepreneurs.com/>

Finally, international business led networks that offer a full service package can greatly benefit SMEs, especially with respect to due diligence and human rights. For example, amfori¹⁷⁸, a global network that brings together no less than 2,400 companies from 40 countries world-wide, offers SMEs specific tools as well as supportive services that help ensure supply chain due diligence. The tools include guidance on risk assessment and monitoring as well as training activities, but the adoption of these tools is accompanied by the network's activities, including access to information on specific locations, auditing schemes, and advocacy that help to increase company leverage. The full range of amfori's activities showcase the extent of effort needed to ensure supply chain diligence and how networks are not only helpful, but crucial for doing so.

6.2.6. *Disclosing and promoting measures*

Various certification and labelling schemes are discussed in [section 4.8.](#) of this report. SME participation in such schemes is limited due to limited knowledge on the various types of labelling and certification schemes, lack of customer awareness and preference for certified or labelled products and the costs associated with obtaining labels or certificates.

Awards also fall under this category of measures because they are often used to showcase companies and promote their production/service. However, awards are much more popular on national or regional levels, because organisations operating at these levels have better access to local companies. However, some EU-level awards do exist and are especially oriented toward fully green or environment-friendly enterprises. For example, the EC offers awards for Europe's greenest businesses with categories for a Business & Biodiversity Award and a Developing Country Cooperation Award¹⁷⁹. European Business Awards include categories for a Workplace and People Development Award and a Social Responsibility and Environmental Awareness Award. However, on the sector-level, only the FoodDrinkEurope association was identified as offering an SME award to companies (see Box 23 below). Awards can help raise awareness about certain issues, but their impact often remains limited because only already responsible/sustainable companies tend to participate. At the same time, awards can be attractive to companies seeking international exposure and especially to start-ups, as well as SMEs that are ready to expand and gain more access to international markets.

Box 23. The Foodies award.

The Foodies award for sustainable SMEs is targeted at companies operating within the food and beverage industry. Awards are offered in three categories:

- **Greener Planet** Award. An SME committed to reducing its environmental impact
- **Healthier Living** Award. An SME committed to helping people and communities towards healthier living
- **Next-Gen Innovator** Award. Award to a young start-up innovating in the food and agriculture space to create more sustainable, and safe food systems.

The award is meant to help companies tell their sustainability stories. The competition was launched in February 2021, the first award ceremony was scheduled for September 2021.

Source: <https://thefoodies.eu/>

¹⁷⁸ More information available at: <https://www.amfori.org/content/about-amfori>

¹⁷⁹ More information available at: <https://ec.europa.eu/environment/awards/index.html>

6.3. CSR uptake and policy contexts by European regions

Given the large number and complexity of many national policy measures and variations in terms of CSR uptake, an in-depth analysis of each country is presented in [Annex 4](#). In the following chapter, a brief overview of general trends within the four major regions of the EU, Western Balkans and Turkey is provided with the intent to demonstrate country commitments to CSR.

National policies to encourage the uptake of CSR are more or less present in all the EU Member States. Some (although fewer) initiatives are also being implemented in the Western Balkans and Turkey. The prevalence and complexity of policy measures depend on multiple factors such as the structure of national economies, their level of economic development, the traditions of social dialogue and the level of stakeholder engagement, as well as existing policy and regulatory frameworks (Idowu et al., 2015). Overall, study results have shown that CSR uptake in SMEs across countries is strongly dependent on the following factors:

- **The existent regulatory framework.** Stronger regulations lead to better conduct, but leave less room for voluntary engagement.
- **Level of legal compliance.** While most countries in the EU have relatively well-developed legal frameworks, some countries struggle to prevent illicit business practices.
- **National commitment and communication.** Some countries are very committed towards “going green” and this is systematically communicated as an explicit expectation for companies to take action.
- **Follow-up with support measures.** Commitment needs to be reinforced with support to SMEs: depending on the type of commitment and area of action targeted, this support can range from economic incentives (e.g. procurement practices or taxation instruments) to awareness-raising, guidance, consultancy or other “soft” measures.
- **Culture of building partnerships.** Some countries have well-established traditions of building networks and engaging a variety of stakeholders in (often public-private) partnerships. This works very well to achieve win-win situations for everyone involved and fosters a mutual sense of commitment.

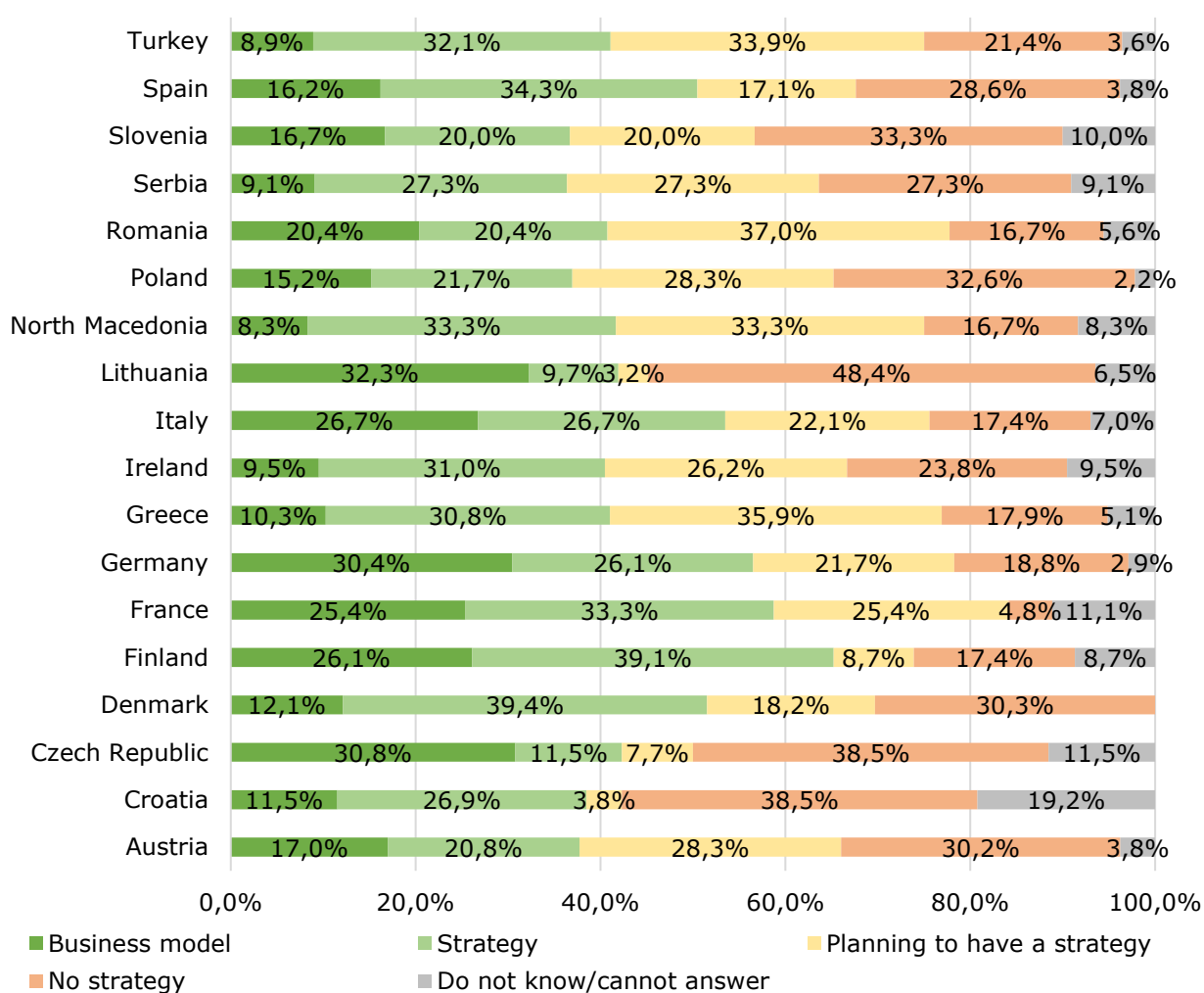
As a result, depending on the social and economic context of the country, certain CSR action areas or specific activity themes tend to be given a stronger priority, or are more likely to be reported by companies. For instance, a provision of legal employment tended to be emphasised by companies operating in countries where the informal economy is a prevalent issue, such as Serbia or North Macedonia (ILO, 2021). On the other hand, activities that are most likely being implemented on a regular basis were less often identified among CSR/sustainability practices. For example, a relatively small share of German SMEs selected ‘recycling’ as one of their environmental practices, although there are strict regulations on waste management in Germany (see [Germany](#)).

Overall, strict comparison between countries remains highly problematic due to a) limited representativeness of the SME survey when it comes to country samples, and b) lack of a clear uniform understanding on which activities should be reported as responsible/sustainable conduct. Paradoxically, countries that are commonly considered at the forefront of responsible/sustainable business conduct, such as Denmark or Finland, displayed poorer results than countries that remain problematic from a sustainability perspective, such as Poland or Turkey (see [Poland](#) and [Turkey](#)). At the same time, study

results allow one to draw some tentative conclusions on where the strengths and remaining challenges are for each European region (see Table 18 below). This allows one to further determine the types of policy support measures most appropriate for each region (see [section 7.2.2.](#) for recommendations).

Such regional differences are quite apparent when looking at the share of companies that have a sustainable business model or CSR/sustainability strategy (see Figure 40 below). SMEs operating in Greece, the Central and Eastern European countries, as well as the Western Balkans and Turkey were somewhat less likely to have a strategy in place or plans of introducing one. SMEs in Western European countries such as Ireland and Austria also seemed to be less concerned with a strategic CSR/sustainability approach. However, in the case of Ireland, this is due to the dominance of small companies that are unlikely to have a CSR/sustainability strategy, while Austrian companies remain predominantly driven by regulatory incentives instead of strategic CSR/sustainability considerations.

Figure 40. Share of SMEs by their relation to CSR/sustainability, by country.



Note: (N) = 850

Source: SME survey (2021)

The likelihood of adopting a CSR/sustainability strategy is closely linked to its perceived benefit to a company's economic success. When asked to evaluate the benefits on a scale from 1 (not at all beneficial) to 5 (highly beneficial), the average scores given by SMEs varied from 3.46 in Serbia to 4.41 in Finland. Unsurprisingly, the lowest scores can be observed in Central and Eastern Europe and the Western Balkans. Finnish SMEs gave the

Figure 41. Average evaluation of CSR/sustainability activities' benefits (where 1 – not beneficial at all; 5 – very beneficial), by country.

Note: Answers "Do not know/cannot answer" were excluded from calculations.

As expected, **regional disparities are significant** in terms of policy support provided, but there are also differences within the regions. This is particularly apparent in government approaches and the types of stakeholders that can be named as the driving forces for higher CSR/sustainability uptake. For instance, OECD NAPs are very active in some countries, while in others they play a rather minor role; in some cases, business associations are the ones that try to convince their national governments to promote

CSR/sustainability (e.g. [Serbia](#)), while sometimes it is the public servants that take the lead (e.g. [North Macedonia](#)).

Brief summaries of the policy approaches towards CSR/sustainability issues within regions are described in the following sections. Table 17 below provides an overview of strengths and remaining challenges for each region when it comes to CSR/sustainability uptake and existing policy support.

Table 17. Strengths and remaining challenges of each region with respect to policy fostering CSR/sustainability uptake.

Region	Strengths	Challenges
Northern EU	<ul style="list-style-type: none"> - Regulatory framework is demanding and compliance is quite high. - Strategic commitment to sustainability is high and voluntary effort is encouraged. - Stakeholder capacity to engage in partnerships is high. - CSR/sustainability linked to economic competitiveness. 	<ul style="list-style-type: none"> - SMEs growing sceptical of CSR/sustainability due to overexposure to a discourse saturated with “greenwashing”. - Lack of transparency and accountability with respect to business activities in third countries is a growing concern. - Attitude of “NIMBY”: Not In My Backyard. Citizens strongly opposed to undesirable business practices that tend to be transferred to other (often third) countries.
Western EU	<ul style="list-style-type: none"> - Regulatory framework is demanding and compliance is high. - Increasing pressure from civil society organisations and consumers to improve CSR/sustainability efforts, hence increasing opportunities to link CSR/sustainability to economic competitiveness. - A relatively large pool of various support measures/programmes available. 	<ul style="list-style-type: none"> - Strategic commitment to sustainability not necessarily a strong priority and voluntary commitment is sometimes limited. - Key motivation is often linked to meeting specific legal/buyer/investor requirements. - Lack of transparency and accountability with respect to business activities in third countries is a growing concern.
Southern EU	<ul style="list-style-type: none"> - Stakeholder capacity to engage in partnerships is high, especially on regional levels. - Voluntary initiatives/grass-root movements and collaborations are popular. - Some regions (esp. Italy and Spain) provide extensive support via local networks, chambers of commerce etc. 	<ul style="list-style-type: none"> - Regulatory framework not as demanding, compliance remains problematic. - Strategic commitment lacking on national level, the policy support landscape is fragmented. - CSR/sustainability is a matter of ethical motivation and poorly linked to economic competitiveness.
Central and Eastern EU	<ul style="list-style-type: none"> - Willingness to access foreign markets is high, hence SMEs more likely to react to buyer/investor requirements. 	<ul style="list-style-type: none"> - Regulatory framework not as demanding, compliance remains problematic. - Strategic commitment is formal without appropriate communication or follow-up policy support. - Stakeholder capacity to engage in partnerships is limited and stakeholder-led initiatives remain rather rare. - CSR/sustainability is poorly linked to economic competitiveness unless supplying to companies with specific requirements.

Region	Strengths	Challenges
Western Balkans and Turkey	<ul style="list-style-type: none"> - Ongoing efforts to harmonise regulatory frameworks with the EU. - Internationally-oriented businesses and associations are keen to undertake efforts alongside international partners (e.g. UNDP, USAID) in supporting sustainable business. - Willingness to access foreign markets is high, hence SMEs more likely to react to buyer/investor requirements. 	<ul style="list-style-type: none"> - Regulatory framework limited and ensuring compliance remains problematic. - CSR/sustainability linked to economic competitiveness when exporting to countries with strict regulations or supplying companies with specific requirements.

Source: Authors' elaboration based on study data.

6.3.1. Northern Europe

In Northern Europe, CSR can be placed under the broad label of sustainable growth. Denmark and Finland can be both characterised by a far-reaching welfare approach in terms of social issues and a strong orientation on environmental sustainability.

It appears that many SMEs have successfully **combined economic competitiveness with sustainability considerations**, a strict regulatory environment, and considerable tax contributions. This is particularly reflected in the survey responses of Finnish SMEs, which evaluated their extensive CSR/sustainability practices as highly beneficial (see Figure 40 in the previous section). In Denmark, **exporting the local know-how on sustainability** to developing countries has become a unique part of the government's strategy. However, Danish SMEs appear to be somewhat slower to pick up the trends set by larger innovative enterprises operating in the country and abroad. Addressing this segment of smaller businesses that are either sceptical or lack the capacities to adopt greener solutions has emerged as one of the key policy challenges. Grants provided through the Nordic Project Fund could be considered a good practice example in this case (see Box 24 below).

The Nordic countries are also known for a **strong stakeholder dialogue** and a supporting culture of trust among institutions, businesses, and society. This is also reflected in the high number of initiatives being implemented in cooperation with these three stakeholder groups. Strong partnerships already exist in terms of achieving the SDGs and the 2030 Agenda. Ambitious goals to tackle environmental and social challenges are addressed on a **sectoral or mission basis** (e.g. Society's Commitment to Sustainable Development in Finland (Box 32 in [section 6.4.1.](#)) or Danish Climate partnerships (Box 39 in [section 6.4.5.](#)). The mission-oriented approach seems to be working well in mobilising collective action (e.g. the Finnish Innovation Fund Sitra has managed to initiate a solid engagement of institutional and business stakeholders to address circular economy issues).

Lastly, **transparency and accountability** with regard to business activities abroad is a growing concern in Northern Europe. Recently, discussions on mandatory human rights' due diligence have been taking place both in Denmark and Finland with strong support from political parties and civil society organisations.

Box 24. Facilitating scale-up of Nordic green solutions in global markets

The Nordic Project Fund (Nopef) supports SMEs and mid-cap companies with grant funding for their internationalisation projects aimed at markets outside the EU/EFTA. Nopef's grants cover costs of feasibility studies and other preparatory business activities of SMEs. These grants are given to projects contributing directly or indirectly to a positive impact on the environment, job creation, export opportunities, technology transfer, and the promotion of Nordic values. Nopef's project activities are expected to contribute annually to more than 30 established Nordic businesses on international markets, some 400 new jobs and about EUR 30 million in green investments.

Source: <https://nopef.com/>

6.3.2. Western Europe

Countries such as Germany, Austria, and France are often characterised by the strong presence of government, extensive social security systems, and institutionalised forms of stakeholder participation. Business activities in different CSR areas often **take implicit forms and are not labelled as CSR** – in fact, they are often a legal obligation or are commonly expected by stakeholders. For instance, Germany has a comprehensive set of environmental policies and laws, a good record in implementing environmental EU law and benefits from strong environmental awareness among its citizens¹⁸⁰. France, on the other hand, has a comprehensive framework accompanied by financial obligations to include persons with disabilities in the labour market (see Box 35 in [section 6.4.3.](#)). Hence, **additional voluntary CSR engagement may not be as prevalent** among SMEs in these countries. This trend is particularly visible among Austrian SMEs that participated in the survey, which were more motivated by meeting the requirements set by buyers or regulations rather than by ethical reasons. At the same time, stakeholders in Austria have put forward some interesting and innovative measures (e.g. Box 25 below or Box 11 in [section 5.3.](#)). Likewise, examples provided throughout this study suggest that Western European countries have developed a variety of support measures.

Box 25. circle17: an interactive five-stage journey to sustainability in business.

The **circle17** initiative aims to promote partnerships between businesses from any sector of the Austrian economy, public entities and NGOs that make a contribution to the realisation of the 17 SDGs by developing solutions to urgent sustainability challenges. The program is made up of five interactive phases: 1) matchmaking; 2) workshops, during which companies learn about sustainability challenges; 3) impactthon, which is an online hackathon where partnerships design, test, and execute ideas; 4) testing, in which companies finalize their ideas and their implementation scenarios; 5) touchdown, in which companies reflect on their performance. This program deepens cooperation between different entities and teaches them to come up with innovative and effective solutions based on knowledge from different economic spheres. Circle17 was developed jointly by the Austrian Development Agency, AustrianStartups and respACT and was launched in 2019.

Source: <https://circle17.at/>

In Western European countries, increasing the level of regulations in CSR-related fields is a prevalent topic in political discussions. While civil society organisations or trade unions press for more demanding measures (e.g. in terms of mandatory human rights and environmental due diligence), businesses fear that this would hamper their

¹⁸⁰ More information available at: https://ec.europa.eu/environment/eir/pdf/factsheet_de_en.pdf

competitiveness and further increase their administrative burden. The German 'smart-mix' of mandatory and voluntary CSR approaches seems to be working well in this respect. A comprehensive multi-stakeholder dialogue, adoption of sector-specific guidelines and recommendations, as well as digital tools (with a special focus on SMEs, such as the SME Compass¹⁸¹, see Box 26 below) accompany legislative measures. Labelling and certifications also play an important role, especially for SMEs, which often prefer this to formal non-financial reporting (see Box 13 in [section 5.1](#) on initiatives within the agro-food sector). The French government, for instance, has taken the initiative to increase the robustness and credibility of the numerous existing labels (see Box 9 in [section 4.6](#)). Such support is going to be increasingly relevant for SMEs, as they often take part in the supply chains of large enterprises and have to comply with their binding sustainability standards¹⁸².

Box 26. SME Compass: an extensive tool for undertaking CSR/sustainability action.

The **SME Compass** helps German SMEs from all sectors of the economy understand and implement CSR/sustainability practices. The process consists of five main steps: 1) developing a sustainability strategy, which requires companies to assess their business, their value chain, corporate principles and prepare a policy statement; 2) performing a risk analysis, which requires companies to identify risks and assess them carefully; 3) taking action, which concerns the implementation of an action plan and capacity building; 4) measuring and reporting, which means that companies have to evaluate their performance regularly and report on it both internally and externally; 5) managing complaints, which concerns the company's willingness to adequately respond to complaints. By using this tool, SMEs can improve their reputation, attract investment, improve the quality of their services and working conditions. The SME Compass was launched in 2020 by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and Helpdesk Business & Human Rights on behalf of the Federal Ministry for Economic Cooperation and Development.

Source: <https://kompass.wirtschaft-entwicklung.de/en/about>

In contrast, **Ireland tends to prefer a voluntary approach to CSR** and places a particular focus on fostering CSR among SMEs. The public administration focuses on providing accessible and SME-tailored informational resources, promotion of best practices, news, and events (e.g. through the online CSR Hub platform, see Box 27 below). Practical advice, training and small-scale financial assistance are also widely available for adapting green solutions. However, such activities are often considered to be something to do 'on top' of regular business practices rather than an integral part of the business model. Many of the CSR support services have stalled during the pandemic and are currently not considered a priority by business support organisations.

Box 27. CSR Hub Ireland: a helpful tool for getting started with CSR.

CSR Hub Ireland is an online platform aiming to help Irish SMEs and micro companies understand more about CSR principles and their implementation in corporate policies. This platform is extensive in terms of tools offered: it includes i) a CSR leaflet for SMEs, ii) a database of Irish case studies, iii) access to the CSR organisation network, iv) a

¹⁸¹ More information available at: <https://kompass.wirtschaft-entwicklung.de/en/>

¹⁸² More information available at: <https://www.volkswagenag.com/en/news/2019/06/volkswagen-group-commits-suppliers-to-sustainability.html>

newsletter, v) minutes from CSR stakeholders' Forum's meetings, and vi) information about CSR awards.

These tools help companies get started with CSR/sustainability practice implementation and develop their CSR/sustainability agenda according to up-to-date information provided on the platform about good practices and trends in business and the policy environment relevant for CSR standard implementation and management. It also helps companies get involved in a network of socially responsible SMEs, thus allowing them to exchange experiences and collaborate. The CSR Hub Ireland platform was launched in 2016 and is managed by the Department of Jobs Enterprise and Innovation and the CSR Stakeholder Forum that brings together parties from the private and public sectors and the wider public to encourage businesses to implement CSR/sustainability practices.

Source: <http://www.csrhub.ie/csr-for-smes/csr%20tool%20for%20smes/>

6.3.3. Southern Europe

The uptake of CSR/sustainability in Spanish, Italian, and Greek SMEs appears to be uneven. While companies operating on an international level are highly aware of CSR-related developments in the EU and have developed strategic approaches towards it, the majority of these SMEs do not label their activities as being a part of CSR. Responsible behaviour and community embeddedness is **often driven by personal values and ethical motivation**, rather than economic factors (this is also apparent from the survey responses). Moreover, compliance with existing legislation is often considered a special merit, as the level of corruption and informality is still relatively high in countries such as Italy or Greece.

With regard to CSR/sustainability policy support measures, institutions appear to be more active in Italy and Spain than in Greece. The latter aspect can be explained by the country's critical economic situation and the government's focus on solving fiscal issues rather than long-term sustainability challenges. Meanwhile, the national governments of Italy and Spain are **striving to include as many stakeholders as possible** in policymaking (e.g. see Box 28 below). Involving a wide range of social players creates a balanced understanding of CSR and a widespread diffusion of CSR-related values. The **territorial dimension** is also given particular importance, with local governments participating in national-level dialogue, as well as establishing their own policies and support measures that SMEs can benefit from (e.g. see Box 29 below for an example from Italy). This approach serves as a good example for other regions, such as Central and Eastern Europe, where the promotion of CSR is mostly driven by a small number of large multinational businesses.

Box 28. Sustainable Development Council: a channel for stakeholder cooperation.

The Sustainable Development Council is an advisory body to the Spanish government that aims to help Spanish businesses and public institutions fulfil the Sustainable Development Goals (SDG) of the 2030 Agenda. The Council undertakes several main tasks: advises the Secretary of State about the need to and the process of implementation of policy strategies necessary to achieve the SDG 2030 Agenda, produces analytical documents to support its reasoning, disseminates information about the SDG 2030 Agenda to Spain's citizens via communication channels, and facilitates coordination and cooperation in fulfilling this agenda between economic, political and social stakeholders by promoting events such as the "Seville Commitment-Local Leadership, Global Transformation" conference which encourages the implementation of SDG standards at a regional level.

Businesses of all sizes and from all sectors of the Spanish economy, as well as public institutions, and the general public, are invited to follow the implementation frameworks prepared by the council. The council was established by the Ministry of Social Rights in 2019 and has gained important recognition by the UN.

Source: <https://sdg.iisd.org/news/spain-establishes-sustainable-development-council/>

Box 29. Imprese Responsabili: a network promoting useful resources and opportunities.

Imprese Responsabili is a network of 12 Chambers of Commerce in Lombardy that represent the interests of businesses in this region and help them integrate CSR/sustainability policies in their business operations. The network's activities focus on four issue areas: economic information for local development, promotion and development of the territory, internationalization, support for small and micro enterprises. It uses working groups - CSR desks - to collect information about the needs of the companies in the region and use it to draft training programs for a company's new corporate social responsibility. On its website, Imprese Responsabili publishes information about legal CSR requirements, necessary management tools, and relevant contact points for companies. It also gives access to a repository of best practice cases. These resources are of great value to companies that are becoming aware of CSR and wish to implement CSR practices in their corporate policy framework.

Source: <https://www.csr.unioncamerelombardia.it/index.phtml>

While in Northern and Western Europe a stronger focus seems to be placed on regulations, **'soft' policy support measures** dominate in Southern Europe. Facilitation of dialogue, support to small grassroots initiatives and civil society organisations are highly prevalent. For instance, the Spanish Government launches annual calls through which civil society organisations can receive funding for the promotion of CSR and social entrepreneurship.

However, stakeholders indicate that **a more systematic approach is needed** in the context of increasing pressure from the EU and international investors – SMEs may be caught unprepared when asked to disclose their environmental risk profile by the bank. In this case, business support organisations (e.g. regional chambers of commerce) could provide sustainability advice to SMEs. Currently, such support is not always available (e.g. stakeholders in Italy claim that regional business support organisations often lack the capacity to provide tailored support services to SMEs on the topic of CSR/sustainability).

6.3.4. Central and Eastern Europe

It appears that the public administrations in CEE are highly aware of the developments taking place in other EU countries, yet they have not fully 'internalised' these changes. CSR is perceived as something that is 'politically correct' in the European Union, thus influencing national governments to introduce national CSR strategies in accordance with international recommendations. Nevertheless, issues related to CSR are not widely addressed in political debates and implementation of declared commitments seems to be the concern of only the few organisations that are directly responsible for it.

As a remainder of the socialist regime, **institutions in CEE countries often do not adhere to declared rules and principles** (Golob, 2015). A lack of transparency among state-owned enterprises prevents the public sector from leading by example in terms of CSR (e.g. [Slovenia](#) and [Lithuania](#)). For instance, in Germany or Spain it is usual for institutions and state-owned enterprises to publish annual CSR reports, while it is still rare in most CEE countries. Moreover, although there are legislative measures to include social and environmental clauses in public procurement, **public servants either lack the ambition or capacity** to do that (although plans to strengthen these capacities are visible in the [Czech Republic](#) and [Lithuania](#)). Some countries, under the influence of international organisations, have developed national CSR strategies or National Action Plans for Business and Human Rights, yet concrete implementation measures, targets, and monitoring mechanisms have often been lacking. Lastly, some countries do not have dedicated departments for CSR within the public administration (e.g. Slovenia) or they function only as a small unit (e.g. Lithuania and the Czech Republic). Romania, in this case, appears to be a positive example with its highly visible Department of Sustainable Development, however, business sustainability and CSR is not the sole focus of its activities).

Multi-stakeholder platforms, established under the national governments, also **tend to lack a strategic character** (e.g. [Poland](#)). The Quality Council in the Czech Republic could be considered a positive example, given the fact that it has an annual budget (e.g. for conducting studies and evaluations) and holds regular meetings. Nevertheless, the Council's approach towards CSR and sustainability seems to focus on the implementation of the National CSR strategy through various voluntary measures and awards, rather than considerations of improving existing legislation.

Most CSR-related policy actions appear to be **concentrated within several civil society organisations and/or business networks** dominated by multinational and large enterprises. However, their outreach to SMEs and policy leverage remains low without sufficient cooperation with the state. The SMEs that do come to these organisations are often already engaged in CSR and want to further promote/develop their activities (e.g. by participating in awards or training programmes). A situation where the promotion of CSR is dominated by private sector actors creates a situation where only **'best practices' are celebrated without fully addressing actual societal and environmental challenges**. At the same time, however, there are some interesting initiatives emerging in the region that address very specific issues relevant for the country (e.g. see Box 2 in section 4.1. or Box 30 below).

Box 30. Application for measuring wage inequalities.

The application for measuring wage inequalities is a free of charge digital tool that allows companies in Poland to find out the differences in their employees' salaries. When calculating the differences, the application takes age, education level, gender, and other relevant characteristics into account. The tool is helpful for the process of improving working conditions because it helps companies identify problems, such as the gender pay gap, and allows them to regularly observe tendencies in salaries. Additionally, a report about gender inequality in the labour market may be downloaded together with the application. The application was launched in 2018 by the Ministry of Family and Social Policy of Poland.

Source: <https://www.gov.pl/web/rodzina/aplikacja-do-mierzenia-nierownosci-placowych>

Within the CEE region, the biggest challenge lies in establishing permanent and solid ties between different stakeholders. The consolidation of their currently fragmented efforts could bring a more strategic orientation in promoting CSR/sustainability. This is going to be all the more relevant in the future once climate-related challenges and pressure from the EU will require more comprehensive measures than the current volunteer approach.

6.3.5. Western Balkans and Turkey

The Western Balkan countries that fall under the scope of this study, namely Serbia, North Macedonia, and separately Turkey, are all striving to become members of the EU. At least to some extent, these countries have harmonised their legal frameworks with the EU and have set strategic goals towards achieving the SDGs. However, **the implementation of these goals and even the enforcement of the existing legislation remains questionable.** Most companies still have a narrow understanding of CSR, associating it with philanthropy or other fragmented activities. In fact, some SMEs do not even comply with basic legislation (issues such as corruption, informal employment, and even child labour in the case of Turkey are still prevalent). Innovation performance among Western Balkan countries also remains weak, while the economies are characterised by low technology level industries and low labour productivity.

On the other hand, **some companies have already successfully secured access to EU markets** and their achievements are often celebrated through various awards and publications in the media. Internationally oriented businesses and business associations (such as the Chamber of Commerce in Serbia, TURKONFED and TUSIAD in Turkey) are leading the way forward in this regard. These organisations often partner up with other civil society organisations, as well as international donors such as the EU, UNDP or USAID. The members of these initiatives perfectly understand that sustainability is going to play an increasingly important role in determining the success of national economies. As reflected in the survey results, compliance with the requirements set by buyers, as well as access to new foreign markets, pose strong motivating factors for SMEs.

Box 31. Support program for sustainable micro and small enterprises in underdeveloped environments: a program for responsible business development.

The support program for sustainable micro and small enterprises in underdeveloped environments is a program that gives support and allocates financial resources for up to 10 companies in Serbia. The companies participating in the program must have been operating for over two years and have already had their products and services tested in the market. The selected companies contribute to local community development by employing people with low career prospects. Within the framework of the program, they work with a team of experts on business development for a period of six months. By participating, businesses become better equipped to scale-up, create more jobs, and empower small suppliers in their production chains. Businesses with the greatest potential for further growth and responsible workforce expansion can apply for grants up to \$6,000 USD. In addition, companies have the opportunity to, through the organization of three promotional events and sales fairs in Belgrade, Nis and Novi Sad, present their business vision to the general public and initiate partnerships with other socially responsible organizations and companies in Serbia. This support program was developed Smart Kolektiv in partnership with the associations ProAktiv and "Putevima preduzetništva" with funding from the Kingdom of Norway and are set to launch in 2021.

Source: <https://www.norveskazavas.org.rs/en/vtext/razvoj-poslovanja-mikro-i-malih-preduzeca-uz-podrsu-kraljevine-norveske-1>

It appears that the **national governments are concerned with more immediate issues**, such as economic stability or combating poverty, while long-term goals related to business sustainability are given a weaker priority. Although there are some dedicated units within public administrations, their **capacities are too weak to implement impactful activities** and follow through on strategic commitments. For example, North Macedonia's National Strategy for CSR suggests measures that could possibly address the most pressing challenges, however, financial support and administrative capacities are too limited to make a breakthrough. This trend can also be observed in the CEE region. Therefore, political leadership accompanied by strong institutional capacities, as well as independent civil society organisations are needed to address issues pertaining to the segment of SMEs that lags behind internationally oriented businesses.

6.4. Assessment of policy support measures in relation to SME needs and barriers

Given the extent of diversity between SME uptake of CSR/sustainability, depending on their level of maturity, their size, as well as the sector or country in which they operate, when it comes to policy support, a one-size-fits-all approach in this case is both unfeasible and undesirable. Each type of policy support benefits SMEs in different ways and, as a result, a smart policy-mix to cater to the different needs and level of maturity of enterprises would be most effective. While below we discuss each type of policy support in more detail, it should be noted that a **complementary package**, functioning as a "stick-and-carrot" mechanism might be most appropriate.

6.4.1. Strategic commitments

EU-level strategic commitments are extensive and they set expectations for future action both by national governments and companies. However, the strategic vision of the EU is not always reflected in national level strategies, action plans, or commitments. As a result,

there are large differences in **how the expectation for companies** to become more responsible/sustainable **are communicated** across EU Member States. The contrast between Northern and Western European countries, as opposed to Southern as well as Central and Eastern European countries, is significant. While the former tend to follow through with tangible support for companies, including SMEs, the latter, and especially CEE countries, seldom propose concrete implementation measures, targets, or monitoring mechanisms. Furthermore, most efforts remain largely oriented towards large enterprises that use CSR/sustainability as a marketing strategy. Consequently, the uptake of CSR/sustainability amongst SMEs remains rather moderate, mostly because they tend to believe it has nothing to do with their business on a day-to-day basis. Hence, a key challenge with respect to strategic commitments is to ensure that SMEs are included while expectations towards certain business practices are made clear. Multiple EU-level strategies relevant for specific economic activity areas were said to be very relevant in driving change within those sectors, however, once again, SMEs can remain far-removed from them. Box 32 below showcases a unique approach adopted by Finnish stakeholders that has been successful in engaging companies.

Box 32. The unique instrument of Society's Commitment as a concrete way to further sustainable development

The National Commission on Sustainable Development in Finland introduced **Society's Commitment to Sustainable Development** as an alternative to a traditional strategy document back in 2016. It serves as a "framework and coherent policy instrument" and is one of the key tools in implementing the Agenda 2030 for Sustainable Development. Society's Commitment provides an implementation tool (sitomous2050 online service). Using the tool, companies, municipalities, organisations, administration, educational institutions, and local actors, as well as private individuals, can make **operational commitments** to achieve the objectives of the Society's Commitment to Sustainable Development.

These operational commitments can take the form of concrete measures, changes in operating procedures, innovative trials that promote shared goals and should be carried out in 5-10 years.

Making the commitment requires setting goals, indicators, and a schedule. The commitment must meet 6 criteria and it must: i) support the vision "A prosperous Finland with global responsibility for sustainability and the carrying capacity of nature", ii) promote one or multiple shared objectives of the society's commitment, iii) comply with the principles of sustainable development, iv) be concrete, v) be measurable and monitored, vi) create something new (i.e., new practices and models of action, innovations, solutions, cooperation).

The commitment can serve as a tool for businesses or organisations to develop their own practices. Organisations that have made the commitment claim that it furthers sustainable development in their work and helps them to become a frontrunner in this regard, improves their reputation, helps in networking and can be used in marketing. In 2020, commitments have been made by over 1,000 different organisations, including 400 private companies ranging from SMEs to large multinational businesses. In addition, six industrial branches (trade, finance, media, energy, marine, and forest industry) have made industry wide commitments.

Green Deal Commitment and **Nutrition Commitment** are also part of Society's Commitment to Sustainable Development. Five Green Deals (Plastic Bag, Automotive, Oil Waste, Construction Machine, and Demolition Waste Deals) had been made by 2020. At the same time, over 50 Nutrition Commitments have been made by private food production companies, restaurants, and food markets.

Source: Commitment 2050, https://sitoumus2050.fi/en_US/mika-on-sitoumus-#/. Prime Minister's Office (2020). Report on the implementation of the 2030 Agenda for Sustainable Development, https://sustainabledevelopment.un.org/content/documents/26261VNR_Report_Finland_2020.pdf

6.4.2. Regulatory measures

Regulatory measures remain an important means of setting a minimum baseline for business conduct and are especially relevant for those companies that showcase limited CSR/sustainability uptake. It has emerged that regulatory measures play a strong role in certain areas, sectors and countries, and SMEs in those instances are careful to comply. Extensive legislative measures and rigorous enforcement mechanisms are prevalent in most countries that demonstrate a higher uptake of CSR/sustainability practices amongst SMEs, such as Denmark, Finland, Germany, Austria, or France, and many SMEs are likely to remain largely incentivised by regulatory measures. However, regulatory measures always carry the risk of becoming a limiting factor on SMEs due to the administrative burden they cause. Furthermore, SMEs are not always capable of meeting the full extent of requirements and need additional support. Sectoral networks and industry associations are well-placed to offer support for SMEs, but that only works for countries that already have strong networks (see [section 6.4.5.](#)).

Furthermore, in some countries or sectors **compliance with already existent regulations remains an issue**. Illicit practices can be especially prevalent in sectors with a large informal economy or where migrant labour is common (e.g. agro-food, transport and logistics). SMEs in Southern Europe, but also in CEE countries, and especially the Western Balkans and Turkey also tend to struggle with legal provisions. For example, the Italian government has set up a legal compliance rating to recognise fully compliant companies (see Box 33 below). In this case, CSR-oriented activities need to be oriented towards better compliance rather than any additional activities. Compliance can be enforced in various ways, but once again, capacity-building is commonly said to be key. Such capacity-building initiatives can be delivered by locally operating NGOs, civil society organisations, sectoral associations, public bodies, or other entities. The Consumer Law-Ready programme (see Box 3 in [section 4.2.](#)) exemplifies this approach whereby regulatory measures are accompanied with a well-developed training system.

Box 33. Legal Compliance Rating.

The **legal compliance rating** was established to give recognition to companies that showcase a high level of legal compliance. Companies with headquarters in Italy and over 2 million EUR in turnover can apply to receive a spot on the list of acknowledged companies. The application is free of charge, and the certificate is valid for two years. The applying company can receive 1 to 3 stars on based on its compliance:

- One star is given to companies that meet all the requirements set out in Article 2 of the [implementing regulation](#) of the legal compliance rating.
- Two stars are given to companies that meet additional requirements set out in Article 3 of the same implementing regulation.
- Three stars are given to companies that exhibit exceptional compliance.

As of today, 8,786 companies have obtained a rating.

Source: <https://www.agcm.it/competenze/rating-di-legalita/>

6.4.3. Financial measures

Most SMEs said they lack additional financial support to implement CSR/sustainability practices (see [section 2.5.](#)). The majority of financial support available targets companies that have sustainable business models or CSR/sustainability strategies in place. Various funding schemes for developing or adopting green technologies are prevalent in most EU Member States to a larger or smaller extent, likewise for programmes offering funding to social entrepreneurship. Understandably, many SMEs might lack the finances to adopt technological solutions and providing opportunities in this field remains highly relevant, especially so in the aftermath of the COVID-19 pandemic.

At the same time, **financial assistance for projects that address CSR/sustainability from a more integrated perspective** or enable companies to embark on more ambitious projects are significantly more limited. This funding does not necessarily have to reach the SMEs themselves; it can also be delivered as project-based funding to stakeholder platforms or business associations for developing a range of diverse activities. For example, the Grant pool for the promotion of CSR and SDGs in Danish companies provides funding to business organisations on a sectoral basis (see Box 34 below).

Box 34. Grant pool for the promotion of CSR and SDGs in Danish companies.

The grant pool for the promotion of CSR and SDGs in Danish companies was established in 2020 by the Council for Corporate Social Responsibility and World Goals in collaboration with the Danish Business Authority. The pool provides grants to projects that seek to promote and facilitate the uptake of CSR/SDGs in SMEs within specific industries by addressing issues most relevant to those sectors. A total of 2.8 million DKK and up to 0.5 mill. DKK in grants for industry-oriented activities was made available. Currently, projects targeted at the IT, agro-food, fashion, and textile, chemical and the construction industries have received funding. For example, one of the projects is oriented at the HORECA sector and will develop a targeted awareness-raising campaign, as well as provide concrete guidance to SMEs on how to integrate SDGs into their business operations. Another project was developed by organisations within the fashion and textile industry and aims to develop a practical booklet for SMEs that should make it easier to exercise due diligence in their global supply chains. The booklet is expected to be presented to 200 companies, including a detailed presentation on how to use it.

Source: <https://erhvervsstyrelsen.dk/tilskudspulje-til-fremme-af-arbejde-med-samfundsansvar-og-verdensmaalene>

Furthermore, **taxation instruments** seem to be an unexplored area for encouraging CSR/sustainability practices, with only a few countries experimenting with this approach. For example, environmental taxes, which follow the polluter-pays principle, are already prevalent in some EU countries, but according to the Institute for European Environmental Policy (2021), overall, they are “neither fair nor green”. However, for SMEs tax incentives could be a more positive way of incentivising CSR/sustainability uptake. Countries such as Germany and Austria have introduced tax credit measures to encourage sustainability, while France has a well-established scheme for promoting the employment of persons with disabilities (see Box 35 below). This approach could be picked up by other Member States provided that there is sufficient political will.

Box 35. The French law on disabled persons.

The French law on disabled persons requires any establishment with more than 20 employees to issue a declaration with respect to mandatory employment for disabled workers. Entities must employ a share of persons with disabilities in their organisation (at least 6%) or pay a contribution to the development fund for the professional integration of disabled people (AGEFIPH). To facilitate the hiring and retention in employment of disabled workers, financial support is available. Employers are eligible for financial assistance to cover equipment costs and specific training.

Source: <http://www.euroblind.org/convention/article-27/france>

Most importantly, SMEs need to see the potential returns of CSR/sustainability practices. For any financial incentives to be effective, the business case for CSR/sustainability needs to be clear. Northern European countries have been very successful in fostering this approach, and especially Finland, where CSR/sustainability practices are perceived as highly beneficial due to economic returns (see [section 6.3.1.](#)). In this case, **sustainable public procurement** can offer attractive opportunities for SMEs. Northern European countries truly exemplify this approach, where both Denmark and Finland are increasingly including sustainability criteria in their procurement requirements. For example, the Danish government launched a new strategy on green public procurement in 2020, which induced a proposal for state employee canteens to introduce vegetarian and organic food, as well as use products that are eco-labelled. Several EU Member States have put forward commitments to encourage green procurement, but they are not always followed-through (e.g. see cases of [Romania](#), [Croatia](#) or [Lithuania](#)).

6.4.4. Informational measures

While there are many various types of information already available on CSR/sustainability for companies, when it comes to SMEs, there are multiple barriers that prevent them from benefiting. Making use of informational measures comes down to the following:

- **SMEs lack the time and the human resources to undertake a full assessment of available support** and understand the extent of its relevance. There is an abundance of information, but it requires extensive research and a good understanding of what is to be done about it. In this respect, most of the available tools and guidelines are more suitable for large enterprises that have the capacity to absorb it. Larger SMEs that have the resources to undertake additional activities do not necessarily need such support, but smaller and less experienced enterprises do. The Irish government has developed a platform where SMEs can easily find such information (see Box 36 below.)

Box 36. supportingSMEs.gov.ie: a database of government support initiatives.

supportingSMEs.gov.ie is an online platform which aims to inform about the range of support measures offered by the Irish government to SMEs and start-ups working in Ireland's transport, retail, tourism, manufacturing, and banking & insurance sectors. To receive information about which measures they can use, companies first have to fill in a brief questionnaire that consists of questions about the company's size, sector of the economy, business structure and expectations. After completing it, companies are given a list of support measures that may apply to their needs. The Irish government offers over 1,700 financial, recruitment related and guidance measures, such as mentoring, consulting, and training. The support measures include government departments and

specific agencies, such as Enterprise Ireland or Ireland's Seafood Development Agency, and local council offices.

Source: <https://supportingsmes.gov.ie/sme-search/>

- **SMEs are unable to see the business case behind the suggestions.** There are various guidelines and toolkits available, but SMEs struggle to apply them in practice, and especially to integrate them into daily business operations. The latter is key because study results show that ethical motivation is not enough to drive CSR/sustainability forward. Box 37 below showcases a good practice example from Germany.

Box 37. German Sustainability Code: guidance for SMEs.

German Sustainability Code (DNK) is a standard for German SMEs that helps them increase CSR/sustainability practices in their business operations. The Guideline on the Sustainability Code explains the four main sections of the code: 1) strategy – this part concerns the assessment of risks and opportunities associated with increasing sustainability and strategy development; 2) process management – concerns the sustainability level in companies' management systems; 3) environment – concerns awareness about environmental sustainability; 4) society – concerns knowledge and methods to ensure decent working conditions. This guide helps companies understand the purpose of the code and how to successfully apply it.

Having the code helps German SMEs get started with the day-to-day practice of sustainable management and to continuously improve it. It also appeals to companies that are still in the early stages of sustainable management or that have been tackling the issue of sustainability in many ways and now want to organize their activities more systematically. Moreover, the Code provides guidelines on CSR reporting and allows companies to compare their CSR reports, thus establishing a network of companies collaborating to make the business environment in Germany more sustainable. The Code was developed by the German Council for Sustainable Development (RNE) with support from a variety of stakeholders and was launched in 2012.

Source: <https://www.deutscher-nachhaltigkeitskodex.de/en-GB/Home/DNK/DNK-Overview>

- **SMEs lack the capacity and sometimes the necessary incentives to implement suggested activities.** While toolkits, guidelines, and even trainings or good practice examples might seem appealing, SMEs sometimes need additional support that could be provided via networks and partnerships or as other types of incentives, with financial being the most relevant.
- **The information provided does not address specific SME needs.** In this case it is quite clear that SMEs have very different needs when it comes to their maturity, specific business model or sector within which they operate. It has already been emphasised several times throughout this report that, overall, SMEs are most willing to learn from **good practices** (see [section 2.5.](#)). SMEs really lack know-how when it comes to CSR/sustainability and they are most willing to learn from their peers (see Box 38 for an example). However, more mature companies or companies operating in third countries need additional information on a particular location, including possible risks as well as opportunities and here support is especially lacking.

Box 38. BipiZ platform for Good Practices.

BipiZ is a database of good practices developed by Réseau Alliances (a network of companies with expertise in CSR) and the World Forum for Responsible Economy (a think tank). The platform contains a collection of best practices and success stories on company engagements in CSR activities that cover over **1,200 concrete examples** from 600 companies, 15 countries, and 9 sectors (i.e. food industry, finance, telecommunications, trade, energy/water, industry, services, health/cosmetics sector, transport sector).

The platform allows users to find good CSR practices that suit their business best and encourages users to replicate it. BipiZ is based on the ISO 26000 standard and enables the filtering of good practices in accordance to the following seven categories: governance, environment, customers & consumers, human rights, good business practices, work relations and conditions, societal commitment. Further search by keywords, topics, business sectors and company size is also included. It is accessible in the French, English, and Spanish languages. Descriptions of Good Practices include contextual information on the practice and organisation, aims and goals of the practice, steps taken to achieve those goals, how this contributed to the company performance and the benefits it achieved. Each description also features the contact information of the organisation that implemented the practise for users to contact for further information.

BipiZ also functions as a communication medium that allows companies to submit their good practices. To be included in the database a **CSR Good Practice must meet 6 criteria**, namely it must be led by a business, be voluntary and sustainable, go beyond legal obligations, be duplicable by another company, contribute to the economic performance of the company and generate social, environmental and/or governance benefits.

Source: The benchmark platform for Good CSR Practices <https://www.bipiz.org/fr/>

6.4.5. Partnering measures

Partnering measures can be effective for bringing a more integrated, and a result, more effective approach to CSR/sustainability. They help to bring stakeholders together and enable them to benefit and strengthen each other in achieving mutual, or at least closely related, goals. Furthermore, partnerships really contribute in forming a virtuous circle, whereby each entity becomes obliged by its relation to others to ensure responsible conduct. To SMEs, partnerships can be especially beneficial with respect to supply chain diligence, including ensuring respect for human rights and as a means of finding like-minded partners who will also prioritise CSR/sustainability. However, partnering measures are more prevalent and also **tend to be significantly more successful in countries where stakeholder cooperation is a well established tradition**. In this case, countries such as Germany, Denmark, Finland, and especially Italy and Spain are exemplary. While Southern European countries might lack a more systematic approach to CSR/sustainability, they place significant emphasis on facilitating regional and grassroots initiatives, as well as involving as many stakeholders as possible to contribute to CSR/sustainability activities. This somewhat follows from the decentralised and more regional nature of governance in both Italy and Spain, but successful multi-stakeholder cooperation in Denmark and Finland demonstrates that this approach can be transferred to other contexts (e.g. see Box 39 below).

Box 39. Danish Climate Partnerships: collaborations to combat climate change.

Danish Climate Partnerships are 13 partnership initiatives between the Danish government and businesses that seek to identify and effectively solve problems associated with climate change. These partnerships represent 13 different industries. Companies working in these partnerships have already presented their solutions on reducing CO2 emissions by 70% by 2030 to the Danish government and are currently working on drafting recommendations on CO2 reduction in their respective industries and strengthening industry competitiveness on a global scale. They help raise awareness about climate issues and encourage the introduction of environmentally sustainable policies in Danish businesses. Danish Climate Partnerships was initiated by the Ministry of Business Affairs of Denmark.

Source: <https://em.dk/ministeriet/arbejdsomraader/erhvervsregulering-og-internationale-forhold/klimapartnerskaber/>

However, partnerships are more beneficial to and **more valued by companies that already prioritise CSR/sustainability**. They allow such companies to strengthen their business case for sustainability and, in those cases where global suppliers are involved, strengthen resilience. For companies without a CSR/sustainability strategy, partnerships are much less appealing because they require already having a certain level of capacity with respect to CSR/sustainability, which such companies simply do not possess. Furthermore, partnerships and alliances are not made to be the same, hence specific needs are also relevant. Sectoral partnerships are beneficial insofar as they are able to provide tools and means to conduct sector-specific CSR/sustainability activities, but cross-sectoral partnerships can be more beneficial for finding business partners. A good example of a sectoral partnership is provided in Box 40 below.

Box 40. Partnership for Sustainable Textiles.

The Partnership for Sustainable Textiles is a multi-stakeholder initiative supporting its members in exercising corporate due diligence and improving conditions in global textile supply networks. As of 2021, the Partnership is made up of 140 members (1 Federal German Government, 2 Unions, 7 Standards Organisations, 8 Advisory Members, 21 NGOs, and 99 Businesses).

Organisations seeking membership must establish basic due diligence requirements before joining and then undergo a **two-tier review process**. During the Review Process, the organisation conducts an **individual risk analysis** based on eleven sector risks. According to the results of the risk assessment, the organisation sets **targets and measures** it will employ in the next two years. All companies must set targets for living wages, chemical & wastewater management, and corruption, as well as committing to enhance the share of sustainable cotton. After the risk analysis and after targets are verified during an in-person assessment with experts, the company publishes its progress report.

Partnership Initiatives for collective engagement on the ground in production countries worldwide is another pillar of the Partnership. For example, one of the currently running initiatives is on living wages (i.e., the three modules include learning, training, and practical field work in target production countries).

The Partnership also functions as a knowledge base, a **know-how** on the implementation of the OECD Guidance for the sector. The know-how focuses on three areas: how to implement due diligence, how to handle specific risks and tools to spread know-how.

The Partnership is a foundation for another policy support measure in the German textile industry—**the Green Button label** (Der Grüne Knopf). Textiles marked with the Green Button certification label are considered to be manufactured in a socially and environmentally sound manner and in line with the highest standards.

All companies that manufacture and/or sell textiles can apply for the certificate. The Green Button is awarded to companies after independent auditors check for compliance with the required standards or audit the production sites in production countries. 46 social and environmental criteria must be met for the company to obtain the label. The entire company is audited before any single product is awarded the label. To check on compliance, the company is re-audited every three years, but unannounced checks can be carried out.

The label is continuously being developed. Foreseen updates include an expansion of the criteria, as well as an expansion of the audit to cover more supply chain stages.

Source: <https://www.textilbuendnis.com/en/>.

6.4.6. Disclosing and promoting measures

Unless they have a sustainable business model or CSR/sustainability strategy, most SMEs are not interested in disclosing information about their business practices. They see little benefit and, therefore, are not very interested in support measures of this kind. However, the agro-food industry, in which labels and certifications are relatively popular when compared to other sectors, has demonstrated that **customer demand for more**

responsible/sustainable products or services could drive SME interest. As a result, for labelling or certification measures to be effective, significant efforts are required in making the label or certificate credible and well-known amongst customers. At the same time, the variety of areas that could be interesting for companies to obtain a label in, depending on the geographical local or sector within which they operate, would make it difficult to have a unified approach. Sectoral schemes are being developed in France (see Box 9 in [section 4.6.](#)) and could be promising, especially as industry-led schemes can offer recognition for certain labels or certificates as well as remove pressure from SMEs. SMEs need support in determining how this approach could benefit their business case and which specific labels or certificates would be the most useful.

Awards tend to be most common in CEE and Western Balkan countries, **where a more rigorous approach to CSR/sustainability is lacking.** It has become quite clear that CSR/sustainability awards can be used to boost visibility, but they do little for fostering CSR/sustainability uptake (see Box 41 below). This approach mostly stems from a purely business-led CSR/sustainability framework and would benefit from public sector engagement to address more complex societal and/or environmental challenges.

Box 41. The National CSR award.

The National CSR award is a joint initiative by the Croatian Business Council for Sustainable Development (HR BCSD) and the Croatian Chamber of Economy. It is given each year to several Croatian companies, each within a separate category, namely large, medium, small, and state-owned enterprises. The award is based on the CSR-index that was developed to assess seven CSR areas. The methodology for this index was developed during a joint project that took place in 2007 and was mainly funded by the AED (previously Academy for Educational Development), a global non-profit. The project resulted in a complete methodology for three extensive questionnaires tailored to large and medium (119 questions), small (64 questions), and state-owned (92 questions) businesses. The questionnaires enable the organisers to collect significant data on the types of practices undertaken by companies as well as monitor their progress. Around 100 Croatian companies participate in this initiative each year. However, according to Croatian business representatives, the award is more about **making responsible companies visible** rather than encouraging more companies to engage in CSR activities. This is mainly due to the fact that the CSR-index and the questionnaire on which the companies' standing is assessed is very extensive, hence many companies are simply unable to collect the type of data required. As a result, the number of participating companies remains limited and most of them are already more responsible than an average Croatian business. To address this issue, the current application is being updated to become more user-friendly in the future.

Source: National CSR Award, <https://www.hgk.hr/index-dop-hgk/index-dop> and stakeholder interview.

7. CONCLUSIONS AND RECOMMENDATIONS

This chapter provides conclusions on the uptake of CSR in SMEs and start-ups and relevant policies fostering the uptake of CSR in SMEs at the EU and national level, together with recommendations to three distinct target groups, namely the European Commission, national authorities, and business support organisations/sectoral associations.

7.1. Conclusions

While the study has collected an overwhelming amount of data on CSR uptake within SMEs, the conclusions mainly focus on the **drivers and obstacles for CSR uptake, and what can be done to overcome them**, taking into account the variety of different SME types with regard to their approaches to CSR/sustainability. The conclusions are structured as follows: first of all, we start with a discussion about the conceptualisation and communication of CSR, secondly, we discuss the drivers and barriers for CSR uptake, reflecting the variety of approaches within SMEs and start-ups, including different CSR areas, and sector-specific takeaways, and, finally, we summarise key findings with respect to relevant policies fostering the uptake of CSR.

7.1.1. Conceptualisation of CSR/sustainability in SMEs

Study results have shown that SMEs struggle with articulating their CSR/sustainability commitments and commonly tend to under- or over-state the level of their efforts. Ultimately, this points to a **lack of understanding amongst SMEs on what constitutes CSR/sustainability**, and how it should be articulated. During this study, we have referred to CSR uptake and CSR activities simultaneously as CSR/sustainability activities to emphasise the variety of activities SMEs undertake, which result in positive social and/or environmental impacts. **However, the terms of CSR, RBC, and sustainability reflect different expectations with respect to business conduct and, when it comes to SMEs, the communication of them remains essential.**

While these terms are closely related, it should nonetheless be noted that differences in these terms need to be taken into account if the discourse and support for responsible enterprise engagement is to be further developed and maintained. This is especially true when considering SMEs – they are likely to disassociate themselves from terms such as CSR or RBC because they implicitly refer to corporate endeavours and corporate-level issues. Based on the results of this study, the following differences between the terms should be taken on-board:

- **CSR** remains associated with philanthropy and various **purely voluntary social endeavours** (Sales, 2015), **more commonly used for PR purposes** than to address systematic long term issues **within large enterprises**¹⁸³. Such activities are perceived as non-essential “nice-to-haves” that might have little to do with actually reducing the adverse negative impacts of daily business operations.
- **RBC**, on the other hand, is more frequently associated with company **accountability, compliance, and overall transparency**. The definition of RBC explicitly outlines that RBC means, first and foremost, complying with laws (OECD, 2011). While this is certainly important and remains extremely relevant with

¹⁸³ More information available at: <http://oecdinsights.org/2016/01/22/2016-csr-is-dead-whats-next/>.

respect to certain activities and sectors (e.g. prevalence of undeclared work), in the case of SMEs it only serves to communicate negative requirements rather than expectations for positive efforts (i.e. SMEs understand it is enough to not engage in illegal activities of any kind and if any unethical practices are not prohibited, they will see no issue with doing them). Furthermore, overly rigorous accountability and transparency requirements can be perceived as a serious additional administrative burden by SMEs and instead of nudging them towards responsible conduct, result in mock-compliance.

- **Sustainability and sustainable business practice** are terms that have slowly taken centre-stage over the last decade. Politicians, businesses, and society at large are increasingly using the term “sustainability” in discourses on a variety of human activities, which are conducted by keeping in mind their social and environmental impacts. However, the term remains strongly associated with various “green” activities. This can result in misunderstandings amongst consumers and SMEs, whereby social concerns are perceived as potential trade-offs in favour of reducing negative environmental impacts. Such perceptions can deter certain types of SMEs from placing additional efforts, especially as “sustainability” in some instances becomes associated with upper-tier consumers who only make up a small niche segment.

7.1.2. CSR/sustainability uptake in SMEs and start-ups

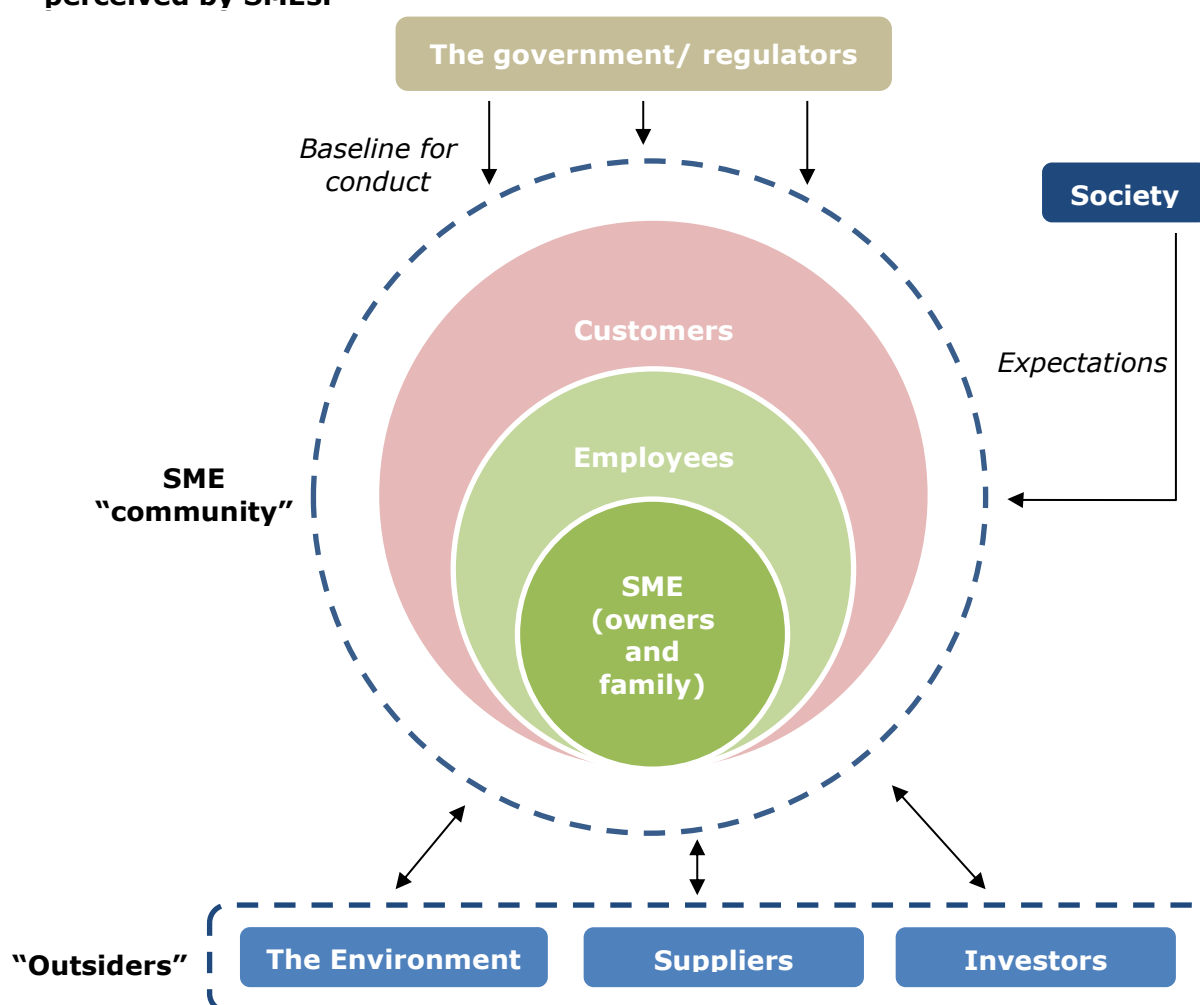
Key general drivers and motivations for CSR/sustainability uptake

Most SMEs (approx. 97%) perform some kind of activity that can be labelled as CSR. On the most general level, many companies are growing aware of the general discourse on sustainability in relation to business operations. However, this does not necessarily result in concrete action because SMEs lack the necessary practical knowledge and additional incentives. For the majority of SMEs, CSR uptake amounts to the following:

- **Ethical motivation to reduce negative impact on society and/or the environment is the primary reason** why SMEs tend to uptake CSR/sustainability practices. The owner-manager plays a key role and, unless CSR/sustainability is prioritised on a personal level, uptake will be low. This requires both significant awareness and the capacity to transform that awareness into concrete action.
- **SMEs more commonly conduct activities that require little to no additional efforts outside of ordinary legal obligations** and purely voluntary CSR/sustainability practices remain more limited. SMEs, especially those active in more regulated areas or sectors, struggle to ensure strict compliance with all regulatory demands. As a result, any activities beyond the legal “threshold”, irrespective of their substance, will be displayed as CSR efforts. However, SMEs with a more serious commitment to CSR/sustainability are likely to conduct more extensive activities that result in a greater impact because they tend to be more integrated with essential business operations.
- **The government/regulators are relevant insofar as they set the baseline and point towards certain societal expectations**, which can greatly vary from country to country. Regulatory requirements remain an important driver that helps to raise labour or environmental standards in many countries, but at the same time limits room for conducting activities on a truly voluntary basis.

- **SMEs are mostly concerned with benefiting their most immediate stakeholders, namely employees and customers**, both of which also coincide with what is perceived as the local community within which an SME operates. Improving image and reputation before customers and local communities is extremely important to SMEs and their expectations are strongly reflected in SME activities. However, lower expectations result in less responsible conduct. Other stakeholders remain less important and SMEs devote less attention to bringing value for them. Accordingly, SMEs are mostly concerned with the direct impact of their business operations.
- **The larger share of SMEs do not follow any information disclosure practices because the costs of disclosing such information outweigh the benefits.** Unless information disclosure practices are somehow integrated with a particular business case for CSR/sustainability, SMEs have little reason to engage. Furthermore, SMEs rarely have the capacity to collect and analyse relevant data – they are seldom sufficiently aware of which data needs to be collected and might lack the technical means of accessing it.

Figure 42. Key stakeholders in relation to CSR/sustainability action as perceived by SMEs.



Source: Authors' elaboration based on study data.

Figure 42 above provides an illustration of how SMEs perceive all stakeholders who may benefit from a more rigorous CSR/sustainability approach. While the traditional scheme

(provided in [section 1.1.4.](#)) showcases all stakeholders as equally important from a CSR/sustainability perspective, in practice this is not the case for SMEs. Hence, the motivation to uptake CSR/sustainability practices is strongly connected to what is perceived as a “business case” for the company. As a result, while internal **motivation, just like basic awareness, both of which depend upon the SME owners/family, are necessary conditions for higher CSR uptake, they are not sufficient.** SMEs need further incentives to act upon this motivation, and they especially need to understand the added value it brings to their business without, however, resulting in trade-offs. Such incentives are closely tied with what SMEs perceive as **a business case for CSR** and amount to the following:

- **SMEs perceive their employees as their most important asset**, and they acknowledge the so-called business case in ensuring their well-being. Ensuring decent working conditions is a top priority for most SMEs, irrespective of their size, age, or area of activity. SMEs tend to value their employees both due to strong personal relations within the company and the high costs associated with employee turnover.
- **Customer demand and satisfaction are key drivers for all SME activities**, including CSR uptake. Meeting expectations set by buyers, either consumers or other businesses, is the second most relevant driver after ethical motivation. This is reflected in the extent to which SMEs prioritise consumer needs – most companies were said to conduct activities with respect to **consumer benefit**. However, if buyers or consumers do not prioritise sustainability in their purchasing decisions, SMEs will be less likely to invest in it as well. Furthermore, in cases of B2B relationships, pressure from large enterprises to uptake CSR/sustainability practices can be perceived as coercive and unfair, thereby resulting in “mock compliance”.
- **The business case for other CSR activity areas does not seem as clear-cut** and, as a result, SMEs tend to be less engaged in them. Many SMEs struggle to see the positive benefits of CSR practices on costs, efficiency, or even revenue and market share. In areas such as environmental protection or human rights, most SMEs tend to limit their actions to very straightforward activities, namely recycling or sustainable packaging, respect for basic employee rights, and sometimes efforts to ensure non-discrimination.
- **SMEs tend to be least involved in community involvement and development initiatives** because they fall outside their direct business needs. Large enterprises might conduct these activities for marketing and PR purposes, but SMEs are not interested in this. While business support to local communities can take very diverse forms that extend beyond *ad hoc* charitable donations, the latter remains the most popular type of activity. More impactful activities require strong networks, as well as substantial capacity from both the businesses and the stakeholders involved, but these remain limited in most countries.

Table 18 below illustrates how internal and external requirements for each CSR area are perceived by SMEs, which plays a decisive role in whether an SME will uptake activities under a specific area. It is clear that activities requiring capacity and investment are unlikely to be conducted, especially if they are not legally required or there is no pressure to conduct them. Activities for which the perceived benefit to business is very clear are the most likely to be conducted.

Table 18. Internal and external requirements for CSR/sustainability action in each area as perceived by SMEs.

CSR area	Uptake	Legal compliance	Perceived benefit to business	Customer pressure	Requires capacity	Requires investment
Decent work	High	Yes	Yes	No	No	Sometimes
Consumer issues	High	Yes	Yes	Yes	No	No
Environment	High/moderate	Yes	Sometimes	Yes	Sometimes	Yes
Community involvement	Low	No	No	Sometimes	Yes	Sometimes
Human rights	Low	No	No	Sometimes	Yes	Sometimes
Business relations	Moderate	Sometimes	Sometimes	Sometimes	Sometimes	Yes
Governance	Moderate	Sometimes	Sometimes	Sometimes	Sometimes	Yes

Source: Authors' elaboration based on study data.

Key barriers faced by SMEs, and the impact of the Covid-19 pandemic

Policy support needs are not only strongly dependent on the drivers and various SME features, but also on the key barriers. Study results have shown that a lack of a clear and viable business case for CSR/sustainability action (lack of market incentives) is perhaps the most important barrier, but it is not articulated by SMEs as such. Instead, SMEs claim that lack of financial and human resources, as well as practical knowledge, are more significant.

In light of the COVID-19 pandemic, some of these barriers have become more pressing and can be detrimental to the uptake of CSR/sustainability. SMEs, and especially in some sectors in particular (e.g. tourism and hospitality, or retail), will prioritise company survival over any other concerns. SMEs are **unlikely to be interested in CSR/sustainability practices unless they really help them to bounce back into business**. The EU post-COVID-19 recovery instrument NextGenerationEU¹⁸⁴ features several funds that should dedicate a share of funding to facilitating the green and digital transition of SMEs, however, it remains to be seen how SMEs will respond to this, especially as many are currently more interested in survival than anything else. The pandemic has also caused SMEs to experience disruptions in supply chains, and some companies might be more interested in conducting supply chain diligence, but they will nonetheless need support to get on the right track.

Table 19 below provides an overview of key barriers and their implications for policy support.

¹⁸⁴ More information available at: https://ec.europa.eu/info/strategy/recovery-plan-europe_en#nextgenerationeu

Table 19. General barriers for CSR/sustainability uptake in SMEs

Barrier	Implications for policy support
Lack of financial resources is a significant barrier, irrespective of any company specifics. SMEs operate on relatively short-term horizons and any medium-to-long-term investments are approached as a considerable risk. More systematic activities such as transforming production processes or auditing suppliers entail a serious investment without guaranteed commercial gains.	Supporting businesses in developing a business case for CSR/sustainability that will really bring profit in the medium-term is key. The business case for each business will be unique and this is precisely where support is needed via more accessible networking or consultancy services.
Lack of human resources is also a very significant barrier that leads to other barriers for SMEs, namely a lack of capacity to take stock of what support is readily available, and the ability to think-through and develop CSR/sustainability activities. This is a key issue for smaller companies or micro-enterprises.	SMEs require straightforward, highly accessible, extremely well-targeted, and user-friendly support . Currently, most tools are more suitable to large company needs. Communication and SME outreach also remain relevant – a possible “one-stop-shop or other means may be considered.
Lack of practical knowledge on how to integrate CSR/sustainability into business operations constitutes another major obstacle. SMEs are well-aware of the concepts of CSR/sustainability, but they lack the purely operational kind of knowledge to be able to integrate CSR/sustainability principles into daily business operations.	Good practice examples from other companies or organisations are the most required support amongst SMEs after financial measures. Companies need to understand 1) how a certain area of concern is approached, 2) how an appropriate practice is developed and finally, 3) how does it really function on a day-to-day basis. Toolkits or guidelines on their own may be less relevant to SMEs because they remain unsure of how to apply them in practice.
Lack of awareness on available support programmes , not only due to lack of resources (see above) but also due to the lack of it. The primary support available to SMEs is highly “vertical” in nature, where they may receive support for a specific issue or area without integrating CSR into company operations in a more holistic manner.	When it comes to CSR, policy support is fragmented. SMEs need support in determining what support they need and how it connects to their business case.

Source: Authors’ elaboration based on study data.

Approaches to CSR/sustainability: four types of SMEs

Study results show that SMEs vary significantly in how they approach and communicate CSR activities (discussed in Table 20 below). Based on the data collected, we proposed to distinguish at least three relevant types of companies: sustainable business models, companies with a CSR strategy, and companies with limited (or no) CSR activity. The last group can be further divided into two groups, namely those SMEs that acknowledge CSR/sustainability as a concern and are interested in taking action, but haven’t done so due to various barriers, and SMEs that do not distinguish CSR/sustainability from “business as usual”. Sustainable business models are more often picked up by young and small companies, while sustainability strategies are implemented by larger and older

enterprises. However, the majority of companies (47.4%) are characterised as those without a CSR/sustainability strategy and either planning for one (23.3%), or not (24.1%). This is a particular segment of smaller companies that perceive CSR/sustainability as a noted concern, but lack the motivation, capacity, and the means to conduct more substantial activities. While the first two types would need a boost to expand their CSR/sustainability activities and engage in different collaborations and alliances, those with the CSR/sustainability potential, but only modest or no CSR activity at present, would mostly benefit from regulatory measures (especially in informal sectors, transport etc.) and capacity building support.

While study results have shown that **companies approaching CSR/sustainability in a strategic way have the most positive impact**, this approach might not be suitable for all companies, especially as CSR/sustainability strategies are more prevalent amongst better-established, larger enterprises that, more commonly, operate in manufacturing sectors and conduct business operations outside the EU.

Table 20. SME categories according to their approaches to CSR/sustainability

Relation to CSR/sustainability	Types of companies	Motivation and implications for policy support
CSR/sustainability at the core (sustainable business models)	<ul style="list-style-type: none"> - Young (start-ups), often small. - Tend to benefit the environment. - Common in sectors well-placed to have sustainable business models, e.g. retail, tourism, or the agro-food industries. - Found in most countries to an extent, but rare in the Western Balkans, Greece, Croatia. 	Do not perceive regulation as an incentive and believe that they would benefit from a better business environment. Value networking opportunities and partnership opportunities as a means of accessing new markets.
CSR/sustainability as a priority (CSR/sustainability strategy)	<ul style="list-style-type: none"> - Large and well-established or in sectors involved in manufacturing or production (as opposed to services). - Operates both in and outside the EU. - More common in Northern and Western EU countries (e.g. Finland, Denmark, France). 	Clearly see the business-case for sustainability, driven by opportunities to increase cost savings and efficiency, improve innovation performance and gain better access to finance. Commitments are more systematic, extensive, and integrated with essential business operations, resulting in more substantial impact. However, measurable targets or key performance indicators are rare. Value networking and partnership opportunities because they can provide better access to various resources and information and enable to build partnerships with like-minded peers.

Relation to CSR/sustainability	Types of companies	Motivation and implications for policy support
CSR/sustainability as a noted concern (planning for a business strategy)	<ul style="list-style-type: none"> - Small (10-49 employees), between 6 and 20 years of age. - Found in most countries to a similar extent. 	Appreciate the business-case for CSR/sustainability and are motivated by gaining access to foreign markets. Lack of human resources especially acute because actions need to be developed and established. External means to facilitate business transformation (e.g. business consultants) could be relevant until the transformation is complete.
CSR/sustainability undifferentiated from "business as usual" (no strategy)	<ul style="list-style-type: none"> - Micro-enterprises (1-9 employees) and self-employed, between 11 and 20 years of age, or in labour-intensive industries such as transport, agro-food. - Most common in CEE countries such as Lithuania, Czech Republic, Poland, etc. 	More likely to engage in CSR/sustainability activities on an informal but regular basis. Before adopting a more rigorous approach, might need to be convinced about the business case for CSR/sustainability. Not interested in networks or partnerships but likely to benefit from measures tailored to specific business needs (e.g. company size, sector, CSR area targeted). Regulations, especially for sectors where the risk of an informal economy is high, are a strong incentive.

Source: Authors' elaboration based on study data.

Table 21 below showcases the relevance of each type of policy measure for SMEs, depending on their relation to CSR/sustainability. The table makes it clear that a company's approach to CSR/sustainability plays a decisive role in what each enterprise will find useful and relevant. Furthermore, it should be noted that different types of SMEs will benefit from different types of activities within a policy type. For example, SMEs with a CSR/sustainability strategy (sustainability as a priority) might need information on which already existing partnerships they can join, or how to implement a specific activity the company has already decided on. For companies that are only starting on their CSR/sustainability journey, very specific information, for example how to address issues directly relevant to the industry they operate in (e.g. toolkits), with additional support (e.g. consultancy or trainings), will be more appropriate.

Table 21. Relevance of policy support measures to SMEs, depending on their relation to CSR/sustainability.

Relation to CSR/sustainability	Regulatory measures	Financial measures	Informational measures	Partnerships	Disclosing measures
CSR/sustainability at the core	*	**	**	***	***
CSR/sustainability as a priority	*	**	***	***	**
CSR/sustainability as a noted concern	**	***	***	**	**
CSR/sustainability undifferentiated from "business as usual"	***	**	***	*	*

Note: The table should be interpreted as follows: * - not very relevant, ** - relevant, and *** - very relevant.

Source: Authors' elaboration based on study data.

Finally, when looking at the share of companies that have a sustainable business model or CSR/sustainability strategy, some **regional differences are apparent**. SMEs operating in Greece, Central and Eastern European countries, as well as the Western Balkans and Turkey were somewhat less likely than SMEs operating in Western Europe or the Scandinavian countries to have a strategy in place or plans for introducing one. This is because the perceived business case for CSR/sustainability in home markets remains limited. SMEs in Western European countries such as Ireland and Austria also seemed to be less concerned with a strategic CSR/sustainability approach¹⁸⁵, but, in this case, a strong legal framework (Austria) and predominantly micro- and small enterprises (Ireland) are decisive factors.

Sector-specific takeaways

Finally, certain drivers and barriers to CSR uptake amongst SMEs are sector-specific. The sectoral dimension is very important, as it largely determines the types of issues companies tend to struggle with, and which CSR areas of action they will prioritise. Likewise, support needs will differ accordingly.

Overall, industry sectors that perceive the business case for CSR action are more likely to conduct activities:

- Sectors with the **highest level of CSR uptake**, namely the textile and garment, as well as the tourism and hospitality industries perceive and appreciate the business case of CSR/sustainability. Part of this perception is due to increasing consumer pressure that both large and small companies are subject to.

¹⁸⁵ With regard to CSR/sustainability uptake, the survey results should not be held representative of the countries' SME populations at large. The low number of responses, positive bias, as well as over- or underestimation of one's performance should be taken into account. Nevertheless, survey findings allow for the identification of some differences between countries, such as the prioritised activities and the motivations behind their practices.

- Sectors with a **moderate level of CSR uptake**, namely the agro-food industry, pharmaceutical sector and mining and quarrying industry are either heavily regulated (pharmaceuticals and mining and quarrying) or perceive some business case for CSR (agro-food), but due to price-based competition, sustainable businesses tend to occupy niche markets.
- Sectors with **below average level of CSR uptake**, namely retail trade and the banking, finance, and insurance sectors, see a limited business case for CSR/sustainability. For retailers, the business case is rather limited due to disinterested consumers, but such companies also struggle to uptake activities due to their size (unless they are an eco-shop). The banking, finance and insurance sector is heavily regulated already and, as a result, limits its activities to those necessary.
- Sectors with a **low level of CSR uptake**, in this case, transport and logistics, see a very limited business case for CSR/sustainability. Commonly, only the more innovative start-ups in the industry are proposing new business models that are also more responsible/sustainable.

Table 22 below provides an overview of key sector-specific takeaways.

Table 22. Sector-specific takeaways with respect to CSR/sustainability uptake in SMEs.

Sector	CSR uptake	Sector-specific takeaways
Agro-food industry	Moderate uptake, which hides stark contrasts between companies.	Strong business case for CSR/sustainability in niche markets, in which case production tends to be labelled/certified. Lower uptake in SMEs that sell production outside the niche markets due to price sensitivity.
Transport and logistics	Low uptake, competition remains based on price rather than quality of services.	Weak business case for CSR/sustainability because demand for sustainable transport services is low from other industries. CSR uptake in the area of the environment also strongly dependent on technology uptake. Regulatory requirements remain a strong incentive and can play a significant role.
Retail trade	Uptake below average , due to limited consumer interest despite opposite claims.	Dominated by micro-enterprises, often family-owned, hence lack of leverage and capacity limits higher CSR/sustainability uptake. Reactive to consumer demand, so consumer-awareness that translates into purchasing decisions remains key. Information disclosure on products can contribute to incentivising customers, but retailers are unable to collect, oversee and provide the full extent of trustworthy information. Strong business case for CSR/sustainability in niche markets.
Pharmaceuticals	Quite moderate uptake due to extensive regulations and limited business-case for CSR.	A highly regulated industry with a basis in R&D activities. Attracting and maintaining qualified employees is essential, so CSR/sustainability activities revolve around diversity practices, mentorship programmes, etc. Customer demand not a strong incentive due to the nature of production. Transparency and product safety are of essence to ensure credibility. Companies are likely to obtain standards and maintain good relations with CMOs. Lack of time is very acute, while the business case for CSR/sustainability remains rather limited.

Sector	CSR uptake	Sector-specific takeaways
Textile and garment industry	High uptake due to strong customer and institutional pressure	Highly internationalised, price-sensitive industry, subject to deterioration of environmental and social conditions. High level of societal awareness about these issues has led to improved efforts in due diligence (strategic commitment, labels, partnerships). Further collaborative efforts are needed to improve innovation performance and recycling.
Mining and quarrying	Moderate uptake, driven by compliance with regulations and pressure from local communities	Capital-intensive industry, dominated by a small number of large multinational enterprises. SMEs typically serve a local market in low-value, widely available raw materials. High environmental costs (disfigurement of local landscape, increased pollution) and occupational safety and health hazards. Innovative, circular solutions are lacking; inclusion of local communities' needs insufficiently addressed.
Tourism and hospitality	High uptake, but regional disparities are very high	The sector operates on low profit margins, which was further exaggerated by the pandemic. Support needed not only to financially recover, but to rebuild being more sustainable. Consumer preferences are also changing towards more sustainable services. However, accessibility and addressing the needs of local inhabitants is lacking in some countries. Subject to shadow economy and informal/unstable employment (compliance with legislation needs to be addressed).
Banking, finance, and insurance	Uptake below average , largely driven by compliance with regulations and accountability to stakeholders	A highly regulated sector with strict governance procedures. Has potential to increase the level of sustainability among businesses by applying sustainability criteria into lending and investment strategies. However, SMEs in this sector do not sufficiently acknowledge their indirect impact to sustainability. With respect to increasing EU regulations, further clarification and awareness raising are needed both for the investors and their clients.

Source: Authors' elaboration based on study data.

Table 23 below showcases the relevance of each type of policy measure for SMEs, depending on the industry in which they operate. The relevance of measures also largely has to do with the types of activities likely to be conducted within each industry (see Figure 30 in [Chapter 5](#)). For example, companies within manufacturing sectors work with natural resources and production facilities, hence as a result, they are likely to be interested in reducing their environmental impact, which, in turn, enables them to save costs. However, this requires financial investment and technical capacity. Companies within the service industries are more likely to be concerned with issues such as human rights or community involvement – engagement in those areas does not necessarily require financial investment, but rather capacity that partnerships can provide (see Table 18 previously).

Table 23. Relevance of policy support measures to SMEs, depending on the industry in which they operate.

Sector	Regulatory measures	Financial measures	Informational measures	Partnerships	Disclosing measures
Tourism and hospitality	*	***	**	**	***
Textile and garment	*	**	***	***	***
Agro-food	**	**	**	***	***
Banking, finance, and insurance	***	*	***	*	**
Mining and quarrying	***	**	**	*	**
Retail	**	*	**	***	***
Pharmaceuticals	**	*	**	*	***
Transport and logistics	***	**	***	**	**

*Note: The table should be interpreted as follows: * - not very relevant, ** - relevant, and *** - very relevant.*
Source: Authors' elaboration based on study data.

7.1.3. Availability of policies to facilitate the uptake of CSR

EU-level policies

The EU has been very active in its efforts to encourage and support the uptake of CSR/RBC and Business and Human Rights issues as part of its work on the United Nations 2030 Agenda for Sustainable Development and the associated Sustainable Development Goals. In this study, we focused on activities that are mainly targeted at SMEs, or, in the case of regulatory measures, may result in a significant impact. Below we discuss insights about available measures and remaining gaps, in accordance with the policy typology provided in [section 6.1](#).

- **Strategic commitments.** The EU has set up extensive strategic commitments with respect to various areas of action, as well as specific industry areas. This sets the tone for future policy in many EU Member States, and especially countries within CEE. However, SMEs are not always sufficiently included and/or informed about expectations, and especially when it comes to responsible conduct, the amount of diverging information can be difficult to manoeuvre.
- **Regulatory measures.** Certain CSR areas or specific economic sectors are subject to extensive EU-level legislation. Labour law, consumer rights or environmental protection all have established rigorous regulatory standards, further complemented by additional national-level requirements. Ultimately, enforcement and compliance with these frameworks remains key, and each Member State is responsible for ensuring proper conduct. Likewise, companies within sectors such as pharmaceuticals or banking, finance and insurance must respect industry-specific regulations. However, several additional EU-level directives and regulations, more horizontal in their scope, yet directly linked to company CSR/sustainability efforts, have been or are expected to be introduced. They are likely to impact SMEs as well, even though they will not necessarily be

required to meet the same legislative standards as large companies. At the same time, it remains essential that SMEs receive enough support if they are expected to comply or are believed to be impacted. Examples from support provided in other areas (e.g. Consumer Law or Due Diligence for Conflict Minerals) can serve as guidance on what may be the most appropriate pathway.

- **Financial measures.** When it comes to CSR, rather than covering a range of CSR-related activities, most financial measures are oriented towards very specific and singular activities. As such, these measures are most relevant to SMEs that already have a sustainable business model or a CSR/sustainability strategy. These measures are designed with a very specific purpose (e.g. support to R&D, eco-innovation, social entrepreneurship etc.), while schemes for addressing a range of issues and aligning them with a company's business model are lacking. At the same time, it is unclear whether such schemes would have any impact at the EU-level, and instead, national authorities ought to foster the business case for CSR/sustainability in their home markets, which would make the lack of finance less of an issue. The EU, on the other hand, may support national authorities in developing and establishing such measures through capacity-building.
- **Informational measures.** Numerous toolkits and guidelines are already available with respect to specific CSR areas or sectors, as well as specific projects or programmes. Additional support is also provided by international organisations (e.g. the OECD Guidelines for sectors such as the agro-food industry or the garment and footwear sector, the Global Compact Self-Assessment tool or the Circular initiative run by BusinessEurope). However, SMEs do not necessarily find this support accessible, are aware of it, or if it is sufficiently tailored to their needs. Most of the support available on the EU or International levels already requires a certain awareness with respect to CSR/sustainability matters and a keen sense of what could be improved in company operations. Furthermore, much of that support is provided as toolkits, guidelines and sometimes training materials, more applicable to large enterprises, while SMEs are mostly interested in concrete good practice examples. The EEN could make consultancy services via local sustainability advisors available, who are meant to provide practical guidance to SMEs in becoming more sustainable. This could be very valuable, however not sufficient, especially when bearing in mind human rights or supply chain diligence. To address the latter, SMEs require very specific information on the ground level, which is also currently rather limited.
- **Partnering measures.** Certain EU-level activities, namely EU development cooperation programmes and projects, exemplify the benefits of partnerships that include capacity-building activities, such as trainings, guidance, and consultancy. However, when it comes to European SMEs, most of them are removed from these developments as they seldom directly engage with developing countries since they lack the capacity to do so. However, it has been suggested that the EU could play a more extensive role in bringing together stakeholders, including SMEs, into these schemes for more sustainable trade.
- **Disclosing measures.** Awards are much more popular on national- or regional-levels because organisations operating at these levels have better access to local companies. However, some EU-level awards exist, and are especially oriented toward the most fully green or environmentally friendly enterprises. Awards can be attractive to companies seeking international exposure and especially start-ups, but also SMEs that are ready to expand and gain more access to international markets.

National-level policy measures

As expected, **regional disparities are significant in terms of policy support provided**, but there are also differences within the regions, due to differing national contexts. This is particularly apparent in government approaches and the types of stakeholders that can be named as the driving forces for higher CSR/sustainability uptake.

Overall, Northern European countries seem to have the most extensive policy support available, and they would be more concerned with EU-level action. Western European countries would benefit most from voluntary industry-specific schemes and multi-stakeholder partnerships, while Southern European countries require a stronger commitment to CSR/sustainability on a national level, together with measures that focus on the demand-side of sustainability. Central and Eastern European countries have relatively limited support available to SMEs, hence multiple routes could be explored. Likewise with the Western Balkan countries and Turkey, but in this case, ensuring legal compliance remains a very strong issue.

Key insights are as follows:

- **In Northern Europe, CSR can be placed under the broad label of sustainable growth.** Denmark and Finland can both be characterised by a far-reaching welfare approach in terms of social issues and a strong orientation on environmental sustainability. It appears that many SMEs have successfully combined economic competitiveness with sustainability considerations, a strict regulatory environment, and considerable tax contributions. **The Nordic countries are also known for strong stakeholder dialogue** and a supporting culture of trust among institutions, businesses, and society. This is also reflected in the high number of initiatives that are implemented in cooperation with stakeholder groups. Strong partnerships already exist in terms of achieving the SDGs and the 2030 Agenda. Ambitious goals to tackle environmental and social challenges are addressed on a sectoral or mission basis (e.g. Society's Commitment to Sustainable Development in Finland; 13 climate partnerships in Denmark).
- **Western European countries such as Germany, Austria, and France are often characterised by a strong presence of the government, extensive social security systems and institutionalised forms of stakeholder participation.** Business activities in different CSR areas often take implicit forms and are not labelled as CSR – in fact, they are often a legal obligation or are commonly expected by stakeholders. In fact, the increasing level of regulations in CSR-related fields is a prevalent topic in political discussions.
- **The uptake of CSR/sustainability in Spanish, Italian and Greek SMEs appears to be uneven.** While companies operating at the international level are highly aware of CSR-related developments in the EU and have developed strategic approaches towards it, most of the SMEs do not label their activities as part of CSR. Moreover, **compliance with existing legislation is often considered a special merit**, as the level of corruption and informality is still relatively high in countries such as Italy or Greece. With regard to CSR/sustainability policy support measures, institutions appear to be more active in Italy and Spain than in Greece. The latter aspect can be explained by the country's critical economic situation and the government's focus on solving fiscal issues rather than long-term sustainability challenges. While in Northern and Western Europe a stronger focus seems to be

placed on regulations, **'soft' policy support measures dominate** in Southern Europe. Facilitation of dialogue, support to small grassroots initiatives and civil society organisations are highly prevalent. However, stakeholders indicate that a more systematic approach is needed in the context of increasing pressure from the EU and international investors.

- **The public administrations in CEE are highly aware of the developments taking place in other EU countries, yet they do not fully 'internalise' these changes.** CSR is perceived as something that is 'politically correct' in the European Union, thus influencing national governments to introduce national CSR strategies. Nevertheless, the implementation of the declared commitments seems to be a concern of only the few organisations that are directly responsible for it. Most CSR-related policy actions appear to be concentrated within several civil society organisations and/or business networks, dominated by multinational and large enterprises. The biggest challenge will be to establish permanent and solid ties between different stakeholders. The consolidation of their currently fragmented efforts could bring a more strategic orientation in promoting CSR/sustainability.
- Serbia, North Macedonia (Western Balkans) and Turkey, have harmonised their legal frameworks with the EU and have set strategic goals towards achieving the SDGs. However, **the implementation of these goals and even the enforcement of the existing legislation is questionable.** Most of the companies still have a narrow understanding of CSR; some SMEs do not even comply with basic legislation (issues such as corruption, informal employment, and even child labour in the case of Turkey are still prevalent). It appears that the national governments are concerned with more immediate issues, such as economic stability or combating poverty, while long-term goals related to business sustainability are given a lesser priority. Although there are some dedicated units within the public administrations, their **capacities are too weak to implement impactful activities** and follow-through on strategic commitments.

7.2. Recommendations

This section provides recommendations that stem from the conclusions of this study. Recommendations are provided for three target groups, namely the European Commission (EU-level policy makers), national authorities and business support organisations/sectoral associations. Given that the study covered a very diverse range of topics, in some instances specific examples that were included in this study, are provided as references. These examples can be used to better understand the nuances of which types of policy action could be beneficial.

7.2.1. Recommendations to the European Commission

There are six key recommendations proposed to EU-level policy makers, namely:

1. Communicate expectations
2. Facilitate monitoring and reporting
3. Support industry-level schemes
4. Build capacity to ensure a more level playing field
5. Enable better information-sharing, networking, and partnership opportunities with respect to third countries
6. Ensure more extensive regulation of third-country imports

The rationale behind each recommendation is explained in more detail and specific recommendations for action are proposed under each general proposal.

1. Communicate expectations

The EU plays a key role in setting a common conceptual framework to facilitate discourse and enable policy action across Europe. Currently, a clear and **operational understanding on what constitutes CSR/sustainability**, and how it should be perceived in the business, and especially the SME context, is lacking. Enterprise self-perception remains a defining factor in how enterprises understand their efforts with respect to CSR/sustainability. This may hinder many enterprises from undertaking more extensive and impactful action because many believe they are doing enough. This further extends into a limited commitment and action on the country and sectoral levels.

Recommendation: Propose a clear framework with defined concepts that could be used to shape the discussion and communicate expectations for SMEs across different settings. This would help to achieve a more uniform understanding of expected conduct and allow for better coherence across different levels of policy making. Having such a framework would also enable the inclusion of an SME dimension in all sustainability related action in a more systematic fashion. Furthermore, the discourse on CSR seems to be fading and policy agenda is increasingly concerned with sustainability. Hence, consistent communication on where the priorities are remains relevant.

2. Facilitate monitoring and reporting

SMEs are facing more and more pressure from large buyers (esp. if large buyers are themselves subject to mandatory reporting and/or due diligence), consumers, or investors to showcase their CSR/sustainability efforts. However, most SMEs do not follow any information disclosure practices because they lack the knowledge and the capacity to do so. Any form of sustainability reporting amongst SMEs is especially rare, and SMEs will need tailored support to do this. This issue is also prevalent when it comes to monitoring their supply chains – a significant share of SMEs (approx. 68%) do not conduct due diligence for the same reasons, and unless provided with additional support and tools, will find it difficult to follow-through.

Recommendation I: In light of the CSRD proposal, voluntary reporting standards and tools, tailored to SME needs, are necessary. The standards could also function as a self-assessment or monitoring tool that is both simple but also sufficiently informative. However, SMEs will need support and guidance in how to practically use these standards, and especially how to collect the information required. Industry-specific requirements may be further added as long as the standards are accepted and recognized by industry stakeholders, as well as proportionate to SME capacity. The standards should also include a set of recommended performance indicators to guide SMEs towards collecting data. Examples already developed by other entities, such as the German Sustainability Code (see Box 37 in [section 6.4.4.](#)), or the SME Compass (see Box 26 in [section 6.3.2.](#)) may be used.

Recommendation II: Develop a relatively straightforward and easy to use *voluntary* supply chain due diligence framework for SMEs to help undertake supply chain due diligence. The framework should support SMEs in determining, preventing, and managing

risks in their supply chains, as well as providing guidelines/support on how to ensure compliance. This framework could be further adapted to specific industry needs and digital monitoring tools could be considered in certain industries where supply chains are very complex (e.g. agro-food or textile and garment). In these cases, sector-specific platforms could be used, where larger companies would be able to invite their smaller suppliers to participate. In this way, the smaller suppliers would receive the necessary help for ensuring supply chain due diligence, while larger companies would be respecting their own duties of mandatory due diligence (see Box 9 in [section 4.6.](#) for a similar example of this kind of sectoral approach). Additional information, provided alongside the framework, such as links to supporting business organizations or specific institutions, would be valuable.

3. Support industry-level schemes

The most significant impact with respect to CSR/sustainability uptake can be achieved if action is targeted at solving the most pressing concerns. As a result, focusing on specific CSR areas or issues prevalent within each sector remains essential. The EU can support the development of coherent sectoral policies and ensure that SMEs within each sector are sufficiently included.

Recommendation: Provide support to industry schemes that are looking for ways to address industry-specific challenges and ensure more responsible/sustainable conduct throughout the whole sector. This can include, but is not limited to, industry standards, industry-tailored tools, initiatives, or specific programmes. The textile and garment industry can be taken as an example, where industry-specific initiatives have already had a positive impact (see [section 5.5.](#) for more specifics).

Table 24 below provides a tentative overview of the types of challenges each sector tends to struggle with.

Table 24. CSR/sustainability challenges relevant to each economic sector.

Sector	Challenges
Agro-food	Undeclared/seasonal work, environmental degradation (esp. loss of biodiversity), high risk of adverse impacts in supply chains, food waste, uninformed/disinterested consumers.
Transport and logistics	Undeclared work/violations of labour rights, high greenhouse gas emissions, uninformed/disinterested consumers.
Retail trade	Undeclared work/violations of labour rights, risk of adverse impacts in supply chains, uninformed/disinterested consumers.
Pharmaceuticals	Reporting standards dependent on investor preferences, disinterested investors, and customers.
Textile and garment industry	High risk of adverse impacts in supply chains, inefficient use of natural resources, lack of standardised reporting methods and tools, uninformed/disinterested consumers.

Mining and quarrying	Lack of sustainable/circular solutions for the sector, high environmental costs, local community needs not respected, uninformed/disinterested consumers (sustainable enterprises not differentiated), unsafe working conditions.
Tourism and hospitality	Undeclared work/violations of labour rights, negative environmental impacts such as food waste, unsustainable use of natural resources, negative social impacts of "overtourism", limited accessibility of services.
Banking, finance, and insurance	Limited application of sustainability criteria in investment strategies, lack of investor as well customer awareness on CSR/sustainability issues.

Source: Authors' elaboration based on study data.

Furthermore, the sustainability of some sectors is especially dependent on innovation and higher technology uptake. In their case, additional R&D&I measures, as well as means to foster technology uptake and diffusion are relevant. Problematic areas are covered in more detail for the following sectors:

- Transport and logistics (see [section 5.2.](#))
- Textile and garment industry (see [section 5.5.](#))
- Mining and quarrying (see [section 5.6.](#))

4. Build capacity to achieve a more level playing field

Given the variety of cultural contexts and the diversity of commonly accepted business practices and standards, the EU can lead efforts in capacity-building with respect to CSR/sustainability uptake. In some countries capacity-building efforts are less relevant due to already existent and quite extensive support. However, this is not universally applicable. Furthermore, capacity-building remains relevant across all levels: national institutions/authorities, business support organisations/associations, as well as SMEs themselves.

Recommendation: The EU may steer efforts towards building capacity via the EEN sustainability advisors, but also with respect to national authorities, sectoral associations and business support organisations. An extensive package for knowledge-sharing activities that includes support on how to integrate CSR/sustainability into business operations, and online tool(s) for sustainability monitoring/management as well as reporting, will need to be provided to SMEs. Sustainability advisors may also play a key role in helping SMEs to find the information they need as well as encourage them to develop a more integrated approach to CSR/sustainability. Thematic workshops or trainings can be held for SMEs to help address specific challenges (e.g. workshops on developing a CSR/sustainability strategy, workshops on conducting due diligence, sustainability reporting, or investing in third countries). In addition, regional training programmes could be established in collaboration with higher education institutions to secure long-term effects.

5. Enable better information-sharing, networking, and partnership opportunities with respect to third countries

Supply chain due diligence may be ensured by finding long-term reliable partners in other countries, which further serves to increase company resilience to external shocks by

helping to maintain stable business operations. Due diligence is especially relevant when importing from third countries, where companies sometimes operate in a so-called “legal void”. However, while it can be beneficial to most parties involved, most SMEs find it difficult to conduct business in developing countries. Some EU countries provide SMEs with information through embassies and local networks, but many believe that more extensive EU-level coordination and support is needed. SMEs are often faced with a lack of information on region specifics, both regarding risks and opportunities.

Recommendation: Support SMEs willing to trade or invest directly in third countries with information on regional specifics, opportunities, and local networks (esp. development cooperation programmes and international partnerships, but also existing trade missions etc.). If necessary, additional financial incentives could be provided. To avoid unacceptable behaviour/corruption from SMEs in third countries, national contact points could be established. Such support could be matched with capacity-building programmes on proper conduct for both local and international stakeholders.

6. Ensure more extensive regulation of third-country imports

Currently, European SMEs struggle to compete with companies that operate outside the EU and adhere to lower labour as well as environmental standards. In that respect, responsible/sustainable SMEs will continue to operate in niche markets, as long as CSR/sustainability continues to be perceived as an additional expense rather than an expected standard for business operations. While it is crucial that European SMEs undertake their own share of action to reduce negative environmental impacts and contribute to positive social outcomes, this will not be sufficient in light of the global competition that is based on “a race to the bottom”.

Recommendation: The novel EU approach to international trade agreements stands out as beneficial to SMEs insofar as companies in third countries are increasingly subject to rigorous standards with respect to human rights, decent work, or environmental protection. However, more rigorous enforcement and monitoring of compliance is needed to ensure that companies on the home market are sufficiently protected. Furthermore, proposing a legislative framework for importers from third countries may be considered.

7.2.2. Recommendations to national authorities

There are six key recommendations proposed to national authorities, namely:

1. Commit to increasing the responsibility/sustainability of all enterprises
2. Foster the business case for CSR/sustainability
3. Support industry- or country-specific measures
4. Support stakeholder forums, local networks, and/or public-private partnerships
5. Provide sufficient information and tools tailored to SME needs
6. Ensure legal compliance

The rationale behind each recommendation is explained in more detail and specific recommendations for action are proposed under each general proposal. Not all recommendations are equally as relevant for each country/region, hence a short description and differentiation in accordance with regional specifics is provided at the end of this section.

1. Commit to increasing the responsibility/sustainability of all enterprises

There are large differences in how the expectation for companies to become more responsible/sustainable are communicated across EU Member States. In addition, in some Member States, efforts remain largely oriented towards large enterprises that use CSR/sustainability as a marketing strategy. A clear commitment based on multi-stakeholder involvement that is further accompanied by support measures is expected to have the most significant impact. This seems to be especially the case with Northern European countries, where a strong commitment with follow-up action has resulted in a higher CSR/sustainability uptake.

Recommendation: Sustainable and responsible industry needs to be articulated as a policy objective on a national level. National authorities should work on a **national-level commitment** to responsible/sustainable business and involve various stakeholders (businesses, NGOs, civil society organisations) to encourage voluntary participation and positive peer-pressure (for example, see Box 32 in [section 6.4.1](#), as a good example). An **institutional structure**, where constant stakeholder discussion and an exchange of ideas can take place, ought to be set-up (if it isn't already) to act as an advisory body and to also **monitor commitment**. They may initiate specific studies on how to achieve a more accurate understanding of CSR/sustainability issues within local businesses and, upon investigation, propose national-level programmes or support measures. Opinions, reports, or events can all be initiated/supported by this structure. A set of Key Performance Indicators (KPIs) could be used as guidance for what should be the key focus. They could also propose a framework for sustainability criteria to be used in public procurement (see below) or work to set up other kinds of policy measures that would strengthen the demand side of CSR/sustainability action as an expected norm amongst businesses. Various campaigns could be used as means to inform potential customers on which businesses place efforts in meeting higher standards, in this way nudging them towards "voting with their money" and increasing demand. However, it is very important that SMEs are explicitly included as stakeholders in their own right because they tend to be left out of such commitments.

2. Foster the business case for CSR/sustainability

A key barrier to higher CSR/sustainability uptake amongst SMEs is the lack of a clear and viable business case to accompany efforts. National authorities can play a strong role in fostering the business case for CSR/sustainability by setting up demand-side instruments which ensure that irresponsible/unsustainable enterprises do not find it easy to maintain doing "business as usual".

Recommendation I: Prioritise responsible/sustainable companies in public procurement by setting up sustainable procurement criteria and supporting its implementation. Sustainable public procurement schemes should be mainstreamed at the national, regional, and local government levels, and specific targets for each level should be proposed (for example, see [Denmark](#) on public procurement). SMEs should have the same conditions as large enterprises for participating in public procurement (i.e. procurements should not be unfavourable to SMEs by their design).

Recommendation II: Develop financial measures to steer companies away from less desirable industry/company conduct within specific areas. However, instead of the more usual tax credits, this ought to take the form of a Pigovian tax, where less responsible company conduct costs more to maintain (e.g. the polluter-pays principle, or, for example, a certain conduct implies an additional tax – see Box 35 in [section 6.4.3.](#)). De-incentivising negative practices could be used in specific areas where a more significant impact is expected (e.g. gender equality, employment of persons with disabilities, emissions targets, etc.). However, appropriate support to ensure that willing SMEs have the internal capacity as well as the required investment to meet such requirements will be needed.

Recommendation III: Given that most Member States offer various financial support measures to SMEs (grants, subsidies, etc.), they can be combined with CSR/sustainability criteria and, similarly, to public procurement procedures. However, it is important that the criteria are not used to make access to finance even more difficult than it already is for most SMEs, and instead is used as leverage to convince SMEs to start tracking their environmental and social impact so that they may set up specific goals for improvement.

3. Support industry- or country-specific measures

Initiatives, programmes, and schemes set up within specific industries and/or countries as well as regions have proven relatively successful in fostering more responsible/sustainable company conduct. Such initiatives often involve several stakeholder groups that may support each other with relevant knowledge and resources in tackling a specific issue (e.g. the textile and garment industry sets a good example, see [section 5.5.](#), or country and industry-specific programmes may be set up as showcased in Box 13 of [section 5.1.](#)). However, it is important that SMEs are also explicitly included in these measures for support to be accessible and relevant.

Recommendation: Support **awareness-raising campaigns** and **highly targeted programmes that help tackle country- or industry-specific** issues within business (e.g. tax-avoidance, undeclared work in the retail industry, due diligence in the textile and garment industry, etc.). The programmes may be highly diverse and oriented towards each country's needs to mirror national-level policy objectives. Overall, when it comes to SMEs, the more specific the support, the better, because, due to a lack of resources, SMEs have little room to explore multiple options.

4. Support stakeholder forums, local networks and/or public-private partnerships

Various partnerships and networks can be a very valuable form of support for CSR/sustainability uptake, especially given the environment of mutual peer-learning, resource exchange, and the positive pressure they enable. However, SMEs are not always sufficiently included in these types of initiatives and while in some Member States SMEs are included more commonly, in others they remain side-lined in favour of large enterprises. Furthermore, the relevance of public-private partnerships in addressing sustainable development issues remains relatively unexplored, especially when it comes to SMEs. While in some countries, such as Spain or Italy (see [section 6.3.3.](#)), there have been multiple all-inclusive initiatives with respect to responsible/sustainable conduct, the same cannot be said about all of the European regions or even industrial sectors. In other

countries, such as Germany, partnerships amongst enterprises to tackle a specific issue (see [section 5.1.](#) for examples in the agro-food sector) have been relatively successful and set an example of how such initiatives can work.

Recommendation: Use already existing networks, forums, and other channels to promote CSR/sustainability uptake amongst companies. This can take the form of “knowledge/experience clusters” in sectors where large purchasers and small suppliers gather to discuss and agree on certain sustainability standards/norms, specific requirements or similar. Alternatively, SMEs may be encouraged to join various alliances or partnership initiatives that would help to address specific issues in company operations. This approach is especially valuable for SMEs with a more mature approach to CSR.

5. Provide sufficient information and tools tailored to SME needs

While there is a substantial amount of available information related to CSR, business sustainability, business, and human rights or similar topics, this information in many instances does not suit specific SME needs. SMEs require straightforward, highly accessible and extremely well targeted support. However, they lack the required time and knowledge to determine what could be relevant for them. Furthermore, SMEs prefer peer learning and good practice examples as opposed to various guidelines that they often find difficult to apply in practice. This type of support is more relevant to SMEs with a less mature approach to CSR.

Recommendation: Provide sufficient information to SMEs via national business support organisations (a “one-stop-shop” could be considered). This information could include, but not be limited to the following: information on what support is already available for SMEs operating in a specific sector/region/country, information on relevant existing partnerships/initiatives, information on relevant existing support measures for dealing with specific issues, good practice examples, tailored tools/guidelines (if available), etc. National business support organisations should also provide sufficient information on support available at the EU level (e.g. the ENN or various tools). However, most importantly, SMEs need support when it comes to integrating CSR/sustainability into their business operations. More specifically, this entails understanding 1) how a certain area of concern is approached, 2) how an appropriate practice is developed and finally, 3) how it really functions on a day-to-day basis without substantial cost.

6. Ensure legal compliance

Extensive legislative measures and rigorous enforcement mechanisms remain an important means of setting a minimum baseline for business conduct. They are especially relevant to those companies that showcase limited CSR/sustainability uptake. However, there is significant variation amongst European countries in regard to their legislative frameworks as well as levels of compliance.

Recommendation: Strengthen institutional capacity to enforce legal compliance within companies, both on the EU- and national-levels. If necessary, specific initiatives that single out legally compliant companies may be set up to increase awareness and, as a result, enable positive social pressure to affect SMEs (e.g. see Box 33 in [section 6.4.2.](#)). This recommendation is also relevant for reducing differences across the EU Single Market –

disparities across countries still exist, resulting in situations where companies with a substantially less responsible approach may outcompete their counterparts.

Regional specifics

Some kinds of national policies to encourage the uptake of CSR/sustainability are more or less present across all of the EU Member States, and some initiatives also exist in the Western Balkans and Turkey. However, disparities across the European regions can be high. As a result, not all of the recommendations will be as equally relevant to national authorities within different countries. Table 25 below showcases the relevance of each recommendation for each region.

Table 25. Relevance of each proposed recommendation to each region.

Region	Relevance of specific recommendations					
	1. Commit	2. Foster the business case	3. Support specific measures	4. Support partnerships	5. Provide information	6. Ensure legal compliance
Northern EU	*	**	**	**	**	*
Western EU	**	**	**	***	**	*
Southern EU	***	***	**	**	**	**
Central and Eastern EU	***	***	**	***	***	**
Western Balkans and Turkey	***	***	**	**	***	***

*Note: The table should be interpreted as follows: * - not very relevant, ** - relevant, and *** - very relevant.*
Source: Authors' elaboration based on study data.

7.2.3. Recommendations to business support organisations and associations

This section is further divided into two parts with recommendations addressed at two relatively distinct target groups, namely business support organisations and sectoral/independent business associations.

There are two key recommendations proposed to business support organisations:

3. Provide SMEs with relevant and sufficient information on CSR/sustainability integration into business operations
4. Provide SMEs with access to networking and partnership opportunities, which can positively impact CSR/sustainability uptake.

There are three key recommendations proposed to sectoral associations:

4. Commit to increasing the responsibility/sustainability of all enterprises within the sector or amongst association members
5. Provide SMEs with relevant and sufficient information on CSR/sustainability, and especially tailored support and practical tools.
6. Develop industry-specific schemes or programmes to address industry needs with respect to supply chain diligence, or other relevant themes

All of these broad recommendations are further described in detail below.

The following recommendations are applicable to various business support organisations and intermediaries:

1. Provide SMEs with relevant and sufficient information on CSR/sustainability integration into business operations.

SMEs require straightforward, highly accessible and extremely well targeted support when it comes to CSR/sustainability action. Business support organisations are ideally placed to determining the type of support they need, and suggesting appropriate sources/suggestions, etc. In some cases, much has already been done in this field, but this is not universally the case.

Recommendation: The following information sharing activities may be conducted by business support organisations:

- 1) **Awareness-raising** with respect to issues that businesses may address in their operations. Such activities should be coordinated with EU- and national-level priorities and commitments to ensure that businesses are sufficiently familiar with expectations with respect to their conduct.
- 2) Information on the **benefits of CSR/sustainability** for businesses. SME owners/managers need support in understanding how CSR/sustainability fits in with their business and instead of approaching CSR/sustainability as a trade off, would be encouraged to address specific business issues via CSR/sustainability action.
- 3) Information on **support that is already available** for SMEs in a specific country/sector. It is especially important to provide SMEs with support to help them navigate all of the currently available resources as they are often unaware of what could be useful to their business or how to use/apply the support that is available.
- 4) Helpful guidance (consultancy) on **how to integrate CSR with daily business operations** in a more strategic fashion. This is especially relevant for encouraging CSR/sustainability uptake in a more holistic manner.
- 5) **Capacity-building** activities for SMEs on certain “horizontal” topics, such as the development of a CSR strategy, information disclosure practices, investing in third countries, working with NGOs, etc.

- 6) **Good practices.** Overall, SMEs appreciate peer learning and practical demonstration over less tangible guidelines or tools. Hence, showcasing good practice examples from other businesses, especially those that have managed to successfully integrate CSR/sustainability with their business model, are perceived as valuable. For start-ups, awards may be used to showcase responsible enterprises, as this can bring more exposure to new customers and, as a result, open possibilities in new markets.
- 7) Guidance on how to use/adopt **CSR/sustainability reporting tools** in case they need it for accessing finance (relevant in light of EU Taxonomy).

2. Provide SMEs with access to networking and partnership opportunities, which can positively impact CSR/sustainability uptake.

Networks and partnerships can be very valuable to SMEs for a variety of reasons. They can help SMEs when undertaking specific actions (e.g. joining a network that will help to undertake supply chain diligence), provide information on relevant regulatory changes as well as help to meet them, foster a culture of peer learning, allow SMEs to find partners, solve specific issues and increase the otherwise limited leverage of smaller companies. However, SMEs are not always aware of how already existing structures may help them, what sort of partnerships, networks, or alliances there are, which ones are relevant to their needs, etc. Furthermore, sometimes, and especially in the case of larger CSR networks, the inclusion of SMEs remains rather limited because such networks/associations work with large, often multi-national companies.

Recommendation: SMEs, and especially those which already somewhat appreciate the business case for CSR, would benefit from various partnership opportunities. Business support organisations may do the following:

- 1) Provide networking opportunities for SMEs looking for responsible business partners or even clients (match-making, various networking events and fairs that include a responsible/sustainable business dimension, e.g. Box 22 in [section 6.2.5.](#)).
- 2) Provide information on relevant existing partnerships and initiatives that companies can join to participate in more extensive and coordinated CSR/sustainability actions (esp. relevant for specific sectors where such initiatives exist).

The following recommendations are applicable to various sectoral and independent business associations:

1. Commit to increasing the responsibility/sustainability of all enterprises within the sector or amongst association members

Each sector, or even a particular industry segment (a part of a long value chain), face very specific issues when it comes to CSR/sustainability (see Table 24 above for an overview as well as Figure 30 in [Chapter 5.](#)). As a result, sectoral associations are ideally placed to identify the most pressing issues and undertake collective action to reduce negative environmental impacts or increase positive social ones.

Recommendation: Agree on a strategic commitment for improving sector specific areas that hinder the more responsible/sustainable conduct of many companies along the value chain of a particular sector. Given that addressing many issues will require collective efforts and a commitment from multiple stakeholders, sectoral associations may initiate and lead further action. Other business associations may use their position and leverage to pledge efforts in addressing horizontal issues, such as gender equality, workplace discrimination, the employment of disadvantaged groups, etc.

2. Provide SMEs with relevant and sufficient information on CSR/sustainability, and especially tailored support and practical tools.

Given that many CSR/sustainability issues, which may be improved in SMEs, strongly depend upon the sector in which they operate, sectoral business associations may provide SMEs with the necessary sector-specific information. Other business associations may deliver less tailored, but nonetheless relatively well-targeted information on certain CSR areas or concrete issues.

Recommendation: The following information-sharing activities may be conducted by business support organisations:

- 1) **Awareness-raising campaigns** within the sector or amongst members with respect to specific CSR issues (e.g. environmental due diligence in the agro-food industry, community needs in the mining industry, etc.).
- 2) Sector-specific **support** and **practical tools** with respect to a particular CSR area or a very concrete issue in the sector (e.g. training workshops on reducing food waste, sector-specific guidelines to assess human rights risks in supply chains, etc.)
- 3) An accessible **overview of industry labelling/certification** schemes and, if necessary, support for SMEs in obtaining certificates/labels.
- 4) Information on relevant existing **partnerships and initiatives** that companies can join to participate in more extensive and coordinated CSR/sustainability actions.

It remains crucial that SMEs are sufficiently included in such developments if they are already taking place, with appropriate and timely information and resources tailored to their specific needs.

3. Develop industry-specific schemes or programmes to address industry needs with respect to supply chain diligence or other relevant themes.

Industry-specific schemes can be a good method of tackling the most serious CSR/sustainability issues on a larger and more systemic scale. The textile and garment industry has been increasingly active in proposing various measures, but other industries are also developing their own standards/norms.

Recommendation: Sectoral associations are best-placed to lead industry-specific schemes or programmes that would address issues across the whole sector. As a result, the development of such schemes ought to be supported and encouraged.

ANNEX 1. List of interviewed institutions and organisations

1. European Commission, DG Environment (ENV)
2. European Commission, DG Justice and Consumers (JUST)
3. European Commission, DG Trade
4. European Commission, DG Employment, Social Affairs and Inclusion (EMPL)
5. European Commission, DG for International Partnerships (INTPA)
6. European Commission, DG for Financial Stability, Financial Services and Capital Markets Union (FISMA)
7. European Commission, DG for Research and Innovation (RTD)
8. European Commission, DG for Internal Market, Industry and Entrepreneurship (GROW)
9. European External Action Service (EEAS)
10. The European Innovation Council and SME Executive Agency (EISMEA)
11. SME United
12. SME Europe
13. Eurochambres
14. Amfori
15. BusinessEurope
16. FoodDrinkEurope
17. Euratex
18. Hortrec
19. CEO of ENYO Pharmed SA, representing SMEs in European Federation of Pharmaceutical Industries and Associations (EFPIA)
20. Sustainable Management in the Extractive Industries (SUMEX) project, funded by the European Commission
21. Finnish Innovation Fund Sitra
22. Danish Business Authority
23. Federal Ministry of Labour and Social Affairs (Germany)
24. UN Global Compact Network Austria / RespACT
25. French Platform for promoting global action on Corporate Social Responsibility
26. Department of Enterprise, Trade and Employment (Ireland)
27. Ministry of Employment and Social Economy (Spain)
28. Ministry of Economic Development (Italy)/ OECD National Contact Point
29. CSR Hellas (Greece)
30. UN Global Compact Network Poland
31. Ministry of Economy and Innovation (Lithuania)/ OECD National Contact Point
32. Ministry of Social Security and Labour (Lithuania)
33. Ministry of Industry and Trade (Czech Republic)
34. Working Apparatus of the Romanian Government, Department for Sustainable Development
35. Croatian Business Council for Sustainable Development
36. Institute for the Development of Social Responsibility (Slovenia)
37. Chamber of Commerce and Industry of Serbia
38. Ministry of Economy/ National Coordinating body for CSR (North Macedonia)
39. CSR Turkey

ANNEX 2. List of literature sources

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ANNEX 3. Final survey questionnaires

Uptake of Corporate Social Responsibility by European SMEs and start-ups

Language:

Important: This translation was generated automatically and may contain inaccuracies.

Note: Not all questions are relevant to all respondents.

Introduction

We invite you to participate in this survey on the uptake of **Corporate Social Responsibility** (CSR) by European SMEs and start-ups. CSR relates to the responsibility of enterprises for their impacts on society. This involves sustainability practices and integration of social, environmental, ethical, human rights and consumer concerns into business operations.

You may fill the survey in English, French, German, Spanish or Italian (see menu above). In case you would like to have a more accurate understanding of survey questions in another European language, please use our survey guide [here](#). Simply click on the link and find the relevant translation.

The results of this survey will be used to support the European Commission and national authorities in better understanding the needs of businesses in terms of CSR and sustainability. The final study will be complemented by tools for SMEs to facilitate CSR activities. Your company's successful implementation of CSR or sustainability activities may be selected as a good practice example to be promoted by the European Commission.

Please note that the survey is particularly aimed at **small and medium-sized enterprises (up to 250 employees)** that operate in the following industries:

- Agro-food industry
- Textile and garment industry
- Transport
- Retail trade
- Pharmaceuticals
- Mining and quarrying
- Tourism and hospitality
- Banking, finance and insurance

Completing the survey should take approx. **20 minutes**. Please provide your answers by **April 15th, 2021**.

The survey is being implemented by "Visionary Analytics" on behalf of the European Commission's Executive Agency for Small and Medium-sized Enterprises (EASME).

The survey is anonymous unless you choose to provide your personal details. In any case, the answers that you will provide will not be linked to your name or the organisation that you represent. We will present only the aggregated results of the survey, thus ensuring your and your organisation's anonymity. The information regarding data protection is provided **here**.

Should you have any questions or would like to unsubscribe from any further emails, please contact csr@visionary.it

1. SME and start-up identification questions

1.1. What is the size of your company?

- 1-9 employees
- 10-49 employees
- 50-249 employees
- 250 employees and over
- I am self-employed

1.2. Where is your company located?

If the company is an international branch, please indicate the location of the branch.

- Austria
- Croatia
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Lithuania
- North Macedonia
- Poland
- Romania
- Serbia
- Slovakia
- Spain
- Turkey
- Other

1.3. In which main economic sector does your company operate?

- Agro-food industry
- Textile and garment industry
- Transport
- Retail trade
- Pharmaceuticals
- Mining and quarrying
- Tourism and hospitality
- Banking, finance and insurance
- Other

1.4. What is the age of your company?

- 0 to 5 years
- 6 to 10 years
- 11 to 20 years
- Over 21 years

1.5. Does your company conduct any business activity abroad? (e.g. production, sales, etc.)

- Yes, inside the EU
- Yes, outside the EU
- Yes, both inside and outside the EU
- No

1.6. Which of the following concepts are you familiar with?

- Corporate social responsibility (CSR)
- Responsible business conduct (RBC)
- Sustainable development
- Sustainable Development Goals (SDGs)

- Business and Human Rights
- Sustainability reporting/Non-financial reporting
- Due diligence (Supply chain due diligence)
- None of the above

2. Sustainable business model and sustainability strategy questions

2.1. Does your company have a sustainability or a corporate social responsibility strategy?

- The company's entire business model is based on sustainability¹⁸⁶
- Yes
- Not yet, but planning to have one
- No
- Do not know/ cannot answer

2.2. Which of the following sustainability or CSR activity areas does your company's business model **directly** benefit (income is generated from activities in this area)?

- Labour practices¹⁸⁷
- Consumer Issues¹⁸⁸
- Environment¹⁸⁹
- Human rights¹⁹⁰
- Community involvement and development¹⁹¹
- Responsible business relations¹⁹²
- Organisational governance¹⁹³
- Other. Please explain [...]

2.3. Provide a short explanation of how your business model benefits the sustainability/ CSR activity areas selected.

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2.4. Does your company plan to dedicate additional resources for the implementation of the strategy?

This refers to dedicating time, financial or human resources to fulfill your CSR/ sustainability commitments, instead of using these resources for daily business.

- Yes (please specify) [...]
- No
- Do not know/ cannot answer

2.5. Do you conduct any additional sustainability/ CSR activities that are not covered by your business model?

This refers to any activities that are not directly linked to the company's source of income.

- Yes
- No
- Do not know/ cannot answer

¹⁸⁶ The company receives income mainly from activities that have a positive impact on societal issues or the environment

¹⁸⁷ This refers to fair treatment of all workers, decent employment conditions and engagement in social dialogue. It includes respect for freedom of association (incl. the right to collective bargaining), elimination of all forms of forced labour, and elimination of discriminatory practices.

¹⁸⁸ This refers to business relationships with their consumers. It means providing customers with accurate and helpful information (incl. truthful advertising), minimizing risks when using enterprise products, providing support services and recall procedures and most importantly, encouraging sustainable consumption.

¹⁸⁹ This refers to impact caused by enterprise activities to the natural environment. It includes reducing environmental risk, bearing the cost of pollution, not harming the local ecosystems and, if possible, improving air, water and soil conditions.

¹⁹⁰ This refers to respectful treatment of all individuals, regardless of their personal characteristics. It includes actively respecting and protecting human rights, as well as ensuring that businesses are not passively complicit in human rights abuses of any kind.

¹⁹¹ This refers to business responsiveness and positive contribution ranging from the local community to the wider international society.

¹⁹² This refers to business relationships with other businesses, and especially their suppliers. It means that businesses should respect the rule of law when dealing with other enterprises down or up the value chain, honour agreements, ensure fair compensation for services/ products and select socially and environmentally responsible suppliers.

¹⁹³ This refers to any of the ways a business is run on a daily basis. Ideally, business management should be accountable, transparent, ethical and take into consideration stakeholder interests.

3. Questions on activity areas

In the following questions, we are going to ask whether your company carries out any activities within seven CSR activity areas:

- **Labour practices** (fair treatment of all workers, employment conditions, collective bargaining, etc.)
- **Consumer issues** (business relationships with consumers)
- **Environment**
- **Community involvement and development**
- **Human rights**
- **Responsible business relations** (fair relationships with other businesses)
- **Organisational governance** (accountability to stakeholders, transparent business management, sustainability/non-financial reporting etc.)

Please note that these areas are highly-interrelated and the same activity performed by your company may fall under several categories. Also, it is possible that only a few areas will be relevant to your company.

Labour practices

This refers to fair treatment of all workers, decent employment conditions and engagement in social dialogue. It includes respect for freedom of association (incl. the right to collective bargaining), elimination of all forms of forced labour, and elimination of discriminatory practices.

3.1. Does your company's sustainability/ CSR strategy include efforts to ensure **decent work practices**?

- Yes
- No
- Do not know/ cannot answer

3.1.1. Which of the following themes, specific to the area of labour practices, are included in your company's strategy?

- Guarantee to job security and legal employment
- Decent working conditions and social protection (e.g. paying more than a statutory minimum wage for low-skilled workers, extra pay for overtime, etc.)
- Social dialogue (e.g. collective bargaining)
- Work-life balance (e.g. flexible working hours, parental leave, sabbatical, etc.)
- Measures to ensure occupational health and safety
- Extra efforts to ensure occupational health and safety, extending beyond legal requirements (e.g. during the COVID-19 pandemic)
- Opportunities for employee development (e.g. training, job-rotation)
- Other (please specify) [...]

3.2. Does your company carry out any activities to ensure **decent work practices**?

- Yes
- No
- Do not know/ cannot answer

3.2.1. Which of the following themes, specific to the area of labour practices, are covered by your company's activities?

- Guarantee to job security and legal employment
- Decent working conditions and social protection (e.g. paying more than a statutory minimum wage for low-skilled workers, extra pay for overtime, etc.)
- Social dialogue (e.g. collective bargaining)
- Work-life balance (e.g. flexible working hours, parental leave, sabbatical, etc.)
- Measures to ensure occupational health and safety

- Extra efforts to ensure occupational health and safety, extending beyond legal requirements (e.g. during the COVID-19 pandemic)
- Opportunities for employee development (e.g. training, job-rotation)
- Other (please specify) [...]

Consumer issues

This refers to business relationships with their consumers. It means providing customers with accurate and helpful information (incl. truthful advertising), minimizing risks when using enterprise products, providing support services and recall procedures and most importantly, encouraging sustainable consumption.

3.3. Does your company's sustainability/ CSR strategy include efforts to ensure **consumer satisfaction and benefit**?

- Yes
- No
- Do not know/ cannot answer

3.3.1. Which of the following themes, specific to the area of consumer benefit, are included in your company's strategy?

- Fair marketing: providing clear, accurate and credible information about products or services
- Adapted accessibility to products, services and/or distribution premises (e.g. for persons with disabilities)
- Protection of vulnerable or disadvantaged consumers (e.g. taking into account the needs of a elders or children)
- Promotion of sustainable consumption (e.g. by offering recycling services)
- Customer support services and/or recall procedures (e.g. a clear and easy process for returning goods or cancelling services)
- Consumer health and safety protection (e.g. zero-contact during the COVID-19 pandemic)
- Protection of consumer privacy and data security
- Other (please specify) [...]

3.4. Does your company carry out any activities to ensure **consumer satisfaction and benefit**?

- Yes
- No
- Do not know/ cannot answer

3.4.1. Which of the following themes, specific to the area of consumer benefit, are covered by your company's activities?

- Fair marketing: providing clear, accurate and credible information about products or services
- Adapted accessibility to products, services and/or distribution premises (e.g. for persons with disabilities)
- Protection of vulnerable or disadvantaged consumers (e.g. taking into account the needs of a elders or children)
- Promotion of sustainable consumption (e.g. by offering recycling services)
- Customer support services and/or recall procedures (e.g. a clear and easy process for returning goods or cancelling services)
- Consumer health and safety protection (e.g. zero-contact during the COVID-19 pandemic)
- Protection of consumer privacy and data security
- Other (please specify) [...]

Environment

This refers to impact caused by enterprise activities to the natural environment. It includes reducing environmental risk, bearing the cost of pollution, not harming the local ecosystems and, if possible, improving air, water and soil conditions.

3.5. Does your company's sustainability/ CSR strategy include efforts to reduce its negative impact on the environment?

- Yes
- No
- Do not know/ cannot answer

3.5.1. Which of the following themes, specific to the area of environment, are included in your company's strategy?

- Prevention of air pollution (dust, chemicals, various gases, etc.)
- Prevention of water pollution
- Climate protection by use of renewable energy sources
- Climate protection by use of energy efficient technologies or other means
- Reduction of waste in the production process
- Efficient and sustainable use of water in the production process
- Recycling
- Protection of animal rights (e.g. preventing animal cruelty)
- Protection of biodiversity, natural habitats and wildlife, fight against deforestation
- Consideration of the environmental aspect in product development
- Sustainable procurement practices (e.g. purchasing eco-certified products)
- Sustainable packaging (e.g. use of recyclable/recycled materials for packaging etc.)
- Other (please specify) [...]

3.6. Does your company carry out any activities to reduce its negative impact on the environment?

- Yes
- No
- Do not know/ cannot answer

3.6.1. Which of the following themes, specific to the area of environment, are covered by your company's activities?

- Prevention of air pollution (dust, chemicals, various gases, etc.)
- Prevention of water pollution
- Climate protection by use of renewable energy sources
- Climate protection by use of energy efficient technologies or other means
- Reduction of waste in the production process
- Efficient and sustainable use of water in the production process
- Recycling
- Protection of animal rights (e.g. preventing animal cruelty)
- Protection of biodiversity, natural habitats and wildlife, fight against deforestation
- Consideration of the environmental aspect in product development
- Sustainable procurement practices (e.g. purchasing eco-certified products)
- Sustainable packaging (e.g. use of recyclable/recycled materials for packaging etc.)
- Other (please specify) [...]

Community involvement and development

This refers to business responsiveness and positive contribution ranging from the local community to the wider international society.

3.7. Does your company sustainability/ CSR strategy include efforts to the local community or wider international society?

- Yes
- No
- Do not know/ cannot answer

3.7.1. Which of the following themes, specific to the area of community development, are included in your company's strategy?

- Support to programmes or initiatives in areas such as education, culture, health or environment
- Support to economic development of local communities (e.g. purchasing local products)
- Respect of local communities' needs and values (e.g. partnering with locals to protect culturally valued sites, limiting valuable resource use, etc.)
- Due diligence in areas (potentially) affected by armed conflicts
- Direct help to communities in need (e.g. affected by natural disasters or specific diseases)
- Responsible social investment (e.g. providing job opportunities to migrants or persons with disabilities)
- Mentorship and knowledge-sharing activities (e.g. assistance to young persons in starting their own business)
- Education or awareness-raising campaigns on the use of specific products or services
- Other (please specify) [...]

3.8. Does your company carry out any activities that positively contribute to the **local community or wider international society?**

- Yes
- No
- Do not know/ cannot answer

3.8.1. Which of the following themes, specific to the area of community development, are covered by your company's activities?

- Support to programmes or initiatives in areas such as education, culture, health or environment
- Support to economic development of local communities (e.g. purchasing local products)
- Respect of local community's needs and values (e.g. partnering with locals to protect culturally valued sites, limiting valuable resource use, etc.)
- Due diligence in areas (potentially) affected by armed conflicts
- Direct help to communities in need (e.g. affected by natural disasters or specific diseases)
- Responsible social investment (e.g. providing job opportunities to migrants or persons with disabilities)
- Mentorship and knowledge-sharing activities (e.g. assistance to young persons in starting their own business)
- Education or awareness-raising campaigns on the use of specific products or services
- Other (please specify) [...]

Human rights

This refers to respectful treatment of all individuals, regardless of their personal characteristics. It includes actively respecting and protecting human rights, as well as ensuring that businesses are not passively complicit in human rights abuses of any kind.

3.9. Does your company sustainability/ CSR strategy include efforts to protect **human rights?**

- Yes
- No
- Do not know/ cannot answer

3.9.1. Which of the following themes, specific to the area of human rights, are included in your company's strategy?

- Respect for human rights at the workplace (e.g. freedom of association)

- Integration of disadvantaged groups (e.g. refugees, ethnic minorities, etc.)
- Practices against discrimination and harassment (e.g. discrimination against women, the LGBTQ+ community, etc.)
- Screening suppliers/ business partners for human rights abuses (e.g. child labour)
- Human rights due diligence: assessing potential human rights' abuses in company operations and preventing them
- Human rights grievance/ complaint mechanism through which any abuse can be reported and remedied by the company
- Inclusion of human rights clauses in company contracts or agreements
- Other (please specify) [...]

3.10. Does your company carry out any activities to protect **human rights**?

- Yes
- No
- Do not know/ cannot answer

3.10.1. Which of the following themes, specific to the area of human rights, are covered by your company's activities?

- Respect for human rights at the workplace (e.g. freedom of association)
- Integration of disadvantaged groups (e.g. refugees, ethnic minorities, etc.)
- Practices against discrimination and harassment (e.g. discrimination against women, the LGBTQ+ community, etc.)
- Screening suppliers/ business partners for human rights abuses (e.g. child labour)
- Human rights due diligence: assessing potential human rights' abuses in company operations and preventing them
- Human rights grievance/ complaint mechanism through which any abuse can be reported and remedied by the company
- Inclusion of human rights clauses in company contracts or agreements
- Other (please specify) [...]

Responsible business relations (supply chains)

This refers to business relationships with other businesses, and especially their suppliers. It means that businesses should respect the rule of law when dealing with other enterprises down or up the value chain, honour agreements, ensure fair compensation for services/ products and select socially and environmentally responsible suppliers.

3.11. Does your company sustainability/ CSR strategy include efforts to ensure **fair business relationships with other businesses**, such as suppliers, logistics contractors or similar?

- Yes
- No
- Do not know/ cannot answer

3.11.1. Which of the following themes, specific to the area of responsible business relations, are included in your company's strategy?

- Supply chain due diligence (e.g. screening suppliers for environmental or human rights' violations)
- Sustainable business services, such as logistics, warehousing, distribution and/ or customer service
- Sustainable procurement practices (e.g. purchasing eco-certified products)
- Fair competition (e.g. avoiding unethical business practices against competitors)
- Anti-corruption in purchasing practices
- Other (please specify) [...]

3.12. Does your company carry out any activities to ensure **fair business relationships with other businesses**, such as suppliers, logistics contractors or similar?

- Yes
- No

- Do not know/ cannot answer

3.12.1. Which of the following themes, specific to the area of responsible business relations, are covered by your company's activities?

- Supply chain due diligence (e.g. screening suppliers for environmental or human rights' violations)
- Sustainable business services, such as logistics, warehousing, distribution and/ or customer service
- Sustainable procurement practices (e.g. purchasing eco-certified products)
- Fair competition (e.g. avoiding unethical business practices against competitors)
- Anti-corruption in purchasing practices
- Other (please specify) [...]

Organisational governance

This refers to any of the ways a business is run on a daily basis. Ideally, business management should be accountable, transparent, ethical and take into consideration stakeholder interests.

3.13. Does your company's sustainability/ CSR strategy include efforts to ensure transparent and fair company **organisational governance**?

- Yes
- No
- Do not know/ cannot answer

3.13.1. Which of the following themes, specific to the area of organisational governance, are included in your company's strategy?

- Clear and transparent process of decision-making in the company (e.g. formal governance procedures)
- Prevention of illegal activities of any kind (e. g. mechanisms against tax avoidance, money laundering, bribery, etc.) and protection of whistle-blowers
- Clear procedures to ensure follow-through of company commitments (e.g. a CSR strategy)
- Transparency about financial and/ or other company performance indicators to employees and shareholders (e.g. delivery of annual financial and non-financial reporting on company's business activities)
- Regular employee participation in decision making
- Internal commitment to investing in green/sustainable solutions for company operations
- Management systems in accordance to ISO or other standard [...]
- Other (please specify) [...]

3.14. Does your company sustainability/ CSR strategy carry out any activities to ensure transparent and fair company **organisational governance**?

- Yes
- No
- Do not know/ cannot answer

3.14.1. Which of the following themes, specific to the area of organisational governance, are covered by your company's activities?

- Clear and transparent process of decision-making in the company (e.g. formal governance procedures)
- Prevention of illegal activities of any kind (e. g. mechanisms against tax avoidance, money laundering, bribery, etc.) and protection of whistle-blowers
- Clear procedures to ensure follow-through of company commitments (e.g. a CSR strategy)
- Transparency about financial and/ or other company performance indicators to employees and shareholders (e.g. delivery of annual financial and non-financial reporting on company's business activities)

- Regular employee participation in decision making
- Internal commitment to investing in green/sustainable solutions for company operations
- Management systems in accordance to ISO or other standard [...]
- Other (please specify) [...]

3.A. Specific details on activities included in the strategy and evaluation of their benefits

*The following questions are identical and appear each time when a respondent responds positively about **each** particular activity area.*

3.A.1. How much attention is given to the selected themes in your company's strategy?

- Themes are covered in detail
- Themes are covered, but not in detail
- Themes are mentioned
- Other (please specify) [...]

3.A.2. Does the strategy include targets or key performance indicators (KPIs) to measure progress for your selected themes?

- Yes (please specify) [...]
- No
- Do not know/ cannot answer

3.A.3. If you can, please provide a short description of your company's commitments and activities in this area.

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3.B. Specific details on activities carried out by the company and evaluation of their benefits

*The following questions are identical and appear each time when a respondent responds positively about **each** particular activity area.*

3.B.1. What is your company's level of engagement in activities under this area?

- There is a code of conduct, policy or similar
- There is an internal action plan or another formal procedure
- Activities are informal, but regular
- Activities are informal and irregular
- Other (please specify) [...]
- Do not know/ cannot answer

3.B.2. If you can, please provide a short description of your company's activities in this area.

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3.C. Public disclosure of information on company operations

3.C.1. Does your company publicly share any information about the sustainability/CSR aspects of its business operations on a regular basis?

- Yes
- No
- Do not know/ cannot answer

3.C.2. Which information sharing practices does your company follow?

- Formal reporting of economic, environmental, and social performance in accordance to international reporting standards (e.g. UN Global Compact)

- Environmental or sustainability reporting in accordance to the company's own template (e.g. pages in the company's website, other formats)
- Selective reporting of specific company impacts (e.g. greenhouse gas emissions)
- Use of labels and/ or other certification for company products (e.g. cruelty-free labels)
- Sustainability/ social responsibility is included in organisational identity (e.g. company mission and vision statements)
- Publishing information on social media channels (e.g. Facebook, Twitter, Instagram)
- Information is provided on other company communication channels (e.g. brochures, company profile descriptions, regular newsletters, etc.)
- Other (please specify) [...]

3.C.3. Why does your company not publicly share information about its sustainability/ CSR business practices?

- Company stakeholders (e.g., customers, suppliers, investors) are personally informed about all business practices
- Publicly presenting these activities seems inappropriate and/or unnecessary (e.g. it feels arrogant or pretentious)
- Collecting and reporting information requires too many resources or takes too much time
- Activities involve private (e.g. personal) data
- Lack of knowledge on how to report and disclose such information
- Clients and/or investors would not care, they are not interested
- Other (please specify) [...]

4. Barriers and drivers to CSR uptake

Questions 4.1.-4.2. are only relevant to respondents who did not indicate any sustainability/ CSR activities.

4.1. Why does your company not carry out any activities to make its business operations more sustainable/socially responsible?

- Activities would not result in economic benefits to the company
- Activities would put a risk on current business success (e.g. loss of customers)
- The concept of sustainability/ corporate social responsibility is not clear
- Lack of practical knowledge on how to integrate sustainability into business operations
- Lack of time in top management and/or lack of human resources
- Lack of financial resources
- Lack of leverage and control over the company's external environment
- Lack of awareness on available support programmes for such activities
- Other (please specify) [...]
- Do not know/ cannot answer

4.2. What support does your company need to make its business operations more sustainable/ socially responsible?

- Information and knowledge on how to integrate sustainability into business operations (trainings, webinars, etc.)
- Good practice examples from other companies or organisations
- Free initial consulting on how to integrate sustainability into business operations
- Additional finances
- Additional human resources or training programmes for employees
- Networking opportunities with businesses, organisations and experts
- A better business environment, where sustainability is prioritised by suppliers, investors, or customers, and the overall business environment is favourable (e.g. illegal business practices are prevented before they can outcompete others)
- Measures tailored to specific business needs (e.g. company size or specific industry)
- Digital tools for reporting of sustainability and non-financial information, assessing the impact on society and environment, conducting due diligence, etc.

- Please elaborate or indicate other factors [...]

Questions 4.3-7. are relevant to respondents who indicated at least one sustainability/ CSR activity.

4.3. Evaluate the benefits of these sustainability/ CSR activities to your company on a scale of 1 to 5, where 1 is not beneficial at all, and 5 – highly beneficial.

- 1 (not at all beneficial)
- 2 (the benefits are insignificant)
- 3 (mildly beneficial)
- 4 (beneficial)
- 5 (highly beneficial)
- Do not know/ cannot answer

4.4. Why does your company carry out these activities?

- Ethical motivation to reduce negative impact on society and/or the environment
- Contribute to the UN's Sustainable Development Goals (SDGs)
- Meet the requirements and expectations set by buyers
- Meet the requirements and expectations set by suppliers
- Meet the requirements and expectations set by investors or lenders (e.g. banks)
- Meet the requirements set by law/regulations (e.g. environmental regulations)
- Improve image and reputation before customers or local communities
- Improve image and reputation before (potential) investors
- Increase employee motivation and retention
- Improve innovation performance
- Increase cost savings and efficiency
- Increase revenue and market share (including access to public procurement.)
- Gain access to new foreign markets
- Increase company resilience to external shocks (e.g. the COVID-19 pandemic)
- Reduce pressure from Non-Governmental Organisations/Civil Society Organisations
- Please elaborate or indicate other factors [...]

4.5. Evaluate, how significant were the following barriers for introducing sustainability practices/ CSR into your business operations on a scale of 1 to 5, where 1 is not significant at all and 5 – very significant.

	1 - Not significant at all	2 - Not significant	3 – Somewhat significant	4 - Significant	5 - Very significant	Do not know/ cannot answer
No economic benefit to the company						
Risk on business success (e.g. loss of customers)						
Limited understanding of sustainability/ corporate social responsibility						
Lack of practical knowledge on how to integrate sustainability into business operations						
Lack of time in top management and/ or human resources						
Lack of financial resources						
Lack of leverage and control over the company's external environment						
Lack of awareness on available support programmes for such activities						
Other (please specify)						

4.6. Did you receive any EU, national or other support for carrying out sustainability/ CSR activities in your company?

- Yes
- No
- Do not know/ cannot answer

4.7. If you can, please describe what made you overcome these barriers and start sustainability/ CSR activities in your company.

5. Policy and support measures

5.1. What level of support did you receive for starting sustainability/ CSR activities in your company?

- EU-level support
- National- or regional-level support
- Other kind of support (please specify) [...]
- Do not know/ cannot answer

5.2. What kind of EU-level support did you receive?

- Information, e.g. guidelines, trainings, toolkits or similar. Please provide more details: [...]
- Financial support, e.g. subsidies, awards or similar. Please provide more details: [...]
- Networking or partnership support, e.g. stakeholder forums, partnership networks or similar. Please provide more details: [...]
- A combination of the above, e.g. support for introducing sustainability reporting, labelling or certification. Please provide more details: [...]
- Other (please specify) [...]

5.3. What kind of national- or regional-level support did you receive?

- Information, e.g. guidelines, trainings, toolkits or similar. Please provide more details: [...]
- Financial support, e.g. subsidies, awards or similar. Please provide more details: [...]
- Networking or partnership support, e.g. stakeholder forums, partnership networks or similar. Please provide more details: [...]
- A combination of the above, e.g. support for introducing sustainability reporting, labelling or certification. Please provide more details: [...]
- Other (please specify) [...]

5.4. What support would have been helpful for your company to make its business operations more sustainable and socially responsible?

- Information and knowledge on how to integrate sustainability into business operations (trainings, webinars, etc.)
- Good practice examples from other companies or organisations
- Free initial consulting on how to integrate sustainability into business operations
- Additional finances
- Additional human resources or training programmes for employees
- Networking opportunities with businesses, organisations and experts
- A better business environment, where sustainability is prioritised by suppliers, investors, or customers, and the overall business environment is favourable (e.g. illegal business practices are prevented before they can outcompete others)
- Measures tailored to specific business needs (e.g. company size or specific industry)
- Digital tools for reporting of sustainability and non-financial information, assessing the impact on society and environment, conducting due diligence, etc.
- Please elaborate or indicate other factors [...]

6. Closing questions for getting in touch

6. If you agree to be contacted again to showcase your company as a good practice example across Europe or to personally receive the tools and results obtained during it, please leave your contact details below.

The information regarding personal data protection is provided [here](#).

- Name and surname: [...]
- Company name: [...]
- E-mail: [...]
- Phone number: [...]

Thank you for your time and effort!

End of survey

Survey questionnaire for SME support organisations

Start of survey

We kindly invite you to participate in this survey, which aims to assess the uptake of Corporate Social Responsibility (CSR) by European SMEs and start-ups. The results of this survey will help the European Commission, national authorities and SME support organisations to better understand the main barriers and obstacles hindering SMEs' and start-ups involvement in Corporate social responsibility (CSR) and/or sustainable business conduct, as well as to identify, develop or improve policy actions to unlock the potential of SMEs to undertake such activities. This survey is addressed to SME support organisations. While we understand that each organisation may have several views on the issue at hand, we would like to receive only one single response from each organisation.

The results of the survey will be used in a report regarding the Uptake of CSR by European SMEs and start-ups. The study is being implemented by "Visionary Analytics" on behalf of the European Commission's Executive Agency for Small and Medium-sized Enterprises (EASME).

The answers that you will provide will be linked to the organisation that you represent, but not to your personal details. The information regarding data protection is provided [here](#).

Completion of the survey will require approx. 20 minutes. Please provide your answers by [date].

Should you have any questions or would like to unsubscribe from any further emails, please contact csr@visionary.it

1. SME support organisation identification questions

Q1.1. Indicate your organisation's level of operation

- International → [skip to Q1.3., then skip to [section 3](#)]
- Cross-border (several countries are covered) → [proceed to Q1.2., then skip to [section 3](#)]
- National → [proceed to Q1.2.]
- Regional (e.g. chambers of commerce) → [proceed to Q1.2.]

Q1.2. Indicate your organisation's geographic location [multiple choice, drop-down selection]

- List of all EU countries and COSME candidate/potential candidate countries within the scope of this assignment

Q1.3. Indicate your organisation's title [option to write-in]

2. CSR uptake questions

Corporate social responsibility (CSR) relates to the responsibility of enterprises for their impacts on society. This involves sustainability practices and integration of various social, environmental, ethical, human rights and consumer concerns into business operations.

The following questions will ask you to evaluate (at least approximately) the level of sustainability/ CSR uptake amongst SMES and start-ups in your country, as well as to indicate how they tend to share information about such activities.

Questions in this section appear to all respondents, except those representing international organisations.

Q2.1. Evaluate the overall level of sustainability/ CSR uptake amongst SMEs and start-ups in your country/region [scale to evaluate 1 to 5]

- 1 (very low)
- 2 (low)
- 3 (satisfactory)
- 4 (high)
- 5 (very high)
- Do not know/ cannot answer

Q2.2. Evaluate the efforts to integrate each of the following sustainability/ CSR activity areas in SME business operations in your country/region. [evaluation grid]

	1 – Very low	2 - Low	3 - Satisfactory	4 - High	5 - Very high	99 - Do not know/ cannot say
Labour practices						
Consumer issues						
Environment						
Community involvement and development						
Human rights						
Fair operating practices						
Organisational governance						

Question to respondents who indicated high and very high efforts for specific CSR activity areas in SME business operations.

Q2.3. If you can, please explain why SMEs and start-ups in your country/region put more efforts to integrate the area of [insert area] in their business operations. [open question]

Q2.4. Evaluate to what extent do SMEs in your country/region tend to follow these disclosure practices on their business operations on a scale of 1 to 5, where 1 is very low and 5 – very high.

	1 – Very low	2 - Low	3 - Satisfactory	4 - High	5 - Very high	99 - Do not know/ cannot say
Formal reporting of economic, environmental, and social performance in accordance to international reporting standards (e.g. UN Global Compact)						
Environmental or sustainability reporting in accordance to the company's own template (e.g. pages in the company's website, other formats)						
Selective reporting of specific company impacts (e.g. greenhouse gas emissions)						
Use of labels and/ or other certification for company products (e.g. cruelty-free labels)						
Sustainability/ social responsibility is included in organisational identity (e.g. company mission and vision statements)						
Publishing information on social media channels (e.g. Facebook, Twitter, Instagram)						
Information is provided on other company communication channels (e.g. brochures, company profile descriptions, regular newsletters, etc.)						
Other (please specify) [write-in box]						

Question to respondents who indicated high and very high extent of specific practices on business operations.

Q2.4.1. If you can, please briefly describe the reasons why SMEs tend to follow these disclosure practices on business operations [open question]

Question to respondents who indicated very low, low and satisfactory efforts for specific disclosure practices on business operations.

Q2.4.2. Indicate the reasons why SMEs and start-ups tend not to disclose information on their business operations. [multiple choice] ☐ Q2.4.3.

- Company stakeholders (e.g., customers, suppliers, investors) are personally informed about all business practices
- Publicly presenting these activities seems inappropriate and/or unnecessary (e.g. it feels arrogant or pretentious)
- Collecting and reporting information requires too many resources or takes too much time
- Activities involve private (e.g. personal) data
- Lack of knowledge on how to report and disclose such information
- Clients and/or investors would not care, they are not interested
- Other (please specify) [write-in box]

Q2.4.3. If you can, please provide a brief comment to your answers on why SMEs and start-ups tend not to disclose information on their business operations. [open and optional question]

3. Drivers and barriers to CSR uptake

Q3.1. Evaluate the importance of the following reasons for CSR uptake by SMEs in your country/region or in Europe overall on a scale of 1 to 5, where 1 is not important at all and 5 – very important. [multiple choice]

	1 - Not important at all	2 - Not important	3 – Somewhat important	4 - Important	5 - Very important	99 - Do not know/ cannot say
Ethical motivation to reduce negative impact on society and/or the environment						
Contribute to the UN's Sustainable Development Goals (SDGs)						
Meet the requirements and expectations set by buyers						
Meet the requirements and expectations set by suppliers						
Meet the requirements and expectations set by investors or lenders (e.g. banks)						
Meet the requirements set by law/regulations (e.g. environmental regulations)						
Improve image and reputation before customers or local communities						
Improve image and reputation before (potential) investors						
Increase employee motivation and retention						
Improve innovation performance						
Increase cost savings and efficiency						
Increase revenue and market share (including access to public procurement.)						
Gain access to new foreign markets						
Increase company resilience to external shocks (e.g. the COVID-19 pandemic)						
Reduce pressure from Non-Governmental Organisations/Civil Society Organisations						
Please elaborate or indicate other factors [write-in box]						

Q3.2. If you can, please describe some of the key reasons for higher CSR uptake by SMEs and start-ups in more detail. [open question]

Q3.3. Evaluate the significance of the following barriers to CSR uptake by SMEs and start-ups in your country/ region or in Europe overall on a scale of 1 to 5, where 1 is not important at all and 5 – very important. [evaluation grid]

	1 - Not significant at all	2 - Not significant	3 – Somewhat significant	4 - Significant	5 - Very significant	99 - Do not know/ cannot say
No economic benefit to the company						
Limited understanding of sustainability/ corporate social responsibility						
Lack of practical knowledge on how to integrate sustainability into business operations						
Lack of time in top management and/ or human resources						
Lack of financial resources						
Lack of leverage and control over the company's external environment						
Lack of awareness on available support programmes for such activities						
Other. Please specify:						

Q3.4. If you can, please describe some of the key barriers to CSR uptake by SMEs and start-ups in more detail. [open question]

4. Policy and support measures

This part of the survey relates to public policy actions that encourage the uptake of Corporate Social Responsibility (CSR) and sustainable business conduct in your country. The available support may include:

- Regulatory measures
- Informational measures
- Financial support
- Networking and partnership support
- Hybrid measures

The support measures or regulations may be aimed at businesses in general, or be particularly targeted at SMEs and/or start-ups, or specific industry areas. This survey is especially concerned with SMEs that operate in the following industries:

- Agro-food industry
- Textile and garment industry
- Transport
- Retail trade
- Pharmaceuticals
- Mining and quarrying
- Tourism and hospitality
- Banking, finance and insurance

Questions Q4.1. to Q4.7. appear only to national or regional-level organisations.

Q4.1. Indicate whether there is a national strategy or action plan in your country/region to encourage the uptake of sustainability/ CSR practices [single choice]

- Yes (please provide the name of the document or online link) [write-in box]
- No
- Do not know/ cannot answer

Q4.2. Indicate, which types of national policy measures exist in your country/region to encourage the uptake of sustainability/ CSR practices by SMEs and start-ups [multiple choice]

- Regulatory measures¹⁹⁴, e.g. laws, directives, or regulations
- Informational measures¹⁹⁵, e.g. guidelines, trainings, toolkits
- Financial support¹⁹⁶, e.g. subsidies, awards, export credits, tax reliefs, access to public procurement
- Networking and partnership support¹⁹⁷, e.g. stakeholder forums, partnership networks
- A combination of the above, e.g. support for introducing sustainability reporting, labelling or certification
- Other (please specify) [write-in box]
- There are no such measures
- Do not know/ cannot answer → [skip to [section 3](#)].

Q4.3. You have indicated the existence of [*insert measure type*] in your country/region. Indicate the scope of these measures: are they applicable to all, some or only a few targeted economic activity areas? [single choice]

- All existing measures are applicable to all economic activity areas → [proceed to Q2.4. and Q2.7]
- Some measures are applicable to all economic activity areas, and some are targeted at specific economic activity areas → [proceed to Q2.4. and Q2.7., then Q2.5. and Q2.7.]
- All existing measures are targeted at specific economic activity areas → [proceed to Q2.5. and Q2.7.]
- Do not know/ cannot answer → [proceed to Q2.7.]

Q4.4. Please provide a few examples (1-3) of existing [*insert measure type*] measures relevant to all economic areas and, if you can, add relevant online links. [open question]

- [write-in box]

Q4.5. Indicate which of the following economic activity areas these measures target. [multiple choice]

- Agro-food industry
- Textile and garment industry
- Transport
- Retail trade
- Pharmaceuticals
- Mining and quarrying
- Tourism and hospitality
- Banking, finance and insurance
- Other (please specify) [write-in box]

Q4.6. You have indicated the existence of the [*insert measure type*] measures targeted at the [*insert economic activity area*] in your country/region. Please provide a few examples (1-3) of these measures and, if you can, add relevant online links. [open question]

Q4.7. Indicate which of the following sustainability/ CSR activity areas are covered by these measures. [multiple choice]

¹⁹⁴ [explanation appears when hovered over with mouse] Defining the minimum requirements (standards) that apply to businesses. Any regulatory measures you believe had especially strong impact are relevant. While in the case of CSR, regulatory measures often assume a recommending rather than a mandating character, but any traditional measures (e.g. labour law amendments) may also be included, if they were very significant in promoting CSR in your country or region.

¹⁹⁵ Raising awareness of CSR between stakeholders and sometimes, providing tools on how to best approach CSR in particular cases (e.g. in a specific sector).

¹⁹⁶ Standard financial incentives that are introduced to encourage specific behaviours.

¹⁹⁷ Various efforts that are carried out by means of bringing stakeholders together. The aims of these activities may be twofold. First of all, they allow avoiding introducing more strict regulations. Secondly, they help to build capacity and cooperation between all stakeholders involved.

- Labour practices¹⁹⁸
- Consumer issues¹⁹⁹
- Environment²⁰⁰
- Community involvement and development²⁰¹
- Responsible business relations²⁰²
- Human rights²⁰³
- Organisational governance²⁰⁴
- Disclosure of information on business operations²⁰⁵
- Other (please specify) [write-in box]

Question to all respondents.

Q4.8. Indicate which of the following additional support would be helpful for encouraging CSR uptake amongst SMEs and start-ups in your country/region or in Europe overall [multiple choice]

- Information and knowledge on how to integrate sustainability into business operations (trainings, webinars, etc.)
- Good practice examples from other companies or organisations
- Free initial consulting on how to integrate sustainability into business operations
- Additional finances to carry out activities
- Additional human resources or training programmes for employees
- Networking opportunities with businesses, organisations and experts
- A better business environment, where sustainability is prioritised by suppliers, investors, or customers, and the overall business environment is favourable (e.g. illegal business practices are prevented before they can outcompete others)
- Measures tailored to specific business needs (e.g. company size or specific industry)
- Digital tools for reporting of sustainability and non-financial information, assessing the impact on society and environment, conducting due diligence, etc.
- Please indicate other factors [write-in box]

Q4.9. If you can, please provide a short commentary on why your selected types of additional support would be helpful. [open and optional question]

Q4.10. Would you say the national/regional-level policies are aligned with EU-level policies? Why/ why not? [open and optional question]

5. Good practices

Q5.1. Can you identify any good practice examples of sustainability/ CSR uptake by an SME or a start-up in your country or overall? [single choice]

- Yes [proceed to Q5.2.]

¹⁹⁸ This refers to fair treatment of all workers, decent employment conditions and engagement in social dialogue. It includes respect for freedom of association (incl. the right to collective bargaining), elimination of all forms of forced labour, and elimination of discriminatory practices.

¹⁹⁹ This refers to business relationships with their consumers. It means providing customers with accurate and helpful information (incl. truthful advertising), minimizing risks when using enterprise products, providing support services and recall procedures and most importantly, encouraging sustainable consumption.

²⁰⁰ This refers to impact caused by enterprise activities to the natural environment. It includes reducing environmental risk, bearing the cost of pollution (, not harming the local ecosystems and, if possible, improving air, water and soil conditions.

²⁰¹ This refers to business responsiveness and positive contribution ranging from the local community to the wider international society.

²⁰² This refers to business relationships with other businesses, and especially their suppliers. It means that businesses should respect the rule of law when dealing with other enterprises down or up the value chain, honour agreements, ensure fair compensation for services/ products and select socially and environmentally responsible suppliers.

²⁰³ This refers to respectful treatment of all individuals, regardless of their personal characteristics. It includes actively respecting and protecting human rights, as well as ensuring that businesses are not passively complicit in human rights abuses of any kind.

²⁰⁴ This refers to any of the ways a business is run on a daily basis. Ideally, business management should be accountable, transparent, ethical and take into consideration stakeholder interests.

²⁰⁵ Transparent communication and accountability with regard to all the other activity areas (formal reporting of specific impacts of company activities, publishing information regarding sustainability/ CSR via informal channels, etc.)

- No → End of survey
- Do not know/ cannot answer ☐ End of survey

Q5.2. Indicate the name of the SME or start-up and a link to its website: [write-in option]

Q5.3. Indicate the economic activity area in which the SME or start-up is active: [multiple choice]

- Agro-food industry
- Textile and garment industry
- Transport
- Retail trade
- Pharmaceuticals
- Mining and quarrying
- Tourism and hospitality
- Banking, finance and insurance
- Other. Please specify: [option to write-in]
- Do not know/ cannot answer

Q5.4. Indicate the areas of sustainability/CSR activities covered by the good practice. [multiple choice]

- Human rights²⁰⁶
- Labour practices²⁰⁷
- Environment²⁰⁸
- Fair operating practices²⁰⁹
- Consumer Issues²¹⁰
- Community involvement and development²¹¹
- Organisational governance²¹²
- Disclosure of information on business operations²¹³
- Other (please specify) [write-in box]

Q5.5. Please briefly describe the practice. [open question]

Q5.6. To your knowledge, did the SME or start-up receive any EU, national, regional or other kind of support? If yes, please indicate the kind of support received and describe the barriers it helped overcome. [open question]

Q5.7. If you can, please provide the contacts of the said SME or start-up (not personal contacts) [write-in option]

²⁰⁶ This refers to respectful treatment of all individuals, regardless of their personal characteristics. It includes actively respecting and protecting human rights, as well as ensuring that businesses are not passively complicit in human rights abuses of any kind.

²⁰⁷ This refers to fair treatment of all workers, decent employment conditions and engagement in social dialogue. It includes respect for freedom of association (incl. the right to collective bargaining), elimination of all forms of forced labour, and elimination of discriminatory practices.

²⁰⁸ This refers to impact caused by enterprise activities to the natural environment. It includes reducing environmental risk, bearing the cost of pollution (, not harming the local ecosystems and, if possible, improving air, water and soil conditions.

²⁰⁹ This refers to business relationships with other businesses, and especially their suppliers. It means that businesses should respect the rule of law when dealing with other enterprises down or up the value chain, honour agreements, ensure fair compensation for services/ products and select socially and environmentally responsible suppliers.

²¹⁰ This refers to business relationships with their consumers. It means providing customers with accurate and helpful information (incl. truthful advertising), minimizing risks when using enterprise products, providing support services and recall procedures and most importantly, encouraging sustainable consumption.

²¹¹ This refers to business responsiveness and positive contribution ranging from the local community to the wider international society.

²¹² This refers to any of the ways a business is run on a daily basis. Ideally, business management should be accountable, transparent, ethical and take into consideration stakeholder interests.

²¹³ Transparent communication and accountability with regard to all the other activity areas (formal reporting of specific impacts of company activities, publishing information regarding sustainability/ CSR via informal channels, etc.)

Q.5.8. Can you provide another good practice example of sustainability/ CSR uptake by an SME or start-up in your country? [single choice]

- Yes → [go back to Q5.2.]
- No → [End of survey]
- Do not know/ cannot answer → [End of survey]

6. Closing questions for getting in touch

Questions relevant to all respondents. Answering these questions is strictly optional.

Q6. If you agree to be contacted again for the purpose of this study to provide details on your answers and to personally receive the tools and results obtained during it, please leave your contact details below.

- Name and surname: [write-in]
- E-mail: [write-in]
- Phone number: [write-in]

Thank you for your time and effort!

End of survey

ANNEX 4. Analysis of national context and policy measures for CSR uptake per country

This Annex contains the following country briefs:

- [Finland](#)
- [Denmark](#)
- [Germany](#)
- [Austria](#)
- [Ireland](#)
- [France](#)
- [Spain](#)
- [Italy](#)
- [Greece](#)
- [Poland](#)
- [Lithuania](#)
- [Czech Republic](#)
- [Romania](#)
- [Croatia](#)
- [Slovenia](#)
- [Serbia](#)
- [North Macedonia](#)
- [Turkey](#)

Finland

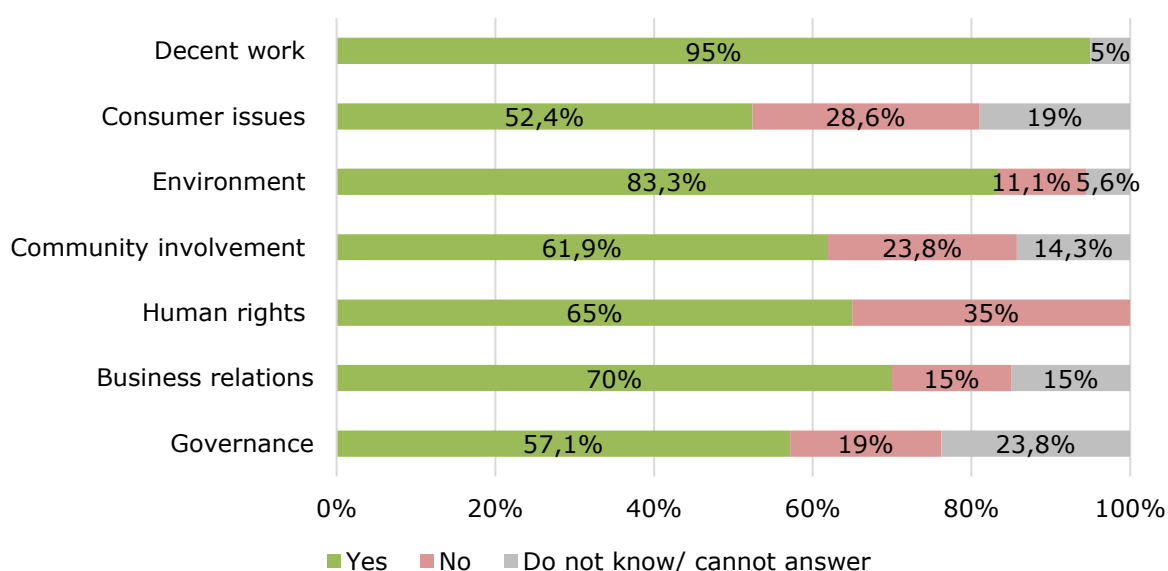
CSR/sustainability uptake: general trends

Finnish SMEs demonstrate a **high level of CSR/sustainability uptake**. In the SME survey, 39.1% of respondents claimed to have a CSR/sustainability strategy, while 26.1% said that their entire business model is based on sustainability, which is the most impressive result among the countries in the scope of this study. Moreover, the respondents were largely familiar with CSR-related concepts. In fact, their familiarity with concepts such as sustainable development, the SDGs and due diligence was at least 20% above the survey average. It should be taken into account, however, that the survey response rate among Finnish SMEs was particularly low, undermining the representativeness of its results. Nevertheless, the findings provide a basis for comparison between the engagement in different CSR areas (see section below).

Previous literature and stakeholder opinion correspond with the SME survey findings. According to the latest European Commission country report, Finland is a front-runner in integrating the SDGs into public policies. Finland is also listed among “innovation leaders” in the European Innovation Scoreboard (2020). In general, Nordic governments, including Finland, maintain a high international profile on issues such as sustainable development, poverty reduction, environmental protection, and human rights as goals in and of themselves (Gjolberg, 2010). This is also manifested in SMEs, as their business idea “rises often from the internalisation of responsibility and turning the issues of sustainable development into business opportunities” (Mikkilä et al., 2015). Responsible business behaviour is largely prevalent, but seldom framed in the context of voluntary CSR.

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 43. Engagement in CSR among Finnish SMEs, by CSR area.



Note: Total (N)=21, except: Decent work and Human rights, total (N)=20 for each area; Environment, total (N)=18.

Source: SME survey (2021).

In the survey, nearly all Finnish SMEs indicated providing **decent work** opportunities to their employees. This often entailed not only guarantees to job security and social protection (which are largely guaranteed by the welfare state and advanced social

legislation), but also measures to ensure work-life balance, employee development and social dialogue. In addition, within the area of **organisational governance**, most SMEs indicated regular employee participation in decision making. This is unsurprising given the strong position of trade unions in the country. Moreover, Finland has made significant progress on the indicators of SDG8 “Decent work and economic growth” in recent years (European Commission, 2020).

The **environment** is a focus area of many Finnish SMEs. Within this category, a large share of respondents (78.6%) indicated considering the environmental aspect already in the phase of product development (in comparison to the survey average of 38.7%). The country is considered a leader when it comes to eco-innovation (Eco-Innovation Index, 2019), which is often focused on clean-tech, recycling, new renewable materials, etc. (Mikkilä et al., 2015). Therefore, it can be said that environmental protection is not only a priority, but also an integral part of the business model for many innovative companies. Traditional SMEs also address environmental issues, but they rarely go beyond already substantial legislation (Mikkilä et al., 2015). An interesting example is that Finnish businesses and researchers, supported with substantial funding to the bioeconomy, have found a way to manage the country’s large forestry resources in a sustainable manner (European Commission, 2020). However, the same cannot be said about Finland’s mining industry, which is enjoying a favourable legislative framework (see Box 23 below). Finnish SMEs also indicated a stronger engagement in the areas of fair **business relations** and **human rights** than the survey average. The observed misconducts in the area of due diligence have a strong presence in the media and are reported by non-governmental organisations such as FinnWatch, which monitors the operations of Finnish-based companies and their counterparts outside Europe²¹⁴.

Similarly to the survey average, 36.8% of Finnish SMEs indicated that they publicly **share information** about their CSR/sustainability practices, however, none of them mentioned following international reporting standards. Previous research shows that Finnish SMEs are familiar with CSR but are reluctant to formalise their activities into explicit management and reporting systems (Ning Li et al., 2016; Mikkilä et al., 2015).

Box 42. The challenge of establishing a responsible mining policy in Finland

The mining and mineral industry in Finland receives considerable investments and creates many job places. In 2017 the industry accounted for 0.3% of GDP and provided 3 thousand direct jobs. At the beginning of the decade major new mines have been opened in Finland. Such developments intensified the debate on mining as more critical voices surfaced and the need for responsible mining grew.

Finnish mining industry has seen multiple scandals related to mining companies ignoring the needs and concerns of local communities and nature conservation activists. An illustrative example is an Australian Mining company going through with the mining project in the Finnish Valkeakoski mine despite the opposition and concerns that it might pollute water springs in the area. Multiple inquiries and complaints were filed to the police and even the Supreme Administrative Court about the project, as well as protest calling to suspend operations in the area took place.

The company has been reported to claim that since the Finnish authorities and judiciary takes a long time to make a decision and address the appeals against the company, it

²¹⁴ More information on FinnWatch: <https://finnwatch.org/fi/>

will have time to continue its activities and drain the mine. Such practice can be seen as business taking advantage of Finnish legal system.

Finnish mining legislation seems to be favourable to mining companies and not efficient in protecting the environment. **Finnish Mining Act** has been criticised for having shortcomings. For example, in some cases it allows companies to exploit minerals without a permit and the environmental damage they caused is often not compensated. In addition, loopholes in the tax law result in companies exploiting them to evade taxes. The Government has been reluctant to address the problems of the mining industry, failing to see the need to amend Finnish mining legislation. Despite that, Finnish NGOs (e.g., The Finnish Association for Nature Conservation) has been pushing for the reform of the mining legislation to ensure responsible mining practices.

Sources: Finnwatch (2019). "The problems of the mining industry have been known for a long time", <https://finnwatch.org/fi/blogi/596-kaivoslain-ongelmat-olleet-tiedossa-jo-pitkaaen>; Ministry of Employment and the Economy (2013). Making Finland a leader in the sustainable extractive industry-action plan, <https://tem.fi/documents/1410877/3437254/Making+Finland+a+leader+in+the+sustainable+extractive+industry+04072013.pdf>; OECD (2017) Local Content Policies in Minerals-Exporting Countries. The case of Finland, <https://www.oecd.org/trade/topics/trade-in-raw-materials/documents/trade-raw-materials-finland-country-note.pdf>.

Drivers and barriers to CSR/sustainability uptake

Finnish SMEs appear to have a wide understanding of CSR/sustainability-related benefits. As in many countries, **ethical motivation** seems to play the strongest role (indicated by 77.8% of respondents), yet, interestingly, a remarkable share (72.2%) also mentioned **improved image and reputation before customers and local communities**. This is in line with previous research, which states that Finnish businesses primarily focus on their legitimacy within the local societies (Mikkilä et al., 2015). Furthermore, according to a recent survey, 71% of Finnish consumers claim that their purchasing decisions are influenced by sustainability and, at the same time, are becoming more sceptical, i.e. less inclined to trust brands on their sustainability messages (SB Insight, 2020). Unsurprisingly, **compliance with laws/regulations** is also a strong motivating factor, indicated by 61.1% of respondents (in comparison to 49.5% survey average). Due to an extensive legislative framework with respect to working conditions, governance and the environment, it is natural that some SMEs perceive meeting these requirements as responsible behaviour.

Finland's **strong orientation towards innovation** is also visible in the survey responses, as 38.9% of companies indicated improving innovation performance as a benefit of sustainability practices (in comparison to 32.4% survey average). Furthermore, Finnish SMEs, especially innovative ones, tend to have an **international outlook** due to the small domestic market. Gaining access to new foreign markets was indicated as an important factor by 44.4% of Finnish SMEs (in comparison to 24.4% survey average). Another 50.0% said that their sustainability practices increase revenue and market share (including access to public procurement), which is significantly more than the survey average of 20.8%. On the other hand, both the European Commission and stakeholders report that innovation performance is somewhat limited by a **lack of cooperation between business and science**, which may have a negative effect when more countries catch-up with respect to eco-innovation.

Improving the image as well as meeting the requirements of **(potential) investors** were mentioned by 44.4% and 33.3% of Finnish SMEs, respectively. Indeed, the Finnish financial sector has an important role in steering investments towards sustainable targets. Finance Finland (FFI) and its members, which manage more than 100 billion Euros' worth

of assets, have committed to supporting the actions to limit global warming. In 2019, 78% of the FFI member companies had integrated climate considerations in their business operations (Prime Minister's Office, 2020).

Finnish SMEs assigned relatively little significance to any barriers that could limit their sustainability potential. However, some of them indicated **a lack of awareness of available support programmes** for such activities, alongside lack of time and financial resources. In fact, in the case of environmental protection, most investment is carried out by industry and specialised providers, while the government contributes comparatively little (European Commission, 2020).

Policy support measures

In the 2000s, discussions around CSR were hardly ever framed as a policy issue, possibly because of the already-developed welfare state, a tripartite decision-making model regarding employment and working conditions and an overall well-functioning regulatory framework for businesses. In 2012, however, the Finnish Government took a more globalised approach towards CSR and launched a decision to support initiatives to strengthen international norms and guidelines related to corporate responsibility (Mikkilä et al., 2015). Since the launch of the SDGs in 2015, the Finnish Government has mainly focused its efforts around these goals. The Finnish model towards sustainable development is characterised by high-level political leadership and stakeholder involvement. This includes novel **institutional structures** such as the Inter-Ministerial Coordination Network, Prime Minister led National Commission on Sustainable Development, Society's Commitment to Sustainable Development (see Box 43 below) and Expert Panel on Sustainable Development (Prime Minister's Office, 2020).

The Government's efforts are strongly focused on **environmental aspects**, as the country has set an ambitious goal of carbon neutrality by 2035. With respect to business-oriented measures, the Government has adopted a target of raising public and private **R&D investments** from 2.7% to 4% of GDP by 2030. It will also collaborate with industrial sectors to construct industry-specific roadmaps. Currently, much of the innovation support programmes are aligned with the SDGs. For instance, Finland is internationally known for its commitment to **circular economy**, which was popularised among stakeholders by the innovation fund Sitra back in 2016. Currently, it is promoted by Business Finland's multifaceted **funding programme** "Bio and Circular Finland"²¹⁵ with a budget of 300 million Euros to be distributed in a four-year period. Meanwhile, Sitra has recently published some **guidance documents** which can be adapted by other national governments ("How to create a national circular economy roadmap"²¹⁶), as well as by SMEs ("Circular Economy Playbook"²¹⁷).

Furthermore, Finland uses about 35 billion annually in public procurement, which accounts to 15% of GDP. Therefore, the Government has introduced a national strategy on **sustainable public procurement**, with gradually increasing targets for central, regional and local governments. To support this goal, a Competence Center for Sustainable and Innovative Public Procurement (KEINO) was established. In 2018, KEINO conducted a survey which revealed that roughly 30% of public procurements included sustainability targets and criteria. In most cases, however, the targets were linked to environmental

²¹⁵ More information available at: <https://www.businessfinland.fi/en/for-finnish-customers/services/programs/bio-and-circular-finland>

²¹⁶ More information available at: <https://www.sitra.fi/en/publications/how-to-create-a-national-circular-economy-road-map/#why>

²¹⁷ <https://teknologiateollisuus.fi/fi/circular-economy-playbook>

issues, while improving employment opportunities or promoting fair trade were distinctly less common²¹⁸.

In general, the **social dimension** appears to be less prevalent on the Government's agenda. On the other hand, social and, especially, human rights issues are the focus of **civil society organisations**. For instance, FIBS, the largest corporate responsibility network in the Nordic countries²¹⁹, mainly focuses on helping large businesses address global issues in their operations, while FinnWatch functions as a watchdog of human rights and climate impacts and tax responsibility of business enterprises. The most recent development is the official establishment of UN Global Compact Local Network in 2020, which already unites 145 participants, including 47 SMEs.

As a result of campaigning by civil society, the Finnish government committed to mandatory **human rights due diligence legislation** and is currently exploring possible regulatory options²²⁰. This is now largely the focus of the Ministry of Economic Affairs and Employment, together with its consultative body, the Committee on Corporate Social Responsibility. The Committee supports CSR based on legislation and international guidelines, as well as acts as the NCP for the effective implementation of OECD Guidelines²²¹.

Box 43. The unique instrument of Society's Commitment as a concrete way to further sustainable development

In 2016 the National Commission on Sustainable Development in Finland has introduced **Society's Commitment to Sustainable Development** as an alternative for a traditional strategy document. It serves as a "framework and coherent policy instrument" and is one of the key tools in implementing Agenda 2030 for Sustainable Development. The Society's Commitment provides an implementation tool (sitomous2050 online service). Using the tool companies, municipalities, organisations, administration, educational institutions, and local actors, as well as private individuals can make **operational commitments** to achieve the objectives of the Society's Commitment to Sustainable Development.

These operational commitments can take the form of concrete measures, changes in operating procedures, innovative trials that promote the shared goals and should be carried out in 5-10 years.

Making the commitment requires setting goals, indicators, and a schedule. The commitment must meet 6 criteria and it must: i) support the vision "A prosperous Finland with global responsibility for sustainability and the carrying capacity of nature", ii) promote one or multiple shared objectives of Society's Commitment, iii) comply with the principles of sustainable development, iv) be concrete, v) be measurable and monitored, vi) create something new (i.e., new practices and models of action, innovations, solutions, cooperation).

The commitment can serve as a tool for businesses or organisations to develop their own practices. Organisations that have made the commitment claim that it furthers

²¹⁸ More information available at: <https://www.hankintakeino.fi/en/sustainable-and-innovative/statistics-finland/innovativeness-and-sustainability-public-1>

²¹⁹ More information available at: <https://www.fibsry.fi/briefly-in-english/>

²²⁰ More information available at: <https://www.business-humanrights.org/en/latest-news/finland-commits-to-mandatory-human-rights-due-diligence-at-national-eu-level/>

²²¹ More information available at: <https://tem.fi/en/committee-on-corporate-social-responsibility>

sustainable development in their work and helps them to become a frontrunner in this regard, it improves their reputation, helps in networking and can be used in marketing. In 2020 commitments have been made by over 1 000 different organisations, including 400 private companies ranging from SMEs to large multinational businesses. In addition, six industrial branches (trade, finance, media, energy, marine and forest industry) have made industry wide commitments.

Green Deal Commitment and **Nutrition Commitment** are also part of Society's Commitment to Sustainable Development. Five Green Deals (Plastic Bag, Automotive, Oil Waste, Construction Machine, and Demolition Waste Deals) have been made by 2020. At the same time over 50 Nutrition Commitments have been made by private food production companies, restaurants and food markets.

Source: Commitment 2050, https://sitoumus2050.fi/en_US/mika-on-sitoumus-#/. Prime Minister's Office (2020). Report on the implementation of the 2030 Agenda for Sustainable Development, https://sustainabledevelopment.un.org/content/documents/26261VNR_Report_Finland_2020.pdf

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1. Li, N., Toppinen, A., & Lantta, M. (2016). Managerial perceptions of SMEs in the wood industry supply chain on corporate responsibility and competitive advantage: evidence from China and Finland. *Journal of Small Business Management*, 54(1), 162-186.
2. Mikkilä, M., Panapanaan, V., & Linnanen, L. (2015). Corporate social responsibility in Finland: From local movements to global responsibility. In *Corporate social responsibility in Europe* (pp. 209-228). Springer, Cham.
3. Prime Minister's Office (2020). Voluntary National Review 2020. Finland. Publications of the Prime Minister's Office 2020:8. Available at : https://sustainabledevelopment.un.org/content/documents/26261VNR_Report_Finland_2020.pdf

Denmark

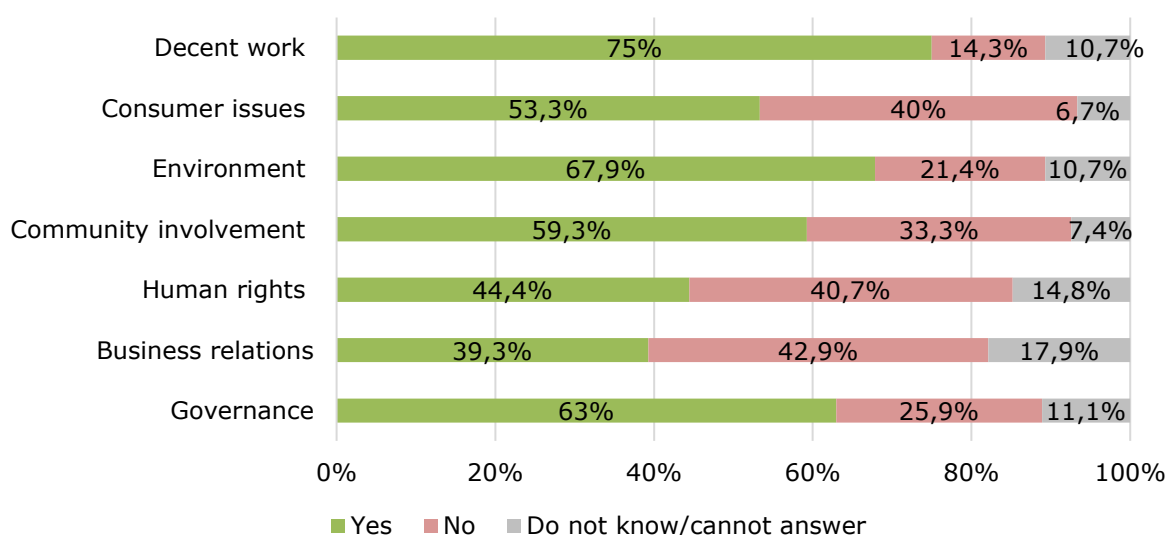
CSR/sustainability uptake: general trends

Despite relatively modest results of the SME survey, the overall uptake of CSR/sustainability among Danish SMEs can be considered high. In the survey sample, the participation rate of Danish SMEs was rather low, which may impede the representativeness of the results. Overall, the Danish survey participants demonstrated a better-than-average familiarity with CSR-related concepts. However, there were significant discrepancies between companies that had a strategic approach (as many as 39.4% reported to have a CSR/sustainability strategy) and those that did not. This factor undermined the overall engagement level in the sample of Danish SMEs (see Figure 41 below).

Danish business support organisations, as well as previous research, indicate a strong commitment towards CSR/sustainability-associated issues. Together with other Scandinavian countries, Denmark can be considered a welfare state with a universal social model, as well as a strong culture of political consensus. At the same time, concerns related to accountability, human rights and climate change are given a strong emphasis in the society (Vallentin, 2015). A study conducted back in 2005 revealed that 75% of Danish SMEs were engaged in CSR activities, after which CSR became even more widespread (TNS Gallup, 2005). It must be taken into account that CSR, in this case, should be understood in terms of environmental and social impact of a company, rather than voluntary action, as the business environment is highly regulated. On the other hand, the survey results, although non-representative for the whole population, show that a significant segment of SMEs is still not convinced about the benefits of engaging in CSR/sustainability.

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 44. Engagement in CSR among Danish SMEs, by CSR area.



Note: Total (N)=30, except: Decent work and Environment, total (N)=28 for each area; Community involvement, and Human rights, total (N)=27 for each area; Environment and Business relations, total (N)=22 for each area.
Source: SME survey (2021).

With regard to specific CSR areas, both business support organisations and the SME survey respondents indicated the strongest engagement in **decent work** practices and the

environment. In Denmark, labour market legislation is minimal, while issues such as wages, working hours and working conditions are densely regulated by collective agreements between the employer and the employees (Eurofound, 2019). In terms of the environment, Denmark is already among the least carbon-intensive economies in the EU and ranks second in the Eco-innovation Index (2019). It is also one of the most heavily-taxed countries in this area (OECD, 2016).

The survey participants gave the least attention to their **business relations** and **human rights issues**. This field is seen as increasingly problematic by policymakers and the civil society. Danish businesses have transferred a lot of their production abroad and are taking part in complex supply chains. Therefore, the Danish society expects businesses to act responsibly not only at home, but also address their negative impacts on people and their environment in their global production.

In the survey, 42.3% of the Danish SMEs claimed that they **share information** with regard to their CSR/sustainability practices. Most of them were involved in sustainability reporting according to the company's own template or published information on social media and other communication channels, while a fraction of them were also involved in formal reporting. In this context, it is relevant to note that Denmark was one of the first countries to implement mandatory non-financial reporting requirements for large companies back in 2008²²². However, this did not have a significant "trickle down" effect on SMEs. According to stakeholders, many Danish SMEs have a lack of practical knowledge and resources to monitor their data-driven social and environmental impacts in line with international reporting standards. They are also not well-informed of the potential value creation of doing this.

Drivers and barriers to CSR and sustainability uptake

Similarly to other countries, meeting the requirements and expectations set by buyers (66.7%), ethical motivation (58.3%), as well as improving image before consumers and local communities (54.2%) were the most prevalent reasons to engage in CSR/sustainability. To add on that, Denmark is known for its **sustainable consumer behaviour** and lifestyle patterns, generally called "hygge". For instance, Denmark has the highest per capita consumption of organic food in the world (Statista, 2019). According to stakeholders, a strong **social dialogue tradition** can also be considered a driving factor for addressing workforce-related issues.

An interesting observation from the survey is that 41.7% of companies indicated **contributing to the SDGs** as one of the reasons of their CSR/sustainability activities (in comparison to 17.4% survey average). Denmark is a strong performer in most indicators pertaining to the SDGs and has a **strong stakeholder engagement approach** towards its implementation. The number of UN Global Compact participants in Denmark's local network has been steadily increasing in recent years, currently standing at 488 (including 261 SMEs). In 2017, a survey of the Danish signatories showed that 71% of the respondents were already working actively with the SDGs (The Danish Government, 2017).

Although Denmark has an overall **investment-friendly business environment** and enjoys a high position in the European Innovation Scoreboard (2020), indicators related to research and innovation activities among SMEs are evaluated less favourably. According to the recent country report (European Commission, 2020), R&D investments are concentrated in a small number of large companies, while the **growing productivity gaps**

²²² Section 99 of the Danish Financial Statements Act.

between large and small companies suggest weaknesses in this diffusion of technological advances.

Finally, as indicated by the stakeholders, **many SMEs are sceptical about the potential value of engaging in CSR/sustainability**. In the survey, as many as 61% of the companies claimed that “no economic benefit to the company” was an at least somewhat significant barrier. It also stands out that 39% of the Danish respondents saw a lack of financial resources as a very significant barrier (in comparison to 22% survey average). In this respect, it appears that a relatively large share of SMEs somewhat represent a “weak link” in the country’s efforts towards becoming a leader in sustainability.

Policy support measures

The Danish Government presents itself as one of “the global frontrunners when it comes to promoting corporate social responsibility”²²³. This means that the public sector is the leading force in the development of CSR, rather than businesses themselves or civil society organisations. A competitiveness-oriented agenda on CSR emerged around in 2002, when the Danish Commerce and Companies Agency took up CSR as a policy objective. In particular, the Agency targeted SMEs and, already in 2005, developed a **digital tool** for helping them implement responsible supply chain management. The CSR Compass²²⁴ was developed in cooperation with the Confederation of Danish Industry and the Danish Institute for Human Rights. Currently, the tool may seem rather outdated, but it was created following the best international standards at the time. Moreover, SMEs were targeted during an EU-funded project “People&Profit”, which ran from 2004 to 2007 and focused on building a knowledge base around CSR as well as **providing training** for around 12,000 managers and employees of SMEs (Vallentin, 2013).

In 2008, the Danish Government presented its initial National Action Plan on CSR. The Plan mostly focused on **promoting CSR as a means to competitive advantage** for Danish companies, but also proposed mandatory CSR reporting for large enterprises, which was several years before this was implemented on the EU level. Furthermore, the Plan gave basis to the establishment of a **consultative body**, the Danish Council for CSR, with members representing government, industry, trade union and civil society organisations. Presently, the consultative body has transformed into The Council for Social Responsibility and World Goals and is more closely anchored to the SDGs as well as addressing transparency issues in global production²²⁵.

The latter aspect illustrates that the national CSR policy has shifted towards **increasing accountability** in addition to competitiveness (Vallentin, 2013). Indeed, this shift was reflected in the second action plan “Responsible Growth” (2012) which put more emphasis on human rights, climate change and adherence to international principles.

As mentioned above, **human rights** issues pose a growing concern in Denmark. In 2012, the OECD NCP Denmark was established as an independent body within the public administration, which not only raises awareness about the OECD Guidelines and handles complaints but can also initiate cases involving corporate human rights infringements. The latter is a unique function, not found within NCPs in other countries. The public administration, namely the Danish Business Authority, actively collaborates with the NCP, indicating its relatively strong role in the public debate (similarly as in Italy). In 2014, a National Action Plan on Business and Human Rights was published, however, focusing on

²²³ More information available at: <https://danishbusinessauthority.dk/focus-csr>

²²⁴ More information on CSR Compass available at: <https://www.csrcompass.com/>

²²⁵ More information available at: <https://erhvervsstyrelsen.dk/raadet-samfundsansvar-og-verdensmaal>

businesses' voluntary commitment. More recently, discussions on mandatory human rights due diligence have been taking place, with strong support from political parties and civil society organisations. The proposed legislation would concern not only large enterprises, but also smaller companies in high-risk sectors. Moreover, the Danish Initiative for Ethical Trade (DIEH) is involved in promoting responsible trade among its members (businesses, government agencies, trade unions, etc.).

Climate action is also put high on the political agenda. This is particularly reflected in the Action Plan for the UN's 17 World Goals, which sets a goal of lowering greenhouse gas emissions in Denmark by 70% in 2030. In this sense, the Danish government is actively using **public-private partnerships** (see Box 44 below). The Danish Government, together with the business community, has established 13 climate partnerships which identify ideas that can help address climate change and at the same time, increase exports of Danish technology worldwide. Nevertheless, the partnerships are chaired by business leaders of large enterprises. On the other hand, Denmark has significantly **increased its R&D budgets**, opening new possibilities for SMEs to participate in climate-related R&D activities (as mentioned previously, current investments are concentrated within large enterprises) (European Commission, 2020).

Lastly, **public procurement** is playing an increasingly important role both for SMEs and for greener solutions. In recent years, there was a growing number of flexible and innovation-promoting procedures and a considerable increase in the share of EU tenders won by companies with less than 50 employees (European Commission, 2020). In 2020, the Danish Government has launched a new strategy on green public procurement. For instance, it is proposed that the state's employee canteens should introduce vegetarian and organic food, as well as use products that are eco-labelled²²⁶.

Box 44. Public funds for increasing exports of Danish green enterprises

Danish "green enterprises" are typically larger, more export intensive and more productive than the rest of enterprises, placing Denmark in a strong position to also economically benefit from the green transition. Increasingly, Denmark uses public funds (ODA) to mobilise private investments in order to increase the contribution of the private sector to sustainable development in developing countries. For instance, the Danish government has, in partnership with Danish pension funds and other institutional investors, established an Agribusiness Investment Fund. The Fund invests in projects throughout the entire value chain from farm to fork, where a Danish commercial interest is included – thereby increasing the export of Danish technology and know-how.

Sources: European Commission (2020); The Danish Government (2017). More information available at: <https://www.edfi.eu/member/ifu/>

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²²⁶ State of Green (2020). Green purchasing for a green future: The Danish government flexes the public procurement muscle. Available at: <https://stateofgreen.com/en/partners/state-of-green/news/green-purchasing-for-a-green-future-the-danish-government-flexes-the-public-procurement-muscle/>

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Germany

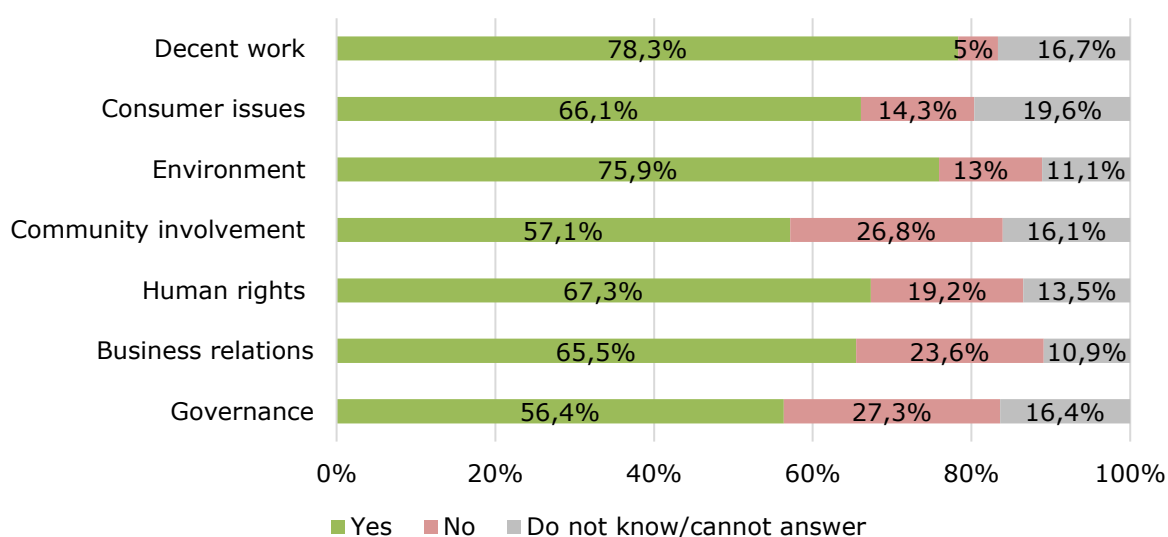
CSR/sustainability uptake: general trends

German SMEs demonstrate a generally **high level of CSR and sustainability uptake** in comparison to other countries. According to the overall survey results (see Figure 42), engagement in some CSR areas among German SMEs appears to be rather close to the survey average. Nevertheless, only 43.5% of them indicated not having a CSR or sustainability strategy, while as many as 30.4% claimed that their entire business model is based on sustainability. Within different CSR areas, representatives of German SMEs often specified activity themes that indicate a systematic approach towards sustainability (see section below). Moreover, German respondents indicated a high level of awareness about CSR and sustainability-related concepts (e.g., 52.2% of respondents were familiar with the concept of sustainability reporting/non-financial reporting, when compared to the survey average of 28.6%). However, the possibility of a positive bias in the survey should be acknowledge.

It should be taken into account that while some aspects may be considered as voluntary CSR in other countries, they are a legal obligation or common in employee-friendly German companies. The business environment in Germany is characterised by strong social partnership between employers and unions, governmental involvement in markets, extensive social security systems and, generally, an emphasis on equality and solidarity (Fifka and Reiser, 2015). International and EU-level discussions around CSR were picked up by German policymakers and many of the existing measures were labelled as contributing to CSR (Lis and Neßler, 2020).

CSR uptake by specific areas and information disclosure practices

Figure 45. Engagement in CSR among German SMEs, by CSR area.



Note: Total (N)=60, except: Consumer issues and Community involvement, total (N)=56 for each area; Fair business, and Governance, total (N) = 55 for each area; Environment, total (N)=54; Human rights, total (N)=52; Community involvement, total (N)=46.

Source: SME survey (2021).

Similarly to other countries, most German SMEs indicated **decent work practices** as the most common CSR activity area. Unsurprisingly, 81.3% of these respondents mentioned that they offer decent working conditions and social protection to their employees.

Human rights appear to be a more important priority when compared to other EU countries, as 67.3% of German SMEs reported some kind of activity in this area (in comparison to the 55.5% survey average). German SMEs reported a rather high extent of practices against discrimination or in benefit of disadvantaged groups in the workplace. This result may be related to various social diversity promotion policies in the country (e.g. governmental support towards equal opportunities for women, immigrants or older persons) (Williamson et al., 2014). Furthermore, a significant part of these respondents indicated that they screen suppliers/business partners for human rights abuses (78.1%), have a human rights grievance/complaint mechanism (50%) or include human rights clauses in company contracts or agreements (37.5%). This positive result stands out from the rest of the survey's responses and may be influenced by the fact that a large proportion of the German SMEs which participated in the survey operate in agro-food and textile industries, which are particularly exposed to human rights issues along the supply chain.

Lastly, German SMEs report a higher level of engagement in addressing **environmental** issues in comparison to the survey average (75.9% and 70.7% respectively). Moreover, they often selected certain themes that can be considered impactful and systematic. More than a half of these respondents indicated using renewable energy sources (64.1% in comparison to the 36.6% survey average), measures to prevent water and air pollution, energy efficient technologies, sustainable packaging and consideration of the environmental aspect in product development. Representatives of business support organisations indicate that this is a result of long-time encouragement from the government, strong regulations, good practice examples and consumer pressure.

Among the survey respondents, German SMEs are **the most active in sharing information** on company operations (50.9%, in comparison to 37.6% survey average). Although formal reporting is rather unpopular, companies are keen to report specific impacts selectively and according to their own template (performed by 56% German SMEs that share information). 60% of these companies mentioned the use of **labels and/or other certification** for company products, while the survey average is merely 36.3%. This is unsurprising, given that over 7000 products are awarded the EU Ecolabel in Germany. Moreover, following certain standards is also popular in terms of company management (38.5% of German SMEs reported using an ISO or similar international standard).

Drivers and barriers to CSR uptake

For German SMEs, **meeting the requirements and expectations set by buyers**²²⁷ is the most important driver (indicated by 74%), alongside **ethical motivation** (70%). These two elements were emphasized by most respondents in the survey (see [section 2.3.](#)).

More interestingly, German companies are known to cultivate close relationships with suppliers and clients, often built through networks and memberships in industry associations (Bauer, 2018). In fact, **multistakeholder sectoral dialogue** plays a strong role in setting common environmental and social standards for businesses. For example,

²²⁷ In the German version of the SME survey, the word "Kunden" was used, which can mean "buyers", "clients" or "customers".

over 130 German textile manufacturers, associations, unions and NGOs have joined the “Partnership for Sustainable Textiles”, which has successfully taken a pioneering role with respect to fair standards in global delivery chains²²⁸. Moreover, the joint sector sustainability Initiative called Chemie3 in which the German Chemical Industry Association (Verband der Chemischen Industrie e.V. (VCI), the Trade Union of the Chemical Industry (IG BCE) and the German Chemical Employers' Association (BAVC), are promoting improvements in the areas of environment and labour issues²²⁹.

Improving **image and reputation before consumers** and local communities is also a relevant factor (mentioned by 54% German SMEs). As noted by one of the business representatives, many consumers in Germany can be identified as “LOHAS” (Lifestyle of Health and Sustainability), which puts certain expectations on businesses.

Representatives of German business support organisations believe that **laws or regulations** are an important influence for business behaviour (this was also indicated by 54% of German SME survey respondents). As mentioned previously, Germany’s approach to societal and environmental issues is strongly institutionalised. For example, there is a relatively high density of environmental regulations, which leaves less room for additional commitment (Lis and Neßler, 2020). This aspect is simultaneously both, a driver for higher sustainability uptake, and narrowing the space for voluntary CSR initiatives.

In line with the general findings of this study, **lack of time/human resources** and **financial resources** are considered to be the main barriers by German SMEs. Interestingly, German businesses give little importance towards **meeting requirements and expectations set by (potential) investors** and, even less, towards improving reputation before them (indicated only by 20% and 6% respectively). This finding may suggest potential of improvement in the area of sustainable finance.

Policy support measures

As stated before, Germany has tight legal regulations in several CSR-related issues (e.g., employees’ rights, control of emissions, improvement of energy efficiency). Nevertheless, there are numerous government initiatives and incentives that focus on promoting companies implement voluntary CSR initiatives.

In 2009, the Federal Ministry of Labour and Social Affairs (BMAS) launched a **National CSR Forum**, which was relatively late given the fact that the EC has passed a green paper to promote CSR in 2001. The Forum was composed of experts from business, trade unions, NGOs, academia and representatives of the Federal Ministries²³⁰. The Forum contributed to the creation of a National Action Plan on CSR in 2010 and is still active today by further advising on the Plan’s implementation and overall CSR policy in the country.

The National Action Plan on CSR placed a strong emphasis on promoting SMEs’ performance with respect to CSR. To achieve this, BMAS launched a three-year programme during which more than **3,5 thousand SMEs were consulted** to support systematic integration of CSR aspects into their business activity. The programme comprised almost 36 million euros and was financed through the European Social Fund (Bauer, 2018). However, the programme has ended and it is not clear whether a similar one will be launched in the future. Furthermore, several **online tools** were developed, such as the

²²⁸ More information on the “Partnership for sustainable textiles” available at: <https://www.textilbuendnis.com/en/>

²²⁹ More information available at: <https://www.chemiehoch3.de/nachhaltigkeitsdreieck/>.

²³⁰ More information on the National CSR Forum available at: <https://www.csr-in-deutschland.de/DE/Politik/CSR-national/Nationales-CSR-Forum/nationales-csr-forum.html>

CR-Kompass, which provides sustainability management guidance specifically tailored to SMEs (see Box 45 below), or the SME Compass²³¹, which focuses on environmental and human rights due diligence along the value chain. BMAS also runs an **informational portal** about CSR in Germany²³², containing various tips, good practice examples, information on sectoral-level issues, the Government's initiatives and events. BMAS also encourages SMEs to engage in sustainability reporting alongside large enterprises. It promotes a **ranking of sustainability reporting**²³³, where SMEs can be evaluated, find the best reports and check whether they comply with the SME-tailored requirements.

Similarly to other countries, various **financial incentives** exist, such as subsidies, low-interest rate loans, tax abatements (especially with respect to environmental improvements in the company) and awards. Furthermore, BMAS has established a CSR Prize (CSR Preis), an initiative which has a separate category for SMEs and serves both as a financial and informational support measure. The activities of the finalist nominees are described in an annual publication, while the awards ceremony is combined with lectures and workshops.

Over time, the focus of BMAS and overall CSR policy has gained a more international orientation. In 2016, in line with the EU regulations, a **National Action Plan on Business and Human Rights** (NAP) was agreed on, setting a goal that 50% of German companies with more than 500 employees voluntarily introduce due diligence mechanisms by 2020. Monitoring efforts have shown that merely 13-17% of the companies fully meet the requirements of the NAP (Ernst & Young, 2020), suggesting that the percentage of SMEs engaged in such activities could be even lower, hence the Federal Government is now initiating **obligatory regulations**. If approved, the Supply Chain Act will apply to companies with over 3,000 employees from 2023 and, a year later, to those with 1,000 or more employees. The companies will have to ensure that human rights and environmental impact are observed along their entire supply chain, otherwise they will face fines of up to 8 million Euros. A representative of the BMAS mentions that some SMEs support this regulation because they will know what kind of conditions to expect when entering into contracts with large enterprises. However, the civil society questions whether the draft law is ambitious enough and in line with international standards and efforts at EU level.

The representative of BMAS claims that the government seeks to approach the due diligence issue with a "**smart mix**" of measures, including not only the Supply Chain Act but also support for the companies affected. This entails providing individual advice through the NAP Helpdesk, establishing support networks abroad via the embassies of the Federal Foreign Office, as well as organising multistakeholder dialogues at the industry-level.

The most recent development by the German government is the **Sustainable Finance Strategy**²³⁴, which aims to mobilise investment for climate protection projects. It will also encourage investors to demand compliance with environmental, social and governance criteria. The strategy envisages a "traffic light" system that helps to identify green investment opportunities. On the other hand, the German Sustainable Finance Strategy expresses strong support for the European Sustainable Finance activities like mandatory Reporting (CSRD) and the taxonomy.

²³¹ More information on SME Compass available at: <https://kompass.wirtschaft-entwicklung.de/en/>

²³² CSR in Germany portal available at: <https://www.csr-in-deutschland.de/>

²³³ Ranking of Sustainability reporting available at: <https://www.ranking-nachhaltigkeitsberichte.de/e>

²³⁴ More information about the German Sustainable Finance Strategy available at: <https://www.bundesfinanzministerium.de/Content/EN/Pressemitteilungen/2021/2021-05-05-sustainable-finance-strategy.html>

Box 45. The CR Compass tool assists SMEs in sustainability reporting

The CR Compass offers SMEs support in setting up their CR management as well as in preparing sustainability reports and progress reports in accordance with the requirements of the UN Global Compact. The CR Compass includes various filter functions with which the disclosures and key figures relevant to one's company can be pre-selected. This allows SMEs to set priorities and devote themselves primarily to their essential topics. The initiative was funded through the European Social Fund and combines the expertise of BMAS, the German Global Compact Network, German Environmental Foundation, a CSR consulting company "Concern" and software developer "WeSustain". The basic version of the CR Compass tool is available free of charge.

Source: <https://www.crkompas.de/>

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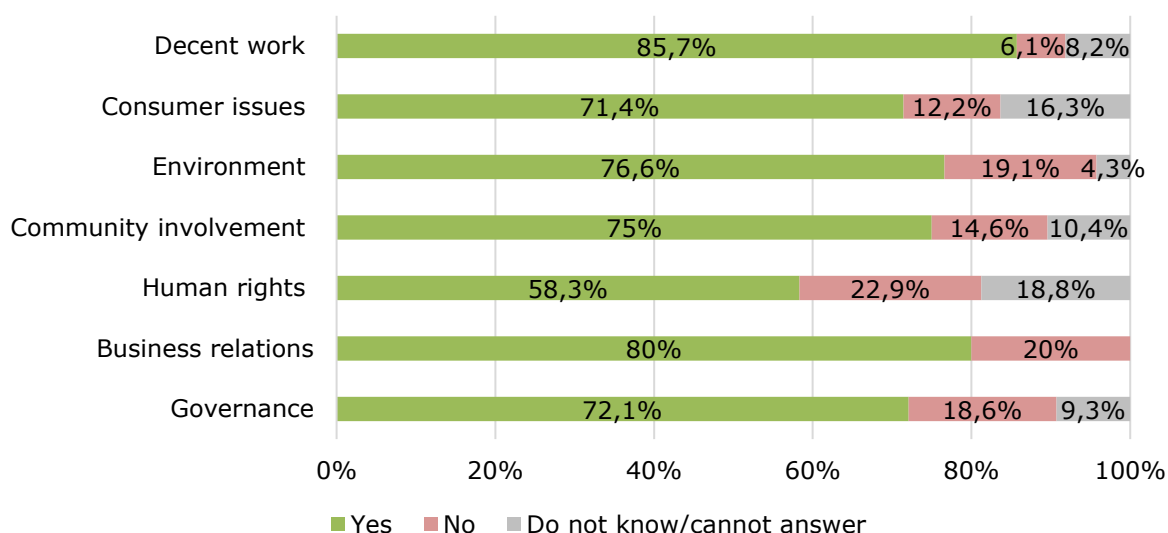
Austria

CSR/sustainability uptake: general trends

CSR/sustainability uptake in Austria can be considered **relatively high**. In the survey, a significant share of Austrian SMEs said to be familiar with concepts such as CSR (83.0%) and due diligence (69.8%). Although only 20.8% of them claimed to have a CSR/sustainability strategy and another 17.0% said that their business model was based on sustainability, this did not undermine their overall engagement in different CSR areas (see Figure 43 below). This may be partially explained by the fact that Austrian businesses contribute substantially to high environmental and social standards due to regulation and institutional pressure (similarly as in the case of Germany). Hence, additional voluntary CSR engagement through the adoption of strategies may not be as relevant for these SMEs (Keinert-Kisin, 2015).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 46. Engagement in CSR among Austrian SMEs, by CSR area.



Note: Total (N)=49, except: Community involvement and Human rights, total (N)=48 for each area; Environment, total (N)=47; Business relations, total (N)=45; Governance, total (N)=43.
Source: SME survey (2021).

Austrian SMEs appear to be strongly engaged in **decent work practices** (indicated by 85.7% of respondents when compared to the survey average of 80.2%). Austria has a highly developed social security system and a legal framework governing the protection of workers. Furthermore, industrial relations in the country are characterised by a well-established system of social partnership (Eurofound, 2019). This is also evident in the survey responses within this area, as 61.9% of Austrian SMEs indicated participation in social dialogue (in comparison to the survey average of 43.8%). A significant share (81.0%) also mentioned efforts to ensure work-life balance (e.g. flexible working hours or parental leave). It should be taken into account that the need for flexible working conditions may arise from a wide employment gender gap, as women often work part time largely due to a lack of affordable full-time childcare (European Commission, 2020²³⁵).

²³⁵ European Commission (2020). Country Report Austria 2020. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1584543810241&uri=CELEX%3A52020SC0519>

A remarkable share (80.0%) of respondents indicated engagement in **fair business relations**, mainly related to fair competition, sustainable procurement practices and supply chain due diligence. The latter aspect can be related to the fact that 30.2% of the sample companies operated in the textile and garment industry. In Austria, the human rights issues prevalent in this sector are well-known (initiatives such as the Fair Wear Foundation are highly regarded). On the other hand, stakeholders note that SMEs that have a short supply chain prefer **buying locally** and, therefore, do not perceive due diligence as a relevant issue. Support to economic development of local communities was also often indicated in the survey (alongside support to education, culture or other initiatives).

Austrian SMEs appear to have integrated many **environmental** management practices in their operations. Similarly to their German counterparts, most Austrian companies selected at least several activities within this category (e.g. over 60.0% of respondents indicated prevention of water and air pollution, sustainable packaging and the use of renewable energy sources). In some aspects, environmental practices are already well-regulated (e.g. waste management, use of microplastics). According to stakeholders, however, many industry leaders in Austria prefer voluntary initiatives and strongly oppose stricter regulations regarding environmental sustainability. In fact, Austria is at the risk of not meeting its carbon neutrality targets by 2040 (e.g. the emissions in transport sector are continuously increasing, see Box 46 below), which is largely related to a lack of a consistent taxation of pollution and resource use (European Commission, 2020).

Only less than a third (32.6%) of Austrian SMEs that participated in the survey publicly **shared information** about their sustainability/CSR practices. According to stakeholders, larger companies often introduce various labels to their products to improve their credibility (e.g. through Ecolabels), but this is less prevalent among SMEs. Among the reasons for not sharing information, survey respondents often mentioned that it would take too much time, that company stakeholders are personally informed about all business practices, or that publicly presenting these activities seems unnecessary or inappropriate. This may mean that companies see their activities as a way of meeting minimum expectations and requirements, rather than a way to gain competitive advantage.

Drivers and barriers to CSR and sustainability uptake

Austrian SMEs identified **meeting the requirements set by buyers** (71.1%) and **laws/regulations** (68.4%) as the most prevalent benefits of carrying out CSR/sustainability-related activities (compared to the survey average of 55.3% and 49.5% respectively). Meanwhile, **ethical motivation** was mentioned less frequently (60.5%) than the survey average (68.5%). Once again, these results reflect the specifics of the country, namely that businesses are less interested in furthering their commitments beyond what is required by law and political stakeholders. In fact, some businesses believe that application of even stricter standards would **hamper their competitiveness** (see Box 46 below).

Indeed, the debate around voluntary CSR versus mandatory standards is highly prevalent in Austria. Industry organisations perceive CSR engagement as a business case, in other words, something that can be driven by market impulses and incentivised through soft measures (such as awards and competitions). Their opponents, mostly consisting of trade unions, labour chambers and NGOs, doubt that win-win situations could arise without mandatory standards, accountability, and systematic cooperation with stakeholder groups

(Keinert-Kisin, 2015). Nevertheless, this illustrates that CSR/sustainability issues are widely discussed not only among policymakers, but also between industry-level stakeholder groups.

Box 46. Challenges of lowering emissions in Austria's transport and logistics sector

Due to its central location in Europe, Austria has to take the burden of frequent transit transport. Between 1990 and 2017, CO₂ emissions from transport increased by 79.6% and it is regarded the second largest source of greenhouse gas emissions in the country. Austria has taken some incentives to shift traffic to rail, while road freight transport is being made more expensive through road tolls and access restrictions. Despite these steps, rail volumes grew only slightly, bringing additional measures to discussion (e.g. higher taxes for diesel, which are currently lower than for petrol). According to stakeholders, such measures are highly opposed by transport and logistics companies, in fear of losing their market share to competitors from CEE that generally have lower environmental standards and labour costs. While some larger and internationalised companies have successfully made sustainability a part of their corporate identity, many smaller firms remain environmentally stagnant due to high competition and price sensitivity.

Sources: European Commission (2020), Oberhofer and Dieplinger (2013), stakeholder interview.

Policy support measures

According to stakeholders, the topic of CSR gained significance in 2000s, especially with the establishment of *respACT*, Austria's leading business association and platform for CSR and sustainable development²³⁶. In 2009, *respACT*, launched a compilation of CSR guidelines and soon started working towards meeting the needs of SMEs at regional level through networking activities, workshops, and CSR awards. In the last decade, the focus has shifted from CSR towards achieving the SDGs. In the latest Austria's Voluntary National Review, sustainable development was even described as a "constitutional state goal" (Austrian Federal Chancellery, 2020). Since 2016, the Federal Ministries, federal states and municipalities have anchored the SDGs into their strategic documents. The Inter-Ministerial Working Group on the 2030 Agenda focuses on general coordination and on **multi-stakeholder dialogue** with relevant actors.

Companies are incentivised to contribute to the SDGs through various "soft" measures. *RespACT*, which is also a coordination point for the Global Compact Network Austria, gives out **helpful orientation** to companies in implementing the SDGs²³⁷. The network also acknowledges good practices through **awards**, such as the TRIGO award for exemplary CSR initiatives or the ASRA award, which aims to present the best sustainability reports from Austrian companies. Through the programme Circle17²³⁸, *respACT* also promotes **partnerships** between corporates, non-profits, and start-ups in order to develop solutions to urgent sustainability challenges, as well as facilitates funding opportunities for such projects.

The Federal Ministries also encourage businesses to address pressing societal and environmental challenges. To promote **equal opportunities**, the NESTOR Gold Seal²³⁹ is given out to companies that have age and gender sensitive internal policies and a

²³⁶ More information on respACT available at: <http://www.respact.at/>

²³⁷ More information on respACT guidance and tools available at: <https://www.respact.at/site/de/medien>

²³⁸ More information on Circle17 available at: <https://circle17.at/>

²³⁹ More information on NESTOR Gold Seal available at: <https://www.sozialministerium.at/Ministerium/Preise-und-Guetesiegel/NESTOR-GOLD-GUETESIEGEL-fuer-alternsgerechte-Unternehmen-und-Organisationen.html>

supportive working environment. The gender gap in employment is also addressed through trainings designed to put more women on supervisory boards²⁴⁰. The latest development in this direction is a new regulation that entitles fathers in Austria to take one month's paternity leave. In terms of the **environment**, companies are supported through various granting schemes. For instance, SMEs can receive grants for consulting services and associated investments to introduce energy management systems²⁴¹, as well as receive up to 12,000 Euros to reduce CO2 emissions through the "Eco-Check" programme²⁴². Numerous Austrian **research, technology and innovation** programmes also contribute to the achievement of energy and climate targets (Austrian Federal Chancellery, 2020). A variety of such policy measures are implemented in partnership with the Austrian Chambers of Commerce, including sectoral and regional branches (WKO). These types of measures will be promoted even more in the upcoming years, as Austria seeks to "build back better" in the context of COVID-19 recovery. The economic stimulus package will provide 300 million Euros for research and innovation in the field of climate action and future technologies.²⁴³

Austria is also putting efforts to encourage **responsible consumption**, which indirectly affects businesses' behaviour. For instance, the Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology is implementing a responsible shopping initiative, which includes an online database with over 250 quality labels used in the Austrian retail sector, as well as a seasonal calendar that shows the availability of local fruit and vegetables. Educational programmes in schools or cultural sites also contribute to promoting sustainable consumption patterns (Austrian Federal Chancellery, 2020).

Lastly, Austria has undertaken various **legislative measures** to improve the social and environmental performance of businesses. Similarly as in other countries, sustainable and innovation-friendly public procurement is becoming the new standard. Companies are also incentivised through tax reductions, for instance, participation in the circular economy is encouraged through a VAT tax relief on repair services²⁴⁴. Moreover, Austria is going beyond the EU requirements by planning to ban microplastic in products or the use of plastic bags (Austrian Federal Chancellery, 2020). However, as mentioned previously, there are discussions on further updating current regulations and moving towards "harder" measures in order to address the high levels of emissions. Furthermore, NeSoVe, a social responsibility network that brings together employee representatives and NGOs, is actively campaigning for binding supply chain due diligence legislation.

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2. Keinert-Kisin, C. (2015). CSR in Austria: Exemplary Social and Environmental Practice or Compliance-Driven Corporate Responsibility?. In *Corporate Social Responsibility in Europe* (pp. 137-151). Springer, Cham.

²⁴⁰ More information on „Zukunft.Frauen“ initiative available at: <https://www.wko.at/site/zukunftfrauen/start.html>

²⁴¹ More information on SME funding for energy management systems available at: https://www.aws.at/fileadmin/user_upload/Content.Node/media/richtlinien/ab_2018_06_EnMS_RL.pdf

²⁴² More information on "Eco-Check" available at: <https://www.ffg.at/Instrumente/Oeko-Scheck>

²⁴³ Platform for REDESIGN 2020. Policies, measures and actions on climate change and environmental protection in the context of COVID-19 recovery. Accessed 27 April 2021. Available at: <https://platform2020redesign.org/countries/austria>

²⁴⁴ Ibid.

3. Oberhofer, P., & Dieplinger, M. (2014). Sustainability in the transport and logistics sector: Lacking environmental measures. *Business Strategy and the Environment*, 23(4), 236-253, <https://doi.org/10.1002/bse.1769>

Ireland

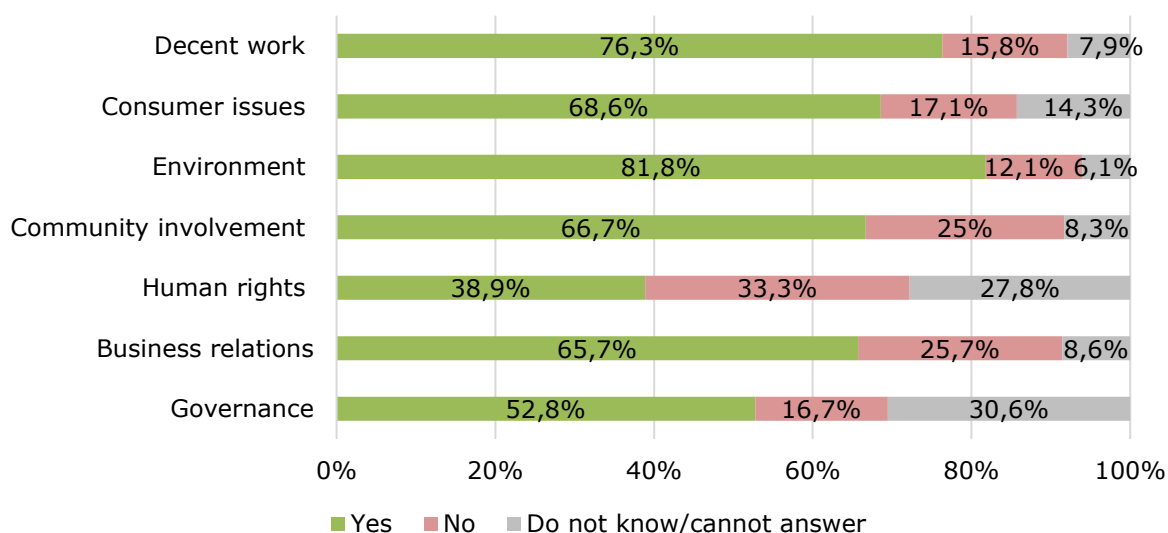
CSR/sustainability uptake: general trends

The uptake of CSR by Irish SMEs appears to be **average as compared to other countries**. Almost a third (31.0%) of the Irish SMEs that responded to the survey indicated they have a CSR strategy, which is similar to the survey average (27.5%). However, the share of SMEs that operate on a sustainable business model in Ireland was one of the lowest in the survey (9.5% as compared to the survey average of 18.7%). This can be explained by the fact that the nature of SME CSR work in Ireland tends to be more informal and ad hoc while most of their activities are not recorded or planned in strategy documents. Irish Small and Medium Enterprise Association (ISME) has noted that demanding SMEs to develop a CSR strategy might put them off the idea (ISME, 2015).

A 2015 study of the Irish Small and Medium Enterprise Association (ISME) revealed that every single surveyed SME engaged in what could be classed as CSR activities (e.g. reducing waste, financial support to good causes, supporting employee development, recycling, etc.), but only 54% of SMEs understood enough about the term to indicate that they are engaged in CSR activities (ISME, 2015). Therefore, **lack of awareness** on behalf of SMEs regarding what CSR entails was the key problem highlighted in the study findings, suggesting that 46% of SMEs required further education. Signalling the progress in this area, survey results five years later reveal that the share of Irish SMEs that are familiar with the concept of CSR (88.1%) is higher than the survey average (70.4%). However, positive bias should be nonetheless taken into account.

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 47. Engagement in CSR among Irish SMEs, by CSR area.



Note: Total (N)=38, except: Consumer issues and Fair business, total (N)=35 for each area; Community involvement, Human rights and Governance, total (N)=36 for each area; Environment, total (N)=33.
Source: SME survey (2021).

Irish SMEs appear to be most active in the area of **environment** (as indicated by 81.8% of respondents). This share is higher than the survey average (70.7%) and Ireland is third to France and Finland in this regard. Irish SMEs' efforts to act in a socially responsible way in this area mostly relate to **recycling** (as indicated by 85% of respondents), **use of**

energy efficient technologies (58%) and **sustainable packaging** (50%). On the other hand, Ireland ranks as an average performer in the European Eco-Innovation Index (2019), indicating lower rates for later stages of environmental technology development and diffusion than the EU average.

A high share (76.3%) of Irish SMEs were engaged in ensuring **decent work practices**. 86% of these companies did so by ensuring **workers' health and safety** (as compared to the survey average of 72.3%) and 82% by providing workers with **opportunities for development** (as compared to the survey average of 62.5%). The latter was also observed in the 2015 ISME study, which found that 84% of surveyed SMEs actively supported employee learning and development. A remarkably small share of SMEs (29%) were engaged in social dialogue in Ireland, which is lower than the survey average (43.8%).

Irish SMEs tend to **not publicly share information about their sustainability/ CSR practices**. Only a third (37.1%) of respondents claimed to engage in such activities, a result lower than in most Ireland's Western European peers. This inactivity is mostly prevalent among companies with 10-49 employees, whereas medium-sized companies are more likely to share information than not. Those who publicise their CSR effort mostly do so on social media channels (75% of respondents). The most common reason for not sharing information publicly according to the respondents is because stakeholders receive relevant information about business practices personally, followed by the opinion that sharing such information is inappropriate or unnecessary, and that they lack knowledge on how to disclose it. Once again, these findings can be explained by the previous research which showed that CSR activities of SMEs in Ireland are not recorded and largely undocumented (ISME, 2015).

Drivers and barriers to CSR and sustainability uptake

Overall, Irish SMEs rated their CSR/sustainability activities as largely beneficial (average score of 3.90 out of 5, see Figure 39). The highest share of the respondents (58%) perceive uptake of CSR as a way to **improve their image and reputation before customers and local communities**. The same benefit was singled out by SMEs in the ISME (2015) study. Other equally important drivers for Irish SMEs are **ethical motivations**, meeting the **requirements set by law** and **expectation set by buyers**, as well as **increasing employee motivation and retention** (all indicated as important for 54.8% of respondents). It appears that Irish SMEs **do not perceive CSR as an opportunity for market growth**, but put stronger emphasis on their own local community and employees.

Another significant driver appears to be the **numerous CSR support measures**, many of which are specifically tailored for SMEs. In particular, companies can benefit from practical advice and financial assistance for adapting small-scale but impactful changes in their business activities (see section below). However, in terms of research and development, most public support is provided through a tax credit rather than direct support, which **limits the potential of SMEs to develop novel sustainability solutions** (in contrast to Finland, for instance). In the survey, lack of financial resources as well as a lack of awareness on available support programmes were frequently indicated as significant barriers.

Policy support measures

Increasing awareness so that SMEs know what CSR entails and further encouraging such practices are priority areas for Ireland. To this end, SMEs are provided with **informational publications** (e.g. CSR Guide for SMEs by Chambers Ireland, First Steps to Green Competitiveness Guidebook by Enterprise Ireland)²⁴⁵ or tools to help them navigate through all kinds of resources and support available to them (e.g. supportingSMEs.gov.ie initiative)²⁴⁶.

The second **Ireland's National Plan Corporate Social Responsibility 2017-2020 "Towards Responsible Business"** included provisions on helping employers to understand the benefits of CSR, providing businesses with accessible and appropriate information resources, supporting organisation by promoting best practices, news and events, advocating and supporting relevant policies that complement CSR.²⁴⁷ To drive the implementation of the Plan, the business-led **CSR Stakeholder Forum** was created under the Department of Enterprise, Trade and Employment. The Forum appears to be of an administrative nature, rather than an advisory body to discuss policy issues. The Forum works to raise awareness amongst SMEs and micro-enterprises on the CSR-related supports and resources they can access, as well as to facilitate culture of sharing good practices and peer learning. To this end the Forum has launched the informational **CSR Hub platform** dedicated to CSR resources and over 100 case studies on CSR²⁴⁸. Some of the case studies particularly focus on SMEs and may serve as an inspiration to adapt small changes towards sustainability. However, government representatives state that most of the activities have stalled during the pandemic and there is uncertainty on when the next National CSR Plan will be released.

Besides the Forum, another platform for stakeholder cooperation in Ireland is **CSR Network**, which unites business and organisations, enabling them to share knowledge and practices on CSR.²⁴⁹ Similarly, **Rethink Ireland** partnering platform funds social enterprises, as well as provides them with training, advisory services, and networking opportunities.²⁵⁰

One of the major CSR supporting bodies is **the Business in the Community Ireland (BITCI)** which provides SMEs access to tools and resources they can employ²⁵¹ and offers membership privileges (i.e. access to expert consultancies, special education and employment programmes, events, workshops, networking opportunities).²⁵² BITCI is also the initiator of the only certified standard for CSR in Ireland, the **Business Working Responsibility Mark**. The Mark is independently audited by the National Standards Authority in Ireland and is valid for three years.²⁵³

Ireland fosters CSR in businesses by **awarding companies for their CSR efforts**. SMEs that engage in CSR can be awarded and recognized or their good practices via the

²⁴⁵ More information on CSR guide for SMEs available at: <http://www.csrhub.ie/csr-for-smes/chambers-ireland-csr-guide-for-smes.pdf>; First Steps to Green Competitiveness Guidebook available at: <https://www.enterprise-ireland.com/en/funding-supports/Company/Eestablish-SME-Funding/LeanStart-Environmental-Guidelines.pdf>

²⁴⁶ More information available at: <https://supportingsmes.gov.ie/sme-search/>

²⁴⁷ Department of Enterprise and Innovation. Towards Responsible Business: Ireland's National Plan on Corporate Social Responsibility 2017-2020. Available at: <https://enterprise.gov.ie/en/Publications/Publication-files/Towards-Responsible-Business-Ireland%E2%80%99s-National-Plan-CSR-2017-2020.pdf>

²⁴⁸ More information on CSR Hub available at: <http://www.csrhub.ie/>

²⁴⁹ More information on CSR Network available at: <http://csrhub.ie/csr-network/>

²⁵⁰ More information on Rethink Ireland available at: <https://rethinkireland.ie/about-us/>

²⁵¹ More information on Case Studies available at: <https://www.bitci.ie/resources/case-studies/>

²⁵² More information available at: <https://www.bitci.ie/join-the-network/>

²⁵³ More information on Business Working Responsibility Mark available at: <https://www.bitci.ie/csr-certification/>

Sustainable Business Impact Awards (former CSR awards).²⁵⁴ Similarly, the Sustainable Energy Authority (SEAI) Energy Awards has a category for SMEs and celebrates businesses moving away from fossil fuels towards innovative energy solutions addressing the climate crisis.²⁵⁵

Indeed, Ireland has multiple policy support measures for CSR in **environment**:

- The SEAI offers SMEs custom-designed measures to foster sustainable energy use in businesses (e.g., SEAI Energy Academy training, Energy Management workshops, etc.).²⁵⁶
- Environment Protection Agency (EPA) has launched a **Tool for Resource Efficiency** providing feedback on how companies can make their business more resource efficient.²⁵⁷ Through the **Green Enterprise annual funding programme**, EPA supports innovative projects by businesses on plastic waste, food waste, resources and raw materials, construction and demolition.²⁵⁸
- Enterprise Ireland hosts a **GreenStart funding programme** designed for SMEs, encouraging them to develop environmental management and reporting systems, understanding the carbon footprint, etc.²⁵⁹
- **Small Firms Association** provides SMEs with guidelines, practical advice and assistance on matters related to environment and energy (e.g., waste management, environmental management systems, chemicals, energy efficiency, etc.).²⁶⁰
- **The Green for Micro Programme** provides micro-enterprises with expert advice on how to reduce their carbon footprint, energy costs and lower greenhouse gas emissions.²⁶¹
- **Water Stewardship** programme aims to reduce water consumption of businesses by providing courses on the topic.²⁶² The programme was extended by the new government-initiated **Climate Ready** training programme for companies to reduce energy waste.²⁶³
- The new **Climate Enterprise Action Fund** has reserved 10 million Euros to help Irish companies reduce emission and embrace sustainability.²⁶⁴ It is foreseen that the funding will be awarded to up to 850 companies at the early stages of implementing climate and sustainability action plan, and for up to 100 companies that are more experienced in sustainability.

Other policy support measures include the **Origin Green** programme for the food and drink industry, which aids businesses in setting sustainability targets by assessing their performance and providing consultancy;²⁶⁵ **MODOS** free training programme for SMEs and micro-enterprises, offering mentoring services and Innovation Award for implementing circular economy models;²⁶⁶ **Prompt Payment Code** initiative committing business to

²⁵⁴ More information on Sustainable Business Impact Awards available at: <https://www.chambers.ie/events/sustainable-business-impact-awards/>

²⁵⁵ More information on SEAI Energy Awards available at: <https://www.seai.ie/events/sustainable-energy-awards/>

²⁵⁶ More information available at: <https://www.seai.ie/business-and-public-sector/small-and-medium-business/>

²⁵⁷ EPA Tool for Resource Efficiency <https://greenbusiness.ie/sme-efficiency-and-cost-reduction-questionnaire/>

²⁵⁸ More information on EPA „Green Enterprise“ available at: <https://www.epa.ie/our-services/monitoring--assessment/circular-economy/green-enterprise/>

²⁵⁹ More information available at: <https://www.enterprise-ireland.com/en/funding-supports/Company/Eestablish-SME-Funding/GreenStart.html>

²⁶⁰ More information available at: <https://www.sfa.ie/Sectors/SFA/SFA.nsf/vPages/Advice~environment---energy?OpenDocument>

²⁶¹ More information available at: <https://www.localenterprise.ie/green>

²⁶² More information on Water Stewardship training programme available at: <https://www.water.ie/conservation/business/water-stewardship/>

²⁶³ More information available at: <https://www.skillnetireland.ie/climate-ready/>

²⁶⁴ More information on The Climate Enterprise Action Fund available at: <https://globalambition.ie/climate-enterprise-action-fund/>

²⁶⁵ More information on Origin Green available at: <https://www.origingreen.ie/what-is-origin-green/>

²⁶⁶ More information on Modos available at: <http://modos.ie/>

install the culture of prompt payment and foster fair and responsible business relationships.²⁶⁷

In April 2021 the government has published the **Draft National Strategy for Ireland's transition to a Circular Economy**. As part of its efforts to encourage the transition the government has also launched a **Circular Economy Innovation Grant Scheme** funding innovation and circular economy projects by social enterprises and business with less than 50 employees.²⁶⁸

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1. Irish Small and Medium Enterprise Association (2015). SMEs and CSR. Assessing the Level of Corporate Social Responsibility Activities and Knowledge in Irish Small and Medium Enterprises, <https://isme.ie/assets/15184-CSR-Report-Final.pdf>.
2. Government of Ireland. Whole of Government Circular Economy Strategy 2021-2022. Pre-consultation, <https://assets.gov.ie/131881/92ad93d3-1be6-4eaa-ac73-2bea62073c48.pdf>

²⁶⁷Prompt Payment Code <https://enterprise.gov.ie/en/What-We-Do/Supports-for-SMEs/Prompt-Payment-Code/>

²⁶⁸Department of the Environment, Climate and Communications. Apply for the Circular Economy Innovation Grant Scheme (CEIGS). More information available at: <https://www.gov.ie/en/service/b3faa-apply-for-the-circular-economy-innovation-grants-scheme-ceigs/>

France

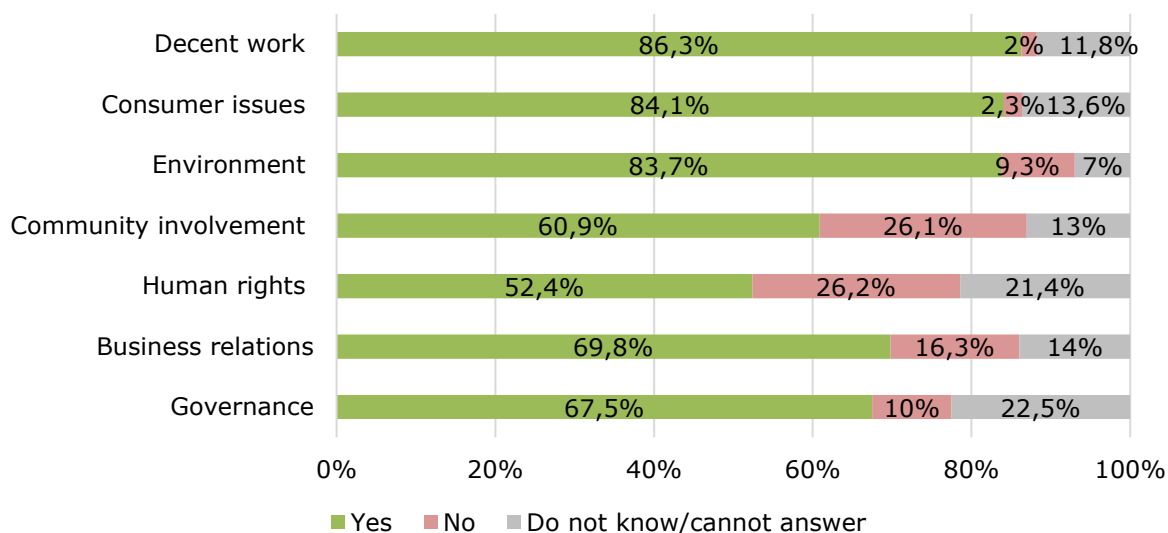
CSR/sustainability uptake: general trends

France can be seen as one of the leading countries in the CSR/sustainability debate in Europe, while French companies are expected to comply with high standards in these fields. This is also reflected in the survey responses where 33.3% of French SMEs reported having a CSR/sustainability strategy and another 25.4% claimed that their entire business model was based on sustainability. A remarkable share of SMEs (90.5%) indicated being familiar with the concept of due diligence, while familiarity with other CSR-related concepts was similar to or below the survey average. This might be partially explained by the prevalence of the topic in recent political discussions and by the fact that most survey respondents from France operated in textile, agro-food and retail industries, which are exposed to various pressures on their supply chains. Overall, the French SMEs demonstrated a higher-than-average engagement in most CSR areas (see Figure 45).

France is often characterised by tense industrial relations and a strong involvement of the state and the law in industrial and social matters (Eurofound, 2019). There is a level of scepticism regarding the 'good nature' of businesses in society, and even linguistically the notion of 'social responsibility' is associated with the legal concept of liability. Therefore, CSR is seldom approached from the 'business case' perspective (Antal and Sobczak, 2007). CSR/sustainability uptake is largely promoted through indirect interventions relating to different societal challenges (e.g. in the fields of supply chain due diligence, environmental protection or social exclusion).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 48. Engagement in CSR among French SMEs, by CSR area.



Note: Total (N)=51, except: Consumer issues, total (N)=44; Environment, total (N)=43; Community involvement, total (N)=46; Human rights, total (N)=42.

Source: SME survey (2021).

As expected, the majority of French SMEs in the survey indicated efforts in the area of **decent work**. Their engagement in different activity themes within this area was similar to the survey average, with the exception of social dialogue (activities reported by 68.3% of French SMEs when compared to the average of 43.8%). Although France performs

relatively well on employment and social indicators, labour market integration remains more difficult for disadvantaged groups, in particular, **low-skilled people with a migrant background** (European Commission, 2020). In the survey, more than a half (52.4%) of respondents said that they address **human rights** issues and yet merely 25.0% of them did it by 'integrating disadvantaged groups (e.g. refugees, ethnic minorities)'.

The situation appears to be better in addressing the needs of **persons with disabilities**. For instance, within the area of **consumer issues**, almost a half of respondents (48.5%) claimed to have adapted accessibility to products, services, or their distribution premises. Among the respondents who said to be active in **community involvement**, responsible social investment was also mentioned quite frequently (42.3%). This may be connected to the fact that there is a number of measures to ensure the principle of equal treatment of persons with disabilities in France (although further improvement is needed). For instance, any employer with at least 20 employees has to meet an employment obligation quota of 6% of disabled workers or pay a contribution fee which is then used to further fund professional inclusion²⁶⁹.

In comparison to other countries, French SMEs were the most active ones in declaring engagement in reducing their negative impact on the **environment**. However, it appears that they implement a smaller variety of activities than, for instance, their German or Finnish counterparts. Most often, they mentioned rather simplistic measures, such as recycling (79.4%) or sustainable packaging (55.9%). Indeed, France is defined as an average eco-performer (Eco-Innovation Index, 2019). It appears that environmental issues are strongly addressed through high taxes on production and regulatory restrictions, while technology adoption remains rather weak (European Commission, 2020).

In terms of **business relations**, the survey results suggest that companies take sustainability into account in their key purchasing decisions (especially, the environmental aspect), but do not always have a systematic monitoring mechanism in place. The engagement level in fair business relations was just above the survey average of 66.4%. Within this area, 53.6% of respondents mentioned to preform due diligence, also not far above the survey average of 50.0%. This shows that despite the high number of respondents who claimed to be familiar with the concept of due diligence, it does not necessarily reflect in their actual business practices. On a positive note, the French survey participants were somewhat more active in sustainable procurement practices, such as purchasing eco-certified products, and frequently indicated internal commitment to investing in green/sustainable solutions for company operations.

Lastly, almost a half of respondents (46.2%) mentioned that they **share information** about their CSR/sustainability practices on a regular basis, exceeding the survey average of 37.6%. Nevertheless, only 17.4% of them followed international reporting standards and, just like most SMEs in the survey, preferred publishing information on social media, their own website, or other means. 39.1% indicated using labels or other certifications for their company products. According to stakeholders, this is a common practice among French SMEs as an alternative to formal reporting. In fact, there is an ongoing Government-led initiative to make the label landscape more systematic and increase its credibility (see Box 9 in [section 4.6.](#)).

²⁶⁹ More information on disability inclusion in France available at: <https://private.disabilityin.org/global/france/>

Drivers and barriers to CSR and sustainability uptake

When asked about the reasons for carrying out CSR/sustainability activities, as many as 89.4% of French SMEs mentioned **ethical motivation**, which is above the 68.5% survey average. **Increasing employee motivation and retention** was the second most popular option (indicated by 57.5%). Interestingly, a relatively small share of respondents (36.2%) mentioned meeting the requirements set by regulations or buyers as motivating factors. These findings give the impression that French SMEs **separate their legal obligations and economic performance from CSR/sustainability** practices and rather associate them with voluntary and ethically driven activities.

This is in line with the observation that France's business community appears "to equate CSR with some kind of social and economic benevolence" and that it is too rarely approached "from an integrated strategic and innovation viewpoint, as a potential source of business opportunity" (Maon, 2015). Indeed, the political discussions around CSR in France seem to revolve around the moral and normative implications of it. Furthermore, it is often argued that CSR is being seen as a legal condition, but it appears that this is hardly applicable to SMEs. While large enterprises (and especially those with over 5000 employees) are legally required to act in an ethical manner, SMEs are simply expected to do so.

As mentioned previously, this kind of perception might pose **a barrier for developing innovative solutions** and business models that directly benefit from sustainability (as is the case in Finland, for example). Moreover, the innovation performance is hampered by the **complexity of the research and innovation ecosystem** and further efforts are needed to reinforce the links between science and business (European Commission, 2020).

Policy support measures

France can be considered a pioneer when it comes to CSR reporting and transparency for companies. Already in 1977, France positioned a law for companies employing over 300 employees to provide a report with more than 130 indicators relating to employees and the workplace. The requirements were expanded in 2001, when listed companies were obliged to report on their social and environmental impacts annually. However, the non-financial reporting was considered a mere formality by most companies and lacked substance, while sanctions for non-compliance were not enforced. Shortly after that, the French parliament introduced two **socially responsible investment** (SRI) laws, requiring employee saving schemes to take environmental, social and governance (ESG) considerations into account (Maon, 2015).

In light of growing concerns about climate change and an updated national sustainable development strategy, the so-called **Grenelle 2 Act** was introduced in 2010. At the time, it was considered one of the most comprehensive reporting laws, applying to all companies with over 500 employees and a turnover of 500,000 Euros. It also required third-party verification, as well as encouraged stakeholder involvement, in order to strengthen the credibility of CSR-related information. However, some of the foreseen requirements were 'watered down' by corporate pressure groups, leading to dissatisfaction of civil society organisations and trade unions. The law does not apply to SMEs which represent 99% of companies active in France, neither to subsidiaries of French companies abroad, where the risk of violations is the highest (ibid).

The need to address CSR issues through other means than the existing legislation, enhanced by the Rana Plaza tragedy in Bangladesh, led to the establishment of the national **CSR Platform**, launched by the Prime Minister in 2013. The CSR Platform has 50 member organisations, representing businesses, unions, civil society organisations, CSR researchers and public institutions. The representatives participate in thematic working groups and meet in regular plenary sessions, while the permanent secretariat is installed within *France Stratégie*. During the years, the CSR platform has adopted and published numerous recommendations and opinions, reports and organised events. Most recently, the Platform's focus has been placed on digital CSR, e-commerce and logistics sector and the establishment of sectoral CSR labels (see Box 9 in [section 4.6.](#)).

In 2017, the **Duty of Vigilance Act** was passed to further embed corporate respect for human rights through legislation. The supply chain legislation requires all French companies with over 5,000 employees in France or 10,000 employees internationally, to undertake due diligence with regard to the companies they control and all their contractors and suppliers. According to an assessment by a group of NGOs, the law has delivered few results during the first two years of its existence²⁷⁰, further highlighting the need of stronger enforcement and additional measures to accompany existing legislation.

In 2019, the so-called **PACTE law** was put into force with the intent of giving companies the possibility to go beyond the objective of being profitable and establishing its *raison d'être*. Under the *PACTE law*, the management of French companies must take environmental and social issues into account, yet sanctions for failing to do so are unlikely to be enforced in practice.

The *Grenelle Act 2* and the *Duty of Vigilance Act* are targeted at large enterprises, however, SMEs are expected to adapt similar principles through certifications, pacts, labels and similar means. With regard to SMEs, there are also some novel regulations that relate to labour practices and non-discrimination. Besides the previously mentioned law regarding the **employment of persons with disabilities**, another interesting example is the **Gender pay equity law**, which subjects companies with 50 to 250 employees to annually calculate their gender pay equity score. Notably, the law is not disclosure-only, as some companies will have to take corrective measures.

Civil society organisations and business associations play an important role to encourage CSR/sustainability uptake among SMEs. For instance, the **French UN Global Compact** network has almost 1,500 participants, making it one of the largest local networks globally. It organises Best Communications Awards for any companies or NGOs that submit their Communications on Progress and Communications on Commitment. It also gives out awards for economic actors that significantly contribute to achieving the SDGs. Special focus is given to SMEs, which represent more than 50% of the French local network. For instance, the Territories Committee brings together around 10 SMEs that promote the Global Compact and the SDGs in the regions through various projects.

The Confederation of SMEs (CPME) directly supports its members in implementing various aspects of CSR. For instance, it offers **online resources and trainings** for SMEs to become "Consumer law ready"²⁷¹. Various industry organisations, such as the UNICEM federation that concerns mining and extractive industry, have **sectoral action programmes** in the field of CSR. Other initiatives worth mentioning include *Le entreprises*

²⁷⁰ Business & Human Rights Resource Centre (2019). "France's 'Rana Plaza' law delivers few results". Available at: <https://www.business-humanrights.org/en/latest-news/france-2-years-after-duty-of-vigilance-law-was-passed-it-has-delivered-few-results-say-ngos/>

²⁷¹ More information on "Consumer law ready" available at: <https://www.consumerlawready.eu/fr/SME/online-resources>

pour la Cité, a business network invested in social innovation, which piloted a program to incentivise **collaborations between large companies and SMEs** in the social field. Another leading multistakeholder network is the *Comité 21*, which provides expertise and supports **partnerships**, relying on the 2030 Agenda and the SDGs at local, national, European and international levels.

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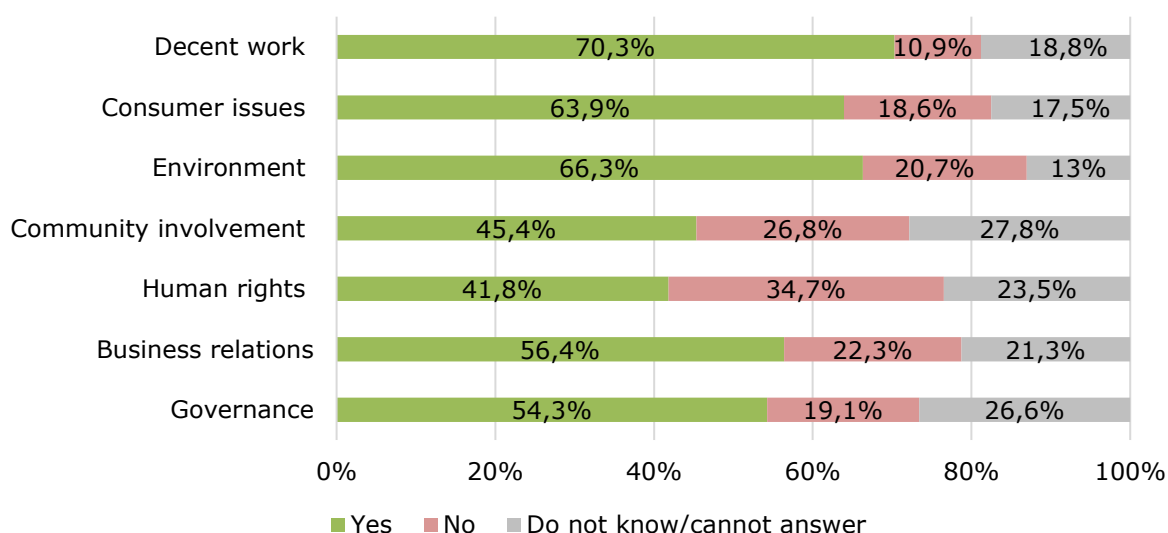
Spain

CSR/sustainability uptake: general trends

The **uptake of CSR in Spain is quite uneven** when looking at the SME survey results. On the one hand, a relatively large part of Spanish SMEs reported to have a sustainability or CSR strategy (34.3% in comparison to the survey average of 27.5%). Furthermore, the concepts of sustainable development and the SDGs seem to be more popular among Spanish SMEs than the survey average. This result may be partially explained by the strong influence of the UN Global compact local network in Spain, which has the highest number of signatories in the world (over 2,500). Although those companies that have a CSR or sustainability strategy are highly active, the rest of the SMEs demonstrate relatively modest levels of familiarity with CSR-related concepts and engagement. Because of that, the overall share of Spanish SMEs that reported to conduct any activities in different CSR areas (see Figure 46) falls 7.2% - 13.7% below average.

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 49. Engagement in CSR among Spanish SMEs, by CSR area.



Note: Total (N)=101, except: Human rights, total (N)=98; Consumer issues and Community involvement, total (N)=97 for each area; Business relations and Governance, total (N)=94 for each area; Environment, total (N)=92
Source: SME survey (2021).

In line with the general findings of the study, Spanish SMEs seem to be more active in those CSR areas that are internal to their company (such as the well-being of their employees or environmental management). In the survey, Spanish SMEs indicated **decent work** and **environmental** practices as dominant CSR activity areas (see Figure 46 above). Stakeholders mention that many Spanish SMEs are suppliers of large companies which often request to fulfil some environmental criteria. Moreover, the promotion of environmental transition of the economy appears to play a significant role on the political agenda, as well as the highly influential UN Global compact local network²⁷².

Almost a half (44.8%) of the survey respondents that represent Spanish SMEs claimed that they do not conduct any business activities abroad. This may explain why only a small

²⁷² More information available at: <https://www.pactomundial.org/>

fraction of them were familiar with the concepts of Business and Human rights (30.5%), responsible business conduct (21.0%) or due diligence (20.0%). Unsurprisingly, a significant share of Spanish SMEs claimed that they are either not involved in or “do not know” about their company’s activities in the area of **human rights**.

The survey results are largely in line with previous findings about businesses in Spain. A study by Díaz Díaz et al (2016) showed that Spanish companies mostly focus their initiatives on working conditions or environmental protection, while supply chain monitoring is undertaken less frequently. Similar trends are also reflected in CSR reports, published voluntarily by several hundred Spanish companies under the initiative of the Ministry of Labour and Social Economy (MITES)²⁷³. A representative of the Ministry notices that environmental concerns are the most relevant topic in the reports, while measures to protect human rights are discussed the least.

Community involvement also seems to receive little attention from Spanish SMEs that participated in the survey. However, this may indicate a lack of awareness that activities in the local community can be considered CSR. Representative of MITES claims that many SMEs are closely interwoven with their local context and often perform CSR without even knowing it. A sense of scepticism towards reporting such practices may also play a part here, as small companies often consider CSR as only a matter of image that is only worthwhile for large businesses (Díaz Díaz et al., 2016).

Spanish SMEs tend to **share information about their CSR activities slightly more actively** than the survey average (40% and 37.6% respectively). Furthermore, over a third (34.4%) of these companies indicated formal reporting of economic, environmental and social performance in accordance to international reporting standards, when, overall, this is only performed by 24.6% of survey participants. This positive development may be related to the above-mentioned efforts by MITES and its platform for sharing CSR reports, as well as by business associations such as the UN Global compact, which expects its signatories to deliver communications on progress. However, the representative of MITES claims that the quality of the reports varies, and SMEs still lack the knowledge and capacities in this sense, when compared to large enterprises.

Drivers and barriers to CSR uptake

CSR and sustainability uptake in Spain is exceptionally driven by **ethical motivation** (80.0% of respondents, when compared to 68.5% survey average), as well as by improving company’s **image and reputation** before consumers or local communities (60.0%, when compared to 53.2% survey average). Once again, this coincides with the insight that Spanish SMEs are deeply anchored to their local settings and perceive some CSR activities as natural to them. Although **meeting the requirements or expectations set by buyers** was indicated less frequently (41.3% of respondents), stakeholders believe that it strongly affects the performance of SMEs that operate as suppliers for large enterprises.

Similarly to other countries, **lack of time and/or human resources** and **financial resources** are considered to be the most prevalent barriers to CSR uptake. However, the representative of MITES believes that **lack of awareness** on how to practically and systematically implement CSR is another important limiting factor among SMEs. The

²⁷³ The collection of reports can be found at the Portal of Social Responsibility: <https://expinterweb.mites.gob.es/memrse/aplicacion>.

survey findings support this claim and suggest **disparities among Spanish SMEs** – the ones that have a CSR or sustainability strategy are highly engaged in a variety of activities, while the majority of other SMEs lack basic knowledge of CSR-related concepts.

Policy support measures

A large variety of stakeholders form a **strong ecosystem** that supports a higher CSR and sustainability uptake in Spain. A range of different public administration bodies, associations, foundations and media have been developing, promoting and monitoring CSR and sustainability in Spain since the early 2000s²⁷⁴. The majority of them take part in the **State Council for CSR (CERSE)**, an advisory and consultative body under MITES²⁷⁵. The composition of CERSE includes four groups of stakeholders, each represented by 14 members, namely the public administration (incl. local governments), business organisations, trade unions, as well as highly-recognised organisations that operate in the field of CSR. The formation of the council in 2009 allowed to create a common ground of discussion among the stakeholders, facilitate exchange of knowledge and propose CSR-related policies to the Government. Furthermore, in 2019, the **Sustainable Development Council** was established to support SDG implementation and Agenda 2030 in an inclusive way. The council is composed of 50 representatives from civil society, business, academia and other key stakeholders²⁷⁶. However, both of these Government-led councils have been rather inactive in the last years. For instance, the Government together with CERSE has developed a **national CSR strategy** for the period of 2014-2020 although not updated so far. Nevertheless, the topic remains relevant and there are many initiatives driven by private actors.

The above-mentioned national CSR strategy proposed several actions directed particularly at SMEs and entities participating in the social economy. The actions are focused on **raising awareness and promotion of CSR** by providing counselling and guidance, as well as encouraging companies to report their activities. In practice, this is mostly realised through annual public calls, launched by MITES. Their aim is to promote CSR, Social Economy and Self-employment through projects implemented by business associations, foundations and NGOs. Proposals that address SME-related issues are given extra evaluation points. Recently, the budget for this funding programme has been increased from 4,4 to 10,4 million Euros, indicating a growing systematic commitment to these topics (despite the absence of an updated strategic document).

Another important action foreseen in the national CSR strategy was to include **social and environmental clauses in public procurement**. In the strategy, it is specifically stated that SMEs should not be disadvantaged by these criteria against large enterprises. According to the representative of MITES, this was implemented at all levels of the public administration, which has to adapt the criteria to each public tender procedure in line with the object of the contract. Large-scale public contracts are now often divided into several parts so that SMEs have more opportunities to participate. A high level of engagement and capacities within the public sector seems to be an important driver in this area. In fact, some public administration bodies are committed to ensuring transparency with regard to their internal social responsibility (e.g., the General State Administration and various ministries publish sustainability reports).

²⁷⁴ A list of entities that belong to the CSR ecosystem can be found here: <https://www.mites.gob.es/es/rse/ecosistema/index.htm>

²⁷⁵ More information available at: <https://www.mites.gob.es/es/rse/cerse/index.htm>

²⁷⁶ More information available at: <https://sdg.iisd.org/news/spain-establishes-sustainable-development-council/>

Socially responsible investment (SRI) is another topic that receives significant attention in Spain. In 2016, a cooperation agreement between MITES and a non-profit organisation SPANSIF was signed in order to promote SRI in Spain. The agreement addresses various measures within the framework of the Spanish CSR Strategy to make the financial sector entities and investors aware of the importance of aligning their decisions with sustainability criteria. During the same year, SPANSIF published a study of the SRI market in Spain and a basic guide towards socially responsible investing.²⁷⁷

Finally, it must be taken into account that Spain is a highly decentralised country and numerous CSR support measures are implemented at the **regional level**. Many such actions are implemented by members of Retos, a network of Socially Responsible Territories led by MITES, made up of municipalities, provinces and consortia. These territories seek to solve local challenges that relate to economic, social and environmental issues, good governance and transparency (a collection of over a 100 good practices is available online²⁷⁸). For instance, some local governments have developed CSR-related regional programmes and councils, while the autonomous regions of Extremadura and Valencia have even established laws on CSR.

More recently, there has been a growing concern about **due diligence** legislation in the context of the upcoming EU Directive. Despite the fact that there is a National Action Plan on Business and Human rights and a non-financial reporting law (Law 11/2018) in place, various findings²⁷⁹ confirm that Spanish businesses have a low level of risk management of their impact on human rights. Therefore, the Spanish Observatory on Corporate Social Responsibility and other civil society organisations are discussing a proposal on a national law on human rights and environmental due diligence.

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²⁷⁷ More information available at: <https://www.mites.gob.es/es/rse/inversion/index.htm>

²⁷⁸ More information available at: <https://www.mites.gob.es/redretos/es/buenaspracticas/index.htm>.

²⁷⁹ See studies of the Spanish Observatory on Corporate Social Responsibility: <https://observatoriocsc.org/inicio/que-hacemos/estudios/>.

Italy

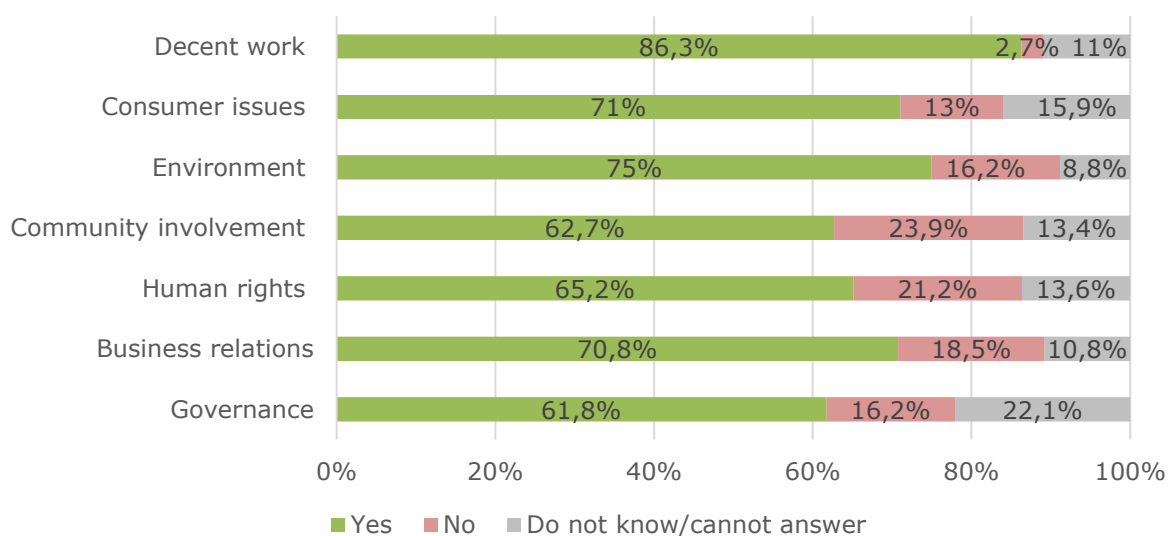
CSR/sustainability uptake: general trends

Italian SMEs demonstrate somewhat contrasting levels of CSR/sustainability uptake. In the survey, more than a half of them (53.5%) indicated having a sustainable business model or a CSR/sustainability strategy, which is above the survey average (46.2%). Representatives of these companies indicated a high level of engagement in different CSR areas, whereas those without a strategy were less familiar with CSR-related concepts and performed fewer activities (or were unsure if the company is active in specific areas). Although disparities between these two groups are not as visible as in Spain, it nevertheless illustrates that Italian SMEs are progressing at two different speeds. However, the possibility of a positive bias in the survey must be kept in mind indicating that some findings may not apply to all SMEs.

Stakeholders and previous research indicate positive trends, as CSR/sustainability is becoming a strategic priority for more and more businesses. Italian SMEs have always been distinguished by a tight relationship with their local settings and a socially responsible activities towards it. In the past, however, companies seldom had a structured and strategic approach to CSR and their activities had a low visibility outside the company (a phenomenon called “sunken CSR”) (Del Bado, 2015). This tendency was, for the large part, reversed in the last decade, partially due to increasing expectations of the government and international organisations. According to a recent report by *Osservatorio Socialis* (2020), around 7 out of 10 companies developed a corporate code of ethics; 70% of companies with at least 80 employees stated that they have a manager in charge of following the CSR and sustainability activities; 65% of the companies adopted an internal system for disseminating their CSR activities. Almost 8 out of 10 companies hypothesised that in the near future CSR will become integrated into the business model in a more systematic manner. However, it should be taken into account that this forecast was mostly shared by companies operating in more technologically advanced sectors, as well as those based in Northern Italy, which remains more economically developed than southern regions.

CSR/sustainability uptake by specific areas and information disclosure practices

As in the case of most companies that participated in the survey, Italian SMEs mentioned **decent work practices** as their key priority (86.3% of respondents in comparison to the survey average of 80.2%). Most of them indicated guarantees to job security and legal employment, as well as extra efforts to ensure occupational health and safety, both of which became especially relevant during the pandemic, which was particularly severe in Italy. It should be noted that Italy still faces other long-standing issues in relation to working conditions in low-skill sectors, such as agro-food and textile industries. A recent report on the “Caporalato” system (a form of illicit intermediation by the mafias in the agribusiness) estimates that 180,000 Italian and migrant workers in the country’s agricultural sector are under the risk of illegal labour and exploitation (Observatory Placido Rizzotto and FLAI-CGIL, 2020).

Figure 50. Engagement in CSR among Italian SMEs, by CSR area.

Note: Total (N)=73, except: Consumer issues, total (N)=69; Environment and Governance, total (N)=68 for each area; Community involvement, total(N)=67; Human rights, total (N)=66; Business relations, total (N)=65.
Source: SME survey (2021).

65.2% of Italian SMEs indicated engagement in the area of **human rights** (when compared to the 55.5% survey average). 100% of them claimed to respect human rights at the workplace, however, less than a half (45.5%) mentioned practices against discrimination and only a third (33.3%) indicated the integration of disadvantaged groups (e.g., refugees or ethnic minorities), although it is a prevalent issue in Italy (OECD, 2014). In terms of external actions, 39.4% of them mentioned screening their suppliers for human rights abuses.

The **environment** is given a stronger priority among Italian SMEs than average (75.0% and 70.7% of respondents respectively). A significant share of them selected activities related to the prevention of air pollution (61.4%), consideration of the environmental aspect in product development (50.0%) and other technological improvements. According to the report by Osservatorio Socialis (2020), Italian companies dedicate the largest share of their CSR-related investments to actions to reduce the environmental impact (e.g. innovative technologies to limit pollution and improve waste disposal, as well as improve energy savings).

Community involvement stands out as a rather unique feature of the Italian approach to CSR (engagement indicated by 62.7% SMEs in comparison to 54.8% survey average). According to stakeholders, Italian SMEs consider the local community as a major stakeholder, and often implement initiatives with NGOs, Church organisations, foundations or social cooperatives. This does not only involve donations but also more strategic collaborative frameworks. For instance, start-ups are created as an answer to specific calls for solutions, while traditional companies integrate social innovation into their business models (European Community Foundation Initiative, 2018).

Italian SMEs that participated in the survey appear to be somewhat less engaged in organisational **governance** efforts (activities indicated by 61.8% of respondents, similar to the survey average of 61,4%). In this category, prevention of illegal activities was mentioned rather frequently (82.9% of respondents), and yet only over a third (34.3%) of the SMEs stated being transparent about financial or other company performance indicators to employees and shareholders. Transparency remains a relative area because,

despite progress in recent years, the extent of corruption in Italy is still perceived as high (see Transparency International's 2020 Corruption Perception Index).

Survey results show that 42.5% of Italian SMEs **share information** about their sustainability/CSR practices on a regular basis, which is above the survey average of 37.6%. However, it mostly remains limited to social media channels and overall organisational identity, while formal reporting is still rare and below survey average.

Drivers and barriers to CSR and sustainability uptake

Only a small fraction (11.3%) of Italian SMEs that participated in the survey believe that CSR/sustainability activities are not beneficial. In terms of specific benefits, the results were similar to the general findings of the survey – Italian SMEs identified ethical motivation (73.9%), meeting the requirements and expectations set by buyers (60.0%) and improving image and reputation before customers or local communities (55.4%) as the main drivers. The latter one was also mentioned by stakeholders, confirming **the strong relationship between companies and the territory to which they belong**. Another interesting observation is that **SMEs have a relatively high innovation performance**. Although Italy is still considered a moderate innovator, the country scores high on the number of innovative SMEs. In fact, the latest European Commission's country report highlights that between 2015 and 2016, investment in environmental protection by firms increased mainly thanks to SMEs (where it grew by 12.9%), while among large firms it decreased slightly (-0.4%).

In regard to barriers, a rather large part of Italian SMEs (64.2%) identified lack of awareness on available support measures as at least somewhat significant factor. At least a half of them also believed that lack of understanding and practical knowledge about CSR/sustainability were at least somewhat significant barriers for introducing related activities. This corresponds to the fact that Italian SMEs are affected by a rather **non-supportive business environment**. According to the European Commission's SME Performance review, Italy has one of the lowest scores in the EU for responsive administration, state aid and public procurement (European Commission, 2020). This means that despite efforts in previous years (see section below), additional measures are needed to promote sustainability among SMEs, especially those that still lack a strategic approach to these issues.

Policy support measures

In the early 2000s, the main actor responsible for promoting CSR activities was the Ministry of Labour. At that time, the government established a public foundation (ICSR Italian Centre for Social Responsibility) with the aim of raising awareness of CSR and promoting a certification system to reward responsible companies. However, the foundation was not successful in achieving its objectives and was closed down. The Chambers of Commerce was also active during this period: between 2000-2010, many information and assistance centres for SMEs were opened. One of the most successful initiatives in the area of CSR in Italy was the establishment of the OECD National Contact Point in 2004. To this day, it operates under the Ministry of Economic Development, which plays an integrating role of CSR/sustainability policy in the country. The NCP is supported by a multi-stakeholder advisory body known as the NCP Committee, composed of representatives from industry (including two major SME associations), government institutions, worker organisations and civil society (OECD, 2017). The idea behind the NCP Committee was to promote

inclusiveness and build engagement among a variety of organisations, which would then transfer CSR/sustainability-related information to companies through their own channels (e.g. SMEs could learn more about due diligence through their local governments or regional chambers of commerce). However, not all members are equally engaged in the NCP's activities and often lack understanding around these issues, thus preventing a more widespread dissemination of knowledge at the company level. This means that capacity building may be needed not only for SMEs directly but also for organisations that provide support to them.

Over the years, the NCP developed several informational measures (e.g. studies, handbooks and self-assessment tools) to support the implementation of the OECD Guidelines, with a special focus on SMEs. After the revision of the Guidelines in 2011, the need to support SMEs became even more evident, as they were "caught off guard" in the face of the updated and more extensive due diligence expectations. In 2014, the NCP launched a platform of CSR/RBC indicators²⁸⁰ to address these changes and establish a shared language for businesses in Italy, especially SMEs. Through studies, specialised trainings and awareness raising events, the NCP has also worked to promote due diligence in different sectors (such as the textile and garment industry or the gold sector) (OECD, 2017).

Following the encouragement of international organisations, Italy drew up a National Action Plan on Business and Human Rights 2016-2021, which was led by the Interministerial Committee for Human Rights. The NAP addresses human rights issues both domestically (e.g. tackling exploitation of migrants or promoting inclusion of workers with disability) and abroad (e.g. promoting human rights due diligence processes with particular focus on SMEs). Although the document has been criticised for lacking specificity about the implementation of the measures planned (ICCAR and ECCJ, 2017), it nevertheless allowed to identify the most pressing issues and institutions responsible for addressing it. Currently, the NAP is undergoing a final review, which will feed into the upcoming NAP for the period of 2021-2026.

With regards to legislative measures, Italy has introduced **green public procurement**²⁸¹, which became mandatory in 2015. This initiative not only defines the minimum environmental criteria, but is followed by a national action plan to, among other things, strengthen the capacities of public servants, especially at the territorial level. Another interesting legislative development is the introduction of the "**benefit company**" model which is rather unique in Europe. The model does not apply to non-profit organisations or social enterprises. Instead, this concept is related to businesses that combine their profit aims with the purpose of creating a positive impact for society and the environment. Since 2016, companies can self-declare as benefit companies without the need of undergoing a costly audit to get a "B-Corp" certification, making it particularly attractive to SMEs. However, companies are required by law to appoint an impact manager and submit an annual Impact report that uses a third party standard (for instance, the B Impact Assessment).

In terms of SMEs and start-ups, the Italian Government is rather active to **support innovation** under the strategic direction of "Industry 4.0". This includes simplified access to credit, equity crowdfunding and tax deductions for innovative SMEs, as well as measures to promote particular **sustainability-related trends** (such as the social economy or

²⁸⁰ The CSR Platform is available at: <http://rsi.mise.gov.it/index.php>

²⁸¹ More information on green public procurement available at: <https://www.minambiente.it/pagina/gpp-acquisti-verdi>

circular economy)²⁸². These types of support are going to become all the more relevant with the National Transition Plan 4.0, which will foster the post-pandemic recovery of the economy.

Lastly, it is important to note that various **non-profit organisations** and **regional actors** also actively contribute to the promotion of CSR/sustainability. For instance, there is a number of business associations that focus specifically on these issues (such as the UN Global Compact local network, CSR Managers Network or *Impronta Etica*). Every year, a series of events takes place all across Italy, where local institutions, chambers of commerce, universities, businesses and non-profits share experiences and update each other about strategies and tools for sustainability²⁸³.

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²⁸² More information on support for SMEs by the Ministry of Economic Development available at: <https://www.mise.gov.it/index.php/it/incentivi>

²⁸³ More information on Il Salone della CSR e dell'innovazione sociale: <http://www.csreinnovazionesociale.it/english/>

Greece

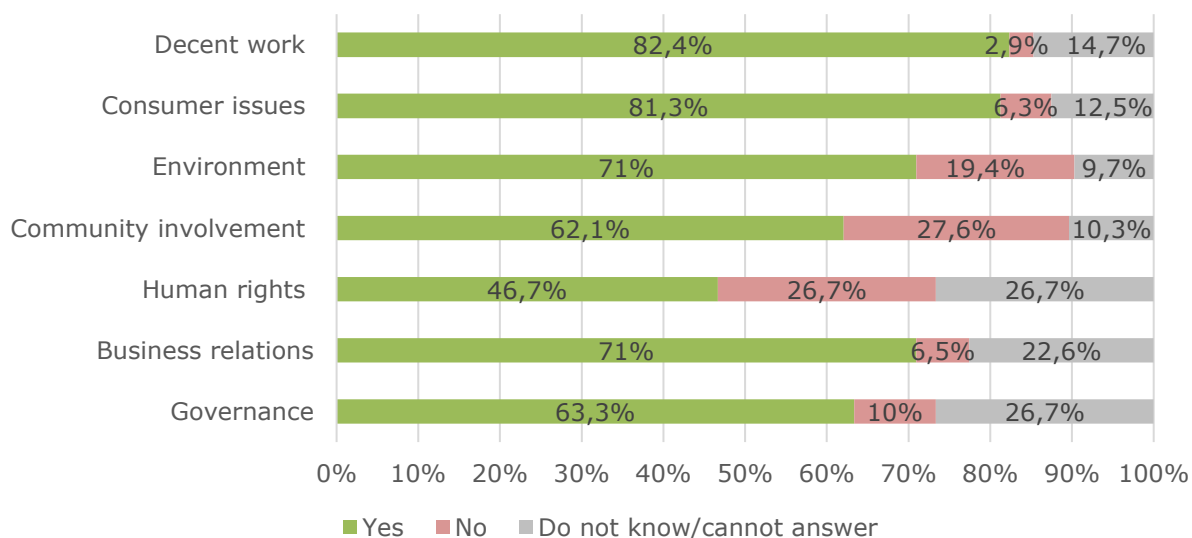
CSR/sustainability uptake: general trends

Greek SMEs show a **relatively average level of CSR uptake**. Most of the companies surveyed already had a CSR/sustainability strategy or were planning to implement it (30.77% and 35.90% of respondents, respectively). 17.9% of companies reported that they did not have a CSR strategy, which is lower than the survey average (24.1%). However, only 10.3% of respondents indicated that their entire business model is based on sustainability (compared to the survey average of 18.7%). This can be explained by the fact that at the moment in Greece there is no updated long-term comprehensive framework on how to implement social and environmental concerns as a core strategy in business.

Previous studies are consistent with these findings. A study conducted by the New Technologies in Communication, Education and Mass Media in 2006 found that a large percentage (34%) of CSR activities of SMEs in Greece focus exclusively on internal company issues and especially on labor practices, while CSR is still associated with promotional practices and not with the whole model of business activities (Skouloudis et al., 2011). Taking into account the socio-economic situation of the country in the last decade, these results show a positive trend in the implementation of CSR practices in Greece among SMEs. Previous research (Metaxas & Tsavdaridou, 2013) concluded that Greek companies have made progress in familiarizing themselves with relevant concepts and adopting the CSR culture, despite the relatively low level of CSR engagement. However, it is also pointed out that CSR development in Greece is still relatively late compared to other EU countries due to the lack of cooperation between the state, society, and companies (Kritas et al., 2020; Stampoulis & Dimitriou, 2015).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 51. Engagement in CSR among Greek SMEs, by CSR area.



Note: Total (N)=34, except: Consumer issues, total (N) = 32; Fair business and Environment, total (N) = 31 for each area; Governance and Human rights, total (N) = 30 for each area; Community involvement, total (N) = 29. Source: SME survey (2021).

Greek SMEs appear to be the most active in the area of **decent work** (as indicated by 82.4% of respondents). This percentage is slightly higher than the survey average

(80.2%), although most of the selected practices within this category must be ensured by laws and do not require additional efforts. In terms of decent work, the most widespread activities among Greek SMEs are guarantying job security and decent working conditions (indicated by 89% of respondents), ensuring work-life balance for employees, and health and safety at work (79%). However, only a small proportion of respondents (21% compared to the survey average of 43.8%) are involved in conducting social dialogue in the workplace.

Furthermore, a high share (81.3%) of Greek SMEs are concerned with **consumer issues**. 96% of these companies state that **providing consumers with clear and accurate information** about their products is of paramount importance (as compared to the survey average of 85.5%). A high proportion of businesses (77% compared to the survey average of 68.0%) also seek to **protect consumer privacy and data security**. However, only a small share of SMEs (19%) offer at least one service that promotes sustainable consumption, which is lower than the survey average (31.1%).

Greek SMEs tend to **make information about their sustainability/CSR practices public**. Compared to other countries, a high proportion (46.67%) of respondents indicated that they regularly share information, however, a significant proportion of respondents (40.00%) also indicated that they do not engage in such activities. Following the general trend of the survey, this inactivity is most prevalent among companies with 10-49 employees, while larger companies (50-249 employees) are more likely to share information than not. Those that do publicize their CSR practices mainly use social media channels (78.6% of respondents), but a notable proportion of companies in this sample also engage in formal and corporate reporting. This could be part of an overall growing trend of sustainability reporting in Greek companies²⁸⁴. However, according to the respondents, the most common reason for not sharing information publicly is that **stakeholders are personally informed about relevant information on business practices**, as well as that it **requires too many resources** and that companies **lack knowledge** on how to disclose it. These findings can be explained by the fact that very small and family-run companies dominate the business structure in Greece, which do not have the right tools or knowledge to implement sustainability practices and disclose them.

Finally, representatives of Greek SMEs were also more familiar with some **CSR-related concepts** (such as CSR itself, business and human rights, and sustainability reporting) than most survey respondents. Although the survey results show that Greek SMEs are quite familiar with the concepts, CSR Hellas notes that philanthropic work (such as sponsorship or charity work) can be confused with corporate social responsibility. A similar idea is expressed by researchers who point out that due to the fact that most companies are small, the perception of CSR can be defined based on the views of the owners (Pitoska et al., 2018), which is not always in line with official guidelines. More extensive training for Greek SMEs is needed to convince companies to integrate CSR as a core business strategy.

Drivers and barriers to CSR and sustainability uptake

The benefits of carrying out CSR activities reported by Greek SMEs were mostly in line with the general trends of the survey. 78.6% of the respondents mentioned **ethical motivation** as one of the most important factors, as well as the **improvement of reputation among customers**, which was indicated by 60.7% of the companies. Similar results were shown in a 2018 survey, where more than half of the SME respondents considered improving

²⁸⁴ More information available at: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf>

corporate image through CSR measures as very important or significant, 26.3% and 37.8% respectively (Pitoska et al., 2018).

Surprisingly, a pandemic seen as a barrier to the uptake of CSR due to financial constraints for SMEs can also have positive effects. A recent study provides an example of cooperation between the public sector and private companies in ensuring better health care in the midst of the pandemic through donations of medical equipment, personal protective equipment, and other contributions. The researchers note that some private companies have even redefined their CSR strategies in response to the obstacles associated with the pandemic. Even though these were large companies, this could be a step to improve the overall CSR culture in Greece leading the way towards a more ethical-sustainable business conduct at the domestic level. It could also enhance the cooperation between SMEs and large companies, which could help SMEs to implement CSR practices, which is considered by stakeholders as a very important step to promote CSR. The study mentioned above also showed that more than 80% of SMEs themselves believe that engaging in CSR practices is essential in a turbulent financial context (Pitoska et al., 2018).

However, the socio-economic situation following the recession and pandemic in Greece constructs several additional country-specific challenges and barriers to the adoption of social responsibility measures. Fiscal and economic problems are the most prevalent ones as can also be seen in the survey. Greek SMEs indicated a **lack of financial and human resources**, together with **risk to business success**, as the main barriers to CSR uptake. Furthermore, corruption is seen as one of the main obstacles, as Greece is ranked 59th out of 180 countries in the Corruption Perception Index by Transparency International. The latter issue was also mentioned by stakeholders. These obstacles are exacerbated by a lack of transparency, bureaucracy, and lack of government support (Lyrintzis, 2011).

These obstacles will be all the more relevant in the future with the upcoming **EU Taxonomy**, which will have a significant effect on the Greek banking sector. Stakeholders claim that many SMEs will be caught unprepared once they wish to obtain a loan and will be required to fulfill environmental and social criteria. Therefore, current CSR/sustainability uptake is not enough to adequately respond to the pressure from the EU.

Policy support measures

In the last two decades, the Greek government, mainly motivated by the initiatives of the European Commission and international partners, has adopted several legislative measures addressing key areas of CSR. Although many Greek laws refer to CSR issues, they are not explicitly mentioned as such (e.g., laws on health and safety, human rights, equal opportunities, the right to collective agreements, the environment).

Nevertheless, in Greece CSR and sustainability measures are mostly encouraged not by the state but by large companies, voluntary initiatives, NGOs, or academia. The aforementioned CSR Hellas, a network of enterprises initiates and supports the implementation of CSR measures among Greek SMEs and works closely with the government. CSR Hellas and other business associations, as well as the academic community, initiated the National Strategic Plan for CSR for the period 2014-2020, published by the Ministry of the Economy, Competitiveness, and Shipping. The national strategic plan included the provision of information on CSR practices, implementation guidelines, and standards, as well as strengthening the capacity of SMEs to implement CSR strategies within the company. However, according to CSR Hellas representatives, the

strategy had no continuity after the change in government and no new long-term National Strategy has been yet adopted, which slows down the process of CSR promotion and implementation in the country.

Moreover, CSR Hellas has founded some tools and initiatives to promote the implementation of CSR in SMEs. For example, the **Corporate Social Responsibility Guide for SMEs** was developed to inform companies about CSR practices and provide them with guidelines on how to implement these practices in their business model. In addition, ETHOS, a **self-assessment system** was developed by CSR Hellas and one of its member companies EUROCERT as a tool for managing corporate responsibility through independent monitoring. It is the first Greek model that covers a wide range of corporate parameters related to compliance with the current regulatory framework in the areas of governance, economic sustainability, and the social and environmental impact of business operations.

Another important initiative that can help in linking improved competitiveness and social responsibility of SMEs is the **Responsibility Labeling Scheme for SMEs**. This program, launched by the University of the Aegean in collaboration with Lesvos Chamber of Commerce, focuses on providing participating SMEs with an internal management tool to increase their competitiveness, raise consumer awareness and improve the position of responsible SMEs in the market. In addition, some policy measures are quite extensively applied in specific sectors. In 2008, the Greek Business Council for Sustainable Development (BCSD) was established. Council members, mostly industrial firms, have signed the **Code for Sustainable Development**, a declaration to continuously improve economic, environmental, and social measures. In this context, Cement Sustainability Initiative was implemented with the aim of developing common standards and systems for measuring, monitoring, and reporting health and safety performance, which can then be implemented by individual companies.

The Ministry of Environment and Energy released a National Strategy for the Circular Economy in 2018, setting the country on a long-term path to adopting circular economy principles. The plan supports Greece's economic aspirations to promote the green economy in a way that creates jobs, particularly for women and young people and promotes growth based on resource efficiency, promotion of SMEs, innovation, and investments.

Stakeholders hope that these various policies and tools will help promote the CSR culture in the country. They believe that CSR/sustainability development is crucial to address the growing pressure from the EU. However, the top priority at the moment is to implement the new updated National Strategic Plan for CSR in order to have a clear long-term legal framework and guidelines for SMEs.

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Poland

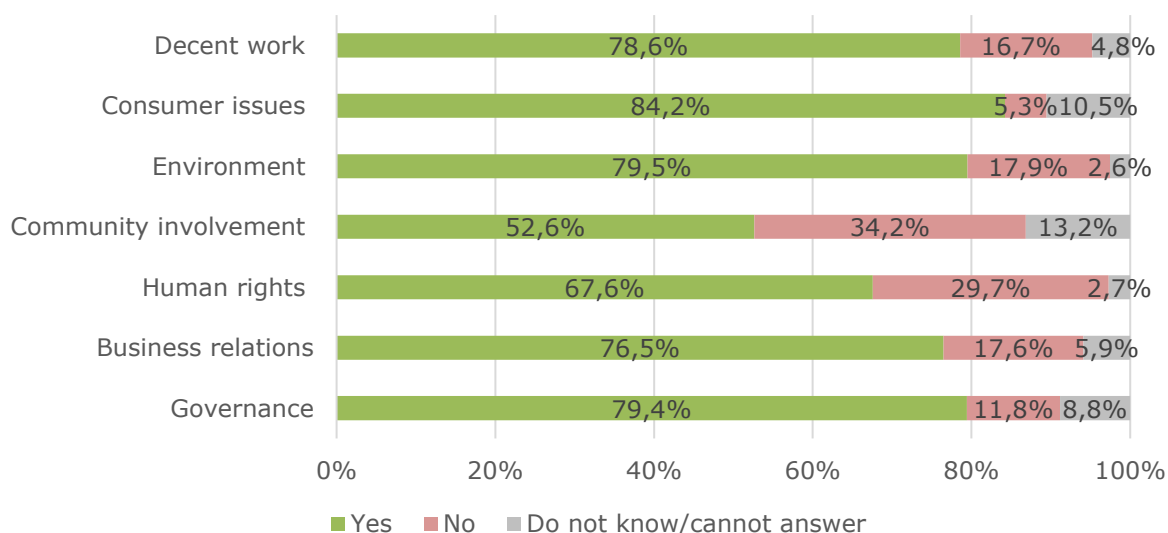
CSR/sustainability uptake: general trends

CSR/sustainability uptake among Polish SMEs can be viewed as **relatively low**. 63.0% of the survey respondents that represent Polish companies did not have a CSR or sustainability strategy or a sustainable business model, which is above the survey average (53.8%). They were also somewhat less acquainted with CSR-related concepts (esp. Business and Human Rights and due diligence). Although most companies claimed that they were engaged in different CSR areas (see Figure 49), they rarely specified more than a few activities within these areas. This may indicate that Polish SMEs treat CSR/sustainability issues as a noted concern, but their practices remain fragmented and unlikely to address essential company operations.

Stakeholders observe that while large and, especially, multinational companies are doing well in terms of sustainability, the same cannot be said about locally-based SMEs in Poland. Stakeholders and previous research indicate a **lack of balance between the economic and ethical spheres** as a long-term consequence of the communist regime. Moreover, it is often mentioned that there is a general **lack of trust** in the Polish society, therefore businesses seldom act beyond their direct economic interests or in cooperation with other stakeholders (Potocki, 2015).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 52. Engagement in CSR among Polish SMEs, by CSR area.



Note: Total (N)=42, except; Environment, total (N)=39; Consumer issues and Community involvement, total (N)=38 for each area; Human rights, total (N)=37; Business relations and Governance, total (N)=34 for each area.

Source: SME survey (2021).

Most Polish SMEs indicated activities to ensure consumer satisfaction and benefit (84.2%), typically related to fair marketing practices. This is unsurprising, given that almost a third of the Polish SMEs that participated in the survey operate in the pharmaceutical industry, where the provision of accurate information about products is a crucial aspect. The **environment** also seems to be among the key areas of action to most SMEs. It is a widely-discussed topic in Poland, and, similarly to other CEE countries, EU funding plays a

significant role in strengthening businesses' environmental performance. However, extensive financial support often leads to a situation where sustainable practices are only adapted temporarily for economic reasons (see Box 47 below). The SME survey results show that single companies often address only a few issues at a time (such as recycling or sustainable packaging), rather than integrate a variety of measures to prevent water and air pollution, as well as improve energy efficiency. Moreover, Poland is persistently ranked among the lowest-performing EU Member States with respect to the environment, especially in terms of air pollution²⁸⁵.

Organisational governance also stands out as important for Polish SMEs, as 79.4% of them indicated engagement in this area (in comparison to the survey average of 61.4%). Interestingly, a majority of these companies (80%) mentioned having a clear and transparent decision-making process and yet only 36% indicated regular employee participation in decision making.

Similarly to other countries, **community involvement** was mentioned the least among Polish SMEs. Nevertheless, stakeholders believe that this is exactly the area where local companies invest their voluntary efforts due to the strong influence of Catholic Church and the existence of various foundations. Most companies rarely go beyond donations, as it is the most straightforward approach of giving back to the community and does not require other kind of involvement (see section on [Italy](#) for comparison). In this context, crowdfunding stands out as an innovative and highly popular method of providing financial support to various initiatives with a cultural, social or environmental cause.

Drivers and barriers to CSR and sustainability uptake

Slightly more than a half of Polish SMEs that participated in the survey believed that their CSR/sustainability activities were beneficial (41.9%) or highly beneficial (9.7%). In terms of specific benefits of carrying out CSR and sustainability activities, Polish SMEs selected ethical motivation (58.1%) and increasing employee motivation and retention (38.7%) most frequently. More interestingly, they identified less benefits per company than the survey average (i.e., a single respondent often selected only one or two benefits mentioned in the questionnaire). This may be interpreted as a **lack of awareness about the "business case"** of CSR and sustainability. In fact, stakeholders mention that some SMEs are afraid that greater sustainability would increase the costs of their products and services and thus result in a **loss of customers** (this was identified as at least somewhat significant barrier by 50.0% of Polish SMEs in the survey). Indeed, this risk is not unfounded and can be observed in the country's agro-food sector (see Box 47).

A relatively **weak ability to networking and cooperation** also poses a challenge for Polish SMEs (Council of Ministers, 2018). This corresponds with the aforementioned observation about the lack of trust among members of the society. Although there are several initiatives that undertake a sectoral and project-based approach (see, for example, activities led by the UN Global Compact Network Poland), long-lasting partnerships are still rare. Currently existing non-profit organisations (such as the Responsible Business Forum) mostly comprise of large enterprises and promote their CSR activities.

Low level of innovation performance seems to be another important barrier, connected to the previous one. This is especially evident in terms of adapting eco-friendly technologies (Eco-Innovation Scoreboard, 2019). On the other hand, a stagnant business environment

²⁸⁵ See, for example, Yale University's Environmental Performance Index (2020) results: <https://epi.yale.edu/epi-results/2020/component/epi>; or the Eco-Innovation Scoreboard (2019): https://ec.europa.eu/environment/ecoap/poland_en

may serve as an opportunity for SMEs that decide to invest in innovation and sustainability. SMEs by nature are more flexible than large enterprises, which makes it less difficult for them to create and adapt new technologies and processes (especially in combination with EU co-funding). In turn, this may differentiate such SMEs from the rest of the market and prove to be a competitive advantage. The potential could be untapped if companies were provided with a strong system of economic and fiscal incentives and were more certain about the returns on investment (Eco-Innovation Scoreboard, 2019).

Box 47. Barriers to the development of organic farming in Poland

Since the country's accession to the EU in 2004, Poland has been recording a rapid development of organic farming and, by 2013, had the third largest number of organic farms in the EU. During that period, organic farmers were financially supported under two agri-environmental programmes, as allocated by the European Agricultural Fund for Rural Development. A large group of new farmers came into existence, however they were poorly linked to the organic food market and were mostly guided by the financial incentives. The new organic farm owners did not have the capacities to achieve high volumes of production and found it difficult to sell their products on local markets or through distribution channels. In fact, Polish consumers are not very environmentally aware and spend less than one tenth of what EU consumers spend on average on organic food. Moreover, the instability of regulations and granting conditions added to the farmers' uncertainty. This led to a rapid decline of organic farming in recent years, as access to financial support did not prove to outweigh the economic risks. The remaining farmers are also driven by pragmatic rather than ethical reasons, as nearly three-quarters of them would discontinue organic production in the absence of support.

Source: Luczka and Kalinowski, 2020.

Policy support measures

Following the EU accession in 2004, Poland has made significant progress in aligning its national policies with EU-level, strengthening institutions, and has taken some steps in the direction of promoting sustainability. In 2009, a **Team for Sustainable Development and Corporate Social Responsibility**²⁸⁶ was established as a platform for cooperation between the Government, business representatives and social and economic partners, combining nearly 70 institutions and organisations in total. The Team is still active and its members recently prepared a publication "CSR Guide to a Safe and Sustainable Workplace Environment"²⁸⁷. In 2017, the Minister of Economic Development established a second relevant advisory body – the **National Stakeholder Forum for the achievement of the SDGs** (Council of Ministers, 2018). Nevertheless, the activities of these two platforms operating under different ministries have been quite fragmented and lacking of strategic character. Stakeholders indicate that there is no clear coordination structures and stable leadership within the Government administration regarding these issues.

Recently, the public administration has introduced several measures in the area of **business and human rights**. Since the introduction of the National Action Plan on Business and Human Rights, some **informational measures** were created (e.g., wider dissemination of OECD Guidelines²⁸⁸, support to companies on how to prepare non-financial

²⁸⁶ More information on the Team's activities available at: <https://www.gov.pl/web/fundusze-regiony/o-zespole>

²⁸⁷ The "CSR Guide to a Safe and Sustainable Workplace Environment" (2021) is available at: <https://www.gov.pl/web/fundusze-regiony/wspieramy-rozwoj-odpowiedzialnych-polityk-pracowniczych-inauguracja-przewodnika-csr-po-bezpiecznym-i-zrownowazonym-srodowisku-pracy>

²⁸⁸ More information available on the website of OECD National Contact Point available at: <https://www.gov.pl/web/rozwoj-praca-technologie/monitoring-realizacji-agendy-2030>

reports²⁸⁹, training material and tools for addressing the gender pay gap). Furthermore, the Ministry of Entrepreneurship and Technology has also introduced **social criteria for public funding** (e.g., additional points can be awarded to companies that offer stable employment, have a low negative impact on the environment or invest in regions that have a high unemployment rate). However, the overall implementation of the NAP is still in its early stage.

In terms of non-institutional actors, it is important to note about the UN Global Compact Network Poland. Since 2001, it has been actively engaged in **encouraging ethical and sustainable behaviour** among businesses, as well as **promoting regulatory changes** in the country (e.g., for tackling issues related to the shadow economy, air pollution or plastic waste management). Another relevant organisation is the Responsible Business Forum, which promotes the exchange of good practices in CSR (for instance, it has an extensive database of good practices that are categorised according to the ISO26000 and company size). Nevertheless, the Forum is mostly focused on large enterprises, while systematic promotion of sustainability directed at SMEs remains a largely unattended subject in Poland.

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²⁸⁹ More information about non-financial reporting available on the website of the Ministry of Finance available at: <https://mf-arch2.mf.gov.pl/web/bip/ministerstwo-finansow/dzialalnosc/rachunkowosc/raportowanie-niefinansowe>

Lithuania

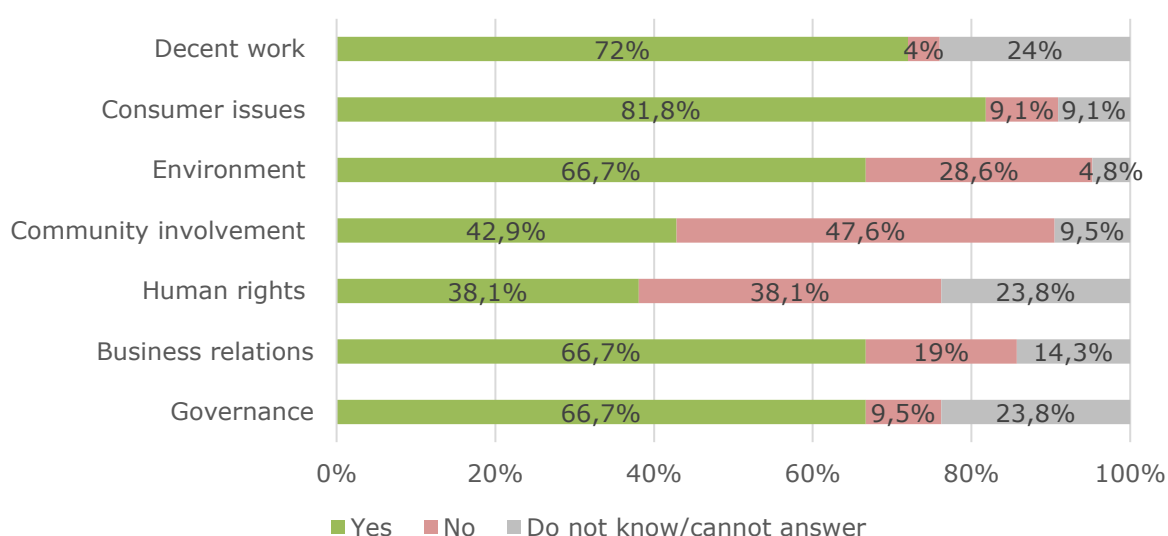
CSR/sustainability uptake: general trends

CSR/sustainability uptake among Lithuanian SMEs **remains modest**. Merely 9.7% of Lithuanian companies that participated in the survey claimed to have a CSR/sustainability strategy and, interestingly, 32.3% said that their entire business model was based on sustainability. However, this result may be affected by a positive survey bias (see [section 2.1](#) for further explanation). Lithuanian SMEs were somewhat less acquainted with CSR-related concepts, while 19.4% of them stated they were unfamiliar with all of the listed terms. Overall, their engagement in different CSR areas was lower or similar to the survey average (see Figure 50 below).

The growth of the Lithuanian economy has been robust in recent years and the business environment is improving, as reflected in the remarkably high score in the World Bank's Ease of Doing Business ranking (2020). EU funding has been supporting Lithuania's improving performance in terms of achieving the SDGs and addressing structural challenges. However, significant regional disparities, low innovation performance and resource efficiency pose barriers to the sustainable transformation of the country's economy (European Commission, 2020).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 53. Engagement in CSR among Lithuanian SMEs, by CSR area.



Note: Total (N)=25, except: Consumer issues, total (N)=22; Environment, Community involvement, Human rights, Fair business and Governance, total (N)=21 for each area.

Source: SME survey (2021).

Lithuanian SMEs that participated in the survey appear to dedicate significant attention to **consumer satisfaction and benefit**. However, this may be related to overall customer support service and fair marketing practices, while aspects such as adapted accessibility to their products/services or promotion of sustainable consumption were seldom mentioned.

The share of SMEs that indicated engagement in **decent work** practices (72.0%) was lower than the survey average of 80.2%. Among these respondents, only 61.1%

mentioned any additional efforts in decent working conditions and social protection (such as paying more than the minimum wage for low-skilled workers, extra pay for overtime, etc.). The state of social dialogue remains poor in the country, especially in terms of collective bargaining which, if present, revolves mostly around wages rather than overall improvement of working conditions (Visionary Analytics, 2020).

Many SMEs consider **human rights** issues and discrimination as irrelevant to their business. Merely 38.1% of respondents indicated any engagement in this area, which is the lowest result in comparison to other countries. Although the gender employment wage gap in Lithuania is one of the lowest in the EU, the situation of vulnerable groups remains unfavourable. The integration of people with disabilities remains low despite legal efforts to promote social enterprises. Another emerging challenge is to ensure the social protection and decent working conditions of migrant workers, which increasingly fill low-skilled positions, for example, in the transport and logistics sector which accounts for 12% of the country's GDP.

In terms of **the environment**, the situation was somewhat similar to the survey average. In fact, measures such as recycling, energy efficient technologies or sustainable procurement practices were mentioned rather rarely. Lithuania has put efforts to increase the use of renewable energy among SMEs (e.g. compensations for installing solar panels), yet a number of other private-sector related environmental challenges prevail. The overall resource efficiency is low and significant efforts are needed to increase environmental sustainability in manufacturing, transport and agriculture (European Commission, 2020).

Community involvement activities were mentioned less frequently than the survey average of 54.6%. However, stakeholders note that sponsorship of local community events, donations, etc. are rather popular among SMEs, especially in regional areas. This is often considered simply 'the right thing to do' rather than a strategic investment.

Lithuanian SMEs indicated an above-average engagement in the areas of **business relations** and **organisational governance**. This is mostly realised through the principle of fair competition, prevention of illegal activities, transparency and regular employee participation in decision-making. In this respect, Lithuania has made significant progress in reducing the level of corruption. However, the shadow economy (e.g. tax avoidance) remains widespread, posing a barrier to the competitiveness of responsible companies (European Commission, 2020).

Lastly, 42.3% of Lithuanian SMEs indicated that they regularly **share information** about their CSR/sustainability practices, which is slightly above the survey average of 37.6%. As is the case with most SMEs, Lithuanian respondents favoured other means of communication than formal reporting. According to stakeholders, businesses are highly interested in various labels and certifications, as well as participating in awards, which are then used as means for marketing.

Drivers and barriers to CSR and sustainability uptake

Similarly to their CEE counterparts, Lithuanian SMEs evaluated the benefits of conducting CSR/sustainability activities somewhat lower than the survey average (see Figure 39). In terms of specific benefits, they also **tended to select fewer benefits per company** (i.e. a single respondent often selected only one or two benefits mentioned in the questionnaire). The largest share of respondents mentioned ethical motivation (60.0%) and employee motivation (52.0%) as key factors, followed by meeting the requirements

and expectations set by buyers (48.0%) and improving image and reputation before consumers/local communities (44.0%). According to stakeholders, installing green technologies is often the result of **pressure from buyers**, especially for export-oriented manufacturing companies.

More interestingly, almost a third (32.0%) of companies mentioned that **improving the image before (potential) investors** is an important driver. This was also noted by stakeholders, who claimed that investors' evaluation is particularly important for start-ups, which are quite numerous in Lithuania. In fact, the **emerging start-up scene** might pave the way for a stronger performance in digital and green innovations. However, successful commercialisation of novel sustainable solutions is still not sufficient.

One of the key drivers to facilitate a higher CSR/sustainability uptake is **EU funding**. SMEs are extensively supported through subsidies/loans, allowing them to install new equipment, improve energy savings, offer trainings to employees, etc. However, intangible investments relating to R&D remain limited and **highly dependent on the availability of public financial support**. Although EU investments are going to be continued in the upcoming years, with a stronger focus on the green transition, securing a sufficient contribution from the private sector and ensuring continuity of the projects implemented will pose a potential challenge.

According to stakeholders, the promotion of CSR appears to be rather one-sided and focused on celebrating the best practice examples. There is **a lack of independent civil society organisations** with sufficient capacities to pose as 'watchdogs' and actively contribute to policy changes regarding environmental and social issues in the private sector.

Policy support measures

The term of CSR came into public use in 2005, with the establishment of the **Sustainable Business Association of Lithuania** (LAVA), which primarily functioned as a small informal network of companies and organisations, mostly subsidiaries of multinational corporations which were also members of the UN Global Compact. At first, the initiative was supported by the national chapter of UNDP, which was closed in 2013. Since then, LAVA continues to function independently. The number of companies within the Association has not grown significantly over the years – currently, LAVA unites 18 mostly large and/or international companies. In addition, another business association, the **Investors' Forum**, has joined in on promoting CSR activities through various events on the topic (conferences, seminars, trainings). Once again, the Investors' Forum focuses on large international enterprises rather than SMEs.

In 2006, the topic of CSR was picked up by policymakers as one of the various prerequisites of EU harmonisation. The responsibility to promote CSR was placed under the Ministry of Social Security and Labour, where it stays to this day. The political handling of CSR is strongly focused on **developing action programmes** to advance the phenomenon. The first National Programme for the Development of Social Responsibility of Enterprises was approved for the period of 2009-2013. Most of the foreseen measures, including financial aid for developing CSR in regional areas, were financed via the European Social Fund (ESF). However, the effectiveness of the programme is questionable, as many of the products created were not easily accessible to the public. Furthermore, the public administration was not 'leading by example' – despite publishing guidelines for adapting CSR in state-

owned enterprises and creating a legal framework for green public procurement, the expected outcomes were not achieved (Pucetaite and Pusinaite, 2015).

The implementation of the second National Action Plan for CSR 2016-2021 has once again received financial support under the ESF, amounting to 1.8 million Euros. Most of the planned activities are being implemented by business associations – for instance, they deliver trainings for companies to **prepare CSR reports** according to international standards (51 report has been published so far). Overall, around 2,700 people have been reached through various **events, conferences, seminars and trainings**. Moreover, The Investors' Forum is going to launch a **CSR Index**, which will allow companies to self-evaluate their performance. The actual impact of these activities is yet to be seen, depending on their continuity after the official implementation period is over.

Several other CSR-related initiatives are taking place. Since 2008, several ministries organise the **National CSR Awards**, which have several categories where small, medium-sized and large companies compete separately. However, the criteria on which the evaluation is based are somewhat questionable. For instance, in 2020, the main award for social responsibility under all CSR areas was dedicated to "Coca Cola HBC Lithuania", a brand which is internationally labelled as an example of greenwashing and is currently under investigation by the European Commission²⁹⁰. This proves that there is a lack of understanding of what CSR and sustainability entails within the public administration.

Lithuania seems to be lagging behind in **promoting international guidelines**. The Government has drawn up a National Action Plan on Business and Human rights, but there is no indication as to which institution is in charge of the follow-up of commitments found in the NAP²⁹¹. Moreover, the OECD National Contact Point is putting efforts to promote the OECD Guidelines for Multinational Enterprises (e.g. by presenting them in conferences and events), yet its activities are limited by a lack of resources and commitment among stakeholders.

Several actions are dedicated to **tackle corruption and increase transparency** in business. In 2007, an initiative to promote business integrity 'Baltoji Banga' ('Clear Wave') was created by UNDP and Transparency International, together with partners from the public sector. A 'Clear wave' label was also established, yet only over a dozen of businesses have obtained it. The network stays active to this day, mostly serving as an informational and educational resource. Recently, the Ministry of Social affairs and Labour has proposed to prohibit salary payments in cash, which could diminish tax avoidance, especially in transport, construction and service sectors.

In terms of environmental sustainability, companies can benefit from direct public funding. In the future, the key instrument for addressing climate change will be the Recovery and Resilience Facility. More efforts are going to be dedicated to strengthen the capacities of public servants in terms of **innovative and green public procurement**. Moreover, the Ministry of Economy and Innovation, in consultation with private sector organisations, is planning to launch an action plan on **circular economy**, which would address the issue of low resource efficiency.

²⁹⁰ EuroCommerce (2021). "Coca-Cola investigation another pointer to harmful practices by large food manufacturers". Available at: <https://www.eurocommerce.eu/resource-centre.aspx#All/13714>

²⁹¹ More information available at: <https://globalnaps.org/country/lithuania/>

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Czech Republic

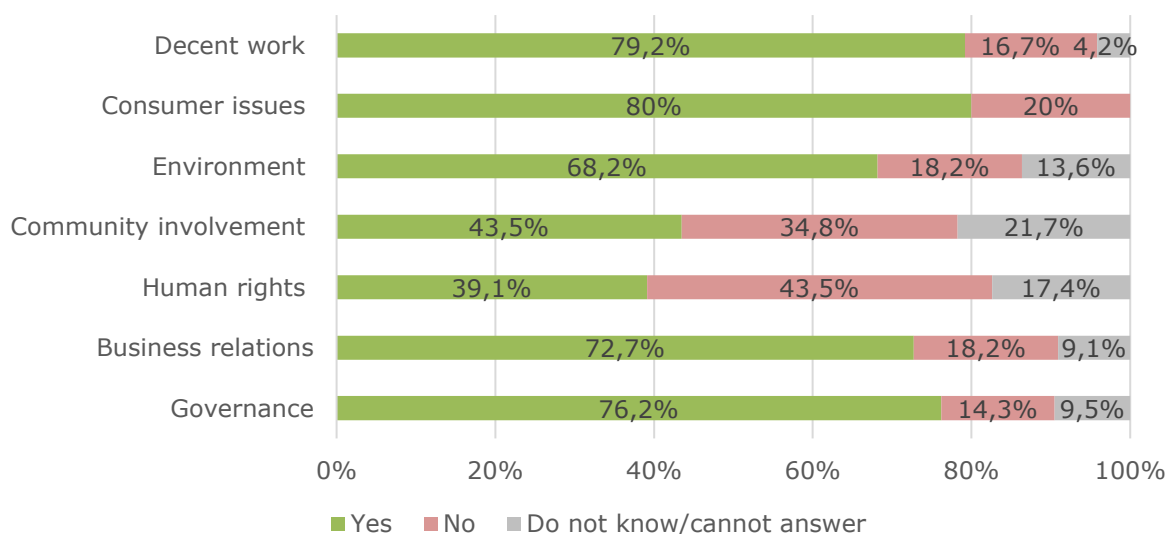
CSR/sustainability uptake: general trends

The uptake of CSR/sustainability among Czech SMEs can be considered **relatively low**. 57.7% of the Czech companies surveyed had neither a CSR/sustainability strategy nor a sustainable business model, which is higher than the survey average (53.8%). They were also less familiar with most CSR-related concepts, especially sustainable development, due diligence, and sustainability reporting. A study conducted by Business Leaders Forum in 2008 also showed a low level of familiarity with CSR-related concepts among Czech SMEs, suggesting that not much progress has been made in this area over the last decade (Kunz, 2012).

The Czech Government's approach to CSR is mainly based on **voluntarism** rather than a legal framework, resulting in a considerably low uptake and reporting of CSR/sustainability activities by SMEs. For instance, environmental taxes in Czech Republic are one of the lowest in the EU. Despite relatively active promotional and informational CSR-related measures by the state, the uptake of CSR in SMEs is still considered to be relatively limited (Metzker & Streimikis, 2020). Most sustainability practices are still led by large companies rather than SMEs which make up 99% of enterprises registered in the country.

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 54. Engagement in CSR among Czech SMEs, by CSR area.



Note: Total (N)=25, except: Decent work, total (N)=24; Community involvement and Human rights, total (N)=23 for each area; Environment, and Fair business, total (N)=22 for each area; Organisational governance, total (N)=21.

Source: SME survey (2021).

Most Czech SMEs reported engaging in activities related to **consumer issues** (80.0%). Within this category, the most important issues were fair marketing practices and consumer privacy and data security (79% and 63% of respondents, respectively). On a positive note, 42% of respondents reported offering services that promote sustainable consumption, which is higher than the survey average of 37.1%.

Similar to other countries, **decent work** practices are also significant for Czech SMEs, as 79.2% of them reported to be engaged in this area (which is almost equal to the survey average of 80.2%). Interestingly, a majority of these companies (89%) mentioned promoting **work-life balance** (compared to the survey average of 71.4%). **Ensuring job security and decent working** conditions are also important factors for companies and do not differ significantly from the survey average, although these practices are essentially mandatory in each European country and are covered by their legislation, thus do not require additional efforts from employers.

Organisational governance also seems to be among the key areas of action for most Czech SMEs. Within this area, companies were primarily concerned with implementing a clear and **transparent process of decision-making** within the company (93% of respondents compared to the survey average of 77.4%) and **preventing possible illegal activities**, such as tax avoidance or money laundering. A large share of them (67%) also indicated being **transparent** with employees and shareholders about **financial or other performance indicators** of the company. The survey results are consistent with previous research that concluded the companies are trying to focus on their transparency with the help of open-access websites, ethical codes, internal control mechanisms, and the possibility to view the company's accounts (Gurská, 2013). These findings show a positive continuity of transparent access to corporate information in the Czech Republic.

68.3% of Czech SMEs reported that they are active in the area of **environment**. Companies are particularly engaged in **recycling** (73% of respondents indicated this) and in **preventing air and water pollution** (53% and 60% of respondents, respectively). Previous research complements these findings, highlighting that Czech SMEs are implementing waste management in their companies and reducing the consumption of materials. However, researchers point out that these activities are supported by the government or are cost-effective (Skypalová & Kučerová, 2014), which may explain the high level of commitment.

Finally, only 31.8% of Czech SMEs reported **publicly sharing information** about their CSR activities, which is lower than the survey average of 37.6%. Similar to other countries, SMEs that tend to share information mainly use various **social media channels** (75% of respondents), but some also mentioned that they **include social responsibility in their corporate identity**. However, it is worth noting that only a small proportion of Czech SMEs share information through formal or company-initiated reporting. Previous research is consistent with these findings, coming to the same conclusion that reporting on corporate social responsibility activities in the Czech Republic is low (Dočekalova, 2012). This could be explained by the fact that SMEs carry out such activities on a voluntary basis, suggesting that this practice is not sufficiently facilitated by legislation in the country. Moreover, some researchers point out that formal reporting among Czech SMEs is rather incomplete or inaccurate, as most companies do not provide quantitatively and qualitatively adequate CSR information in many of the CSR areas, whether it would be environmental or labour issues (Čevela & Bílková, 2016). According to the respondents, the main reasons for not disclosing information to the public is the **lack of interest by customers and investors** in such activities and that **stakeholders are personally informed** about relevant information on business practices.

Drivers and barriers to CSR and sustainability uptake

On average, Czech SMEs that participated in the survey rated the benefits of their CSR/sustainability activities at the score of 3.47 out of 5, which was one of the lowest results in comparison to other countries. In terms of specific benefits, Czech SMEs, similar to other countries, selected **ethical motivation** (50.0%) and meeting the **requirements set by buyers** (44.4%) as key motivators for carrying out CSR and sustainability activities.

Most SMEs could not identify or were not aware of many significant barriers to implementing CSR practices, but the most widespread is the **lack of knowledge** on how to integrate sustainability into business operations (this was identified as at least somewhat significant barrier by 42.0% of Czech SMEs in the survey). Interestingly, many of the measures taken by the government regarding CSR are based on information campaigns, which essentially raises the question of whether they are effective in providing SMEs with the right tools and know-how. The **risk to business success and loss of customers** (identified by 37.0% of Czech SMEs in the survey as at least somewhat significant obstacles) is also a threat to Czech SMEs. Stakeholders point to the problem that many SMEs still view business success as profit-driven, considering that the implementation of CSR activities often depends on how much additional finance and effort companies can devote to building their business on CSR pillars. However, previous research shows that more than half of respondents care whether the company they buy from is socially responsible (Ipsos, 2019) which could be an encouragement for SMEs to use the uptake of sustainability practices for their competitive advantage in the market.

Policy support measures

In the Czech Republic, the Government does not strictly regulate CSR through legislation, therefore most CSR practices implemented by companies are based on a voluntary approach. Since 2013, the Ministry of Industry and Trade National Manager is responsible for CSR and prepares strategic documents and guidelines related to CSR. The Ministry of Industry and Trade of the Czech Republic is the main body that ensures the promotion and coordination of activities regarding CSR at the national level.

The Government's efforts in promoting CSR are mainly related to motivational measures and creating a business environment based on **voluntarism** rather than establishing strict guidelines for CSR. This is reflected in the National Action Plan for Corporate Social Responsibility in the Czech Republic (NAP CSR), which was adopted in 2014. The aim of the document is to contribute to the development of the concept of corporate social responsibility in the Czech Republic and promote its positive impact on society while considering CSR as a **voluntary concept based on self-regulation** (National Action Plan for CSR, 2014). Under this strategy, the Government aimed to achieve its objectives mainly through knowledge sharing and the provision of information materials. For that purpose, a **Guide to Social Responsibility for Small and Medium-sized Enterprises** was published and various professional events (conferences on CSR, roundtables, seminars, workshops, etc.) were organized in collaboration with NGOs, academia, and business stakeholders. Furthermore, the **National Quality Policy Portal website** was launched in 2015, providing an overview of available international CSR tools and freely accessible information for Czech companies. A new and updated national strategy for CSR, which according to representatives of the Ministry will ensure the continuity of these activities, is to be submitted for Government approval in September 2021.

As part of the national strategy, several **CSR awards**²⁹² have been created to also promote sustainability practices and support CSR development, such as Czech National Award for CSR, whose mission is to support and promote social responsibility and sustainable development through feedback that organizations receive through an independent assessment. The award is differentiated for large companies, SMEs, and public authorities. A similar award has also been created for family businesses. Another award, Top Responsible Company of the Year, is a national, independent, credible award for sustainable and responsible business, given by the Business for Society platform. Awards can be motivators for companies to make them more visible to the public and better known for their good image.

Various non-state actors play an important role in shaping policy or promoting CSR practices in the Czech Republic. A key player in CSR policymaking is the **Quality Council**, an advisory body to the Government comprised of representatives from business associations, including SME associations, public administration, non-governmental organizations, and various CSR-related associations. The advisory board is composed of several working groups in the areas of industry, services, trade and agriculture, public sector, sustainability and CSR, general issues, and family businesses. Since 2008, Quality Council has been working closely with the Ministry of Industry and Trade to develop the national strategic document and guidelines for CSR. The **CSR Stakeholders Platform** is the national CSR network that brings together public and private sector organizations to hold discussions and dialogs on social responsibility. The platform aims to foster collaboration with companies, employers' and trade unions' organizations, businesses, and non-profit organizations to facilitate the conditions for their socially responsible actions. The results of the platform help in the implementation of the goals formulated in the national CSR strategy. Another important actor is **Business Leaders Forum**, which disseminates relevant and practical information on CSR tools and guidelines for businesses. It also organizes regular seminars and round tables on CSR and has developed an initiative for university students (the Manager Shadowing Program).

Although the Government of the Czech Republic is actively engaged in promoting CSR practices, it is still under pressure from the European Commission due to the absence of a strict and clear legal framework, especially in the environmental sector. Various tax measures to ensure a lower impact on climate change, a framework to support renewable energy, and a general tightening of environmental criteria are seen as the key areas for improvement (European Commission, 2020). Nevertheless, Czech Republic has made some progress by starting preparations for the adoption of the National Strategy for the Circular Economy - **Circular Czechia 2040** - which is expected to be finished by the end of 2021. Moreover, the legal framework for **public procurement** is improving, with training implemented for most authorities dealing with procurement practices and the perception of transparency and anti-corruption in the procurement processes is growing (European Commission, 2020).

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²⁹² More information about the different CSR awards available at: <https://www.narodniportal.cz/narodni-a-krajiske-ceny/>

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Romania

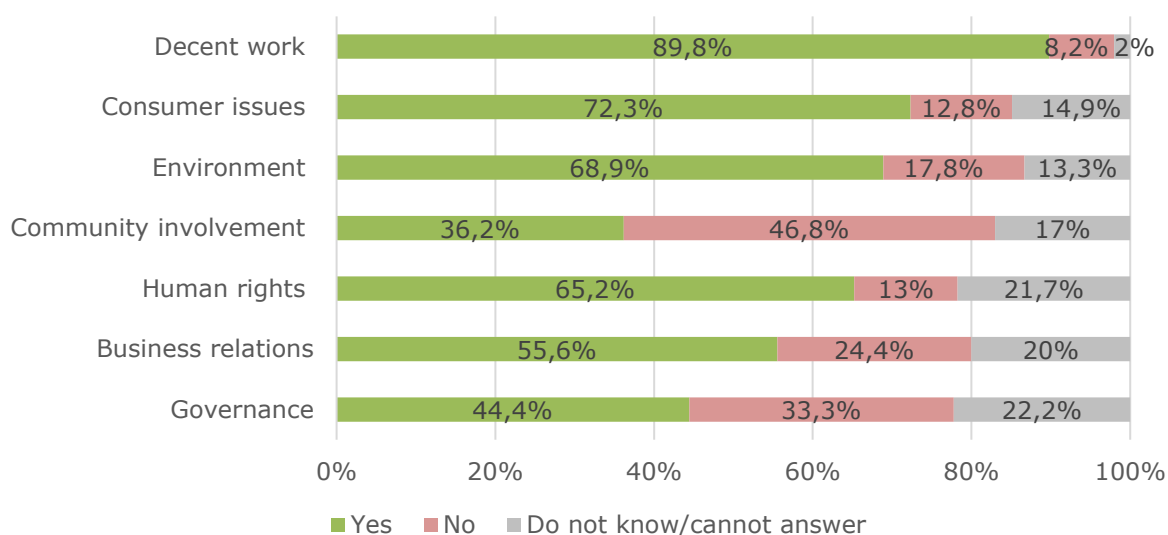
CSR/sustainability uptake: general trends

CSR/sustainability uptake in Romania can be considered **moderate**. In the SME survey, 40.7% of companies claimed to have a CSR/sustainability strategy or a business model based on sustainability, which is somewhat below the survey average of 46.2%. Interestingly, over 70% of respondents believed they were familiar with the concepts of CSR, Business and Human Rights and Sustainable development. At the same time, the respondents were far less acquainted with the SDGs (25.9%) or due diligence (37.0%). This illustrates that Romanian SMEs still have a rather incomplete picture of the ongoing international developments.

Previous literature also shows that the meaning of CSR remains blurry among Romanian companies. Similarly as in other CEE countries, CSR activities are numerous yet fragmented and based on circumstantial influences or subjective preferences of companies' managers (Pop, 2016). Despite rapid growth of GDP in recent years, low innovation performance as well as poor institutional quality hampers the country's competitiveness. A number of employment and social challenges persist, including gender inequality and regional disparities. The relatively low level of tax revenues (e.g. from labour or environmental taxes) limits Romania's ability to tackle these problems (European Commission, 2020).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 55. Engagement in CSR among Romanian SMEs, by CSR area.



Note: Total (N)=49, except: Consumer issues and Community involvement, total (N)=47; Human rights, total (N)=46; Environment, Business relations and Governance, total (N)=45 for each area.
Source: SME survey (2021).

In terms of **labour practices**, where Romanian SMEs indicated to be the most engagement, the most popular answers were related to the basic aspects of decent work. 90.7% indicated providing guarantees to legal employment and job security, followed by decent working conditions and social protection, such as paying more than a minimum wage (81.4%). However, only 39.5% of respondents mentioned opportunities for employee development (e.g. training), which is below the survey average. This finding is

particularly considering that the level of adult upskilling opportunities are regarded very low in Romania (European Commission, 2020).

A similar trend can be observed in the area of **human rights**. Within this category, 96.7% of companies declared to respect human rights at the workplace, and yet few of them took active efforts towards integration of disadvantaged groups (36.7%) or practices against discrimination (40.0%). Although this trend is visible among survey respondents in general, this is a particularly prevalent issue in Romania as the employment rate for people with disabilities is below EU average, while legal incentives for employers are insufficiently effective (European Commission, 2020).

Consumer issues are another area of concern for many Romanian SMEs. Most of the survey respondents indicated having fair marketing practices, while some also mentioned taking into account the needs of vulnerable or disadvantaged consumers and adapting accessibility to their products or services (indicated by 39.4% and 36.4% respectively). However, people with disabilities still encounter a lack of accessible services, for instance, in the tourism sector (see case study on “Sano Touring” in the Good practice document).

The share of Romanian SMEs engaged in protecting the **environment** was similar to the survey average of 70.7%. During the last decades, environmentally-sustainable growth was one of the focus areas of EU funding. Despite these investments, Romania’s eco-innovation performance remains among the lowest in the EU (Eco-innovation Index, 2019).

Among the respondents that indicated having responsible **business relations**, only 29.2% said to have a supply chain due diligence mechanism, when compared to the survey average of 50.0%. **Organisational governance** also does not appear to have a strong priority among the respondents (especially in terms of transparency and employee involvement in decision-making).

In terms of **community involvement**, Romanian SMEs demonstrated a remarkably lower engagement than the survey average of 54.8%. This aspect is somewhat surprising, as previous research shows that support for social, environmental, health and education initiatives is a dominant practice among Romanian companies. However, philanthropic activities are subjected to internal and external constraints and pressures (e.g. during the last economic crisis, many companies significantly diminished their budgets for CSR activities).

Merely a quarter (25.0%) of Romanian SMEs said that they **share information** about their CSR/sustainability practices on a regular basis. According to stakeholders, even the large enterprises are reluctant to do this, although it is required by the non-financial reporting legislation, which was transposed into national law in 2016. In 2019, for instance, only 46 entities presented their non-financial statements, most of which were of questionable quality.

Drivers and barriers to CSR/sustainability uptake

In the SME survey, three reasons to carry out CSR/sustainability activities were indicated by an equal share of respondents (60.9%). Namely, meeting the requirements set by law/regulations, increasing employee motivation and retention and, lastly, improving image before customers or local communities. These findings suggest that companies are still mostly **focused on internal benefits** of conducting CSR activities (e.g. improving the welfare of their employees or consumer loyalty), rather than addressing societal or

environmental challenges at large. The inclination to conduct CSR/sustainability activities in order to comply with the law should also be interpreted in a different context than, for instance, Austria or Finland, where the business environment is more heavily regulated and taxed.

It is important to note that CSR in Romania was popularised mainly by **multinational corporations** that have transferred the practices and organisational culture from their headquarters to the local branches. Later on, the concept of **sustainable development** entered the picture, as it was adopted as an orientation measure to guide the country's economic and social transition after the EU accession (Firoiu et al., 2019). This could explain the high level of familiarity with the concept among the Romanian survey participants. The **opportunity to access European structural funds** was a driving factor for many technological advancements within companies, as well as for strengthening the capacities among civil society organisations. In the past, at least, the phenomenon of CSR was apparently perceived as something that was fashionable among international companies and "politically correct" within the EU (Pop, 2016).

A significant barrier towards a more investment-friendly business environment is **corruption**. A Eurobarometer (2019) survey shows that 88% of businesses consider corruption to be a serious problem for their company when doing business in Romania, while 87% believe that it is widespread in public procurement.

Nevertheless, recent developments show that responsible practices are becoming more associated with long-term success and addressing stakeholder needs. The commitment towards sustainability between government officials and businesses is increasingly growing and their efforts are becoming more strategic (see section below).

Policy support measures

Since the EU accession, the Romanian government has initiated multiple reforms to harmonise the existing **laws and regulations**, resulting in significant improvements in the legislation on environment, occupational safety and health and social inclusion (Sitnikov, 2015). The effectiveness of the legislation is rather questionable. A recent example is the transposed non-financial reporting legislation, which appears to be flawed (e.g. there is no dedicated body to ensure the quality of the reports, no sanctions foreseen for non-compliance). Moreover, although the existing public procurement legislation allows to include social and environmental clauses in tenders, public servants hardly ever use this option.

In 2011, the Romanian Government developed a **national strategy on Corporate Social Responsibility** which encompassed environmental, social and economic objectives. Although the strategy expired in 2016, there is no publicly available information regarding its results nor plans on its renewal. Nevertheless, some **business-driven initiatives** emerged during this period. In 2012, the association of Romanian Business Leaders (RBL)²⁹³ was founded and is still active today. The organisations led by the members of RBL produce over 10% of Romania's GDP (mostly large enterprises). Since its establishment, members of RBL implemented multiple projects that respond to Romania's challenges in entrepreneurship and education. They also organise events, such as the Romanian Business Leaders Summit, which attracts around 300 participants every year. Overall, it appears that partnerships with NGOs are a dominant CSR practice among

²⁹³ More information on RBL available at: <https://www.rbls.ro/>

businesses. For instance, the website Stiri.org²⁹⁴ presents information about existing civil society organisations and news about companies “giving back”.

More recently, the focus has shifted towards sustainability and the **2030 Agenda**. In 2017, the Department of Sustainable Development was founded under the Prime Minister’s Office. The initial aim of the Department was to harmonise Romania’s National Sustainable Development Strategy with the SDGs. The current Strategy has apparently attracted more commitment from public authorities than during previous efforts in this direction. Firstly, there is a clear set of indicators that are being monitored by dedicated bodies (Sustainable Development Hubs). Secondly, the implementation of the Strategy is driven by **multistakeholder** dialogue. For instance, an Interdepartmental Committee comprised of members of the Government was established, thus creating a sense of responsibility and accountability between different public authorities. Furthermore, an Advisory Council on Sustainable Development was set up, mostly involving experts with the role of offering scientific and technical support.

In the spirit of the 2030 Agenda, a **Coalition for Sustainable Development**²⁹⁵ was set up in 2020, mostly driven by private sector actors (multinational enterprises such as *Kaufland Romania*). The activities of the Coalition are coordinated by the Embassy of Sustainability in Romania, which is a platform also supported by business leaders. An important aspect of the Coalition is that it established several working groups that should contribute to the SDGs. Their participants, namely representatives of businesses, civil society and public institutions, aim to generate thematic solutions and programs to achieve the targets foreseen in the 2030 Agenda. Currently, there are five working groups which tackle the issues of solidarity, air quality, food waste, work-life balance and transparency of companies.

Strengthening institutional capacities is an overarching objective of the Department of Sustainable Development. A recent example of implementing this objective can be seen with respect to the **Circular economy strategy**, which is currently being drafted. In order to expand knowledge in this field, an online conference was held together with the Finnish Embassy and the Finnish Innovation Fund Sitra, which is an international leader in circular economy policy. Furthermore, a new occupational standard of an *Expert in Sustainable Development* was established, providing the grounds for **training over 150 public servants** across different institutions. This may be a promising start for increasing the follow-through of strategic commitments of the Romanian Government. Strengthening institutional capacities will be crucial in order to ensure that the upcoming EU investments under the Recovery and Resilience Fund and the Operational Programmes would bring long-term positive environmental and social changes.

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²⁹⁴ More information on Stiri.org available at: <https://www.stiri.org/finantari-si-csr>

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Croatia

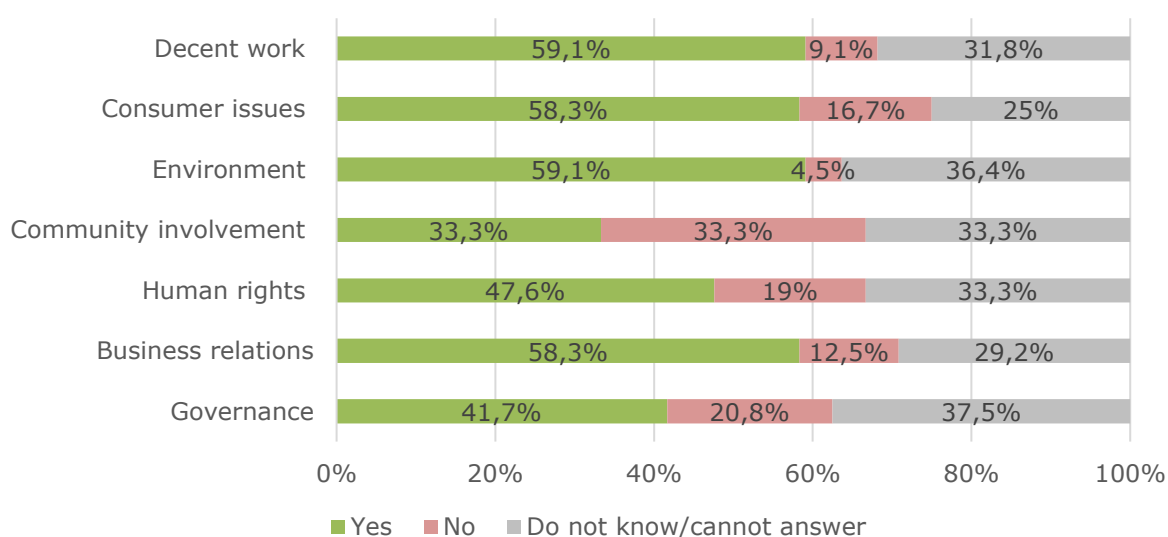
CSR/sustainability uptake: general trends

The **uptake of CSR in Croatia remains quite modest** when compared to other countries within the scope of this study. While all Croatian companies that participated in the SME survey reported at least one CSR activity, an exceptionally large share of them were simply unable to identify whether they carried out any activities within specific areas at all. A significant share of them said they “did not know” whether they conducted such activities (see Figure 53 below). In comparison to respondents from other countries or the overall survey average, Croatian SMEs were amongst the least articulate about their CSR practices. Furthermore, Croatian SMEs were less likely to have a sustainability or CSR strategy in place when compared to the survey average – in fact, Croatian SMEs were amongst the five CEE countries where the share of respondents without a CSR strategy was the largest.

Unsurprisingly, business support organisations also report that the overall uptake of CSR amongst Croatian SMEs tends to be rather moderate or even low. There is further evidence to support this – a study conducted in 2019, which included a survey amongst Croatian SMEs, showed that a majority of SMEs (43%) were mostly focused on the economic aspects of their business, while another 15% were not considering CSR at all due to a difficult financial situation (Stipic, 2019). Only slightly more than a quarter (28%) of survey respondents from this particular study said they were committed to positively addressing CSR aspects, and just a mere fraction (5.5%) respected both social and environmental aspects within their business operations (ibid.).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 56. Engagement in CSR among Croatian SMEs, by CSR area.



Note: Total (N)=24, except Decent work and Environment, total (N)=22 for each area, Human rights, total (N)=21.

Source: SME survey (2021).

The SME survey has shown that Croatian SMEs tend to prioritise **decent work practices** and **activities related to environmental impact**. According to business representatives, this is conditioned by two factors, namely the willingness for SMEs to retain their workforce

and the availability of EU funding for businesses to address their environmental impact. The latter aspect is largely in line with the tendencies prevalent in other CEE countries, where EU funds play a key role in co-financing various projects via measures developed under the Operational Programmes. However, the study conducted in 2019 found that companies generally attach less importance to environmental protection than consumer satisfaction (Stipic, 2019).

Community involvement, human rights and **good governance** practices seem to be less prevalent amongst Croatian SMEs. With respect to community involvement, it is important to take into account that a large share (38.5%) of Croatian SMEs that participated in the survey were from the tourism and hospitality sector. This sector was one of the least likely to conduct activities in the area. Otherwise, Croatian business representatives argue that in fact, philanthropic activities towards the local community, is actually one of the first types of activities to be conducted by businesses that are starting to be concerned with their social and environmental impact, as well as their reputation. This aspect relates to the tendency of most companies to “start small” because philanthropic activities are the most straightforward and easy to implement. Limited attention given to human rights follows from a lack of knowledge and awareness on the relevance of such issues.

Box 48. CSR engagement among Croatian SMEs in tourism and hospitality sector

The tourism and hospitality sector is one of the most significant sectors for the Croatian economy. In 2018, it was reported that international tourists' expenditure in Croatia amounted to almost 20% of GDP, which was the largest share in the EU (Orsini and Ostojic, 2018). However, the business model followed by the industry is largely seasonal (high peaks in summer months), which means that the local businesses operating within the sector find it challenging to sustain their operations all-year-round. According to a Croatian business representative, some entities within the sector are entirely profit-driven and are willing to increase revenue at any cost during high season without, however, making any significant investments. Such entities are mostly made up of private house-owners and sometimes various short-stay accommodation venues. This translates to a sizeable contribution to negative environmental, and a lesser extent, social impact. For example, crowding of tourists during the summer months negatively impact the environment, especially in the areas of waste management and energy consumption (ibid.). At the same time, it must be said that other entities are highly motivated to improve their services and are increasingly putting efforts into the sustainability of their business. Such entities may consist of larger and better-established businesses with available financial resources, or smaller, more innovative and socially responsible companies that base their entire business model on sustainable conduct. While such disparities are relatively common for other sectors as well, when it comes to the Croatian tourism and hospitality sector, the situation calls for additional attention, as the sector is a major source of income for the entire country.

Source: (Orsini and Ostojic, 2018), interviews.

Generally, **Croatian SMEs don't tend to follow any information disclosure practices** mainly because, just like for most SMEs across Europe, they believe this requires **too many resources** and **takes too much time** (stated by 44.% of respondents). Those SMEs that do follow some kind of information disclosure practice are, once again, in line with the overall trend and tend to use **social media channels**.

Product or service **labelling is not very widespread** as well. For example, while the EU Ecolabel is gaining ground across the EU, as of March 2021, only 40 Croatian products had been officially certified²⁹⁶. This was one of the lowest numbers of certified EU Ecolabel products across the whole EU. According to Croatian business representatives, labelling schemes are poorly applied in the country and the majority of labelled products are imported from elsewhere. This creates a paradoxical situation, whereby the majority of Croatian consumers prefer locally made products as a more responsible choice, while the labelled products remain oriented towards a particular class of consumers. Hence businesses are not driven to adopt such labels unless they are exporting to other markets. Finally, the label-awareness question is highly relevant for Croatian businesses and consumers alike – raising awareness about what a specific label stands for and how this benefits the society at large is crucial for increasing consumer demand and consequently, nudging companies towards more sustainable practices.

Drivers and barriers to CSR/sustainability uptake

CSR and sustainability uptake in Croatian SMEs are mostly driven by the same drivers elsewhere, namely consumer demand, requirements and expectations set out by their clients (often larger enterprises), improving, or maintaining the company's reputation, retaining employees, and/or meeting regulatory requirements. However, there are two specific drivers that stand out in the Croatian context as more relevant than elsewhere:

- **Meeting requirements and expectations set out by buyers.** An exceptionally large share of Croatian SMEs is nudged towards CSR practices by large buyers (81.3%, when compared to 55.3% study average). From a historical perspective, CSR was first introduced to Croatian businesses via multinational subsidiaries (Spitic, 2019), and has expanded to companies that operate as suppliers to various international companies (e.g. Ericsson Nikola Tesla, Heineken, IKEA or similar). Some large companies have provided help to smaller Croatian enterprises in introducing ISO standards or acquiring specific certifications, which, in turn, has led such SMEs to improving the overall business process, as well as the quality of their goods or services. However, according to business representatives, a significant share of large companies is only starting to introduce more rigorous requirements to their companies, and it will take a while before the trickle-down effect has a more visible impact.
- **Gaining access to foreign markets.** A larger proportion of Croatian SMEs indicated that access to foreign markets is a motivating factor (37.5%, when compared to 24.4% study average). Keeping in mind, that some of the SMEs that participated in the survey do not conduct any exporting activities (especially the ones in the tourism sector), this needs to be taken into account. According to business representatives, Croatian companies are driven to meet “Western standards” set either by Western companies or Western consumers. The business opportunities represented by these markets are considered attractive, hence companies are willing to put additional efforts.

Finally, the COVID-19 pandemic contributed to a rising consumer interest in local producers and a heightened awareness on sustainability issues. This, however, will not necessarily translate to specific actions, given that many companies will seek to address the most immediate economic concerns (OECD, 2020).

²⁹⁶ More information available at: <https://ec.europa.eu/environment/ecolabel/images/EU%20Ecolabel%20infographic-2021.jpg>

The barriers towards CSR practices closely related to the drivers – **unless they export or produce for larger buyers, Croatian SMEs rarely see the business case for CSR**. All the data collected during the study showed that SMEs struggle to see the economic benefit and are generally unaware of how to make their business more responsible. As one stakeholder commented the “**lack of knowledge is extensive**”. A large share of Croatian SMEs was unfamiliar with many of the concepts associated with CSR and sustainability. As many as 27% of Croatian SMEs said they were not familiar with any of those concepts at all, only 54% were familiar with the concept of CSR and 38.5% with the concept of sustainable development. Furthermore, the fact that a large share of SMEs could not identify whether they conducted a particular practice is therefore telling. Finally, lack of incentives on policy level was said to be an important barrier – companies tend to conduct “business as usual” if they are not somehow nudged towards change (Nyuur et al., 2020).

Policy support measures

EU-level policy making seems to play a strong role towards introducing sustainable business practices in Croatia. Back in 2013, the accession to the EU was a factor that led to increasing awareness on the relevance of CSR and sustainability issues amongst Croatian companies (Stipic, 2019). Fast forward to 2021, and once again, according to several business organisations, the EU Green Deal has put forward a clear message to companies that sustainability in their business operations is something to be concerned about. All CSR-related legislative changes (SFDR, NFRD that is to be amended into CSRD and the Taxonomy Regulation) are expected to impact large and small enterprises alike. As a result, SMEs especially are becoming more aware of the need to act upon such issues.

At the same time, policy making and policy support on the national level still remains somewhat limited and fragmented. There has been praise for Croatia’s progress in the area of waste management, and Croatia had already achieved its renewable energy targets for 2020 back in 2019-2018²⁹⁷. This has enabled small companies to become more responsible with respect to their environmental impact, as they are fully dependent on the overall waste and water management systems of the country. However, a general lack of incentives from the national authorities was said to be one of the key barriers limiting CSR uptake. Within this context, Croatia’s 2030 National Development Strategy recently received criticism for insufficiently incorporating the SDGs and only superficially addressing sustainability issues within its economy²⁹⁸. Stakeholders believe that capacity-building amongst national authorities remains an important tool for developing more CSR-oriented policies.

One of the aspects that Croatian stakeholders as well as experts believe could be improved and would lead to significant impact is **green public procurement** (GPP)²⁹⁹. This would, first of all, send a clear message to businesses that responsible and sustainable business practices are a priority for government authorities, and secondly, this would enable such companies to gain a competitive advantage where they still struggle to regard it as such. However, while Croatia had adopted a GPP Action Plan in 2015 and its update in 2017, the progress on its implementation remains limited. Croatian Ministry of Environment and

²⁹⁷ More information available at: <https://dop.hr/nacionalna-razvojna-strategija-jos-jedan-neprovediv-razocaravajuci-dokument/>

²⁹⁸ More information on Croatia’s 2030 National Development Strategy available at: <https://dop.hr/nacionalna-razvojna-strategija-jos-jedan-neprovediv-razocaravajuci-dokument/>

²⁹⁹ More information available at: https://ec.europa.eu/environment/ecoap/sites/default/files/field/field-country-files/eio_country_profile_2018-2019_croatia.pdf

Energy was leading a National Committee for GPP³⁰⁰, which was meant to be a platform for capacity-building amongst civil servants on the issue. However, the implementation of GPP practices remained purely voluntary³⁰¹, hence the initiative did not result in major change.

Two key business organisations are involved in promoting CSR activities in Croatia, namely the Croatian Business Council for Sustainable Development and the Croatian Institute for Corporate Social Responsibility. Both organisations provide assistance for large companies in developing non-financial reports in accordance to the NFRD, as well as extensive **information and guidance** to in the forms of papers, conferences, trainings, webinars and newsletters. The latter are provided to all companies irrespective of their size but given that CSR practices are commonly driven by larger enterprises in Croatia, they are more likely to engage in these activities. The Croatian Chamber of Economy was reported to also quite active in promoting sustainable business practices, especially related to circular economy initiatives³⁰². Finally, there is some specific support available to social enterprises mostly in the form of workshops, consulting, and guidance on business development (see measures database).

Box 49. The National CSR award.

The National CSR award is a joint initiative by Croatian Business Council for Sustainable Development (HR BCSD) and the Croatian Chamber of Economy. It is given each year to several Croatian companies, each within a separate category, namely large, medium, small and state-owned enterprises. The award is based on the CSR-index that was developed to assess seven CSR areas. The methodology for this index was developed during a joint project that took place in 2007 and was mainly funded by the AED (previously Academy for Educational Development), a global non-profit. The project resulted in a complete methodology for three extensive questionnaires tailored to large and medium (119 questions), small (64 questions) and state-owned (92 questions) businesses. The questionnaires enable the organisers to collect significant data on the types of practices undertaken by companies as well as monitor their progress. Around 100 Croatian companies participate in this initiative each year. However, according to Croatian business representatives, the award is more about **making responsible companies visible** rather than encouraging more companies to engage in CSR activities. This is mainly due to the fact that the CSR-index and the questionnaire on which the companies' standing is assessed is very extensive, hence many companies are simply unable to collect the type of data required. As a result, the number of participating companies remains limited and most of them are already more responsible than an average Croatian business. To address this issue, the current application is being updated to become more user-friendly in the future.

Source: National CSR Award, <https://www.hgk.hr/indeks-dop-hgk/indeks-dop> and stakeholder interview. <https://www.hgk.hr/indeks-dop-hgk/povijest-projekta>

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³⁰⁰More information on National Committee for GPP available at: <https://www.oneplanetnetwork.org/initiative/national-committee-green-public-procurement>

³⁰¹More information available at: <https://www.oneplanetnetwork.org/sites/default/files/factsheets2017.pdf>

³⁰²More information available at: https://ec.europa.eu/environment/ecoap/sites/default/files/field/field-country-files/eio_country_profile_2018-2019_croatia.pdf

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Slovenia

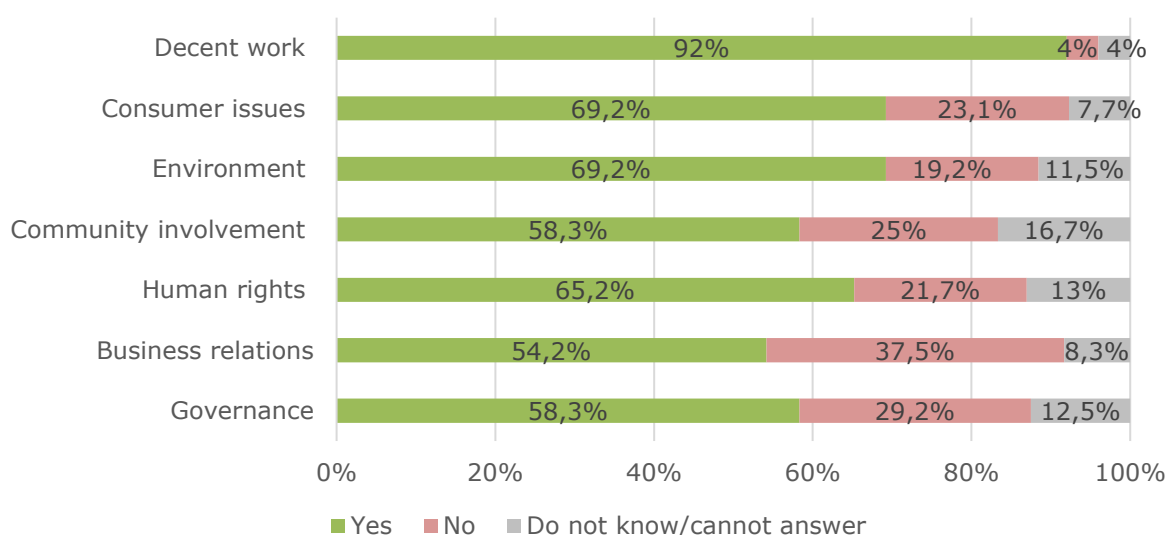
CSR/sustainability uptake: general trends

CSR/sustainability uptake in Slovenia can be evaluated as **modest**. In the SME survey, merely a fifth (20.0%) of Slovenian respondents indicated having a CSR/sustainability strategy, while another 16.2% claimed to base their entire business model on sustainability. They also showcased a lower-than-average level of familiarity with the concept of CSR (60.0% believed they were acquainted with it), as well as with most other related concepts. With regard to their engagement level in specific CSR areas, Slovenian SMEs did not demonstrate significant differences from the survey average (except for decent work practices). However, it should be noted that the majority of Slovenian respondents comprised of SMEs that operate in the transport and logistics sector, which tends to be generally less engaged in CSR.

The modest results might seem surprising, given that Slovenia is often considered a 'success story' in comparison to its CEE and Western Balkan counterparts. The transition of the economy was accompanied by rather stable growth and a solid welfare system. Nevertheless, Slovenia is facing challenges that are prevalent in most post-socialist countries, namely, a lack of trust in businesses and institutions, malpractices to advance personal gain and a lack of government leadership to reverse these trends. These issues potentially had an effect on the slow take-up of CSR development, especially in terms of setting up CSR-related policies (Golob, 2015).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 57. Engagement in CSR among Slovenian SMEs, by CSR area.



Note: Total (N)=26, except: Decent work, total (N)=25; Community involvement, Fair business and Governance, total (N)=24 for each area; Human rights, total (N)=23.
Source: SME survey (2021).

Slovenian SMEs that participated in the survey were strongly engaged in **decent work** practices (activities indicated by 92.0% of respondents in contrast to survey average of 80.2%). They indicated high levels of activity within themes such as decent working conditions, OSH and work-life balance (all indicated by 82.6%), although participating in social dialogue was mentioned less frequently (34.8%). Although for many years, Slovenia

had a strong cooperative culture of collective bargaining, its quality has been deteriorating in recent years, indicating signs of changes in power relations³⁰³.

In terms of the **environment**, Slovenian SMEs demonstrate a moderate level of engagement. Overall, the country has a sound waste management system and a high recycling rate (also reflected in the survey). However, recycled materials are often outcompeted by cheaper primary sources, placing Slovenia below the EU average in terms of circular (secondary) use of materials (European Commission, 2020). Moreover, the country's ranking in the European Eco-Innovation Index has deteriorated from 2018 to 2019, currently standing below EU average.

In the survey, Slovenian SMEs gave somewhat less significance to responsible **business relations** and **organisational governance**. Indeed, a lack of transparency and widespread informality (especially regarding ties between businesses and the government) are common in the Slovenian business environment (European Commission, 2020; Golob, 2015).

Information sharing about CSR/sustainability practices was somewhat lower than the survey average (activities indicated by 34.6% of respondents). The main reason for not sharing information was that company stakeholders are personally informed about all business practices.

Drivers and barriers to CSR and sustainability uptake

Overall, Slovenian SMEs evaluated the benefits of their CSR/sustainability activities at the score of 3.62 out of 5, similarly to their CEE counterparts. In terms of specific barriers, they seemed to prioritise meeting the expectations set by buyers, as well as regulations. This indicates that responsible business behaviour is driven by **external pressure**. Stakeholders also mentioned that Slovenian companies tend to seek information and advice about CSR only once they are requested to by their business partners, such as multinational enterprises.

As mentioned previously, **low level of trust among different stakeholders** hinders CSR/sustainability uptake in SMEs. Although the government has taken action to tackle corruption, a striking 90% of businesses still believe that it is widespread. Another 76% of businesses in Slovenia consider that the only way to succeed is to have political connections. Formal and practical involvement of social partners and other business stakeholders in drafting legislative proposals or reforms is also reportedly lacking (European Commission, 2020).

Neither the government, nor the public sector at large seem to be '**leading by example**' in terms of CSR. According to stakeholders, there is no 'go-to' point in the public administration when it comes to CSR. Furthermore, transparency of state-owned enterprises is widely regarded as lacking (Golob, 2015). Although there were improvements regarding public procurement (e.g. tenders are often divided into lots, creating more opportunities for SMEs to participate), the procedures are still often awarded on the basis of the lowest price, while environmental criteria are given relatively little importance (European Commission, 2020).

³⁰³ More information available at: <https://www.eurofound.europa.eu/country/slovenia>

Policy support measures

Government efforts to promote CSR in Slovenia have been fragmented over the years and largely driven by impulses from the European Commission. In the 2000s, an inter-ministerial working group was established to map existing information on CSR in Slovenia and promote it on a national level. However, the group did not succeed to develop any CSR initiatives. The question of promoting CSR was raised again in the tripartite Social Agreement 2007-2009, however its' definition was set to be strictly voluntary. In the agreement, the Government has committed to raise awareness about CSR, promote best practices and reporting, as well as include CSR as a criterion for public tenders. However, these commitments were not adhered to. Even after the EU strategy on CSR was issued in 2011, the Government opted not to draft a national CSR strategy as it was not a binding requirement from the EU (Golob, 2015). More recently, Slovenia has transposed the EU non-financial reporting directive into its national Company law. Nevertheless, policymakers appear to be of the opinion that CSR should be implemented by businesses without any involvement from the state.

In the **Slovenian Development Strategy 2030**, there is a mention of 'socially responsible entrepreneurship', yet it is mostly associated with innovation performance and actions to promote business-science cooperation. However, stronger focus is given to 'inclusive labour market and high-quality jobs' (e.g. upskilling, inclusion of younger and older populations as well as recognising the potential of immigrants, etc.). In fact, there seems to be a special focus on **employment practices** in Slovenia, which is also visible among non-state actors (there is a reward for Slovenian employers of the year, a Family-friendly enterprise certificate, etc.). The topic of social entrepreneurship is also given significant attention, yet the support mechanism for social enterprises is somewhat lagging.

Most activities related to CSR are led by two civil society organisations, as well as the Slovenian Association for Sustainable Development (the Slovenian chapter of the UN Global Compact). The Institute for Development and Social Responsibility, a leading Slovenian organisation that contributes both to **promoting** CSR (through annual conferences and the HORUS award), **training and consulting** (through rounds of seminars for 10-15 people, mostly managers from large enterprises), as well as to **research activities** in the field. The Ekvilib institute operates in a similar manner and, in addition, offers a Socially responsible employer certificate. The certificate is a result of an EU-funded project in partnership with Slovenia's largest employer organisation ZDS. Once again, the emphasis is placed on the well-being of employees. The first 200 companies to obtain the certificate will be able to do so free of charge, while later on the acquisition of the certificate will cost several thousand Euros. Therefore, it is questionable whether SMEs will have sufficient financial resources to undergo the procedure.

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Serbia

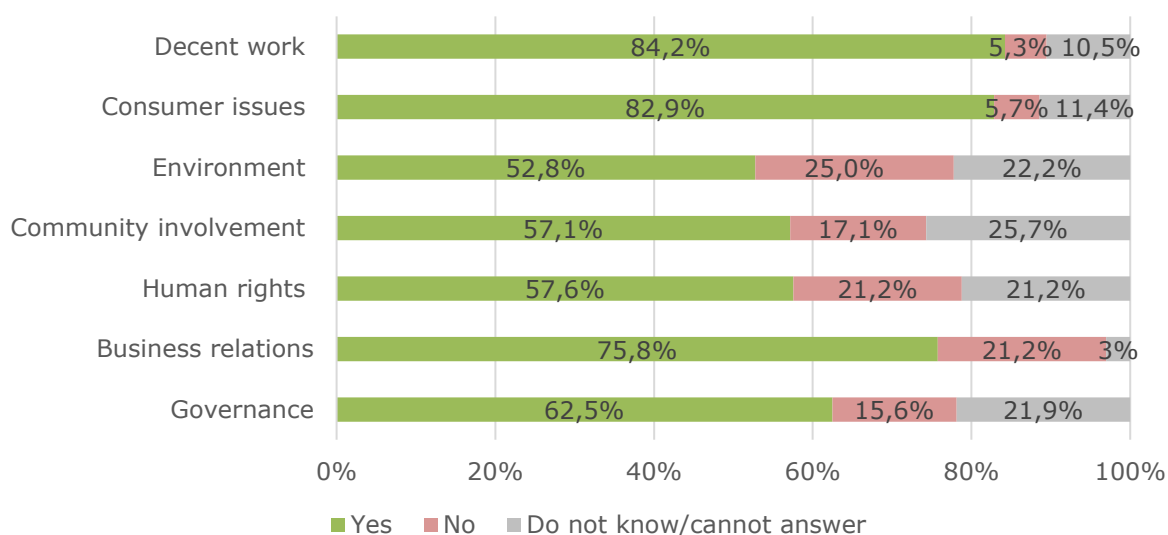
CSR/sustainability uptake: general trends

Serbian SMEs demonstrate a **low level of CSR uptake**. Most companies (54.6%) in the survey did not have a CSR/sustainability strategy and only 9.1% claimed that their entire business model is based on sustainability (in comparison to the survey average of 18.7%). The representatives of Serbian SMEs were also less acquainted with CSR-related concepts than most survey respondents. Although a large part of them indicated that they are engaged in at least some kind of CSR practices, they often selected activity themes that are rather simplistic and requiring little additional efforts (see section below).

The findings are in line with previous research, which indicates a gap between more and less developed economies in applying CSR-focused business strategies (Krstic et al., 2018). Similarly to other transitional economies, CSR in Serbia is still more about philanthropic and charitable activities, rather than internal processes that are mainstreamed into the core business model. Typically, systematic approaches towards CSR and sustainability are visible mostly among multinational corporations or their subsidiaries, while the rest of the businesses largely remain preoccupied with economic concerns (Mijatovic et al., 2015). Nevertheless, stakeholders believe that the situation is changing and more and more locally-based companies have successfully integrated a social and economic dimension due to strong EU influence.

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 58. Engagement in CSR among Serbian SMEs, by CSR area.



Note: Total (N)=38, except: Environment, total (N)=36; Consumer issues and Community involvement, total (N)=35 for each area; Human rights, and Fair business, total (N)=33 for each area; Governance, total (N)=32.
Source: SME survey (2021).

Most Serbian SMEs (84.2%) indicated engagement in **decent work** practices, which is above the survey average (80.2%). Within this category, most respondents selected activities that must be ensured by law (such as guarantees to job security and legal employment). Furthermore, 82.9% of Serbian SMEs mentioned efforts to ensure **consumer satisfaction and benefit**, such as fair marketing.

In terms of **community involvement**, the most prevalent activity is to provide support to programmes or initiatives in areas such as education, culture, health or environment (indicated by 80.0% of Serbian SMEs within this category, when compared to the survey average of 66.3%). This finding relates to the fact that donations, foundations and endowments have a long and continuous tradition in Serbia (Mijatovic et al., 2015).

More interestingly, a significant part of respondents (75.8%) mentioned activities with respect to **business relations** (in comparison to 66.4% survey average). However, these activities do not seem to revolve around supply chain sustainability and due diligence, but rather fair competition and anti-corruption in purchasing practices (selected by 82.6% and 52.2% of respondents within this category). In terms of organisational **governance**, Serbian SMEs also highlighted activities related to transparency and prevention of illegal activities. It appears that Serbian businesses give great importance to these aspects and consider it a part of CSR rather than a commonplace business practice. Indeed, corruption is considered a significant issue in the country, given that Serbia ranked 94th out of 180 countries in the Corruption Perceptions Index in 2020³⁰⁴.

Compared to other countries, Serbian SMEs reported the least efforts to reduce their negative impact on the **environment** (activities indicated by 52.8% of respondents in comparison to 70.7% survey average). As in most countries, the indicated activities were largely limited to recycling or sustainable packaging. On the other hand, a representative of Serbian Chamber of Commerce and Industry (CCIS) notices that resource-intensive sectors (such as the cement industry) are already managing their environmental risks well due to pressure from the local community. Moreover, companies are becoming more aware of environmental sustainability and closely follow the developments in the EU with respect to the Green Deal.

Lastly, only 21.2% of Serbian SMEs indicated that they **share information** about their CSR activities. Both previous research and stakeholders involved in this study conclude that Serbian companies tend to communicate their CSR activities on their websites and through media outreach, while only a few follow international reporting standards. A study by Krstic et al (2018) showed that even established and large businesses attached little value to formal reporting. Likewise, following CSR standards (e.g., ISO26000) or acquiring certifications were not considered managerially useful by the executives.

Drivers and barriers to CSR uptake

The benefits of carrying out CSR activities indicated by Serbian SMEs were largely similar to the general findings of the study (see [Chapter 2](#) for discussion). **Ethical motivation** and **meeting the requirements and expectations set by buyers** were the most mentioned drivers (indicated by 69.2% and 46.2% of respondents respectively). The latter was also brought up by stakeholders. For instance, they mentioned that SMEs that become suppliers of multinational corporations (such as “Coca-Cola HBC”), must deliver certifications and may be audited. In addition, large enterprises sometimes organise trainings to their suppliers to help them meet the set expectations.

Closely knit ties with EU-based companies serve as an important driver for higher CSR and sustainability uptake. The representative of CCIS notices that locally based companies that conduct activities abroad are already well-acquainted with the concept of CSR.

³⁰⁴ More information about Transparency International's Corruption Perceptions Index available at: <https://www.transparency.org/en/countries/serbia>.

Responding to EU tendencies is also important from a policymaking perspective, as Serbia progresses on its path of becoming an EU member.

However, a **lack of understanding about the “business case” of CSR** limits Serbia’s progress. This is indicated by the low rate of adopting international standards, which could actually help companies identify areas of improvement and provide useful guidance. Furthermore, many companies struggle to make ends meet, which makes adding a social and environmental dimension to their business a difficult task (Mijatovic et al., 2015). Lastly, there is a **lack of capacities** to perform certain activities. For instance, Serbia has established a national label that largely resembles the EU Ecolabel in terms of criteria. However, there are simply not enough laboratories that could run the necessary tests to confirm the products’ compliance.

Policy support measures

Over the years, the Serbian government has adapted **legislative measures** that address the critical areas of CSR and are largely in line with legal frameworks in most EU Member States (e.g., the prohibition of discrimination and workplace harassment, protection of the environment, or mandatory non-financial reporting for large enterprises). However, the implementation of these provisions is not always enforced and there is a general **lack of promotional measures** initiated by the public authorities. For instance, the Government of Serbia adopted a National CSR Strategy for the period of 2010-2015, but it did not receive an update. The national government has also made commitments towards achieving the SDGs, yet international actors (such as the Delegation of the EU and the UNDP) ask for more ambitious efforts³⁰⁵.

Nevertheless, CSR and sustainability are quite actively encouraged by various voluntary initiatives, multinational corporations, international donors, and foundations that operate in the region. There is a strong community of businesses interested in becoming more sustainable and encouraging other companies to follow the same path. They are engaged in **networks**, such as the UN Global Compact network, which has over a 100 members (including non-profit actors) or the Responsible Business Forum³⁰⁶. The latter organises an annual CSR Forum with the support of USAID and has established an award for companies with the best volunteering programs. Another important actor is the non-profit organisation Smart-Kolektiv, which develops programmes designed to provide long-term **mentoring support** and **market connectivity** (for instance, capacity building programme “Sustainability Champions” for SMEs). The non-profit has also developed small-scale **financial incentives**, such as the “Smart Impact Fund” for companies that contribute to positive changes in their community. This organization also provides consultancy support to companies in developing CSR strategies and establishing nonfinancial reporting practices.

One of the most active entities is the previously-mentioned Serbian Chamber of Commerce and Industry. CCIS has founded a **Council for CSR**³⁰⁷, an advisory body that consists of non-profits, foundations, business representatives and public authorities, such as the Ministry of Human Rights and Social Dialogue. The Council, which holds regular monthly meetings, creates an opportunity to facilitate continuous dialogue between stakeholders. Most recently, they were discussing proposals for tax reliefs related to corporate

³⁰⁵Joint message to the Government of Serbia on Climate Change (2019). Available at: https://www.rs.undp.org/content/serbia/en/home/presscenter/articles/2019/zajedni_ku-poruku-o-klimatskim-promenama-vladi-srbije.html

³⁰⁶ More information about the Responsible Business Forum Serbia available at: <https://odgovornoposlovanje.rs/>

³⁰⁷ More information about the Council for CSR is available at: <https://pks.rs/strana/sekcija/nacionalna-nagrada-za-dop-savet-pks>

philanthropy and donations. Members of the Council also advocate for a renewed national CSR strategy that would foresee concrete actions, especially with regard to SMEs.

Since 2007, CCIS organises a biannual **CSR award**³⁰⁸, which attracts more and more SMEs. The evaluation committee follows a strict methodology, while applicants have to fill an extensive questionnaire and undergo an on-site visit. However, CCIS sees it less as a competition and more as an exchange of good practices.

The latest development in Serbia is a growing interest around **circular economy**. In April 2020, the national government released a Roadmap to Circular Economy, which should contain both regulatory and soft measures. Representatives of CCIS were also actively involved in this area and launched a Circular Economy Academy in cooperation with UNDP.

Recently, in 2021, in cooperation with GIZ and UNDP, Chamber of Commerce and Industry of Serbia has launched a Digital platform for the circular economy, which is intended for the economy, and will indirectly benefit representatives of state administration and local self-government and the professional public. Through its functions, CE HUB classrooms will contribute to raising the capacity of the economy on the path of change towards green investments, green recovery from the COVID-19 crisis and increasing competitiveness in the European market by applying new circular ways of doing business.

They hope that these strategic documents (the Roadmap to Circular Economy, as well as the envisioned new national CSR strategy), education programs and platforms will lead to implementation actions and positive impact.

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³⁰⁸ More information about the George Weifert CSR award available at: <https://pks.rs/strana/nacionalna-nagrada-za-dop>

North Macedonia

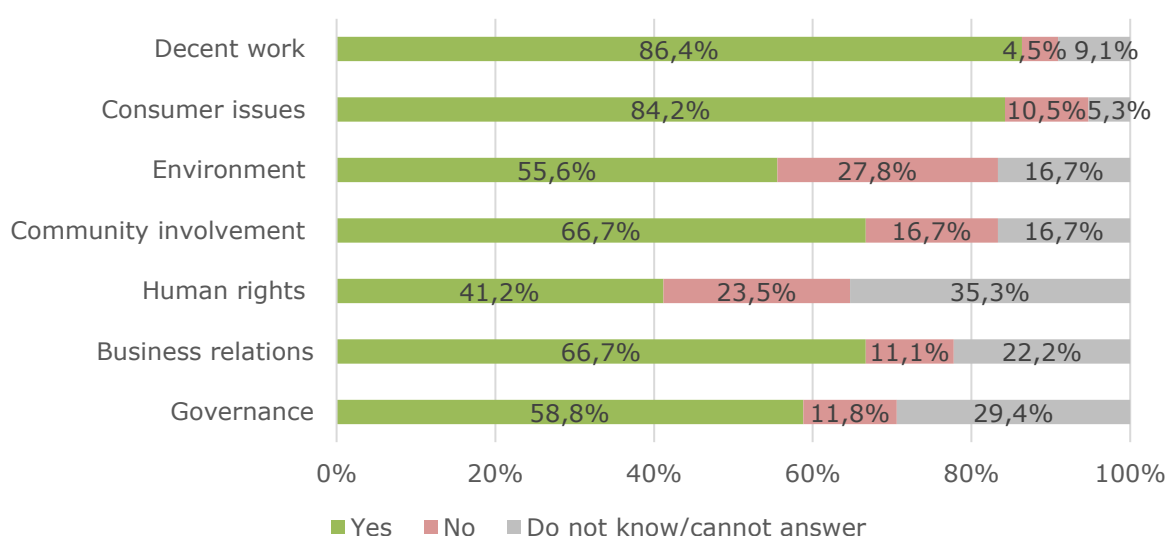
CSR/sustainability uptake: general trends

The uptake of CSR/sustainability among North Macedonian SMEs is **modest**. Although as many as 33.3% of survey respondents mentioned having a CSR/sustainability strategy, merely 8.3% said that their entire business model is based on sustainability. A remarkable share of respondents claimed they were familiar with CSR-related concepts, such as business and human rights (66.7%). On the other hand, this is hardly reflected in their engagement in CSR practices (see Figure 56 below). It should also be taken into account that the survey response rate of Macedonian SMEs was particularly low, hindering the representativeness of the results.

North Macedonia has made significant progress in recent years, especially in terms of aligning its strategic and legislative frameworks with the EU. However, administrative capacity at all levels remains weak and financial resources are still insufficient to implement existing legislation. Similarly to other Western Balkan countries, continuous underinvestment, weak institutions and a difficult business environment impair labour productivity and the overall competitiveness of the economy (Sanfey and Milatovic, 2018; European Commission, 2020).

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 59. Engagement in CSR among North Macedonian SMEs, by CSR area.



Note: Total (N)=22, except: Consumer issues, total (N)=19; Environment, Community involvement and Fair business total (N)=18 for each area; Human rights, and Governance, total (N)=17 for each area.
Source: SME survey (2021).

Macedonian businesses seem to be mostly concerned with those CSR areas that **directly relate to their employees or customers**. According to stakeholders, businesses widely adapt decent work practices that address skills development, mental well-being, nutrition at work, etc. However, the private sector still faces structural challenges with regard to meeting the minimum legal requirements. A large share of workers are not guaranteed the right to legal employment, as the proportion of informal employment in total employment was 18.6% in 2018. Approximately half of these people worked in the agricultural sector and many of them were unpaid family workers (United Nations North Macedonia, 2020).

With respect to health and safety at work, a comprehensive legal framework is in place and yet it is poorly enforced while the number of accidents at work remains rather high. Lastly, social dialogue in the private sector also remains limited due to a lack of capacities and trust among social partners (European Commission, 2020).

In the areas of responsible business relations and governance, survey respondents often indicated activities that are connected with **fair competition, anti-corruption and transparency**. Previous research shows that small businesses in particular find these areas highly problematic due to the activities of competitors in the informal sector, widespread corruption and cumbersome tax administration (Sanfey and Milatovic, 2018).

According to stakeholders, **community**-related activities are often central to businesses' CSR approach (e.g. corporate volunteering, donating to civil society organisations). For instance, businesses provide support to youth and their education, as well as provide internship opportunities. Furthermore, there is an increased attention towards the social economy and social entrepreneurship (Iljevska and Iloska, 2018).

Companies dedicate little attention towards **human rights** issues, both in terms of their own enterprise and across the supply chain. Research conducted by the Local Network of the UN Global Compact shows that companies often address human rights in a declarative manner, while making little actual effort to integrate the UNGP principles in their internal policies (United Nations North Macedonia, 2020).

In the survey, Macedonian SMEs indicated a lower than average engagement in the area of the **environment**. This is somewhat surprising, given that over a third of the respondents were operating in the agro-food industry which is highly exposed to environmental issues. According to stakeholders, however, environmental issues, especially related to air pollution, are becoming more widely addressed among businesses, particularly in resource-intensive sectors. Although regulations are not very strict in this area, there are various funding mechanisms for companies to adopt environmental management systems.

Merely 17.6% of Macedonian SMEs mentioned that they **share information** about their CSR/sustainability practices, which is one of the lowest results in the survey. The rest of the companies believed that it would take too much time, it was unnecessary/inappropriate or that company stakeholders are personally informed about their practices.

Drivers and barriers to CSR and sustainability uptake

In the survey, Macedonian SMEs mentioned a number of factors that encourage them to carry out CSR/sustainability activities. **Meeting the requirements and expectations set by buyers** was mentioned by 71.4% of the companies, as well as highlighted by stakeholders. They claimed that supply chain pressure is particularly relevant to companies that are characterised by high labour intensity, occupational health risks and heavy pollution. For instance, the textile sector is often audited by consultants of the Fair Wear Foundation, who can require companies to undertake correctional measures in order to continue their contracts.

According to stakeholders, the **influence of the EU and the support from other international donors** has also been a key driver for a higher CSR/sustainability uptake. However, the project-based support has little long-term effect and durability (i.e. activities are not continued once the funding period ends). Moreover, CSR and business sustainability

are not among the key priorities during the EU accession negotiations, therefore the national Government is not as keen to take active measures towards these issues.

Interestingly, a significant share of companies believed that CSR/sustainability helps to **increase cost savings and efficiency** (71.4%), as well as **improve innovation performance** (57.1%). Considering that North Macedonia is a modest innovator (European Innovation Scoreboard, 2020) and is characterised by low levels of labour productivity, adapting more innovative business models can indeed help SMEs gain a competitive advantage.

Yet, the previous aspect is partially hindered by the fact that Macedonian SMEs operate in an **unfavourable business environment**. The large shadow economy and corruption remain major constraints to conducting business. Furthermore, the relationship with the public administration seems to be characterised by tedious administrative burden and shortcomings in the rules and institutions of state aid, which makes businesses reluctant to apply for support. For instance, although considerable firm-level R&D support is available through the Innovation Fund, the measures have had a slow take-up rate so far (European Commission, 2020). This is connected to a persistent **lack of human resources and capacities in the public administration**, which impedes an efficient follow-through on various strategic commitments.

Policy support measures

The Macedonian Government appears to be highly responsive to the developments in the EU. With respect to CSR, the first national-level study was initiated in 2007, which is quite early even in comparison to some EU Member States. The study was soon followed by a **National CSR Agenda** for the period of 2008-2012, which focused on awareness raising activities, dissemination of good practices and dialogue between stakeholders. The preparation of the Agenda, as well as its implementation activities, were under the responsibility of the Ministry of Economy and its Department for CSR. Furthermore, a National Coordinating Body for CSR was established, consisting of 16 representatives of employers' organisations, trade unions, civil society, academia and public administration. According to stakeholders, the implementation of the Agenda was successful, as some of its measures were co-funded under an EU project. Moreover, the initial activities were supported and popularised by other international donors, including the UNDP, the local network of the UN Global Compact, as well as USAID.

The most prominent achievement of the agenda is the annual **National CSR award**. The award focuses on best practices under several categories (attitudes towards employees, market relations, etc.), rather than companies themselves. Before the pandemic, the National Coordinating body for CSR would receive around 150 applications for the award.

In 2019, a second national CSR strategy was adopted together with an action plan for the period of 2019-2023. Moving past the awareness raising stages, its actions focus on **supporting the implementation of CSR principles**, as well as efforts towards achieving the SDGs. For instance, the Ministry launched a call for funding the adaptation of ISO26000 standard and improving market relations with suppliers, consumers or buyers. However, only 5 companies received the funding due to a low application rate and limited resources.

As mentioned previously, the public administration, including the Unit for CSR (former Department) under the Ministry of Economy, has scarce human and financial resources to implement its strategic commitments. Moreover, the same issue is relevant to business

associations and civil society organisations. Although **multistakeholder dialogue** is already taking place under the activities of the National Coordination Body of CSR, it is often limited to the persons within the body. For instance, the Chambers of Commerce help the Unit for CSR with dissemination of their activities (e.g. promoting the National CSR award), however, they do not systematically offer CSR/sustainability-related services for their members.

Lastly, it is important to mention that the Government has undertaken some CSR-related **strategic initiatives** to address pressing issues, including the informal economy, gender equality, social entrepreneurship or circular economy (United Nations North Macedonia, 2020). Recently, discussions were raised regarding the development of a National Action Plan for Business and Human Rights (led by the civil society organisation Konekt, which also functions as Secretariat of the Local Network of the UN Global Compact). Yet, it is unclear whether these commitments will lead to impactful activities.

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Turkey

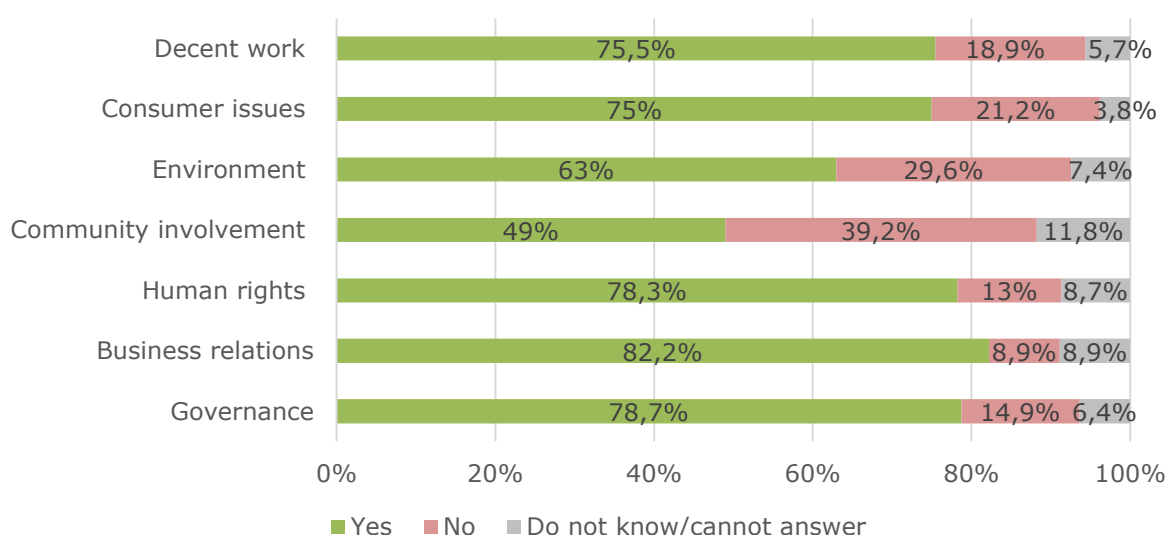
CSR/sustainability uptake: general trends

Despite relatively positive survey results, the uptake of CSR/sustainability among Turkish SMEs can be considered **rather low**. In the survey, almost a third (32.1%) of Turkish SMEs reported having a CSR/sustainability strategy but merely 8.9% claimed that their entire business model was based on sustainability (in comparison to the survey average of 27.5% and 18.7% respectively). Turkish SMEs appeared to be well-acquainted with CSR-related concepts, as an impressive 62.5% of them claimed to have heard about Business and Human Rights, when compared to the survey average of 48.2%. However, it must be taken into account that almost a third (30.4%) of the Turkish companies in the sample operated in the textile and garment industry, which is particularly exposed to human rights issues. Furthermore, 87.5% of the companies claimed to conduct activities abroad, which may have contributed to a positive bias.

Previous literature shows that CSR development is still at an early stage in Turkey. Due to continuous protectionist and market liberalisation policies, business organisations have avoided investing in high-value added industry sectors and mostly focused on short-term profitability and family-owned businesses. While companies often fail to meet their ethical or even legal responsibilities, the perception of CSR in Turkey is largely built on philanthropic behaviour, which is deeply rooted in the country's historical and religious context (Turker, 2015; TURKONFED, 2017). On the other hand, globalisation, coupled with Turkey's international commitments, are conveying a more multidimensional approach towards CSR and sustainability.

CSR/sustainability uptake by specific areas and information disclosure practices

Figure 60. Engagement in CSR among Turkish SMEs, by CSR area.



Note: Total (N)=54, except: Decent work, total (N)=53; Consumer issues, total (N)=52; Community involvement, total(N)=51; Governance, total (N)=47; Human rights, total (N)=46; business relations, total (N)=45.
Source: SME survey (2021).

In the survey, Turkish SMEs placed the most emphasis on fair **business relations** (82.2% of respondents indicated activities in this area in comparison to 66.4% survey average). In this category, respecting fair competition was mentioned the most frequently, which

may be related to the fact that most of the companies in the sample operated in highly-competitive markets (such as textile, transport and tourism industries).

Within the area of **organisational governance**, formal governance procedures, prevention of illegal activities, regular employee participation in decision making, as well as clear procedures to ensure follow-through of commitments were among the most popular answers. Furthermore, stakeholders indicated that companies often adopt international management standards, such as ISO, as they are often requested by business partners (this was mentioned by 32.4% of Turkish SMEs within this category). In fact, the Turkish Society for Quality (KalDer) promotes the attainment of international quality standards among institutions and private organisations in order to increase their competitiveness.

Turkish SMEs also indicated a stronger engagement in the area of **human rights** (78.3%) than the survey average (55.5%). Once again, this may be partially related to the fact that a large share of the companies operated in the textile industry. In general, Turkey faces issues related to discrimination of women and, in some cases, even child labour (in seasonal agriculture, textile or shoe workshops)³⁰⁹. This may explain why companies in the sample claimed to proactively address human rights issues. In addition, they are often the focus of **community development** activities, as companies tend to sponsor projects related to education, women rights and domestic violence (alongside health and environment). However, this is more prevalent among large enterprises.

Decent work opportunities is another critical area in Turkey. Similarly to the survey average within this category, most Turkish SMEs indicated providing guarantees to job security and legal employment (75.0%). However, decent working conditions and social protection, as well as opportunities for employee development were indicated less frequently (65.0% and 50.0% respectively). According to a recent report by the OECD (2021), Turkey is yet to address structural challenges such as “widespread informality, weak skills, rigid employment rules hampering reallocation and large share of low-quality employment”.

In terms of the **environment**, Turkey’s performance is below average. So far, Turkey has poorly enforced environmental regulations, especially in relation to air pollution or waste management (e.g. approximately 90% of urban waste is disposed of through landfill). Nevertheless, businesses, including SMEs, tend to follow the developments of the European Green Deal. The EU seeks to avoid the risk of “carbon leakage” resulting from shifting EU production to countries with looser climate standards, such as Turkey. This means that Turkish supplier companies may have to address environmental risks in order to fulfil the requirements of their business partners in the EU (TURKONFED, 2021).

Lastly, 35.6% of Turkish SMEs indicated that they publicly **share information** regarding their CSR/sustainability activities, which is similar to the survey average of 37.6%. Among these companies, the most popular way of publishing this information was through social media channels (75.0%). This is largely in line with the stakeholders’ observation that Turkish companies tend to share information for marketing purposes rather than accountability.

³⁰⁹ More information available at: <https://www.unicef.org/turkey/en/child-labour>

Drivers and barriers to CSR and sustainability uptake

Alongside ethical motivation (63.6%) as a benefit of conducting CSR/sustainability activities, Turkish SMEs often claimed that it allows **meeting of requirements and expectations set by buyers** (63.6% in comparison to the survey average of 55.3%). According to stakeholders, for instance, the Turkish textile industry is largely dependent on multinational brands which impose strict standards on their suppliers, often going beyond government regulations. What captures the situation even more is that a remarkable share of Turkish SMEs believed that CSR/sustainability helps to **gain access to new foreign markets** (56.8% in comparison to 24.4% survey average). The EU is Turkey's largest export market, accounting to 42% of its exports in 2019. In addition, 37% of Turkey's exports originate from SMEs (TURKONFED, 2021). In this context, it is important for Turkish SMEs to be aware of the environmental and social policies and standards in the EU market. Furthermore, a significant share of Turkish SMEs believed that sustainability **improves innovation performance** and **increases cost savings and efficiency** (52.3% and 47.7% respectively). Once again, this trend is visible in the textile sector, which seeks to improve its competitive advantage against other Asian counterparts by offering high quality products for a relatively cheap price³¹⁰. Close proximity to Europe also plays a strong role in this case, especially in the context of the pandemic.

Nevertheless, it appears that recent CSR/sustainability developments are **externally driven** and emerged as a business response to the changing priorities in certain markets. Short term economic growth, however, does not always go hand in hand with environmental or social goals (see Box 50 below). In order to address systemic issues, stronger cooperation with civil society organisations, coupled with strategic commitment from the government's side, are needed. However both of these key factors remain rather weak (see section below).

Box 50. Tourism and hospitality sector in Turkey

Mass tourism has played a significant role in Turkey's economic development. In 2018 tourism sector accounted for 7.7% of total employment in Turkey, creating jobs for 2.2 million people and representing 3.8% of GDP. However, although the tourism industry has provided locals with jobs, most of them are seasonal and low-skilled, which puts workers in a precarious situation. The sector also causes environmental problems, such as water shortages or pollution, electricity shortages, increased air pollution, high levels of noise. Coastal ecosystems suffer because of tourism activities that are mainly developed around those areas. Tourism trends in Turkey also has significant impact for local people, who feel as having no right to access public coastal lands reserved for tourists.

Current plans of the government relate to extending the visiting season (promoting winter sports) attracting visitors to less popular regions, developing new products in a sustainable manner, improving customer services in the industry and responding to crises in neighbouring countries. However, this is yet to prove effective (especially when the impact of tourism can be evaluated after the COVID-19 pandemic is over). Consumers still want the "sun and sea" package, which risks further exacerbating the above-mentioned sustainability issues.

Sources: OECD (2020), Egresi (2016).

³¹⁰ Innovation in Textiles (2021). "Turkey primed for post-Covid growth". Available at: <https://www.innovationintextiles.com/turkey-primed-for-postcovid-growth/>

Policy support measures

According to the recent European Commission report on Turkey (2020), negotiations regarding Turkey's accession to the EU have come to a standstill, as the Turkish government's repeated commitment to this objective has not been matched by corresponding measures and reforms. The country faces significant issues, such as continuous deterioration of democracy, the rule of law and fundamental rights.

There is no direct policy framework to support the development of CSR in Turkey, except for some economic privileges and **tax exceptions on foundations**. Once again, this proves that CSR is largely associated with charitable activities. There has been some progress, however, in terms of **environmental** policies. Turkey has made some efforts to align its environmental laws with EU legislation, as well as established ambitious goals in areas including pollution control, waste management and combating climate change. The most recent development is the Circular Action Plan, which aims to promote the circular product design, especially in resource-intensive sectors. This strategy is important in terms of reducing the use of raw materials and energy resources, as well as controlling waste formation (TURKONFED, 2021). Nevertheless, it appears that the enforcement and implementation of environmental policies still remain weak (European Commission, 2020).

Civil society organisations remain largely excluded from legislative consultation processes and face administrative difficulties (European Commission, 2020). According to stakeholders, NGOs working in the field of CSR lack financial resources and, therefore, capacities to develop impactful activities. There are only two independent civil society organisations that directly promote CSR/sustainability in the country, namely the Business World and Sustainable Development Association (SKD)³¹¹, which is mostly concerned with large enterprises, and the Corporate Social Responsibility Association of Turkey (CSR Turkey)³¹². Among other activities, the latter one organises **events**, such as the annual CSR Summit, where businesses, NGOs, academics, and international organisations present their activities and look for partnerships. Another interesting approach of CSR Turkey is organising **hackathons** to develop solutions for social and environmental challenges. CSR Turkey also implements **projects funded by international organisations**, including the EU and its Instrument for Pre-Accession Assistance. For instance, together with the Turkish Enterprise and Business Confederation (TURKONFED)³¹³ and MVO Nederlands, it carried out a comparative study on CSR practices among SMEs in Europe and Turkey (TURKONFED, 2017). However, CSR Turkey is currently focusing its activities towards **direct consultancy services** for its members, as it brings more financial stability to the organisation.

Lastly, **business associations** are also addressing CSR-related issues. The previously mentioned TURKONFED specifically focuses on SMEs, while the voluntary and internationally-oriented organisation TUSIAD³¹⁴, representing 4,500 Turkish businesses, has established various roundtables, including ones dedicated to environmental and social topics. TUSIAD also manages the UN Global Compact network in Turkey, which brings together over 309 members, including 90 SMEs. Once again, this shows that CSR/sustainability promotion is largely business-driven in Turkey.

³¹¹ More information on SKD Turkey available at: <http://www.skdturkiye.org/>

³¹² More information on CSR Turkey available at: <http://csrtrkiye.org/pf/mainstreaming-csr/>

³¹³ More information on TURKONFED: <https://turkonfed.org/>

³¹⁴ More information on TUSIAD: <https://tusiad.org/>

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