

CSR and Sustainability in SMEs

Social Capital and Sustainable Development of SMEs

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The Survey

Between December 2009 and April 2010, 5 case studies were carried out in small and medium-sized companies (SMEs) that have between 3 and 85 employees. The aim of the case studies was to find a method to combine the results of their social capital measurement with the results obtained by their balance sheet analysis in order to be able to make a clear statement about the future viability of the company as well as about its capability to develop sustainably. In further consequence, it was expected to formulate hypotheses in connection with the following assumption: *today's soft facts will become tomorrow's hard facts*. During the case studies, data was collected with the help of business reports, standardised questionnaires, semi-structured personal interviews and company visits.

It is assumed that the social capital concept provides a decent basis for the collection of data concerning the above-mentioned abilities. The combination of the company's social capital on the one hand and its level of performance in the environmental sector on the other hand gives a good indication of the employees' readiness to accept and include suggestions from outside the company and to act collectively.

The 5 case studies are part of a project chain for the development of an online service. The purpose of the case studies is:

on the application-level: to create an online service for SMEs which helps them to prepare for the credit talks with banks (rating preparation). The online service provides the participating companies with a feedback report, which is expected to enhance their negotiating position as credit seekers and therefore improve their creditworthiness. It is assumed that for over 90% of the SMEs, this feedback-report is the first written document about their strategy and abilities.

on the research-level: to collect data in order to test several hypotheses about the connection between the soft facts of sustainable development and the ability to pay back credits (hard facts). If a connection between soft facts and hard facts can be identified and proven scientifically and by the financial market authority, banks might be willing to include these findings into their credit ratings and adjust their interest on credits. On the research level, this asks for a data-collection for 5-6 years.

on the future-level: to establish a permanent service with scientific support for small and medium-sized enterprises. This can be achieved provided that throughout the years the service proves successful for its users and that funding can be found for the operating costs. Beyond that, it is planned to export the online service to all EU member states.

The online service will therefore contribute to the achievement of the following objectives:

- 1) SMEs get to learn a self-assessment tool with several functions
- 2) The research community obtains data on SMEs which have never been collected systematically before

CSR – Cause or Effect

Beyond the current debate about the integration of theoretical and conceptual approaches into the topic of corporate social responsibility, the focus lies on a fundamental statement about the connection of social responsibility and the performance of a company. When talking about the linkage between monetary data of the company's performance and the data on the potentials for a future development, one of the most frequently asked questions is about the cause and effect of a company's work and results: are companies able to afford CSR because they have high returns, or is it rather that CSR enables a company to have these high returns?

The answer can be found in a business case, i.e. the illustration of the consequences of certain decisions within the company, or in instruments of conflict prevention such as a stakeholder dialog.

Conclusions have to take into account the state of the well known discussion about structure follows strategy or strategy follows structure as well as the different impact of factors to promote employees motivation and willingness to perform and further the impact of regional and supra regional environment on capabilities and performance.

Answers, however, can also be found in evolutionary or historical observations:

- According to evolutionary biology, in previous millennia, human *performance* referred to the ability to preserve and multiply human life. Consequently and from this point of view, the human species has successfully developed sustainably.
- In the last 6 to 10 millennia, *performance* is reflected in the formation of societies, which – despite their differentiations and complexities – are characterized by a high degree of solidarity and cooperation.

Cohesiveness, and especially group cohesiveness and the cohesiveness of a society have evolved long before the documented culturalization of human mankind. One component of the functionality is the ability to cooperate and the willingness to achieve a goal together. Compared to the above-mentioned evolutionary point of view, the economic interpretation of performance is a very recent approach.

The question of whether the returns follow the involvement of social topics or whether social topics follow the positive trend of earnings has played an important part in the business policy and has obviously been answered for a long time:

As a first step, the ability of a society to create institutions and companies has to be developed, only then can the institution itself be differentiated and only then can it start fulfilling its functionality – by building connections to other social institutions. In this context, we consider the concept of social capital as an appropriate approach to record the social cohesion and to form a basis for further methodical steps such as the analysis of social networks.

Social Capital Measurement in Companies

The development – or at least an important step in the development – of methods to measure social capital traces back to an initiative by the Organisation for Economic Co-operation and Development (OECD) and is based on the assumption that not only human capital plays a decisive role in the economic competitiveness of a society but also the social cohesion.

Usually, balance sheet ratios, such as the return on sales, equity ratio, cash flow, the return on investment as well as numbers representing the development of sales or marketing are taken into account when assessing a company. This approach provides information about the success of the company from an economic point of view. However, it does not mention the people who work in the company and who stand behind the success of the company. They use their skills and develop their potentials in cooperation with their bosses, colleagues, clients and are therefore the key to success.

Contact to other people, common as well as different values, dealing with differences and mutual trust are all essential features for building up and maintaining social capital. Only this way will cooperation be successful and common action will make sense. This is the basis for a working climate in which the employees take responsibility and contribute their ideas and creativity.

Surveys on the impact of social cohesion in companies show the following picture: the social dimension is fundamental for the success of the company. There are several factors of influence for the company's motivation, the performance and the health of employees, such as: the quality of social interaction, the way bosses communicate with their employees, the way employees communicate with each other.

In addition to the social cohesion, the openness towards new and different developments seems to play an important role too, especially for companies. Adaption to and co-determination of the market and the social environment ask for this cohesion and openness. Especially the aspect of cohesion, however, is only seldom included into the assessment of a company. It is rather the openness to market requirements that are taken into consideration. Indeed, there are some factors that give indication about the social cohesion in the company, such as the amount of sick leave, staff turnover, accident frequency etc. These factors, however, should be interpreted against the background of the employee satisfaction in order to get an index for the cohesion itself. Consequently, a more in-depth analysis on the individual and collective level has to be included so as to extend the balance sheet with a social capital balance.

When measuring social capital, this is done on three levels:

Micro-level: this level includes all these people who are close to someone and in whom someone confides. Most of the times, this level includes no more than three to four people in the family circle and in the circle of close friends.

Meso-level: this level includes the broader circle of friends as well as colleagues at work and others who someone meets regularly. Usually, people on this level find a nice basis to talk to each other, and to talk freely about more private topics such as the attitude towards life or one's family.

Macro-level: in a community, the common denominator on this level can be value systems or general attitudes towards life. Therefore, this level includes for example institutions that determine a common orientation and understanding. In the company itself, this level is expressed through the corporate philosophy.

The fundamental characteristics of social relations are: 1) cohesion, 2) openness and 3) social mobility. In social capital measurement, the following terms are relevant:

Bonding: the social binding capacity of a society exists on three levels: the personal level, the functional level and the non-material level. If the bonding capacity of the social capital is high, it enables a group of people to develop a sense of community.

Bridging: for a society it is also important to keep in touch and socialize with people that are outside of one's own group, including the ones of different social, ethnical or religious backgrounds. The bridging-capital can be interpreted as a bridge-building element to these people. This aspects nowadays gains in importance especially due to international economic ties.

Linking: linking is one part of bridging. Linking refers to the contact to other people that are either higher or lower in their social state. These contacts can be developed with the help of political parties, religious communities or associations and other institutions that are important for the social mobility of people as well as for the possibilities of upward mobility.

The Conventional Balance Sheet Analysis of a Company

One step of the surveys was to include the conventional balance sheet analysis into the explorative analysis of the five SMEs. This was done with the help of an excel-tool, which is part of a service of the Austrian Chamber of Commerce in the region of Lower Austria. In the time period between 2006 and 2009, this tool was used in 73 counselling sessions. The tool records data on soft facts of 5 management functions, which are further subdivided into 4 fields of duties.

Altogether, the excel-tool consists of around 70 measured data and is divided in the following categories:

- I. Management and Business Plan
- II. Accounting System
- III. Technical Facilities & Systems, Organization
- IV. Market – Order Situation
- V. Overdrawing of Account & Overdraft Behaviour

The assessment of the soft facts is done by the companies' management consultant according to the system: 1= very good, 5 = insufficient. The key figures that were used for the assessment are the equity ratio, dept repayment, cash flow, ROI.

Two hypotheses were tested:

1. There is a positive connection between sustainability and the profit situation of a company. (expressed in its financial figures)
2. There is a positive connection between social aspects and the order situation of a company.

A cluster analysis and a subsequent discriminant analysis have shown that neither the number and age of employees nor the company's industry have an influence on the financial figures.

The soft facts correlate with each other to a large extent. Only the correlation between Technical Facilities, Systems and Organization with the overdraft behaviour is smaller than 0.4. The highest correlation can be found between the Accounting System and the Management/Business Plan as well as between the Accounting System and the overdraft behaviour.

These correlations bring up the question of whether there is an influence of the person measuring the company's performance and the result of the measurement. The counselling session and its excel-tool have been designed by management consultants and are addressed to two target groups: first their clients and second the banks who act as financiers of the clients. It is, however, an individual decision of the consultant which financial figures and which soft facts are taken into consideration in the end. Nevertheless, in none of the counselling sessions was the personal profile of the owner or the manager included in the assessment.

In the course of the survey, two groups were formed and were consequently compared with the help of descriptive statistics and single-factorial variance analysis. Group 1 consists of the five companies that took part in the survey. These SMEs are family-run business in the region of Lower Austria, each of which constantly employs 4-5 family members. Group 2, on the other hand, consists of the 68 SMEs that took part in counselling sessions offered by the Chamber of Commerce in Lower Austria.

Out of all financial figures the equity ratio plays the most important role in a Basel II rating. The time of debt repayment, the cash flow and the ROI are also typical figures looked at by a bank. In this respect, the companies of group 1 are better rated than the companies of group 2. However, when carrying out a significance test, no significant difference can be identified between the scoring of the two groups. Likewise, there are no significant differences between the soft fact ratings of the two groups. However, group 1 seems to get a better grading for their soft facts.

In some of the subcategories of the soft facts, such as Management- and Business Concept, *Personnel* and *Education* in group 1 do not receive equally good grades as does group 2.

To conclude, it has to be said that group 1 gets a better assessment for the all of the data that is given to the bank. When looking at the data that is given to the society, group 1 does sometimes not perform as well as group 2. Data with relevance for the environment receives better grades in group 1. The performance of the companies in both groups has to be treated as equal.

Correlation between financial figures and soft facts

How does the grading for the soft facts correlate with the grading for the financial figures? First of all, it needs to be clarified how the soft facts correlate with every single financial figure and with the weighted overall score of the financial figures.

The results of a regression analysis imply that predictors correlate amongst each other and that the condition of independence is not fulfilled. Therefore, a range of tolerance needs to be indicated which hints at the degree of multicollinearity.

Consequently, it has to be worked out whether the three clusters which were formed for the assessment of the financial figures differ from each other in the assessment of the soft facts. In the end, the result will be presented in an overlapping cluster analysis.

The total value of the scores for the financial figures correlates significantly with the total value of the scores for the soft facts ($r= 0.385$; $p=0.003$). This means that a positive assessment of the financial figures is likely to be associated with a positive assessment of the soft facts.

When comparing the average values of both scores, a significant difference can be detected. The average value of the score for the soft fact is 2.03, whereas it is 2.08 for the score of the financial figures. On the one hand, it can be noticed that there is a significant correlation in the grading; on the other hand, however, the soft facts are given a clearly better score.

We suspect the reason behind this to be the concept of the subsidised financial counselling, to which the excel-tool-assessment of the financial figures belongs. The counselling session serves the purpose of bringing about an improvement for the company. This manifests itself in the difference between the performance-level and the ability-level. In addition, the counselling is not intended to take place several years in a row, which would be the only way to generate conclusive data.

Out of the different levels of the soft facts, only the overdraft behaviour correlates significantly with the overall score of the financial figures. Only a weak correlation exists with the Accounting System.

To identify the overall variance of the overall value of the financial figures by the means of the soft facts, a multiple regression analysis was completed which included all variables. In this regression model, the total value is the dependent variable and the five levels of the soft facts are the predictors. The regression coefficient indicates significance for one of the predictors, namely the overdraft behaviour ($B=0.786$; $\beta=0.620$; $p=0.397$; $p<0.001$). A better assessment of these soft facts will consequently also lead to a better assessment of the weighted total score of the financial figures. This regression model explains around 78% of the single values' variance.

When comparing the soft facts with the clustering of the financial figures, especially Management/Business Plan and overdraft behaviour show a significant difference to the three clusters which were suggested before. For the soft fact categories Accounting System, Technical Facilities and Systems / Organization, Market / Order Situation no significant differences can be noticed.

When carrying out a cluster analysis with all financial figures as well as with the 5 levels of soft facts, three different clusters can be formed. 98% of the companies can be allocated into one of the clusters. Cluster 1 consists of companies that have a insufficient assessment for their financial figures, but a good one for their soft facts rating. Cluster 3 consists of companies that have an insufficient assessment for both financial figures and soft facts. Cluster 2 consists of companies that have an overall good assessment. Cluster 1 and cluster 3 each comprise 13 companies, 23 companies classify for cluster 2.

Close connections can be found between the single clusters (soft fact cluster, financial figures cluster, and common cluster). The contingency coefficient for the correlation between soft facts cluster and common cluster is 59% ($cc=0.595$; $p>0.001$); the correlation between soft facts cluster and financial figures cluster is even higher at 70% ($cc=0.707$; $p<0.001$).

First Conclusions

The soft facts correlate among each other in a high degree. Only the correlation between Technical Facilities / Systems / Organization and overdraft behaviour is smaller than 0.4. The highest correlation can be found between Accounting System and Management- and Business Concept as well as between Accounting System and overdraft behaviour.

The companies that belong to group 2 have already been counselled for many years. Their orientation towards the bank can be clearly seen in their assessment. On the one hand, this could mean that during a counselling session the focus is more on the managerial tasks that do not play such an important role for SMEs, which is why the companies of group 2 resemble each other and all fall in cluster 2. Compared to group 2, group 1 does not have such good ties to their clients.

There are certain differences between the companies that have to be further examined if we want to give a clear statement about the sustainable development of small and medium-

sized enterprises. Some of the soft facts of group 1 do not get such a good assessment as do the soft facts of group 2. These differences will be the focus of our research activity.

Linking key data and SF with social capital concept

The following table shows a linkage of a conventional company assessment with the concept of social capital:

<p>I. Management and Business Plan 1. Business Plan</p>	<p>Macro-Level: <i>Management and Business Plan</i> The business plan represents the soul of the company since it establishes links both inside and outside of the company. What follows is a demand for performance and quality.</p>
<p>2. Personnel - Training / Education 3. Management / Substitute / Succession Planning 4. Information given to the bank</p>	<p>Micro-Level: Family – Employees Neither the question of formal nor the one of informal organisation of the company are included in the counselling service of the Chamber of Commerce. The question of training and education should be supplemented with aspects of personnel policy and the significance of change. Questions concerning the market should include the importance of communication vs. the mere focus on sales. In order to draw conclusions from the company's concept of sustainability, additional focus should be put on follow topics: value orientation on the individual and group level, ethical dimension of the managerial style...</p>
<p>II. Accounting System 5. Accounting and Billing 6. Planning and Controlling 7. Investments 8. Financing and Liquidity</p>	<p>Meso-level: The dominance of the annual settlement automatically leads to a goal conflict on the macro-level, because not all long-term measures can be implemented within a year.</p>
<p>III. Technical Facilities & Systems, Organization 9. Modernness of the technical equipment 10. Quality of the products 11. Marketing / sales / distribution 12. Organisational structure</p>	<p>Meso-level: Which technical equipment is needed in order to implement the business plan and to reach the company's goals?</p>
<p>IV. Market – Order Situation 13. Market – general 14. Order situation 15. Competitive Situation 16. Client structure</p>	<p>Macro-level: The evaluation of the market-environment should be the centrepiece of every business plan. In addition, it should list all abilities and possibilities for a further development which could lead a good profit and liquidity situation.</p>
<p>V. Überziehungsverhalten 17. Kontoüberziehung – extent and frequency 18. Payment performance – early payment discount, date of payment</p>	<p>Meso-level: In this category, the annual settlement leads to another goal conflict.</p>

Social Capital and Value Added in 5 Companies

The pilot study is based on the answer of 90 written questionnaires in five different companies:

Company	Number of employees	Participants in the questionnaire	Industry
U2	85	54	Print
U1	21	18	Car accessory
U3	15	11	Electrical appliances
U5	25	4	food
U4	3	3	Metal processing

The results of the questionnaires show a high degree of consistency and correlation, which can be seen as a sign for a high reliability. The only exception is U5, where only 4 out of 25 employees answered the questionnaires. It has to be mentioned though that due to the small number of participants, the survey cannot be considered representative.

U5 stands out as examples in so far as many of their employees are with a migrant background, which leads to a mix of up to seven languages. The language barrier is therefore the main reason behind the small response rate. The questionnaires were consequently filled in only on the managerial level. In addition to the language barrier, it has to be borne in mind that a considerable number of these immigrants consider a questionnaire either as an instrument of regulatory investigation (due to the political situation in their home country) or they associate it with a exam-situation at school. Both perceptions rather prevent these employees from filling in the questionnaire. Knowing this, there will be a greater need of explanation for those employees with a migrant background.

The other company with only a small number of completed questionnaires, U4, is seen as a microenterprise which functions more along the rules of a family culture than along those of a professional management.

Relational Patterns

In general, the following statements are true for all of the surveyed companies:

- Friendship and amicable contact prevail among colleagues
- Bosses mainly provide assistance
- Clients are seldom associated with frustration

	(amicable) contact % a lot	Help / assistance % a lot	Frustration % a lot	Unfriendliness %a lot
Colleagues	79	89	27	5
Bosses	20	62	28	18
Clients / business partners	26	23	7	5

This pattern can be applicable to all five companies. Due to the small size of the company and to the small response rate, U4 and U5 both record zero percent in the categories *frustration / unfriendliness* with clients / bosses.

U5, which is in the food industry, has managed to break away from the dominance of one major customer and has now a cooperation with almost all Austrian commercial chains as well as with some smaller retailer and the gastronomy. Within three years, a loss of € 300,000 could be turned into a profit (before taxation) of € 300,000. The company finds itself in the lucky position that their market is in a way growing by itself, due to the health-aspect of

their product. On the other hand, however, the available areas of cultivation of the necessary crops are limited.

The soft facts contribute up to 80% of the financial success of this company. For the implementation of early warning indicators all relevant people were involved.

Social Capital

In four of the five companies surveyed, the results of the social capital measurement show a good average. With its remarkable good results (partially 100% in its satisfaction with the company), U4 can be seen as an exception.

The circle of friends and acquaintances (meso-level) is one of the strengths of the companies, which is obviously promoted by the working environment

	Social Capital - % optimal			
	Total	Work	Minimal value	
			Total	Work
Micro-level	55	49	44 (U1)	18 (U3)
Meso-level – acquaintances	79	69	64 (U3)	27 (U3)
Macro-level – Society	54	66	34 (U1)	46 (U3)
Social Capital Total	62		47 (U1)	

Social Capital % optimal	Total	Work
U4	100	89
U2	64	69
U3	58	30
U5	55	72
U1	47	50

The working-environment plays an important role for the social capital in every single of the surveyed companies and is almost as important as family and leisure time. This is partially due to the rather small involvement into bigger social communities, such as politics, culture and religion.

Values

The surveys also contained questions about the employees' value systems. The results reflect the modern trend towards an increasing individualization. The close family (89%) and good friends (71%) rank first and clearly top all the other values. Work (46%) and the working place itself (43%) are important for a strong minority. The country and the nation (32%) occupy a less important place. Even further behind, the following values are of some significance for the employees: belief in something higher (17%), sports (16%), the place of residence (16%) and art (11%). The church (7%) and political parties (2%) only play a minor role in the value system of the respondents. Despite the relatively small number of questionnaires, a certain similarity or even identity can be detected in the answer pattern. Accordingly, it can be said that obviously the influence of the individual companies is only minor.

Workplace Situation

In connection with the workplace situation, three crucial dimensions were subjectively assessed. First, the intrinsic motivation (meaningfulness of work, cooperation, self-determination and recognition), second fear (of job loss, of failure) and third the loss of time due to inner tensions. Motivation and intrinsic motivation are seen as positive values, fear and inner tensions, on the other hand are seen as negative aspects of the workplace situation.

	Workplace situation		
	% positive	% negative	balance
U4	67	4	+63
U5	56	25	+31
U2	36	35	+1
U3	21	30	-9
U1	24	43	-19

With the exception of the two companies with the very small number of respondents, the ranking of the workplace situation also reflects the scoring in the social capital measurement.

Final Conclusion

The differences of the features and connections can be seen in the cluster analysis. It is assumed that the homogeneity of the companies in cluster 2 was caused by the use of the services offered by the counselling sessions offered by the Chamber of Commerce and its external expertise.

Therefore, we also assume that the results of the social capital measurement correlate similarly. This knowledge leads our focus to a more detailed analysis of the two characteristics of the social capital measurement: bonding and bridging.

Management and Business Concept Business Concept	Macro-level This soft fact has to be checked against the values of the social capital. The social capital measurement reveals a high orientation towards family and friends – maybe this helps to fill missing gaps in the business concept. There is probably a recursiveness between values, conceptions and performance.
Management and Business Concept Personnel - Education	Micro-level: The cohesion among employees is above average; the management of the company is perceived as friendly. Motivating activities are above average; the expected effect of further education and training, however, fails to appear.
Accounting System	Meso-level: The accounting system stands between the business concept and the market. The soft facts are assessed around average, the social capital is over average

Technical Facilities & Systems; Organization	Meso-level: For this part, an adequate counterpart is missing in the social capital measurement.
Market – Order Situation	Macro-level: Clients are seldom associated with frustration. It is the goal of every company to have customers' satisfaction. Therefore, clients are perceived to be friendly and benevolent.
Overdraft Behaviour	Meso-level: For this part, an adequate counterpart is missing in the social capital measurement.

The test of the hypotheses comes to the following results:

- 1) In cluster 2, but especially for companies of cluster 1, there is a positive correlation between sustainability and the profit situation of the company. This can be shown with the positive assessment for both, financial figures and soft facts and with the positive assessment of the social capital, which consists of a balance between bonding and bridging.
- 2) The positive correlation between social aspects in the business concept and the order situation of the company could not be proven. Therefore it is assumed, that group 1 can bind their customers more strongly to the company, which, however, does not have an influence on the terms of ordering.

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