

# Very Large Enterprises and their support for SMEs in the context of sustainable development

Exploiting CSR best practice  
within the framework of relations between customers  
and suppliers

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## Preface

For some years now, corporate social responsibility (CSR) has gradually been moving into the foreground of the global economic landscape. The most perceptible changes have occurred among Very Large Enterprises (VLEs), while initiatives taken by SMEs have so far mostly escaped attention.

This situation calls for comment. VLEs, almost all publicly-listed companies, are coming under increasing pressure from all sides to comply with the underlying principles of CSR:

- impact of social and environmental rating agencies,
- effects of the NRE (*nouvelles réglementations économiques*) legislation\* on firms listed on the French stock exchange,
- impact of ethical funds on financial markets (for example, Calpers, the famous US pension fund, called on Glaxo a few months ago to halve the price of its anti-aids drugs for poor countries. Calpers is not regarded as an ethical fund, but it did not want to risk its reputation,
- consequences of a number of high-profile cases which have proven very costly in terms of image and in economic terms (Nike and subcontracting, Total and the environment, Enron and transparency and governance, and so on).

Progress has been made on various fronts as a result of this combination of encouragement and pressure. Some VLEs are merely amending their rules on corporate and financial communications without making any grassroots changes. Others have radically altered their practices, as we will see later.

As far as SMEs are concerned, this societal and macroeconomic pressure to assume CSR is limited for the moment, hence the low profile of initiatives taken in this area. However, there is no lack of awareness or responsibility on the part of SMEs as compared to big companies.

To retain their customers and employees and live in harmony with their local societal environment, and sometimes on account of their chief executive's implicit beliefs, many SMEs have deployed CSR, without telling the world, sometimes unknowingly.

There can be no doubt that corporate social responsibility is being brought home to SMEs. By way of example, their major customers, the VLEs, are putting them under increasing pressure to comply with industry codes of conduct, their own internal rules or to assess their responsibilities and report on them in accordance with the various existing standards.

This trend is particularly easy to anticipate as CSR puts the SMEs which subscribe to it at a competitive advantage. Economic surveys have revealed that successful CSR policies produce a good return, while ignoring CSR could put firms at a real disadvantage in the future.

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\* Requiring disclosures on social and environmental issues in annual reports.

It is therefore essential for SMEs to adhere to a CSR policy without delay, despite the diverse problems involved:

- in contrast to large corporations, small and medium-sized businesses frequently do not have the resources to implement CSR;
- the message about the importance of CSR has not really come across everywhere;
- in some cases, major contractors exert excessive economic pressure which limits application of best practice in SMEs. Under extreme pressure, they may even sink under the burden and fail to make the grade.

Moreover, SMEs are often very prejudiced against large corporations, yet the latter, once they have become aware of it themselves, can help them in many ways and play a big part in consolidating their development.

Establishing constructive partnerships with Very Large Enterprises constitutes a good way of promoting societal responsibility among SMEs.

**This study highlights successful practices in fruitful partnerships between VLEs and SMEs in the context of responsible business relationships. It seeks to encourage both sides to become involved in such moves. For VLEs it constitutes the logical progression and practical expression of work undertaken towards sustainable development. For SMEs, it is in many cases both unavoidable and fortuitous.**

During the first half of 2003, ORSE (*Observatoire sur la Responsabilité Sociétale des Entreprises*) carried out a survey to identify cases where VLEs had provided support for SMEs voluntarily as part of a sustainable development strategy.

Some ten initiatives undertaken by major French corporations in different industries were assembled and reviewed. It goes without saying that the survey did not seek to be exhaustive. Its aim was to:

- determine the reasons why VLEs might undertake to help SMEs;
- distinguish the different types of support provided and arrangements suggested;
- highlight the underlying rationale;
- lastly, understand why such measures had been successful, or if not, what stood in their way.

Thanks to the numerous conversations with the persons responsible for these initiatives in VLEs and interviews with many of the other players involved, we were ultimately able:

- not only to understand these support measures clearly and to describe them,
- but also to broaden the assessment by tackling such fundamental questions as the link between implementation of CSR policy by a firm and its actual conduct in various functions, and subcontracting and the contractor's responsibility.

- To what extent is a company's commitment to CSR reflected in its purchasing policy?
- How does the company incorporate subcontracting into its commitment to CSR?
- What is the nature of the relationship between SMEs and VLEs and what effects does rationalisation of the VLEs' supplier portfolios have on SMEs?

The above topics are covered in Part 1. The aim here is not to find definitive answers to these extremely complicated questions. On the contrary, by raising a number of issues, we aim to open the debate and contribute to studies on the implications of CSR for routine business relations. In Part 2, we have attempted to describe initiatives identified in the course of our investigations.

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## PREAMBLE

*CSR — as the business world's contribution to sustainable development and understood as companies incorporating social and environmental concerns into their daily business operations and in their interaction with stakeholders on a voluntary basis — is not the prerogative of multinationals as one might be led to believe given most of the theories and tools developed for and by these Very Large Enterprises (VLEs); it is just as relevant for SMEs.*

*CSR cannot, moreover, be restricted just to a company's internal operations, not extending beyond the workforce, whatever its size. The principal challenge for a firm taking on board CSR is in fact its ability to reconcile its economic interests and its competitiveness with responsible management of the impact of its decisions on all its stakeholders.*

## Problems

As outsourcers, VLEs' commitment to CSR is fairly closely tied to the commitments of their suppliers and subcontractors. So it cannot be dissociated from the CSR of SMEs as they now account for the major proportion of goods and services produced.

We might even consider that it is above all for the contracting VLEs to encourage societal responsibility in SMEs. They must do so by taking into account what most seems to fetter SMEs in committing themselves<sup>1</sup>:

- on occasion, lack of awareness about CSR
- on occasion, limits on financial and human resources.

VLEs also have to make sure that their behaviour does not preclude development of best practice among their suppliers and subcontractors and does not impose a double bind: on the one hand, relentless pressure on prices or outsourcing of a nuisance without any financial compensation, and on the other, heavy demands on various aspects of CSR which require expenditure: improving employees' working conditions, improving health and safety, reprocessing waste, exemplary anti-pollution measures, and so on.

There is much at stake, therefore, for only by finding ways to export their best practice to all their suppliers and subcontractors will VLEs avoid disparate outcomes: on the one hand, improvements in their social and environmental quality standards and on the other, deterioration of the latter among their business partners.

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<sup>1</sup> Observatory of European SMEs 2002/No 4 "European SMEs and social and environmental responsibility".

## PART 1: HOW IS CSR DEALING WITH THE MAJOR TRENDS?

### 1. Involving subcontractors in CSR: no easy task

To appeal to the final customer and help the financial markets to understand their business better, VLEs have been refocusing on their core operations over the past 20 years. This has resulted in widespread subcontracting chains and enormous disparities in business relationships between enterprises. Although all contractors ask their suppliers and subcontractors to help them reduce their costs by working to tight deadlines and producing optimum quality, they do not all employ the same methods.

The tendency to outsource part of production has certainly given rise in some cases to genuine industrial partnerships.

The relationship between the new players is based on a win-win approach. In this kind of deal, each party depends on the other and the cooperation is based on trust, not out of empathy, but in the common interest.

This is the basis of the "Optima" partnership strategy which Renault has built up with its main suppliers. This partnership focuses on shared technical and economic interests and is underpinned by a charter which defines the demanding criteria the manufacturer and its partner must meet with a view to long-term cooperation. It aims to ensure that both parties are equal winners in a joint endeavour to reduce costs, shorten deadlines and improve quality and innovation. The strategies are transparent and the technical and financial paperwork is available to either party. In return for its cooperation, Renault guarantees the "Optima" supplier a large share of orders and continuation of the partnership for other projects, thus enabling it to optimise its own development costs in the long term.

However, alongside this first type of strategic, balanced partnership, outsourcing has also produced a wide range of unequal relationships between customers and suppliers. Many secondary or back-up activities such as housekeeping, caretaking or computing have been subcontracted for the sole purpose of reducing costs. In this kind of outsourcing, the players' shared interests are far less obvious and the relationships between contractors and subcontractors are based in many cases solely on relative strength and financial pressure.

Lastly, we must not forget that the decision to subcontract may also stem directly from a desire to withdraw from a high-risk operation.

Nowadays VLEs promoting CSR are aware that their social and environmental performance could suffer as a result of irresponsible practices by their partners throughout the length of the production chain, so they are trying to safeguard their sources of supply. They are seeking to involve their subcontractors and suppliers in this attempt, whatever the kind of relationship they have established with them.

An undertaking which notes that one of its business partners is falling short or not complying with the rules can adopt one of two approaches, depending on its strategy and the nature of their relationship:

- decide to penalise or purely and simply suspend all commercial and industrial relations<sup>2</sup>,
- decide to encourage it to adopt the behaviour it has already undertaken to follow for itself.

The first approach is increasingly coming in for criticism. Exclusion will not help to solve the problem; in many cases it may weaken the offender even further.

The conduct of a firm which suspends a supplier is at odds with the first goal of CSR. This is particularly so where, having outsourced a risk, a company attempts to outsource its standardisation costs.

The second approach is more "socially" responsible; it can help to improve the situation, particularly if the contracting company does not break the contract, but tries to support the supplier or subcontractor in seeking improvements, helping in the search for remedial action. This approach forms the groundwork for all the VLE support schemes for SMEs which were identified<sup>3</sup>.

Nevertheless, this positive behaviour raises in turn many other questions merely mentioned here, such as the acceptability threshold for shortcomings, involvement of internal and external stakeholders in steps taken, support criteria and monitoring, whether (or not) VLEs have access to the entire production chain, the contracting companies' right to interfere (see legislation) and financial considerations. However willing a VLE may be, it cannot provide support for all its business partners.

## **2. Rationalising VLEs' purchasing portfolios and the consequences for SMEs**

A further problem that arises in relationships between SMEs and VLEs in regard to CSR is the centralisation of procurement by major corporations and the related rationalisation of supplier portfolios.

To take advantage of the opportunities offered by globalisation and improve their flexibility and innovative capacity, major companies have, for some 20 years now, been restructuring and introducing new organisational practices. One fundamental aspect of this is networking, together with a strategic review of what large enterprises expect from their suppliers.

In most sectors, major companies that have become global concentrate their purchases with suppliers who can themselves respond globally, and are able to bring significant innovation and extensive links to their own organisational model.

Moreover, in many cases, mergers, acquisitions and successive reorganisations have resulted in overloaded portfolios with which firms cannot or can no longer cope.

To contain costs and risks, big companies accordingly seek to reduce drastically the number of their suppliers and to partition their portfolios.

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<sup>2</sup> In its study on "Corporate responsibility: private initiatives and public goals", published in 2001, the OECD noted that threats — for example, the suspension of the business relationship — were routine (mentioned in 73% of codes of conduct). Codes concerning suppliers were 10 times more likely to mention external surveillance (audit firms, NGOs, for example) than internal codes. Training in compliance was mentioned in only 18% of cases.

<sup>3</sup> Initiatives described in Part 2.

According to Philippe Moati<sup>4</sup>, it is doubtless the centralisation of the purchasing function which has had the most obvious direct consequences on the fabric of SMEs. In many big multinationals, the number of direct suppliers has fallen drastically to the benefit of major suppliers who can integrate into their customers' global organisation to the detriment of small local suppliers.

In this trend towards rationalisation of purchasing portfolios, many SMEs which were originally direct partners of big corporations have lost their status and been relegated to the position of supplier of the supplier without any direct contact with their former contractors, despite remaining highly economically dependent.

In addition, becoming a second or third-tier contractor means relationships with enterprises which are both contractors and suppliers and having to withstand, in so far as they can and even beyond the possible, pressure from their own customers. Small subcontractors at the end of the chain consequently risk not only economic, but also social and environmental marginalisation.

Supplier portfolios are also rationalised by ranking commercial and industrial partnerships (according to the extent of the strategic impact on business, in terms of volume, safety, duration, etc.) and once again many small businesses lose or risk losing vital markets.

Ultimately, to have some hope of seizing the opportunities offered by VLE outsourcing, SMEs must not only show initiative in order to retain their appeal, but above all adopt operational procedures that meet the expectations of their powerful clients.

### **3. The purchasing policies of large conglomerates**

As we have just seen, with the passage of time the purchasing function has become crucial for VLEs (companies now purchase between 50% and 70% of their turnover, sometimes more). So it is a highly strategic function: not only does it guarantee the quality of the goods and services purchased, it also constitutes an important profit centre and more often than not has the greatest potential for improving profitability.

Viewed in the light of CSR, it is also a significant function as the main point of contact for VLEs with the outside world and also a source of contention. The purchasing function manifestly gives rise to a number of questions:

- How to avoid abuse where a firm attempts to reduce its costs and increase its productivity through that of its suppliers?
- How can ethical behaviour and practices be made compatible with an economic situation which constantly puts firms on their guard?
- How "socially" responsible is a company which asks its suppliers, in the name of commitment to CSR, to undertake social and environmental certification procedures or adhere to its code of conduct, while at the same time putting them under increasing cost pressure?
- Lastly, how do we regard the conduct of a firm whose tendering and calls for competition systematically result in the selection of the "lowest bidder"?

The commitments of VLEs to CSR and the consistency of their conduct will be judged on the evidence and above all on the basis of their purchasing patterns.

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<sup>4</sup> *L'entreprise du XXIème siècle*, Philippe Moati, Éditions de l'Aube-Datar.

To promote the spread of CSR among SMEs, VLEs need, therefore, not only to encourage their principal suppliers to follow their example, but also to incite them to do the same with their own suppliers. Moreover, they should ensure that the steps taken at corporate level are reflected in local initiatives and grassroots operations, raising awareness about CSR at all levels of management.

#### 4. How can the contentions be overcome?

**a - *External pressure and the positive effect of real or potential crises***

External and internal pressure is becoming increasingly significant in commercial and subcontracting relations, as is the growing awareness that tendering can put reputations at risk.

However, social and environmental rating agencies can have a beneficial effect by including in their assessments the contracting company's behaviour as regards payment deadlines and how it deals with the problem of its suppliers' economic dependence.

Subcontractors are increasingly keen to see systems for assessing the quality of contractor-subcontractor relations set up by businesses federations.

**b - *Willingness to go beyond rhetoric and pay the price for CSR***

Let us bring up three questions here to open the debate and broaden the scope of our considerations:

- Can CSR really be incorporated into the economic process?
- When selecting suppliers, how is the cost of externalities taken into account?
- What price are companies ready to pay for the best bid in social and environmental terms?

#### 5. The beginnings of an answer

As individuals, all well-meaning people want businesses to operate more smoothly and more responsibly. But harsh economic reality soon catches up with idealism: businesses are fragile creatures; 50% of them do not get beyond their fifth year and their average life expectancy, irrespective of size, is 12.5 years<sup>5</sup>.

So to overcome the contentions we need the answer to a simple question: by promoting new-style business relations (see the initiatives in Part 2), can CSR ensure that businesses flourish and survive? Provided that an increasing number of economic stakeholders can answer yes to this question, it will be increasingly advantageous to incorporate CSR into the value chain.

Unfortunately, we cannot provide a demonstration. Yet that is what most decision-makers want, simply because this new idea makes them wary and recalcitrant. So should we keep quiet? No! It is highly likely that proof will not be sought in the long term. Economics is not based on mathematical proof but on conviction.

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<sup>5</sup> According to a European study by the Statix Group, Amsterdam.

Here is an illustration:

*In the sixties, all firms started using computers, but it was only from the nineties that the promised productivity gains could really be perceived. In 1987, Solow (Nobel prize for economics) said: "you see computers everywhere but in the productivity statistics". That means that for 30 years businesses poured money into information technology without any certainty of return! They just had the courage of their convictions.*

How can we bring home the message that business relations which satisfy social and environmental demands create value for both customers and suppliers? That is the real question.

**a - *Trust is an absolute economic imperative; without it more value is now destroyed than created: there can be no trust without CSR***

The post-industrial economy creates a need for trust

In the early nineties the number of service enterprises overtook the number of industrial enterprises and services currently account for some two thirds of French GDP. In the industrial era, services were offered to sell goods; in the post-industrial era, the goods are offered to sell the service. The importance of services is constantly growing even in manufacturing enterprises and this increases the need for mutual trust among customers and suppliers.

In a deal for goods, the purchaser needs above all to trust the goods (features, competitive benefits, reliability, and so on). In a deal for a service, the purchaser needs primarily to trust the provider rather than the service itself. Since the service does not exist when the contract is signed, the contractor needs to be assured of the service-provider's ability to keep his word. In short, he has to trust the enterprise if he is going to purchase. That is why, in trade in services, it is not the firm making the best technical and financial offer which gets the order, it is the firm which inspires the greatest trust.

Complexity and outsourcing increase the need for trust

As explained above, businesses generally tend to subcontract everything beyond their own field of expertise. This trend is significant and probably irreversible. But this networking by companies is proceeding hand in hand with burgeoning complexity in occupations, organisations, the globalising economy, etc. As a result, the economic players are no longer interchangeable and there are many hidden costs in replacing one supplier by another or one customer by another. If a business relationship is to be productive, both partners need to know each other inside out. Accordingly, they must work together for the long term. In addition, this lasting relationship must be flexible and capable of transformation in all respects for change occurs increasingly rapidly. Instead of "classic" deals, that is rigid, intractable deals which can be broken at any time, we must give priority to flexible, lasting relationships. And such relationships cannot be built against a background of mistrust and suspicion.

But can we really trust a company whose integrity is questionable, whether internally or vis-à-vis the outside, which keeps its promises under the compulsion of the law, which lacks transparency, which, in short, is not implicitly or explicitly involved in CSR?

This is a first argument opening the way towards a new, responsible relationship between VLEs and SMEs: future prosperity demands trust and trust demands CSR.

**b - *A fruitful customer/supplier relationship is a partnership for co-creation of value***

The need for long-term cooperation, flexibility and trust, prerequisites for prosperity in our present and future economy, will oblige us to abandon tough purchasing policies which rule out any promotion of CSR for lack of resources and also curtail margins, growth and the supplier's motivation.

If the purchasing manager of a large corporation believes that, to give the best of himself, he has to be well paid, why does he think that his supplier will be loyal and devoted if poorly paid? In the new economic paradigm, therefore, the creation of lasting value means striving for success for everyone, not merely for oneself. That line of thinking can give rise to a firm, enduring intention to create value together. The initiatives outlined in Part 2 all fall into this category.

**c - *In the interest of both parties: overall cost comes before nominal cost***

As explained above, we have noted that certain major corporations are adopting contradictory approaches, demanding genuine social and environmental commitment from their suppliers while still purchasing at the lowest price. A rapid, representative review of incentive schemes for company purchasers is very revealing in this regard: the variable part of their salaries is closely related to the prices they obtain.

So long as the top management does not alter this policy, the purchasing rationale will not change.

Yet it is worthwhile, in economic terms, to abandon, at least partially, the quest for the lowest nominal cost and agree to a different approach: the overall cost; it is more complicated and less straightforward in the short term for the purchaser, but creates added value. The cost of incorporating the goods and services purchased into the value chain has to be worked out in full. By making such a change, purchasing departments would play a much greater part in creating businesses' added value; however, for the moment firms are treading warily.

**First example**

In many big companies, computer engineers are purchased at the lowest price per day, without any thought being given to the time required to write programs. A software house which has invested in a sound training policy and a genuine quality approach necessarily has higher nominal prices, but its staff are more efficient and they develop programs more cheaply. This point has been proven by all the overall cost studies conducted (but purchasers have a different mindset and are not familiar with them).

### Second example

*The purchasing manager of a large corporation decides to procure from a third supplier of photocopiers offering prices lower than the first two suppliers, without working out whether this gain from the new equipment will offset the increase in administration costs for three suppliers instead of two, managing three different types of consumables and the greater risk of running out of stock, the time lost by staff in having to use different machines, the partitioning, hence reduced efficiency, of after-sales service responses and the account's more limited interest for the existing suppliers. Consideration of the overall cost would perhaps reveal that it is not worth taking on this third supplier.*

The overall cost rationale encourages suppliers to be more professional and also offers them fairer compensation for their efforts.

### **d - Is the economic factor logical?**

Under the banner of rationalising purchasing and the quest for lower costs, we have observed a growing trend which is worrying for all, particularly SMEs: the declining number of suppliers and relocations to countries where labour costs are low.

If these differences are to be reconciled, we need to understand that such approaches, carried to the extreme, destroy value in the long term. We do not need to subscribe to anti-globalisation or protectionist views, at odds with the market economy, but merely to apply the test of time to certain decisions.

### Relocation

There are many risks in the long term and they are not always sufficiently appreciated: geopolitical risks in areas with unstable regimes or economies, transport risks (delays, damage, accidents), quality risks, risks of misappropriation or fraud, supply risks and risk of supplier turnover.

Discussions with several finance managers in big companies have revealed that such assessments are not made or inadequately made. In many cases relocation brings long-term savings, but not always.

### Reducing the number of suppliers and ousting SMEs

This phenomenon now looms large. As we saw earlier, in endeavouring to rationalise purchasing, VLEs are tending to reduce sharply the number of their suppliers, discarding the SMEs considered weakest or too small to meet international demand or deadlines.

We have to return to our arguments and explain that such moves are sometimes excessive and counterproductive. We need to know whether the suppliers are many or few; and whether they are the best ones for the company concerned.

Without any real innovation bringing a significant competitive edge, many SMEs would never see the light of day. For the same goods or service, VLEs will always — quite rightly — prefer to work with a large enterprise.

So SMEs have great ability to innovate and differentiate. Only under such conditions can they start up and survive.

VLEs which understand this do not exclude SMEs on principle. The small innovative business will always find a place in a sensible purchasing portfolio.

This is particularly true for service enterprises. Studies carried out by the European Union have shown that small service organisations are more efficient than big ones, particularly since they are scarcely affected by the law of diminishing returns<sup>6</sup>.

Purchasing policies are constantly developing, but we would hazard a recommendation: the quest for the best supplier portfolio should involve, among other things:

- removing suppliers where numerous and relatively indistinctive
- certainly looking into suppliers' competitive benefits in terms of goods and services, **but** also looking into their state of health and financial soundness and their intangible capital (value of customers, employees, R&D, brands — signs of their durability)
- striking a balance between local and distant suppliers
- setting in place a productive supplier relationship management process along the same lines as the current customer relationship management systems.

**e - Provisional conclusion on the above considerations**

Many stakeholders in the world of finance agree that businesses committed to CSR are at least as efficient as other businesses and in many cases more so.

The brief arguments outlined above explain this efficiency in qualitative terms and there are many others. In sales, for example, customer loyalty and cash-flow management are definitely linked. But without CSR there can be no trust, and without trust, no loyalty.

Where management is concerned, the same causes produce the same effects: respect, responsibility and the quest for success for all parties will enable an enterprise to realise its potential.

The far-sighted purchaser, his chief executive and the owner of the SME will not, therefore, regard CSR as a series of constraints, but as an economic opportunity. It is merely necessary to proceed with discrimination:

Decisions	⇒	Not profitable	Profitable	
↓				
<b><u>CSR</u></b>		<b>Strong sustainable development</b>	<b>Profitable sustainable development</b>	⇔ the "best choice"
<b>No CSR</b>		Mistakes easy to correct (if they can be identified)	<b>Ethical dilemma</b>	

This diagram<sup>7</sup> shows that CSR decisions are not necessarily profitable; (there is no reason why responsibility and profitability should always be positively correlated). However, it demonstrates that many management decisions are best choices.

<sup>6</sup> *La nouvelle richesse des entreprises*, Karl Erik Sveiby, Editions Maxima.

<sup>7</sup> Goodwill Management document.

Coming to decisions along the above lines is a sign of genuine responsibility, weighing the strengths and weaknesses of professional decisions in the wide sense (purchasing, sales, production, management of human resources, etc.):

- Certain CSR measures are not profitable (for example: a Paris SME funding a school in Africa). This is a good idea, but not always possible.
- Others are both profitable and responsible: they should all be carried out (for example: the overall cost rationale).
- Others are mistakes (for example: eliminating an approved supplier on the basis of erroneous criteria). They need to be identified and withdrawn.
- Lastly, ethical dilemmas do arise: they can be resolved by effective exercise of responsibility.

Much work is still to be done — studies and research, surveys, measurements and calculations — at all stages of the economy to reach a consensus on the fact that, broadly speaking, CSR is efficient in economic terms for both large corporations and SMEs.

## PART 2: VLEs AND SOCIALLY RESPONSIBLE SUPPORT FOR SMEs

### 1. Back-up for SMEs in the context of societal commitment

Well before the notion of CSR came on the scene, very large enterprises wished to help stimulate development in areas where they were located or to regenerate employment areas they were leaving. For that purpose they set up special companies to support the development of local economies and employment.

This first type of commitment is in keeping with the societal or civic responsibility assumed by VLEs. As the predominant player in an area or leading or longstanding player on a market, they believe they have a special responsibility to their economic environment in general and SMEs in particular.

The facilities VLEs assign specifically to local development are intended to build bridges with SMEs/SMIs and help them to get established and expand. Through their intermediary, VLEs place at the disposal of SMEs their brainpower and also material and financial resources.

The VLEs generally form partnerships and provide support for private or public regional development stakeholders. They may choose to support SMEs in their own name (example 1) or join with others (examples 2 and 3).

#### Example 1

##### VLE support for local SME/SMI projects: the Total Business Solidarity Scheme

By means of its "Solidarité Entreprise" measures, the Total group plays a part in creating work and long-term jobs in the areas where the group is located.

The scheme does not, in principle, impose any industrial or social pressure; it may also support planned industrial regeneration and help SMEs whose business has nothing to do with its own.

Firms submitting a sound job-creation project qualify for four types of backing: technological support and skills sharing, financial assistance for start-up and development, back-up for international development, and back-up for industrial regeneration.

Similar back-up facilities operate within other major groups, for example: Saint-Gobain, Michelin and PSA Peugeot Citroën.

#### Example 2

##### A VLE association helps local SMEs/SMIs: Synergie Normandie

Synergie Normandie comprises some ten major corporations wishing to participate in local development and contribute to employment by consolidating the SME/SMI fabric in areas where they are located.

The VLE members offer to local SMEs skills assistance in various forms, and financial aid in the form of "repayable loans" or "low-interest loans".

VLEs volunteer to cooperate with SMEs on an ad hoc basis. Different applications are involved — for example: production methods, quality systems, management development and advanced computer training — with the aim of improving efficiency.

This sharing of experience and methods is highly profitable for SMEs which can thus meet their contractors' expectations and improve their efficiency.

### **Example 3**

#### *VLEs help SMEs/SMIs to export: support from Partenariat France*

Partenariat France comprises 30 French VLEs which support public-authority initiatives for SMEs by making available their experience and technical resources on foreign markets.

Different forms of mentoring are proposed to ensure that it is fully suited to each SME project: logistic support or accommodation, reception of SME trainees and executives, information and advice on markets concerned, contacts with customers, contractors and decision-makers, legal and commercial assistance, organisation of business and prospecting trips, the business volunteer scheme (V.I.E.: *Volontariat International en Entreprise*) and fair and exhibition sponsorship.

The work undertaken by the members of Partenariat France is free of charge or at cost price. The mentor does not interfere with the SME's strategy. The support is restricted to two years and does not rule out any additional export aid for which the SMEs may qualify.

It is worth noting that these different measures taken by VLEs in support of SMEs are marginal to their business proper. Moreover, although they are not directly recognised as falling under CSR, they do indeed come under that heading as they fulfil an active role in consolidating SME development and creating and maintaining long-term employment.

They can also encourage SMEs to opt for CSR. They establish highly favourable conditions for the dissemination of good social and environmental practices through the numerous contacts and relationships of trust built up between the various stakeholders and as a result of the acquaintances kept up between VLE and SME players.

## **2. The emergence of “social” responsibility among contractors**

The increasing militancy of consumers and suppliers together with the improvements in communications have brought to the fore the complicated issue of contracting companies' “societal” responsibility to their suppliers and subcontractors. This has led to changes in behaviour in the particularly difficult field of commercial relationships.

Over and above the prevention of social and environmental hazards, reputation and transparency have become crucial for businesses; major contractors realise that it is increasingly worth their while to establish balanced partnerships with their suppliers and subcontractors.

Operational involvement in CSR by purchasing departments, the main points of contact between VLEs and SMEs, is still fairly recent, but appears promising as shown by the examples below.

## **Large retailers**

### **FCD: establishing a constructive dialogue between large retailers and their SME suppliers**

*In the particularly difficult area of large retail chains, where the big names are often accused of wanting to stifle their suppliers, FCD (Fédération des Entreprises du Commerce et de la Distribution) has set itself the task of improving the relations between business partners (distributors and SMEs) by developing and encouraging voluntary dialogue based on agreements between the players.*

*Its aim: to help distributors and SMEs, their main partners, to improve mutual understanding and management of their commercial differences.*

*FCD has undertaken a number of measures: establishment of an SME-distributive trades observatory, appointment of "Mr SME"s in major retailers, inclusion of a mediation clause in each agreement, annual on-the-spot surveys in SMEs in the main multiples, and organisation of meetings and debates.*

*FCD works in many areas in close cooperation with FEEF<sup>8</sup>.*

## **Illustration of a partnership between a large retailer and an SME**

### **The Casino growth contract**

#### **General aim of the initiative**

To take practical steps to increase trade between the Casino group and SMEs in the food and non-food sectors (in a national and local approach to sustainable development):

- *by extending the length of contracts*, thus raising the profile of the SME and enhancing the group's supply chain,
- *by increasing the turnover/business between the group and the SME.*

**Target figures:** extension of the contract to two years at the least, increase in trade over the period by at least 20%.

**Results achieved:** 60 contracts in hand for distributors' brands or industrial brands relating to a turnover of €100 million, a 26% overall increase in turnover for the SMEs under contract over a 12-month period, additional annual business of €1 million generated on average per SME, establishment of special relations between the SME executives and the purchasers.

**Prospects:** double the number of contracts in one year.

All the major retailers, whether they belong to FCD or not, are taking up such good practices and partnerships between distributor VLEs and producer SMEs are mushrooming.

That does not mean that all the problems have been overcome, but the different stakeholders are displaying a common desire to develop together optimum supply both to satisfy the consumer and for their own sustainable development.

This denotes a genuine change, if not a revolution, in commercial relations and purchasing practices. In a very pragmatic way, it enables VLEs and SMEs to combine their efforts, despite their differences, and move forward together.

<sup>8</sup> FEEF: Fédération des Entreprises et Entrepreneurs de France has 600 members, including independent companies and chain-store suppliers.

### **An initiative in hotels and catering**

#### *Accor's sustainable development purchasing charter*

*A few months ago, the Accor group's purchasing department committed itself to developing equitable social practices with its suppliers and participating with them in environmental protection by sharing in a transparent way the information on the measures set in place by both parties in these two fields.*

*This policy is underpinned by a sustainable development charter. The charter is very general and synthetic (4 pages) and covers social and environmental aspects; it is to be disseminated in 190 countries where the group operates.*

It is based on reciprocal commitment, the sharing of best practice and transparency between the parties.

Six-month target: take stock of the situation for the first time

One-year target: to prepare a definitive status report on all approved-supplier listings in France and decide upon priorities for future progress

Longer-term target: provide support to suppliers with a view to improvements, and monitor the goals by carrying out social and environmental audits to which the suppliers consent (the group pays for the audits in full).

It is planned to extend the charter in the future to all new listings and to use it in tendering.

*It is early days yet for this initiative and it has to prove its relevance. We have mentioned it here because it illustrates a new approach to mentoring in commercial relations and the true impact of including CSR in company strategy.*

*This approach is based on trust, the exchange of information and good practices between the players and on a long-term goal of cooperation.*

*The assessment programme has not been introduced with a view to penalties. On the contrary, it is based on the contractor's commitment to work with weaker suppliers to help them find solutions to the problems encountered.*

### **Support from a VLE for health, safety and the environment**

#### *Sanofi-Synthélabo's special measures for its processors and suppliers*

Three years ago, Sanofi-Synthélabo decided to extend its health, safety and environmental protection measures to all firms manufacturing pharmaceutical products on its behalf (processors) or supplying it with raw materials or intermediate goods (suppliers), going beyond the safety information required of the contractor by law.

This voluntary move took shape through the establishment of a dialogue between the group and its processors and suppliers on information relating to health safety and the environment (data base with legal information on product safety) and from 2001 through a programme of meetings and on-the-spot visits to the subcontracting processors.

The goal: to make sure that the HSE information has been received by the processors and properly understood, to find out whether its application caused any problems and if so, help solve them by providing advice

This operation is not an audit (no reference frame), nor is the contractor inspecting the subcontractors; it is a partnership, field support. If a problem or operational shortcomings come to light, a proposal for remedial action is made. Nothing is imposed on the processor; the group acts as an advisor and makes only suggestions. A subsequent visit may take place to see if improvements have been made.

The initiative is based on a product approach

The support is highly targeted and solely technical: it concerns only health, hygiene, safety and environmental aspects. "The processor is still in charge in his own backyard; there is no interference in the running of his company."

The aim is to raise awareness and encourage improvements.

The HSE policy was targeted above all at processors, but is gradually being extended to suppliers of active ingredients and feedstocks.

The steps taken vis-à-vis suppliers reflect the same desire to provide support and disseminate best practice.

In the first stage, the company is focusing its efforts on two sensitive areas: China and India.

The CSR approach goes hand in hand with quality assurance; the two are clearly distinguished and run by different teams. The decision to provide specific support may come from a recommendation by the quality auditors, but may also depend on the item supplied and its high safety risk.

**An initiative in the insurance industry**

*The AGF purchasing department raises awareness of sustainable development among its suppliers*

The purchasing department of AGF (Assurances Générales de France) was one of the company's first departments to make an active commitment to sustainable development. It is taking a gradual, pragmatic approach which, over the past four years, has taken shape as follows:

- introduction in September 2000 of an ethical purchasing code
- introduction from December 2001 of a "sustainable development clause" in the general terms and conditions of all AGF purchasing contracts
- inclusion in all invitations to tender of a questionnaire on the supplier's commitment to sustainable development
- preparation of a supplier ranking grid on the basis of the answers to the questionnaire
- gradually taking this commitment into account in the final choice of service providers
- a sustainable development link under purchasing in the company's intranet and a heading for suppliers, "become an AGF supplier", on the Internet site: [www.agf.fr](http://www.agf.fr)

In building works and maintenance, where the purchasing portfolio comprises mainly SMEs, special attention is paid to economic dependence and the firms are closely monitored.

The aim is to not exceed 20% of the suppliers' turnover: where more than 30% of the turnover comes from AGF business, financial monitoring is organised with an external financial data base, the situation is taken into account in tendering, and special attention is paid to payment deadlines and the state of the commercial relationship (data collection from external data base, awareness-raising internally).

Support has been provided for suppliers for similar reasons, but in certain sectors where SMEs have few or no direct links with contracting VLEs, by companies such as Renault or STMicroelectronics which have opened up their training facilities and offered specific training modules.

They also organise “expert days” and one-off back-up for SMEs in the form of skills and process transfers.

## CONCLUSION

Support for SMEs from VLEs falls into two major categories depending on the reasons why it is provided and the goals set. All the initiatives described, whatever form they take, are designed to bring mutual benefits and are always based on trust, transparency and openness. They attach importance to mutual understanding and dialogue and take account of the strengths and weaknesses of both parties. The main obstacles in the way of such support are economic pressure and difficulties in involving players within VLEs.

The societal commitment of the VLEs which contribute to entrepreneurial dynamism and employment by supporting SMEs at regional level or with exports brings specific advantages to both parties:

- it enables VLEs to exploit their know-how and sustain the local community or, in contrast, furnish support in the event of withdrawal. It also enhances their image and reputation;
- it is similarly beneficial for the SMEs from an economic point of view as they are afforded practical, timely, varied support, tailored to their needs;
- it is based above all on mentoring and counselling and can be a natural, powerful means of disseminating CSR among SMEs.

Creating a win-win situation with business partners is more directly linked with the VLE's strategy and its desire to involve its business partners in moves towards CSR. The support is provided mainly on economic and financial grounds.

By improving the social and environmental situation of its suppliers and subcontractors, the VLE expects a return on its investment in the form of a long-term relationship, quality improvements and reduced risks. However, earning a good reputation is increasingly becoming a factor.

For their part, suppliers and subcontractors focus more on efficiency and competitiveness.

Such commitments can ultimately lead to genuine partnerships between contractors and subcontractors based on voluntary efforts and a common quest for improvement. It focuses above all on raising awareness about different aspects of CSR, advice and training.

## ANNEXES: SUMMARY TABLE OF FRENCH COMPANIES' INITIATIVES

	<b><i>Societal commitment</i></b>	<b><i>Win-win commitment</i></b>
<b>Why make a commitment</b> What prompted VLEs to provide support for SMEs	<i>Societal commitment</i> <ul style="list-style-type: none"> <li>responsibility of longstanding player (in industry or area)</li> <li>reputation at stake</li> <li>exploiting know-how</li> <li>support for local economic fabric</li> </ul>	<u><i>Commitment to a win-win approach with economic partners: (economic and financial goals)</i></u> prevention of social and environmental risks; reputation at stake; social responsibility of contractor (outsourcing); improving services and products
<b>Type of support</b>	<i>Backup for SMEs</i> <ul style="list-style-type: none"> <li>regional support</li> <li>assistance with exporting</li> </ul>	<u><i>Backup for suppliers</i></u> <ul style="list-style-type: none"> <li><i>in regard to health, safety and the environment</i></li> <li><i>in regard to certification (local support)</i></li> </ul> <u><i>Setting up partnerships between contractors and subcontractors</i></u> <ul style="list-style-type: none"> <li><i>seeking to improve relations between business partners</i></li> <li><i>promoting agreements and voluntary dialogue between the players</i></li> <li><i>developing lasting relationships</i></li> </ul>
<b>Formulas proposed</b>	<u><i>Monitoring</i></u> technological support and sharing knowledge and experience <ul style="list-style-type: none"> <li>financial assistance for establishment and development</li> <li>economic and social back-up</li> <li>one-off secondment of staff</li> <li>bringing into contact, making contacts</li> </ul> <u><i>Support in foreign countries:</i></u> individual or collective back-up <ul style="list-style-type: none"> <li>logistical support and premises</li> <li>receiving trainees and senior SME staff</li> <li>information and advice on markets</li> <li>bringing into contact customers, contractors and decision-makers</li> <li>commercial and legal assistance, organisation of business trips and market surveys, business volunteer scheme (V.I.E.), mentoring and stand space at fairs</li> </ul> <u><i>Spin-offs</i></u>	<u><i>Training:</i></u> sharing experience, bringing into contact with experts, technical assistance <u><i>Raising awareness of economic, environmental and social challenges</i></u> (rules and regulations and compliance therewith): visits, audits, advice, recommendations, exchanges of good practice <u><i>Seeking improvements:</i></u> <ul style="list-style-type: none"> <li>setting in place remedial plans</li> <li>bringing into contact with internal and external experts</li> <li>technical assistance</li> <li>extension of contracts</li> <li>financial aid</li> </ul>

<p><b>Players identified</b></p> <p>within VLEs</p> <p>outside VLEs</p>	<p><u>Special companies within VLEs*</u> with support for different horizontal and technical functions Solidarité d'entreprise (Total), EADS Développement, Saint Gobain Développement, Michelin Développement, Performance Bretagne, PSA Peugeot Citroën, etc.</p> <p><u>VLE associations*</u></p> <ul style="list-style-type: none"> <li>• Synergie Normandie <a href="http://www.synergies-normandie.com">www.synergies-normandie.com</a></li> <li>• Passerelle <a href="http://www.passerelle.fr">www.passerelle.fr</a></li> <li>• Partenariat France <a href="http://www.partenariat-france.org">www.partenariat-france.org</a></li> <li>• Créati <a href="http://www.creati.semidia.fr">www.creati.semidia.fr</a></li> <li>• Association Diese</li> </ul> <p><u>Association of senior experts:</u> Agir, EGIC</p> <p><u>Synergy with local players and advisory bodies:</u> Anvar, Drire DREE, Ubifrance, CFCE, CCI, CRCI, ARIST, DATAR local offices, technical centres, universities, etc.</p>	<ul style="list-style-type: none"> <li>• sustainable development functions, purchasing, quality</li> <li>• environmental experts</li> </ul> <p>Putting into contact with specialised social (Aract) and environmental bodies</p>
<p><b>Beneficiaries</b></p> <p>Who is the support intended for?</p>	<p>Local SMEs</p> <p>SMEs in field of business (export support)</p>	<p>Strategic suppliers: turnover, length of contract, safety/business, location, etc.</p> <p>Less frequently second-tier suppliers and subcontractors</p> <p>NB: at corporate level, difficulty in determining whether SME</p> <p>One-off back-up measures at local level (for example, certification)</p>
<p><b>Prerequisites for successful support</b></p> <p><i>Underlying values</i></p>	<ul style="list-style-type: none"> <li>- complementary to measures carried out by other players</li> <li>- good knowledge of SMEs' needs</li> <li>- mobilising SME proprietor</li> </ul>	<p>Balanced commercial relationship, desire for partnership, mutual consideration, dialogue, exchange, quest for progress, long-term relationship, taking special features into account: constraints and limits, pragmatism</p> <p><b><i>openness, transparency, trust</i></b></p>
<p><b>Major obstacles</b></p>	<ul style="list-style-type: none"> <li>• selection of cases</li> <li>• galvanising VLE top management</li> <li>• raising awareness of VLE operations</li> <li>• economic context (budgetary restraint)</li> </ul>	<ul style="list-style-type: none"> <li>• economic and financial pressure</li> <li>• short-term outlook</li> <li>• power relationships</li> <li>• asymmetric information</li> <li>• conflicting positions (for example, payment to a purchaser/CSR criteria)</li> <li>• problem of interference by contractor/subcontractors</li> <li>• limited involvement of external stakeholders (NGOs concerned with human rights, the environment, etc.) or internal stakeholders (trade unions)</li> </ul>

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