Corporate Social Responsibility for Small Businesses and Startups

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§1   Introduction

While CSR has been a topic of discussion for larger businesses for a long time, relatively little attention was paid to CSR and small businesses. However, as governments have come to realize the importance of small businesses—small- and medium-sized enterprises ("MSEs")—to their economies as drivers of employment, research and guidance on management topics for MSEs has become more prevalent. While managers of small businesses rightly have concerns about the costs associated with many CSR projects, and non-governmental organizations have not spent as much time and effort on monitoring CSR among SMEs, more and more SMEs are beginning to appreciate the potential benefits of having some type of CSR initiative, even if it scaled down to fit the size of the firm and the relatively meager resources available. For example, as larger companies have integrated supply chain management into their CSR initiatives SMEs seeking to become supply chain partners have been forced to take a hard look at their efforts with respect to social responsibility, particularly the ways that they treat their workers and the impact of their operations on the environment. Another driver of CSR among SMEs is their dependence on their relationship with the local community. While larger companies operate in numerous locations around the world, SMEs have one primary site and depend heavily on the strength and support of the community surrounding the site. As such, it is incumbent on SMEs to act in a socially responsible manner in their interactions with community members and support community efforts in areas such as education, health, safety and general welfare.

In spite of the above-referenced benefits of embracing CSR, SMEs reasonably complain about finding the time and resources to collect the necessary information, develop and implement CSR strategies and continuously engage with stakeholders. Owners and senior managers of SMEs typically wear a number of different hats already and adding CSR leadership assignments often seems to be just too much. Fortunately, the size and scope of activities of SMEs may actually make it easier to find information and reach out to important stakeholders. For example, since SMEs are already closely linked to their communities and dependent on them for customers, labor and supplies it is generally a small step to extend the relationship into social responsibility projects. In the same vein, SMEs often have higher levels of employee participation in decision making and this facilitates worker engagement of health and safety, product quality and service and implementing eco-friendly manufacturing processes.

While small businesses operate under resource constraints that make it impractical for them to implement comprehensive CSR initiatives on the scope of those that have been

adopted by larger companies, they nonetheless can begin by referring to the same authoritative international instruments such as the Organisation for Economic Co-operation and Development ("OECD") Guidelines for Multinational Enterprises and the UN Global Compact Principles, each of which are intended to be applicable to organizations of all sizes. Governments and business associations have also created and published guides and other resources relating to a wide range of SME management topics including the use of environmental management systems by SMEs and adopting the management systems framework of the International Standards Organization to the SME context.[1] Other resources tailored to the particular needs of small businesses seeking to implement a CSR initiative include the "Introduction to Corporate Social Responsibility for Small & Medium-Sized Enterprises" available online from the European Commission with links to other European Union publications and tools on CSR and SMEs; and the CSR handbook for SMEs developed by the Caux Round Table (www.cauxroundtable.org), an international network of principled business leaders working to promote moral capitalism.

The business opportunities associated with CSR have become too important to be ignored by small business owners. A number of studies have provided support for the proposition that a large percentage of consumers, far more than a mere majority, would consider switching from their existing brand to another one associated with a cause that they approve of. The numbers are even higher among millennials, which is important since that group is projected as being responsible for 30% of retail purchases and making up almost half of the workforce by 2020. Surveys also indicate that consumers have extremely high levels of trust in, and loyalty to, brands that have an authentic social cause as their foundation. In addition, a majority of consumers in the general population have used social media to engage around a CSR-related cause. In fact, social media and other technology tools have made it easier for consumers and others to investigate and evaluate a company's CSR practices and widely report issues and problems that they may encounter. Companies cannot ignore CSR and risk swift and drastic damage to their reputations as well as potential legal problems if they fail to put safeguards in place and proactively integrate social responsibility into all aspects of their operations and their relationships with suppliers and the communities in which they operate.

§2   Comparisons of implementation of CSR in large firms and SMEs

Baumann-Pauly et al. argued that it was important to have a better understanding about CSR in small and medium sized enterprises ("SMEs") due to the significant role that SMEs play in both the developed and developing world in terms of employment and overall contributions to the economy.[2] CSR activities in SMEs are also directly related to the actions of MNCs due to the large number of SMEs that are embedded in the global

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[1] See International Organization for Standardization, ISO 26000 Guidance on Social Responsibility: Discovering ISO 26000 (2014) and Handbook for Implementers of ISO 26000, Global Guidance Standard on Social Responsibility by Small and Medium Sized Businesses (Middlebury VT: ECOLOGIA, 2011).
[2] D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011), 3.

supply chains maintained by SMEs. Baumann-Pauly et al. noted that the little research that had been done had resulted in a general impression that MNCs were more advanced at implementing CSR when compared to SMEs[3]; however, they felt that it was necessary to challenge those impressions by critically analyzing public perceptions of CSR in both MNCs and SMEs through an assessment of the actual implementation of CSR practices at the organizational level.

Baumann-Pauly et al. conducted an empirical study of five MNCs and seven SMEs from Switzerland, all of which were selected based on their likelihood to present data-rich cases on CSR implementation.[4] All of the MNCs (ABB, Credit Suisse, Nestle, Novartis and UBS) had announced that they had joined the UN Global Compact at the time that it was launched in 2000, putting them among the first MNCs worldwide to make a formal and public commitment to implementing the CSR principles set out in the UN Global Compact, an initiative that had received strong support from the Swiss government and some Swiss MNCs. All of the SMEs in the study (CPT, Mammut Sports Wear, Remei, Stuco, Sherpa Outdoor, Switcher and Vestergaard Frandsen) had less than 25 employees and were from the textile industry, which the researchers noted had a long CSR history and was considered to be a model for consideration and implementation of CSR initiatives. By selecting companies from a single country the researchers hoped to eliminate any issues with regard to inter-case compatibility that might arise because of differences in regulatory, political and cultural context. The study was conducted over a three year period between 2007 and 2010.

One of the most interesting and useful tools coming out of the work of Baumann et al. was the framework they suggested for assessing CSR among MNCs and SMEs. They were especially interested in assessing the organizational embeddedness of CSR in daily business practices to determine whether firms actually "walked the talked" with regard to CSR, an important question given that some researchers had argued that while many MNCs had heavily promoted their CSR commitments the reality was that they were not to be found in day-to-day practices (a phenomenon described as "building up a CSR façade").[5] Focusing on daily business routines was also a good way to see whether researchers were correct in their assumptions that SMEs would have difficulty implementing CSR due to their relative lack of financial and human resources and

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[3] Id. (citing J. Campbell, "Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility", Academy of Management Review, 32(3) (2007), 946; and A. McWilliams and D. Siegel, "Corporate Social Responsibility: A Theory of the Firm Perspective", Academy of Management Review, 26 (2001), 117).

[4] Id at 8-9.

[5] Id. at 5 (citing S. Banerjee, Corporate Social Responsibility: The Good, the Bad, and the Ugly, (Cheltenham: Edward Elgar, 2007); R. Sims and J. Brinkmann, "Enron Ethics (Or: Culture Matters More than Codes)", Journal of Business Ethics, 45 (2003), 243; and G. Weaver, L. Treviño and P. Cochran, "Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices", Academy of Management Journal, 42 (1999), 539).

assumed inexperience with the formal management systems thought to be necessary in order for CSR initiatives to succeed.[6]

Baumann et al. explained that their assessment framework was developed from an organizational learning model that Zadek created based on his empirical work with Nike that identified five stages that businesses typically go through before they fully implement CSR: "denial", "compliance", "managerial", "strategic" and "civil".[7] Each stage, beginning with "denial" and progressing through "civil", represents a progressively higher degree of embeddedness of CSR (i.e., organizational integration of CSR principles into daily business routines). Baumann et al. assessed implementation along three dimensions: commitment to CSR, internal organizational integration of CSR and the external engagement and interaction with actors of civil society, and took care to adapt the indicators for each of these dimensions to the specific, and quite different, organizational characteristics of MNCs and SMEs

§3   --Commitment to CSR

With respect to the "commitment to CSR dimension", the MNCs were accessed on the basis of strategic integration and leadership support and CSR coordination. In turn, SMEs were assessed on the basis of issue awareness and social connection attitude.[8] Among the MNCs, the researchers found just one company (ABB) that had advanced to the strategic stage of implementation, as evidenced by a mission and vision statement that emphasized that each business decision would take into account economic, social and environmental aspects and would be made after involving all stakeholders in the decision making process. While other MNCs stated that they linked their commitment to CSR to their long-term success, they did not explain how stakeholders would be involved in the process and did not confirm that CSR principles would be respected regardless of the economic consequences to the company.

In contrast, the researchers found a high level of awareness for global CSR issues among the SMEs in the survey and managers and employees in those companies demonstrated a high level of perceived connectedness to raised problems in their supply chains. The researchers observed that the relatively small size of the SMEs reduced the hierarchy in their organizational structures and made it easier for them to integrate new issues into day-to-day business activities. Leaders in SMEs were better positioned to drive and reinforce their overall vision for the company among all of the employees. The small size of the companies also allowed them to implement a strategic understanding of issues and take an integrated look at the CSR landscape when make decisions about products (i.e., consideration for both environmental and social responsibility could be built into each step of the product development and commercialization process).

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[6] Id. (citing H. Jenkins, "A Critique of Conventional CSR Theory: An SME Perspective", Journal of General Management, 29 (2004), 55; and A. McWilliams and D. Siegel, "Corporate Social Responsibility: A Theory of the Firm Perspective", Academy of Management Review, 26 (2001), 117).

[7] Id. at 6 (citing S. Zadek, 'The Path to Corporate Social Responsibility", Harvard Business Review, 82 (2004), 125).

[8] Id. at 9-10.

§4   --Internal organizational integration of CSR

For the "internal organizational integration of CSR" dimension, MNCs were assessed on the basis of incentive systems, training, complaints channels, evaluation and reporting. In turn, SMEs were assessed on the basis of organizational culture, daily practices and processes, employee involvement and transparency.[9] The researchers noted that consistent handling of CSRs in MNCs requires the drafting and implementation of formal CSR policies and procedures and the sheer size of the companies created challenges in embedding those policies and procedures across all of the daily operations occurring on a global basis. MNCs struggled to find the time and resources to effectively implement their CSR policies and efforts needed to be made to ensure that managers are trained, incentive systems are aligned, grievance procedures are drafted and implemented, CSR information flows freely throughout the company and processes for evaluating the CSR initiative are created and followed. One of the MNCs, Novartis, stood out as being farther along and the researchers noted that almost all its employees had completed courses using CSR e-learning tools and that the company was in the process of developing follow-up CSR training manuals and reviewing standardized incentives systems for bonus payments and promotions. Novartis had also appointed an ombudsperson who was in charge of the grievance process.

Among the SMEs, the researchers found that "responsibility in general and engagement in CSR was particularly strongly embedded in the company culture of the interviewed SMEs, often implicitly rather than explicitly" and that their employees were strongly involved in shaping their company's CSR agendas and highly aware of CSR issues.[10] The highly level of employee awareness was attributed to the small size of the organizations, flat hierarchies and lack of organizational complexity. The researchers reported on several innovative ways that SMEs had approached disclosure and transparency such as an online tracking system of all of their products along the entire supply chain. Interestingly, the relative lack of human and financial resources among SMEs did not appear to be an impediment to adopting CSR practices and companies in this group used both self-developed requirement sheets for suppliers or their own audit checklists and/or established certification schemes like SA8000 or ISO14001.   One of the interviewees at Remei commented: "the advantage for SMEs is that they can act much quicker. We have shorter ways and are closer to the issue, and we can act out of conviction, rather than just due to profitability reasons."[11] Remei was one of the SMEs that used its supply chain tracking system as a competitive advantage in terms of demonstrating transparency and proudly promised its customers that social and environmental sustainability was traced and independently audit across the the company's entire value chain.

§5   --External engagement and interaction

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[9] Id. at 10-12.
[10] Id. at 11.
[11] Id. at 11.

For the "external engagement and interaction" dimension, MNCs were assessed on the basis of the quality of their stakeholder relationships and participation in collaborative CSR initiatives. In turn, SMEs were assessed on the basis of collective action and network involvement.[12] The researchers found that while the MNCs acknowledged the need to listen to many voices to earn their license to operate in reality they lacked systems to document and coordinate processes for stakeholder engagement and that stakeholder involvement had generally been limited to superficial encounters, such as annual stockholders' meetings, and ad hoc interactions triggered by a crisis situation. What was lacking among the MNCs was a proactive approach to dialoging with stakeholders. The MNCs were also not strongly involved in CSR initiatives, although one of the companies had already developed a high profile in working on developing human rights standards for companies operating in repressive regimes and another was in the early stages of engagement in the UN Global Compact Water Mandate. In sharp contrast to the situation among the MNCs, the SMEs were found to be "strongly engaged in external collaborations in the form of collective action wither with other SMEs or with civil society to jointly approach and solve global CSR challenges".[13] Representatives of the SMEs believed that because of their relatively small size it was important for them to work together on CSR issues and become and remain involved and engaged with appropriate networks at the industry level (e.g., helping to set industry standards) and beyond in other multi-stakeholder initiatives.

§6 --Overall assessment

Overall, Baumann-Pauly found that the implementation of CSR among the MNCs that they survey varied considerably. Some of those companies had just begun implementation of CSR while others were already quite advanced. While all of the MNCs demonstrated a strong commitment to CSR, this commitment had not yet translated into systematic integration of CSR principles into all area of the organization. Reporting functions were strongly developed among all of the MNCs; however, several of the MNCs lagged behind with respect to conducting impact assessments of their CSR activities and installing internal grievance procedures. In addition, as noted above, the MNCs generally had done little to establish interactive ties with external stakeholders. In contrast, the SMEs in the survey generally demonstrated strong internal implementation of CSR-related practices and had aligned their corporate functions with CSR through informal or implicit principles. The level of engagement between SMEs and their external stakeholders was also highly developed and the SMEs consistently tapped into the expertise of external stakeholders in making crucial decisions.[14]

Comparing the MNCs to the SMEs, Baumann-Pauly observed that the relative strength of MNCs appeared to be in developing and publicly disseminating extensive CSR

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[12] Id. at 12-13.

[13] Id. at 13.

[14] D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011), 14-15.

commitments and creating and publishing CSR reports while SMEs were stronger in implementing CSR-related practices in organizational processes.[15] They argued that these differences in approaches could be explained by focusing on the relative organizational costs (i.e., the relative share in total firm costs) for implementing and communicating CSR in MNCs and SMEs. They explained that the size and scope of operations of the MNCs made it expensive in terms of time and resources to embed CSR in all of their operational functions and that being a global enterprise created challenges for MNCs with respect to developing stable stakeholder relationships. Given these implementation costs, MNCs opted to invest in externally communicating CSR—the "CSR-façade" mentioned above—by establishing a central CSR department that was responsible for public relations and collecting and publishing the data expected of companies that engage in formal CSR reporting practices. In contrast, extensive formal reporting was relatively costly for SMEs; however, it was generally easier and less expensive, in relation to MNCs, for SMEs to integrate organizational CSR practices given their small number of employees and their flatter organizational structures. This did not mean that SMEs were not reporting on the CSR activities to external stakeholders. In fact, reporting did occur on an informal basis in the context of discussions with stakeholders that were often crucial for SMEs in terms of providing them with access to expertise regarding CSR that was not available internally.

§7 Framework for CSR implementation by small businesses

As discussion above, while a good deal of the commentary regarding corporate sustainable development and CSR has focused on larger companies, CSR is also relevant to smaller businesses, either businesses that have been in existence for a long period of time and are looking to transition toward more sustainability or entirely new businesses launched by sustainable entrepreneurs looking to integrate profitability and environmental and social responsibility into the business models in a balanced manner from the very beginning. Smaller businesses, particular those that are in their early stages, face a variety of challenges when trying to establish and implement a CSR framework that includes all or most of the elements suggested for larger organizations. For example, small businesses lack the financial and other resources generally required for many CSR initiatives, operate with less formal management structures and do not have in-house expertise for important activities such as reporting and external monitoring. However, small businesses can create partnerships with other companies and tap into the resources available from outside groups offering advice on standards, monitoring and relevant technologies. In addition, size and informality can actually make it easier for the sustainable entrepreneur to secure the support of everyone in the organization and monitor how the initial CSR objectives are progressing. The following sections introduce various steps that small businesses should take in order to implement CSR initiatives and programs.

§8 --Assessment

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[15] Id. at 4-5 and 18-21.

One of the first things that any business seeking to implement a CSR initiative is an assessment of the company's current strategies, policies, operational activities and stakeholder relationships. The scope of the information that should ideally be collected during this stage is a high mountain to climb for many SMEs; however, SMEs can work with non-profit organizations and/or engage students or consultants to assist with the assessment while company leaders remain engaged with other aspects of the business. In addition, small businesses can simplify the process by focusing on how CSR might be integrated over time into basic day-to-day business practices. The size of most SMEs makes it fairly easy to involved front-line employees in the process and this is important because they generally have extensive face-to-face interaction with customers, suppliers and other stakeholders. Hohnen and Potts suggested that small businesses start their CSR journey by asking what can be done by the company to[16]:

- Provide a safer working environment and educational assistance to employees?
- Improve contractual relations with employees?
- Enhance gender equality in the workplace?
- Use more energy-efficient appliances (e.g., light bulbs) or vehicles?
- Source more from local suppliers?
- Improve customer service standards?
- Support more local community projects?
- Purchase fair trade products that support workers in developing countries?
- Recycle more waste?
- Ensure a better work/life balance for employees?
- Be more accessible to customers of various abilities?

These types of questions are obviously somewhat general and the goal at this point is to get everyone in the company engaged in the process of thinking about ideas for enhancing social responsibility. While it is almost certain that companies can do more in all of the areas referenced in the questions, the process will hopefully focus everyone on a handful of ideas that can become the basis for the next steps in the CSR process while not unduly straining the resources of the small business. Small businesses generally do not have the luxury of forming working groups and using the more formal processes recommended for larger companies elsewhere in this chapter; however, small businesses do have an advantage in that it is easier to get everyone involved and motivated through informal gatherings and contests that elicit ideas from employees that can be incorporated into mission statements, values and short and basic CSR commitments that everyone can explain to customers and other stakeholders.

§9 --Developing options for CSR actions

One important byproduct of the assessment process is collecting sufficient information to develop options for the CSR programs and initiatives that the company would like to

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[16] P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 29.

implement. Once the information has been collected, and a preliminary analysis has been done by the company's leadership team, the term should convene brainstorming sessions with key internal and external stakeholders including members of the senior management team, employees and representatives from key business partners and the surrounding community. The foundation for these sessions should have been established during the dialogue with stakeholder that hopefully began during the assessment stage. While the agenda for the sessions might vary a good starting point would be to go through the following questions recommended by Hohnen and Potts[17]:

- What social and environmental activities and initiatives has the company undertaken already?
- What strengths, weaknesses, opportunities and threats do these present?
- What has the company learned from others that could be helpful?
- What are the company's CSR goals?
- Where could the company be in terms of CSR activities and outcomes five and ten years down the road?
- What are the big social issues and how might the company help?
- If the company is to be a CSR leader, what changes to current practices and products would need to take place?
- Are there some CSR activities or initiatives the company could easily undertake now at no or low cost (i.e., is there any "low hanging fruit")?
- Are there areas in which CSR changes would have a particularly big impact on the company and others? What are they and what are the likely impacts?
- Can the proposed CSR changes be organized into short-, medium- and long-term deliverables?
- What are the resource implications of these deliverables?
- Are there any changes to the company's organizational structure that would need to occur to implement any of the deliverables?
- Are there any other obstacles or impediments (e.g., inadequate training or equipment or inappropriate incentive structures) that might stand in the way of taking a more systematic approach to implementing CSR? If so, what are they?
- Are there opportunities for cost reductions?
- What are the potential risks of failing to take into account the broader environmental, social and economic aspects of the company's activities?
- What should be the priorities for action if the company decides to do more?

As noted above, the brainstorming sessions can and should contribute to strengthening stakeholder relationships and engagement. In addition, the opportunity to participate in discussing what are often difficult issues builds commitment and excitement among those involved and makes it easier for participants to "take ownership" of the ideas and champion them throughout the organization once the time comes for implementation. Some companies use outside facilitators for these sessions in order to take advantage of their expertise in group dynamics and eliciting comments and provide a neutrality that

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[17] Id. at 38.

ensures that the "agenda" of any one person or business unit does not skew the process and ignore other good ideas. Outside sources may be used to gather information necessary to answer some of the questions posed above. For example, while participants may have their own views about what are the most pressing social and environmental issues reference should also be made to publicly available surveys on the subject in order to get a better idea of stakeholder expectations and the likelihood of changes in regulatory and market attitudes.

Brainstorming sessions will and should generate a long list of potential ideas and the next step is to prioritize those ideas and decide how many of them the company is willing and able to execute. For many companies, CSR is implemented in an incremental manner due to resource limitations and concerns about introducing too many changes into the workplace and the company's products and processes at one time. For example, a good first step is adopting a set of general principles that reflects the company's recognition of the need to incorporate social responsibility into its strategies and decisions. Of course, simply adopting guiding principles is not sufficient unless the company begins to proactively incorporate them into its day-to-day activities. Once that begins, the company can take additional small but meaningful steps such as adopting detailed CSR commitments, pursuing and attaining certifications for its products and processes, formally engaging with stakeholders and reporting on its CSR outcomes.

Most small businesses prefer the incremental approach because a large CSR initiative seems well beyond their resources and the scope of what is generally a limited business strategy. Small businesses can select one or two areas to focus their initial CSR actions and set reasonably achievable goals that nonetheless will be meaningful when and if they are attained. For example, CSR for a small company may begin with implementing a recycling program and/or installing equipment that will reduce energy usage and costs. Whatever is done, a record should be created and maintained and CSR should be added to the list of factors or questions that senior managers and owners consider each year when it is time to set strategic goals for the next year. Eventually the small business will have several CSR successes to refer to and the organizational climate will change to the point where many people in the workplace will have new ideas as to how the company can advance socially and environmentally responsible causes.

Companies should also re-arrange their list of ideas into categories that are based on each of their key stakeholder groups. For example, companies should normally find that they can create idea lists for employees, customers, supply chain partners, local community members, investors and the global community. When creating these lists an assessment should be made about what the company is already doing from a CSR perspectives with each of the stakeholder groups and the gaps in attentiveness that the company would like to address. For example, creating the lists may shed a spotlight on the company's need to more in its local communities and the leadership team may make this a priority when deciding among competing alternatives in developing its CSR strategy. In and of itself, re-arranging a long list into categories does not reduce the number of ideas and this is generally a good time to make the whole process more manageable by choosing two to

four initiatives for each category and then moving on to building a business case for each of them.

§10   --Strategy and governance

CSR requires significant changes in the focus of the company's strategic planning activities. Instead of concentrating on maximizing value for the shareholders of the company, which means prioritizing opportunities for generating revenues and reducing costs, the planning process must consider the expectations of multiple stakeholders including not only investors but also customers, employees, channel partners and the communities in which the company is operating. The success of any CSR initiative depends on integrating the goals and values of the company with respect to social responsibility into its business strategy and governance processes. Larger companies often develop complex governance schemes for their CSR initiative and much of this is simply too much for a small business. However, there are certain basic steps that small businesses can take in order to begin integrating CSR into their overall business strategy and accompanying governance processes[18]**:**

- Developing new environmental and social products and services, thereby creating competitive advantage through innovation
- Sharing CSR lessons learned with customers, business neighbors and fellow members of a trade association or business organization
- Explaining the environmental, social and economic performance of the business to stakeholders and considering their ideas and views as the business develops.
- Committing to an external code or standard or a set of business principles that provides a framework to measure progress on environmental, and social and community issues

The "tone at the top" is an important factor in the success or failure of any CSR initiatives and the owners and senior managers of small businesses are uniquely positioned to act as champions of CSR within their companies and proactively communicate with everyone in the organization on a daily basis about the impact of new environmental and social products and services. The owners and senior managers must also commit to investing the time and effort necessary to explain the company's CSR initiatives to customers and other stakeholders and develop and implement metrics for tracking and reporting progress.

§11   --Preparing and implementing a CSR business plan

While their strategic planning processes may not be as elaborate as those typically found in larger companies, small businesses should develop an actual CSR business plan, which can be a separate document or incorporated into the company's overall business plan. The CSR business plan should track the CSR strategy and commitments that have been endorsed by the leadership team and should identify all of the human, financial and other

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[18] Id. at 32.

resources and activities that will be necessary in order to effectively implement the CSR commitments and track company performance in meeting those commitments. The business plan is also an opportunity to lay out specific plans and tactics for each of the key CSR commitments. For example, Hohmen and Potts suggested that a basic plan for meeting a commitment that prohibits illegal bribes to government officials might include the following elements[19]:

- Establish appropriate training for all employees who have regular contact with government officials during the course of their day-to-day job activities. The course should focus on the distinction between proper and improper payments, with an online version that includes "frequently asked questions" that can be consulted when questions arise.
- Review the company's incentive and disincentive structure (e.g., commissions) to ensure it does not indirectly encourage improper behavior. In other words, employees should not feel additional pressure to "close deals" that causes them to consider offering bribes to government officials who are in a position to influence decisions.
- Set up a procedure for seeking and obtain advice on payment issues. For example, the company should designate a member of the legal or compliance department to field payments questions and set up a "hotline" that employees can use to seek advice and/or report improper behavior.
- Create "whistleblower" protection measures that remove concerns among employees that they will be retaliated against if they report information relating to an actual or potential improper payment.

Each of the actions in the CSR business plan should be assigned a schedule and timeline and the resource requirements for each action should also be laid out in advance. It should go without saying that the company should not make a public commitment to a CSR activity unless it is willing to invest sufficient resources to effectively pursue and achieve the goals associated with the activity. Whenever the plan calls for assigning new duties and responsibilities to managers and employees, appropriate changes should be made to their job descriptions, reporting requirements and performance objectives.[20] While the basic elements of a CSR business plan apply to all companies, the size and scope of operations of the company obviously needs to be taken into account. Small businesses will certainly not have the resources available to large global organizations and their CSR business plans should be scaled appropriately since they generally will not be able to hire new staff and set up dedicated CSR departments. In general, small businesses should begin with a single CSR project that excites managers and employees and which can be reasonable integrated into their existing duties and responsibilities.

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[19] Id. at 58-59. For further discussion of designing and implementing anti-bribery compliance programs, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[20] For further discussion of business plan preparation, see "Strategic Planning: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

§12   --Initial CSR implementation ideas for small businesses

Assessment and planning for CSR are obviously important, but the program does not begin unless and until the small business actually begins implementation. By definition, small businesses do not have a lot of resources available to invest in large and splashy CSR-related initiatives and this often leaves them confused about just where to start. In order to get past this barrier, representatives from every team in the company should convene at least quarterly to engage in CSR planning and offer suggestions as to how the company and its employees can immediately "make a difference". Some of the easiest ways for small businesses to begin implementing CSR include the following:

- Changing from a paper-based invoicing system to a digital system, saving money on paper and reducing the adverse impact on the environment associated with using paper products, and then perhaps contributing a portion of the savings to charity.
- Encouraging volunteerism among employees by providing them with paid-time off for volunteering with organizations aligned with the company's mission or other organizations involved in causes that are important to the particular employee (encouraging and supporting volunteer work has been shown to have a positive impact on employee happiness and to be a valuable recruiting and retention tool).
- Small businesses can begin to make a contribution to their communities by purchasing from, and actively promoting, other local businesses and perhaps seeking out cross-promotional opportunities with those businesses and/or getting involved with community business groups that plan events that bring customers into the community and provide entertainment and recreation for employees of local businesses.
- Small businesses may also be able share the skills and experiences of their employees in ways that will benefit the causes that are important to the company and the communities in which the company operates. For example, a sustainability-focused business may have its web designers teach classes at a local community center and/or volunteer at a nonprofit.
- Small businesses may contribute with a relatively modest investment by sponsoring a local event or activity group, such as a youth sports team. The organizers of the event or activity are often willing to provide supporters with positive publicity and such initiatives are a cost-effective way to stake out a position as an up and coming leader in sustainability. Some events, such as local marathons, provide opportunities for employees of the company to actually participate and such participation can be a good bonding experience among team members. Contributions can take a variety of forms including cash or donation of goods that are necessary for an event (e.g., bottles, waters, snacks etc. for the marathon).
- One specific type of CSR partnership that can be an easy and effective initiative for a small business is launching a charity drive, such as collecting clothing, books or food from customers and employees and donating them to a local nonprofit (i.e., a homeless shelter or food bank). Soliciting donations can be accompanied by volunteer work at the nonprofit by interested employees. Companies can also solicit

cash donations from customers by simply placing a collection jar in the sales area and in other places inside the company's offices where people are likely to contribute.

- Another way to leverage volunteer activities with a local nonprofit is to establish a referral program that encourages customers to spread the word about the company's products and services and its focus on sustainability. For example, if employees are volunteering at a local animal shelter the company may announce that if customers refer the company to their friends and they become customers the company will make a donation on behalf of the referring customer to the shelter.

- Any business, regardless of size, can eventually make a meaningful contribution to a cause that is important to it by setting up a "planned giving" program that automatically sets aside a fixed percentage of receipts or profits and channels them to a specific nonprofit. While the percentage does not have to be high, a commitment to giving is important and the company will find that over time the impact becomes substantial.

Since small businesses, particularly those focusing on sustainability-related missions, products and services, often run into difficulty finding traditional sources of financing it is incumbent upon them to master the art of "bootstrapping" and seize opportunities to pursue sustainability goals on a cost-effective basis. For example, small warehouse spaces, too small to be of much use to businesses, may be converted into a tasting room for the organic products of a fledgling "farm-to-table" foods distributor.

Guidelines for Launching Sustainability Programs and Initiatives

The International Institute for Sustainable Development ("IISD") suggested a checklist of sustainable business practices that could serve as a useful guideline for small businesses seeking to launch their sustainability programs and initiatives in a way that does not stretch their scarce resources. The suggestions are designed to assist small businesses in improving employee engagement and motivation, customer loyalty, public credibility, and investor confidence through communication and developing and nurturing relationships with other organizations that can provide support and expertise.

- **Mission Statement.** Prepare a mission statement that declares the goals, principles and operating procedures of the company and provides a fundamental reference point for tracking the company's progress. Each company has its own unique circumstances to consider when developing a mission statement; however, the statement should always be issued from a committed CEO, distributed to all employees and stressed repeatedly. If employees know that performance will be measured against the stated goals, and are given the resources to achieve them, the mission will be taken seriously. The IISD recommended the CERES principles, issued by the Coalition for Environmentally Responsible Economies, as a good source of ideas for a company mission statement.
- **Employees.** Sustainability must be baked into the way in which the company recruits and treats its employees, particularly since small businesses often lack the financial resources to compete with larger companies for the talent needed for success. Companies should make an extra effort to provide a fun working environment, opportunities for employees to stay health (e.g., offering discounted memberships at local gyms) and support for work-life balance such as creating daycare facilities and offering flexible working hours. Particular care should be used in selecting human resources personnel to ensure that they understand the company's mission and the goals of the founders with respect to treating and developing employees.
- **Internal and External Communications.** Companies should measure and report, the internal and external communications, their progress and performance with respect to achieving its social, financial and environmental goals. By developing benchmarks against which to measure progress, and reporting

on successes and failures, companies can reinforce their commitment to stated objectives, and alert employees and other stakeholders to areas where more effort is needed. Lines of communication throughout the company regarding sustainability programs and initiatives should be created and maintained using regular staff meetings, e-mail bulletins, accessible managers and in-house newsletters. Centrally located bulletin boards or suggestion boxes can stimulate discussion and ideas and communications regarding major decisions relating to sustainability issues can reduce anxiety among employees and provide them with a better understanding of the rationale for such decisions.

- **Green Teams.** Small businesses often create in-house waste reduction and pollution prevention teams, so-called "green" teams", comprising personnel from different departments, to devise and implement strategies to improve environmental performance. This approach has the benefit of engaging employees directly in the process of sustainability; however, it is vital that teams have top-level support, adequate budgets, and ready access to all employees. Teams should start by setting easily achievable goals (e.g., recycling paper and turning off unused lights and equipment), and then becoming more ambitious as confidence and expertise are gained. As staff become increasingly aware of the cost and environmental benefits and the ease of implementation, suggestions for improvements are likely to be forthcoming. Some companies offer rewards to their employees for suggesting environmental improvements that could save the company money.

- **Education.** Companies should create and distribute materials that inform employees about economic, environmental and social trends. Informed employees will be better equipped to promote company goals and to respond to major trends. Well-written books and articles, videotapes, and the occasional guest speaker or external course can put a company's efforts into perspective.

- **Annual Reporting.** Preparing and issuing an annual sustainable development report that highlights the progress that the company has made towards improving environmental performance and enhancing workplace and societal well-being. The reporting process is valuable in its own right, since it forces the company to measure the effectiveness of its sustainability programs and initiatives and make necessary changes and improvements; however, it is also a strong advertisement for demonstrating the company's commitment to environmental protection and social responsibility to its various stakeholders (i.e., customers, suppliers, employees, investors, regulators, members of the local community and environmental groups).

- **Public Relations.** Sustainable entrepreneurs must launch their businesses with a commitment to honest and accessible public relations, which means clearly and efficiently conveying information about the company to customers, the press, the local community and anyone else with a legitimate interest in what the company is doing. While this certainly means developing an informed marketing and communications staff, it also requires making sure that every employee has sufficient information to interact with external stakeholders using clear and understandable language based on a common message regarding the company's mission.

- **Community Commitments.** Companies should make a commitment to community development efforts, which can be done in a number of creative ways. For example, while some companies make cash contributions to local charities, most small businesses operate on tight budgets and thus need to look at different ideas such as engaging with community groups by providing employees as volunteers during their working hours or promising to contribute a specified percentage of profits to grassroots environmental groups.

- **Alliances.** Small businesses can extend their limited reach by forging relations with innovative business associations and tapping into the expertise of non-profit organizations. A growing number of trade associations and business networks are issuing environmental performance guidelines, preparing educational materials on environmental and social issues, and holding seminars on subjects of interest. In addition, assistance from non-profits interested in supporting sustainability programs and initiative is available in important areas such as environmental engineering, marketing and finance.

Source: International Institute for Sustainable Development, "IISD's Business and Sustainable Development: A Global Guide", https://www.iisd.org/business/tools/principles_sbp.aspx.

§13   --Reporting and verifying progress

In order to know whether or not the CSR initiative and its related commitments are actually improving the company's performance it is necessary to have in place procedures for reporting and verification, each of which are important tools for measuring change and communicating those changes to the company's stakeholders. Hohnen and Potts described reporting as "communicating with stakeholders about a firm's economic, environmental and social management and performance" and verification, which is often referred to as "assurance", as a form of measurement that involves on-site inspections and review of management systems to determine levels of conformity to particular criteria set out in codes and standards to which the company may have agreed to adhere.[21] Verification procedures should be tailored to the company's organizational culture and the specific elements of the company's CSR strategy and commitments; however, it is common for companies to rely on internal audits, industry (i.e., peer) and stakeholder reviews and professional third-party audits. Verification procedures should be established before a specific CSR initiative is undertaken and should be included in the business case for the initiative.[22]

One basic reason for reporting and verification is to make sure that the CSR initiative is properly managed and that persons involved understand they will be accountable for their actions. Other good reasons for reporting and verification include giving interested parties the information they need in order to make decisions about purchasing the company's products and/or investing in the company (the level of funding from investors focusing their interest on ethical businesses is continuously increasing) or otherwise supporting the company's community activities; collecting information that can be used to make changes and improvements to the company's CSR strategy and commitments; improving internal operations; managing and reducing risks; and strengthening relationships with stakeholders. However, in order to achieve the greatest benefits from reporting and verification companies need to carry out those activities in a rigorous and professional manner using tools and standards that are widely recognized and accepted among those interested in the results.

The scope of the company's reporting and verification efforts will depend on various factors including the size of the company, the focus of its CSR commitments and the financial and human resources available for investment in those activities. Ceres, a non-profit organization advocating for sustainability leadership (www.ceres.org), has developed and disseminated its Ceres Roadmap as a resource to help companies re-engineer themselves to confront and overcome environmental and social challenges and as a guide toward corporate sustainability leadership.[23] In the area of disclosure and reporting, Ceres stated that the overall vision was that companies would report regularly

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[21] P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 67.

[22] Companies using the Future-Fit business goals recommended by the Future-Fit Business Network can adopt the "fitness criteria" associated with each of the goals. See the discussion of the Future-Fit business goals elsewhere in this Guide and Future-Fit Business Framework, Part 1: Concepts, Principals and Goals (Future-Fit Foundation, Release 1, May 2016), 25, FutureFitBusiness.org.

[23] Ceres, The Ceres Roadmap for Sustainability (www.ceres.org/ceresroadmap)

on their sustainability strategy and performance, and that disclosure would include credible, standardized, independently verified metrics encompassing all material stakeholder concerns, and details of goals and plans for future action.

When establishing plans for reporting and verification it is useful to obtain and review copies of reports that have been done and published by comparable companies. Reports of larger companies are generally available on their corporate websites and extensive archives of past CSR-focused reports can be accessed through various online platforms such as CorporateRegister.com, a widely recognized global online directory of corporate responsibility reports. It is also important to have a good working understanding of well-known reporting and verification initiatives such as the GRI Guidelines; the AccountAbility AA1000 series; the United Nations Global Compact; and the International Auditing and Assurance Standards Board ISAE 3000 standard. Country-specific information is also available through professional organizations such as the Canadian Chartered Professional Accountants, which has published an extensive report on sustainability reporting in Canada.[24]

The scope and sophistication of CSR reporting has come a long way since the idea first came up in the mid-1990s, when only a handful of companies reported on social responsibility issues and activities in addition to their regular financial reports. Today almost all of the largest global companies produce reports on their environmental policies and activities, often providing interested parties with a whole range of documents that can be accessed in a separate yet highly visible section of the company website. Companies participating in the United Nations Global Compact are required to make an annual "Communication on Progress" that outlines the actions they have taken with respect to integrating the Compact's ten principles and to make the communication publicly available to stakeholders through annual financial, sustainability or other prominent public reports in print or on the company's website. The Compact recommends that companies follow the GRI Guidelines when preparing their reports.

While international standards like the GRI Guidelines provide a useful framework for comprehensive CSR verification and reporting, companies should remember that it is important to tailor the information in their reports to the needs and expectations of their specific primary audiences. While it has become more and more common among larger companies to generate large reports with glossy pictures, charts and graphs and detailed breakdowns of data, many interested parties prefer to a short executive summary that highlights the most relevant information and provides links to detailed reports, case studies and other materials. Information should be presented in a manner that reflects the company's overall organizational culture and provides recipients with a sense of what social responsibility means to the company's leaders and employees on a day-to-day basis. Finally, while reporting is certainly a positive public relations tool and companies will be eager to showcase their CSR successes, credibility demands that reports also

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[24] For detailed discussion of sustainability reporting, see "Sustainability Reporting and Auditing" in "Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

include transparent assessments of areas in which the company may have failed to achieved its previously announced objectives and disclosures on the reasons for those failures and the steps the company is taking to improve its performance and the metrics that will be used to evaluate how well the remediation is proceeding.

As discussed above, the company's information systems need to be set up in a way that allows for creating the metrics necessary to track the performance measures that are most appropriate for each of the CSR objectives and commitments. In order for this process to be effective, the company must be able to use the information to generate clear and meaningful reports for both managers and the company's stakeholders in order to allow them to make their own assessment of how well the company is doing in pursuing and achieving its objectives and commitments. CSR reporting actually has several dimensions, each of which will require a different form of report, albeit based on essentially the same pool of information: internal reports need to be created for members of the board of directors and the senior executives of the company so that they are able to monitor the implementation of the company's CSR objectives and commitments using appropriate performance metrics and make decision about the strategies and methods that are being used for implementation; external reports to allow all of the company's stakeholders—not just shareholders, but also creditors, employees, customers and the general public—to hold the company and its directors and senior executives accountable for the company's stated financial, environmental and social objectives and commitments; and regulatory reports, beyond those that may be required by federal securities regulators and securities exchanges, to track the company's compliance with specific regulations pertaining to environmental and social issues. In addition, if the company is formed and organized as a social benefit corporation, it will need to comply with applicable state law reporting requirements that call for information regarding the success of the company's efforts to pursue and achieve the specific public benefits set out in its charter documents.

The need to prepare reports relating to CSR activities creates another important process for companies: internal audits to ensure that the information included in the reports is accurate and complete. Auditing has long been a feature of financial reporting and companies reporting on CSR also need to engage in systematic, documented, periodic and objective evaluation of how well the organization is doing with respect to implementing its CSR objectives and commitments and complying with relevant policies and procedures. Internal auditing for CSR requires a multi-disciplinary team that includes engineers, scientists, auditors and attorneys with the necessary experience in both the substantive issues and the art and science of the testing and sampling associated with audit practice. Auditing is not only data-driven, but also includes insights from interviews, inspections and simple observations of employees engaged in their day-to-day duties. Interactions with external stakeholders will be needed during the audit process to confirm their impressions of company activities. Some companies draw on outside audit specialists to serve as consultants to facilitate the audit process.

Smaller businesses generally do not have the resources to engage a professional auditor or prepare elaborate reports on their CSR activities; however, this does not mean that

small businesses should avoid attempting to implement some basic and relatively simple steps for reporting the results of their sustainability efforts. The GRI has argued that transparent reporting and communicating about sustainability initiatives and programs creates valuable internal and external benefits for new and small businesses.[25] Among the internal benefits that were noted were the following:

- *Forging and Describing Vision and Strategy:* By placing their purpose, vision and strategy into the context of global sustainability during the course of the sustainability reporting new and small businesses can establish a direction for their activities and make that direction clear and explicit for their stakeholders.
- *Developing Effective Management Systems:* In order for sustainability management and reporting to be effective new and small businesses must invest in the development of management systems that can track and analyze data and use the results to identify and exploit opportunities for improvement, efficiency and cost savings.
- *Identifying Strengths and Weaknesses:* Committing to reporting and communicating drives managers of new and small businesses to seek out early warning signs of emerging issues that provide a chance to grasp opportunities and address potentially damaging developments before they grow into problems that threaten the survival of the organization.
- *Recruiting and Motivating Employees:* Communication, including reporting, is essential for recruiting and motivating employees through engagement in sustainability, leading to a workforce that is loyal and committed to the organization and its mission.

Important external benefits to new and small businesses from sustainability reporting and communication include building goodwill and reducing reputational risk; improving product image and branding; signaling quality and good management that leads to new sources of capital and reduced costs of financing; building or restoring trust among stakeholders through increased and improved stakeholder engagement; and increased customer satisfaction and loyalty, leading to more opportunities to collaborate with business partners as members of their trusted supply chain network.

Hohnen and Potts suggested that small companies could take several modest steps to report and verify their CSR initiatives[26]:

- While it is probably impractical to appoint a full-time CSR executive, small companies should at least designate one senior employee to monitor CSR activities and collect information that can be used to develop new CSR initiatives and report

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[25] Small Business Big Impact: SME Sustainability Reporting from Vision to Action (Amsterdam and Geneva: Stichting Global Reporting Initiative and the International Organization of Employers, 2016), 3. The publication is available for download at www.globalreporting.org.
[26] P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 72.

activities to stakeholders (the designated employee's existing duties and performance metrics should be rearranged to accommodate the CSR-related activities).

- A modest budget should be set up to cover anticipated CSR activities and key people in other departments (e.g., human resources, customer service, marketing and public relations, manufacturing etc.) should be asked to submit ideas for CSR projects and informed that they will be expected to work with the designated CSR employee on projects from time-to-time.
- Even if the company has not yet adopted one of the international CSR instruments, information regarding its CSR activities should be posted on the company's website and should include both successes and areas that have been targeted for improvement.
- Information on CSR activities can also be communicated to customers, suppliers and other business partners and community members by adding new sections to the company's brochures and pamphlets and posting pictures of activities that can be viewed by visitors to the company's facilities.
- Information about the company's CSR activities can be placed into local newspapers, a relatively easy and low cost public relations effort that has high impact among current and prospective employees, local customers and community members.
- Staff briefings on CSR activities should be held on a regular basis and small businesses should also invite business partners and community members to events at the company's facilities which showcase some of the things that the company is doing with respect to CSR.
- CSR should be placed on the agenda for all discussions with key customers, suppliers and other business partners in order to gather their input and ideas on things that the company can do in the CSR area and get feedback on current initiatives.
- Small businesses should begin with self-assessment of CSR commitments using well-accepted global guidelines as a reference point and use the self-assessment process as a means for preparing for more rigorous verification and reporting in the future.
- The company's website should report on the activities of employees who are volunteering with the support of the company in charitable activities focused on making a difference in cleaning up the environment. Internally, CSR activities can be publicized in a newsletter that discusses the benefits of a recycling program.

Questions for New and Small Businesses Launching Sustainability Reporting

Sustainability reporting is often seen as a daunting and challenging project for new and small businesses and sustainable entrepreneurs often complain that they do not know where to start. However, the Global Reporting Initiative ("GRI"), the developer of the GRI Standards used by thousands of organizations around the world to describe and report the progress of their sustainability initiatives and programs, and the International Organization of Employers partnered to generate the following list of questions that new organizations can use the develop a process for launching their reporting process:

- **Scope and Strategy:** *How does your organization communicate what it is and what it does, including showing your commitment to being environmentally, socially and economically responsible?* Provide a clear picture of how your organization creates value, and of your operations and activities. Explain how your business strategy incorporates sustainability into programs, priorities and executive level decision making. When describing value, consider value created for the company, the employees, local communities and the wider economy.

- **Governance and Accountability:** *How is your sustainability strategy led, and what policies and structures are in place to ensure organizational accountability when it comes to meeting sustainability objectives?* Show how your senior executives are involved in leading sustainability programs and key initiatives.
- **Stakeholder Inclusiveness:** *How does your organization identify the stakeholder groups that will have the greatest impact on your long-term viability? How do you engage with these stakeholders? How do you use their feedback to better understand and anticipate future risks and opportunities?* Identify your key stakeholders and show how they are being engaged. Explain how you have addressed–or will address–their highest priority topics and how this is reflected in your sustainability initiatives.
- **Material Topics:** *How does your organization present topics that are particularly important to you and your key stakeholders?* Indicate your material topics while explaining how these topics were identified and addressed both in your current strategy and programs and your strategic planning.
- **Key Performance Indicators, Performance and Impact:** *How does your organization measure sustainability performance? How do you know whether your sustainability performance is advancing, and how it is impacting society, the environment and your bottom line?* Use key performance indicators (KPIs) corresponding to high-priority topics to show how your performance is improving and whether you are meeting expectations/targets.
- **Data Quality:** *How clearly do you communicate your sustainability priorities, plans and performance? Do you provide a well-rounded picture of your successes, challenges, risks and opportunities? Are you open about improvement points? How do you prove the accuracy of your performance data and the credibility of your claims? Is the information presented in a way that is sufficiently accurate and detailed for stakeholders to assess your performance?* Sustainability reports should be credible. This means reports should be balanced and the data reported should be comparable, accurate, timely, clear and reliable. Show your stakeholders how a focused and effective sustainability program will improve your overall future direction (i.e., improving bottom line, reducing risks, increasing competitiveness), so that there is a strong link between sustainability and corporate strategy. Describe how your company addresses potential concerns about the reliability of data and claims through a combination of consistently applied internal auditing practices, independent quality assurance and feedback from stakeholders on the overall structure, topics and tone of the report.

Taken together, the above questions should prod the leaders of the organization to address several of the key elements for success in exercising social responsibility and pursuing sustainability in the course of the organization's activities. First of all, the organization needs to identify is core mission and purpose and the way in which it intends to provide value to each of its stakeholders. In order to achieve clarity regarding the expectations of stakeholders relating to the organization's value proposition, organizational leaders need to establish relationships with each of the stakeholder groups through engagement. Stakeholder engagement will ultimately lead to the identification of the organization's major sustainability goals and objectives, each of which will eventually become a "major topic" in the sustainability reporting process and will need to be supported by a strategy that can also be explained to stakeholders in the sustainability report. Once the goals and strategies associated with the organization's sustainability initiative and programs have been selected, the governance framework of the organization (i.e., policies and procedures) should be aligned with the strategy. This begins with the proper "tone at the top" and continues downward throughout the organization with clarity for everyone regarding their roles and responsibilities. In addition, in order for the organization to report on the progress of its sustainability initiatives and the success of its strategies, there must be performance indicators embedded in the strategy and investment in the systems necessary to generate and analyze the data required to track performance and report on it to stakeholders.

Source: Small Business Big Impact: SME Sustainability Reporting from Vision to Action (Amsterdam and Geneva: Stichting Global Reporting Initiative and the International Organization of Employers, 2016), 11-12. The publication is available for download at www.globalreporting.org.

While CSR reporting has already evolved significantly there will no doubt be important and interesting changes in the future as the appetite of the various stakeholder groups, particularly investors, for information on CSR management and corporate governance generally grows.[27] There is already intense discussion about non-financial reporting, sometimes referred to as "extra-financial reporting" or "intangibles" reporting, that would cover operational activities that are not yet formally regulated but are already embedded in global social responsibility standards and best practices regarding ethical business conduct. In fact, a number of companies already include both financial and non-financial information in their reports to the investors and other stakeholders and it is expected that disclosure requirements in investor reports will continue to be changed to incorporate more analysis of the impact of environmental and social responsibility initiatives on economic performance and the overall well-being of the communities that are served by the company. A popular format for integrating financial and non-financial reporting is the "triple bottom line" which facilitates incorporation of economic, environmental and social considerations into performance measurement and disclosures; however, others have argued that additional dimensions should be included such as culture and ethics.[28]

§14   --Evaluating and improving CSR initiatives

Verification and reporting, both important in their own right, should also be seen as the catalyst for careful evaluation of the effectiveness and scope of the company's CSR initiatives and generation of ideas for modifying and improving those initiatives. Hohnen and Potts admonished companies to use the results from the verification process, including information gathered from engaging stakeholders, to determine what is working well, why and how to ensure that it continues to do so; investigate what is not working well and why not, to explore the barriers to success and what can be changed to overcome the barriers; assess what competitors and others in the sector are doing and have achieved; and revisit original goals and make new ones as necessary.[29] While some might ask why this is necessary when a detailed report has been prepared at great expense it is important to distinguish the data and other information in the report from the process of thinking deeply about what the data and information really mean in practice. Questions that Hohnen and Potts suggested should be used in order to drive the evaluation process included the following:

- What worked well? In what areas did the company meet or exceed targets? Has the company celebrated its successes, an important way to continue motivating employees?

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[27] The discussion in this section is adapted from P. Hohnen (Author) and J. Potts (Editor), *Corporate Social Responsibility: An Implementation Guide for Business* (Winnipeg CAN: International Institute for Sustainable Development, 2007), 70.

[28] For further discussion of the "triple bottom line" and other dimensions of sustainability, see "Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[29] The discussion in this section is adapted from P. Hohnen (Author) and J. Potts (Editor), *Corporate Social Responsibility: An Implementation Guide for Business* (Winnipeg CAN: International Institute for Sustainable Development, 2007), 73-74.

- Why did it work well? Were there factors within or outside the company that helped it meet its targets?
- What did not work well? In what areas did the company not meet its targets?
- Why were these areas problematic? Were there factors within or outside the company that made the process more difficult or created obstacles?
- What did the company learn from this experience? What should continue and what should be done differently?
- Is the company using the right reporting indicators? Are they aligned with the company's overall mission and CSR commitments?
- Is the company engaging with the right stakeholders?
- Have the right persons for advancing CSR initiatives inside the company been identified and have they been given adequate support?
- Drawing on this knowledge, and information concerning new trends, what are the CSR priorities for the company in the coming year?
- Are there new CSR objectives?

Evaluations need to be done regularly, no less frequently than annually, and procedures should be established for tracking the results from evaluations year-over-year in order to gauge progress and identify any relevant patterns or trends. When conducting evaluations input should be obtained from people throughout the organization as line-level employees may have very different impressions of CSR initiatives than managers higher up in the organizational structure. When small businesses conduct an evaluation it need not be time consuming. In fact a good deal can be learned from having everyone in the company get together for a working meeting and planning session to go through the questions laid out above.

§15   Special considerations for stakeholder groups

Many commentators have identified stakeholder engagement as being a core principle of CSR and effective implementation of CSR requires an engagement plan for each of the company's key stakeholders. Hohnen and Potts described stakeholder engagement as the formal and informal ways of staying connected to the parties who have an actual or potential interest in or effect on a company's business (i.e., the company's "stakeholders") and noted that "engagement" implies understanding their views and taking them into consideration, being accountable to them when accountability is called for, and using the information gleaned from them to drive innovation.[30] Stakeholder engagement is about building relationships with the parties that are most important to sustainability of a company's business. Companies that fail to pay attention to the

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[30] The discussion of stakeholder engagement in this section is adapted from P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 76-84. See also Stakeholder Engagement: A Good Practice Manual for Doing Business in Emerging Markets (Washington DC: International Finance Corporation, 2007) and From Words to Action: The Stakeholder Engagement Manual (Cobourg, Ontario, Canada: Stakeholder Research Associates in collaboration with AccountaAbility, and the United Nations Environment Programme, 2005).

concerns and opinions of their stakeholders can suddenly find themselves confronted with an array of problems that go to the very heart of their businesses. When companies are unresponsive to their customers, they begin to lose business and revenues tumble. Companies that do not pay attention to the needs of their employees are unable to recruit and retain the talent necessary to remain competitive. Failing to explain strategies and financial performance to investors jeopardizes the availability of capital. Companies that do not stay in touch with the communities in which they are operating will encounter opposition to expansion and other changes that have a local impact. Other important reasons for focusing on engagement include building social capital, risk reduction, accelerating innovation, and integration and alignment of strategic and managerial practices among the various departments and business units involved in the implementation of the company's CSR commitments (i.e., finance, human resources, product development, marketing and communications, supply chain management etc.).[31]

Companies may have a wide range of actual and potential stakeholders; however, there are differences among the stakeholders as to the degree of influence they have on the decisions made by the company. The degree of influence dictates the type and level of engagement that is appropriate: for some stakeholders merely keeping them informed of developments will be sufficient while other stakeholders can and should be consulted during the CSR implementation process and participate actively in decisions about CSR commitments that affect them and their relationship with the company. Companies sometimes use a technique called "stakeholder mapping" to identify relevant stakeholders and their relative influence on the activities of the company. This exercise allows the company to prioritize its engagement efforts and allocate scarce resources to those stakeholders who will likely have the greatest impact on the CSR initiative. Hohnen and Potts suggested that the following criteria could be used to set priorities for the stakeholder engagement process[32]:

- The significance of the effect of the company in the view of the stakeholder (e.g., layoffs at the only plant in town will be very significant to workers, their families and other residents);
- The importance of the stakeholder group to operations (e.g., customers and key suppliers);
- The risk of gathering incomplete information by excluding a group (e.g., when a foreign subsidiary's only contacts are with government officials, it will be difficult to learn the concerns of local workers or residents);
- The opportunity to access new ideas (e.g., engaging a group that is likely to challenge current practices may provide fresh insight into a difficult problem; however, the company has to be prepared to actually change its approach);

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[31] For further discussion of stakeholder engagement, see "Stakeholders and Stakeholder Engagement" in "Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org). See also V. Nikolova and S. Arsić, "The Stakeholder Approach in Corporate Social Responsibility", Engineering Management, 3(1) (2017), 24.

[32] P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 79-80.

- The requirements of regulators or permit-issuing bodies (e.g., to get an operating license in certain countries, a company may be required to engage indigenous peoples);
- Some operations (e.g., emissions to land or water) may have extra-territorial impacts or implications that give legal or other grounds for special-issue groups to intervene; and
- The opportunity to share costs in addressing a specific challenge (e.g., by partnering with another company or non-governmental organization working on the issue).

§16   --Environment

Small businesses are often surprised to discover relatively simple ways that they can modify the way they carry out their businesses to contribute to improving the environment in which they operate. Among the possibilities are the following[33]:

- Reducing consumption of energy, water and other natural resources, and emissions of hazardous substances
- Using or producing recycled and recyclable materials, increasing the durability of products, and minimizing packaging through effective design ("reduce, reuse and recycle")
- Training and encouraging staff to look for additional ways to reduce the company's environmental footprint
- Using "green" (i.e., renewable energy) power electricity suppliers and energy-efficient lighting
- Joining or starting a local "green business" club that can help local firms access conservation grants and expertise for reducing waste, water use and energy
- Considering using video-conferencing to meet a potential supplier or customer rather than always physically travelling to meetings
- Establishing an environmental management system with objectives and procedures for evaluating progress, minimizing negative impacts and transferring good practices

§17   --Human resources management

Hohnen and Potts made the following suggestions to small businesses with respect to practical strategies they could implement to improve the level of sustainability in their human resource management ("HRM") practices[34]:

- Establishing policies to ensure the health and safety of all employees and make the policies known to employees
- Involving employees in business decisions that affect them and improve the work environment

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[33] P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 30.
[34] Id. at 30-31.

- Consulting employees on how to hand a downturn in business (e.g., offer the option of all staff taking pay cuts or reduced hours instead of layoffs)
- When layoffs or closures are unavoidable, offering outplacement services, retraining and severance benefits
- Providing training opportunities and mentoring to maximize promotion from within the organization
- Extending training to life management, retirement planning and care of dependents
- Being open to job splitting, flex-time and other work-life balance policies
- Sharing training and human resources programs with other local small businesses
- Considering supporting daycare for children or elderly dependents
- Encouraging a healthy workplace (e.g., implement a smoking ban or drug and alcohol abuse support program)
- Providing exercise facilities or offer subsidized membership at a local gym

§18   --Workplace diversity and human rights

In addition to their suggestion regarding HRM practices, Hohnen and Potts stressed the need for small businesses to promote diversity and human rights in the workplace by taking the following steps:

- Making sure that all staff know that there are explicit policies against discrimination in hiring, salary, promotion, training or termination of any employee on the basis of gender, race, age, ethnicity, disability, sexual orientation or religion
- Having a zero tolerance policy with regard to jokes or behavior in the workplace that insult employees on the basis of gender, race, age, ethnicity, disability, sexual orientation or religion
- Thinking creatively about where to advertise new jobs and whether there are any local employment programs (e.g., programs run by a local council or employer) to help find work for people who are homeless or disabled
- Paying comparable wages for comparable work

The practice of sustainable HRM extends beyond the immediate workplace to include HRM practices of business partners and Hohnen and Potts urged small businesses to actively support organizations that promote fair trade and human rights compliance and check where products are manufactured and look into any associated human rights concerns.

§19   --Community

As mentioned above, small businesses are heavily dependent on the communities in which they operate. These communities typically provide a large share of the company's business and serve as the primary source of human capital. The laws and regulations implemented by local regulators are significant to small businesses and can have a material impact on how the businesses are run and the costs associated with operations. All of this means that CSR initiatives for small businesses must include strengthen and

improving community ties. Small businesses can assist the communities in which they operate by[35]:

- Encouraging employee volunteering in the community and with financial contributions and help in kind
- Making some of the business's product or services available free or at cost to charities and community groups
- Looking for opportunities to make surplus product and redundant equipment available to local schools, charities and community groups
- Buying from local suppliers and strive to hire locally
- Offering quality work experience for students (i.e., job shadowing)
- Collaborating with local teachers to make the business the subject of a school project
- Using the business's experience to help a local school, charity or community group become more efficient and entrepreneurial
- Using some of the marketing budget to associate the business or brand with a social cause

§20   CSR for sustainable entrepreneurs

By the 1990s it was becoming clear that sustainability had "become a multidimensional concept that extends beyond environmental protection to economic development and social equity"—in other words, entrepreneurship guided and measured by the three pillars of the "triple bottom line".[36] Crals and Vereeck reasoned that "sustainable entrepreneurship" could be interpreted as a spin-off concept from sustainable development and that sustainable entrepreneurs were those persons and companies that contributed to sustainable development by "doing business in a sustainable way".[37] According to the Brundtland Commission, sustainable entrepreneurship is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local and global community as well as future generations.[38]

Bell and Stellingwerf defined sustainable entrepreneurship as "startups that introduce an innovation, with the aim to solve a sustainability-related market failure, which initiates the transformation of an industry toward sustainability".[39] The "innovation" could take the form of a product, process or service and the sustainability objectives behind these innovations were equally important as the economic objectives associated with them. The use of the term "startups" is intentional and significant as it explicitly differentiates sustainable entrepreneurship from the activities of established organizations, such as

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[35] Id. at 31.

[36] T. Gladwin, J. Kennelly and T. Krause, "Shifting paradigms for sustainable development", Academy of Management Review, 20(4) (1995), 874.

[37] E. Crals and L. Vereeck, "Sustainable entrepreneurship in SMEs—Theory and Practice", http://www.inter-disciplinary.net/ptb/ejgc/ejgc3/cralsvereeck%20paper.pdf [accessed July 18, 2016], 2.

[38] Id. For further discussion of sustainable entrepreneurship, see "Sustainable Entrepreneurship" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[39] Id.

corporations, to address sustainable development issues in their environment (i.e., corporate-sustainability/CSR initiatives). However, like any other startup, a sustainable entrepreneurial venture must have the capacity to survive, develop and grow. Rey referred to this condition as "viability" and emphasized that a sustainable entrepreneurial company must, at a minimum, cover all costs, enjoy continuous growth in size and output, make a positive return on turnover and, fundamentally, "remain out of financial danger for years".[40] In other words, the company must seek and achieve long-term sustainability in order to successfully pursue and achieve its goals and purposes and provide prospective stakeholders, including employees, with security that their contributions to the enterprise will be product value over an extended period.

While engaging with CSR is often a slow process for the owners and managers of traditional small businesses, sustainable entrepreneurs understand from the very beginning that authentically embracing CSR and various CSR practices makes good business sense. For example, when sustainable entrepreneurs take on and promote initiatives to make society as a whole happier and healthier they are also working to improve the conditions in the marketplace, thus improving the foundation for a thriving business. When the lives of potential customers are improved they become more prosperous and this means that they are better able to consider and purchase the products and services that the sustainable entrepreneur and others are offering. In addition, implementing sustainable practices such as using less packaging and reducing energy waste not only helps to conserve the environment it also helps sustainable entrepreneurs cut their costs and improves the quality of the workplace for employees. Other business benefits of CSR, which are extremely important to startups struggling to survive and find their niche in competitive marketplaces, include brand differentiation, access to talented workers interested in working for companies with a socially responsible mission and alignment with a rising tide of consumer awareness and demand for businesses to act responsibly and offer products and services that are not only useful but which also contribute to sustainability.

§21   --Profitability matters

Sustainable entrepreneurship is not about setting profitability aside; in fact, a strong business model and profitability strategy is just as important as the social and environmental missions to the sustainability of a new business. Sustainable entrepreneurship begins with a quality product or service that will resonate with customers and form the foundation for a business that generates profits that can be invested into the chosen social or environmental cause. While more and more consumers are willing to pay a premium for sustainable products, those products must nonetheless survive in competitive markets and the initial excitement about a cause-related product will soon evaporate if the product does not deliver the value that customers expect. If the sustainable entrepreneur is unable to build a successful business from a financial

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[40] L. Rey, Sustainable Entrepreneurship and its Viability (Rotterdam: Master Thesis for MS in Entrepreneurship, Strategy and Organizations Economics from Erasmus School of Economics, December 2011), 14.

perspective, there is no "cause" and the sustainable entrepreneur will not be able to achieve the environmental and social impact that drove him or her to launch the company in the first place.

Sustainable entrepreneurs can take advantage of various innovative tools for securing financing, such as crowdfunding; however, even the most enthusiastic supporters of a social or environmental cause will eventually want proof that their capital has been effectively deployed and that the sustainable entrepreneur has pursued his or her stated mission and goals. Efforts to make investing in new ventures of all types have led to an explosion of promoters seeking capital for their businesses and sustainable entrepreneurs will find themselves in a crowded and noisy financial marketplace. If they are slow to execute they will buried and will find it difficult, if not impossible, to secure additional outside funding, regardless of how compelling their social or environmental case might be. All this means that they need to put the basic elements of their CSR program in place as they develop their initial business model so that a realistic budget can established, stakeholder engagement can begin at or before launch and realistic financial and CSR targets and milestones can be set, measured and reported on.

Investment Criteria of Sustainable Investors
Sustainable investors are concerned not only with what companies are striving to accomplish, but also with the way in which those companies intend to operate and the values and methods that will be used by the principals of the companies. Specifically, sustainable investors look for individuals and companies that value and exhibit transparency and honesty and candor in communications among stakeholders; define economic success by social and ecological impact, not just financial results; have an entrepreneurial spirit and culture that encourages and fosters innovation and continuous improvement; and which are truly pioneers in their areas interested in building the fields in which they operate through collaboration and "open sourcing" of methods and ideas. Sustainable investors also tend to be particularly interested in developing and maintaining close, long-term relationships with their investees and providing them with appropriate support and resources throughout the investment period. One way this is accomplished is by matching entrepreneurs with local investors from the same community to develop a sense of shared responsibility and facilitate face-to-face interaction.   Enterprises seeking financing from social venture capital funds and other sustainable investors need to understand the criteria that these types of investors use when evaluating potential portfolio companies. A modest survey of the published investment criteria of various investors indicates that are looking for companies that[41]:   • Have a primary, clear objective to achieve significant social change and a business model in which generating social impact is an essential and necessary part.   • Provide goods and services that meet human needs and have significant social impact (e.g., food, medicine, clothing, housing, heat and light, transportation, communication, recreation, renewable energy, and "green" products and services). These goods or services must be based on core technology that is economically better or create greater social impact than what is available currently through the market, aid, or charitable distribution. Sustainable investors prefer and expect evidence of customer feedback on the utility of the proposed goods or services.   • Have a clear business plan and model that demonstrates the potential for financial viability and sustainability within a five to seven year period, including the ability to cover operating expenses with operating revenues and generate a fair return for investors.

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- Have a strong and experienced management team with the skills, will, and vision to execute the business plan, an unwavering commitment to achieving the desired social impact in an ethical manner.
- Demonstrate a clear path to scale for the number of end users over the anticipated investment period, and be positioned as one of the leaders in the market.
- Provide positive leadership in the areas of business operations and overall activities that are material to improving societal outcomes, including those that will affect future generations.
- Balance the needs of financial and nonfinancial stakeholders and demonstrate a commitment to the global commons as well as to the rights of individuals and communities.
- Advance environmental sustainability and resource efficiency by reducing the negative impact of business operations on the environment, managing water scarcity and ensuring efficient and equitable access to clean sources, mitigating impact on all types of natural capital, diminishing climate-related risks and reducing carbon emissions, and driving sustainability innovation and resource efficiency through business operations and products and services. Red flags for sustainable investors would include a record of poor environmental performance and failure to comply with applicable laws and regulations, activities that contribute significantly to local or global environmental problems, and/or risks related to the operation of nuclear power facilities.
- Establish an environmental management system with objectives and procedures for evaluating progress, minimizing negative impacts, training personnel and transferring best practices to customers, suppliers and other participants in the marketplace through trade associations and other collaborations.
- Contribute to the quality of human and animal life. Sustainable investors will not invest in companies that abuse animals, cause unnecessary suffering and death of animals, or whose operations involve the exploitation or mistreatment of animals.
- Contribute to the community through charitable giving, encouraging employee volunteering in the community, making products and services available free or at cost to community groups and supporting local suppliers and striving to hire locally.
- Respect consumers by marketing products and services in a fair and ethical manner, maintaining integrity in customer relations and ensuring the security of sensitive consumer data.
- Respect human rights, respect culture and tradition in local communities and economies and respect Indigenous Peoples' Rights. Sustainable investors will not invest in companies that have exhibited a pattern and practice of human rights violations or have been directly complicit in human rights violations committed by governments or security forces.
- Promote diversity and gender equity across workplaces, marketplaces and communities. Sustainable investors look for diversity throughout the organization, beginning with the board and senior management team, and will not invest in companies that discriminate on the basis of race, age, ethnicity, religion, gender, sexual orientation or perceived disability or support the discriminatory activities of others in their workplaces, marketplaces or communities. Red flags include a record of consistent violations of workplace-related laws and regulations and failure to adopt and enforce explicit policies against discrimination in hiring, salary, promotion, training or termination of employment.
- Demonstrate a commitment to employees by ensuring development, communication, appropriate economic opportunity and decent workplace standards. Sustainable investors will not invest in companies that have been singled out for serious labor-related actions or penalties by regulatory agencies or that have demonstrated a pattern of employing forced, compulsory or child labor. Sustainable investors seek confirmation that companies have implemented and follow personnel policies that promote the welfare of their employees, adhere to internationally recognized labor standards, value employee welfare and safety, pay a living wage to its employees and maintain a reasonable ratio of CEO earnings to average employee earnings, maintain cordial and professional relations with labor unions and bargain fairly with their employees, and follow sustainable employment practices.
- Save lives by guaranteeing product safety while promoting public health. Concerns for safety and public health caused sustainable investors to reject proposals from companies engaged in certain "prohibited business activities" such as the manufacture and/or sale of tobacco products; the manufacture of alcoholic beverages or gambling operations; the manufacture and/or sale firearms and/or ammunition; or he manufacture, design or sale of weapons or the critical components of

weapons that violate international humanitarian law.
- Provide responsible stewardship of capital in shareholders' best interests.
- Exhibit accountable governance and develop effective boards that reflect expertise and diversity of perspective and provide oversight of sustainability risk and opportunity. Sustainable investors will shun companies that have demonstrated poor governance, including failure to practice transparency in disclosures to shareholders or respond to shareholder communications or proposals, or engaged in harmful or unethical business practices.
- Commit to an external code or standard or a set of business principles that provides a framework to measure the company's progress on environmental and social issues.
- Integrate environmental and social risks, impacts and performance in their material financial disclosures in order to inform shareholders, benefit stakeholders and seek their ideas and views and contribute to company strategy.
- Lift ethical standards in all operations, including in dealings with customers, regulators and business partners. Sustainable investors require that the companies in which they invest adopt and rigorously follow codes of conduct that are based on recognized global best practices to guide their policies, programs and operations.
- Demonstrate transparency and accountability in addressing adverse events and controversies while minimizing risks and building trust.

Sustainable investors often focus their activities on companies engaged in addressing needs, problems and challenges in a specific societal domain and/or geographic area. Popular target societal domains include agriculture, education, safety, demography, community, poverty, environment, health and well-being, housing, and ethical goods and services. Geographic areas that have attracted substantial interest from sustainable investors include East Africa, West Africa, India, Pakistan and Latin America.

Given the nature of some of the requirements described above, it is not surprising that many sustainable investors are not interested in pure "startups" and are looking for companies that have advanced to the "early stage" of development and have identified a stable business model that has already achieved some minimum level of revenues.

Many sustainable investors have developed "exclusionary criteria" that list activities and other characteristics that will disqualify companies from investment consideration. For example, a sustainable investor is quite likely to rule out funding companies that:

- Are involved in the extraction of carbon based resources, such as coal, petroleum, and natural gas, for the production of fossil fuels;
- Are primarily involved in producing or distributing alcohol or tobacco products;
- Develop, manufacture or profit from weapons, including conventional, chemical, biological, and nuclear weapons;
- Generate nuclear power;
- Genetically modify seeds or living organisms (although such activities may be allowed with a showing of countervailing social benefits such as demonstrating leadership in promoting safety, protection of Indigenous Peoples' Rights, the interests of organic farmers and the interests of developing countries generally);
- Are involved in the gambling, gaming or adult entertainment industries;
- Have primary business practices that involve the inhumane treatment of animals; or
- Have profited from conspicuous consumption, land speculation, predatory financial practices, or privatized detention facilities.

Source: The criteria identified and discussed in the text draws upon a review of published criteria of various social venture firms and investors including Calvert Group, Acumen Fund, City Light Capital and Root Capital. Each investor has its own specific set of requirements based on its goals and objectives. For links to information on other social venture capital firms, see Cause Capitalism "15 Social Venture Capital Funds That You Should Know About", http://causecapitalism.com/15-social-venture-capital-firms-that-

you-should-know-about/#sthash.A7KQmImG.dpuf [accessed June 1, 2016].

§22   --Authenticity

Many, although certainly not all, entrepreneurs are quite good at aggressively promoting their ideas and promises for new products and businesses, including the ways in which they intend to positively address social and/or environmental problems. However, stakeholders such as employees and customers are not interested in CSR promises that are not authentic and which are done for show while profitability remains the primary goal for the business. Many companies, large and established as well as startups, have viewed CSR as just another marketing scheme and failed to integrate sustainability deep into their culture and operational activities. For example, a company might tout that it will donate a product or a certain sum of money for each product purchased by a consumer. This is better than nothing; however, the value of such initiatives will quickly come into question if the company has made no real effort to incorporate sustainability into the sourcing, manufacturing and distribution activities associated with those products. For many companies, CSR means telling customers that if they purchase a good the company will donate the same good to someone who can't afford it; however, it may be more impactful to commit to setting aside a portion of revenues from product sales to and transferring that amount to a nonprofit engaged in research that will ultimately have a larger impact on needy communities. Failing to be truly authentic about a stated CSR mission, and backing it up with passion and actions rather than just words, can be more damaging to a company's reputation than saying and doing nothing at all. Social media makes it easy for critics and influencers to quickly distribute word about a company's failure to do what it says it was going to do. Companies should not be shy about promoting their genuine CSR initiatives; however, it is best to actually begin executing on those initiatives before talking too loudly about them.

§23   --Putting people first

The traditional economic model for entrepreneurship has generally focused on a handful of fungible resources: capital, labor, technology and elements of nature. In this model, entrepreneurs make decisions with respect to these resources that are focused on maximizing return on capital. Missing from this model is an equal commitment to the well-being and happiness of the real people who are touched by the activities of the business: individual consumers that purchase and use the company's products; the managers, employees, contractors and volunteers who provide services to the company; and the residents of the communities in which the company operates. From the outset, sustainable entrepreneurs need to put these people first and understand their needs and expectations with respect to their relationships with the company. Sustainable entrepreneurs need to commit to a transparent and honest relationship with people, one in which communication goes both ways. By doing so, the company can attract and retain talented workers, build a loyal customer base and forge strong and enduring relationships with the communities in which they operate.

§24   --Operating beyond ethics

It is common to think of "social responsibility" and "ethics" as being one and the same; however, this is a mistake that truly sustainable entrepreneurs understand and avoid and realize that their businesses must be run in a way that goes beyond ethics ethical actions do not alone amount to social responsibility. A relatively simple illustration is the now common practice among American firms of sourcing manufacturing activities out of the US. In general, outsourcing of this type if not unethical; however, it becomes problematic when it is done in a manner that is not socially responsible (i.e., knowingly or negligently countenancing poor working conditions for local workers and/or displacing larger number of US workers who had been relying on the work that is being outsourced). Similarly, there is nothing ethically wrong with variations in compensation among executives, managers and workers; however, the enormous gaps between CEO pay and the compensation provided to the lowest paid employees in many public companies has been roundly criticized as a sign that those companies do not really care about their workers and should not be perceived as acting in a socially responsible manner. While not the same, social responsibility and ethics should each have a prominent place in every aspect of the company's operational activities and the interactions that the company has with its stakeholders.

§25   --Developing and embedding a sustainable purpose and mission

A sustainable entrepreneur is no different than any other entrepreneur: he or she needs to identify and adopt a clear business purpose. For sustainable businesses, however, that business purpose needs to include a long-term commitment to continuous efforts relating to making a positive contribution to society through responsible behavior and actions. While businesses have thrived and survived without taking a proactive stance regarding sustainability issues, the landscape is changing and many potential customers are extremely interested in building relationships with companies that "stand for something" that is also important to the customer. Having a social mission not only open opportunities in the market, it also allows companies to demonstrate commitment to their communities and the environment, find new ways to promote their brands, improve their reputation, and forge partnerships with well-respected organizations that have already become involved in working on a particular sustainability issue.

Many sustainable entrepreneurs bring their mission to their business from the very outset. They have made a decision about the issue or cause that is most important to them and then select products, services and/or sustainability activities that are clearly aligned with solving the issue or mitigating the harm being caused by a particular social problem. Eventually, the mission becomes an integral part of the company's brand. If, however, the company is looking to develop a mission after it has been in business for a while, the brand that it has already developed is probably a good place to start. A brand is a ready-made statement of what the company is and what it already stands for in terms of the expectations of customers and the company can use what is already known to narrow down the choice of causes that might be appropriate for the company's social mission. If a product can be designed and produced in an environmentally friendly manner there is a

natural connection to an eco-mission. If the design and use of the product itself does not immediately bring a social mission to mind, consideration can be given to having the company get more involved with its local community and/or donating cash, goods or volunteer time from employees to a charity or an institute doing research on an important medical problem. The question that needs to be asked and answered is why is the company in business and what impact, beyond profitability, can the company make in larger world in which it operates.

Companies should avoid "niche", or narrowly drawn, causes and define their missions broadly in order to have more opportunities to make an impact and engage with a larger audience. Some sustainable entrepreneurs are interested in pursuing political causes; however, politics often divides more than it unifies and may not be the best choice of mission. In addition, missions need to have a long shelf life and this means that missions tied to a single person or brand should be avoided since there is too much risk of something happening that causes the person or brand to fall out of favor. Whatever mission is selected, it must be something that the entrepreneur is passionate about and which is more important to him or her than making a lot of money, although profitability is certainly important to the extent that it allows the company to survive to pursue its mission and acquire the resources necessary for being successful in that pursuit. This means that the mission cannot be just an "add on" to the business. It has to be authentic and embedded in the core of the company's brand and culture. If this does not happen then the company will derive no value from its sustainability initiatives and consumers and other potential critics in a world connected by social media will quickly sense the possibility of "green washing" and the company's reputation will suffer dramatically.

Once the mission has been selected the company needs to have a multi-pronged approach for implementation and embedding the mission through the organization and in all of the company's internal and external activities. The first step is to prepare and widely disseminate a mission statement that clearly highlights how social responsibility fits into the company's business agenda. Then, there are a number of other things that can and should be done including integrating the mission into the company's brand through modifications of the company's brand guidelines and corporate identity; displaying the mission broadly on the company's website, in press releases and in marketing materials; developing ways to empower employees to become engaged in the mission such as creating volunteer programs and distributing information about the mission to employees to ensure that they are aware of what the company is doing and that they understand the importance of the mission and their support of the mission; creating and executing opportunities to demonstrate the mission in visible ways such as donating cash, hosting a fundraising event or having a team of employees volunteer at an organization engaged in mission-related activities; and developing partnerships with other organizations, as well as individuals, involved in supporting the same mission. All of these activities are intended to enhance the visibility of the company's mission and draw the company into the broader network of people and organizations working on the same cause. While the steps can be modest or robust, depending on the resources of the company, there must be a real commitment to execution since the mission will soon become an integral part of the company's identity in the minds of its stakeholders.

Kotler and Lee's "Best Practices for Doing Good"

According to Kotler and Lee, there are five C's in CSR businesses must fulfill: "conviction", which means striving for real improvement in business performance and not just public relations; "commitment", which means "when we commit, we deliver"; "communication", which means that the business has "committed to open, honest, and direct communication with all the stakeholders; "consistency", which is the recognition that CSR is a process of continuous implementation and improvement; and "credibility:, which means the efforts of the business with respect to social responsibility must be perceived as credible and worthy of trust. Kotler and Lee famously suggested 25 "best practices for doing good" that corporations could consider when developing and implementing their social responsibility programs and initiatives. Among those practices were the following:

• Enhance public awareness and concern for a particular cause through the support of promotional communications.
• Support fundraising for a cause by encouraging customers and others in the community to contribute to the cause.
• Increase communication participation in cause-related activities by providing promotional support and access to distribution channels.
• Support efforts to influence individual behavior change and industry business practices that improve public health (e.g., launch awareness programs in the workplace regarding health, safety or environmental issues).
• Provide increased funds and other resources that help charities and cause efforts make ends meet and or expand efforts.
• Increase the number of volunteers donating their expertise, ideas and physical labor to a cause by promoting voluntarism in the community and supporting employee volunteer efforts.
• Build a strong corporate reputation, as key constituents observe action that supports promises of good corporate citizenship and responsibility.
• Contribute to overall business goals by opening up new markets, such as by providing opportunities to build long-term relationships with distributors and suppliers.
• Attract and retain a motivated workforce by being known for involvement in the community, and for providing employees an opportunity to become involved in something they care about and to receive corporate support and recognition for doing so. Build strong community relationships with organizations and agencies that can provide technical expertise and extend campaign reach by providing access to members and donors also supporting the cause by offering a credible endorsement for the corporation's efforts and commitments.

Source: P. Kotler and N. Lee, Corporate Social Responsibility – Doing the Most Good for Your Company and Your Cause (New Jersey: John Wiley and Sons, Inc., 2005) (as described in S. Soundarya, "Corporate Social Responsibility: A Contemporary Approach Towards Sustainable Development", IOSR Journal of Business and Management; and C. Masuku, Corporate Social Responsibility Literature Review and Theoretical Framework, available at https://www.academia.edu/2172462/CORPORATE_SOCIAL_RESPONSIBILITY_LITERATURE_REVIEW_AND_THEORETICAL_FRAMEWORK).

§26   ----Bottom of the pyramid

Some companies, large and small, elect to focus their CSR activities on what has been described as the "bottom of the pyramid", which includes the poorest people around the world who desperately need support from those who are more well off to improve their lives and become more self-sufficient. Programs in this area may include not only

donations of needed goods but also contributions to training programs to improve skills and improve living and working conditions, often with the hope that the communities will become more prosperous and a source of revenues for the company in the future. For example, when Coca-Cola announced an initiative to empower millions of women entrepreneurs around the world it not only hoped to support the creation of new businesses it also hoped that at some point the people working for those businesses would become Coca-Cola customers.

§27   ----Philanthropy

Corporate philanthropy has been described as "a direct contribution by the corporation to a charity or causes, most often in the form of cash, grants, and donations and or in kind services".[42] According to Kotler and Lee, philanthropy has been one of the traditional corporate social initiatives and corporate giving has been a major source of support for community health and human service agencies, education, the arts and organizations working to protect the environment.[43] Before engaging in a philanthropic activity, the company needs to select a cause that reflects one of its priority areas for CSR, determine the type of contribution to be made; and identify a recipient for the contribution (e.g., an existing nonprofit organization, a foundation or public agency such as a school). A list of the options for contributions that are commonly considered and used includes cash donations, grants and scholarships, donations of products and/or services, providing expertise, allowing the use of facilities and distribution channels, offering the use of equipment and sponsoring activities by providing financial or material support.[44]

When determining the best way to contribute, companies must take into account the resources and skills that the company has available, the expectations of the company's stakeholders and the contributions that are already being made by others interested in the same mission. For example, a company may make a cash donation; however, care must be taken not to unduly impair available cash flow that is needed for other activities. If cash is the preferred method for contributing, perhaps that the donation can be tied to product sales (e.g., for every product purchased the company will donate a specified amount to a cause aligned with its mission). Eco-related missions are generally best pursued through improvements in product design and/or waste reduction and energy conservation programs inside the company. Smaller companies often get involved in their missions through volunteer programs. The key point for the social entrepreneur is to act creatively in seeking and identifying opportunity to help.

§28   ----Investing in sustainability-related actions and programs

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[42] C. Masuku, Corporate Social Responsibility Literature Review and Theoretical Framework, available at https://www.academia.edu/2172462/CORPORATE_SOCIAL_RESPONSIBILITY_LITERATURE_REVIEW_AND_THEORETICAL_FRAMEWORK

[43] P. Kotler and N. Lee, Corporate Social Responsibility – Doing the Most Good for Your Company and Your Cause (New Jersey: John Wiley and Sons, Inc., 2005)

[44] C. Masuku, Corporate Social Responsibility Literature Review and Theoretical Framework, available at https://www.academia.edu/2172462/CORPORATE_SOCIAL_RESPONSIBILITY_LITERATURE_REVIEW_AND_THEORETICAL_FRAMEWORK

The company should build specific actions and programs into its strategic plan that are directly tied to its overall mission and social responsibility goals. For example, companies may set aside funds for targeted grants to nonprofits and community organizations, enter into partnerships to pursue and complete infrastructure projects in impoverished areas and provide employees with paid time off work to volunteer with programs that are related to the company's social mission.

§29 --Customer engagement

Many entrepreneurs, and established traditional businesses, are skeptical about the profitability and viability of business models that are based on sustainability; however, the reality is that consumer demands and expectations have opened up substantial opportunities for sustainable entrepreneurship and revitalizing the businesses of mature companies that have only emphasized profits in the past. Surveys taken in all parts of the world have provided support for the proposition that consumers would consider and purchase sustainable products whenever possible, prefer to do business with companies that have an established positive record with respect to CSR and would stop buying products and services from firms found to behaving in an unethical manner. Understanding what drives consumer decisions is important and companies should consider diverting some of their traditional investment in marketing toward sustainability-related initiatives that will resonate with consumers such as new technologies to conserve energy and support for philanthropic projects.

Many companies find ways to integrate their social and environmental mission with the branding for their products and rely on CSR as a means for differentiating their brand, products and services from others in what is always a fiercely competitive marketplace. For example, promoting products made with "sustainable materials that are kind to the environment" not only helps build the brand but also demonstrates the success that the company is having in giving back to the communities in which it operates. Designing and selling high quality products that consumers want to buy not only generates the profits necessary for a business to be sustainable it also provides a foundation for turning customers into advocates and promoters of the company's brand and its sustainability mission, thereby contributing to the viral dissemination of goodwill regarding the company that is so important during the startup phase.

§30 --Employee engagement

Competition for the best human resources is always fierce, particularly for startups that need talented personnel to accelerate their progress, and sustainable entrepreneurs need to quickly build a committed team that can help build out the company's mission and achieve traction in a crowded market. In order to retain talented employees every business needs to focus on engaging them in their work and building a sense of loyalty and commitment to the company and its mission. With respect to sustainability, this means making sure that CSR is tightly embedded in the overall workplace culture and that prospective workers can see that the business is committed to contributing to society

and not just making profits for the benefit of investors and a few insiders. In addition, of course, sustainable entrepreneurs need to adopt the practices described above with respect to HRM and promoting diversity and human rights in the workplace.

A variety of strategies can be used to create and maintain a sustainability-focused organizational culture; however, the process should begin by inviting as many as possible inside the company into the process. Meetings should be held where the founders and the other members of the executive team present their ideas about the company's mission and elicit suggestions and feedback from employees as to what they see as being important and how they would like to participate. The participants should be focusing on identifying and implementing widely accepted practices that reinforce the social mission and engage employees by having them do things they enjoy and find personally rewarding. For example, team events such as having groups of employees engage in volunteering are great bonding experiences. Just as important is a regular forum for discussing how sustainability fits into the company's overall brand. The bottom line is that involving employees in the formulation of the mission and related strategies ensures that they understand the path that the company is taking and social purposes associated with their day-to-day activities and interactions inside and outside the company.

The rewards for employers can be substantial: the company will stand out among the alternatives available to talented workers and those that do join the company, particularly younger workers, are more likely to stay with companies that support their passion for pursuing and achieving social and environmental good. In addition to lower turnover costs, satisfied employees are most likely to become passionate ambassadors for the company and its brand among customers and members of the broader community. Since their hearts and minds are closely tied to the business and its goals they will work harder on making customers happy and satisfied customers become loyal supporters and recommend the company and its products to their friends, which helps to expand the company's customer community, spreads the word about the company's mission and improves the "triple bottom line".

Part of the process of recruiting the most talented people to work for a business is making sure that the company's website provides a clear and compelling picture of what the company stands for and how it might be to work there. Sustainable entrepreneurs should make sure that their company websites include a separate tab or area devoted to social and environmental responsibility that can be easily access and provide visitors with descriptions of the programs the company has put in place and the activities that employees engage in. Among other things the website should include articles, pictures, videos, case studies, lists of community awards, descriptions of CSR partnerships and relevant company policies. Assuming that the company has a progressive volunteer program, interviews with employees can be featured along with video footage of volunteer activities. The bottom line is that the website should celebrate the company's commitment to CSR and demonstrate its valued and central place in the company's overall mission and values.

Employee engagement will be most effective when employees are passionate about the business model, the company's mission and the products and services that the company develops and markets in connection with that mission. Sustainable entrepreneurs need to be passionate about their cause and the business they are building and want to be surrounded by co-workers who share that passion. Unfortunately, while the skills needed to successfully operate a business can usually be found, or taught, passion comes from within and no amount of training can light a fire in someone that isn't already there when he or she joins the company. Founders need to test potential candidates to see if they have requisite passion and then make sure that every aspect of the job experience for employees builds and leverages that passion.

§31   --CSR partnerships

Many companies, especially smaller ones, decide that the quickest and most efficient way for them to begin implementing their CSR initiatives is through partnerships with other organizations. In fact, from the outset, sustainable entrepreneurs, lacking internal resources, need to rely on partnership to build their businesses and accelerate their reach in pursuing their sustainability objectives. For example, many companies choose to give back by announcing that for every sale of a good to consumers they will donate the same good to needy communities; however, in order for this strategy to be effective the company must identify reliable partners in those communities that can ensure that the donated goods make their way to people in need.

In many cases there are already groups engaged in working on a particular issue that have more resources and experience and a company can make better progress by partnering with those organizations and providing them with time, money and social capital. The partnership can be a good way for the company to learn about the issues and the strategies that they might eventually be able to implement on their own. However, companies need to choose their partners carefully and make sure that they will be able to closely monitor the partner's activities and see exactly how the contributions are being used. If the potential partner is not transparent about its activities, it is not a good fit. Being aligned with an organization that turns out to a bad actor, or otherwise dishonest about its activities, can significant damage a company's reputation even if it had only the best of intentions in entering into the partnership.

§32   --Sustainable sourcing

Sustainable entrepreneurs need to think about way to incorporate sustainability into every aspect of their projected value chain. For example, every business has sourcing issues and sustainable entrepreneurs will establish and maintain standards in its supply chain management strategies and processes that ensure that preference will be given to suppliers that can provide fair trade ingredients and other inputs created in a sustainable manner. In many cases, preferences will be given to local suppliers as a way to contribute to the overall financial and social health of the community. Of course, the sustainable entrepreneur understands that his or her business must provide quality

products to consumers in order to survive, so sustainable sourcing must also mean that the company has accesses to the inputs necessary to produce the best products.

§33   --Personal branding of the sustainable entrepreneur

While everyone's personality is different, sustainable entrepreneurs should understand and consider the power and influence associated with building a personal brand that is aligned with the company's mission and using their brand to promote the causes for which the company was formed.   Some sustainable entrepreneurs press outward to become recognizable leaders and organizers with respect to their chosen cause.   This approach can be valuable to the company; however, the entrepreneur must understand that his or her activities will reduce the time available for company-specific activities and must also be prepared for the additional scrutiny that comes with more public visibility.

About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project (www.seproject.org). In addition, Alan's prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is on online-only product available and featured on Thomson Reuters' Westlaw, the world's largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 40 books on sustainable entrepreneurship, management, business law and transactions, international law business and technology management for a number of publishers including Thomson Reuters, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, CCH and BNA. Alan has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Boalt Hall, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on a diverse range of topics including corporate finance, venture capital, corporate law, Japanese business law and law and economic development, He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan, his publications or the Sustainable Entrepreneurship Project, please contact him directly at alangutterman@gmail.com, and follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/).

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts.

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