

# **Social Responsibility & SME Competitiveness**

**How does CSR affect the domestic competitiveness of  
SMEs in Finland?**

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Abstract  <p>In current day society and economy, one cannot avoid the term social responsibility anymore. It has become a global trend triggered in part by pressing environmental concerns and increased awareness of for example working conditions abroad. Unsurprisingly, a lot of research has been performed on the matter, although mainly with larger companies in mind.</p> <p>Therefore, qualitative interviews have been held in search of findings on the relationship between social responsibility and small- and medium-sized enterprises (SMEs). The main aim was to gather results applicable to Finnish SMEs, since results would probably vary depending on the region or country. Competitiveness was one of the main measures in mind when analysing results. Hopes were set on offering at least indicative results that could offer an insight on the potential effects of social responsibility engagement by an SME on its own competitiveness and providing a reference for future research.</p> <p>Acquired data was qualitative of nature in the form of live interviews with SMEs and other organizations. Interview transcription texts were organised by theme whereafter the themed results were analysed through a theoretical framework based on previous research and their applicable findings.</p> <p>Results unveiled inter alia sources of social responsibility costs, social responsibility opportunities and a strict attitude of consumers and organizations towards socially responsible endeavours. The benefits and challenges of social responsibility measures for SMEs were various to such an extent that it will depend on the SME and its circumstances whether social responsibility has a positive effect on the company's competitiveness or not.</p>		
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Työn nimi <b>Yhteiskuntavastuu &amp; PK-yritysten Kilpailukyky</b> Miten yhteiskuntavastuu vaikuttaa Suomessa olevien PK-yritysten kotimaiseen kilpailukykyyn?		
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Tiivistelmä <p>Nykyisessä yhteiskunnassa ja taloudessa ei ole enää mahdollista jättää huomiotta yhteiskuntavastuuta. Yhteiskuntavastuu on kiistämättä osa globaalia kehityssuuntaa ympäristöä uhkaavien haasteiden ja kasvaneen tietoisuuden vuoksi, kuten esimerkiksi koskien kehitysmaiden työoloja. Tämän takia erityisesti suuryritysten yhteiskuntavastuuta on tutkittu varsin paljon.</p> <p>Tässä yhteydessä tutkittiin pienten ja keskisuurten yritysten (PK-yritysten) suhdetta yhteiskuntavastuuseen kvalitatiivisten haastatteluiden avulla. Koska tulokset todennäköisesti vaihtelevat alueellisesti sekä maittain, päätavoitteena oli löytää tuloksia, jotka soveltuvat suomalaisiin PK-yrityksiin. Analyysissa kilpailukyky oli yksi tärkeimmistä mittareista. Tavoitteena oli löytää indikaatiivisia tuloksia, jotka tarjoavat käsityksen yhteiskuntavastuun sidonnaisuudesta PK-yritysten kilpailukykyyn ja löytää aiheita jatkotutkimukselle.</p> <p>Kvalitatiivinen tutkimusaineisto pohjautui haastatteluihin PK-yritysten ja muiden organisaatioiden kanssa. Litteroinnit järjestettiin aiheittain, jonka jälkeen niitä analysoitiin teoreettisen viitekehyksen kautta, joka on kehitetty edellisten tutkimusten ja niiden PK-yrityksille soveltuvien tulosten perusteella.</p> <p>Tulokset osoittivat muun muassa, mitkä ovat yhteiskuntavastuun kustannuslähteet, yhteiskuntavastuun mahdollisuudet ja lisäksi havaittiin asiakkaiden sekä organisaatioiden ankara asenne yhteiskuntavastuupyrkimyksiä kohtaan. PK-yritysten yhteiskuntavastuutoimenpiteiden hyödyt ja haasteet olivat monenlaisia, joten riippuen olosuhteista yhteiskuntavastuun vaikutus yritysten kilpailukykyyn voi olla joko myönteinen tai kielteinen.</p>		
Avainsanat Yritysten yhteiskuntavastuu, CSR, Kilpailukyky, PK-yritys, Suomi		
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## Contents

<b>1</b>	<b>Introduction .....</b>	<b>3</b>
<b>2</b>	<b>Literature review.....</b>	<b>7</b>
2.1	The CSR concept .....	7
2.2	The competitiveness concept .....	9
2.3	The impact of CSR on competitive advantage .....	12
2.4	Theoretical framework: CSR Impact Model by Weber .....	20
<b>3</b>	<b>Methodology .....</b>	<b>25</b>
3.1	Research approach .....	25
3.2	Research context .....	26
3.3	Data collection & analysis .....	28
3.4	Verification of findings.....	30
<b>4</b>	<b>Results .....</b>	<b>31</b>
<b>5</b>	<b>Discussion .....</b>	<b>38</b>
	<b>References.....</b>	<b>44</b>
	<b>Appendices.....</b>	<b>48</b>
	Appendix 1. Interview design.....	48

## Figures

Figure 1. Diamond Model .....	11
Figure 2. CSR and competitiveness framework by Vilanova.....	13
Figure 3. MSCI World SRI Index compared to MSCI World Index.....	15
Figure 4. Evolution of the European RI fund market .....	16
Figure 5. CBS competitiveness model.....	18
Figure 6. CSR Impact Model excerpt.....	21

Figure 7. CSR key performance indicators .....	23
Figure 8. Potential CSR costs .....	24
Figure 9. CSR risk benefits and costs .....	25
Figure 10. Core results corresponding with the theoretical framework .....	36
Figure 11. Core results applicable to Finland and SMEs .....	37

## **Tables**

Table 1. Enterprise structure Finland - EU 2017 .....	6
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# 1 Introduction

## Background

This thesis will revolve around *corporate social responsibility* (CSR) and its relation to the competitiveness of SMEs in Finland. It will first explain key concepts and subsequently look at priorly written books, articles and other literature; and otherwise researches related to the topic.

Traditionally, businesses have been seen as economical actors with profits as their main goal where the government is seen as a political actor providing public goods. In the *Journal of Management Studies* Scherer and Palazzo (2011) state that “... *under the conditions of globalization, the strict division of labour between private business and nation-state governance does not hold any more.*”, pointing to the fact that firms are starting and have started filling social and political functions that are not necessarily legally demanded from them. (899.)

It is presumably general knowledge that for a business to thrive revenues and profits are necessary. Therefore, it is commonly set as one of the main goals of a firm. As above stated, less commonly *used to be* setting goals which seek to offer societal value. From this perspective, one could argue that perhaps CSR demands an intrinsic change of our economy.

In the past, CSR was a criticized and unpopular idea amongst business actors. From 1988 to 2008 it underwent a transformation becoming a widely accepted idea in the process. In 1977 less than 50% of the back then Fortune 500 establishments mentioned the idea of social responsibility in their annual reports. By 1990 this amount grew to almost 90%; it became an important part in the listed organizations, their goals and their activities. CSR started to be promoted by different kinds of parties, amongst which governments, businesses and individuals. (Lee 2008, 53-54.)

This points out that an economical change lead by different parties is probably already happening; not only by business actors themselves. CSR seems to become not only more widely accepted, but also more widely applied. This could indicate that it will be an important concern for any type of business in the future, whether it has an interest in focussing on social responsibility or not.

Indications like these are preceded and up to a certain extent confirmed by Carroll's (1999) work on the evolution of the CSR construct. In literature CSR has been found to have a various history. The author claims that the concept and the business world's attention for it has up to a certain degree already been around for centuries, but that formal writing on the matter is mainly a thing of the 20<sup>th</sup> century, predominantly starting in the 1950s with some references before that. In the 1960s the literature on the definition of CSR went through a period of growth lead by academics. Then, in the 1970s, the definitions spread and became increasingly specific, and in the 1980s an increase in frameworks of measurements, research and other applications of CSR presented itself. The decade after sprouted into stakeholder theory, business ethics, corporate sustainable profitability (CSP) and corporate citizenship. At the time of her research, Carroll predicts that in the new millennium measurement initiatives and theory will be further developed in such manner that empirical research would be necessary in order to connect theory and practice. Additionally, she quite accurately expects that, especially on a global; technological; and commercial level, business responsibilities will find new areas to be applied to. *"... it appears that the CSR concept has a bright future because at its core, it addresses and captures the most important concerns of the public regarding business and society relationships."* (268-292.)

The concept of CSR and its definition will be elaborated in the literature review. A short mention should be made about the terms CSR and *creating shared value* (CSV), since in the literature the terms oftentimes overlap if not point to the same field of business. Variably authors make either a distinction in the meaning of the terms or not. In this literature review, CSR will be used as the main term, next to social responsibility, covering commonly understood CSV applications as well. A special note about CSV is included in the literature review. In short, CSR and social responsibility will be understood as any relatable concepts and practical applications in the field of business where it is in a larger or smaller way related to ethicalities and 'sound' operations.

### **Motivation**

Implications of CSR for business life, including a demand for social responsibility by the public, can potentially be enormous and seem to require a change of our

economical mindset. Within the whole process of value production, corporations are requested to take responsibility (Scherer & Palazzo 2011, 919). Consumer behaviour seems to undergo a change under the effect of a responsible conscience as well. Even though still a minority, social and environmental challenges play a part in the decisions of consumers (ibid, 920). It is obvious that the demand of one's customers is like a flow of vitality for a business, and a change in it can potentially force corporations to orient their strategies on it. Scherer and Palazzo confirm that a multitude of aspects of corporate governance have to be re-evaluated, even up to a certain extent including the whole idea of a firm and economy (921). It will lead to changes in the predominant economic theories and management research (922). A nation could strive for a harmony between business, politics and society where businesses could profit while being legally and morally responsible, but since the economy is globalized this brings about a more complex structure of challenges (ibid). *"This process of societal transformation also shows that the time is ripe for a new theory of the (global) business firm. ... The primacy of property rights, the belief in self-regulative markets, and the assumption that the pursuit of private interests automatically promotes the common good are premises that need to be reconsidered under the post-national constellation. The theory of the firm needs to be developed further for managerial decision making in extremely difficult regulatory contexts."* (ibid).

Following above statements, it appears to be unwise for a firm to ignore CSR fully, and potential changes in the economy might require lots of firms and corporations to undergo, at least, a strategical and managerial change. Nonetheless, profit remains a necessity for a business to survive and it is therefore of importance to analyse how a firm can still prosper, if not enjoy increased success, while applying socially responsible strategies. It is most likely that, the bigger and further developed a firm is, more managerial and procedural structures will need to be re-evaluated and possibly reconstructed. This process will most likely come along with certain costs as well. These can arguably be avoided by a firm, if it pays attention to indicators of CSR and potentially incorporates the concept early on when the structure of the firm is not yet large and complex like it often is with larger, international corporations. SMEs have, in this light, an ideal advantage in responding to a changing economy.



When it comes to the application of CSR, Morsing and Perrini (2009) state that the power and/or impact of smaller firms is often underestimated. The decision of SMEs to engage in CSR activities can potentially have a great impact on the global economy. The application of CSR in SMEs comes with different and perhaps greater challenges. Nonetheless it seems that social responsibility is increasingly implemented in small companies' operations. (1.)

Table 1. Enterprise structure Finland - EU 2017 (European Commission 2018.)

Class size	Number of enterprises			Number of persons employed			Value added		
	Finland		EU-28	Finland		EU-28	Finland		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	210 777	91.3 %	93.0 %	363 665	24.8 %	29.8 %	18.1	19.7 %	20.9 %
Small	16 643	7.2 %	5.8 %	326 483	22.3 %	20.0 %	18.4	20.0 %	17.8 %
Medium-sized	2 776	1.2 %	0.9 %	267 985	18.3 %	16.7 %	18.4	20.0 %	18.2 %
<b>SMEs</b>	<b>230 196</b>	<b>99.7 %</b>	<b>99.8 %</b>	<b>958 133</b>	<b>65.4 %</b>	<b>66.6 %</b>	<b>54.9</b>	<b>59.8 %</b>	<b>56.8 %</b>
Large	591	0.3 %	0.2 %	506 444	34.6 %	33.4 %	37.0	40.2 %	43.2 %
Total	<b>230 787</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>1 464 577</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>91.9</b>	<b>100.0 %</b>	<b>100.0 %</b>

*These are estimates for 2016 produced by DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.*

Quite some research on CSR and its effect on corporations and countries as a whole has already been performed. Conclusions from key researches related to this thesis' topic are evaluated in the literature review. From these findings it becomes clear that CSR is a growing concept that sees an increasing popularity amongst customer and firm; not unlikely due to economic development and current global and local social and environmental challenges.

It is by now obvious and common knowledge that economic change and ethical behaviour by companies are some of the prerequisites for a sustainable future and prevent disastrous effects of climate change amongst others.

Entrepreneurial and smaller enterprises still enjoy an advantage in greater strategic flexibility in comparison to large corporations. They might therefore potentially be the ideal pioneers in implementing CSR and otherwise ethical business strategies.

Additionally, when such strategies are implemented early on it will avoid the potential resource and time costs it would otherwise have to face in the future when the company has grown and/or systematically incorporated different business strategies.

### **Research question**

*How does CSR affect the domestic competitiveness of SMEs in Finland?*

### **Structure of the thesis**

The thesis will start off with a literature review, evaluating existent knowledge in the field of (corporate) social responsibility and SMEs in the business environment of Finland. After the literature review a theoretical framework on CSR impact follows, which will make for a structured analysis of acquired data. In the methodology chapter the methods of research will be described, of which the main aspect is qualitative interviews through which data is gathered. This data, coming from a variety of sources (SMEs, a consultancy, a CSR network), will then be analysed in the results/discussion chapter.

## **2 Literature review**

### **2.1 The CSR concept**

#### **Defining CSR**

The role of a business in society entertains a growing interest. Hazlett, McAdam and Murray (2007) claim that CSR dates back to somewhere in the 1950s. Not too long ago in the time of their article's publishing, this interest in CSR, how organisations can use and apply the concept, exploded. Recently, the amount of businesses and organisations applying CSR into their procedures has increased significantly.

However, the article states there is no generally accepted definition of CSR. Amongst others it has been named a term, concept, process, theory or an activity. The relationship of an organisation and the society it operates in are also often referred to as *corporate citizenship, strategic philanthropy, corporate social responsiveness, good governance, environmentalism and sustainability*. (669-670.)

Two definitions are cited:

*“... the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving welfare of society at large independent of direct gains of the company.”* (Kok, van der Wiele, McKenna & Brown 2001, 288.)

And:

*“... a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”* (Commission of the European Communities, 2001.)

In above cited definitions we can distinguish CSR into a clearer concept. There is a distinction between the two in that sense that the first describes an obligation, whereas the second a voluntary action. The first stipulates that potential gains for the company should not be the drive for supporting society. The second adds that current-day concerns are *integrated* in a firm’s actions and relationships with stakeholders.

However, as the literature mentioned, there might not even be an overarching definition of CSR available. Nevertheless, indications can certainly be made when approached with proper logic and understanding. From the term itself a direction is given already. *Corporate* obviously refers to that it implies organisations and businesses, although it might ignore SME’s which can be intensely involved with the ethics of their procedures as well. *Social* most likely not only makes a reference to the people in and around the business, but the society in which it is active and which it affects. This not only includes persons, but also for example the environment. Finally, the keyword *responsibility* is given. It could refer to the idea that businesses themselves carry responsibility for all of their operations and should pro-actively make those ethically sound.

### **CSR & CSV**

According to Porter & Kramer (2011), not just economic, but societal needs shape the market; social harms create costs (5). This indirectly implies that social progress is

of great importance for a country's economy and inherently its competitiveness. According to the authors, *creating shared value* thus plays a big role in economic growth (ibid).

Companies tend to have an inaccurate view of value creation and are focused on short-term financial performance; missing out on other influences that affect their long-term success. In addition to the problem, it is thus far generally thought that providing benefits to society puts limitations on a firm. To take an example however, in prior research CSV has proven to be able to raise incomes of cocoa farmers in Côte d'Ivoire by 300%. This entails supporting their local cluster, improving growing techniques, efficiency, yields, product quality *and* sustainability. This in comparison to a 10-20% increase by the fair-trade concept, which mainly focusses on redistribution and a higher pay for the farmers (higher cost for the firm). (ibid, 4-5.)

The above research has been contested by Crane, Palazzo, Spence & Matten; the concept of creating shared value (CSV) in particular. They state that the research presents CSV as if it were a new a new concept while it is in essence very close to corporate social responsibility (CSR) (2014, 134). Subsequently a distorted picture of CSR is portrayed and accordingly not given due acknowledgement (ibid). Additionally, the often-present struggle between social and economic goals and its trade-offs are ignored and in doing so displaying a certain level of naivety (136).

Even though CSV is an interesting concept, in this literature review the term CSR will be used, overlapping common understanding of both CSR and CSV in accordance with Crane et alia's critique.

Apart from trying to find a holistic definition of CSR, 'business with a conscience' might not only be seeding throughout the world but also in time prove to be a unique way of increasing competitiveness.

## 2.2 The competitiveness concept

### **Defining competitiveness**

In the world of business, competitiveness can relate to either the competitiveness of amongst others a firm, region, industry or nation. It refers to the strength of survival and prosperity in a field of usually similarly oriented business: competitors.

The International Institute for Management Development (2014) states that *“Competitiveness analyses how nations and enterprises manage the totality of their competencies to achieve prosperity or profit.”* (493). This stipulates a definition relative for both nations and firms alike. Specifically, nationwide competitiveness is described as a foundation for a nation’s productivity resulting in its own prosperity (Schwab 2014). Predominantly, policymakers and authors tend to agree that the goal of a country’s competitiveness should be aimed towards national prosperity (International Labour Organization 2015, 36).

From above quotation, prosperity seems to be a keyword in defining competitiveness. A business’ competences and other skills are essential in acquiring higher levels of said prosperity. Prosperity can be interpreted in a variety of ways. It is a question if it only means financial success or other forms of success or achievement as well.

Thus, prosperity can have a narrow focus on productivity, but also a broad focus on the well-being of people. For example, measuring a nation’s prosperity in a broad sense can involve using real GDP per capita as an indicator. The EU Regional Competitiveness Index of 2013 includes well-being into the concept of competitiveness and finds that there is a close connection between prosperity and competitiveness. The International Labour Organisation (ILO) states that competitiveness of firms is strongly, but not fully, connected with the competitiveness of countries. They cite Adam Smith who already in 1776 stated that competitiveness is related to specializations, free exchange and factor endowments. Subsequently Ricardo (1817) is mentioned who, according to them, added the idea of having a comparative advantage to the competitiveness concept. The concept remains difficult to be grasped in one single definition, especially since the global economy is increasing in complexity. The ILO states that Porter’s (1990) Diamond Model can however give insight into the different areas of competitiveness (see Figure 1). (ILO 2015, 36-37.)

We thus see here that competitiveness proves to be a complex understanding connected with a lot of different factors. A firm's and country's competitiveness can be closely connected, which might be noticeable due to myriad competitive businesses being founded in (economically) competitive nations. How a firm distinguishes itself from the other in the same field of industry, can make for a competitive advantage including the resources it has available to it.

#### Porter's Diamond Model (1990)

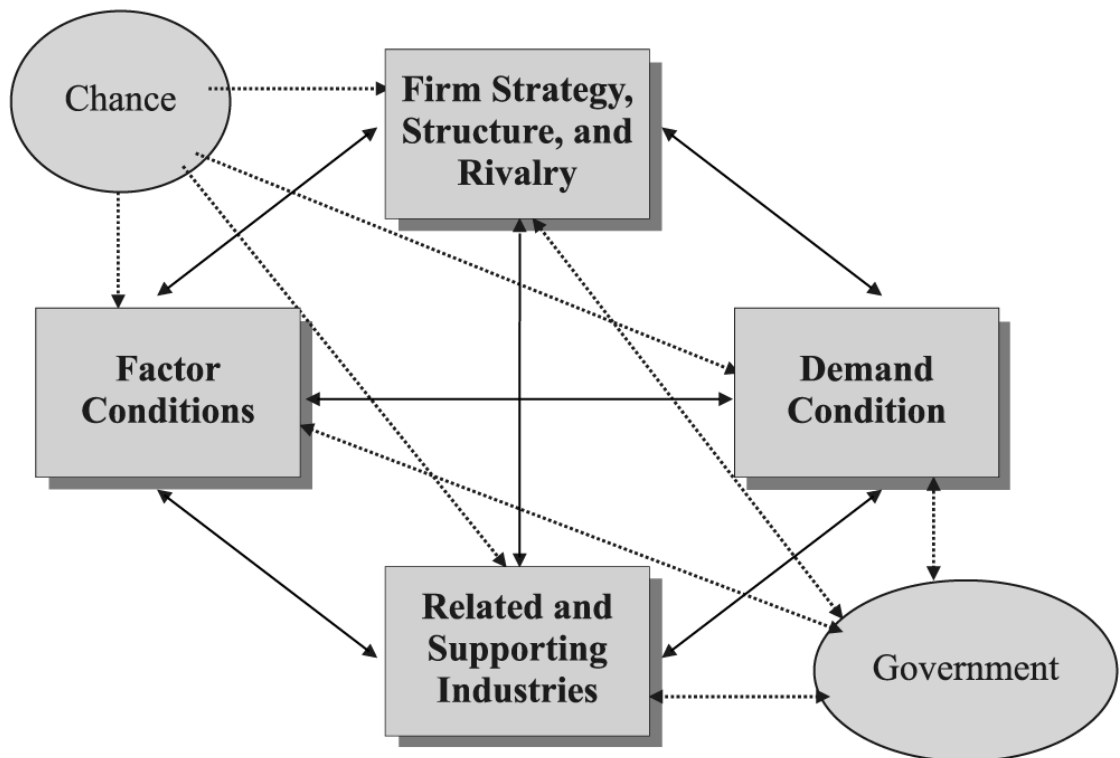


Figure 1. Diamond Model (Porter 1990.)

In short, the earlier mentioned diamond model stipulates four determinants evaluating competitive advantage. *Factor conditions* focusses on resources; home-grown and specialised. *Demand condition* evaluates the demand-environment. The influence of distributors, retailers, research organisations, suppliers, equipment, financial enterprises, transportation and other industries fall under *Related and Supporting Industries*. *Firm Strategy, Structure, and Rivalry* speaks for itself and can benefit or detriment competitiveness. Porter's diamond model has however been criticized in the past numerously. (Riasi 2015, 17-19.)

Even though every model knows its limitations, Porter's diamond can give us a deeper understanding of the factors that play a part in raising a firm's or nation's competitive potential. In the next chapter, we will look at if there is a connection between CSR and competitiveness and if so: how they are related.

### 2.3 The impact of CSR on competitive advantage

#### **Innovation & reputation**

Vilanova, Lozano and Arenas (2009) state that CSR and competitiveness are connected through a so-called process of learning and innovation. In this process, values, policies and practices are constantly defined and changed again. They claim that learning is a result of CSR being integrated into a business' procedures and creates innovation for practice and competitiveness. CSR is, according to the authors, a management of paradoxes due to the nature of CSR and business policies. (57.)

It is imaginable that developing and integrating CSR into a business' procedures can endorse innovative processes. CSR often includes a deep change of a firm's very own mission, values and from there onwards practical applications. Of course, firms can also be founded upon socially responsible values from the start or even have a specific mission focused on having a certain effect in society. Either way business with a conscience seems to demand certain changes in our current economy. Change often goes hand in hand with innovation.

Vilanova et al. (2009) conducted a case study in the European financial sector, which consisted of a focus group of leaders in the sector. They conclude straight away that CSR and competitiveness are clearly intertwined, of which the first example lies in the image and reputation of a firm. It is therefore also a good motivator for internal figures of a business to implement CSR. Integrating CSR can result in unexpected changes or transformations regarding a firm's processes and values. Its mission might be changed, risks might be differently evaluated, or even new services and products are developed. Often CSR procedures are implemented by a corporation as a reaction to a certain event, instead of a fully independent initiative. These events can entail certain damage to a firm's reputation or image due to a scandal or conflict. Said leaders thus suggest that CSR has an effect on competitiveness because of a

triggered strategic reflection, the engagement of stakeholders and management, reputation, branding and accountability. Yet, according to the participants, a challenge lies in developing CSR in the future due to the objectives of business processes, and sustainability and CSR itself. Therefore, companies should focus on handling paradoxes created by the implementation of CSR rather than focusing on output or results only. (62-66.)



Figure 2. CSR and competitiveness framework by Vilanova (2007.)

When a business operates in accordance with ethical demands either from the audience or from the environment itself, it is only logical that its reputation benefits from doing so. It is not a rare occasion, at least in developed countries, that consumers increasingly pick sustainable product alternatives over competition of a regular offering. Of course, this is not always the case. Competition in pricing can be tough and oftentimes producing an ethically sound product or service comes with additional costs. That a corporation is confronted with earlier mentioned paradoxes when applying CSR is only natural, since it can demand wide changes throughout the company, if not demand a certain change in current-day economy.



### **Compensating for innovation**

Vilanova et alia's research has a specific focus due to its focus group consisting of experts in the financial sector. Boulouta and Pitelis (2013) focus on the effect of CSR on a nation's competitive advantage. When looking at national living standards, they find that CSR has a strong effect on the competitiveness of a nation, especially in countries that have had a lower level of innovation in the past as compared to others. (349.)

On firm-level, innovation can be the key factor by which a company excels and outcompetes other firms. Through innovation they can distinguish themselves from the offering already present in the market. When innovation is not the key factor in a firm's competitiveness, it has to be something else if it wants to ascertain a certain advantage. CSR can perhaps offer distinction in certain scenarios as well.

At least when looking at a nation's gross domestic product per capita (GDPC), CSR increases national competitiveness. As said, this effect is bigger in relatively less innovative countries, perhaps due to the differentiation CSR can offer as a compensation. According to the authors, it is this differentiation where CSR has the strongest effect on competitiveness on a firm-level as well as on a nationwide level. They mention previous research from Hull and Rothenburg (2008) which states that less innovative firms benefit more from CSR than others as well. All in all, similar CSR-benefits for the competitiveness of a firm also seem to generally count for a nation. However, nations should be careful with policy changes, since they could harm the competitiveness of the wider economy if it strengthens bureaucratic procedures and turns to anticompetitive behaviour. Instead, governmental policies should safeguard this from happening. (Boulouta & Pitelis 2013, 360-361.)

CSR might sometimes put limitations on a firm's success. It can for example demand to pick a less cost-effective solution in the operations of business; possible alternative positive effects of this choice excluded. Integrating CSR as a nation, by for example policies or certain stipulations for businesses, can be a tricky thing. A nation can by doing so have a powerful effect on its own economy and perhaps even related economies.

### Investment opportunity

Recently Goddard and Ajami (2018) published a book by the title of *Global Business : Competitiveness and Sustainability* in which they discuss sustainability measurements' effects on the competitiveness of a firm. Factors which should not be overlooked are the influence of investors, which in greater volumes can steer market movements. The authors list for example the Norwegian Sovereign Wealth Fund which has more and more invested in commercially successful companies that are "... *balancing growth with sustainability.*" (ibid, 6). Obviously, in business life, sustainability is a concern belonging to CSR. Especially in Goddard and Ajami's context, since they state sustainability also includes other ethical considerations such as (product) safety, the satisfaction of the consumer and its welfare (ibid).

From this perspective, firms with integrated CSR might enjoy an increased level of competitiveness due to a higher attraction of investors. Green or socially responsible investing has recently seen an increased popularity, not unlikely due to environmental challenges the world is facing as of now.

Risalvato, Venezia and Maggio (2018) confirm above statements. They find that the global assets of ethical indices in financial centres increased by 61% from 2012 to 2015 representing 21,4 billion USD. They even claim that after 2007, indices with ethical or sustainable foundations have performed better than traditional ones, because of the strict requirements which they have to keep to. (10.)

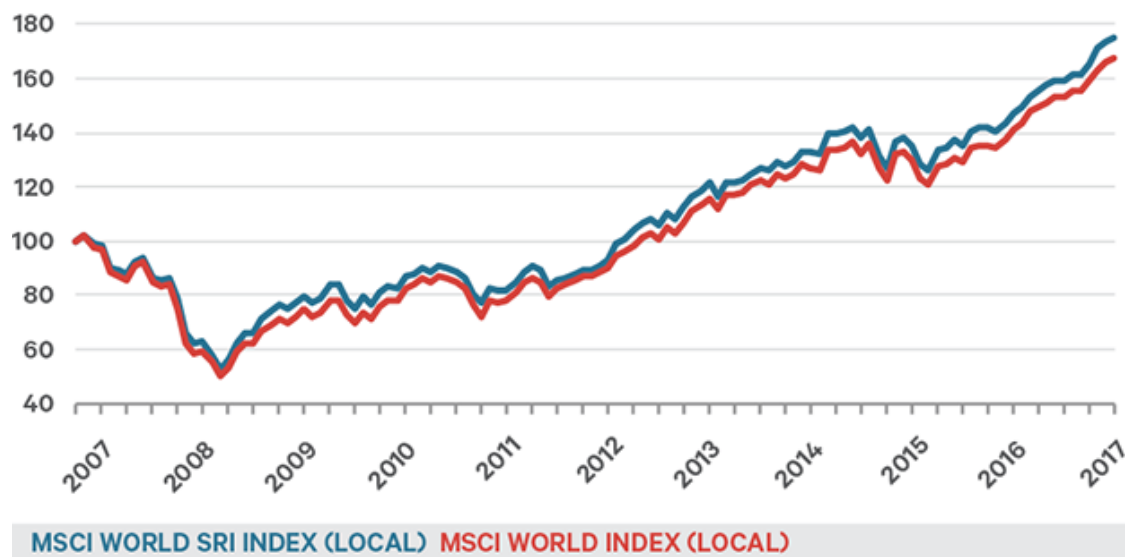


Figure 3. MSCI World SRI Index compared to MSCI World Index (Williamson 2018.)

Compared to the traditional MSCI World Index that indexes global large and mid-cap equity the MSCI World SRI Index, representing socially responsible investing, performs similarly and even slightly better; as seen in Figure 3 above.

Williamson (2018) states that societal norms are changing and lead to this increased availability of money that is used in socially responsible investing strategies. Climate change and heightened regulation of corporation after the global financial crisis are increasingly on the agenda of world leaders; just as data protection and security breaches are.

Statements like these are confirmed when looking at the growth in the European fund market as seen in Figure 4 on the following page, where the KPMG finds that it has seen a growth of 26,6% in two years from 2014 to 2016 (2017, 6.). Finland is not a small player in this, representing 6% of the assets under the management of these funds (ibid, 7.).

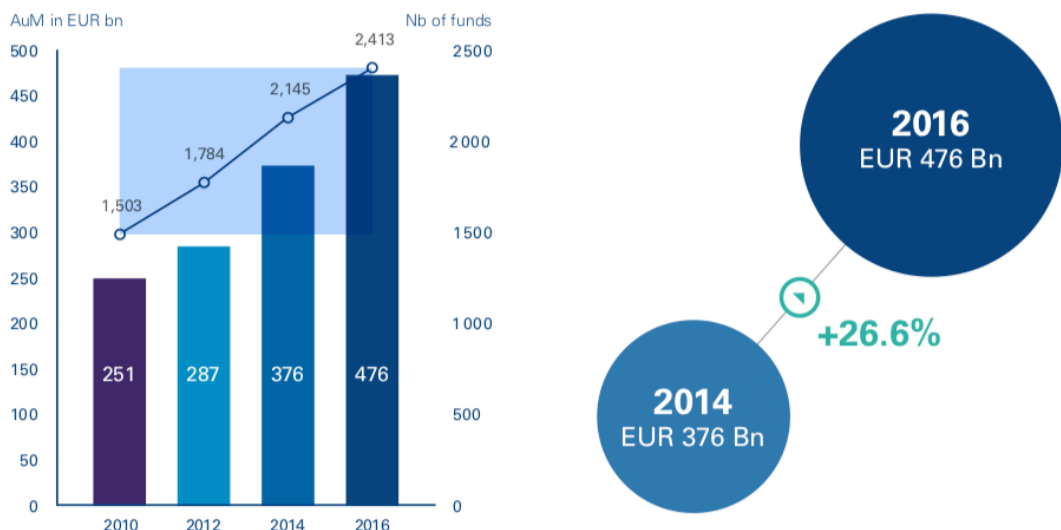


Figure 4. Evolution of the European RI fund market (KPMG 2017, 6.)

The impact of the stock market and investors as such should not be underestimated. They have the potential of moving the market or even economy as a whole, which has surely been proven in the global financial crisis of 2008, and can often provide intimations of where the market is heading. In above results we find that there are clear signifiers that point towards a growing market for CSR; increasing

competitiveness through a greater availability of capital or assets. It shows that the demand for responsible business is growing.

### **Competition Law**

*“Companies that want to foster responsible business practices might be surprised to learn that they must also be careful not to breach the law.*

*Certainly, when it comes to one recent trend – for companies in an industry to group together to address labour and environmental conditions – they must pay attention to how such collaborations might be viewed by antitrust regulators.”* (Murray 2006.)

Dubbink and Putten (2008) make some important statements about the relationship between CSR and the regulation of competition, or perhaps rather anticompetition; in Europe also known as competition or antitrust law. On the basis of their study conducted in the Netherlands, they claim that it is possibly necessary to sacrifice the idea of a ‘perfect market’ in exchange for a market that upholds certain values, and in doing so benefits the environment and society in potentially non-economic ways. Even though this could be interpreted as an anticompetitive strategy, the authors believe governments should think about making exceptions to competition law and the regulation of inter-firm cooperation if it has an aim within the spectrum of CSR. Competition law already allows for exceptions as long as they are in the interest of the consumer, such as stimulating economic or technological progress. Additionally, they state that CSR finds part of its importance due to the limitation of the law in addressing certain issues. It supersedes where (corporate) law ends. (381-391.)

So why is the competition law mentioned here? First of all, it concerns an essential element of competition and creates or even enforces an economic environment of competitiveness. Above noted authors, however, introduce the point that perhaps an absolute competitive economy (a ‘perfect economy’) might not be the ideal form of economy (ibid). Instead, they argue for a well-organized but not perfect economy in order to make exceptions for necessities in business life including CSR (ibid).

Whether CSR increases competitiveness or not, it might be arguable that where it does not it is nonetheless necessary with current-day environmental and social challenges.

### CBS competitiveness model

Even though there does not seem to be a widely accepted framework for analysing firm competitiveness as of yet, the Copenhagen Business School (CBS) seems to have developed a theoretical model for competitiveness that encapsulates many of the different core competencies of a firm. Even though Finland is geographically, economically, and perhaps even culturally not very distant from Denmark, the model might have been developed with a specific focus on Danish firms and globalization. (Copenhagen Business School 2016.)

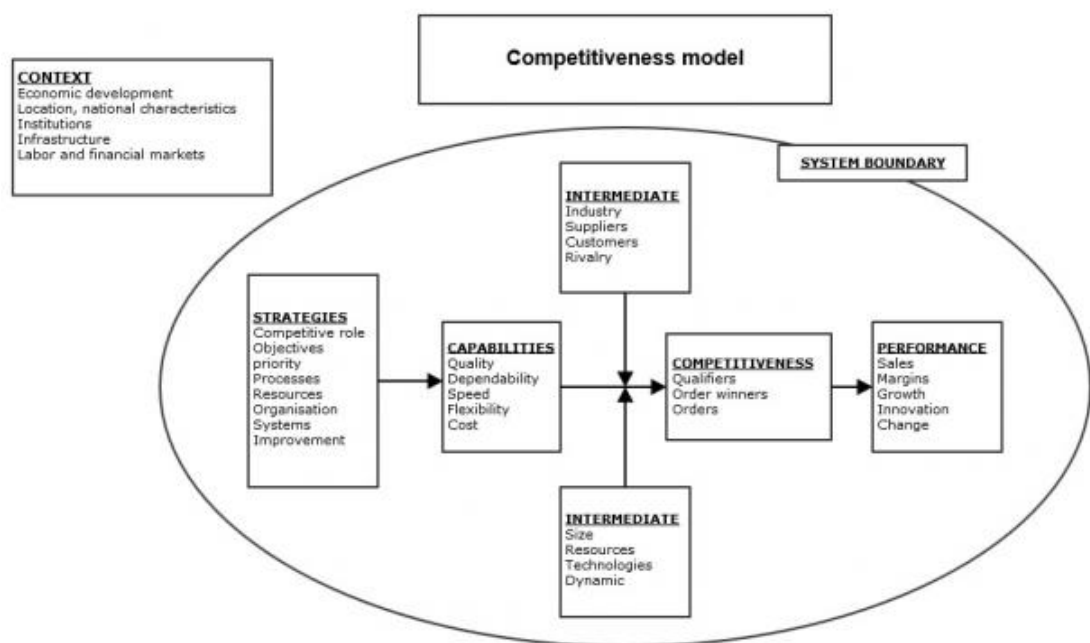


Figure 5. CBS competitiveness model (Copenhagen Business School 2016.)

According to the author of the framework, a firm has several duties: "... the company or organization must deliver quality, dependability, speed and flexibility while also being cost effective. Such capabilities are developed based on strategies for example on innovation, continuous improvements, procedures, organization, location and human, physical and financial resources.". The importance of these elements interchange in different companies, company sizes and in fields of business as a whole. The amount of competition and the organization of supply has an effect on the factors in above model as well. A company is always affected by external factors such as the economy, culture, society and nation it operates in. (ibid.)

In Figure 5 we see the framework presented in a circle, where *system boundary* presumably expresses the boundary between internal and external, or direct and indirect, factors affecting firm competitiveness. Certain external elements are accounted for within mentioned boundary, but most likely have a significant and direct effect on the single firm's competitiveness. Since this research is focused on the effect of integrated CSR procedures in an enterprise, we will focus mostly on the presented elements inside the *system boundary*. Within this boundary we find six elements related to the competitiveness or performance of a firm: *strategies*, *capabilities*, *external intermediate factors*, *internal intermediate factors*, *competitiveness* and *performance*. On the outside, we find *context*. (ibid.)

### **Strategies**

In the model we find *Strategies*, which amongst others includes the competitiveness of the company by for example best practice or having certain advantages under *Competitive Role*. *Objective Priority* encapsulates the goals or priorities a firm sets for itself regarding inter alia speed, quality and cost. Furthermore, it focusses on *Processes*, *Resources* such as human or equipment, *Organization* such as management strategies, *Systems* like for example quality control and finally *Improvement*. (ibid.)

### **Capabilities**

*Capabilities* includes the *Quality*-aspect; producing, delivering or performing qualitatively. *Dependability* is included focused on for example delivering on time and adhering to promises made. *Speed* is similar, but is more about the element of fast execution and lead times. *Flexibility* looks at the capability of changing; whether it is a task itself or a product or service as a whole. The final element is *Cost* which is basically about producing or delivering under low costs. The elements of *Capabilities* are found under the *Strategies' Objective Priority* aspect. (ibid.)

### **External intermediate factors**

This section contains external elements that affect a firm's competitiveness directly. These elements are for example the structure and available technology of the *Industry*, the availability and characteristics of *Suppliers* and *Customers*, as well as the amount and strength of *Rivalry*. (ibid.)

### **Internal intermediate factors**

The internal elements fall under *Internal intermediate factors*. They include the *Size* of the company, its *Resources* and *Technologies* available and *Dynamic Capabilities* which focusses on the ability to developing and altering the other aspects of the *Internal intermediate factors*. (ibid.)

### **Competitiveness**

The *Competitiveness*-section in the framework focusses on elements such as *Qualifiers* (for example performance in tender), *Order Winners* which includes the ability of evoking preference of the customers and *Orders* which represents the ability of making a deal. (ibid.)

### **Performance**

*Performance* is about amongst others the amount and growth of *Sales* and *Margins*. This section's element *Growth* is about turnover or revenue, market share, introducing new offering and innovation on an organizational level. The final element is *Change*, which most likely refers to the firm's executed and trending developments, transformation and adjustments. (ibid.)

## **2.4 Theoretical framework: CSR Impact Model by Weber**

In order to give an initial direction to the data collection method, the research question will be investigated through a theoretical framework that gives a preliminary understanding about the impact of CSR on enterprise-level. This framework will give indications of possible answers to the research question which can be tested. Additionally, the data collection process will be looking for unexpected results outside of the indications given by the framework.

Weber (2008) has published an excellent article on “... *A company-level measurement approach for CSR*” which includes the theoretical framework intended to be used for this research. She states that prior research has often showcased CSR being *beneficial* for the competitiveness of a firm. Her work aims to create a means for the measurement of the impact of CSR activities on firm level. (247.)

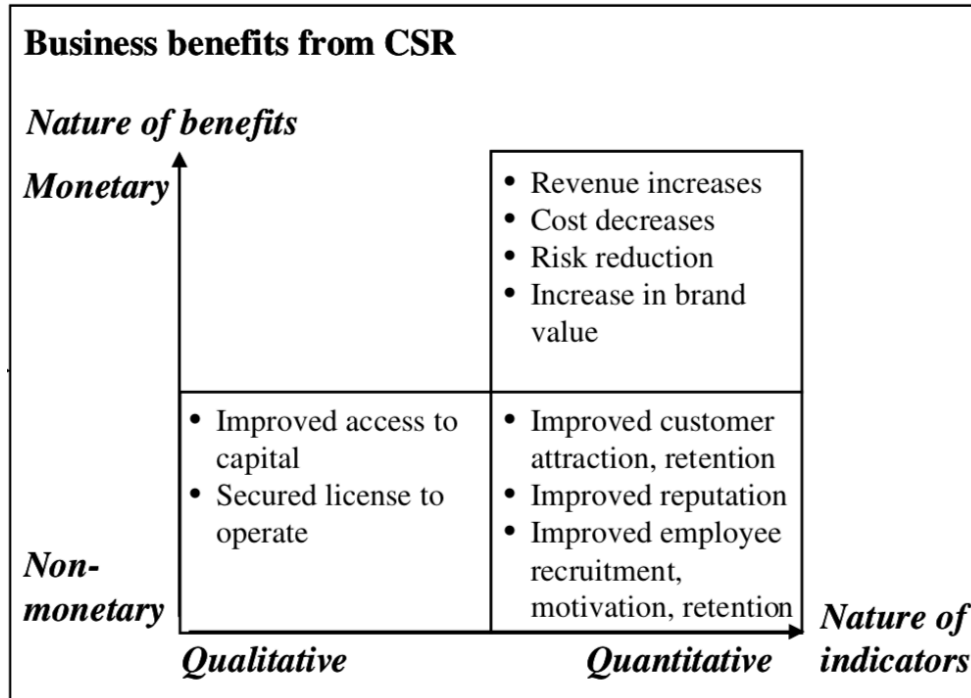


Figure 6. CSR Impact Model excerpt. (Weber 2008, 250.)

Above model is created from a synthesis of previously performed research on the benefits of CSR. We see *monetary* and *non-monetary* benefits of a *qualitative* and *quantitative* nature. (ibid, 250.)

*Monetary benefits* are defined as direct effects and benefits of a financial nature. This does not only include direct tangible cash flow, but other values that can be measured monetarily, for example like brand value which would materialize upon selling the company or brand. Other monetary benefits mentioned in the model are *revenue increases*, *cost decreases* and *risk reduction*. *Non-monetary benefits* are defined as benefits that are not of a financial nature, but have an effect on the competitiveness of a firm and thus a possible eventual financial effect. These benefits include *improved access to capital*; *secured license to operate*; *improved*



*customer attraction, retention; improved reputation; and improved employee recruitment, motivation, retention.* All aforementioned benefits are dividable in *qualitative* and *quantitative* benefits. (ibid, 250.)

In assessing the effect of CSR upon a company's performance, financial and non-financial benefits must be taken into account. Essentially, financial benefit can be found in revenues, costs and risk. Brand value, though mentioned under monetary benefits, has more of a forecasting nature as an indicator for future performance such as increasing (or decreasing) sales. Non-financial benefits often have a forecasting nature for financial benefit in the longer run. These are nonetheless of importance in assessing CSR impact, in part due to its monetary impact often occurring only after a period of time. Therefore, non-financial benefits might even be of bigger importance than those of a financial nature. This also explains why a qualitative assessment of the effects of CSR is necessary next to a quantitative one. Social responsibility can, amongst others, have a positive effect on cooperation with and support from the government, or increase the effect a firm can have on regulations within its market. Thus, relationships with different stakeholders should be taken into account in the assessment. Qualitative factors are therefore not only about eventual (quantitative) financial gain, but have beneficial elements to the company within themselves which otherwise would be overlooked in a purely quantitative measurement. (ibid, 251-252.)

Key performance indicators (KPI) of CSR which find their representation in the CSR Impact Model of Weber are *brand value, customer attraction & retention, reputation, employer attractiveness* and *employee motivation & retention*. Potential quantitative measurements for these KPIs are described as following: Brand value can be measured in cost, price and capital value. Customer indicators are repurchasing rates and market share where reputation indicators can be indices and rankings. Employer attractiveness could be measured through applications per vacancy and hiring rate, where employee motivation and retention through fluctuation rate and absenteeism. (ibid, 253.)

KPIs	Possible quantitative indicators
Brand value	Cost-oriented, price-oriented, or capital-value-oriented brand value
Customer attraction & retention	Repurchase rates, market share
Reputation	Reputation indices and rankings
Employer attractiveness	Applications per vacancy, hiring rate
Employee motivation & retention	Fluctuation rate, absenteeism

Figure 7. CSR key performance indicators. (Weber 2008, 253.)

Weber also mentions certain exposure to increased costs and risks for companies that engage in CSR activities. Mentioned costs can be of a one-off or continuous nature. One-off costs due to CSR activities can include for example donations to charities or expenditures on creating a cleaner working environment than required by law. Continuous costs can include *ongoing* donations or otherwise support of a cause, or fees in order to be licensed to use patents and/or labels. Expenditures on material and personnel can also be put under continuous costs, such as managerial expenditure on the coordination of CSR activities or the production of certain materials. It should be borne in mind during an assessment that it can prove difficult to distinguish CSR-related costs from costs that are not related to a firm's CSR engagement. (ibid, 254.)

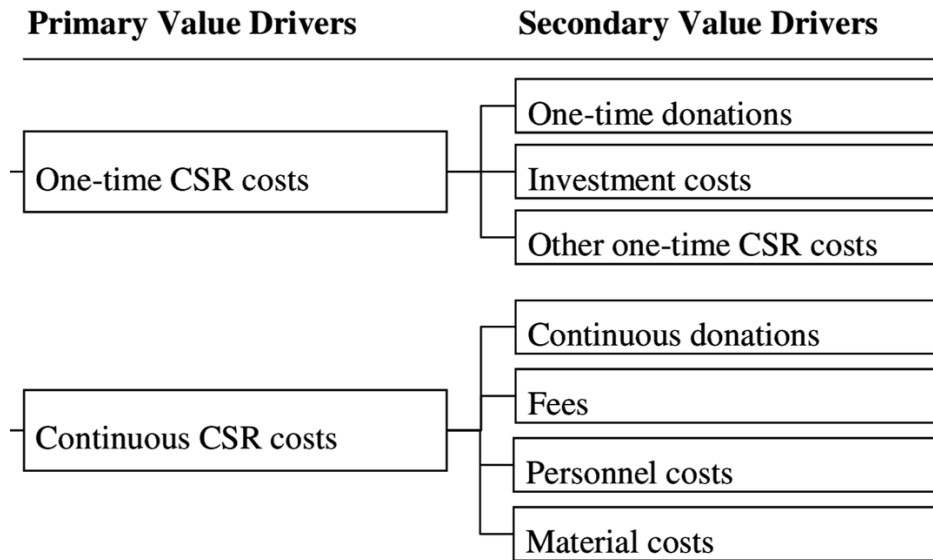


Figure 8. Potential CSR costs. (Weber 2008, 254.)

As mentioned, CSR can also increase (or decrease) exposure to risks of a varying nature. These mainly involve behaviour of different stakeholders related to the company in one or another way such as the government, consumers, the media or for example a non-profit organization (NGO). Think of for example boycotts and bad public relations (PR) due to negative exposure in the media. Risks of this kind can potentially be avoided by engaging in CSR as a firm. However, it has been found that CSR can also increase exposure to the risk of losing credibility when cooperating with an NGO (Hartmann, Hofman & Stafford 2002) or other cooperative parties of the company. Contradictorily, engagement in CSR operations can also *increase* the risk on becoming a target of boycotts. These increased or decreased risks can have an eventual effect on the revenues and costs of the company. (Weber 2008, 254-255.)

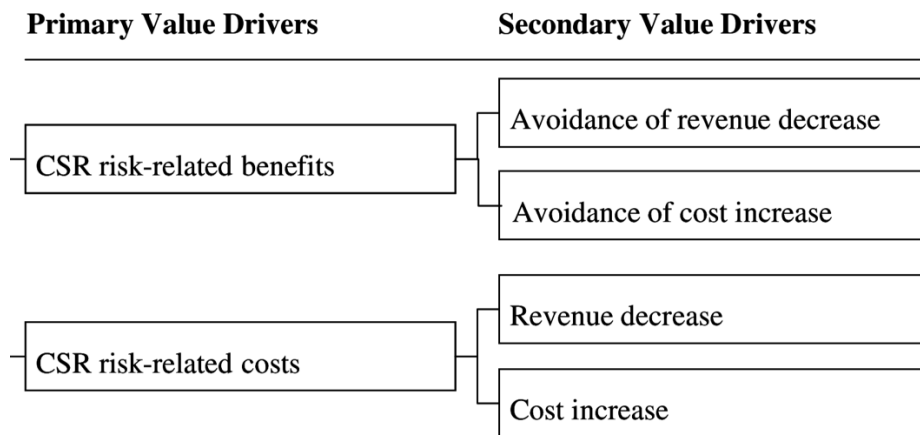


Figure 9. CSR risk benefits and costs. (Weber 2008, 255.)

### 3 Methodology

#### 3.1 Research approach

In answering this thesis' main research question, a qualitative research approach is selected. The nature of qualitative investigation has been found to be suited for the goal, geographical location and scale of this research. In-depth, qualitative, data is preferred over quantitative data in order to deepen the insight into the effect of CSR on SMEs. Quantitative data can also be harder to acquire when it comes to smaller enterprises. With a smaller management segment, certain units of measurement that would be valuable for a research topic such as this are not always tracked or recorded. Larger corporations tend to have more easily available data about their operations. This research is looking to get a picture of the intricacies from the perspective of SMEs themselves.

Saldaña (2011) states that, when analysing and synthesizing qualitative research data, found results often present essential and important findings, including the assessment of a policy's effect for example (4). It goes without saying that this is desirable when investigating the effects of CSR.

According to Cassel & Symon (2015), qualitative research is especially suited for the Baltic region when it comes to economics. They claim that it has the potential of

gaining insight in the economic and political challenges the region experiences and that positivist, quantitative research has thus far dominated the countries within it. Additionally, qualitative research can create unique insights into present-day challenges in management research. (142.) Since CSR is unmistakably a contemporary issue for management and other elements of business alike, this research hopes to give an inside, in-depth look into CSR in SMEs operating in Finland.

In Europe as a whole, qualitative research is varied but unified at the same time. The way different European countries conduct qualitative research, structurally and in its intellectual approach, differs from one another. Nonetheless a certain paradigm unites these types of researches up to a certain extent. (Knoblauch, Flick & Maeder 2005, 1.)

This research aims to acquire qualitative data in accordance with universal research principles and techniques. The main source of data will come from qualitative interviews with an expert in the field and owners or leading positions of SMEs. Transcriptions can be delivered by the researcher upon request. To this end, one can contact *JAMK University of Applied Sciences* based in Jyväskylä, Finland (<https://www.jamk.fi/en/Contacts/>).

### 3.2 Research context

As is already clear from the main research question, the context of this thesis has a geographical focus on Finland concerning primarily the effects of engaging in social responsibility. Specifically, the effect of CSR engagement on SMEs' domestic competitiveness is examined through qualitative study.

Therefore, interviews were held with experts and SME management. The interviewees include a business strategy consultancy based in Jyväskylä, working with start-ups and small enterprises, a coffee bean importer and coffee house owner in Helsinki and a clothing company based in Helsinki. An additional interview was held with a corporate social responsibility network consisting of a variety of companies and organizations, but the data resulting from this was unfortunately not applicable enough to be incorporated into this research.

### **Business strategy consultancy – Finnish Enterprise Agency**

In order to explore the potential effects of CSR policies and applications by SMEs, a qualitative interview was held with the chief executive officer (CEO) of the *Enterprise Agency* (in Finnish: *Keski-Suomen Uusyrityskeskus*) in Jyväskylä, Finland. This organisation represents a business consultancy for entrepreneurs and starting businesses, which means it is well experienced with smaller sized enterprises. They cover the whole line from the initial business idea up to its realization (Keski-Suomen Uusyrityskeskus ry, 2018). The *Finnish Enterprise Agency* is officially a registered association.

Additionally, the *Enterprise Agency* has a wide network of experts that cover all the necessary areas of beginning a business offering personal support to businesses still in their planning phase or already founded businesses (Keski-Suomen Uusyrityskeskus ry, 2019).

Interviewee: Teemu Pinomäki, CEO

### **Coffee bean importer and coffee house – SampoKone**

SampoKone is a small company that includes three segments. The importing and selling of coffee beans, coffee bean roasting and a brick-and-mortar coffee house, called *Metsäpaahtimo*, located in Helsinki. It consists of two owners, who have been the interview target, and five part-time employees. It aims to provide a better pay to their coffee bean farmers in India, endorses ecological and environment-friendly farming among them and it has their own roastery running on solar energy. SampoKone is a joint-stock, limited liability company.

Interviewees: Petteri Prioteasa and Janita Lavonen, owners

### **Clothing company and fashion brand – Makia**

Makia Clothing Oy is a clothing brand that started off in 2001 and has been increasingly involved in transparency and social responsibility issues. The company has 20 employees and has a brick-and-mortar flagship store in Helsinki. Next to that it sells its clothing online. Despite its size it sells worldwide in 600 different shops, through agencies and distributors. Especially sustainability is up in their agenda, since they feel that is the area where they can have the largest positive effect. Makia's

supply chain consists of factories in inter alia Finland, Sweden, Lithuania, Bulgaria, Portugal, Turkey, India and China. Working with a variety of NGOs of which some are focused on social responsibility, it has first-hand experience with the field of this research.

Interviewee: Mika Martikainen, COO

### 3.3 Data collection & analysis

Answering the research question will be supported by the theoretical framework that will function as a foundation and preliminary direction of data collection. The method of data collection will be in the form of non-standardized semi-structured qualitative interviews that look into the effects of CSR on SMEs, held with an expert in the field of business consultancy, SMEs and a social responsibility network of companies and organizations.

Weber's framework sections are interwoven with the interview design. To give an insight of where the different elements of the framework are represented in the interview, they have been separated into four sections and each subsequently given a code by which it can be recognized in the interview's questions and other notations. In the following table the codes are displayed, and these are found back in the interview design (Appendix 1).

Table 2. Framework section coding.

Weber Framework section	Code
CSR impact model (Weber 2008, 250.)	<b>IM</b>
Keywords from CSR KPIs (Weber 2008, 253.)	<b>KPI</b>
Potential CSR costs (Weber 2008, 254.)	<b>PC</b>
CSR risk benefits and costs (Weber 2008, 255.)	<b>RBC</b>

*“In semi-structured interviews the researcher will have a list of themes and questions to be covered, although these may vary from interview to interview.”* (Saunders, Lewis & Thornhill 2009, 320). The interview will thus have a preset structure of questions and themes that are either in a close relationship to the theoretical framework or outside of it (see Appendix 1). However, the interview may deviate from the set line of the interview. The freedom to enter into an in-depth discussion with the interviewee about certain answers or comments he/she may have given is of great importance, since it might lead to unanticipated findings. Also, depending on the interview target, certain questions will need to be added, omitted or switched in order to adjust to the perspective and area of expertise or knowledge of the interviewee.

Semi-structured, qualitative interviews are suitable when probing for answers and stimulate interviewees to explain and build their responses. The interviewee is free to word ideas in a specific manner and a discussion on any topic presenting itself during the interview is permitted. Such discussion is especially fruitful if it leads to not previously expected but significant results. Acquired data will be therefore detailed and having a high content of information. (ibid, 324.) The opportunity to have an open and not-previously-determined discussion with the interviewee will be



a key element in potentially finding new, unexpected causal relationships of CSR and SME performance.

In total four interviews have been held for this research, out of which three delivered results applicable to the research question. In finding candidates for the interviews attention has been paid to diversity, so that different sectors of the market are represented. Invitations to the interviews have been sent via telephone, email and website contact forms to companies, consultancies and organizations. Respondents are located in Jyväskylä and Helsinki. Two of them are companies which will offer practical experience, and one of them a consultancy which has more of an eagle-eye perspective having dealt with a large amount of businesses in the past. The interviews lasted from 90 to 150 minutes and were mainly held in English, although Finnish was used as well. Interviews were audio-recorded after permission was given by the respondents. Analysis happened on the basis of the transcripts which were written out beforehand. First, the usability and themes of the text were identified and marked (inter alia social responsibility measures, social responsibility costs, supply chain, licensing et cetera). Thereafter these parts of texts were organized by theme in Microsoft Excel for Mac. This revealed on which topics most data was acquired and made it possible to analyse the results per theme side by side, which made for example unanimous findings easily recognizable. From here the results were written out and approached from the theoretical framework as presented in Figure 10 in the results chapter. Figure 11 lists a couple of findings applicable to the domestic environment and SMEs specifically. In the Discussion chapter the thesis' research question is answered directly and the results evaluated. Permission for the publication of the results in this thesis has been acquired in digital form from all the respondents.

### 3.4 Verification of findings

The reliability of the results extracted from the acquired data through the interviews will come from at least two factors. The first being that the interview targets have been specifically picked as a representation of the field of research. Regarding the SMEs itself, domestic enterprises have been picked. Additionally, the interviews were held with leading positions (owners, COO). The answers coming from these SMEs can

be laid next to those coming from the field expert: Teemu Pinomäki, CEO of the *Finnish Enterprise Agency*. Pinomäki will have not only expertise with CSR and SMEs as a business strategy consultant, but as a prior employee of *Lähitapiola* (an insurance company) as well, offering an especially wide field of experience. Also, the literature review and framework of this thesis will provide a foundation through which the results can be filtered.

The interviews have been audio-recorded and transcribed word-for-word. This minimises the risk of misinterpretation by the interviewer/interpreter. Confirmation from the interviewed parties on the distribution of the transcriptions have been acquired, and they have given corrections to those where it was required. However, since the research goes more in-depth in a qualitative manner, data will come from specific circles. This means that further research might be required as described in a later chapter.

Finally, the literature review and theoretical framework will provide a frame of reference against which found results can be checked and compared with.

## 4 Results

### Domestic Environment & SMEs

All respondents have made comments that either directly or indirectly apply to the economic environment of Finland and how it stimulates or limits socially responsible endeavours of SMEs. Pinomäki mentioned that in Finland the business climate has a lot of potential for entrepreneurship and growing businesses. *“We have so much going on that is connected to entrepreneurship and businesses that are growing or planning to start.”*, amongst other things mentioning the Nordic Business Forum, Crazy Town (a business community with several locations across Finland) and Kasvu Open (a sparring and support program for growing companies). This atmosphere of cooperation is according to him essential for engagement in social responsibility. Pinomäki also states that environmental subjects are contemporary in Finland. *“Everybody is talking about it.”* He thinks ‘green’ values will have an increasing presence in society. Prioteasa mentions that businesses that focus on the environment and/or human rights have an additional challenge, since people are

more critical towards them. The relationship between companies and the environment is, according to him, in a bad state, him mentioning that the main focus is to be ever increasingly productive. Finnish customers still put weight on the price on products primarily, and thus tend to go for the cheaper option. He does acknowledge however, that there is a certain trend of being sustainable.

Martikainen says that as a small Finnish company, it is difficult to control your supply chain if it contains connections abroad, especially outside of Europe. As an SME it is more challenging to be sure of the factories you employ paying their employees a decent living wage. This makes it also more difficult to acquire certain marks of approval by for example NGOs; in Makia's case Rank a Brand (a previously Dutch organization that did research on the sustainability of clothing brands, currently known as Good on You). Here, the legislation of the European Union (EU) does help up to a certain extent. For example, companies outside of the EU that trade internationally anticipate on the REACH legislation of the union, limiting the amounts of harmful chemicals in products without the need of companies needing to monitor this extensively themselves.

Martikainen mentions that competing as an SME in Finland is tough, since nowadays bigger and international companies are competing in the same online and brick and mortar stores as where you would as an SME, turning the domestic field of competition into a global one. Due to this globalization, customers start to become more demanding on the reporting of social responsibility related measures, which is, according to the respondent, more difficult for smaller companies. He imagines that demands of social responsibility will increase in the future, but that economic downturn (mentioning COVID-19) could create an environment where people will look for the cheaper product. Prioteasa says that in competition with larger companies, an SME should focus on how it can distinguish itself from them, since a smaller company will not have the resources to compete in for example production efficiency and economies of scale (being able to offer lower prices to the customer by decreasing the profit margin per product). When it comes to the impact of social responsibility, Martikainen feels that as a smaller company in the Nordics one can have more of an effect with sustainability measures than making a change abroad in for example workers' pay in factories.

### **Social responsibility revenue & cost**

Unanimously respondents agree that social responsibility measures in a company can initially lead to increased costs, but that it should be interpreted as an investment. In the long term these costs will be compensated for by the savings, revenues and other direct and indirect effects of social responsibility measures. Pinomäki says that for example customer engagement, as in maintaining a relationship with the customer and being involved in their lives, from the perspective of the service industry, can be a win-win. It presents opportunities where you are able to sell more when there is the customer's willingness to buy. Prioteasa mentions that a closer connection with your supply chain, in his case in an effort of offering workers abroad in his supply chain a living wage, can make certain middlemen unnecessary. Not only does the supply chain become less costly due to eliminating intermediate steps, but one can also find a direct relationship with the supplier to be of benefit in terms of goods' price level and stability.

A select portion of customers nowadays filters products specifically on whether they have a label that proves a certain effort of responsibility (for example the organic or fair-trade label). Martikainen found that not a lot of customers are willing to pay more for sustainable products and that a profit from social responsibility engagement is not a given. He does mention that, due to more companies buying them, the prices of sustainable materials are going down. Also Pinomäki notes that a higher price might turn customers away. Labelling ethical elements of products is according to Prioteasa expensive, for small companies as well as for small providers in a supply chain. For SMEs this can be a special challenge, since the price of these certifications is fixed regardless of the quantity. Therefore, a smaller business with a smaller amount of product to be certified pays a relatively higher price for such certification. These certifications are usually not only paid at one stop in the supply chain, but every intermediate party has to comply and acquire one. In the competitive market this can be a disadvantage, since companies that do not take the environment or workers' rights into account do not have to pay such extra fees whatsoever. However, Martikainen says the prices of recycled and other sustainable material has gone down and they have become more easily available as compared to a couple of years ago due to an increasing demand.

Increased costs can come from ethical produce and wages in the supply chain as well. Whether costs can be offset in the product price depends partially on the customer's willingness to pay a higher price. Ethical procedures can also lead to indirect costs, since the handling of goods can be strictly regulated (for example, organic coffee cannot be transported in the same container as non-organic coffee, and if washed at the same location the station has to be thoroughly cleaned between washing organic and non-organic produce). These tight regulations have arisen due to 'greenwashing'. Producers in the supply chain as well as companies can sometimes withhold information about the nature of their product (false labels). This is done because the labels sell, which at the same time shows that there is a significant enough demand for products with an ethical underline. Thus Prioteasa. Also Martikainen mentions the nowadays vast number of certifications available for ethical business. According to him it has become a market in itself. There are certifications regarding the environment, product safety, management and other social responsibility issues. As an SME it is difficult to monitor all of these aspects, which can force it to use a third-party auditor. In competition with bigger companies an SME has an advantage in that sense that it has a smaller supply chain and thus less to oversee. Then again, a bigger company tends to have the resources for a specialized (social responsibility) department.

### **Customer behaviour**

According to Pinomäki, one cannot buy customer loyalty, which would otherwise stem from socially responsible endeavours, off with simple campaigns. People are starting to believe that the cheapest is not always the best choice and increasingly look for products produced by the values they follow. Also Prioteasa says that the main portion of their customers are people with values that synchronise with the ones under their business operates. Marketing campaigns aimed at customers with significantly different values is according to him inefficient. Nonetheless he mentions that their business also frequently has customers who are not necessarily aware of the ethical background of their products. The most common customer however is the one that is willing to pay a higher price for a responsible product. Prioteasa sees this customer group growing. He expects an inevitable change in the collective

thinking of people into a more altruistic direction, thereby changing consumption habits. Martikainen confirms that social responsibility, in their case consisting of using sustainable materials and assuring fair wages in their factories abroad, attracts customers and invites customer loyalty. He sees the demands of customers and other parties on social responsibility issues and reporting increasing every season. Regarding recruitment also a part of the job-seeking population does not have the size of their income as priority number one, according to Pinomäki. Especially younger generations increasingly look for jobs that align with their values. Martikainen thinks that the details of the whole supply chain of companies are eventually required to be reported to the public. This brings about a challenge for SMEs according to him, since some details of Makia's supply chain are sensitive to competition and are, from a business perspective, better held private so that competitors cannot exploit such information.

In the long term, having a certain level of social responsibility can safeguard your position in the market, although on almost every platform the competition is tough and global. Apart from social responsibility, Martikainen notes that it is still a primary requirement to have a good product and brand in order to lay a foundation that attracts customers. Next to this traditional form of competition, social responsibility, including transparency, has become a strategy of capturing the market. Even though it is a significant part of their business, Makia's spearpoint is not social responsibility per se. The growing demands of customers and organisations around their business has however moved them to increasingly focus on growing the responsibility element of their business.

### **Social responsibility demands**

All respondents mention the increasing demands on social responsibility measures and transparency about them. Businesses seem to benefit the most by being as honest as possible. When working with banks and insurances the law also requires a company to report extensively about its processes. Pension insurance companies are paying more attention to the responsibility of their investments as well due to growing demands. Since these operate with large capitals, this has a significant effect on the market as well. In working with NGOs, Makia has experienced high demands on social responsibility reporting, especially on their supply chain. This reporting can

be a challenge for SMEs' limited resources for monitoring every aspect of the supply chain, especially when it is international. Compared to 10 years ago, investors are more demanding of social responsibility as well, which is important to take into account when acquiring capital, says Martikainen.

### Results in light of the theoretical framework

Impact Model	Key performance indicators	Potential CSR costs	CSR risk benefits and costs
<ul style="list-style-type: none"> <li>• On the long term social responsibility investments pay off</li> <li>• More selling opportunities to customer</li> <li>• Supply chain less costly</li> <li>• Source goods/materials price lower</li> <li>• Sustainable materials' prices in decline</li> <li>• Investors take increased interest in social responsibility</li> <li>• Increased accessibility to licenses and capital</li> </ul>	<ul style="list-style-type: none"> <li>• Consumers more critical towards companies with social responsibility values</li> <li>• Sustainability is trending</li> <li>• Consumers demand reporting of social responsibility measures</li> <li>• Ethical product labels sell</li> <li>• Consumer is not very willing to pay a higher price for an ethical product</li> <li>• Young employees look for workplace values that align with their own</li> </ul>	<ul style="list-style-type: none"> <li>• In general, costs initially increased</li> <li>• Ethical produce more expensive</li> <li>• Higher wages in supply chain</li> <li>• Higher cost of ethical goods' handling</li> </ul>	<ul style="list-style-type: none"> <li>• Source goods/materials price more stable</li> <li>• Social responsibility assists in safeguarding market position</li> <li>• Tight regulations around social responsibility certification</li> </ul>

Figure 10. Core results corresponding with the theoretical framework

In Figure 10 above the results that corresponded with the theoretical framework have been organized. In line with Weber's CSR Impact model (2008, 250), potential decreased costs were found especially in the supply chain in the form of having fewer intermediate parties, lower source material prices due to a closer relationship with the provider and a decrease of sustainable materials' prices. Weber's CSR key performance indicators (ibid, 253) correspond with a stricter and more demanding attitude of consumers towards socially responsible business, generating a challenge

in customer attraction and retention. At the same time a demand for ethical products was discovered as well as a demand for ethical job vacancies by job seekers. Potential CSR costs included a currently higher price of ethical produce, product handling and higher wages in the supply chain. Amongst risk-related benefits were an increased stability of goods' prices in the supply chain and social responsibility helping to secure the position in the market of an SME. Tight regulations around socially responsibility certification can potentially lead to unexpected costs.

Domestic environment	SMEs
<ul style="list-style-type: none"> <li>• Good climate for entrepreneurship</li> <li>• Atmosphere of cooperation</li> <li>• Environmental topics contemporary</li> <li>• Product price still a priority for consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring supply chain more challenging</li> <li>• Competing tough due to global market with larger players</li> <li>• Social responsibility reporting more challenging</li> <li>• Licensing and certification relatively expensive</li> </ul>

Figure 11. Core results applicable to Finland and SMEs

Results specifically applicable to the domestic environment showed that Finland offers a lot of opportunities for entrepreneurs and a cooperative attitude between them. Finland being conscious about environmental challenges is indirectly an opportunity for SMEs that strive to be environment friendly. Nonetheless, Finnish consumers pay attention to product pricing and might not be willing to pay a higher price for a socially responsible product. An SME will often find it will have to compete with larger companies due to the globalization of the market. In comparison to larger companies, it can be more challenging for an SME to monitor its supply chain and make sure it is in line with its values. Reporting on social responsibility measures and other applicable data can be not only more difficult for an SME, it can also undermine its competitiveness due to giving away sensitive information about the company.



## 5 Discussion

### Answers to the research question

In terms of Webers Impact Model (Weber 2008, 250) the respondents have found a variety of monetary and non-monetary benefits qualitative and quantitative of nature. It seems to be that social responsibility endeavours can eventually pay themselves off and 'turn a profit' for the enterprise. It must be noted here that the latter is more of an expectation for two out of the three respondents than an already given fact.

Increased engagement with its supply chain seems to reduce costs. Key performance indicators show that challenges are to be found with the consumer especially, having a critical attitude towards socially responsible business; sometimes unwilling to accept a higher priced product while at the same time demanding extensive reporting on social responsibility measures. Contrarily, ethical labels do support product/service attractiveness. Regarding recruitment, a company seems to have a competitive edge with social responsibility. It is undeniable that social responsibility can lead to an, at least initial, increase in costs, coming from source product prices, higher supply chain wages and the handling of goods.

Social responsibility can secure a company's position in the market and affect price-stability of source goods and materials in the supply chain positively. Monitoring a supply chain and reporting on social responsibility takes a greater effort from SMEs, and licensing and certification can be, relatively to the output, more expensive. In competition with larger companies these can make for an especially difficult situation. Finland seems to however provide a good climate for socially responsible SMEs.

All in all it is found that a lot of factors are in play that affect the competitiveness of the socially responsible SME. Factors that are beneficial and detrimental to the competitiveness and success of a company are variably present, making it a per case scenario whether the SME in question will come out better from engaging in social responsibility or not. It is however the question if a potential loss of competitiveness is not worth the effects of socially responsible business on the environment and

society alike. Current elements of the global economy have taken such a form that ethical behaviour is not always stimulated. Increasing demands for social responsibility might give an intimation of potential economic and societal changes in a nearer or farther future.

### **Practical business implications**

An SME that engages in social responsibility will altogether find benefits and challenges on its path, and it is not fully certain whether these add up to a competitive advantage or disadvantage. Initial costs, or thus possibly to be considered as investments, might present themselves when one strives to make its business processes socially responsible. However, this must not be taken simply as a downside of social responsibility or as an argument to postpone or cancel socially responsible endeavours, but instead the company could try to get a picture of how this initial investment will affect the future of the company on a longer term. It may well be that the initial investment will prove to pay itself off. Getting a clear picture of the profit on this investment is not as easy though, since a lot of indirect effects might be involved (inter alia increased customer demand, a unique selling point for marketing communications, public opinion).

In practice, if a company decides to adopt social responsibility into its values and processes, it seems to be first and foremost of importance to be transparent about the current situation of the company, its procedures and supply chain. Reporting about these matters can be started rather sooner than later, since the tendency seems to be that this kind of reporting will be increasingly demanded by consumers and organizations. If the company lacks data about its social responsibility efforts and effects, it might face negative publicity when organizations that inspect for example product brand sustainability find a lack in data. Monitoring an international supply chain can be more challenging for smaller companies, since it might lack the resources to do so. A closer relationship with the parties playing a role in the supply chain can make monitoring easier. This closer relationship can be a natural result of social responsibility efforts, for example ensuring fair wages to workers in the supply chain. Closer relationships within the supply chain might mean that certain intermediate agents are not necessary anymore, since business can be done more

directly. An SME should consider creating closer relationships and realize this benefit of social responsibility.

Revenues might be at risk when one tries to offset increased costs in product/service price, since it being too high might decrease turnover. Especially in Finland, customers seem to be price-aware and not very willing to pay a premium price.

Ethical certifications will come with a cost, but will make for a competitive advantage over 'regular' products and services, since a significant part of consumers take these labels into account when purchasing. The regulations around certain certifications can be strict. If the supply chain and product handling is planned out beforehand, in accordance with the requirements of a specific certification, one can avoid future expenditures by not having to readjust processes in order to be accepted for certification.

In recruitment an SME can also have a certain advantage over others when incorporates social responsibility and should thus make use of this fact. When looking for employees, it might provide the company with a wider or more specialized selection of applicants, since, especially younger generations, have an interest in the company's values and social responsibility. In search for capital, when sitting around the table with potential investors or bankers, the responsible nature of the company should be brought forward. Showing how the company applies or will apply social responsibility measures can provide a security for the investor or banker about the future stability and market position of the company.

### **Findings in relation to existing research**

The statements of Martikainen about investors taking an increasing interest in social responsibility is directly in line with the findings on a macro-level by Goddard and Ajami (2018), Risalvato, Venezia and Maggio (2018) and the KPMG (2017, 6), who see ethical funds and indices rise in Europe as well as domestically in Finland. The unanimous idea of the respondents that social responsibility values are having a growing presence in society, is affirmed by Williamson (2018) who says that societal norms are changing and more money is becoming available for socially responsible business.

However, CSR is a management of paradoxes, according to Vilanova, Lozano and Arenas (2009, 57). In the results of this research it becomes clear that certain social responsibility endeavours are counter-intuitive to a straight-forward for-profit business model. It is uncertain whether social responsibility is beneficial for the competitiveness of a company.

*“CSR paradoxes take two forms: (1) organizational paradoxes that arise from opposing CSR and business goals, values and processes (Handy 2002; Joyner and Payne 2002; Pruzan and Thyssen 1990) and (2) paradoxes inherent to CSR that are generated by opposing or conflicting goals, values and processes within CSR frameworks (Elkington 1998; Freeman 1984; Goodpaster 1991; Handy 1994; Pruzan 2001)” (Vilanova et al. 2009, 64).*

It arises perhaps from a conflict between selfless acts (for the benefit of the whole) and ‘selfish’ acts (the benefit of the business). Finland’s economy, and for a large part economies in developed countries, is modern capitalist and intrinsically competitive. Pure competition diametrically opposes purely selfless sacrificial acts (unless this competition is for example between cooperative groups). Admittedly, social responsibility does not always imply acts that are not beneficial for the company in question. However, it is not an anomalous thought that environmentalism or human equality comes from an attitude of selflessness. Having to incorporate a selfless attitude in a strongly competitive economical system is in its essence paradoxical. This can lead to the question whether the current day economy is suitable for socially responsible intentions. It is also stated by Dubbink and Putten (2008) that our current idea of a perfect market has to be sacrificed to make room for values that are non-economic and anticompetitive from the current dominating point of view.

### **Limitations of this research**

Even in combination with extensive review of prior research, finding a definite answer to what the effects of social responsibility are on an SME is challenging if not impossible. Many factors play a role in how this effect turns out to be. The type of the social responsibility measures the company incorporates, the values behind it, the nature of the company itself, its customer base and a lot more factors will affect the competitiveness derived from social responsibility endeavours for the company

in question. In reviewing the literature and putting together a theoretical framework, it was found that a lot of research has been focussed on larger companies and corporates. In that sense, the research might have had somewhat of an exploratory nature, resulting in findings that did not necessarily fit into the theoretical framework. Even though this led to new or otherwise interesting results, they could be regarded as preliminary.

Even with the review of prior research and extensive results from the respondents, a lot more extensive research with different methods and from different perspectives is necessary in order to uncover key elements of the relationship between social responsibility and competitiveness regarding SMEs. Altogether the respondents represented not only a small fraction of the Finnish market, but two of the respondents have experience mainly from a specific industry, which means that in different fields of business findings can differ to a certain degree. Willingness from companies and organizations to cooperate with interviews about social responsibility was not easy to come by. Therefore, the selectivity required for an eclectic base of source interviews had to be readjusted. Even though this led to more extensive and in-depth interviews, the time and financial resources, and therefore the research' size, have been limited; it being a University of Applied Sciences' bachelor's degree's thesis. Also the level of objectivity of the results stemming from the interviews should be taken into account. Since the interviewees were all engaged in social responsibility, although not all fully on own initiative, the perspective given by the results might be skewed. The possible influence of subjectivity should not be neglected, since a certain level cannot be avoided in qualitative research. All in all, the findings of this research and their implications are recommended to be taken as indications. They can however be taken into account when strategizing as a business, as well as make way for augmentive research.

### **Recommendations for future research**

First of all, a larger scale of research of the same nature would be necessary to give further insights into the relationship between social responsibility and SMEs. It would need to include more interview sources from a variety of industries, as well as consultants with an expertise in social responsibility.

Additionally, quantitative research which would evaluate a large number of businesses could solidify the findings of this research and explore this relationship further, since it will be able to take large amounts of data from a larger amount of cases. The results of quantitative research will have, in this respect, also the benefit of a stronger tendency to be fully objective. Specific measurements could focus on social responsibility cost and profit specifically in order to find how social responsibility can affect the financial gain and loss of a company. For this, longitudinal research spanning over at least several years could be especially valuable, since the effects of engagement with social responsibility can be indirect and are oftentimes longlasting. Discerning whether a certain effect has come from socially responsible measures would in certain cases only be possible after a long time in which a lot of data is accumulated.

A comparison in data between socially responsible SMEs and 'regular' SMEs could help distinguish what is a result of social responsibility and shed light onto more specific factors that affect competitiveness. Since the currentday developments in society seem to indicate an increased importance of social responsibility, especially results from cross-sectional research might differ depending on the point of time they have been taken. All in all it is presumable that social responsibility is to become an increasing element of business life, whether this will be voluntarily or forced by environmental circumstances, making research in this field increasingly valuable, if not necessary.

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## Appendices

### Appendix 1. Interview design

#### Introduction

- a. What kind of activities are related to your role in UYK?
- b. What kind of experience do you have with CSR?
- c. Does UYK engage itself in some form of CSR?
- d. Do you offer your clients consultancy on CSR related topics?
- e. Do its customers at times require advice with CSR related topics concerning their business-ideas or already existent business?

*Comment mentioned to the interviewee:*

First of all, please bear in mind that all of the following questions concern effects of CSR on *SMEs in Finland* whether explicitly mentioned in the question or not. Sometimes, the generic term 'company', or no specification at all, may be used in a question. Nonetheless, this interview is purely about the workings of CSR in and on in Finland located SMEs.

#### Quantitative benefits

1. How do you think that CSR can affect revenues of an SME? **(IM)**
2. What about its costs? **(IM)**
  - One-time costs: one-time donations, investment costs, other one-time CSR costs **(PC)**
  - Continuous costs: continuous donations, fees, personnel costs, material costs **(PC)**
3. In what way do you think CSR can increase or decrease an SME's exposure to risk? **(IM)**
- 3a. (If positive answer on question 3) In what way related to what kind of risk? **(IM)**
  - avoidance of revenue decrease, avoidance of cost increase **(RBC)**
  - revenue decrease, cost increase **(RBC)**
4. Specifically, what effect can CSR activities have on the brand or image of an SME? **(IM)**
  - Cost-oriented, price-oriented, capital-oriented brand value **(KPI)**
5. In what way, if any, do CSR endeavours affect the attraction of customers in SMEs? **(IM)**
- 5a. What about the retention or loyalty of customers? **(IM)**

-repurchase rates, market share **(KPI)**

6. How does CSR engagement affect the reputation of an SME? **(IM)**

-reputation indices and rankings **(KPI)**

7. What effect does CSR have on workforce recruitment? **(IM)**

7a. What effect does CSR have on the motivation and retention of employed workforce? **(IM)**

-applications per vacancy, hiring rate, fluctuation rate, absenteeism **(KPI)**

### **Qualitative benefits**

8. In what ways can CSR engagement affect an SMEs access to capital and/or licenses? **(IM)**

### **CSR risk-related benefits and costs**

9. How do CSR activities affect an SMEs relationship with its stakeholders? **(RBC)**

-government, consumers, media, NGO, other cooperative parties (boycotts) **(RBC)**

9b. How does this benefit or work against its performance? **(RBC)**

### **Exploration**

10. Do you thus think CSR gives a competitive advantage and/or disadvantage to SMEs?

If yes: Which kind of advantages?

11. In what other ways does CSR affect a company and its performance?

12. Would you have any other comments?