

WHAT CORPORATE SOCIAL RESPONSIBILITY MEANS TO SME MANUFACTURING FIRMS



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Socially responsible manufacturing firms can cultivate a positive brand image, boost customer loyalty, and attract top-tier employees to ensure lasting success.

Is no secret that the manufacturing sector at large is one of the world's major contributors to environmental degradation. The social cost of many manufacturing operations, vital to modern society though they might be, is simply too high to ignore. This is why manufacturing firms, no matter the size, must invest in sustainable innovation, philanthropic responsibility, and human equity.

Corporate social responsibility (CSR) goes hand-in-hand with socially responsible practices to help cultivate a positive business reputation. As a form of self-regulation, CSR goes beyond legal mandates to incorporate industry best practices and initiatives such as charity programmes and investment in greener production systems. To that end, CSR is inseparably tied with various other mission-critical functions, such as brand management, supply chain management, and risk management.

Most conversations about CSR concern large global enterprises. After all, their activities have by far the greatest impact on society and the environment. Furthermore, they attract far more media attention than their smaller counterparts, thus making CSR a practical necessity. Small manufacturing firms, on the other hand, often fear they lack the resources necessary to adopt more sustainable and equitable processes.

In spite of these concerns, the business considerations for CSR for SME manufacturing firms are every bit as important as they are for large enterprises. Indeed, there are countless new start-ups appearing in the space that make a point of exploiting more sustainable production opportunities. Any hesitation to do so can be countered by the fact that CSR is not a destination, but rather a journey of continuous improvement.



Sustainable brands are more profitable

There is no denying that investing in areas such as reducing a company's carbon footprint or reducing its negative social impact can be costly. That said, strategic investment in CSR is an investment in long-term success. The main reason for this is that customers are far more likely to do business with brands that help them live sustainably. One study of 1,004 respondents in the US and the UK even found that 88% of consumers¹ were more likely to buy from companies with an environmentally friendly and ethical track record.

Of course, no business wants to risk disappointing such a huge majority of their customers. In the era of social media and online reviews, such disappointments are dramatically amplified as well. Even while it might only be a minority of customers who spend time trawling through a company's environmental record before making a purchase decision, it is vital to remember that the internet has given everyone a voice. Thus, brands that fail to demonstrate their efforts to become more environmentally sustainable and improve their societal impact will soon find themselves in the limelight for all the wrong reasons.



Extending CSR across supply chains

CSR is not just about what an organisation does internally. A company might have the most robust internal policies in its respective market, with regards to sustainability and equitability, yet weak links might persist somewhere down the supply chain. Manufacturing firms have it harder than most in this respect, since their supply chains are often highly complex and rely heavily on raw materials that are not always easy or even possible to source sustainably. For example, many ubiquitous consumer goods, such as smartphones, use lithium-ion batteries. However, not only does the extraction and processing of lithium consume huge quantities of water and energy – lithium-ion batteries also require graphite, the mining of which can have catastrophic impacts on local environments² and public health.

The importance of human equity across supply chains can also not be underestimated. Many manufacturers outsource some of their operations to factories and suppliers that do not meet satisfactory employment or safety standards. For example, if a serious accident that results in loss of life occurs in a factory with inadequate safety



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standards, the reputational fallout may also extend to any brands that outsource their manufacturing there.

Given such examples of just how vulnerable supply chains can be, it is essential that manufacturers, regardless of their size, take the utmost care with regards to who they do business with. This is why know your customer (KYC) and due diligence checks are some of the most important processes in supply chain management, not to mention how deeply tied they are to CSR. After all, few things damage a brand's image more than having their labels associated with a major human tragedy.



Becoming more attractive to resellers

While an increasing number of manufacturers sell directly to consumers, most SMEs depend more on wholesalers and retailers. Yet these industries are also investing in CSR, hence the benefits of extending CSR across supply chains cuts both ways. As such, a manufacturer with a proven track record in adopting sustainable and ethical business practices presents a far more attractive business opportunity to resellers. In fact, given the increasing importance of CSR in today's supply chains, manufacturers can safely assume that any resellers they hope to work with will be even more aware of sustainability and business ethics than consumer audiences.



83% of workers reporting that their companies are not doing enough to fight climate change⁴.

Both retailers and wholesalers are becoming increasingly wary of where and how the products they sell are sourced. Major scandals, such as the 2013 horse meat debacle³, have served to further raise awareness to the need for transparency across supply chains. Such supply chain abuses now mean that retailers are especially careful when conducting due diligence checks. For manufacturers, this means they must have comprehensive CSR programmes in place, as well as the documentation and evidence to demonstrate their efforts, if they hope to pass such tests.



Attracting top-tier talent

CSR is not just important to customers and stakeholders, but also to employees. After all, it is common sense that, when an employee believes their company is trying to have a good impact on their community, they will likely be happier and more productive. This means manufacturers should also take a strategic approach to communicating their efforts to employees, which is why CSR starts with strong leadership.

That said, it remains a common misconception that employees are really only concerned about their salaries. The truth is, that when employees feel their businesses are socially responsible, they are likely to have a greater sense of belonging. This translates into a stronger connection to the company which, in turn means an increased likelihood of companies retaining the best talent – i.e. people whose own ideals align with those of the brand.

With environmental and social sustainability being top of mind among today's jobseekers, the need for CSR from an HR perspective is clearer than ever. However, according to one survey of 2,000 office workers in the UK, there remains a serious gap between what employees want and the actions their employers are taking, with 83% of workers reporting that their companies are not doing enough to fight climate change⁴. Another study, by the IBM Institute of Business Value in 2021, found that 71% of people considered environmentally sustainable companies to be more attractive employers⁵.

Recent studies have consistently shown that employees from line managers all the way up to senior managers are more engaged and more productive when they are fully aware of their employer's CSR initiatives. This translates into enhanced productivity and helps to foster an environment of sustainable innovation and continuous improvement.

To communicate these efforts, senior executives should regularly share tangible evidence of the positive outcomes of their

CSR initiatives and invite employees to share their own thoughts and ideas on the matter. After all, improved sustainability ultimately comes down to motivation and smarter decision-making, hence the central role of strong leadership.



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How CSR adds real business value

Adopting environmentally sustainable business practices, bolstering diversity and inclusion, and engaging in philanthropic initiatives does not come cheap. But then neither should these things be considered merely as cost centres or minimum legal requirements.

Corporate social responsibility is not about choosing between profitability and doing business sustainably. It is about harmonising the two with a view to long-term success. Manufacturing firms must look beyond their economic and financial aspects, as these are not the only things that add value. History has proven time and again that organisations with strong track records in environmental, social, and governance (ESG) aspects consistently perform better over the longer term than their non-sustainable competitors.

To summarise, such companies boost long-term profitability and reduce risk by leveraging the following key benefits of adopting effective CSR programmes:



Enhanced customer reach and loyalty



Reduced risk across supply chains



Increased employee satisfaction and retention

For manufacturers, those benefits are simply too important to ignore. Adhering to legal regulations and universal trade and industry standards is just the beginning. ■

Sources

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