

## **Be Generous and Become Prosperous:**

### **A Challenging Business Strategy for Small and Medium Enterprises (SMEs)**

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#### **Introduction**

When business leaders, journalists, and scholars in the United States talk about socially responsible companies, they are generally talking about major corporations and their affiliates that are practicing corporate social responsibility (CSR)<sup>1</sup>. Until now, only a few efforts have been made to recognize socially responsible small and medium-size enterprises (SMEs) involved in generous efforts to support communities around them. It is a historic reality that many of today's SMEs will become tomorrow's large enterprises. Therefore, it is important to recognize and encourage these role-model SMEs.

In Europe, many institutions, including several corporate associations, government agencies, and business schools, have come forward to support socially responsible activities of SMEs. Recently, the European Commission has undertaken an initiative to promote business social responsibility programs and corporate civic engagement<sup>2</sup>. Unfortunately, no major coordinated efforts have taken place in the United States (with a few minor exceptions) to encourage and support social responsibility programs or corporate civic activities of small and medium-sized companies. Unfortunately, a number of American SMEs are not fully aware of the value of the social responsibility practices based on the principle, "do well by doing good." The time has come for these enterprises to recognize the need to be generous in order to become prosperous.

In light of this background, this paper will advocate the importance for SMEs to adopt and practice a socially responsible and civic-minded business strategy, considering that not all of them are led by civic entrepreneurs.<sup>3</sup> The purpose of this paper is to nurture a nationwide discussion of the philosophy of "doing well by doing good."<sup>4</sup>

#### **What Is Business Social Responsibility?**

A large number of top officials of American SMEs strongly believe that the only goal of their business ventures should be the making of profit for their owners or investors. They honestly think that they have no duty to exercise social responsibility at all. They blindly follow the words

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<sup>1</sup> Generally people in the business community around the world identify their voluntary activities with the term "corporate social responsibility (CSR)." See Association of Americans for Civic Responsibility (AACR) Position Papers: Economic Prosperity Through Institutional Civic Responsibility (ICR), [www.aacri.org](http://www.aacri.org)

<sup>2</sup> European Commission, "Corporate Social Responsibility in SMEs," [www.CSR-in-smes.eu](http://www.CSR-in-smes.eu)

<sup>3</sup> Douglas Henton, John Melville & Kimberly Walesh, "Civic Entrepreneurs: Economic Professional as Collaborative Leader," Community Economic Newsletter, Center for Community Economic Development, University of Wisconsin-Extension, March 1999, p. 1.

<sup>4</sup> <http://Panelpicker.sxsw.com/ideas/view/1471>, "Do Well by Doing Good-Civic Entrepreneurship."

of Nobel laureate Milton Friedman, who stated, “The social responsibility of a business is to increase profits.”<sup>5</sup> These business leaders interpret Mr. Friedman’s statement to mean that their only social responsibility is to increase profits for the owners and investors who belong to one segment of their internal stakeholders.

A modern business trend is spreading quickly throughout the American business community that holds that every business entity that seeks to make a reasonable profit has to take care of all of its stakeholders, both internal and external. These stakeholders include not only the business’s owners and investors but also employees; customers; regulators; the community which produces their future customers, employees, and investors; and the public at large<sup>6</sup>. In other words, a good business entity should identify and implement methodologies to better serve all of its stakeholders by performing social and civic responsibilities.

### **(1). The Roles of Management and Employees**

At this point, the essential role of employees who serve these stakeholders should be emphasized. It is a fact that without customers, no business enterprise will survive. To attract these customers, the business entity has to sell quality products and provide excellent services consistently. These products and services can be provided only through the efforts of hardworking, skilled, and loyal employees<sup>7</sup>. For this reason, management has to show loyalty, support, and encouragement to these employees<sup>8</sup>. While ownership and management leaders function as the brain of a business body, employees constitute the backbone of the business. They play a major role in achieving the success of a business by developing and producing improved quality products and services.

It is considered that SMEs are the lifeblood of most economies around the world<sup>9</sup>. In the United States, they create more jobs than big corporations. Promising employees should be identified, properly trained, and encouraged without any kind of identity-based discrimination. They should be adequately compensated. Further, SMEs can adopt successful models of corporate social responsibility (CSR) established by our most admirable major US corporations. Those corporations treat their employees fairly beyond the call of any legal duty by adopting a policy of compliance with their moral and ethical obligations. In the summer of 2009, Jack Welch (former chairman of General Electric) and his wife Suzy wrote in an article, “As for community activities, companies should by all means continue to encourage employees to stay involved, helping out if possible with transportation and scheduling allowances. But managers should also understand

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<sup>5</sup> Milton Friedman, “The Social Responsibility of Business Is to Increase Profits,” *New York Times Magazine*, September 13, 1970.

<sup>6</sup> Sheila M. J. Bonini, Lenny T. Mendonca, and Jeremy M. Oppenheim, “When Social Issues Become Strategic,” *The McKinsey Quarterly*, November 2, 2006, p. 20.

<sup>7</sup> MHC international Limited, “Corporate Social Responsibility in Small and Medium Sized Business,” February 2001, p. 1.

<sup>8</sup> Kelly K. Spors, “Top Small Work Places. 2009,” *The Wall Street Journal*, September 28, 2009, p. R1.

<sup>9</sup> International Institute for Environment and Development (London), “SMEs and Corporate Social Responsibility: A Discussion Paper,” June 2005, pages 1-11.

when employees recoil from previous commitments to volunteer. It's only human to concentrate on your job when you feel your job might be vulnerable."<sup>10</sup> Some of those companies grant health insurance assistance, educational opportunities, fair bonuses, wellness facilities, liberal leave programs, etc. Practicing this kind of loyalty to employees is one of the major responsibilities of a socially responsible enterprise. If this small or medium enterprise is a corporation, this practice is identified as a duty of a good corporate citizen or an admirable practitioner of corporate civic responsibility (CCR).

## **(2). Customers: An Integral Part of Business**

A business enterprise also has important social and civic responsibilities toward its customers or consumers. Only by attracting new customers and retaining them as loyal clients, a business entity succeeds financially. For this reason, it is expedient for any business to think generously toward them.<sup>11</sup>

For example, a healthcare group — whether a physician's office or medical treatment facility — can give increased special attention to its patients by periodically checking about their well-being. Commonly it is not considered feasible for a healthcare provider to go out of its way to stay in touch with its patients. However, occasional contact with patients can not only psychologically help those patients and their family members, but also spread the good reputation of the caregiving of those healthcare professionals in their own community. Further, such admirable practices could deflect any damaging criticisms by competing groups, community activists, or other critics who allege that physicians are surrendering to pressures from pharmaceutical or insurance companies in their practice rather than looking after the well-being of their patients. At this point, attention should be drawn to the volunteer activities of a lot of American physicians, nurses, and other healthcare professionals. Many of them donate huge amount of money to charities and provide free medical services through free medical clinics and other nonprofit activities.

Another example of a successful sales-related exercise of social responsibility can be traced to many successful retail stores and fast food facilities. In a retail store, when sales employees and cashiers deal with their customers in a pleasant and friendly manner, they are providing good public relations that lay the groundwork for future business with those customers. In a fast-food facility, when customers are treated with patience and consistently generous and careful handling of the food products by sales attendants and other employees, owners and managers may expect that in a short time their reputation for superior customer relations will be known to the general public. In the past, excellent customer relations have helped local and national retail stores and fast-food facilities to increase their profits in addition to selling quality products.

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<sup>10</sup> Jack and Suzy Welch, "Giving in an Unforgiving Time," *Business Week*, June 1, 2009.

<sup>11</sup> Steve Lohr, "Customer Service? Ask a Volunteer," *The New York Times*, April 26, 2009.

In the course of any financially troubled economic situation, businesses should look into reducing the price of their products and increasing the quality of services to their customers.<sup>12</sup> This approach not only helps businesses to survive and sustain share in the marketplace, but also helps to create good will in the society around them. The management of a business group should also encourage their distributors, suppliers, and franchisees to follow this goodwill approach to their customers.

### **(3). Support for the General Public**

There is a growing trend of social responsibility among some of the medium-sized corporations that manufacture products or assist others to make products “greener.”<sup>13</sup> These enterprises adopt technology to eliminate emission of hazardous gases and prevent the flow of unhealthy waste in public waterways during the process of manufacturing. Small and medium companies are among the forerunners of the trend toward proper sustainability related practices through their adoption of environment-friendly processes that promise to provide for a healthy planet for the general public. Financially successful business groups should go one more step ahead. They should extend helping hands to needy members of the general public. Several outstanding corporate citizens help local volunteers who support senior citizens and disabled people who badly need assistance. In a recent Wall Street Journal article, “Pro Bono Work Helps Firms Fight Economic Slump,” Raymond Flandez describes how employees of several small enterprises have been providing volunteer services to charities and nonprofits during the recent recession. According to him, these services help generous companies to foster potential new customer relationships which help them to receive benefits from the public. For example, a Boston-based enterprise, Studio G Architects, Inc., benefited from its voluntary work in the community by receiving new contracts and new customers. SMEs that have lost revenue due to a lack of clients or customers can encourage their employees to perform voluntary work in the community, and this may help to develop fresh customer relationships.<sup>14</sup> These corporate good deeds provide public visibility and indirect advertisement for those generous SMEs.

At present, the general public which generates potential customers, consumers, and clients in most cases has a variety of options or choices for products and services from various sources. They often favor companies that address their needs.<sup>15</sup> For this reason, it is a business necessity during this time of financial crisis for companies to be generous in dealing with members of the general public. Now more than ever, a small business entity, whether a product manufacturing group, professional service provider, technology company<sup>16</sup>, or farming enterprise, has to adopt socially acceptable business practices. These practices may include improving quality and reducing prices. This simple business approach of good will not only attracts new customers but

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<sup>12</sup> Mathew Bandyk, “Getting off the Ground,” *US News & World Report*, July 2009, p. 72.

<sup>13</sup> Michael Skapinter, “What Is Socially Useful Is Subject to Fashion,” *Financial Times*, September 8, 2009, p. 11.

<sup>14</sup> Raymond Flandez, “Pro Bono Work Helps Firms Fight Economic Slump,” *The Wall Street Journal*, September 1, 2009, p. B5.

<sup>15</sup> *Financial Times*, “Customer Service-Fully Programmed to Help,” December 1, 2004. p. 11.

<sup>16</sup> Ariana Eunjung Cha, “Dot-Coms Are So ‘90s; In Silicon Valley, Doing Good is the New Thing,” *The Washington Post*, August 9, 2005, p. 1.

also ensures retention of existing customers. Under certain situations, similar businesses should explore cost-saving joint ventures and mutually beneficial networking for marketing their products and services. According to Christine Banning, Vice President of SCORE, a small business counseling group based in Herndon, Virginia, the social services of small businesses “can increase local visibility, deepen local business ties, and create opportunity for new business.” All these social, civic, and philanthropic practices should not be designed just to try to gain favorable public opinion or media attention.<sup>17</sup> Past experience shows that these kinds of generous activities of giving back to the society have created unexpected media coverage and general community support. Traditionally, these unsung corporate social/civic activities have created enormous public goodwill and flow of customers toward those good businesses.

### **Conclusion and Recommendations**

In light of the above observations on the practices of socially responsible enterprises, one can come to a conclusion that the term “social responsibility” covers not only issues related to profit-making for owners and investors, but also for taking care of genuine interests of employees, customers, and all members of the general public. Let us hope that at least a few trade associations, educational institutions, and federal and state government agencies will soon organize educational seminars and roundtable conferences for SMEs on the value of the performance of business social and civic responsibility.

Within the last few years, several international government organizations such as the World Bank; the United Nations Educational, Scientific and Cultural Organization (UNESCO); the United Nations Industrial Development Organization (UNIDO); the United Nations Development Program (UNDP); the World Trade Organization (WTO); and the Organization for Economic Cooperation and Development (OECD) have undertaken initiatives to organize programs on corporate social responsibility (CSR) activities for the benefit of small and medium-sized enterprises worldwide. It is hoped that state government agencies, the US Small Business Administration (SBA), the US Department of Commerce, and the Office of the US Trade Representative (USTR) will each establish within their organization an office of corporate social responsibility (CSR). This office, staffed with committed officials, can encourage and support American small and medium enterprises to be generous on their way to reaching and maintaining business prosperity.

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<sup>17</sup> thinkbusiness, “How Small Business Philanthropists Make Big Connections,” October 2008, p. 14.