



Corporate Social Responsibility and Competitiveness for SMEs in Developing Countries: South Africa and Vietnam

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Readers' Guide

In order to provide the reader with guidance on the material, we would like to highlight the following:

The study on “CSR, Competitiveness and SMEs in Developing Countries: South Africa and Vietnam” aimed to address two main issues as outlined in Section 1:

- 1) How SMEs (managers and workers) understand CSR, and
- 2) To what extent a link can be established between CSR and competitiveness for SMEs.

The study included three main activities: a literature review on the topic leading to the analytical frameworks that guided the investigation of the two main issues (see Sections 2 and 4.1–4.3); qualitative, open interviews with managers and workers; and quantitative, structured interviews with managers. In total, 118 SMEs in South Africa and Vietnam took part from June to December 2011.

This report synthesizes the findings and presents our observations and conclusions in Sections 3 and 4, including lessons learnt (in the Executive Summary) and policy implications (in Section 5 – Recommendations).

While we used the same overall design for the investigations in South Africa and Vietnam, it is important to note that this is NOT a comparative study. As we explain in the text, each context provides a unique setting. So, the findings and conclusions for each country should be viewed in their own right. And even though some information exists on CSER in SMEs in developing countries, the data generated are in many ways unique.

This report is written for an audience of practitioners in order to inform a wide range of stakeholders on the findings. We hope the report can inspire further work and activities in this much needed field.

Readers interested in (a) the background (including the terms of reference [TOR] and the teams' CVs), (b) the interview guides and questionnaires, (c) the supporting data (including a number of tables with data that provided input into the text) and (d) the more in-depth analytical material (including an elaboration on methodological issues and the literature references) can find these in the Annex Volume*, a separate document to this report.

Bas Kothuis, Angie Tran and Soeren Jeppesen (the Core Team)

* Find the Annex Volume at: <http://recherche.afd.fr>, next to this document.

Executive Summary

The importance of SMEs and CSER in developing countries

Small and medium-sized enterprises (SMEs) constitute by far the largest number of firms in the private sector, even though academics and policy-makers tend to focus on large firms. SMEs account for up to 90% of all registered firms in an economy, and even more if the informal sector is included. In addition, SMEs are important providers of employment and producers of a large share of total industrial output, even in developing countries.

Given the economic and industrial importance of SMEs, they also have a considerable role and impact when it comes to environmental issues—such as pollution—and social issues—such as income, working conditions and the working environment. So, in light of the current emphasis on companies' responsibilities—here termed Corporate Social and Environmental Responsibility (CSER)—and the impacts of CSER, SMEs also play a key role. As the focus on SMEs and CSR in developing countries has been relatively limited and recent in nature, many aspects are still in need of clarification. This study sheds light on some of them.

The study

The study was commissioned by the Agence Française de Développement (AFD), which appointed the CBS-SIMI and a team of consultants in mid-April 2011 to undertake the work. The Core Team consisted of Soeren Jeppesen, Angie Ngoc Tran and Bas Kothuis. A number of field assistants participated in the field work in Vietnam and South Africa and the handling of data processing and other tasks in Denmark.

The study had two key objectives: (a) investigate how SMEs in developing countries perceive CSER in order to shed light on “the meaning of CSER from the SME perspective” and (b) investigate the linkages between CSER practices and efficiency, performance and competitiveness in SMEs in developing countries. The study had an analytical and empirical, rather than conceptual, aim.

The study is based on extensive fieldwork in the two selected countries, South Africa and Vietnam. The study's point of departure was the assumption that context matters; it assesses the findings in light of the broader structural and contextual factors that affect SMEs and their CSER practices in the two selected countries.

The following research questions guided the work:

1. How and why do SMEs in the three selected sectors—(a) agro-processing, (b) textiles, garments and footwear, and (c) tourism (B&Bs, lodges and hotels)—in South Africa and Vietnam engage or not engage in *CSER practices*?^[1]
 - A. What are the key *formal* CSER practices/activities?
 - B. What are the key *informal* CSER practices/activities?
2. How does the engagement or non-engagement of SMEs in CSER affect their *competitiveness* (broadly defined as the ability to increase efficiency and improve business performance)?
 - A. How does their engagement or non-engagement in CSER practices affect *labor standards & working conditions* (such as pay, work hours, overtime work and benefits)?
 - B. How does their engagement or non-engagement in CSER practices affect the physical *environment*, broadly defined as air, water, etc.?
 - C. How does their engagement or non-engagement in CSER practices affect the *working environment* (i.e., occupational safety, toxicity levels, toilets, sanitary conditions, green space)?

CSER is defined in two ways. As an **overall analytical and descriptive understanding of CSER**, we used: “an umbrella term for a variety of theories and practices all of which recognize the following: (a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); (c) that companies need to manage their relationship with wider society, whether for reasons of commercial viability, or to add value to society.” (Blowfield and Frynas, 2005, p. 503).

[1] With reference to the structural context, i.e. historical, social, political, economic and cultural factors.

As the specific understanding of CSER, we used a four-dimensional approach: formal CSER practices, constituted by (a) the physical environment, (b) the working environment and (c) labor standards/working conditions, including standards and systems, and (d) informal CSER practices, constituted by informal arrangements between management and employees (loans, leave) and donations to the local community and the like.

“SMEs” are defined as “registered entities having **at least five employees and no more than 299 employees**” based on the officially defined categorization of SMEs in the three selected sectors in each of the two selected countries, South Africa and Vietnam.

“Competitiveness” is defined as an increase in sales over time. This restricted definition was due to data limitations. In the study, we viewed increases in sales as similar to increased business performance and/or competitiveness, given that an increase in efficiency was reported.

The study was based on three types of investigations: explorative, qualitative and quantitative. In the explorative investigations, we undertook a literature review in which we assessed the knowledge in the field of CSER and SMEs in developing countries. The findings pointed us to the gaps in the literature that the study should seek to address, and based on the conclusions of the literature review, the qualitative and quantitative sections of the study were designed. The qualitative investigation took a bottom-up approach, emphasizing SMEs’ perspectives by interviewing SME owners, managers and workers on their understanding of CSER; and the quantitative investigation assessed the (possible) links between CSER, efficiency and competitiveness, including interviews with SME owners and managers.

From June to December 2011, 118 SMEs in the two countries were interviewed. This includes 118 qualitative interviews with managers, 347 qualitative interviews with workers, and 110 quantitative interviews with managers.

The findings and answers to questions

The meaning and impacts of CSER to SMEs (to managers and workers)

In South Africa:

1. In the agro-processing industry, the vast majority of managers know the term CSER and all managers recognize that they have (formal) CSER responsibilities

in the three areas—the physical environment, the working environment, and labor standards/working conditions. While workers similarly recognize these responsibilities, only very few are aware of/know the term CSER. A high number of firms undertake certified management systems and codes, while less do CSER reporting. It is acknowledged that physical, working environment and labor standard issues are important, and managers and workers state that the SMEs have increased their practices, in particular in the area of the physical environment, with a focus on energy and water consumption. Informal CSER practices are widespread, in some cases undertaken by all firms, according to managers and workers.

The interviewed SMEs are characterized by a high percentage of medium-sized firms, 75% of which have international customers. A majority of these SMEs have experienced a growth in sales and employees. They are experiencing customer pressure in terms of delivering high quality products on time and meeting demands for CSER, and so many have certified management systems and codes. History and industry impact practices, and a good image is important (to move away from perceptions of bonded labor paid in alcohol).

2. In the textiles and garment industry, a high number of the managers know the term CSER and all managers recognize that they have (formal) CSER responsibilities in the three areas—the physical environment, the working environment, and labor standards/working conditions. Workers similarly recognize these responsibilities, but again only very few are aware of/know the term CSER. A high number of firms adhere to codes of conduct; some have certified management systems, and a few do CSER reporting. It is acknowledged that physical, working environment and labor standard issues are important and the managers and workers state that the SMEs have increased their practices, in particular in the area of the physical environment, focusing on water and energy consumption. Informal CSER practices are widespread, in some cases undertaken by all firms, according to managers and workers.

The interviewed SMEs are characterized by a mixed customer base, with about half having local retailers and the other half having international customers. The SMEs have experienced growth in sales and employees at a majority of the firms, in spite of a very tough business climate in which many other firms have closed. They are feeling customer pressure to deliver high quality products on time and meet demands for CSER through codes. Suppliers are of major importance to the SMEs, also in terms of pushing CSER

practice. History and industry are perceived to have an impact on practices, and a good image is important.

3. In the tourism industry, the majority of managers know the term CSER and almost all managers recognize that they have (formal) CSER responsibilities in the three areas—the physical environment, the working environment, and labor standards/working conditions. Most workers also recognize these responsibilities in this industry, but again very few are aware of/know the term CSER. Few firms undertake certified management systems and codes, and less do CSER reporting. It is acknowledged that physical, working environment and labor standard issues are important, and managers and workers state that the SMEs have increased their practices, in particular in the area of the physical environment with a focus on energy and water consumption. However, limited change is reported to have taken place in the area of the working environment. Informal CSER practices are widespread, in some cases undertaken by all firms according to managers and workers.

The interviewed SMEs are characterized by a high percentage of small firms, all of which have international customers. The SMEs have experienced a decline in the business environment since the World Cup in 2010 and hence less growth in sales and employees compared to the two other industries. The SMEs are feeling customer pressure to deliver high service and quality, and some are also feeling pressure to meet demands for CSER. Few have certified management systems and codes. Industry and the importance of a good image have an impact on practices, as do good relations with the community.

In Vietnam:

4. A mixed picture of agro-processing firms emerged (there is an equal distribution of small and medium-sized firms in our sample). Most medium-sized agro-processing companies engage in all three *formal dimensions of CSER* (compared to the textile/garment/footwear and hotel sectors). Most are certified in global management systems such as HACCP, GMP, ISO, and the Vietnamese Food Administration. All paid close attention to product quality and on-time delivery. Moreover, they reported frequent on-site inspections by the local government to monitor compliance with food/drink safety guidelines. For many owners, even without knowledge of or certification in some codes of conduct or management systems, these agro-processing firms demonstrated the *influences of history and cultural practices* on improving working conditions which directly affect *labor standards* on pay, work hours, overtime work and benefits.

Overall, most agro-processing managers value the connections among workers' contentment/satisfaction, stable employment, and profits. All managers/owners state that they "*preserve the working environment*". These practices coincide with *higher levels of satisfaction among many workers* interviewed in agro-processing firms (compared to the other two sectors) on work safety, sanitation and codes of conduct. Management also acknowledges the important roles of *other stakeholders* such as suppliers, customers, workers and labor unions to some extent in assisting their daily production and services. However, the development in the *physical environment*—especially in terms of resource use and waste—is not as rosy. Most agro-processing firms also report using more water and more energy, and generating more waste, than firms in the other two sectors. More research is needed to determine whether increased resource usage is connected to increased production or inefficiency.

5. An interesting picture emerged from the textile/garment/footwear sector (65% are medium-size factories). To understand this sector, we need to situate Vietnamese textile/garment/footwear factories in relation to the global supply chain: most of these Vietnamese factories are subcontractors, producing for export for multinational corporations (MNCs) and corporate buyers. Most do not have support from MNCs or suppliers to engage in formal CSER practices. Only 35% of these factories are certified in codes of conduct. This situation is further complicated because each factory is likely to take orders from multiple corporate buyers who require compliance with different codes of conduct. Being near the bottom of the global supply chain, these SMEs receive low subcontracting prices from the MNCs to pay workers, have minimal control over inputs/raw materials, have to deliver on time (with increased delivery speeds during peak season), keep subcontracting prices stable even when costs go up, and improve quality. This power imbalance explains why most of these owners/managers consider relations with their suppliers and corporate buyers to be important. Compared to the other two sectors, this sector faces very high labor fluctuation, since migrant workers (especially in medium-size factories) often shop around for livable wages (workers often need to put in a lot of overtime work to supplement the non-livable minimum wage) and better benefits. Most managers place high value on stable employment, "preserving the working environment", and the connection between workers' skills and product quality, especially for export. So, even when these firms do not formally practice any particular codes of conduct, most owners/managers

engaged in *cultural practices* and treated migrant workers with compassion and understanding of their family responsibilities back home. Over time, they have paid more attention to improving *labor standards* than the working environment. Many garment workers complained about lint, dust, heat, humidity, lack of ventilation, and especially pollution in factories using real or synthetic leather assembling products for export.

On the *physical environment*, interestingly, perhaps due to the necessity of cutting costs in order to produce for the global supply chain, they have an incentive to be more *resource efficient*: compared to the other two sectors, textile/garment/footwear factories report using *less* energy and *less* water and producing *less* waste over time. This is a very interesting area for further research.

6. Given the difficulty getting approvals for interviews in medium-size hotels, our sample is biased toward small hotels (80% are small hotels). Compared to the other two sectors, the interviewed hotels have enjoyed relatively stable employment but not much growth in sales. As small owners, they have no resources to participate in global certification systems, but we found that many medium-size hotels are certified by local state-sanctioned hotel systems (such as the Saigon Tourism Board). In a “hotel row” in a touristy area in Ho Chi Minh City serving primarily backpackers and foreign tourists, most managers tend to be very diplomatic with their neighboring *competitors* in order to keep harmonious relations within the community. Size plays a role on relations with *suppliers*, with more medium-sized hotels than small hotels tending to see them as playing a more important role.

Similar to the textile/garment/footwear sector, management values stable and well-trained employees highly because “workers’ attitudes” are important to customer service. Even without much knowledge of CSER practices, they have sustained their *cultural practices* in order to assist workers, for example providing short-term loans, allowances for sick leave and family visits (especially important to migrant workers whose hometowns/villages are far away from the city), and flexible work hours (especially important to women with children). However, compared to workers in the other two sectors, *hotel workers were the least satisfied* with the treatment of all types of waste (solid, liquid, others). Most hotel workers are women who clean the rooms, wash the towels and sheets, have to inhale chemicals/cleaning agents, and pick up hypodermic drug needles, etc. on a daily basis. Periodic state inspections tend to focus more on cleanliness and sanitation for hotel customers than on issues for the workers’ benefit. Labor inspections on labor standards occurred much less frequently.

CSER and competitiveness for SMEs

In South Africa:

Managers stated a development and increased impact of CSER on the physical environment, the working environment and labor standards/working conditions. In all three sectors, a majority of firms reported an increase in the impact of CSER on efficiency, but only in agro-processing and textiles did the managers perceive an impact on competitiveness. We did not find uniform patterns of linkage between impacts on efficiency, business performance (measured in terms of sales) and competitiveness. While some firms stated such relationships, mainly in the agro-processing and textiles industries, some stated an impact on efficiency but not on business performance.

Although CSER practices were perceived as important to most firms, business practices were mentioned as being most important to achieving business goals. Hence, relationships to customers (ensuring quality, on-time delivery) and suppliers were the most important factors. Also, employees were seen as important to achieving business goals. So, while informal CSER practices had mostly remained stable and were not reported to have influenced efficiency and competitiveness, the high level of practices identified in the qualitative study shows the crucial role that these traditional practices play for SMEs.

In Vietnam:

Managers stated some, albeit limited, development in the impact of CSER on the physical environment, the working environment and labor standards/working conditions. In all three sectors, a majority of firms did not report an increase in the impact of CSER on efficiency, and similarly on competitiveness. Although a minority of managers, the largest share reporting an increase was from the agro-processing and textile/garment/footwear sectors. We did not find uniform patterns of linkage between the impacts on efficiency, business performance (measured in terms of sales) and competitiveness. While a limited number of firms stated such relationships, mainly in the agro-processing and textile industries, some stated an impact on efficiency but not on business performance, and the majority stated no impact on efficiency or competitiveness.

Though CSER practices were perceived as important to most firms—and in some cases more important than in South Africa—business practices were the most important to achieving business goals. Hence, relations with customers (ensuring quality, on-time delivery) and suppliers were the most important factors. Also,

workers were seen as important to achieving business goals. Very few managers stated an increased impact of informal CSER practices on efficiency and competitiveness. So, while informal CSER practices had mostly remained stable, the high level of cultural practices identified in the qualitative study shows the crucial role that these traditional practices play for SMEs.

On the relationship between CSER and competitiveness

Based on the analysis, we were able to identify a variety of links between internal and external factors, CSER practices and improved efficiency and business performance. Due to the variation between sectors and sampling convenience, it was not possible to clarify this further. Furthermore, even though some firms stated a relationship between CSER practices, efficiency and competitiveness, it was not possible to confirm this. Rather, the analyses provide information that can be used to develop the analytical framework further.

The importance of size (in terms of differences in practices between small and medium-sized firms)

In South Africa:

Medium-sized firms had a higher level of CSER practices compared to small firms in almost all of the dimensions investigated. Knowledge of CSER was higher, as were the level of formal systems and to some—albeit limited—extent the level of informal practices. Although market relations, in particular having international customers, seemed to matter, (high) age also seemed linked to a higher level of practices in some cases in the agro-processing and textile industries. Furthermore, medium-sized firms seemed more “formalized” than small firms in terms of following government regulations and procedures.

In spite of the growing awareness and importance of CSER (see below), 40% of the managers in small firms did not know the concept, nor did a very high percentage of workers.

In Vietnam:

Similar findings to those in South Africa were recorded. Some interesting trends emerged on the physical environment in terms of resource usage over time. Overall, in all three sectors in Vietnam, more medium firms reported using less water and less energy and producing less waste than small firms. While more research is needed, this preliminary evidence on resource efficiency

improvement by medium-sized firms suggests that these relatively larger firms (compared to small firms) may have more resources and technical know-how to engage in energy efficiency practices over time. (This also seems to be the case in South Africa.)

However, also interestingly, and contrary to our expectations, we found that more small (rather than medium-sized) firms in Vietnam consistently reported responsibilities in many areas of our study's focus, such as the working and physical environments and labor standards (or working conditions). The one exception is responsibility for suppliers. One explanation may be that medium-sized firms may have more bargaining power to negotiate with and influence suppliers, thus feeling more responsible toward them. Small firms, on the other hand, are more firmly grounded in their relations with workers, especially in their cultural practices—we might view these as informal CSER practices—which tend to improve labor standards/working conditions.

Cross-cutting observations

- A. We have found a clear increase and development in the understanding and use of CSER (in particular formal CSER practices) in South Africa, where the concept of CSER has become (much) better known than it was five to 10 years ago. Accordingly, the importance of CSER has also increased, in particular for firms with international customers. While we found an increase in CSER practices in Vietnam, the concept is still less known, both among managers of small firms and workers.
- B. Although not recognized in the literature, informal CSER practices are important to SMEs. These practices are based on a set of traditions and, in Vietnam, cultural practices; they seem relatively stable over time and the practices have long been in place. Informal practices might not have a direct influence on, for instance, efficiency and competitiveness. Still, they are of key importance to management-worker relations, which affect efficiency and ultimately competitiveness. They also influence formal practices.

Recommendations

We have identified recommendations in three areas; (a) general recommendations based on our methodology and approach, (b) more specific recommendations based on the challenges of engaging the SMEs in the study, and (c) country- and sector-specific recommendations based on our findings in the two countries and three sectors (see Section 5).

The general recommendations take into account the importance of SME specificities according to sector and size, address both formal and informal CSER, involve both managers AND workers, and address both firm-internal and firm-external dimensions.

The more specific recommendations point to the importance of recognizing the time pressures and challenging market situation that many SMEs face, including the fact that the “business case for CSER” is not obvious to SMEs. Accordingly, timing carefully drafted and communicated information and cooperation with other stakeholders is recommended.

The country- and sector-specific recommendations highlight the importance of the context and the sector situation in seeking to enhance CSER practices among SMEs in South Africa and Vietnam. **For instance, in South Africa**, 40% of small firm managers do not know what CSER is, in particular in the tourism industry, and agro-processing firms see a need for exchanges on practices with competitors. **And in Vietnam, for instance, there is a need to address the problems of (a) low wages among workers and (b) the uneven distribution of responsibilities between MNCs** who subcontract to many textile/garment/footwear SMEs and the SMEs. While the SMEs tend to pay for most CSER improvements, it is important to **bring MNCs** to SHARE the responsibilities with SME management, governments, labor unions, NGOs and international organizations (such as the AFD).

Part One

1. Introduction

Small and medium-sized enterprises (SMEs)^[2] constitute by far the largest number of firms in the private sector, even though academics and policy-makers tend to focus on large firms. SMEs account for up to 90% of all registered firms in an economy, and even more if the informal sector is included. In addition, SMEs are important providers of employment and producers of a large share of total industrial output, even in developing countries (UNEP, 2003, p. 2; Luetkenhorst, 2004, p. 158).

Given the economic and industrial importance of SMEs, they also have a considerable role and impact when it comes to environmental issues—such as pollution—and social issues—such as income, working conditions and the working environment. Therefore, in light of the current emphasis on companies’ responsibilities—often termed Corporate Social Responsibility (CSR)—and the impacts of CSR, SMEs play a key role. As focus on SMEs and CSR in developing countries has been relatively limited and recent in nature, many aspects are still in need of clarification. This study sheds light on some of them.

While perceptions of companies’ responsibilities date far back in history, modern history has witnessed various shifts in focus. From the 1970s onwards, the environmental dimension was very much in focus; by the late 1980s and early 1990s, a shift toward social and labor conditions, including the “internal (working) environment” started. This gained prominence by the mid-to-late 1990s as the focus on CSR and self-regulation, in particular expressed by the increase in codes of conduct, intensified, and the “external environmental” dimension tended to be downplayed—even forgotten. However, over the last years the external environment has enjoyed a kind of revival as aspects like sustainability and sustainable development have (re-)gained importance. In order to acknowledge the importance of all three dimensions, we will use the term CSER (Corporate Social and Environmental Responsibility) in this report.

Along with the increasing emphasis on the role of the private sector *vis-à-vis* governments and civil society, numerous and competing perceptions and definitions of CSER have emerged. In particular, two perspectives have dominated the literature:

[2] For a definition of SMEs, see the Methodology section and Section 2.1.

the “CSR stakeholder” theory (originating from Freeman, 1984) and Carroll’s “CSR pyramid” (1991).

Box 1 Key perspectives informing the CSR literature

Three perspectives have had considerable influence on the CSR literature—Freeman’s “CSR stakeholder theory” (1984), Carroll’s “CSR pyramid” (1991), and Porter and Kramer’s “Strategic CSR theory” (2006).

Freeman’s “CSR stakeholder theory” conceptualized the importance of external influences—a firm’s stakeholders. In contrast to perspectives emphasizing firm-internal factors or industry and market forces as important for the firm and its CSR practices, Freeman argued that *“any organization or institution which can be considered to have an influence on the firm should be engaged by the firm”*.

Carroll presented a hierarchy of different conditions that have different influences on a firm and its CSR. The model describes how economic, legal, ethical and philanthropic elements are of varying importance to a firm. Accordingly, a firm will deal with these factors in a particular sequence, addressing economic issues first, then legal, ethical and finally philanthropic issues. The factors are said to constitute a “pyramid”.

Porter and Kramer argue that societal changes make it necessary for firms to change their approach to CSR. Instead of doing CSR in an ad hoc and not strategic way, firms need to integrate CSR into their core strategy and do “Strategic CSR”. By considering societal needs, firms can devise strategies that ensure a match between the firms’ products or services and these needs. Accordingly, it can establish a superior position in the market.

Among international organizations, a range of definitions has similarly sprung up, especially the World Bank definition (1999) and the EU definitions (2001) which are cited and applied widely in the literature. (See, for instance, Blowfield and Murray, 2011, and Crane and Matten, 2010, for accounts of the field and the many perspectives.)

The mainstream CSR literature has also witnessed a development from mainly focusing on the firm and firm-internal aspects of CSR, to an increasing focus on

firm-external aspects (in particular value chains and stakeholder issues)^[3] and lately some focus on the relations between business and society such as an increasing number of statements about company contributions to “Sustainable Development” and the increasing prominence of “Strategic CSR” (Porter and Kramer, 2006; Zadek, 2001. See Box 1 for more information.).

Given the diversity of CSER dimensions in theoretical perspectives and the distinction between addressing firm-internal and/or firm-external aspects, CSER has been defined in numerous ways. We use the proposal by Blowfield and Frynas (2005, p. 503) as the **overall analytical and descriptive understanding of CSER**.^[4] *“an umbrella term for a variety of theories and practices all of which recognize the following: (a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); (c) that companies need to manage their relationship with wider society, whether for reasons of commercial viability, or to add value to society.”*

CSER and SMEs need to be framed in the relevant contexts, whether country, sector or point in time. The above three-pronged understanding emphasizes the need to view CSER in terms of firm-internal and firm-external dimensions as well as the wider State-business relations. Hence, we view CSER as related to context, where time and space are of importance.

A key perspective in the business management literature has been on win-win understanding—that CSR will have positive economic effects. For instance, if/when a firm improves its working conditions, workers will be more effective and productive, and so the firm will increase its earnings. A vast array of tools and practices has emerged spanning elements such as certified standards (like ISO 14001 and ISO 26000, SA8000), voluntary standards (such as the UN Global Compact for individual companies, and BSCI or ETI for multi-stakeholder organizations), and industry-wide codes (like the Chemical Industry Code of Care). However, evidence of such win-win relationships is lacking, in spite of numerous studies among large firms. We know even less about such possible relationships among SMEs, in particular in developing countries (Scott, 2000, p. 279; Moore and Spence, 2006, p. 222; Jamali and Mirshak, 2007, pp. 244; Morsing and Perrini, 2009, p. 1; Jeppesen, 2009, pp. 28).

[3] For a further assessment of the deepening and widening of the focus on (global) value or supply chains, see Skadegaard Thorsen and Jeppesen (2010) and Jeppesen and Lund-Thomsen (2010, p. 139ff).

[4] See also the TOR in Appendix D.

The main critique(s) of the mainstream approaches to CSER and SMEs can be summarized in the following six points:

- The agenda is Northern formulated and driven, dominated by normative approaches, emphasizing what CSER should be and what SMEs should do.
- The focus is on large firms and their perspectives on CSER.
- The approaches also focus on formal versions of CSER.
- They promote universal win-win outcomes—often termed “the business case for CSER”—in an uncritical manner without considering win-lose, lose-win or even lose-lose outcomes. For instance, a business might improve working conditions but lose money as prices increase and customers turn to cheaper competitors: a win-lose outcome.
- Workers’ voices and perspectives are often not presented.
- The literature on CSER is mostly gender-blind; it assumes that CSER means the same thing to both female and male workers, and impacts them equally.

The present study will shed light on some of the under-researched dimensions of CSER and SMEs in developing countries.

1.1. Objectives

The study has the objectives of (a) investigating how SMEs in developing countries perceive CSER in order to shed light on “the meaning of CSER from the SME perspective” and (b) investigating the links between CSER practices and efficiency, performance and competitiveness in SMEs in developing countries.^[5]

The study is based on extensive fieldwork in two selected countries: South Africa and Vietnam. The study’s point of departure was the assumption that context matters, and it will therefore assess the findings in light of the broader structural and contextual factors such as historical, political, economic, social or cultural factors that affect SMEs and their CSER practices in the two selected countries.^[6]

[5] See the TOR in Appendix D.

[6] In doing so, we share the perspective put forth by authors such as Blowfield and Frynas (2005), Prieto-Carron *et al.* (2006), and Newell and Frynas (2007).

Therefore, in order to fulfill the objectives, the study will:

A. Establish a baseline on the extent of CSER adoption, practices and impacts in SMEs in South Africa and Vietnam. This is the qualitative part of the study, where we investigate the “meaning of CSER” based on the perceptions of both management and workers in three sectors (details are in the Methodology section and in Appendix A).

B. Seek to understand the connection between CSER adoption and CSER practices and enhanced business performance and whether a link between CSR and competitiveness can be established (being the mostly quantitative part of the study).

C. Finally, it will investigate the connection between CSER practices and the relations between management and workers, including worker satisfaction, labor standards, working and physical environment conditions, and well-being.^[7]

The following **research questions** guided the study:

1. How and why do SMEs in the three selected sectors—(a) agro-processing, (b) textiles, garments and footwear, and (c) tourism (B&Bs, lodges and hotels)—in South Africa and Vietnam engage or not engage in *CSER practices*?^[8]
 - A. What are the key *formal* CSER practices/activities?
 - B. What are the key *informal* CSER practices/activities?
2. How does the engagement or non-engagement of SMEs in CSER affect their *competitiveness* (broadly defined as the ability to increase efficiency and improve business performance)?
 - A. How does their engagement or non-engagement in CSER practices affect *labor standards & working conditions* (e.g., work hours, overtime work and benefits)?
 - B. How does their engagement or non-engagement in CSER practices affect the *physical environment*, broadly defined as air, water, etc.?
 - C. How does their engagement or non-engagement in CSER practices affect *the working environment* (i.e., occupational safety, toxicity levels, toilets, sanitary conditions, green space)?

[7] This was part of a triangulation of data in which both quantitative and qualitative data were analyzed.

[8] With reference to the structural context: historical, social, political, economic, cultural factors.

1.2. Definitions of CSER and SMEs

As highlighted by various authors (such as Jenkins, 2004; Jeppesen, 2004; Fox, 2005; Vives, 2006), CSER literature has mainly drawn its empirical knowledge from large firms in developed countries. This had led to particular definitions of CSER as expressed in, for instance, the CSR stakeholder, CSR pyramid, and strategic CSR perspectives mentioned above. With the focus on SMEs in developing countries, we need a **more specific understanding of CSER**.

Here we distinguish between what we term “formal” and “informal” CSER.^[9] “Formal” CSER includes social (labor and working conditions) and environmental (internal and external to the firm) dimensions, while “informal” CSER includes ad hoc practices, which are dependent on a firm/SME’s company culture, including management-employee relations, history and market linkage. Informal CSER practices include, for example, providing loans to workers, donations to assist in the aftermath of natural disasters, scholarships for workers’ children, donations to local churches, and sponsoring sports clubs or sporting events.

1.2.1. Definitions of CSER

The formal CSER standards often cited in the literature are SA8000, OHS18000, ISO 26000, international guidelines such as the UN Global Compact, and/or voluntary company and industry standards or codes with a focus on business and labor standards/social practices and the working environment. In this study, however, we would also like to emphasize the importance of the (physical) environmental dimension. The environmental impact of business activities on employees, local communities and nature is highly dependent on the type of activities undertaken, such as farming, textile/garment/footwear manufacturing, electro-plating, software programming, or services in the hotel/tourism sector. So, we also acknowledge country-specific management, including state-sanctioned systems.

We emphasize two dimensions of the environment: (a) “internal” environmental issues, and (b) “external” environmental issues. The “internal” environment—also termed the “working environment”—refers to labor and workplace safety: health and safety issues such as noise, dirt, lint, smoke, steam, fresh/clean air, clean drinking water, clean toilets, clean cafeterias as well as areas to make short strolls, take short naps, and benches to rest. The “external” environment—also termed the “physical

[9] The arguments and sources in favor of including “informal” CSER practices will be elaborated in the following part of this sub-section.

environment”—refers to the use of resources like energy, water, raw materials and other production inputs. This use often leads to the pollution of the local community such as air, steam, odor, ground and water.^[10]

These two sets of issues are often, though not always, related. For instance, while untreated toxic waste from an electroplating firm can have a huge impact on the physical environment (either on soil, waterways, lakes or sea water), lack of protective equipment for workers will also lead to serious health problems among workers.^[11]

In sum, the three main areas or dimensions of formal CSER practices to be investigated include: (a) social and labor standards, also termed “working conditions” (such as pay and benefits, unionization), (b) the working environment (such as safety and health conditions), and (c) physical environmental conditions (such as pollution).

1.2.2. *Definitions of SMEs and informal CSER practices*

There is no commonly accepted statistical definition of SMEs, nor any commonly accepted understanding of what the more qualitative dimensions of SMEs could be.^[12] While national governments, bilateral donor agencies and international organizations such as the EU, World Bank and regional development banks each have their own formal definitions of what statistically defines an SME, the definitions have the commonality that they recognize enterprises of a certain size as either “micro,” “small” or “medium-sized” in comparison to larger enterprises. The definitions typically include aspects such as number of employees, size of annual turnover, and total assets. Given these definitions, SMEs constitute the vast majority of firms in all countries across the globe, and South Africa and Vietnam are no exception.

We share this general view of SMEs as registered entities having **at least five employees and no more than 299 employees** (see Appendix A). We take our point of departure in the officially defined categorizations of SMEs in the three selected sectors in the two selected countries, South Africa and Vietnam. Still, we

[10] See Appendix B (the interview frameworks and questionnaire) for details. The approach is consistent with the TOR’s conceptualization (see Appendix D) of an organic connection/relationship between social and environmental practices manifested in labor and workplace safety.

[11] For instance, see Jeppesen (2004) where the same distinction is applied.

[12] Among the academic implications are that a distinct research field on SMEs does not exist and that a number of the discussions on SMEs borders the field of entrepreneurship, including the work of, for instance, the Global Entrepreneurship Monitor (GEM, see www.globalentrepreneurshipmonitor.org).

have adjusted the definitions in order to have a more similar foundation for our data collection. The applied definitions are seen in Table 1.

Table 1 *Definitions of size categories—(micro), small and medium-sized enterprises—applied in the study*

Sector / Size	Micro		Small		Medium-Sized	
	South Africa	Vietnam	South Africa	Vietnam	South Africa	Vietnam
Agro-Processing	1-9 empl.	1-9	10-29	10-29*	30-99	30-99*
Textiles, Garments & Footwear	1-4 empl.	1-9	5-49	10-49	50-199	50-299
Services/Tourism	1-4 empl.	1-4*	5-29	5-29*	30-99	30-99*

(* The official Vietnamese definition of a micro firm is up to nine employees, of a small firm 10-49 employees and of a medium-sized firm 50-299.)

Source: Authors.

The focus on SMEs requires one to pay attention to other types of CSER practices than the formal ones mentioned above because SMEs use certified standards and/or formalized management systems to a much lesser extent than large firms. If we were to focus only on such formal “benchmarks,” often practiced by large firms, we would perpetuate the common misconception that SMEs are laggards when it comes to CSER activities, not interested or willing to participate in such activities.

In line with what the literature points out to be more informal ways of organizing and managing SMEs in comparison to large firms (Jenkins, 2004, 2006 and 2009; Vives, 2006), we find it pertinent to include so-called informal CSER practices. These practices are part of ad hoc, day-to-day, community-embedded, informal procedures, the unique relations between management and workers, as well as relations to families and local communities and state institutions, etc. These practices are all influenced by the company culture, historical practices, and market position and linkage.

Following from Jenkins (2004) and Vives (2006), it is acknowledged that although formal CSER practices are only undertaken to a limited extent—or not at all—by SMEs, informal CSER practices do exist and might even be more important to SMEs

and their workers than formal practices. For instance, in South Africa, the CSER practices of SMEs are often related to employees' personal involvement with the local community. For example, a company can support local schools, sports clubs, charity organizations, etc. with which one or more of its employees are personally involved. The support can be of a financial nature, but in the case of SMEs is often also in kind. For example, a hotel might offer a few free nights in the hotel for a raffle at a school, a winery might offer a number of bottles of wine for a charity event, etc. In some cases, the contribution is made by giving employees paid time off to do work for local community organizations. This is an example of a win-win situation as the company wins by creating a closer bond between the company and its employees, and the community benefits from the contributions.^[13]

Often SMEs do not call their practices "CSER practices", as Vives points out (with reference to Latin American SMEs):

"[...] many SMEs are already engaged in what we would call corporate social responsibility, even if they do not call it by that name or are not even aware of the concept, or do not believe that they are explicitly engaged in those types of practices. Their involvement is informal, gradual, or the 'one thing at a time' type and almost unnoticeable." (Vives, 2006, p. 49.)

Accordingly, in addition to the formal CSER practices mentioned above (working conditions and labor standards, working environment conditions, physical environmental conditions), informal CSER practices constitute the fourth dimension that will be investigated in order to understand how managers and workers perceive and undertake CSER.

1.3. Methodology^[14]

The study was based on the following methodological considerations. In line with the TOR, the study has an analytical and empirical rather than conceptual aim.^[15]

The study used a mixed methods approach including three types of investigations, which were then combined in the analyses in order to answer the research questions listed above, including formulating the study's recommendations. The three types of investigations were: (i) explorative; (ii) qualitative, and (iii) quantitative.

[13] Personal experiences by Bas Kothuis. We will discuss this further in Section 3 on the intensive findings.

[14] The academic reasoning behind the Methodology is outlined in Appendix A.

[15] As agreed between the Core Team and the AFD.

In the explorative part, we undertook a literature review where we assessed the knowledge in the field of CSER and SMEs in developing countries. The assessment included (a) the under-researched areas in the field, which include limited knowledge on the meaning and dynamics of CSER to SMEs; and (b) whether links between CSER and competitiveness can be established. The findings pointed us to the gaps in the literature that the study should seek to address (see Section 2.2). Accordingly, based on the conclusions of the literature review, we outline the arguments that led us to undertake the qualitative and quantitative parts of the study and we outline the specific way that the data collection was done (who to ask, and about which issues).

The qualitative section took a bottom-up approach, emphasizing the SMEs' perspectives by interviewing SME owners, managers and workers on their understanding of CSER, while the quantitative part intended to assess the links between CSER, efficiency and competitiveness using interviews with SME owners and managers only.

Based on the data obtained through the three types of investigations, we respond to the research questions as well as the sub-research questions, using the triangulation of quantitative (descriptive statistics) and qualitative data (including narratives of workers and managers obtained through the interviews). We then discuss our findings in light of the experiences put forward in the international literature and, where relevant, state topics and hypotheses for future studies. In other words, the methodological set up will allow us to generate relevant hypotheses to be presented in Section 5.^[15] Finally, we provide a set of recommendations based on the experiences and findings of the study.

The study focuses on South Africa and Vietnam in order to include countries from (a) two different regions (Africa and Asia), and (b) two different income groups—Group I (low income) and Group II (low-middle income).^[17]

We aimed for a selection of 20 SMEs in three sectors (3 x 20 SMEs) per country with a preference for economic sectors that either have significant importance to the economy and/or the highest numbers of establishments. In both countries, we aimed at selecting the SMEs based on three criteria: size (small or medium),

[16] For further information, see Appendix A.

[17] According to the country selection criteria in the TOR, see Appendix D, Section III (Methodology).

sector/industry (agro-processing, textiles/garment/footwear, hotel/tourism)^[18] and location (metro or non-metro). The actual sample is shown in Section 3.1.

We used a stratified sample which aimed to address the three criteria—size, sector and location.¹⁸ We had no resources to conduct a randomly selected sample, but primarily a convenience sample which addressed those criteria, snowballing from there. Thus we do not plan to make general statements about our findings, but aim to present a nuanced and diverse picture of what CSER means to South African and Vietnamese managers and workers and how it impacts them differently.

Regarding the qualitative dimensions, it is crucial to acknowledge that SMEs constitute the vast majority of firms in any country. Given that the term “SME” denotes a large number of firms, it is clear that SMEs, apart from size (micro, small and medium-sized), also differ on a number of other accounts, such as sub-sector, market, level of formalization (formal and informal), customers (private individuals, other businesses and/or government entities), ownership type, management style, and relations between management and employees.^[20]

In particular, our methodology reflects the diversity of the SME sector based on the different political and economic contexts of South Africa and Vietnam by paying attention to different markets (such as local, regional and international), different types of ownership (family, household, individual, limited joint stock, privatized former state-owned companies), gender differences, and other cultural and historical factors (management-employee relations, role of labor unions and the community in a socialist setting).

In sum, our methodology is sensitive to the context and provides a “Southern perspective on CSER”. We triangulate both qualitative and quantitative dimensions to address changes over time. In both qualitative and quantitative parts of our investigation, we are open and flexible in order to catch the specificities and variations in CSER practices, both formal and informal, among SMEs. Moreover, we pay attention to the key factors influencing CSER and competitiveness.

[18] For further information, see the Methodology in Appendix A. Note also that “sector” and “industry” are used interchangeably, as “sector” is more common in Vietnam, while “industry” is more common in South Africa. Similarly, “textiles/clothing/footwear”, the term used in Vietnam, is referred to as “textiles and clothing” in South Africa.

[19] Due to the geographical area for the investigation in South Africa, the sectors chosen, and the time and resources available, it was not possible to get a sample with an equal distribution of SMEs in metro and non-metro areas. See also Section 3.1.

[20] For further elaboration on the various qualitative dimensions of SMEs, see Whalley (2000), Jenkins (2004), and Jeppesen (2009).

Data collection

We collected data using: (a) a semi-structured questionnaire, conducting face-to-face interviews with 118 SME owners and managers,^[21] (b) semi-structured questionnaires, conducting face-to-face interviews with SME workers,^[22] and (c) a structured questionnaire, conducting face-to-face interviews with 110 SME owners and managers.^[23]

While we intended to do 120 interviews with SME owners and managers (60 in South Africa and 60 in Vietnam), last minute cancellations and a lack of willingness among SMEs in the agro-processing sector in South Africa led to two interviews not being conducted, for a total of 58 in South Africa.

For worker interviews, we conducted 347 qualitative individual interviews with workers: 47 individual worker interviews in 47 South African companies, and 300 individual worker interviews in 44 Vietnamese companies.^[24] We also conducted 110 quantitative and structured interviews with management (50 in South Africa and 60 in Vietnam).

Further details on the obstacles are found below. Due to prior knowledge from interviewing workers in South Africa, and anticipation of difficulties in obtaining acceptance from SME management, the interviews with the workers included one worker per SME. As knowledge of workers' perception of formal CSER definition and concepts was limited in Vietnam, and together with positive connections and networking with the local and workplace labor union representatives, we were able to interview 300 individual workers from 44 Vietnamese companies. Direct individual worker interviews, albeit more time consuming, are better than focus group interviews because the Vietnamese research team could ask the workers follow-up questions individually, and clarify for workers some technical concepts such as CSER.

Finally, while we also intended to interview the 118 SME owners and managers a second time, based on the quantitative questionnaire, eight of the South African

[21] The qualitative owner/manager interview framework is in Appendix B.

[22] The qualitative worker interview frameworks are in Appendix B.

[23] The quantitative interview framework is in Appendix B.

[24] The reasons for the difference in worker interviews were better contacts with workers and unions in Vietnam and a less conflictual relationship between management and workers in Vietnam than in South Africa. Further explanation can be found in Appendix A.

owners and managers declined to take part in this part of the study. Hence, we ended up interviewing a total of 110 SME owners and managers in the quantitative section, 50 from South Africa and 60 from Vietnam.^[25]

Due to the different challenges experienced in the two countries, we now describe them in two separate sections. The challenges encountered also have implications for the lessons learnt and recommendations (see Section 5).

Vietnam

In the case of Vietnam, we concentrated our sample selection on the southern region based on the research capacity of field assistants who have established networks with government and labor union officials, and contacts with local factories, enterprises and hotels. We selected the south of Vietnam due to a high concentration of textile/garment/footwear factories, agro-processing companies and hotels in metro and surrounding areas. Moreover, the Vietnamese research team from the Ho Chi Minh City Social Science Research Institute consists of well-seasoned researchers who have done extensive fieldwork and interviews with both managers and workers and have established contacts and networks with government officials, labor union officials, employer associations, and chambers of commerce in metro and non-metro districts in the south. As the urbanization process develops in the two main cities of Vietnam, Hanoi and Ho Chi Minh, the metro area is expanding to traditionally rural areas and thus a semi-metro area is developing and is home to many small and medium-sized enterprises processing agro-products and beverages for both domestic and international markets. To reflect this transformation, some SMEs in our sample are in these so-called semi-metro areas.

We began with gathering the listings of enterprises in both metro and non-metro areas from official sources, chambers of commerce and the Internet. Our research team then called SMEs to reach the three sectors with respect to size (small and medium) and location (metro and non-metro) systematically. However, to obtain interviews with 60 companies, the Vietnamese team faced two main types of constraints: political constraints and management capacity/time constraints. In the tense summer of 2011 with the maritime conflicts between the Chinese government and several Asia-Pacific countries including Vietnam, the Vietnamese government

[25] The qualitative interview framework included questions that allowed us to assess two of the four criteria mentioned in the TOR: market orientation and to some extent ownership variation—in addition to size (number of employees and level of formalization) and sector (variation).

initially did not approve our project proposal. Consequently, we had a slow start in the summer but our team members were still able to secure about 30% of the required interviews based on our existing personal networks with managers in these three sectors. At the end of the summer, we obtained formal approval and completed the remaining 70% of the interviews subsequently. However, even the managers who gave us the interviews faced time constraints since, by the very nature of being small and medium-sized, they were often short-staffed, especially in small hotels, and thus had limited time for the interviews. But the ones who granted us the interviews were generous with their time and willing to respond to our questions.

We were able to interview 300 workers in 44 companies in all three sectors, thanks to our team's close working relationships with the labor unions at Ho Chi Minh City and district levels. Again, in 16 companies, we could not interview workers for three main reasons: work pressure/overtime, lack of union representation and lack of management cooperation. Whenever possible, we conducted the interviews outside of the factory/enterprise gate, or at the local union's offices, so workers did not feel intimidated by management and could be honest about real working conditions and how to improve them. However, in many cases, workers were exhausted at the end of their long work day and needed to go home to their families in the evening, so we ended up interviewing them in separate areas (away from management offices) on the factory site.

Originally, we planned to conduct three types of interview with workers: individual (for personal information), focus group (for issues/concerns that are shared by most workers), and in-depth (for technical concepts/issues such as CSER that are often foreign to most workers). In reality, however, even more than managers, workers have tremendous time constraints: most textile/garment/footwear and agro-processing workers had to promptly return to the assembly line to earn their piece rates, which are often very low. Most hotel workers, especially in small hotels, perform many tasks, so they could not sit with us for long interviews. Therefore, we ended up having mostly individual and in-depth interviews with workers, whoever was available to talk to us. As such, we only conducted a few focus group discussions with workers.

To achieve both the qualitative and quantitative parts of the research, we utilized all forms of communication: making phone calls (to make appointments for the first and follow-up interviews), sending the extensive survey over email (or in person) so the managers could respond to the more quantitative questions (changes over time) in advance. Then, when we met face-to-face, we focused on the longer, intensive survey. To address managers' time constraints, we enlarged the qualitative part by

adding some of the questions from the quantitative extensive survey and used it to guide our face-to-face interviews. This strategy worked well for the Vietnamese team: the face-to-face interviews (using the longer qualitative interview form) enabled the interviewers to prompt the managers for elaboration, and the shorter quantitative questionnaire (sent over the email or given in person) gave the managers an incentive to prepare and complete it in their own time and return it to us in the follow-up meetings. We conducted follow-up interviews *via* phone calls, and trips to the enterprises/factories and hotels.

All in all, the Vietnamese team was able to overcome both external (political conditions) and internal management capacity constraints, and interviewed companies in the three sectors as planned. The analysis will be based on the triangulation of both qualitative and quantitative data generated in qualitative and quantitative interviews/surveys with the management, and interviews with workers.

South Africa

In South Africa, the interviewing process started with the recruitment of the companies. For this purpose a team was formed, which was responsible for the recruitment of companies, the execution of the interviews, and the administration of the process. The initial list of companies to contact came from different sources:

- CLOTEX: A representative organization of the SME^[26] sector of the South African garment and textile industry.
- Platter's Wine Guide: The leading wine guide for South African wines that contains production and contact details for all wineries in South Africa.
- The researchers' existing contacts and relationships.
- Internet and the yellow pages.

Based on previous experience, we had expected to have to contact three companies in order to get one successful appointment. For the textile companies, due to the help of CLOTEX, this came to a ratio of 2:1. On average for all three sectors, however, this came to four companies contacted per appointment made. Furthermore, a company needed to be called an average of three times before a final "yes" or "no" was given. This meant a total of 12 calls per successful appointment made. We still do

[26] In South Africa, most often termed "SMME" (small, medium and micro enterprise).

not fully understand why it was much more difficult than expected to recruit companies to participate in the project. This was very different from the previous experiences of both Soeren Jeppesen and Bas Kothuis in similar projects. The last of those experiences was, however, about seven years ago so conditions may have changed. Clearly, many more research projects have been held since then. This was among other things visible because we did encounter some “interview-tiredness”, especially in the textile and tourism industries. Furthermore, the SMEs were in tax reporting and auditing season and in some sectors (tourism and agro-processing [wine]) there were international conferences during the appointment period. This all made it more difficult than expected to arrange and schedule appointment times, and very often we did not make our required average (of three appointments per day).

After a positive reply from a company, an appointment for a first visit and first interview with management was made. This was often cancelled or moved at the last moment which caused delays in the tight schedule for the interview process. During the first (qualitative) interview with a management representative, we tried to make an appointment for the second (quantitative) interview and for the worker interview. The second interview appointments were confirmed by email and confirmed again the day before the agreed interview dates. Once again, the appointments often had to be rescheduled at the last moment.

We had anticipated that the worker interviews would take place at the same time as the first interview. However, sometimes the worker interviews were moved to coincide with the second interview. Some companies did not want to make time available for a second interview or decided at the last moment that they would not allow a worker to be interviewed. This had different causes:

- Changes in management between the first and second interview;
- Lack of trust between management and workers; and
- Lack of availability of a worker due to (mostly unexpected) sudden high workload.

All in all, these issues prolonged the time used for data collection substantially and led to the aforementioned deviations in the final sample of SMEs compared to the originally conceived sample.

Part Two

2. Literature Review on CSER and SMEs in Developing Countries

This section will highlight the existing knowledge of CSER and SMEs in developing countries and the main characteristics of this knowledge with particular reference to what we know about the meaning and dynamics of CSER for SMEs in these countries. This provided the foundation for conducting the qualitative part of the study—how we were to investigate “the meaning and dynamics of CSER to SMEs in South Africa and Vietnam”.^[27]

2.1. Overview of contributions on CSER and SMEs

Although the CSER field is biased toward the practices of large firms in developed countries,^[28] some knowledge exists on CSER and SMEs in developing countries. In order to assess the relevant contributions for the qualitative study, we outline the contributions found in the international academic literature and in a number of reports by international organizations. We start with contributions emphasizing SMEs’ perspective on CSER, including formal and informal CSER practices. Then four additional categories are presented: (a) environmental impact (pollution); (b) employment relations (labor conditions and working environment/OHS issues); (c) the global supply chain; and (d) clusters. We then summarize the key characteristics and the relevance to this study.

The field of CSER and SMEs has received increasing attention over the last 10 years; among other things, this attention has been expressed academically in a growing number of publications, including special issues of established journals.^[29]

The first major publication in the field was Hillary (2000). It focused on SMEs and environmental issues and proposed that SMEs account for 70% of all pollution

[27] This section constitutes the explorative part of the study.

[28] See the Introduction.

[29] The *Journal of Business Ethics* (JOB), 2006 (Vol. 67, N°. 3), and *Business Ethics: A European Review* (BEER), 2009 (Vol. 18, Issue 1).

(Hillary, 2000, p. 11)—providing a key argument as to why governments, donor agencies, international organizations and many others should take significant interest in “*improving the environmental performance*” of SMEs. The publication was influential as it entailed a perception of SMEs as constituting a large “problem” (Parker, Redmond and Simpson, 2009). SMEs were presented as “laggards” neither interested nor willing to engage in CSER. Moreover, they were characterized as not abiding by the law and being difficult to contact (Hillary [ed.], 2000).^[30]

This somewhat “pessimistic” view has been challenged by a more “optimistic/positive” view of CSER and SMEs (see, for instance, UNDP, 2004; Luetkenhorst, 2004; EU, 2004). As part of the enhanced role of discourse on the private sector, innovation and competitiveness, the key perspectives on CSER and SMEs here focus on (a) the social aspect, that is to say the importance of improved CSER practices in terms of better conditions for workers and the environment (and hence their families and the local community and—to some extent—society at large); and (b) the (economic) development and growth aspect, *i.e.* the importance of economic growth and a more traditional argument of benefits to employment, innovation and competitiveness (Luetkenhorst, 2004, p. 159). The linking of entrepreneurship, innovation and economic growth is another important discourse, which often is part and parcel of the competitiveness discourse. A discourse, which in a global development context, is displayed in, among others, the UNDP “Unleashing Entrepreneurship” (2004), World Bank (2004), Luetkenhorst (2004, by UNIDO), Accountability (2006), and EU (2008).

The attention directed at CSER and SMEs has come in particular from policy-makers, ministries, economic entities, international organizations and donor agencies. The EU’s approach^[31] to CSR and SMEs has mainly focused on competitiveness as a means of ensuring employment within EU countries (EU, 2001; EC, 2002, 2004, 2008). In contrast to the more “skeptical” perspective on SMEs, this signifies the growing emphasis on the “optimistic/positive” contributions by SMEs to society (Spence *et al.*, 2004; Morsing and Perrini, 2009).

In the JOBE 2006 special issue, Moore and Spence present an overview of the existing knowledge in the field (2006). They state that we know something about CSER and SMEs in areas like (the nature of) ethics, employment relations,

[30] See also Perez-Sanchez, Barton and Bower (2003) and UNEP (2003) for similar perceptions of SMEs. The perception by Hillary, Parker *et al.* and others is surprising, given that the authors simultaneously acknowledge that little is known about SMEs and CSER issues.

[31] Mainly carried out through the work of the CSR section of the DG Employment Social Affairs and Equal Opportunities.

environment, and “good examples”^[32] (Moore and Spence, 2006, p. 221-222). Our knowledge is more limited—or even close to nothing—on topics like community involvement, the role of owner-managers, policy influence, supply chain relationships, CSR tools, social performance, competitor relationships and developing countries (Moore and Spence, 2006, p. 222).

While the special issue does not include articles on CSER and SMEs in developing countries, it does include contributions of interest to this study. First and foremost, Murillo and Lozano (2006) address the “*meaning of CSER to SMEs*”, which will be discussed in the summary Section 2.2. Secondly, Williamson *et al.* (2006) discuss “*drivers of environmental performance and the implications for CSR*”, which provides valuable input to the assessment of the links between CSER and competitiveness (see Section 4 of this study). Thirdly, two other contributions provide conceptual and theoretical input, to which we will also return in the summary discussion of this section as few contributions in the field do so.^[33]

Morsing and Perrini do not make a similar assessment in their editorial in the BEER 2009 special issue, but they concur with the view that we have limited empirical knowledge on many aspects regarding CSER and SMEs (Morsing and Perrini, 2009, p. 4). With a “European perspective”, it is not surprising that the overall theme for the special issue is in line with the EU-UNIDO discourse on CSER and SMEs—the “optimistic/positive view” of SMEs (in contrast to the aforementioned pessimistic/skeptic view of SMEs as “a problem”, “laggards”, etc.). The emphasis is on “*the ‘SME business case for CSR’ based on empirical data*” (Morsing and Perrini, 2009, p. 4).^[34]

Similar to the JOBE 2006 special issue, the BEER special issue does not contain any articles on CSER and SMEs in developing countries. Still, a couple of the articles are of relevance to this study. Hammann *et al.* (2009) investigate the link between German SME managers’ perceptions and management practices, which provides input into the “meaning of CSER”, while Lynch-Wood *et al.* (2009) present and discuss a model to assess the external pressures for CSER in SMEs (such as how

[32] Though the knowledge tends to be from practitioners’ work.

[33] Lepoutre and Heene (2006) and Perrini (2006). Finally, the special issue also includes articles on “ethics” (Fuller and Tian, 2006) and “good examples” (Jenkins, 2006), and some of the areas where we have less knowledge such as social performance (Roberts *et al.*, 2006). However, the three articles are of limited relevance to this study.

[34] As this is clearly different from the focus in the contributions on CSER and SMEs in developing countries, we will limit the assessment of the contributions in the BEER special issue to the ones that can inform the assessment of competitiveness (see Section 4).

government regulations or industry initiatives make SMEs enhance their CSER practices), of interest for the “competitiveness” section (Section 4) of this study.

So, even in two newer special issues on CSER and SMEs, no contributions are found on developing countries. This confirms that our knowledge of CSER and SMEs in developing countries is limited compared to that in developed countries (Jamali *et al.*, 2009, p. 355; Jeppesen, 2009, p. 9). This is neither new nor surprising since early contributions to the field of SMEs and the environment have made similar observations (Scott, 2000; Jeppesen, 2004;^[35] Blackman, 2006a).^[36]

However, we do have some knowledge from developing countries, to which we turn next. We start out with contributions emphasizing SMEs’ perspectives on CSER, including formal and informal CSER practices. Then the four broad areas distinguished in the literature are presented: environmental impact, employment relations (labor conditions, safety and health), global supply chains, and clusters.^[37] The first two areas can be said to be themes, which have been discussed for some time and were included in the overview by Moore and Spence (see above). The last two areas have received increasing attention over time and are drawn from various other authors (for overviews, see for instance Blackman, 2006a; Jeppesen, 2006; Sachdeva, 2006; Lund-Thomsen and Nadvi, 2009; Skadegaard Thorsen and Jeppesen, 2010). The four areas also indicate the tendency for a topic-based division in terms of addressing environmental issues or social and labor issues (working environment/OHS versus working conditions/labor issues).

2.1.1. SME perspectives and theoretical contributions

A few individual contributions provide important insights into CSER and SMEs in developing countries. Most importantly, and in contrast with the majority of the studies mentioned in the subsections to come, these studies take the perspectives of SMEs and hence reveal relevant and pertinent information for the qualitative part of this study. This information includes issues like the extent of (formal and informal) CSER practices, the diversity in CSER practices among SMEs, and viewpoints of not only owners and managers but also employees.

Kothuis *et al.* (2001) assesses how South African SMEs handle the environmental dimensions in particular. Kothuis distinguishes between three types of flows that

[35] For a review, see Chapter 2, pp. 15-40, and in particular pp. 28-32.

[36] The additional contributions identified through the web searches undertaken for this study are shown in Appendix C.

[37] The following paragraphs were drawn from Jeppesen (2009, pp. 9-11).

impact SMEs and CSER activities: material, financial and informational flows. Focusing on a selected number of SMEs in the garment and electroplating industries, Kothuis proposes an analytical framework for assessing environmental management practices, based on SMEs' material, financial and informational flows.

Jeppesen (2004) investigates CSER practices in 210 SMEs in various manufacturing sectors in South Africa through a survey and additional in-depth firm studies of three of these SMEs. The survey shows a huge difference in the amount of (formal) CSER practices, ranging from a very low level among the smallest firms in the domestically-oriented wood and furniture sectors to a much higher amount among medium-sized firms in the (internationally-linked) transport (auto component) sector. Still, the uptake of codes of conducts and certified CSER systems is limited. The in-depth firm studies show how a combination of firm-internal and firm-external factors influence CSER practices (Jeppesen, 2004, p. 239). Further, interviews with owners, middle managers and workers highlight the similarities and, in particular, differences in understanding of CSER among the different groups.

Vives (2006) is another study based on a large survey. More than 1,300 SMEs were interviewed in eight different Latin American countries. Vives, similar to Jeppesen, highlights the differences in CSER practices among SMEs of different sizes—the bigger, the more practices. He also shows that CSER practices differ across different countries and hence emphasizes the importance of context. Finally, and very importantly, he also investigates not only formal, but also informal practices. He highlights a number of informal practices (providing loans to employees, giving donations to local communities and churches) and shows how cultural norms and values influence CSER practices. While authors like Jenkins and Whalley have stated the specific, more informal and ad hoc nature of doing business in SMEs, Vives provides detailed information about what kind of informal practices SMEs undertake.^[38]

Skadegaard Thorsen and Jeppesen (2010) provide additional viewpoints from the perspective of SME owners and managers in Kenya and Bangladesh, in particular with regard to the relationship to MNCs and the kind of challenges that SMEs face. SME owners (and representatives from SME business associations) highlight the numerous problematic aspects of being part of a global supply chain. This in

[38] Fasin (2008) also discusses the issues of formal *versus* informal practices. The limited literature on SMEs and CSR has also highlighted the context-specific nature of SMEs' engagement in CSR (Blackman, 2006b; Jamali *et al.*, 2009), the community embeddedness of many CSR activities (Fuller and Tian, 2006; Russo and Tencati, 2008), and the sense of personal or religiously-inspired ethics as a motivating factor behind SMEs' engagement in CSR (Vives, 2006; Jeppesen, 2009).

particular concerns meeting the demands embedded in codes of conduct, leading to, for instance, unreasonable costs, code mania (servicing clients who have individual codes), contradicting demands of traditional supply chain requirements and CSER requirements, etc.^[39]

A number of critical perspectives address the issues of the importance of context and whether SMEs are familiar with and understand the concept of CSER as it is defined, for instance by MNCs and international organizations, and as part of standards. Often the term CSR is an alien concept in many developing country contexts (Fox, 2005; Jamali *et al.*, 2009; Jeppesen, 2009; Tran, 2011); it is contested (Khan and Lund-Thomsen, 2011) and hence of limited use when assessing how SMEs perceive their social responsibilities.

Overall, the existing studies on CSER in Vietnam focused on management interests and perspectives, and CSR services for MNCs with perspectives from management only, not workers (Ngo Thi Minh Huong, 2007; Unden, 2007). Others provide composite findings on labor standards and working conditions from 64 factories (a study funded by the International Labour Organization [ILO] and the International Finance Corporation [IFC], cited in Tran, 2011).^[40] Finally, a fine-grained study commissioned by the Fair Labor Association provides a nuanced analysis of fair wage and some relations in the global supply chain with interviews in four factories in northern Vietnam. However, only 20 workers and several managers were interviewed with a focus on wage issues (the Capstone Team of the Master of Public Affairs at Sciences Po, 2009-2010).

In particular, Tran (2011) finds that under increasing global corporate pressure and influence, the Vietnamese government has been participating in the promotion of a CSER initiative. But when it comes to delivering the promised labor standards of most codes of conduct, CSR in Vietnam is largely tokenism in practice. The tripartite structure pushed by the World Bank and ILO and adopted by MOLISA thus far has not worked due to the unequal power relationships between labor and businesses.

[39] See in particular, Sub-Report F on the exclusion of SMEs in the Annex Volume, and Sections B and C (on code mania and impediments from traditional supply chain practices) in Skadegaard Thorsen and Jeppesen (2010, pp. 16-23). See also Andersen and Skovgaard (2008), Baden *et al.* (2011), Blanco (2003), Cliberti *et al.* (2008), Iturbide (2007), Koh *et al.* (2007), OECD (2007), and Rahbek Pedersen (2009) on different elements of this issue.

[40] Although without direct links to and identification of specific factories/suppliers, and without voices from workers and managers.

Tran argues for the need to situate SMEs in multi-level global supply chains, and that this framing can shed light on the difficulty of monitoring CSER compliance and remedying code violations. Consistent with other findings, Tran found that the downward pressure from brands/corporate buyers/retailers has successfully transferred the costs, risks and responsibilities down supply chains to their suppliers, many also subcontract to SMEs to meet rush delivery schedules (Prieto-Carron *et al.*, 2006, p. 985; Tran, 2011). Moreover, the relationships between suppliers and MNCs are unclear and there is no transparent disciplinary action to pressure non-compliant contract factories into remedying their violations. Tran concludes that the multilevel subcontracting nature of the global supply chain makes it difficult for monitoring to uncover code violations in supplier factories in the production chain, even when MNCs intend to adopt and comply with CSR practices. Finally, she argues that local authorities, including both the state and unions, can put it into genuine effect by overcoming problems at factory level.

Although theoretical contributions are limited in the field of SMEs and CSER, as for instance Jamali *et al.* (2009), some contributions can be found. Jeppesen (2004) employs a resource-based perspective (RBP) in his study of SMEs and CSER in South Africa. Jamali *et al.* test the relevance to SMEs of a number of CSER dimensions, like Carroll's pyramid, stakeholder theory (see the introduction), and strategic management (Jamali *et al.*, 2009, p. 358). They conclude that the CSER practices of SMEs can be related to such theoretical perspectives, although different from MNCs.^[41] Clearly, the field is dominated by empirical and practical studies.

2.1.2. Environmental impact (pollution)

As the "E" part of CSER was a precursor to the focus on social and labor issues, we find both slightly older and recent contributions with this focus. Clearly, the Hillary (ed.) (2000) and the UK Groundwork report from 1995 (Hillary, 1995) were influential in stating that although small in size, SMEs were big in numbers and hence (probably) in environmental impact, perhaps responsible for up to 70% of total pollution. This also goes for developing countries, as reflected for instance in the UNEP special issue on small firms and CSER from 2003 (UNEP, 2003).

[41] Contributions on SMEs in developed countries include: Perrini (2006) on social capital; Hammann *et al.* (2009) on the relationship between SME executives' social responsibility and a firm's value creation; Russo and Perrini (2009) on stakeholder theory and social capital. Lepoutre and Heene (2009) seek to address the issue of whether size influences the level of CSER practices, albeit in a more practical than theoretical manner.

In contrast, various studies find that (a) SMEs certainly pollute but the total impact is difficult or impossible to estimate and (b) the pollution per production unit is (often) higher than that of large firms in similar sectors (Scott, 2000, p. 278; Dasgupta *et al.*, 2000, p. 301ff; Blackman, 2006b, p. 5), but that (c) whether or not SMEs are the main polluters compared to large firms depends on the concentration of SMEs (Dasgupta *et al.*, 2000; World Bank, 2000; Blackman *et al.*, 2006; Lanjouw, 2006). And often, the concentration of large firms means that the aggregated environmental impact of these firms is much higher than that of SMEs—and it is much more cost effective for governments to target large firms (World Bank, 2000).

In developing countries, the focus was on how to reduce the environmental impact (or pollution) of heavy polluting industries. Studies by Scott (2000), Bratasida (2000), Dasgupta *et al.* (1997, 1998 and 2000), Dasgupta (2000), Naumann (2001), Wheeler *et al.* (2002), Blackman (2006b), Lanjouw (2006) and Vincent and Sivalingam (2006) have investigated SMEs in sectors like kiln making, furniture, textiles and dyeing, and electroplating/galvanizing in different countries (Mexico, Brazil, Zimbabwe, India, South Africa and Malaysia). The contributions center on the questions of SMEs' drivers and/or barriers to environmental practices. Some studies assume that SMEs should have obvious drivers to engage environmentally (or that barriers should be easy to overcome) due to expected win-win outcomes of engaging in enhanced environmental practices (Dasgupta *et al.*, 1997; Wheeler *et al.*, 2002). Bratasida describes how the Indonesian government has implemented a program to promote environmental management systems among SMEs through a demonstration project. However, uptake among SMEs was limited, mainly due to SMEs believing that the systems included high costs and were of limited relevance. Also, many were unaware of the program (Bratasida, 2000, pp. 310ff). Dasgupta argues in favor of a sanction-based system in order to get small-scale Indian SMEs to implement better environmental practices (Dasgupta, 2000). However, as the study was inspired by Hillary and the perception that SMEs were unwilling to engage in CSER issues, no SMEs were interviewed and the study seems rather theoretical.

Other studies are more skeptical about the potential of the business case for SMEs, as they argue that win-win outcomes are difficult to attain for SMEs because CSER tools and programs are ill-suited to SMEs, among other things because the tools are time-consuming, difficult to manage, expensive for the SMEs, and not seen as relevant (since the clients of the SMEs do not require the implementation of such tools). In addition, many SMEs operate in the informal sector outside regulations and

hence with limited pressure to change behavior. For instance, Scott notes that the cost implications and lack of business relevance confines most of the SMEs in kiln making and dyeing in Zimbabwe and Bangladesh to low-cost systems with limited effect (Scott, 2000).

In attempting to address how SMEs work with CSER, Jeppesen has investigated the environmental practices and so-called “greening” strategies (but not the impact) of manufacturing SMEs in South Africa. He finds not only a variety of factors influencing SMEs (see Section 2.3 for further information), but also that both firm-internal and firm-external factors are of importance. Another important finding is that major differences exist among manufacturing sectors, and among different sizes of SMEs, with micro firms undertaking the fewest practices, small firms more, and medium-sized firms the most practices^[42] (Jeppesen, 2004). A similar point is highlighted by Blackman (2006b), Vives (2006, as mentioned above), and Lepoutre and Heene (2009).

2.1.3. *Employment relations (labor/working conditions and the working environment/OHS)*

There has been increasing attention on employment relations as globalization has led to substantial offshore outsourcing of the production of goods and services from developed to developing countries, whereby MNCs have moved production to the southern hemisphere and changed sourcing practices (UNCTAD, 2004; Hansen *et al.*, 2008). With millions of workers being employed either directly by MNCs or more often through larger or smaller suppliers (both foreign and locally owned), the standard of working conditions and the working environment is crucial.

While a few studies focus solely on labor (working) conditions—labor standards, safety and health issues—in SMEs, quite a range of studies investigate codes of conduct in global supply chains that concern SMEs.^[43] A number of sectors have been investigated (such as cut flowers, textiles and garments, wine production, fruits,

[42] This relationship also seems to be influenced by the markets that the SMEs sell to—the firms with international markets tend to have higher levels of CSER practices and these firms are typically medium-sized.

[43] Hence, these findings also have relevance to the findings shown in the next sub-section on global supply/value chains (and vice versa).

leather tanning and soccer balls among others),^[44] in Eastern and Southern Africa and in selected countries in Asia (such as China, India, Bangladesh, Pakistan, Indonesia and Vietnam).^[45] Although it is difficult to find concrete figures, various studies indicate that SMEs in developing countries are being excluded from global supply chains (as stated above, see also the next section).^[46]

Studies by, for instance, Barrientos *et al.* (2003), Dolan and Opondo (2005), and Barrientos and Smith (2007) show that (a) working conditions are often poor—despite the implementation of codes of conduct, (b) the more informal (and typically the further away from the urban areas and possibilities of monitoring), the poorer or worse the conditions—and the smaller the impact of codes, and (c) female workers are being exposed to worse conditions than male workers. Although the literature tends to conclude that labor conditions are poorer in SMEs compared to those in larger firms, no academic studies have assessed this issue in a thorough manner, including addressing underlying the reasons—if this is indeed the case.^[47]

Still, as the next subsection will show, findings do indicate that SMEs that are engaged in global value chains tend to change and enhance (formal) CSER practices, which in some cases can improve standards compared to SMEs that are solely engaged in local value chains and do not experience similar pressures.

2.1.4. Global supply/value chains

The area where we found the most contributions on CSER and SMEs relates to global supply chains.^[48] Again, the majority of the contributions come from international organizations (Humphrey, 2002; World Bank, 2003; Luetkenhorst/UNIDO, 2004; Ahmed, 2006) with the arguments that (a) inclusion in global supply chains is important for the upgrading and competitiveness of developing country firms, and (b) demands and pressures from multinational corporations (MNCs) lead to implementation of codes of conduct and/or certified CSER systems among SME suppliers. This in turn improves labor, social and

[44] For overviews, see Jenkins *et al.* (2002), Seidman (2007), and Lund-Thomsen & Nadvi (2009).

[45] It has not been possible to find more specific figures on the number of people and/or SMEs involved.

[46] Baden *et al.* (2009), Abonyi (2005, p. 27), Fasin (2008), Kumani (2008), and Skadegaard Thorsen & Jeppesen (2010).

[47] See the study by Kumani (2008).

[48] As stated by Hansen and Schaumburg-Müller (2010), most studies take the perspective of MNCs on these issues, hence the “developing country firm” perspective is generally missing in the literature.

environmental conditions in SMEs (Accountability, 2006, p. 9). Research by Singh *et al.* (2008) on SMEs in the supply chains of five large multinational corporations (MNCs) in six developing nations (Brazil, Mexico, Ghana, Zimbabwe, Indonesia and Vietnam) shows that the adoption of CSR practices by SMEs can result in better market opportunities and economic growth. Singh *et al.* conclude that by investing in SME supply chain links, MNCs can greatly enhance the business practices and efficiency of SMEs while concurrently enhancing their own profitability and social responsibility.

Although CSER demands channeled through global supply chains seem to affect the efficiency and performance of SMEs in developing countries, critical literature that investigates labor and working conditions tends to find less effect on specific practices. In contrast to the World Bank and others, it is argued that little or insufficient changes have taken place. To some, this is because the changes are not monitored, meaning that the new systems and improved practices are quickly forgotten because firms (both SMEs and, in particular, MNCs) are not held accountable (Barrientos *et al.*, 2003; Dolan and Opondo, 2005; Barrientos and Smith, 2007; Tran, 2011). Another reason could be that different respondents are used for different types of studies. While MNCs and SME owners and managers are the typical respondents when it comes to efficiency and performance, workers are (only) involved and questioned on specific working conditions and OHS issues.

Moreover, few systematic studies exist. Luken and Stares (2005) investigate the relationship between MNCs and demands to implement CSER practices among 22 small Asian firms in India, Pakistan, Sri Lanka and Thailand mainly in leather, tanning and textile industries. While the authors argue that supply chain pressure has the “potential” to ensure improved CSR practices, the findings stem from sponsored interventions by international organizations (like UNIDO and the World Bank). Accordingly, SMEs have enhanced incentives to participate, and unsurprisingly, the assessment shows that SMEs with international links seem to be more willing to improve than other SMEs.

Lund-Thomsen shows the dilemma that, in some situations, participation in global value chains leads to improvement of certain conditions in the SMEs, yet the relationship to the MNC simultaneously increases production speed and prolongs working hours, thereby worsening working conditions (Lund-Thomsen, 2007). Others argue that SMEs are squeezed by MNCs as SMEs are pressured to spend funds to receive certification and/or comply with code of conduct requirements, but SMEs do not necessarily obtain or secure orders (Bombay Chamber, 2008; Ward, unpublished; Lund-Thomsen and Nadvi, 2009). Some studies indicate a (growing)

trend among MNCs, which (seemingly) prefer to concentrate their supplies on a few large supplier firms compared to a higher number of small suppliers as it takes substantial work and considerable resources to monitor a large number of small suppliers.^[49] Although solid evidence is difficult to come by, interviews with a number of large international buyers clearly highlight the trend: SMEs have been and continue to be in danger of being excluded from participation in global supply chains. The reasons are different, however, the trend illustrates why SMEs often are skeptical about “CSER initiatives”: such initiatives represent threats as much as they do opportunities (Skadegaard Thorsen and Jeppesen, 2010, p. 33-34).^[50]

In sum, some contributions find that the relations to MNCs and the pressures that they bring lead to upgrading SMEs’ skills and capacities, including improved CSER practices and in turn increased SMEs’ competitiveness. Similar findings are also provided in the earlier mentioned studies. In the manufacturing sector in South Africa, findings indicate that links to foreign buyers and/or markets do increase the amount of formal CSER practices among SMEs (see, for instance, Jeppesen, 2004, p. 154). Simultaneously, there has been and still seems to be a trend of excluding SMEs from global supply chains as international buyer firms (MNCs) increasingly prefer to use larger firms as suppliers in developing countries.

2.1.5. Clusters

Clusters are “geographical agglomerations” of firms, meaning there is a (high) number of (small) firms located in a particular geographical area. The nearness enables possible collaboration, which can potentially assist in overcoming the problems of “smallness” for SMEs. “Smallness” here should be understood in the sense that, while one SME alone will have limited production capacity and accordingly be unable to supply a (larger) client with the required quantity, five or 10 SMEs working together can multiply their capacity and hence ensure their ability to supply the quantity required.^[51]

[49] See Raynard and Forster (2002), Abonyi (2005), Jørgensen and Knudsen (2005), Welford *et al.* (2006), Fasini (2008), Baden *et al.* (2009), Skadegaard Thorsen and Jeppesen (2010).

[50] Personal communication with several managers of Southern African SMEs in the textiles and clothing industry; with Peter Lund-Thorsen regarding the soccer ball industry in Pakistan and India; and with Anita Chan regarding the situation in the Guangdong province in China. Another example is the Danish MNC LEGO that announced that it would cut its supplier base from 12,000 to 2,000 firms a couple of years ago!

[51] See UNIDO (2002, 2006 and 2007/08) and the MSME foundation website for a number of examples.

One point of departure has been the potential benefits of joint action among SMEs in relation to demands—for instance regarding CSER—made by large, predominantly foreign buyers (MNCs) through their codes of conduct. As highlighted above, SMEs often find CSER tools to be expensive and time consuming to implement and monitor. A series of studies from India and Pakistan have shown how numerous clusters of SMEs were able to improve their CSER practices and share costs, knowledge and engagement (Sachdeva, 2006; Bombay Chamber, 2008; Sachdeva and Panfil, 2008; Kumari, 2008). While the studies highlight that joint action can improve SMEs' CSER practices, the findings also point to the complexity in each cluster and the limitations due to differences in interest among SMEs, the strength (or lack of strength) among business associations, local governments and service providers, and the vulnerability of the gains over time (Kennedy, 2006; Sachdeva, 2006; Bombay Chamber, 2008; Lund-Thomsen, 2007; Sachdeva and Panfil, 2008; Kumari, 2008; Lund-Thomsen and Nadvi, 2009; Ward, unpublished).

Again, it should be noted that this area has also been driven by policy concerns and major initiatives undertaken by UNIDO, ILO and bilateral donor agencies (see www.weplayfair.com as a key example). As many of these UNIDO/ILO investigations were based on solid methodologies, this provided a foundation for the academic use of the data resulting in a number of articles, such as the ones mentioned by Lund-Thomsen, Lund-Thomsen and Nadvi, to name a few. A key observation is the importance of long-term initiatives as it takes time for the CSER practices to spread among SMEs, including time for SMEs to realize the benefits of joint action.

2.2. What we know and do not know about CSER and SMEs in developing countries

In summing up the knowledge on CSER and SMEs in developing countries, we can confirm Moore and Spence's assessment: few studies exist on developing countries. We also find that the field is strongly influenced by policy interests, with some academic attention and contributions.

Under-researched areas in this topic encompass both developed and developing countries. There is limited knowledge of SMEs and CSER in the developed countries on topics such as ethics, employment relations and best practices (Moore and Spence, 2006). In addition, non-economic considerations such as community relations and involvement, policy, social pressure and competitor relations have not been addressed in the developing countries.

While four areas (environmental issues, employment relations [labor conditions and OHS issues], and lately global supply chains, and clusters) have received some attention, the majority of contributions concern the CSER practices of SMEs due to engagement in global supply chains. Also, the labor conditions and cluster activities investigated are in most cases drawn from global value chain interaction between MNCs and developing country SMEs. This “bias” implies that the majority of existing perspectives are Northern-, business- and competitiveness-oriented, as numerous authors have pointed out.^[52] Some have raised a more fundamental criticism of the relevance of the CSER concept (*e.g.* Blowfield and Frynas, 2005; Khan and Lund-Thomsen, 2011) and the applicability to SMEs (Jamali *et al.*, 2009). The studies also predominantly assess formal CSER practices, whether certified management systems, codes of conduct, the physical environment, the working environment or labor standards and working conditions, while informal practices relevant to SMEs are rarely investigated, Vives (2006) being an exception.

Geographically, the majority of the studies deal with countries in Asia, some deal with Latin America and (very) few deal with Africa.^[53] Sector-wise, mostly (heavy) polluting and/or labor-intensive sectors, in particular manufacturing, have been investigated, although only a limited number of sectors have been covered.

The majority of the studies employ the perspectives of MNCs, governments, international organizations and consultants on SMEs. These perspectives also provide a view from a firm-external position. A few academic studies, along with a number of “policy-driven” studies, do advance the perspectives of SMEs on CSER. These studies accordingly shed some light on how SMEs understand CSER, and what kind of (formal and informal) CSER practices SMEs of different sizes, in different sectors and serving different markets undertake.

Whether SMEs actively work to enhance their CSER practices or are pressured to do so is another issue. As various authors have pointed out, SMEs focused on the domestic market have few or no incentives/pressure to change their CSER practices (Luetkenhorst, 2004; Jeppesen, 2009; Skadegaard Thorsen and Jeppesen, 2010).

[52] Jeppesen (2005), Fox (2005), Prieto-Carron *et al.* (2006) and Newell and Frynas (2007), among others.

[53] This also goes for studies on CSER in Africa in general. See Visser *et al.* (2006) as an exception. Kothuis *et al.* (2001) and Jeppesen (2004, 2005 and 2006) are some of the few studies on CSER and SMEs in Africa.

In sum, the knowledge of CSER and SMEs in developing countries can be summarized in the following points:

- A northern formulated and driven agenda, dominated by normative approaches (what CSER should be and what SMEs should do);
- Drawing on investigations of large firms and their perspectives on CSER;
- Focused on formal versions of CSER;
- Emphasis on promoting universal win-win outcomes (often termed “the business case for CSER”)—without considering win-lose, lose-win or even lose-lose outcomes (e.g. that a business might improve working conditions, but lose money as price increases and costs go up and the customers turn to the competitors as they refuse to pay the extra—what we can term a “lose-win outcome”),^[54] and
- Furthermore, literature on CSER that has limited perspectives from workers and is mostly gender-blind (assuming that CSER means the same things to both female and male workers and impacts them similarly).^[55]

In sum, we have few CSER contributions with an SME perspective and little knowledge on the meaning of CSER for SMEs in developing countries. Accordingly, this study sought to contribute to the knowledge of CSER and SMEs in developing countries and employ an approach that ensures such knowledge.

2.3 The implications for the qualitative study

Given the literature review and the objective of focusing on the “meaning and dynamics of CSER to SMEs in South Africa and Vietnam”, we will now outline the implications for the qualitative study.

In general terms, the study sought to:

- ***Provide a Southern perspective***, addressing developing country firms/SMEs, managers and workers in their own contexts through a realistic approach focusing on which CSER practices are undertaken and what SMEs do. Here, our study incorporated ***perspectives and voices from both management and***

[54] Further examples are given below in Section 2.3.

[55] And few theoretical contributions are found.

workers from first-hand interviews/surveys, paid attention to the gender dimension and, when possible, shed light on gender differences.^[56]

- **Perceive SMEs in their own right**—as small and medium-sized (developing country) firms and not as “miniature versions” of large (developed country) firms. Here, our study contributed to the literature by identifying where the SMEs are situated in local and global supply chains/global production networks so that we could better understand their constraints and the obstacles they face in order to engage in CSER practices.
- **Include formal and informal CSER practices.** While we acknowledge that formal CSER practices can be present and of importance to SMEs, Vives (2006) and others point out the importance of informal practices. For instance, CSER in SMEs has often been described as being less formally institutionalized within firms (Whalley, 2000; Murillo and Lozano, 2006), being of a more ad hoc nature (Jenkins, 2004 and 2009; Sachdeva, 2006; Sachdeva and Panfil, 2008), and not involving “large firm practices” such as employing CSR managers or publishing CSR reports (Kumari, 2008).
- **Critically assess the historical, political and economic reasons behind the current state of CSER practices**—which enable us to discuss why we find specific understandings of CSER and the impact of CSER, and discuss potential outcomes (win-win, lose-lose, win-lose and lose-win) if the goal is to promote the development of extended and/or more formalized CSER. Our study enables the identification of areas of support for SMEs, given a better understanding of the constraints and obstacles they face, within the two country-specific contexts and in particular within the three sectors chosen.

SMEs’ unique situation also means that win-win situations are not that obvious for SMEs. Firstly, SMEs tend to have a much less pronounced public profile, if any. SMEs experience less pressure from consumers, NGOs and the media to address CSER issues; they are in no way always rewarded by their (business) customers if they invest in CSER initiatives either price- or sales-wise; and employees are less concerned with their CSER profile (Jenkins, 2004, p. 45, and 2006; Morsing and Perrini, 2009, p. 3). With (considerable) pressure on income and profits, SMEs need to ask whether an investment of X US dollars, South African rands or Vietnamese

[56] This is only for the Vietnamese part of the study, as the interviews with workers in South Africa did not provide such information.

done in implementation and certification of an ISO 26000, hiring a CSER manager and/or producing CSER reports, for instance, will actually enable an equivalent increase in income and profits (Whalley, 2000; Sandström, 2002; Taylor *et al.*, 2003). In many, if not most situations, this is not the case. Accordingly, we find examples of win-lose, lose-win and even lose-lose situations when the outcome of a particular CSER initiative in an SME is assessed (see, for instance, Jeppesen, 2005, p. 108). One example is an SME that improves its formal CSER practices and attracts more customers but is forced to increase speed among workers and lower prices and therefore wages, leading to worse OHS and working conditions. A lose-lose situation is when CSER demands lead to increased costs and fewer sales, forcing closure of the SME or a takeover by an owner who provides poorer CSER standards than the previous owner.^[57]

Based on such experiences, it should not be a surprise that SMEs tend to be reluctant to engage in formal CSER activities. However, many SMEs linked to international markets (through global value chains, for instance) have little bargaining power *vis-à-vis* their (large) customers (typically buyers) and are often pressured to implement CSER systems and standards. If they do not, they lose contracts and orders. This often comes at a cost, as MNCs demand that prices be stable or even decrease, while for SMEs the cost of both inputs (water, electricity, etc.) and ensuring that code requirements are met increase.

Finally, SMEs are often equated to “SME owners and managers” in research and policy documents. However, while the views of SME owners and managers are important in understanding SMEs’ practices, the views of employees are equally important for understanding CSER practices in SMEs. While managers decide whether to implement CSER standards or undertake specific informal CSER practices, the employees are the ones who carry them out. If the employees do not see the reasons behind certain practices, little will be gained. So, management-employee relations are important for the impact of the CSER practices on efficiency and business performance.

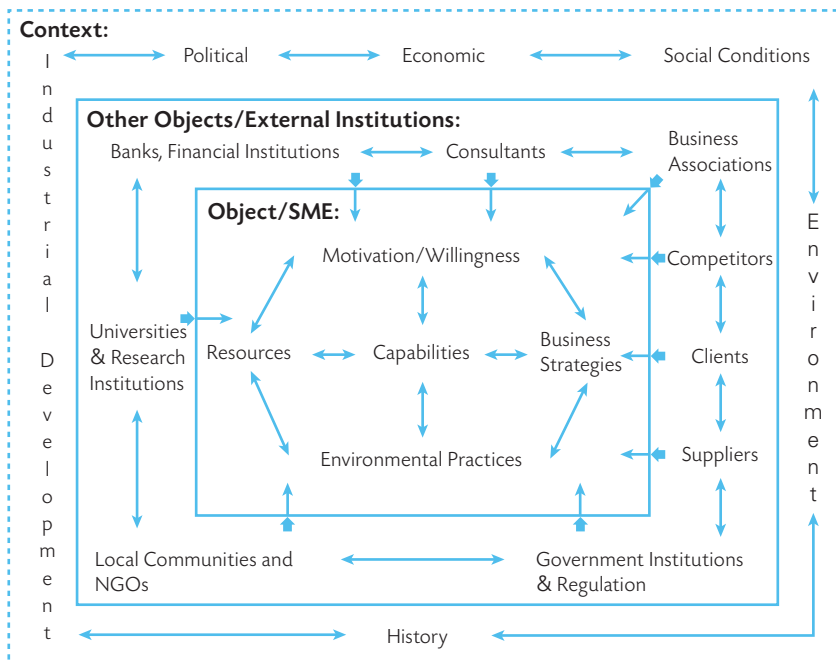
Though we emphasize the “SME perspective” and what we term “firm-internal” factors, other factors are important for the understanding of how and why SMEs undertake CSER in a given way. Accordingly, we employ an analytical framework for

[57] As experienced in South Africa as part of the Danish–South African environmental program.

our qualitative study, which includes both firm-internal and firm-external perspectives. We use the analytical framework developed by Jeppesen (2004) (see below). The framework provides a descriptive model of the various factors that influence CSER in SMEs in developing countries, whether they be firm-internal or firm-external, taking a resource-based view.

Compared to Jeppesen (2004), we place less emphasis on some of the firm-internal factors such as resources and capabilities conceptualized with inspiration from resource-based theory. Instead, we emphasize the managers' and workers' perceptions of CSER, the CSER practices undertaken, and the influence of firm-external factors in terms of stakeholders and economic, political, social, cultural and historical aspects.

Figure 1 *Descriptive model of factors influencing CSER in SMEs in developing countries*



Source: Jeppesen, 2004, p. 264.

Based on the emphasis of the study and the analytical framework, we conceived five main groups of questions/issues to address in the qualitative interview framework.^[58]

First, we had questions to address understanding of CSER.^[59] We sought to triangulate understanding of CSER among management and workers by inquiring (a) about what they view as the SME's key responsibilities, (b) to what extent they found that the SME had responsibilities in a number of areas (the environment, working environment, working conditions, suppliers) and/or if other parties had responsibilities too, and (c) finally, if they had heard the term "CSER" and, if so, how they understood it.

Related to this, a second group of questions inquired about CSER practices: first (a) formal and then (b) informal. Formal practices also included various practices involved in, for example, handling and monitoring waste, working environment issues, and issues relating to working conditions. Furthermore, perception of the significance of each of the practices was sought.^[60]

In order to obtain information on why we found particular levels of uptake of formal and informal CSER practices, a third group of questions involved inquiring about the relations between management and employees/workers. This was very important to the atmosphere in the SME, the differences management and workers have regarding practices, and the deepening of understanding of how and why certain practices were conducted and perceived as stated.

From internal perspectives, we turned to external factors and a fourth group of questions to solicit the role of stakeholders *vis-à-vis* SMEs and their CSER practices. Stakeholders included government, suppliers, customers, unions, workers, NGOs, the local community, and "other global actors" (like the World Bank, consultants, etc.). This also included questions about changes in stakeholder relations over time and whether changes were expected in the future. The questions intended to get an

[58] See Appendix B for the full interview framework. The paragraphs in the text follow the main sections of the interview framework.

[59] In a response to the contributions, which highlight the problematic nature of applying Western CSER in a developing country context.

[60] Inspiration here was drawn, for instance, from Murillo and Lozano (2006), who show how difficult it is for SMEs to understand CSR and outline the various forms of informal CSR practices that SMEs undertake. The paper gave voice to management in four Catalan companies who defined CSR in specific terms, concrete actions and best practices in management's own words.

idea of (a) the changes that take place over time, and (b) which changes management and workers expect.

Finally, questions on basic, factual information were included such as location, type of ownership, age of enterprise, size (in number of employees), turnover, markets, type of customer(s), industry/economic sector, number of products or services, main types of products or services, and market share.^[61] Apart from providing basic information on the selected SMEs, the information enabled us to analyze differences in the meaning and dynamics of CSER according to size, sector, market and location, including differences in formal and informal practices.

All in all, we felt that the answers to these groups of questions would provide us with sufficient information to allow us to analyze and answer the research questions below and therefore determine how SMEs perceive CSER in the selected sectors in the two countries:

How and why do SMEs in the three selected sectors—(a) agro-processing, (b) textiles, garments and footwear, and (c) services/tourism (B&Bs, lodges and hotels)—in Vietnam and South Africa^[62] engage or not engage in *CSER practices*?

A. What are the key *formal* CSER practices/activities?

B. What are the key *informal* CSER practices/activities?

[61] For practical reasons, this information was obtained at the beginning of the interviews, covering the physical address and general information. See questions 1-10.

[62] With reference to the structural context: historical, social, political, economic and cultural factors.

Part Three

3. What CSER Means to SMEs

The presentation and analysis of the qualitative data is structured in the following way. First, we outline the broader context for CSER and SMEs in the two countries. We then highlight the importance of the selected industries and economic sectors in each of the countries, and finally, provide basic information about the SMEs interviewed. Second, we present and discuss our findings country by country. We start with South Africa followed by Vietnam. We outline the findings based on the main sections from the qualitative interviews, including managers' and workers' views. Finally, we discuss findings and answer the relevant research questions (1, 1A and 1B), supplemented with relevant data from the quantitative section.

3.1. The CSER and SME context in South Africa and Vietnam

First, we briefly provide the CSER context for SMEs in the two countries by outlining issues such as the role of history, the industrial structure, how CSER has been addressed, and the role and importance of SMEs to government policies and activities (Section 3.1.1). Then we go deeper into the sectors chosen and present the role and importance of each of the three sectors to the economy, including CSER factors (Sections 3.1.2. and 3.1.3.). Finally, we outline the overall information on SMEs that we have obtained. This includes the characteristics of the sample: size, sector, location (metro/urban or non-metro/rural), markets and more.^[63]

The countries represent different contexts not only geographically, population and income-wise,^[64] but also regarding their histories, political economic systems, labor regimes, industrial structures, the role of SMEs, how CSER is undertaken, SMEs' markets, and how the government influences the SME sector and engages in CSER. These six aspects are related, but are described briefly and separately below.

1. Both countries have a history of authoritarian regimes, though of different ideologies. South Africa ended an Apartheid regime of 46 years by holding

[63] In line with the TOR, the four dimensions are considered important in the later analysis of the differences among SMEs, which will be included in the final report.

[64] See country maps, population size and per capita income figures in Appendix H.

democratic elections in 1994. The economy was opened and liberalized to some extent afterwards following different development policies. With the end of the US-Vietnam war in 1975, a reunified Socialist Republic of Vietnam was faced with integrating the capitalist South and socialist North. Since this merger, Vietnam has undergone tremendous political and economic transformations—especially the significant market reforms in 1986 (the Doi Moi)—that integrated socialist Vietnam into the global economic system. South Africa has been much more closed and domestically-oriented since democracy in 1994, compared to the more open door policies of the communist regime in Vietnam.^[65]

2. In South Africa, the industry structure was highly concentrated during Apartheid and continued to be so in the post 1994-period. Hence, the South African economy is characterized by many large and very powerful companies with a controlling influence in many (formal) business sectors. In Vietnam, even though the economy is also characterized by a certain level of concentration, the influence of the large firms, including state-owned enterprises, is not as dominant, and the country has a much larger, more dynamic SME sector with links to foreign firms.

3. Due to the industry structure, limited political relations and thereby limited influence, the SME sector in South Africa, even though it constitutes the vast majority of firms, has in many cases been “marginalized”. Some sectors have shown more growth and expansion than others, but overall the SME sector has been somewhat stagnant and remains poorly organized. In contrast, Vietnamese SMEs have benefited more from the opening of the economy and—over time—have become more dynamic, in particular the segment of SMEs linked to export markets and/or foreign firms.

4. CSER in South Africa has developed without much government intervention (see also point 6), mainly led by the private sector. Due to historical particularities, the large businesses in South Africa contested the term “CSR” after the end of Apartheid in 1994. Large firms preferred the term “corporate social investment” (CSI), not wanting to be held “responsible” for Apartheid atrocities. Similar to Tran’s observations regarding Vietnam (see above in Section 2.1.1), Fig *et al.* investigated the influence of CSR in a large study, concluding that the impact was limited, mostly token in nature. They saw the voluntary nature of CSER as being a key reason for this,

[65] The requirements leading to Vietnam’s adhesion to the WTO in 2006 also pushed for a more developed economic legal framework. This includes a new enterprise law, effective July 2006, which centralized state control over all types of factory ownership in a market system: private, state-owned and foreign-owned. It oversees an expanding private sector and a shrinking state sector, and replaces all previous laws on enterprises.

hence arguing in favor of higher prominence for the State's role in these matters (Fig *et al.*, 2007, p. 3).^[66] And with the relatively closed nature of the economy, the CSR concept has taken a long time to gain ground. The lack of links to export markets and/or foreign firms has provided limited pressure to pursue CSR/CSI practices. In addition, the history of the '80s also developed a business culture predominantly focusing on "making a profit" in a very price-competitive environment.

In Vietnam, the concept of CSER has to a large extent been pushed forward by foreign institutions like the World Bank, the US government and MNCs. The Vietnamese government has been participating in this drive to promote and expand CSR. For example, the Ministry of Labour, Invalids and Social Affairs (MOLISA) worked with the ILO to conduct several preliminary studies on the impacts of CSR in Vietnam (more discussion of some recent findings can be found below).

5. In South Africa, SMEs have predominantly focused on the local market ("local" meaning the city and municipal setting, the province and the country [national market]). Few small firms used to have regional or international markets. Vietnam has followed a somewhat different trajectory, due to the growing business opportunities in the economy and the government intending to develop SMEs as an essential part of its development strategy, in which creating around 1.7 million new jobs for workers each year is key (ADB, October 2010).

6. Finally, the South African government has emphasized SMEs in a number of government papers, in particular as part of what is called the "Black Economic Empowerment" drive, but in reality has done little to support the SME sector. Hence, development since 1994 has been one of publishing many plans, substantial institutional reshuffling, and only really achieving some progress in the field of financial support to SMEs. Similarly, the South African government has done little on CSER (as mentioned above) apart from the Black Economic Empowerment drive (that some authors view as a "CSER initiative"). On the contrary, the Departments of Environmental Affairs and Tourism at national, provincial and municipal/metro levels have lost resources (in particular staff) over time. Accordingly, the potential of a strong state pursuing environmental improvements and implementation of CSER has not been realized; today, the situation resembles one of "typical" developing country standards (adequate, relevant laws and legislation in place, but only little or no enforcement). This has—along with limited market drivers—impacted the SMEs'

[66] Although the authors highlight the unique situation of SMEs, the Fig *et al.* study focuses on large South African firms, as do most of the studies on CSER in South Africa (see also Visser, 2006 and 2010). Fig *et al.* also recognizes that there is room for further analysis of CSER in SMEs in South Africa (2007, p. 10).

work and motivation to engage in CSER due to different drivers in comparison with (some) large firms.

Under increasing global corporate pressure and influence, the Vietnamese government has been participating in the promotion of a CSER initiative. Apart from the above-mentioned MOLISA-ILO studies about the impacts of CSER in Vietnam, the 2004 ILSSA (the research arm of MOLISA) study had some interesting findings on overtime violations in supplier factories. But overall, these studies focused on management interests, CSER services for MNCs and interviewed managers and staff only, not workers. As mentioned above, Tran (2011) found that when it came to delivering the promised labor standards of most Codes of Conduct, CSER in Vietnam is largely token in nature. The multilevel subcontracting nature of the global supply chain makes it difficult for monitoring to uncover code violations in supplier factories in the production chain, even when MNCs intend to adopt and comply with CSER practices. While the Vietnamese government has been promoting SME development, especially in rural areas, to alleviate poverty, create jobs and enhance entrepreneurship (Hansen *et al.*, 2004),^[67] the initiatives aimed at enhancing CSER among SMEs have been very limited.

Based on these—broadly described—contexts in which South African and Vietnamese SMEs operate and undertake (or do not undertake) CSER practices, we now turn to a more detailed account of the three sectors in each of the countries.

The agro-processing, textile, garment and footwear, and tourism industries in South Africa

The agro-processing industry in South Africa

South Africa's agro-food and beverage processing sector serves a population of about 51 million and is a significant component of the manufacturing sector (Ntloedibe, 2011). The sector accounted for 5% of total economic output in 2009, and contributes 18% of the manufacturing sector output (FoodBev SETA, 2011).

The agro-processing sector in South Africa is developed, highly concentrated and competitive. It consists of a relatively small group of large companies that produce most of the output and value added, and a large number of small and medium-sized

[67] Asian Development Bank (ADB) Media Center, October 18, 2010, "Reform Program Targeting SMEs in Vietnam to Deliver Jobs, Growth". Hansen, Rand and Tarp, 2004, *SME Growth and Survival in Vietnam: Did Direct Government Support Matter?*, Discussion Papers, Institute of Economics, University of Copenhagen.

enterprises producing mainly for local markets. The total income of R225,421 million in 2009 was distributed between the enterprises in the following proportions: large enterprises accounted for R204,621 million (91%), medium-sized enterprises accounted for R13,280 million, small enterprises for R4,413 million, and micro enterprises for R3,056 million. So, while SMEs in the food and beverage industry have increased their market share since 1996 and thereby increased their importance in the industry, their overall market share is still modest at 9% of the total (FoodBev SETA, 2011).

The sector is divided into several sub-sectors: canned and prepared meats; dairy products; canned fruits and vegetables; fish products; vegetables and animal oils and fats; baked products; sugar confectionery and cocoa; roasted peanuts and other nuts; coffee roasting, tea blending and packaging; animal feed; beverages such as distilleries and wineries; and soft drinks. It produces high quality and niche products for local and international markets. South Africa largely exports wine, citrus, grapes, sugar, apples and pears. Other important export products are avocados, pineapples, dates, and preserved fruits and nuts (Ntloedibe, 2011).

Agriculture accounts for 3.4% of GDP and 10% of total employment. The major agricultural activities are reflected in the substantial growth of the agro-processing industry (Swiss Business Hub South Africa, 2011). Despite the contribution of the agro-processing industry to the economy, employment has declined. The unemployment rate rose by 31.1%, according to the statistics from 2010 (AgriSETA, 2010). One of the big issues on farms, especially emerging ones, is unskilled or semi-skilled workers and managers and the lack of training. The challenge is partly explained by the fact that the sector relies largely on migrant and seasonal labor. Current legislation makes it difficult for farm managers to fire full-time contract workers, which explains the advantage of managers relying on the part-time employees. This in turn does not stimulate training of farm workers. Skilled labor declined by up to 5% from 1995 to 2008 (AgriSETA, 2010).

Wages in the sector are low in terms of unit cost (the ratio of the total cost of labor to the total value of output) and in relation to other labor groups in the economy (AgriSETA, 2010). Additionally, environmental concerns exist over insufficient availability of water, arable resources, sewage treatment, and insufficient control of contamination and waste, which signals lack of conservation and waste management training (FoodBev SETA, 2011).

The textile and garment industry in South Africa

The South African garment and textile industry covers a full range of products, including the production of natural and synthetic fiber, spinning, weaving, tufting, knitting, dyeing and finishing, and apparel manufacturing, including towels, bed linens and all kinds of clothing.^[68]

The garment and textile manufacturing industry is one of the major employers in the country, although employment levels have been dropping for a number of years. The majority of employees in the industry are women, who usually care for two more people (GEP, 2010). However, the industry has been under considerable pressure since the mid-1980s and the level of employment has declined a lot (Jeppesen and Barnes, 2011). The decline of the industry was intensified after 2002, as a consequence of the strengthening of the South African rand. Garment and textile manufacturers faced economic hardship as imports became relatively cheaper. At the same time local retailers could not absorb the excess supply of low value added products against the backdrop of import flooding (mainly from China and India) and when good quality imported products had faster returns. As a result, the local manufacturing industry entered into crisis, with factory closures and large-scale unemployment (GEP, 2010). Employment in the garment industry decreased from 70,500 jobs in 2003 to 55,000 jobs in 2006.^[69]

In spite of the government and the industry attempting to develop and implement various strategies in order to bring back the competitiveness of the local industry, the trend has continued with a drop in employment, although not as rapid a drop as before 2006. In 2009, employment in the textile industry was estimated to have dropped to just below 50,000.^[70]

Recently implemented regulations increased textile wages in the fiscal year through September by 6.5%, outpacing the 3.2% overall inflation rate. With wages rising twice as fast as inflation, clothing manufacturing factories are increasingly moving to low-cost neighboring countries such as Lesotho, Swaziland and Mozambique. Fifty-two clothing factories closed in the first half of 2011 in South Africa, according to the South Africa National Bargaining Council. The textile industry lost 7,826 jobs in 2011, which equaled 9% of the sector. According to some analysts like Ann Berstein, head

[68] SouthAfrica.info. 2009, viewed January 13, 2012, <http://www.southafrica.info/business/economy/sectors/textiles-overview.htm>.

[69] <http://www.textfed.co.za/>, Textile Federation, the official organization of South Africa's textile industry.

[70] Email communication with the Textile Federation <http://www.textfed.co.za/>.

of the Centre for Development and Enterprise in Johannesburg, part of the problem is that South Africa currently has labor law and regulations fit for wealthier countries (*The Wall Street Journal*, 2011).

Although a number of large companies closed down, there was an increase in the number of small and medium-sized enterprises (SMEs), specifically companies specialized in “cut, make and trims” (CMTs) (Ntombekaya, 2010). The Western Cape Province is considered to host part of the industry that handles more value added production than firms in the other major center in the province of KwaZulu-Natal. However, SMEs are facing constraints due to a lack of skills, technology and finance, as well as a lack of economies of scale (UN office of the Special Adviser on Africa, 2008). These factors impact the ability to meet increasing consumer demand for improved working conditions, environmental standards and other social responsibilities, which to an increasing extent are handed down from customers, in particular large South African retailers.

The tourism industry in South Africa

South Africa is one of the top 30 tourist destinations in the world. In 2010, arrivals amounted to around 8 million, including 27.5% from outside the African continent.^[71] Revenue generated by the tourist industry directly contributed 7.4% of GDP in 2009, of which the hospitality industry is a part.^[72] South Africa has various tourist attractions, ranging from cultural heritage to wildlife, wine, and adventure tourism. While some larger firms, mainly in the hotel segment, exist, SMEs dominate the industry.

The South African tourism sector currently employs 7% of the national workforce, which was estimated to be about 1.2 million people in 2010. The industry experienced a long period of growth from the mid 1990's until it peaked in 2010 when the FIFA Soccer World Cup took place in the country. In the aftermath of the World Cup, the global economic crisis hit the hospitality industry and the tourism industry as a whole, and has led to dwindling prospects for employment and business growth (SBP, 2011).

Tourism's ecological footprint is significant, particularly because parts of the tourism industry and its infrastructure are concentrated in biodiversity-rich areas (ARSCP,

[71] Statistics South Africa (2010), Tourism 2010, Report N° 03-51-02, <http://www.statssa.gov.za/publications/Report-03-51-02/Report-03-51-022010.pdf>.

[72] South African Government, <http://www.info.gov.za/aboutsa/tourism.htm>.

2009). The development of tourism often takes place on the back of loss of agricultural land, especially taking into account golf tourism, which has a negative impact on the environment by requiring large amounts of water to maintain courses and due to the use of fertilizers that affect surrounding ecosystems.^[73] Although the hotel segment has enhanced a number of CSER practices in order to encourage customers to minimize their resource consumption, no concerted effort has been made by either the industry or the government. According to some sources, small and medium-sized tourism enterprises often lack the financial and human resources necessary to implement sustainable tourism practices (ARSCP, 2009).

The agro-processing, textile, garment and footwear, and tourism industries in Vietnam

The agro-processing industry in Vietnam

Agro-processing is a large and growing industry in Vietnam. It is a very diverse sector which includes many types of food and drink products, ranging from agricultural processing (including vegetables, noodles, pasta), to meat (such as beef jerky) and cultivated aqua products (including seafood, fish sauce), to beverages (including water, juices, alcohol-based drinks, coffee, tea, milk products), to sugar-based products (including candies, dried fruits), and finally to baked goods (including cakes, bakery, pizza).

In general, there are very few statistical estimates for employment in these sub-sectors. For instance, the seafood processing industry plays an important role in Vietnam's total exports: seafood product exports ranked fourth in 2005 behind oil/gas, textiles/garments, and footwear. In 2000, over 700,000 people worked in cultivating aqua products, with about 80% of the processing factories located in southern Vietnam. The Mekong River Delta is claimed to be the largest fish pond in Vietnam (Dinh Duc Truong, 2006). The estimated statistics on the number of workers employed in the food processing industry in 2007 was 4.64 million people (VCCI, 2009). However, there were no recent statistics in the 2010 *Statistical Yearbook of Vietnam*.

Large firms control the dairy and confectionary (sugar and sugar-based products) factories, employing an estimated 1 million workers in the sugar factories alone. But in other areas, such as processing of fruits, vegetables, seafood and meats, beverage

[73] <http://www.environment.co.za/golf-courses-polo-fields-effects/the-impact-of-golf-estates.html>.

plants, and noodle production, micro, small and medium-sized enterprises dominate (VCCI, 2009).

While agro/food processing can have a positive effect on the Vietnamese economy in terms of value added exports (and arguably employment), labor and environmental concerns are growing. These include: the use of child labor in hazardous working conditions and excessive overtime for all workers, as well as the use of chemicals and workers' exposure to these chemicals. These are risks not only for workers but also for consumers' food safety, both domestically and globally. Enforcement of health and safety laws is spotty at best, making certification processes suspect (VCCI, 2009).

The textile, garment and footwear industry in Vietnam

The Vietnamese textile/garment/footwear industry is important in terms of both export and employment. Since joining the WTO in January 2007, Vietnam has become a major world exporter of textile/garment products, and was ranked 7th in world garment exporters in 2011 with exports reaching US\$13.5 billion. Among its export markets, the United States ranked first at over US\$6 billion, the EU came second at US\$1.8 billion followed by Japan at US\$1.2 billion in 2010 (Vneconomy, August 28, 2011; *Laborer* Newspaper, October 11, 2007).

Domestically, while textile and garment export values have risen over time and surpassed crude oil export and footwear, the value added accumulated in Vietnam has remained small because 70% of the inputs are provided by foreign corporate buyers and their suppliers (*Statistical Yearbook*, 2010, p. 459; M. Ha, *Laborer* Newspaper, January 20, 2010). The industry employed over 2 million workers in 2010 (*Statistical Yearbook of Vietnam*, 2011, p. 100). Most workers earn very low, not livable wages: on average, a little over US\$100 per month (VND2million), inclusive of bonuses for attendance and productivity (based on upward-adjusted production quotas). Workers have complained that the attendance bonus requires that they work all 26 days a month *plus* overtime. Even a day's absence due to illness will cost workers their attendance bonus (Ho Chi Minh City Labor Federation Survey, 2010; Vinh Tung, *Laborer* Newspaper, May 4, 2011). Therefore, strikes in textile and garment firms in Vietnam were largely a consequence of dissatisfaction arising from low wages, excessive working hours, inadequate overtime compensation, high productivity targets, fines, and inadequate benefits such as health and unemployment insurance, paid leave and meals (Tran, 2007; Kerkvliet, 2010).

Integration into the global economy has created at least three tiers. Tier 1 includes foreign corporate buyers and brand name holders who place orders with contract suppliers (Tier 2). Most Tier 2 suppliers are from East Asian countries (with Taiwan ranked at the top, followed by Korea, Hong Kong and Japan) that both produce and subcontract work to Tier 3 firms. Most Vietnamese-owned factories operate in tier 3, where most medium-sized and small subcontractors are found. The relationship between Tier 2 and Tier 3 producers is not always transparent, which prevents adequate monitoring of compliance with certified management systems/codes of conduct. Consequently, one would expect rampant violations of labor and environmental standards in SMEs. Moreover, due to this lack of transparency, the Tier 1 brand name holders and their Tier 2 suppliers are not held accountable for their promises in sourcing programs. Even when non-compliant factories (including Tier 2 suppliers) are publicly identified, brands are unwilling to take disciplinary action, and most brands refuse to share the costs with their suppliers of monitoring and remedying violations to their codes of conduct (Tran, 2011, p. 146).

The tourism (hotel and restaurant) industry in Vietnam

Accommodations and food service industries are subsets of the larger tourism industry, which includes diverse subgroups such as travel (from airlines to taxis) and recreation (beaches, sports, museums, zoos) along with other services for tourists/travelers. According to the World Travel and Tourism Council, total employment affected by the tourist sector will make up 8.2 percent of all employment in Vietnam by 2022. This includes employment by hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). It also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists (WTTC, p. 4). The 2010 preliminary estimate of the total workforce showed that over 1.71 million people worked in hotels and food services (*Statistical Yearbook of Vietnam*, 2010, p. 100).

Overtime work has been a major concern for workers, as has been the use of child labor especially in small family-run operations such as B&Bs. Environmentally, the increase in tourism has sparked the development of agricultural lands into hotels and resorts, many with golf courses which constitute a source of pollution from excessive use of chemical fertilizers. The lack of wastewater treatment systems throughout the hotel and restaurant business is an additional pollutant to the surrounding neighborhoods and local residents. Moreover, whenever food is involved, there have been issues with proper food handling (VCCI, 2009).

3.1.1. Basic information on the SMEs interviewed

The qualitative analysis is based on interviews with owners/managers and workers in 118 SMEs (58 in South Africa and 60 in Vietnam). All in all, 118 owners and managers and 347 worker representatives were interviewed (see Table 2).

Table 2 *Number of qualitative interviews with owners & managers and workers by country*

Respondents/Country	Owners/Managers	Workers
South Africa	58	47 (from 47 SMEs)
Vietnam	60	300 (from 44 SMEs)

Source: Authors.

The SMEs are almost evenly distributed across the three sectors (see Table 3).^[74]

Table 3 *Total number of SMEs interviewed in South Africa and Vietnam by industry*

Country/Industry	Agro-Processing	Textiles, Garments and Footwear	Tourism	Total
South Africa	17	21	20	58
Vietnam	20	20	20	60
Total	37	41	40	118

Source: Authors.

[74] The intent was to interview 20 SMEs in each sector in each of the two countries. However, for various reasons, in particular difficulties persuading SMEs to participate, only 17 SMEs were interviewed in the agro-processing sector in South Africa.

Furthermore, the distribution of interviewed SMEs by size and location is shown in Tables 4 and 5. In South Africa, 40% of the interviewed SMEs were small and 60% were medium-sized, while 55% were small and 45% were medium-sized in Vietnam. A majority of the South African SMEs were based in metro areas, while 21% were in non-metro areas. In Vietnam the distribution was roughly equal (approx. 46% in each location), while 8% did not provide this information.^[75] While most of the non-metro SMEs in South Africa were found in the agro-processing industry, none were found in the textile, garment and footwear industry and only a few in the tourism

Table 4 *SME size (small or medium-sized) by country*

M3 SME Size	Count	% within Country
South Africa		
Small	23	39.7%
Medium	35	60.3%
Total	58	
Vietnam		
Small	33	55.0%
Medium	27	45.0%
Total	60	
Total		
Small	56	47.5%
Medium	62	52.5%
Total	118	

Source: Authors.

[75] The intent was that the selected SMEs should be evenly distributed according to size and location. In each industry, 10 small and 10 medium-sized firms were to be interviewed as well as 10 SMEs in metro/urban areas and 10 SMEs in non-metro/rural areas. For various reasons, which are explained in depth in the Methodology section of the Appendices, the actual distribution ended up being different. In South Africa, the appointments with small firms did not materialize, so comparatively more medium-sized firms were interviewed. Similarly, due to Cape Town's location in South Africa, a higher number of SMEs in the metro area (79%) were interviewed compared to SMEs from non-metro/rural areas (21%) in South Africa.

industry (see Table 5). This reflects industry specificities (and differences) and the nature of the research site in South Africa. We should, however, also note that the distinction between metro and non-metro is difficult to uphold as urbanized areas are spreading and metro and non-metro areas are linked in an increasing number of ways.^[76]

Table 5 *Location of interviewed SMEs by sector and country*

Location/Sector	South Africa		Vietnam		Total	
	Count	% within Country	Count	% within Country	Count	% within Country
Agro-Processing						
Metro	7	41.2%	9	45.0%	16	43.2%
Non-Metro	10	58.8%	11	55.0%	21	56.8%
Total	17		20		37	
Textiles, Garments, Footwear						
Metro	21	100.0%	11	55.0%	32	78.0%
Non-Metro	0	0.0%	9	45.0%	9	22.0%
Total	21		20		41	
Tourism						
Metro	18	90.0%	10	50.0%	28	70.0%
Non-Metro	2	10.0%	10	50.0%	12	30.0%
Total	17		20		40	
Total						
Metro	46	79.3%	30	50.0%	76	64.5%
Non-Metro	12	20.7%	30	50.0%	42	35.5%
Total	58		60		118	

Source: Authors.

[76] See also the Methodology section in Appendix A for further discussion of the issue.

Furthermore, a majority of the South African SMEs (71%) have international customers and sell abroad, mostly to international customers (see Table 6). The majority (58%) of Vietnamese SMEs sell domestically, while 40% sell abroad and 2% did not state their market (see Table 6).

Table 6 *Distribution of markets (local, national and international) by country*

M5 Markets	South Africa		Vietnam		Total	
	Count	% within Country	Count	% within Country	Count	% within Country
Local (ward, city/metro, province)	10	17.2%	21	35.0%	31	26.3%
National	5	8.6%	14	23.3%	19	16.1%
Regional	2	3.4%	0	0.0%	2	1.7%
International	41	70.7%	24	40.0%	65	55.1%
Not Stated	0	0.0%	1	1.7%	1	0.8%
Total	58	100.0%	60	100.0%	118	100.0%

Source: Authors.

In addition to this information, the South African SMEs are characterized by:^[77]

- A majority of firms have “group” and/or “public limited” status;
- More than 55% have been in existence for more than 10 years (relatively experienced and consolidated in terms of doing business);
- The vast majority of employees are permanently employed, although an average of 11 out of 75 employees are casually employed;
- Average firm size is 75 people; and
- 66% have a turnover of approximately US\$359,000^[78] or more.

[77] See Tables SA.1-SA.4 in Appendix G for information.

[78] ZAR3million or more.

The Vietnamese SMEs interviewed are characterized by:^[79]

- A majority (73%) are “single-person and family-owned” firms;
- More than 63% have been in existence for more than six years (relatively experienced and consolidated in terms of doing business, though not as old as the South African SMEs);
- The vast majority of employees are permanently employed, and only an average of two out of 67 employees are casually employed;
- Average firm size is 67 people; and
- 33% have a turnover of US\$359,000 or more.

Finally, regarding the profile of the workers from the SMEs interviewed in the study, we can say the following. First, it is important to note that although we interviewed workers’ representatives from 91 SMEs (47 South African and 44 Vietnamese firms for a total of 47 South African workers and 300 Vietnamese workers), we could not interview workers at 13 South African and 16 Vietnamese SMEs. In particular, management of small South African agro-processing and tourism firms seemed unwilling to allow access to their workers. In Vietnam, the situation seemed somewhat similar, although management in the textile, garment and footwear industry was also somewhat reluctant to allow interviews with workers.

Second, while close to half of the South African workers interviewed earn a wage equivalent to the minimum wage and 20-25% earn more, almost all the Vietnamese workers earn more than the minimum wage (see Table 7). The Vietnamese figures are inflated, because overtime payments are included; in reality, therefore, the situation is different, as we shall see in Section 3.3 below. South African workers in the agro-processing industry in particular are only paid minimum wage, while workers in the textiles, etc. and tourism industries seem to earn more (see Tables SA.5 and VN.5 in Appendix G). Similarly, workers employed by small firms seem to receive less than workers employed by medium-sized firms (see Table SA.6 and VN.6 in Appendix G).

[79] See Tables VN.1-VN.4 in Appendix G for information.

Table 7 *Wage level (minimum wage or higher) by country*

M5 Markets	South Africa		Vietnam		Total	
	Count	% within Country	Count	% within Country	Count	% within Country
Minimum Wage	7	12.1%	0	0.0%	7	5.9%
Higher	40	69.0%	50	83.3%	90	76.3%
Mixed	41	19.0%	1	1.7%	12	10.2%
Other	0	0.0%	4	6.7%	4	3.4%
Not Stated	0	0.0%	5	8.3%	5	4.2%
Total	58	100.0%	60	100.0%	118	100.0%

Source: Authors.

Third, the vast majority (97%) of the South African workers work overtime (see Table 8). While a bit more than a third of workers do this weekly, the majority (55%) only work overtime seasonally or rarely (see Table SA.7 in Appendix G). Among the Vietnamese workers, overtime work is less prevalent. Still, more than two thirds or around 70% do work overtime (see Table 8), and more than 60% do so at least every week (see Table VN.7 in Appendix G).

Table 8 *Overtime work by workers by country*

M34 Overtime	South Africa		Vietnam		Total	
	Count	% within Country	Count	% within Country	Count	% within Country
Work						
Yes	56	96.6%	42	70.0%	98	83.1%
No	2	30.0%	18	30.0%	20	16.9%
Total	58	100.0%	60	100.0%	118	100.0%

Source: Authors.

3.1.2. Presentation of qualitative findings – structure

We have structured the presentation and analysis of the data in Sections 3.2 and 3.3 by first providing the findings on three aspects: knowledge and perception of CSER, the main formal CSER practices, and informal CSER practices. This gives us the foundation to answer how SMEs engage or do not engage in CSER practices in the three selected sectors—(a) agro-processing, (b) textile, garments and footwear, and (c) services/tourism (B&Bs, lodges and hotels)—in South Africa and Vietnam. Then we outline the findings on internal and external factors (relations between management and workers, and the relations to and influence of stakeholders on SME profitability, as well as the influence of the context such as history, culture, industry and other factors). Based on this information, we address why SMEs in the three sectors engage or do not engage in CSER, which sheds light on what CSER means to SMEs.^[80]

3.2. The meaning of CSER for SMEs in South Africa

How SMEs in South Africa engage or do not engage in formal and informal CSER practices^[81]

We start out with knowledge and perception of **company responsibilities** among managers and workers.

In terms of knowledge of the concept of CSER among managers and workers, 76% of the owners and managers had heard of CSER, while nearly a quarter had not. In contrast, 5% of the workers knew CSER. Given that CSER has featured in almost every magazine, newspaper, etc. in recent years, a relatively high percentage of managers did not know the term—and obviously a very high percentage of workers. We also note that this knowledge was higher among managers of agro-processing SMEs and lower among managers of tourism SMEs. Furthermore, the managers of small firms were less aware of the CSER concept than managers of medium-sized firms. About 60% of the managers of small firms knew it (meaning that 40% of the managers did not), while 86% of the managers of medium-sized firms did.^[82] To

[80] With reference to the structural context: historical, social, political, economic and cultural factors. This information stems from Section 3.1 and the quantitative questionnaire answered by the managers (questions 73-77).

[81] Knowledge of CSER and understanding of responsibilities (relating to questions 10-16 in the qualitative interview framework for managers and workers in South Africa).

[82] See Tables SA.8-SA.10 in Appendix G.

some extent, this reflects the higher frequency of medium-sized firms in the former sector and lower frequency in the latter.

All SME managers and workers acknowledged their or the companies' responsibilities with regard to the environment, the working environment (occupational safety and health), and labor standards/working conditions. Looking at understanding of their social and environmental responsibilities as regards the sectors, the only significant difference concerned responsibility for suppliers. While 90% of tourism and 81% of textile managers felt responsible for their suppliers, only 53% of agro-processing managers did. A similar level of understanding is found among workers, although slightly fewer workers than managers recognized such responsibility.^[83]

When the SMEs stated their views on economic responsibilities compared to social and environmental responsibilities, economic responsibilities had more weight. While most agro-processing and textile SMEs named "profit" (71% and 52%) as most important, the majority of tourism firms perceived "quality" as most important (60%). As regards "corporate citizenship" (as an expression of CSER) almost half of the textile and agro-processing firms stated that being a "corporate citizen" was their company's most important responsibility (48% and 47%) compared to only 25% of companies in the tourism industry. Similar differences existed among the workers. Nearly two thirds of the workers in the tourism industry stated "quality" as the most important responsibility, while about 30% saw "profit" and being a "corporate citizen" as most important. In contrast, half of the textile and garment workers stated being a "corporate citizen" as the key responsibility, albeit closely followed by both "profit" and "quality" (45% each). In agro-processing, nearly half of the workers viewed "profit" and "quality" as key responsibilities, while being a "corporate citizen" was only stated by 8%!^[84]

The managers across the sectors stated "profit" (50%) and "quality" (38%) as the main responsibilities. In contrast, 40% of the managers stated "corporate citizenship" as the most important responsibility. Though some differences were found between managers of small and medium-sized firms, the differences were limited.^[85] Interestingly, being a "corporate citizen" was ranked as second most

[83] 57% of the workers compared to 76% of the managers. See also Tables SA.11-SA.14 in Appendix G.

[84] See Tables SA.15-SA.18 in Appendix G for information.

[85] Managers from medium-sized firms perceived "profit" as most important (57%), in small firms it was perceived as second most important (39%). Regarding "quality" the difference were more significant with 48% of small and 31% of medium-sized firms stating that this responsibility was the most important.

important by medium-sized SMEs (46%), while it was ranked fourth by small firms (30%). Moreover, 35% of small firms stated “other responsibilities” compared to 14% of medium-sized firms. Among all the workers, “quality” was stated as most important (51%), while 40% mentioned “profit” and 32% being a “corporate citizen.”^[86]

In sum, overall South African managers were aware of the CSER concept, but a quarter of all managers and nearly 40% of the managers of small firms did not know the concept. While the workers similarly recognized formal CSER responsibilities, very few knew the concept of CSER. Nevertheless, all managers and almost all workers recognized their formal CSER responsibilities in terms of the physical environment, working environment and labor standards/working conditions. Nevertheless, traditional business parameters (like profit and quality) were perceived as being more important than CSER practices among managers and workers. Only among workers from the textiles and garment industry was being a “corporate citizen” said to be a more important responsibility than profit and quality.^[87]

In regard to the responsibility of “other parties”, nearly all medium-sized SME managers and workers were of the opinion that “other parties” were responsible too, while 83% of the managers of small firms agreed. Minor differences could be seen between sectors, with all agro-processing managers seeing the responsibilities of other parties and slightly fewer managers within the tourism and textile industries stating the same (95% and 86%).^[88]

We now turn to the **formal and informal CSER practices** undertaken by South African SMEs. We first outline **formal CSER practices**. This includes responsibilities for the physical environment, the working environment and labor standards/working conditions, as well as practices dealing with the use and handling of energy, water and waste as part of the physical environment. These aspects of CSER practices can be termed “firm-internal” aspects. We then outline the findings regarding other aspects that are also recognized as formal CSER practices in the literature, such as whether SMEs have certified management systems and codes of conduct or produce CSER reports. These aspects of CSER are more firm-external answering to various stakeholders like customers, government and/or NGOs. We shall discuss informal CSER practices after dealing with formal practices.

[86] See Tables SA.16, SA.17. and SA.19 in Appendix G.

[87] We might want to draw in the answers to questions 59-69 in terms of the influence of stakeholders, questions 70-71 on most important/least important areas, and question 72 on role of different areas.

[88] See Tables SA.21-SA.23 in Appendix G.

Regarding the working environment, 64% of the managers stated that they had working environment issues, while 70% of the workers were of a similar opinion. There was a noticeable difference according to size as 39% of the managers of small firms stated they had working environment issues compared to 80% of the managers of medium-sized firms. 77% of all managers found working environment issues to be “significant” or “somewhat significant”, with 80% of the medium-sized firms sharing this view compared to 48% of the small firms. So, in conclusion, the small companies stated that they had fewer working environment issues and found those working environment issues to be less important.^[89]

Almost all agro-processing SMEs reported having working environment issues (88%). Among textile firms, 71% of the managers stated they had such issues, while only half as many tourism firms did (35%). Accordingly, within each agro-processing and textile SME, the impact of the working environment was rated as “somewhat significant” or “significant” by 76%. In comparison, fewer (but still half) of tourism SMEs stated the same (50%). Almost two thirds had company procedures for handling OHS issues, compared to 52% of textile and 41% of agro-processing SMEs. At 41%, agro-processing SMEs made up the largest share when it came to following government OHS regulations, followed by textile and tourism firms (33% and 20%).^[90]

The largest share of SMEs that register accidents could be found in agro-processing (88%), followed by textile and tourism firms (76% and 65%). The same ranking held true regarding health checks, with 65% of agro-processing and 62% of textile SMEs answering the question positively. Interestingly, only 15% of firms operating within the tourism industry reported doing regular health checks.^[91]

Finally, in regard to working conditions, only 19% considered them to be an issue (23% of medium-sized firms *versus* 13% of small firms). Wages were the key issue but health benefits, overtime payments and “other”^[92] were also of some importance.^[93]

[89] Just over 53% stated that they had company procedures for handling OHS issues, although 74% of small firms did compared to 40% of medium-sized firms, while 31% said that OHS procedures were due to government regulations (9% of small and 46% of medium-sized firms). 76% register accidents, while 47% do regular health checks—again with a larger share of medium-sized SMEs (89% and 74% respectively) and a smaller share of small SMEs (57% and only 4%). See Tables SA.24-SA.28 in Appendix G.

[90] See Tables SA.29-SA.31 in Appendix G.

[91] See Tables SA.32-SA.33 in Appendix G.

[92] 67% of the managers from small firms answered “other”. See Tables SA.34-SA.36 in Appendix G.1.

[93] Overtime work took place in almost all SMEs (97%) (see Table 8 in the report): 52% seasonally/seldom/other, 11% every month or quarter, and 36% every day or week (Table SA.7 in Appendix G). In 86% of the SMEs with overtime work, overtime payments were made, while overtime was not paid in 14% of the firms. In nearly three quarters of the SMEs, overtime work procedures followed government regulations while 13% followed their own procedures and 13% did not answer (see Tables SA.37-38 in Appendix G).

Looking at more specific formal CSER practices regarding waste, water, the working environment and working conditions, the vast majority had a set of practices in place to handle waste, water and energy as well as OHS issues and working conditions. A high percentage of the managers stated that they monitor energy (89%), water (85%) and waste (70%), while slightly fewer of the workers said the same. The majority of the managers stated that they had initiated monitoring (or “done something to reduce” it) more than two years ago. Out of 50 respondents, 46% said that water usage had increased over the past five years, 54% said that energy consumption had increased, and 32% that the amount of waste had increased.^[94]

We further asked about the number of SMEs that had certified management systems and/or codes of conduct and/or produced CSR reports.^[95] 50% of the managers stated that they had a certified management system, while the other half did not. In contrast, only 17% of the workers stated this. Clearly, many workers lacked knowledge of this, as nearly two thirds either did not reply or replied “not sure”. Agro-processing SMEs accounted for the majority of the SMEs that had a system in place (88%), compared to 45% of textile and 24% of tourism firms that reported adhering to a certified management system. A higher percentage of managers from medium-sized firms stated this (60%) than managers from small firms (35%).^[96]

More than two thirds of the managers reported adhering to a code of conduct (69%), while less than a third claimed not to (29%). Here, nearly 60% of the workers gave the same reply, although still more than a third did not know or did not reply. Most of the companies adhering to a code of conduct operated within the agro-processing and textile and garment industries, where 77% and 76% respectively complied with a code of conduct. Within tourism, 55% of the interviewed managers stated they had implemented a code of conduct. Again, medium firms represented a larger share of companies that had a code of conduct, at 86% compared to 44% of small SMEs.^[97]

[94] See Tables SA.39-SA.48 in Appendix G. The majority (68%) used their own procedures for handling these aspects while 14% followed government regulations and 16% stated that the procedures were a mix of their own and government procedures (Table SA.49).

An interesting observation is that 55% still found the environmental impact of the firm to be “insignificant” or even “very insignificant,” while 26% found it to be “average” and 19% “somewhat significant” or “significant” (Table SA.50 in Appendix G). This is something to look into further. See, for instance, Lepoutre and Heene (2009) for a discussion of the topic.

[95] As mentioned above, what we can dub the “firm-external” aspects of formal CSER practices.

[96] See Tables SA.51-SA.54 in Appendix G.

[97] See Tables SA.55-SA.58 in Appendix G.

Less than a third of the managers reported producing CSR reports. However, the majority of the SMEs (69%) did not produce such reports. Also in this area, most of the workers (almost 70%) did not know or were not sure if the company produced such reports, while 9% stated that the firm did. Again, these practices were more widespread in the agro-processing industry than in the other two industries. Almost half of the agro-processing companies prepared CSR reports (47%), representing the largest share of companies producing reports. Tourism SMEs followed with 25% stating that they produced CSR reports, while fewer textile and garment firms stated the same (19%). Again, a relatively higher percentage of managers from the medium-sized firms reported doing so in comparison with those from small firms (40% versus 13%).^[98]

In sum, regarding formal CSER practices, we found that the majority of SMEs undertook such practices. Most SMEs stated that they had issues to deal with regarding the physical environment and the working environment, while fewer stated that they had issues to deal with in the area of labor and working conditions. The highest number of SMEs have undertaken initiatives to reduce energy and water consumption. Adherence to codes of conduct was also reported by a majority of SMEs, while fewer SMEs reported having certified management systems and producing CSER reports. The highest percentages were reported by agro-processing SMEs, while the textile/garment and tourism SMEs reported lower levels of formal CSER practices, apart from adherence to codes where textile firms stated the highest level. Differences, at times significant, between medium-sized and small firms existed as medium-sized firms stated they had a higher level of formal CSER practices than small firms.

Turning to ***informal CSER practices,*** we asked whether the SMEs provided loans to employees, allowed workers time off for special family events (weddings, funerals and visits to hospitals) (termed “informal assistance”), gave money and/or donations to charity (the local community,^[99] sports clubs, cultural clubs and/or religious institutions), and whether management and/or workers were involved in community work.

We found widespread informal CSER practices, some of which were undertaken by all interviewed SMEs according to both managers and workers, such as providing loans to workers and allowing different types of leave (sick, family events).

[98] See Tables SA.59-SA.62 in Appendix G.

[99] It should be noted that the legislation stipulates that firms that adhere to this are obliged to offer 30 days of paid sick leave every three years.

Furthermore, we also saw a large number of different informal practices covering loans to the workers, sick and parental leave, leave for family events, donations (money and other contributions to charity [to a variety of organizations]) and other.

Nearly all managers (95%) were involved in community work, while a quarter of the workers were, according to the managers. Among the workers, the majority stated that their management did engage in community work (62%), while 38% did not answer the question. One in five South African workers stated that they were involved in community work, while nearly twice that many were not. Again, nearly 40% did not answer. While the involvement among managers was equally distributed among small and medium-sized firms, a higher percentage of workers from medium-sized firms (31%) were involved compared to workers from small firms, where 13% were involved. A high level of informal CSER practices was reported across the three industries, with the agro-processing and tourism industries stating slightly higher levels of practice than the textile and garment SMEs.^[100]

Thus, informal CSER practices exist in South African SMEs in a variety of forms. Some of the informal practices are very widely used across industries and firm size, according to the statements of managers and workers. Managers are to a large extent involved in community work.

How SMEs engage or do not engage in CSER in the three sectors in South Africa

The agro-processing industry had the highest levels of knowledge and practices on almost all accounts. For instance, the vast majority (88%) of agro-processing firms knew the term CSER. Again, the level of knowledge was higher among medium-sized firms (where 93% knew it) than among small firms (67%). Similarly, a vast majority (88%) of agro-processing firms in South Africa had implemented certified management systems; in terms of informal practices, the sector also had the highest level of practices, although this was only marginally higher than in the other two industries. For instance, more than 80% of the agro-processing firms stated that they provided loans to workers and all firms said that they provided sick/parental leave.^[101]

[100] See Tables SA.63-SA.69 in Appendix G.

[101] See Tables SA.9, SA.37, SA.53 and SA.70-SA.72 in Appendix G.

71% of the managers of the textiles and garment firms knew the term CSER. Here, too, we found a higher number (87%) of medium-sized firms stating that they knew the term compared to 33% of small firms. When it came to formal CSER practices, we saw considerable differences in practices. While 76% of the textile firms adhered to codes of conduct, only about a quarter of the textile and garment firms had implemented certified management systems. This reflects the importance placed on codes of conduct by customers. As South African retailers have followed the international trend and often require suppliers to adhere to codes, this has spilled over to textile and garment SMEs. Still, about 50% of the medium-sized SMEs also have international customers. Also among the textiles and garment firms, we found widespread informal CSER activities. 91% of the textile and garment firms provided sick/parental leave, and the management of 71% of the textile firms provided loans.^[102]

The tourism industry still differs from the other two sectors as more small firms than medium-sized firms stated that they knew the concept of CSER. Still, we found a generally lower level of knowledge of the term CSER (70%) and of CSER activities among tourism firms compared to agro-processing firms in particular and, in many cases, textile and garment firms. This can to some extent be explained precisely by the relatively low share of medium-sized firms in the tourism industry compared to the other two industries.

Regarding formal practices, 55% of tourism industry firms adhered to a code of conduct, and 45% of tourism industry firms had implemented certified management systems. When it came to informal CSER practices, the tourism industry was on par with the other two industries. For instance, 95% of tourism industry firms provided sick/parental leave, and management provided loans in nearly two thirds of the tourism industry firms.^[103]

Internal and external influences on SMEs' CSER practices^[104]

Although the relations between management and workers do not have a direct impact on CSER practices, this relationship is crucial to the atmosphere in an SME. If relations are good and conducive for both sides, it is easier for management and workers to agree on a joint way of running the firm, including what to do in terms of

^[102] See Tables SA. 9, SA.53, SA.57 SA.70-SA.73 in Appendix G.

^[103] See Tables SA9, SA.53, SA.57, SA.70-SA.72 in Appendix G.

^[104] Questions 43-50 in the intensive interview framework.

CSER practices. If relations are bad and non-conductive, these relations are constraints and agreement is much more difficult to establish. Hence, the relations are important to deepen understanding of how and why certain practices are conducted and perceived as stated by both sides. Other important elements for these relations are to what extent management acknowledges workers' rights to collective bargaining and workers' representatives in unions (whether independent or state-run). Accordingly, this section also provides information on these issues.

Furthermore, if we compare the data to the answers on the relationship between management and workers (from both sides) and the workers' replies on the aforementioned issues, we find that management rated the relationship to workers positively. 96% found it to be either "very good" or "good" and this response was evenly spread among small and medium-sized firms. More than three quarters of the workers evaluated the relationship between management and workers as "good" or even "very good" (77%). Only 4% saw the relationship as "bad" and 15% saw it as "neutral". 85% stated that they undertook activities to strengthen the relationship, slightly more among medium-sized (89%) firms than among small firms (78%). In 60% of the companies, the workers reported that the management undertook activities to strengthen the relationship between management and workers. 32% of the workers stated that their company did not undertake any such activities, and 9% did not respond.^[105]

It is also important to view informal practices as influencing the relationship between management and employees. So, without such practices and their widespread application, the relationship between management and workers would probably not be seen to be as positive as it had been. In addition, the impact of CSER on performance (and maybe even competitiveness) would be reduced (we will return to this issue in the next section). Historically, it has been a tradition for a number of companies to undertake these informal practices. However, after the coming of democracy, and in particular the state not assuming elaborate social responsibilities, an increasing number of companies have engaged in this and taken on such social responsibilities. Informal CSER practices were not part of a strategic approach to CSER or consciously (closely) related to business motives. In some cases, they were also ad hoc. Still, they did express a change in firms' understanding of "social responsibilities" in South Africa.

[105] This is, however, a place where it is interesting to compare the size of the companies (small/medium). In small companies, is the percentage of workers who answer "(very) good" larger than in medium-sized companies? See also Tables SA.74-SA.78 in Appendix G.

The observations concerning the relationship between management and workers also have to be viewed in light of the information on collective bargaining and freedom of association. 52% of management stated that unions were established at the firm, a figure that fits the statements by workers. In addition, 69% of managers and nearly 80% of workers said that union activities were allowed on premises, some 43% replied that collective bargaining took place, and 29% that workers took part in tripartite bargaining.^[106] So, unions seemed to have a minor role for SMEs, which was confirmed in the quantitative section as most managers viewed the unions as being “least important for sales and competitiveness”. In any case, unions in South Africa have traditionally had lower unionization levels in SMEs than in larger firms. This could be due to the high level of informal CSER practices undertaken by management; however, the conflictual relationship between employers and unions may also influence the situation.

As noted in Section 3.1, we also encountered some challenges when trying to interview workers. First of all, many managers needed an elaborate explanation as to why we wanted to interview workers. In a high number of cases, the final acceptance was only given after the managers had been through the qualitative interview. Only at this stage did the managers know the content and feel confident in allowing this. Second, in a number of cases, interviews were not allowed. This mostly happened in small firms in the agro-processing and tourism industries. It illustrates the somewhat constrained relationships that continue to exist between management and workers in a number of SMEs in South Africa, even 18 years after the abolishment of Apartheid and the coming of democracy. The inability to interview these workers may also have had an influence on the findings on management-worker relationships and may have led to a bias toward a “more positive” relationship than if these viewpoints had been included.

We asked the SMEs about what kind of influence various stakeholders such as government, suppliers, customers (other firms or private individuals), international organizations, trade unions and NGOs as well as the workers (as internal stakeholders) had on the firms’ profitability. Our inquiring about the influence on profitability in contrast to the influence on CSER practices was due to the assumption that if an actor influences profitability, the same actor will also have an influence on CSER practices.^[107]

[106] See Appendix G, Tables SA.79-SA.86.

[107] 91% saw “customers” as “very influential”, 79% found “workers” to be similarly influential, 67% stated “suppliers”, and 26% and 21% saw “NGOs” and “government” as “very influential” followed by “local communities” 17%, “unions” 7% and “international actors” 5%. See Tables SA.87-SA.94 in Appendix G.

“Customers” and “workers” were stated to be very influential by South African management. Also, suppliers were similarly perceived as influential by a large number of people in management, while the “government” was seen as less influential.^[108]

A majority of South African owners and managers (55%) found that actors’ influence had increased over the past five years, and nearly three quarters expected the influence to grow in the next five years. A smaller percentage of South African workers (43%) stated an increase in the influence of these actors during the period, while just short of half stated no change. About half of the workers expected the influence to grow in the next five years, while a third did not, and one in five was not sure.^[109]

Why SMEs in the three sectors engage or do not engage in CSER

Here, we present our observations along with the answer to the question of why SMEs engage or do not engage in CSER in each sector.

First, a general and important observation is that CSER practices among South African SMEs have changed and increased—at least to some extent—according to management. More interestingly, formal practices in particular are the ones that have changed over the last five years, while three quarters have experienced an increase—substantial for most, slight for a few—in external/physical environmental practices. Fewer have seen increases in the amount of CSER practices dealing with the working environment (42%) or working conditions and standards (54%). Importantly, a few have experienced decreases.^[110]

One explanation could be that the payback time on changes (and improvements) in physical environmental practices in terms of money and (potentially) competitiveness is apparently shorter than the payback time on improvements in working conditions, for example. In the current economic crisis, job losses, especially in the tourism sector in South Africa, are critical. However, the majority of the companies seem to follow labor legislation, but the current (job-competitive)

[108] As stated in the footnote above, only about one in five SMEs viewed “government” as very influential. This is less influential compared to NGOs (26%) and just slightly higher than “local communities” (17%).

[109] See Appendix G, Tables SA.95-SA.98.

[110] Note, however, that the largest single category of replies was owners and managers stating “same” (or no changes). See also Tables SA.99-SA.101 in Appendix G.

market conditions do not push them to exceed CSER practices regarding labor/working conditions beyond their legal obligations.

Changes in informal practices were smaller than changes in formal practices. This is due to the tradition of these practices, which have been well established for a number of years, although some are of more recent nature.^[111] This explains why a substantive share of the firms had not experienced changes, while “only” 20-30% of the SMEs reported increases in the amount of practices such as donations to charity, sports clubs, churches and temples, and “other”.^[112]

That said, the reasons for engagement or non-engagement can be attributed to the situation in the sectors. Each of the sectors has its unique conditions in terms of the importance of market-driven relations. Among agro-processing firms, management highlighted “customers” (88%), “suppliers” (82%) and “workers” (77%) as the most influential actors. This reflects these SMEs’ high number of foreign customers and their reliance on suppliers and workers to meet their customers’ standards and quality requirements. Another area where clients’ influence is clear is labor conditions, where nine out of 10 agro-processing firms stated “pressure from clients”. In comparison, less than eight out of 10 textile firms and only half of the tourism firms stated this.^[113]

Among textile firms, “customers” and “suppliers” were rated as equally influential (by 91% of the managers), while “workers” were listed by 86%. This indicates the major role of suppliers in the industry—often consisting of larger firms supplying SMEs. Although “unions” were stated as the least influential actors, nearly 40% of the textile and garment firms stated that they were influential, compared to none of the tourism SMEs. In contrast, “suppliers” were not influential according to the managers of tourism firms, while “customers” and “workers” were said to be influential by all tourism SMEs!^[114]

We also found that the “market” (and whether SMEs sell to domestic or foreign customers) mattered to some extent with regard to CSER practices. We saw a relatively clear relationship between the market and the level of formal CSER

[111] Like medical support, such as for HIV/AIDS testing and/or medication.

[112] It should also be mentioned that while a majority of the managers did not provide an answer, this could also imply that such changes were not recorded or were difficult to assess. See Table SA.102-SA.105 in Appendix G.

[113] It should be noted that the response rate was relatively low for this question. And workers tended to state less pressure from clients in this field. See Appendix G, Tables SA.106-SA.109, and SA.110-SA.117.

[114] See Tables SA.110-SA.117 in Appendix G.

practices (certified management systems, codes of conduct, and producing CSER reports). This was the case for all three sectors and for small and medium-sized firms. SMEs with international markets had a much higher tendency to have these CSER practices compared to the ones that had local markets. In addition, age seemed to play a role as well: the older SMEs (measured as 10 years old or more) had a greater tendency to have such formal CSER practices compared to SMEs that were less than 10 years old.^[115] This shows the relationship between sector, size, market and other factors. It was not possible to establish a causal relationship in this regard as it was not possible to explore this more deeply, but this provides important considerations for further studies and policy.^[116]

The agro-processing industry

When we try to explain these practices, a number of factors seem to be at work. First, more than three quarters (77%) of the firms in the agro-processing industry have international customers, so one can expect that a certain amount of pressure will be channeled through supply chains. Accordingly, the agro-processing industry is heavily reliant on positive publicity. Particularly for wineries, public image is an important—and sensitive—issue after the legacy of, for instance, paying employees in alcohol and thereby negatively impacting the community. This explains why a high percentage of SMEs view clients as applying pressure in the area of working conditions.^[117]

Secondly, most of the interviewed firms were medium-sized, while few (20%) were small. Given that medium-sized firms in South Africa in general display a higher level of knowledge and (formal and informal) practices than small firms, this was important for the figures recorded. We shall discuss this further in relation to the importance of size.^[118]

When it comes to other factors (relations between management and workers, changes over time, and external pressure), we did not see differences between agro-processing and the other industries. However, it is important to note the positive

[115] In Vietnam, this does not seem to be the case, apart from some indications on codes of conduct where SMEs with international markets have a higher tendency to have codes compared to SMEs with only local markets—and it mainly/only holds for the textile/garment/footwear sector. It is not related to size, and age does not seem to play a role.

[116] See Tables SA.118-SA.129 in Appendix G.

[117] See Tables SA.130 and SA.107 in Appendix G.

[118] See Table SA.132 in Appendix G.

assessment of the relations between management and workers by both sides since a high level of satisfaction with relations between management and workers must be expected to contribute to the uptake of CSER practices.

The textile and garment industry

The sector differs from the other two by being more domestically-oriented in terms of customers or, put differently, by having a relatively low level (38%) of international customers. Here, more medium-sized firms (47%) than small firms (17%) have such customers.^[119] On the other hand, the sector is known for a number of large retailers, who to an increasing extent have formulated codes of conduct to which their suppliers (small textile and garment firms) must adhere. Additionally, as mentioned above, SMEs' suppliers also have quite a bit of influence in this industry as the suppliers tend to be large, often international firms with high standards and considerable knowledge. This in turn spills over to the SMEs.

Interestingly, age also seems to have an influence on the level of formal and informal CSER practices. The level of social responsibility appears to vary depending on how long the company has been in existence. The majority of old companies that have been established for more than 15 to 20 years have realized that practicing CSR is not only efficient for profits but also contributes to a long-term vision and reputation. Some companies that save on REC or reusing material and energy also use the saved money for community enhancement.^[120]

The tourism industry

It is important to note that a larger percentage of the interviewed SMEs in the tourism industry than in the other two industries were small firms (70%).^[121] Part of the explanation for the findings also rests with customer relations. All tourism firms have international customers and therefore need to live up to international standards, including a certain level of CSER practices.

Additionally, hotels are also dependent on the community where services are provided. They are much more open to public concerns than the food or textile industries. Hotels are close to the community and rely on "word of mouth". In

[119] See Table SA.131 in Appendix G.

[120] The examples found include, for instance, bonuses to employees, training, donations to schools and renovations within the company and surrounding urban area, among other things.

[121] See Table SA.132 in Appendix G.

addition, one of the factors influencing tourism companies' decisions to practice CSR is having corporate clients. Corporations demand certain standards for their representatives.

Analyses of the differences between small and medium-sized firms

As mentioned in the above, we found that CSER practices among SMEs in South Africa varied according to size, as medium-sized firms stated that they undertook more CSER practices than small firms. On almost all accounts presented above, medium-sized firms showed higher levels of knowledge and more practices (whether formal or informal). On knowledge of CSER, 61% of the managers of small firms know the term, while 86% of the managers of medium-sized firms did. In contrast, very few workers in both small and medium-sized firms knew the term.^[122]

While one third of the small South African SMEs had implemented certified management systems, 60% of the medium-sized firms had done so. When it came to adherence to a code of conduct, we found more marked differences. 44% of the small firms stated that they adhered to one, while 86% of the medium-sized firms did, according to the managers. It is noticeable that the knowledge of codes of conduct was much more widespread among workers than knowledge of certified management systems and whether the SMEs produced CSER reports. Implementation of codes seems to have been much more visible to workers than the other two formal CSER practices.^[123]

In terms of informal CSER practices, we did not find particular differences among small and medium-sized firms.^[124] For example, regarding the amount of loans provided by management, 74% of the managers of small firms stated that they provided such loans while 71% of the managers of medium-sized firms did. When it came to sick/parental leave, we found some—albeit small—differences between South African SMEs, as 87% of the managers of small firms said that they allowed this, while 100% of the medium-sized firms did.^[125]

[122] See Tables SA.9 and SA.133 in Appendix G.

[123] See Tables SA.52, SA.54, SA.56, SA.58, SA.60 in Appendix G.

[124] Also, in the quantitative section, we found a similar pattern. Yet, when it came to improvements in working conditions, a higher percentage of the managers of the small firms reported improvements compared to the managers of medium-sized firms.

[125] Appendix G, see Table SA.134.

These differences according to size are related to factors such as (a) market relations, since more medium-sized firms have customers in foreign markets than small firms, (b) age, since it seems that older firms undertake more CSER practices than younger firms (and here too the majority firms 10 years old or older are medium-sized firms), and (c) the industry. This is interesting because it raises the question of whether the “level of informality” drops as a company grows or, put differently, whether the level of formality increases as the company grows.

In conclusion, answering the first research question with reference to size, South African SMEs can be said to engage or not engage in formal CSER practices in the following way:

It is mainly the medium-sized firms—which simultaneously often have international customers and are older than the average SME—that have a high level of formal (and informal) CSER practices. This includes a high level of practices in the areas of the physical environment, the working environment and working conditions. In particular, attention was on the physical environment, including energy and water consumption, although the figures tend to illustrate that most firms changed practices some time ago. The findings, nevertheless, highlight the emphasis on resource usage due to rising water and energy prices over the last 10 to 15 years.

The relatively more limited emphasis on the working environment needs to be viewed in relation to an Occupational Health and Safety Act that has been in place for over 20 years. Hence, this is an area in which many SMEs have engaged for a longer period of time. Furthermore, physical environmental issues are less contentious than labor/working conditions, in particular wages and relations with unions. Given the history of conflicts, it was surprising that labor/working conditions were stated to be of somewhat limited importance. Although unions were recognized by a majority of SMEs and accepted on the premises, we clearly found (a) more practices among medium-sized firms, as only 22% of the small firms did so, and (b) more prevalence in the textile and garment industry and the agro-processing sector, while only 25% of tourism SMEs recognized unions (compared to 71% textile and 59% agro-processing firms).^[126]

The selection of SMEs did not provide a division of firms according to location, that is to say among SMEs in metro and non-metro areas. While the agro-processing firms were located mostly in non-metro areas for natural reasons, the textile and

[126] In Appendix G, see Tables SA.135-SA.138.

garment firms and the tourism firms were located in metro areas. Accordingly, it was not possible to investigate whether location had an influence on the meaning of CSER for SMEs in South Africa.

3.3. The meaning of CSER for SMEs in Vietnam^[127]

As mentioned above, we structured the presentation and analysis of the data by management and workers in this section as follows. First, we provide the findings on three aspects: knowledge and perception of CSER, the main formal CSER practices, and the main informal CSER practices. This gives us a foundation to answer the question of how SMEs engage or do not engage in CSER practices in the three selected sectors—(a) agro-processing, (b) textiles, garments and footwear, and (c) services/tourism (B&Bs, lodges and hotels)—in Vietnam. Then, we outline the findings on internal factors (management and worker relations) and the external factors (relations to and the influence of stakeholders on SME profitability; the influence of the context, such as history, culture, industry and other factors). On the back of this information, we address why SMEs in the three sectors engage or do not engage in CSER, which reveals what CSER means to SMEs. This assessment includes a discussion of observations as to size, location and market.

Understanding of CSER

The Vietnamese owners and managers interviewed stated a high level of knowledge of CSER (65%) and a uniform perception of the firm's basic responsibilities (including responsibility for the physical environment, the working environment and working/labor conditions). There did not seem to be significant differences based on company location (metro *versus* non-metro) or size (small *versus* medium).^[128]

We found differences, however, between sectors. In Vietnam, 80% of the agro-processing firms knew the term CSER, while 60% of the textile, garment and footwear firms and 55% of the tourism firms did. Still, when we correlated this with size, a uniform picture of a higher percentage of medium-sized firms knowing CSER did not emerge. 80% of the medium-sized firms in the agro-processing industry

[127] We used stratified sampling to select management responses to these three questions about the meaning and impacts of CSER: (1) understanding CSER; (2) informal activities; and (3) obstacles. For each question, we selected quotes from a small firm, a medium-sized firm, a firm in a metro area, and a firm in a non-metro area, and a firm from each of the three sectors.

[128] See Tables VN.8-VN.13 in Appendix G.

knew it, as did 80% of the small firms. Similarly, 75% of the medium-sized Vietnamese firms in the tourism industry knew it, compared to 50% of the small firms in that industry. However, in the textile industry in Vietnam, a higher percentage of small firms stated they knew it compared to medium-sized firms. So, additional factors need to be included if we are to fully understand the findings (see below).^[129]

Food/beverage/agro-processing companies tended to focus more on the quality of their products, and on concerns about impacts on the physical environment in their surroundings (all forms of pollution). Most textile/garment/footwear companies expressed concerns for the physical environment (how to deal with their waste), and for workers in terms of health benefits, job security and training. The hotels were primarily concerned with the quality of service they delivered to their guests, and secondarily, the needs of workers (including migrants from other provinces). The differences reflect the (different) nature of their products or services.

When it came to responsibility for their suppliers' practices, a minority (38%) found that they had such responsibilities. 75% found that other actors or stakeholders had responsibilities for CSER as well.^[130]

The most frequent reply in terms of "responsibility" was being a "good citizen" (72%), while 38% of the management stated it was "to make profit".^[131] The elaborate emphasis on being "a good citizen" is expressed in statements such as: *"The environment belongs to everybody; all industries need to have this responsibility"* (agro-processing firm), *"Because we are required to implement CSER. If we do not, we would have to close our business"* (garment firm), and *"The impact would be great if larger companies fail to do their CSER"* (hotel).

So, overall, Vietnamese SMEs are aware of the CSER concept and all acknowledge their formal responsibilities. Also, they rated CSER practices as more important than traditional business parameters (profit, quality and so on).

[129] See Tables VN.14-VN.15 in Appendix G.

[130] See Tables VN.11 and VN.17 in Appendix G.

[131] See Table VN.18 in Appendix G.

Formal CSER practices

Certified management systems, codes of conduct and production of CSR reports

13% of the companies stated that they had a certified management system, while 83% did not. Agro-processing SMEs made up the majority of SMEs that had a system in place (30%), compared to 5% of the textile and tourism firms that reported adhering to certified management systems.^[132]

Most of the companies adhering to a code of conduct operated in textiles, where 35% complied with a code of conduct, followed by 30% of the agro-processing firms. Within tourism, only 5% of the interviewed SMEs had implemented a code of conduct, while 90% had not (Tables CT4.1, 4.2 and 4.3).^[133]

One out of five firms interviewed reported producing CSR reports, while about two thirds did not produce such reports, and 17% did not answer. Almost one third of textile and garment SMEs prepared CSR reports (30%)—the largest share of companies to produce such reports. Agro-processing SMEs followed with 25% stating they produced CSR reports, whereas only 5% of tourism firms stated the same.^[134]

Formal CSER practices (waste, water, OHS and working conditions)^[135]

The vast majority of the SMEs stated that they had a set of practices in place to handle waste, water and energy, and working environment/OHS issues and working conditions. The manager of a small tourism firm formulated it as follows: *“We try to reduce toxicity. Hay can be burned easily. Papers can be recycled or can be used to make decorative products. We try to minimize solid waste. Rags are sold to companies which use them to stuff pillows... The groups that subcontract for us take care of their own waste. Our company only encourage them to treat the waste using good and safe methods”* (small tourism firm).

A higher percentage of firms in the agro-processing and tourism sectors (85% and 80% respectively) stated they had practices in place to monitor waste, water and energy compared to 60% of the textile firms.^[136]

[132] See Tables VN.19-VN.20 in Appendix G.

[133] See Table VN.21 in Appendix G.

[134] See Tables VN.22-VN.23 in Appendix G.

[135] See also Section 4.5.3. for further information.

[136] See Table VN.24 in Appendix G.

The majority of the firms (84%) monitored energy consumption, while 20% monitored water consumption and 13% monitored waste amounts, with similar differences across sectors as stated above. The vast majority did not state when they implemented the most recent changes in order to reduce waste and water. Those that did respond mostly introduced changes more than two years ago. In regards to saving energy, although a majority did not state when, 45% of the respondents replied that they had made changes more than two years ago. The findings were quite similar for each of the sectors, with more medium-sized firms having done so than small firms.^[137]

Regarding OHS (the working environment), only 18% stated that they had OHS issues, with limited differences between the sectors. A quarter of the textile firms reported working environment issues, compared to 20% of the agro-processing and 10% of the tourism firms. Slightly more difference were found according to size, with 9% of small and 30% of medium-sized firms stating they had issues. The vast majority stated that they did not have OHS issues (82%)—91% of small and 70% of medium SMEs. Consequently, 48% perceived OHS issues to be “insignificant” or “very insignificant”. Viewed in relation to SME size, 48% of small and 49% of medium-sized firms stated this. However, 40% found OHS issues to be “significant” or “somewhat significant”, with 41% of the medium-sized firms sharing this view compared to 39% of the small firms.^[138]

Just over 43% stated that they had company procedures for handling OHS issues, while 25% said that the OHS procedures were due to government regulations. Still, 65% registered accidents and 80% did regular health checks. Interestingly, the tourism firms reported the highest level of practices (85% and 95%), compared to 60% and 85% among agro-processing firms and 50% and 60% among textile firms. We found only minor differences between the small and medium SMEs in this area, although small SMEs represented a slightly larger share (70% registered accidents and 82% did health checks) than medium-sized SMEs (59% and only 78% respectively). These figures reflect the higher level of practices among tourism firms. Finally, concerning working conditions, 52% considered them to be an issue—with limited differences across sectors and no differences according to size. Wages were the key labor standard issue, although overtime payments—the need to work overtime is due to low wages—and other issues were also of some importance.^[139]

[137] See Appendix G, Tables VN.25-VN.35.

[138] See Appendix G, Tables VN.36-VN.40.

[139] See Appendix G, Tables VN.41-VN.51.

Formal CSER practices (unions)

A majority of Vietnamese SMEs did not recognize unions. Again, we found considerable differences between the sectors, with 65% of textile/garment/footwear SMEs and 40% of agro-processing SMEs recognizing unions compared to 20% of tourism firms. Almost the same distribution was found on the question of whether unions were allowed on the premises. 72% replied that collective bargaining took place and 47% that workers took part in tripartite bargaining (Tables Q20, Q35, Q35.1 and Q35.2).^[140]

Conclusion

In sum, while we found a fairly uniform understanding of CSER and key responsibilities, including widespread acknowledgement of these responsibilities across the three sectors, the SMEs in the three sectors differed with regard to formal CSER practices, and a minority of SMEs in all sectors stated that they undertook formal practices. The highest levels of formal CSER practices were reported in the agro-processing and textiles/garment/footwear sectors, where one quarter to one third of the SMEs stated that they had certified management systems, adhered to codes and/or wrote CSER reports, while very few tourism firms did.

Many SMEs monitored their resource use, in particular energy, although initiatives to reduce consumption had not taken place recently. These practices were most widespread in the agro-processing and textile sectors. In contrast, the tourism firms reported the highest level of practices when it came to the registration of accidents and conducting health checks. However, the figures also tended to suggest that firms did not have formal practices, indicated by the high number of “not stated” answers. Across sectors, the SMEs reported limited issues and impact in terms of the physical environment, the working environment and working conditions.

In terms of recognizing unions, we found substantial differences among different sectors: about two thirds of the textile firms recognized unions, only 40% of the agro-processing firms and 20% of the tourism firms shared this practice. While 79% of small firms did not recognize unions, almost as many medium firms did (78%). Among the medium-sized unionized firms, 74% accepted union activities on the premises, compared to 4% that did not.^[141]

[140] See Appendix G, Tables VN.52-VN.57.

[141] See Appendix G, Tables VN.53 and VN.58.

We also found some difference according to size: medium-sized firms tended to display a higher level of practices than small firms. For instance, it was mainly the medium-sized firms that had sets of practices in the areas of the physical environment, OHS and working conditions. We shall elaborate on this below.

Informal CSER activities

Most companies—irrespective of location, size, and sector—engaged in labor-capital relations that upheld cultural practices dating back to the socialist era (prior to the market-reform policy started in the late 1980s). These practices include the 13th month pay (or bonus) for the Vietnamese Lunar New Year, days-off for cultural events and holidays, and leave for sickness, weddings and funerals. Most companies offered some type of loans or advances to workers. Most provided some form of activities for workers' cultural life and entertainment such as newspapers, sporting events, musical entertainment, cable TV and access to Internet. For small companies (most did not have unions), labor-capital relationships tended to be family-like in which the managers/owners cultivated a strong bond with their employees in social activities. On the other hand, medium-sized companies tended to turn social and charitable responsibilities over to workplace unions, who then used the employer's contribution of 2% of monthly wages to the union funds for these activities. Some creative employers, especially in the agro-processing and textile/garment sectors, also donated the income from the sale of waste, recycling materials and scrap fabrics to the union funds for workers' benefits and activities.

So, we found widespread informal practices, some undertaken by nearly all interviewed SMEs like allowing different types of leave (sick, family events) and organizing events and celebrations. Furthermore, we also saw a large number of different informal practices covering loans to workers, sick and parental leave, leave for family events, and donations of money and other contributions to charity (to a variety of organizations and other recipients).^[142]

In some cases, the firms had elaborate informal practices, while the practices were more restricted in others, as the following two quotes illustrate: *"We give advance payment, allow days offs to attend funerals and death anniversaries; workers can return to work when they want to. They usually take a few days offs for weddings. We sometimes pay for their days offs if workers perform well and take less days off. Allowance for days off is calculated on a monthly basis; manager is allowed 4-5*

[142] See Tables VN.59-VN.62 in Appendix G.

days off/month. We purchase newspapers and magazines for customers and then employees. In mid-autumn Lunar Festival, we buy and share moon cakes with employees” (small agro-processing firm), and “Workers have an annual number of days offs. If they take sick leave, the number of days off will be deducted. The company does not give out loans, and prohibits workers from giving each other loans. We have Tet (Vietnamese Lunar New Year) bonus (the 13th month pay)” (small textiles firm).

More than one third of all managers (37%) were involved in community work, while a smaller percentage of the workers (22%) were. Regarding the involvement among managers and workers, medium firms (with 44% and 26% respectively) accounted for a larger share than small SMEs (30% and 18%).^[143]

Finally, in terms of informal CSER practices, we assessed two aspects: informal assistance in the form of loans, and in the form of allowing sick/parental leave. Regarding the amount of loans provided by management, 39% of the small firms provided loans, while 67% of the medium-sized firms did. So, here we see another difference with the situation in South Africa. Regarding the different sectors we found a mixed picture: 60% of the agro-processing firms provided loans, while 50% of the textile, etc. and 45% of the tourism industry firms did. When it came to sick/parental leave, we found little difference between Vietnamese firms. 97% of the small firms stated that they provided leave, while all of the medium-sized firms did. There were some, albeit smaller, differences among Vietnamese firms. All of the agro-processing firms stated that they did, as did all the textile/garment/footwear firms and 95% of the tourism firms.^[144]

Obstacles to CSER activities

43% stated that they faced obstacles to CSER and 48% that they would like assistance/assistance could help.^[145]

The most pressing concerns of these SME owners related to the lack of funding to deliver both formal and informal CSER activities. For example, many expressed a need to have funds to comply with certification, monitoring, and codes. Many garment/textile/footwear companies that produce for the global market are subcontractors for big brands or foreign suppliers. These owners have very little

[143] See Tables VN.63-VN.66 in Appendix G.

[144] See Tables VN.61-VN.62 in Appendix G.

[145] See Table VN.67 in Appendix G.

control over the raw materials (mostly provided by the brands or their suppliers) and receive very low subcontracting prices with which to pay their workers. In the words of a manager from a medium-sized textile firm in a non-metro area: *“Our subcontract prices remain the same even though the costs increase. Inflation also impacts us a lot”* (garment firm).

The SMEs also expressed concerns about rising labor costs—to keep up with rising inflation rates—and high bank interest. For instance, as a manager from a small agro-processing firm said: *“Nowadays, costs of living go up rapidly, workers’ wages also go up (although the levels are still low), bank interest rate increases as well. The government has not yet developed any policy to support small businesses.”*

Moreover, they were also concerned about the lack of government support for SMEs, and increasing costs of state-sanctioned environmental agencies’ monitoring, and bureaucratic environmental reporting. However, some did express that they learned regulations and protocols from these state environmental agencies, like this hotel manager who said: *“The Ward Committee and especially the Ward Health Office provide instructions and inspection on our hotel’s food safety and sanitation as well as on labor safety. They send us the most updated documents and visit us to perform inspection”* (a hotel).

Relations between managers and workers and relations to stakeholders/external factors^[146]

On management-worker relations, most managers in all three sectors recognized the significance of workers in their operations. Managers/owners in the three sectors focused on different aspects of these relations in order to facilitate their businesses and improve their profitability. In particular, overall agro-processing managers (with the majority, 75%, of all agro-processing firms producing for local and national markets) recognized the connections among workers’ contentment/satisfaction, stable employment and profits. In the textile/garment/footwear sector, with 75% of all textile/garment/footwear factories producing for export, most managers placed a high value on stable employment and connections between skills and product quality, especially in firms that produced for export. Interestingly, these textile/garment/footwear managers did not explicitly link workers to profitability as the managers in the other two sectors did. Finally, in the hotel/tourism sector, primarily a service industry, most interviewed hotels served local customers and only 20% served international clients.

[146] See also Section 4.4 for further analysis.

Similar to the agro-processing sector, hotel managers/owners tended to link workers with profitability. But, as a service industry, they were very conscious of making the connection between workers and their customers as well.^[147]

The Vietnamese owners and managers stated that “customers” and “workers” were the most influential stakeholders (93-95%), while 65% found the “government” to be of such an influence and 30% “suppliers”, while few found unions and the “local community” to be influential, and hardly any found “NGOs” and “international actors” to have an influence.^[148]

Managers across sectors agreed that the “customers” were the most influential among stakeholders (90-100%), although “workers” were perceived to be almost as influential (90-95%). With regard to the influence of “government” and “suppliers”, differences existed between the sectors. A large majority in the agro-processing and textile sectors stated suppliers were influential compared to less than a third of the tourism firms. In contrast, 75% of the tourism firms found government to be influential compared to 65% of the textile firms and 55% of the agro-processing firms. And a higher percentage of medium-sized firms stated “suppliers” and “government” to be influential compared to small firms.^[149]

Among Vietnamese owners and managers, around 42% found that the influence of these actors had grown over the last five years and a similar number that the influence would grow in the future. However, a majority did not.^[150]

Development/changes over time

In terms of changes in formal CSER practices in Vietnamese SMEs, management stated that some albeit moderate changes had taken place over the last five years. About half reported increases in the practices concerning working conditions and less—about a third—stated changes in physical environment practices and the working environment. The majority stated that no changes had taken place, while few have experienced decreases. As explained above, few changes had taken place in informal practices as these had been in existence for a long time.^[151]

[147] See Table VN.68 in Appendix G.

[148] See Tables VN.69-VN.76 in Appendix G.

[149] See Tables VN.69-VN.76 in Appendix G.

[150] See Appendix G, Tables VN.77-VN.78.

[151] See Appendix G, Tables VN.79-VN.85.

Conclusions on the meaning of CSER to Vietnamese SMEs in the three sectors

Most had a healthy attitude that *“All businesses have to fulfill their social and environmental responsibility regardless of what industry they are in”* (small hotel). Some expressed that this awareness should apply to all sizes of firms: *“Businesses have to be responsible, regardless of the size”* (small hotel). However, some small hotels felt that the lodging/hotel industry did not pollute (like manufacturing or agro-processing), *“because the lodging industry does not have much environmental impact”* (small hotel).

Managers in the agro-processing industry (food and water) expressed a heightened awareness of cleanliness and sanitation on behalf of their customers/consumers: *“Because our business is in the food processing industry, we are required to guarantee consumers’ health”* (Seafood N° 4). This, however, did not necessarily translate into care for the health and well-being of workers. The more savvy managers had deployed ways of protecting the environment: *“We have to be responsible for the environment once we deploy industrial production of a commodity. We have to grow plants, and treat waste water”* (Vietnam Distillery).

Quite a few textile/garment/footwear factories expressed awareness of CSER practices and considered them as a *sine qua non* to doing business, *“Because we are required to implement CSER. If we do not, we would have to close our business”* (Hung Thai Garment). This suggests the importance of the type of market, which can raise the level of awareness of CSER practices: firms that produce for export tend to be more aware of CSER than firms that produce for domestic markets.

Overall, many managers expressed awareness of the damages done to the people and the environment in Vietnam due to the US-Vietnam war: *“Businesses must also contribute to help victims of Agent Orange [a toxic herbicide/chemical] used during the US-Vietnam war as well as injured and disabled veterans”* (Bao Huy Garment).

Many have not only given to charities to serve the needs of the poor and Agent Orange victims (of the US-Vietnam war), but also employed the handicapped, war invalids and veterans, and the underprivileged in Vietnam: *“[We are] greatly affected in terms of social responsibilities because 80% of the disabled and underprivileged people [in the local area] are employed by the company”* (Phuong Nam Hotel).

Some are very entrepreneurial and conscious of *“valuable cultural values that are unique to Vietnam”* (Mai Vietnam Handicraft). They found ways to express this cultural essence in their products mostly for exports (Mai Vietnam Handicraft), fish sauce (Viet Huong Hai Fish Sauce), or historical sites that benefit the business and

practices of some hotels interviewed in Ho Chi Minh City (such as Bi Saigon Hotel). But they also realized that this influence was a two-way street: *"Additionally, our business helps to preserve Vietnamese traditional trades/skills"* (Mai Vietnam Handicraft).

They were also realistic in their reflections on history/culture and CSER. Some saw potential conflict between small-scale family business traditions and the fast-paced, profit-based market activities happening around them; they realized that development (of CSER) would not happen overnight: *"Business ethics is also influenced. At our work place, we interact with each other only eight hours a day. Things change really fast outside in the social context where everybody is running after profits. [...] The Vietnamese are working in the family tradition so there are many limitations. Development cannot happen overnight"* (Phuong Bac/Northern Hotel).

Overall, management perspectives indicated tolerant, compassionate and flexible cultural practices that cared for workers and treated them like family. While family structure can exhibit hierarchical and patriarchal relations in Vietnam, at least these managers recognized and accommodated the needs of migrant workers so they could go home for traditional Vietnamese holidays and significant events (such as funerals, weddings): *"Whenever migrant workers from the South have funerals, weddings, or death anniversaries, we have to allow them to go back to their home towns/villages"* (Hao Thanh Garment).

They were also aware of the importance of different religious, regional, race and ethnic practices: *"Some are Buddhists, some are Catholic; and these things have some influence"* (Vinh Nang Garment). In some multi-ethnic factories, mutual assistance did exist: *"The company's workers include both Vietnamese and [ethnic] Chinese. The working environment has family-like elements. There are Chinese traditional and cultural practices which treat employees like family members. Mutual assistance does exist"* (Cuong Tai Garment).

Many expressed a culture of *"mutual sharing, being compassionate toward other people, and loving other people as loving oneself"* (Thanh Dien Water). This cultural *modus operandi* is consistent with many forms of charitable activities in which these Vietnamese firms engaged: *"We rally support for flooded area. Each country has its own history, and that will influence its culture"* (Tan Dong Vegetable Processing). Some expressed care and respect for their workers: *"[we] assist and share with less fortunate people and our own workers"* (Thanh Dien Water), and *"The owner treats*

workers well, and does not look down upon them as if they were mere laborers" (Bi Saigon Hotel).

However, there were challenges for these SMEs in terms of cultural practices and economic realities in Vietnam. First, the family-like relations and flexible work hours tolerated by Vietnamese managers in these small and medium-sized firms were not necessarily tolerated in medium-sized firms that tended to adopt industrial discipline practices (many produce for export). Second, some managers of small firms recognized the economic constraints that did not allow them to engage in CSER activities. For some, the environmental awareness was there but they prioritized necessary economic development conditions first before they could engage in the "environmental" aspect of CSER: *"Since we are not as developed (economically) as other countries, we must prioritize the basic necessities (food, clothing); so, while we know about a collective need to save the environment, we don't yet have money to support this cause. When our country is richer (economically), we will take care of this issue"* (Tan Dong Vegetable Processing). Third, some expressed concerns about limited environmental awareness among workers, although more awareness of preserving a clean environment was seen among the younger generation. Moreover, the more sophisticated managers complained about the lack of technical knowledge of government agencies/officials, who are in charge of environmental laws.

With reference to size (small versus medium)

Regarding awareness of the CSER concept, we saw minor differences between small and medium-sized firms in Vietnam. While 68% of the medium-sized firms had heard of CSER, 64% of the small firms knew the concept. However, the differences were—as mentioned above—not consistent across the three sectors.^[152]

While the small and the medium-sized firms had similar understandings of their social and environmental responsibilities, their perspective on economic responsibilities differed. Companies of both sizes rated "corporate citizen" as their main responsibility, whereas "profit" was more popular among the medium-sized SMEs (52%), and only 27% of small firms stated the same. More often, they saw "quality" as the main company responsibility (52%), while "quality" was named by 19% of the medium-sized SMEs.^[153]

[152] See Appendix G, Tables VN.10, and VN.14-VN.15.

[153] See Appendix G, Table VN.86.

In regard to the responsibility of other parties, nearly all medium-sized SMEs were of the opinion that others were responsible, too, while among small firms 36% did not agree.

With regard to formal CSER practices, we did see some differences according to size, although the differences were not uniform across the various types of practices. While we found hardly any differences between small (12%) and medium-sized firms (15%) in terms of having a certified management system in place, we found more marked differences when it came to adherence to a code of conduct, for instance. Here, the medium-sized firms in all sectors displayed a higher percentage of adherence than their smaller counterparts. Similarly, when it came to producing CSER reports, relatively more medium-sized firms than small firms reported doing so (37% versus 6%).^[154]

Most medium sized firms (78%) recognized the unions, while small firms did not as they were not required to do so by law. Most unionized firms permitted union activities on their premises, except for a few (4% of unionized firms) that did not.^[155]

Some managers found the differences to be expected for various reasons:

“Larger companies are in better condition to perform CSER well” (small garment firm), and another said, *“The larger the size, the more responsibilities it has. The smaller the company, the lesser responsibilities it has. Larger facilities use up more resources, and therefore release more wastes”* (medium-sized garment firm). Finally, some saw growing bigger as leading to some professional—and maybe more formal—CSER: *“Larger companies have to do their CSER more professionally. We are only a small business so we can only do our CSER partially, but we try to be fair to workers so that they would perform well for us. Smaller companies are easier to manage”* (Vinh Nang Garment).

Some did, however, view the responsibilities as similar for all, irrespective of size: *“All companies, regardless of the size, have to protect the environment”* (Vietnam Distillery).

[154] See Appendix G, Tables VN.87-VN.89.

[155] See Tables VN.58 and VN.90 in Appendix G.

The meaning of CSER for workers in vietnam

We now turn to workers' perspectives of CSER.^[156] In particular, we shall pay attention to gender differences with sensitivity to the country-specific context of Vietnam.^[157] In the context of socialist Vietnam, we analyzed the extent to which formal and informal CSER practices affected female and male workers *differently*.

We triangulated quantitative findings with interviews with workers. As we progressed in our data analysis, we incorporated workers' voices on the meaning and impacts of CSER on their livelihoods. As such, our study gives voice to the stakeholders most likely *absent* from the negotiating table: workers, especially female workers in labor-intensive industries in the global supply chain. Moreover, through the accounts/narratives of *both* management and workers on what CSER means to them and how it impacts them, we can investigate potential disconnects and differences in their perceptions. This balanced analysis would be another contribution to the CSER literature.

This analysis focused on 300 workers interviewed in 44 factories in three sectors in metro and non-metro areas in Vietnam. They were fairly equally distributed across size, location and sector: 57% of workers in non-metro and 43% in metro locations; 52% in small and 48% in medium-sized enterprises; 36% in agro-processing, 32% in textiles/garments/footwear, and 32% in hotels/tourism. Overall, 65% of these 300 interviewees were women. Female interviewees accounted for about half of all interviewees in the agro-processing sector, but a lot more in the textile/garment/footwear sector (74% of all interviewees in this sector) and in hotels/tourism (68% of all interviewees in this sector).^[158]

We focused on general labor standards/working conditions and the working environment (pay, overtime, working hours, work safety and waste treatment), levels of worker satisfaction with both formal and informal CSER activities, and relations with management. Overall, we intended to answer, from worker perspective, three questions:

[156] We address a lacuna in the literature by focusing on the "people-centered case for CSR" which addresses the possibilities of different outcomes (such as win-lose, lose-win, and lose-lose situations) according to, for instance, Prieto-Carron *et al.* (2006), and Raufflet and Miles (2009).

[157] In doing so, we address one of the key analytical factors often left out of the CSER studies and debates. The other factors are race/ethnicity and socio-economic class (Prieto-Carron *et al.*, pp. 979, 984).

[158] See Tables VN.91-VN.94 in Appendix G.

1. How does their engagement in CSER (or lack thereof) affect *labor standards and working conditions* (such as pay, work hours, overtime work, and benefits)?
2. How does their engagement in CSER (or lack thereof) affect *the working environment* (i.e., occupational safety, toxicity levels, toilets, sanitary conditions, green space)?
3. How does their engagement in CSER (or lack thereof) affect informal practices (like the provision of loans to employees, donations to local communities, churches and [sporting] clubs)?

How their engagement in CSER (or lack thereof) affects labor standards (such as pay, work hours, overtime work, working conditions, and benefits)

Wages continue to be one of the biggest issues in labor standards in Vietnam. We looked into not only received salaries compared to the government-sanctioned minimum wage, but also livable wages from workers' perspective.^[159] We found that **hotel workers earned the lowest median monthly wage**: VND 2.5 million (about US\$120) for both females and males. Next came agro-processing workers (VND 2.7 million, or US\$130). **Textile/garment/footwear workers earned the most**: VND 3 million (US\$144).^[160] Within each sector, median wages were the same for both female and male workers.^[161] So, there was no gender difference in workers' monthly earnings.

These median levels were higher than **minimum wage**, an important labor policy that has raised the minimum wage annually since 2006, thanks to the worker-led strike waves in 2005 and 2006 (Tran, 2007). At the time of writing, the government-stipulated monthly minimum wage was VND 2 million in Ho Chi Minh City, and VND 1.78 million in non-metro areas. However, minimum wage is not a livable wage in Vietnam. When asked "**what would be a livable wage**", most workers said that these levels of monthly income were not livable. They lived "hand to mouth": about 47% responded that they barely earned enough for basic necessities and had no savings. 42% said that they did *not* make enough and had to save and/or borrow to pay for necessities. Only 11% said that they earned more than enough for necessities and had some savings.^[162]

[159] In order to determine a central tendency of worker earnings per month, we used median earnings instead of mean earnings due to high variations that gave rise to high standard deviations in this small sample.

[160] We used the exchange rate of 1 USD = 20,794.00 VND as of March 15, 2012.

[161] See Table VN.95 in Appendix G.

[162] See Table VN.96 in Appendix G.

There was no gender difference on median living wage per month: both women and men in all three sectors responded that it would be around VND 4 million, compared to what they make (only VND 2.5 to 3 million).^[163] Hence, the statistical evidence shows that workers do not earn sufficient monthly wages to pay for their basic necessities. Consequently, many workers need to borrow money from their owners/managers to pay for their basic expenses. This ongoing need among workers was consistent with the common management practice of lending or advancing small amounts of money to workers so they can pay for basic necessities, illness, or trips home to take care of family members.

The non-livable wage concern leads to another key area of labor standards: overtime work. Given such *non*-livable wages, most workers needed to work overtime to make ends meet. The median working hours per week for both men and women in all three sectors was 48 hours per week. About 65% of 300 interviewees had worked overtime at least once a month. On average, they worked about nine overtime hours per week.^[164]

The following representative quotes demonstrate that most workers were willing to work overtime, whether the stipulations were stated on the labor contract or verbally. For instance, a worker at a small hotel said: *"At the hotel, the original agreement for work hours was 7:00 a.m. to 7:00 p.m., but actually I have to stay until all the work is done usually until 9:00 p.m. Overtime payment is rounded off to be VND 1.7 million"* (a hotel worker). The precarious nature of overtime work was clearly reflected in this quote of a garment worker in a small garment factory: *"Work overtime when more orders are available. Got paid by the hour x 1.5 times. Overtime only when extra orders are available."*

Overall, workers' wages are very low: most originated from very low piece rates based on a non-livable minimum wage. In the garment/textile/footwear sector, MNCs or foreign buyers negotiate the subcontracting price with the suppliers who then set the piece rate for each particular task in the assembly line. Given the unequal power relations between MNCs and the suppliers, most piece rates are very low and result in non-livable wages for workers. A worker in a medium garment/leather factory said: *"I asked: there is a clause in the contract saying that working overtime is voluntary. Pay by regular hourly pay x 1.5."* Another worker in a medium garment factory said: *"Pay based on piece rate. For overtime work: piece rate x 1.5."*

[163] See Table VN.97 in Appendix G.

[164] See Appendix G, Tables VN.98-VN.100.

Quite a few workers relied on verbal agreements with managers, which reflects an informal way of negotiating with management in many SMEs. A worker at a medium-sized garment factory said: *“I didn’t read it, so I don’t know. But we did have verbal agreement.”* Another worker in a small agro-processing enterprise explained, *“No labor contract, but agreement to work overtime was made verbally. No overtime, because rice paper has to be dried in the sunshine.”*

Another important labor standard issue deals with **union-related issues**, such as signed labor contracts and being informed about their rights and responsibilities. We found that workers who signed the contracts with management at the beginning were more satisfied with work safety/sanitation and codes of conduct. These results suggest the role of social dialogues and interactions among workers, management and labor unions on the factory floor (or hotels). Similarly, workers who were **informed about their rights and responsibilities** were a lot more satisfied in all three areas: work safety/sanitation, codes of conduct, and relations with management.^[165]

How their engagement in CSER (or lack thereof) affects the working environment (i.e., occupational safety, toxicity levels, toilets, sanitary conditions, green space)

Here, we turn to worker satisfaction levels in regard to various working environment (OSH) conditions and practices with special attention to gender differences. On companies’ engagement in OSH issues such as work safety, sanitation and relations with management, we found that, overall, hotel workers—who received the lowest median monthly wage—were not as satisfied as workers in textile/garment/footwear and agro-processing factories.^[166]

On waste treatment of all types (solid, liquid and other), we found that female workers (in the entire sample of 300 workers) were less satisfied than men. We ran independent t-tests to verify and found that gender differences were **statistically significant** in terms of the treatment of liquid and other types of waste ($t=2$, at 95% confidence): **women workers were not as satisfied as men in the treatment of liquid and other types of waste.**^[167]

[165] See Appendix G, Tables VN.101-VN.102.

[166] See Tables VN.95 and VN.103 in Appendix G.

[167] See Tables VN.104- VN.105 in Appendix G.

Most **garment workers** do not deal with liquid waste, but rather lint, dust, heat, humidity and lack of ventilation. While textile/garment/footwear workers scored pretty high on these three questions,^[168] triangulating both quantitative and qualitative findings showed nuances about problems that workers often face in this industry. In a medium-sized garment factory making leather purses and gloves, a worker complained: *“In the process of leather treatment, the odor is very strong and unpleasant.”*

Given the fact that most agro-processing enterprises are certified in global management systems such as HACCP, GMP and ISO, and by the Vietnamese Food Administration, many workers interviewed in agro-processing enterprises seemed to be satisfied with work safety/sanitation and codes of conduct. Moreover, there were frequent local government on-site inspections to monitor compliance with food/drink safety guidelines. The 25% of agro-processing firms that produced for export were very aware of and complied with national and international food safety standards. As a result, on average, we found that agro-processing workers were the most satisfied.^[169] One explanation, as stated above, may be due to strict government standards and certified management systems to protect potential consumers (especially foreign customers in case of export products).

We sought to understand why **hotel workers** were not satisfied for reasons *other than* being the recipients of the lowest median wage, and if there was any connection to how different types of waste were treated where they work. On the treatment of solid, liquid and other types of waste, overall, female workers were not as satisfied as male workers. In terms of waste treatment, hotel workers were not as satisfied as workers in the other two sectors. With liquid waste, more women workers in the hotel industry were affected: they accounted for 63% of all workers interviewed in that particular sector.^[170]

By sector, **hotel workers were the least satisfied with the treatment of all types of waste** (solid, liquid, other). [Note that most of the interviewed hotels were small.] In hotels and in agro-processing enterprises, most owners were keen on periodic state inspections of environmental, worker health and safety aspects in order to ensure quality products and services for their customers. However, inspection on labor standards for worker benefits was much less frequent. When

[168] See Table VN.106 in Appendix G.

[169] See Appendix G, Table VN.103.

[170] See Table VN.108 and VN.94 in Appendix G.

state inspectors came, they tended to focus on environmental issues and not much on the impacts on workers: *“Environmental inspectors from district or city authorities came. They were received, shown to the office for inspection. No labor inspection comes yet”* (a worker from a medium hotel). Moreover, most workers in the hotels that we interviewed were women who cleaned the rooms and washed the towels and sheets, and thus suffered from chemicals/cleaning agents, hypodermic drug needles, etc. on a daily basis. For instance, a worker from a medium-sized hotel complained: *“Very bad sewage system, often blocked and giving out bad odor.”*

How their engagement in CSER (or lack thereof) affects informal practices (like provision of loans to employees, donations to local communities, churches and [sports] clubs)

We triangulated qualitative and quantitative data and found that in many small and medium-sized enterprises (in both hotels and garment workshops), employers treated their employees like members of the family. On average, we found that **workers in small enterprises** tended to be more satisfied with relations with management than those in medium-sized enterprises.

This type of treatment tends to be informal and complex. It includes both positive and negative aspects. On the one hand, there are positive aspects such as providing loans and personal leave, and partaking in entertainment activities and vacations. On the other hand, there are reprimands and treatment of workers like “children” or “younger siblings”.

For instance, a group of workers in a medium-sized pasta factory said: *“[There is a] Bonus for good work performance. Uncle Ba is very concerned about workers.”* Another worker in a medium-sized garment factory said, *“Co-workers are like brothers in a family. Concerned about each other.”* A worker in a small water company praised, *“Free meals. Treated like family members. No pressure on workers. Generous offers and treat workers with drinks and meals.”* But there were disciplinary actions even when workers were treated like family members. A worker in a medium-sized garment factory said, *“Manager creates convenient situations for workers to deal with family matters, but reprimands them in case of errors.”* Another worker from a small hotel provided a balanced perspective, *“Workers are treated in harmony. Praise and reprimands are given appropriately. Workers are treated with understanding and sympathy.”*

Part Four

4. CSER and Competitiveness in SMEs in Developing Countries

As stated in the introduction, considerable attention has been paid to the linkages between CSER and competitiveness. Given that both CSER and competitiveness have been defined in a number of ways, it is not surprising that there are numerous viewpoints on the relationship between the two. While some argue for a causal relationship and claim that CSER impacts competitiveness, others state that the relationship exists but is less straight forward, and still others are critical as to whether such relationship exists at all.

Important contributions to this debate can be found within the technical sciences, economics and business management. We will provide a brief overview of the key contributions from economics and business management. What is important for this study is that the literature has only focused on large firms and, in most cases, countries in the northern half of the globe. This focus may lead to bias when we try to address the usefulness for studying SMEs in developing countries. We will address this issue at the end of this presentation and when we outline the framework that we applied in the quantitative part of our analysis.

Due to the practical nature of this study, we find that it is of limited value to present the debate in the field at length.^[171] Instead, we will present a summary of the main currents in the literature, starting in adherence with Schreck's point: *"Nevertheless, the business case argument implies at least the possibility of a positive relation between the social benefits and private profits"* (Schreck, 2011, p. 168).

We shall discuss how the relationship between CSER practices, efficiency and business performance is viewed and conceptualized among various currents of literature in the next subsection (4.1). Here, we shall also draw on the authors' experiences with earlier studies.^[172] We address the applicability of CSER and

[171] An additional reason is that we agree with the contributions that say that it is not possible to establish a causal relationship between CSER practices and competitiveness.

[172] See the short CVs of the authors in Appendix E.

competitiveness in relation to SMEs in Section 4.2. We conclude with the framework that we applied in the study and highlight the main categories of questions to be asked of the managers of the SMEs in South Africa and Vietnam (Section 4.3.). We then present the findings from South Africa in Section 4.4 and the findings from Vietnam in Section 4.5.

4.1. CSER and competitiveness

Some of the literature on CSER has analyzed CSER as a tool to boost firms' competitiveness.^[173] As stated in the introduction, the concept of CSER has been used in various different ways, as has the concept of competitiveness. Competitiveness has long been of interest to policy-makers as part of the debates on economic and industrial development. The concept has been used in numerous ways over the years. Among the main uses was the application of the concept to different levels of analyses—at firm, industry and national level. Porter's definition of the competitive advantage of nations (1980) is one of the prominent ones aimed at the national level. Not to mention his so-called "five forces model" for industry competitiveness (Porter, 1985). Some have offered definitions that span the levels, such as the *"ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them."*^[174]

This study focuses on CSER among SMEs from the perspective of the SMEs. Hence, it takes a firm-level view of competitiveness. Again, various definitions exist. Some are more generic, like the definition cited just above while others are more specific. The definitions share the fact that they are also challenging to measure, even a seemingly "simple" and widely used definition such as *"the ability of a firm to increase its market shares in international markets."* Measuring competitiveness according to this last definition would entail detailed data on the growth in sales at individual firm level, the growth in total sales in the market where the firm competes, and the growth in sales of the firm's competitors. This obviously works best in well researched markets and industries dominated by a few large firms, but it is extremely difficult to undertake in less well researched markets with many SMEs.

[173] For more than 30 years according to Schreck (2011, p. 168).

[174] <http://www.businessdictionary.com/definition/competitiveness.html>.

4.1.1. *Perspectives on CSER and competitiveness*

The literature on CSER placed a major emphasis on the “business case” for CSER, and one of the main currents of the debates has been the relationship between CSER and competitiveness. Contributions can be found from a variety of disciplines,^[175] including the technical sciences, economics, and business management where management perspectives have been prominent. We will concentrate on the economics and business management contributions, keeping the aforementioned limitations in mind.

In general, at firm level, definitions of competitiveness differ. Some definitions of competitiveness are narrower, focusing on a few measurements. These are in particular found within economics focusing on financial performance, like total turnover, profits/net earnings, and return on investments. Other definitions are broader, more generic and accordingly tend to include a large number of factors and present a more complex relationship between the CSER and competitiveness. The contributions are found within the fields of both economics and business management. We present the contributions from economics first and then turn to the contributions from business management.

4.1.2. *Contributions from economics*

As mentioned, the contributions from economics to the debate on the relationship between CSER and competitiveness span a continuum from narrow to broader definitions. The narrow definitions are often used in the part of the literature that has been termed “Corporate Social Performance” (CSP) and “Corporate Financial Performance” (CFP) literature, of which Wood (1991) is an early representative. From an economic perspective, the relationship has mostly been seen as one in which CSER practices like employee relations, environmental practices and/or involvement of local communities affect “market-based measures” such as the price per share or “accounting-based measures” like the “return on assets” (RoA) or “return on equity” (RoE) (Schreck, 2011, p. 169). Others have argued that even such measures for CSER and CSP were too general, and that an analysis of more specific measures was needed to reveal a relationship (Rowley and Berman, 2000).^[176]

[175] See Margolis and Walsh (2003) for an early overview paper, and Blowfield and Murray (2011) for a more recent contribution.

[176] Finally, whether the relationship was a reverse one, from CFP to CSP/CSER, has been argued and tested.

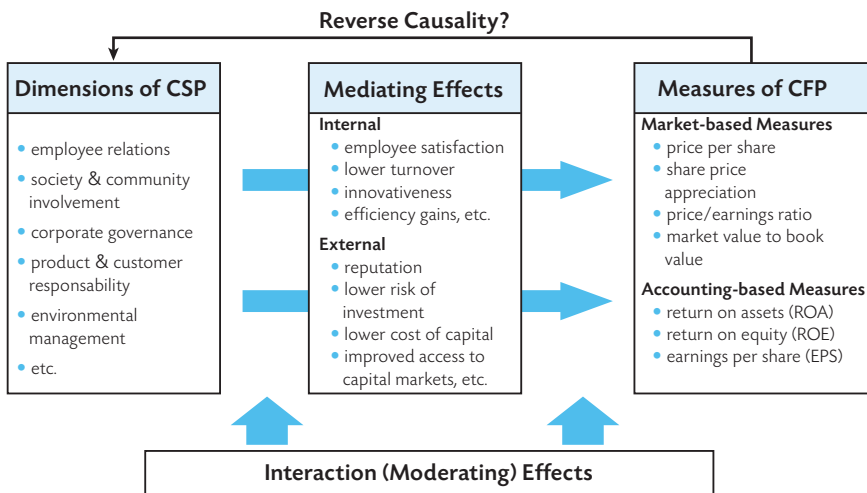
Although it has been argued that a relationship between CSP and CFP can be found, others have reviewed and rejected such claims (see, for instance, McWilliams and Siegel, 2001). Based on this, work was undertaken in which the authors applied a slightly more elaborate understanding of the relationship. Accordingly, instead of assuming that a causal relationship exists per se, the focus has been to assess under what conditions such a relationship could be found (Orlitsky, 2008).

As these contributions were also inconclusive, additional authors proposed that the way forward should be to add “mediators” and “moderators” that link CSER and competitiveness in various ways (Orlitsky, 2008; Schreck, 2011, p. 169). Such mediators are suggested to be elements such as “employee satisfaction”, “efficiency gains” and “reputation”.

Further adding to the complexity, Rowley and Berman have argued in favor of a contingency approach as conditions differ between industries (2000).

Schreck (2001, p. 168) seeks to sum up the different perspectives within economics in the model shown in Figure 2.

Figure 2 *A model for analyzing the link between CSP and CFP*



Source: Schreck, 2011.

4.1.3. Contributions from business management

As a supplement to the mostly economic analyses, a number of authors from other disciplines—mainly management^[177]—have sought to conceptualize the relationship between CSER and competitiveness in different ways.^[178] The contributions contain attempts to set up more complex generic models of the relationship that do not necessarily include only financial aspects.^[179]

Similar to what we stated in the introduction, the basic assumption has been that adopting CSER practices will provide certain benefits, anticipating that the “business case” exists. The business case argument has often also been understood as entailing a win-win situation—if the firm invests to improve CSER practices, its economic bottom-line will be improved (see Roberts, 2003; EU, 2008). Since an improved bottom-line is assumed to be similar to improved competitiveness, this means that there is a positive link between CSER and corporate competitiveness (Gugler and Shi, 2008; Matten and Moon, 2010; Blowfield and Murray, 2011).

As mentioned earlier, the field of strategic management has provided numerous influential contributions to the debate. In particular Porter and Kramer, who in their 2006 article suggest a “Strategic CSR” approach as a future basis for corporations’ competitive advantages (Porter and Kramer, 2006).^[180] Interestingly, the Porter and Kramer’s view—along with other contributions like Zadek (2001)—entails an understanding of “business and society relations” that is similar to the third level of the Blowfield and Frynas’ understanding of CSER, to which we subscribe in this report.^[181]

Many authors have identified a series of economic benefits that firms can derive from environmental and social considerations. They claim to have shown how companies can improve their profitability while improving conditions for workers and communities. The most prominent dimensions of the CSR business case are often presented as follows, according to Williamson *et al.* (2006, p. 318):

[177] For instance, accounting, finance, marketing, strategic management and operations management.

[178] See den Bakker *et al.* (2005) for an interesting text analysis of the relations between CSR and CSP from the 1970s to early 2005.

[179] See Vilanova *et al.* (2008) and Gugler and Shi (2008) for overviews of the literature and contributions.

[180] See Box 1 on “Strategic CSR” in Section 2.

[181] Furthermore, a number of international organizations also provide approaches and frameworks for assessing the relationship (e.g. EU, 2008; Luetkenhorst, 2004, from UNIDO, and WBCSD, www.wbcsd.org, to name a few).

- Cost savings;
- Human resources;
- Customer demand for new products or processes creating opportunities for profit;
- Innovation;
- Risk and reputation management; and
- Financial performance.

Vilanova *et al.* (2008, p. 58) propose a synthesis of the various contributions that groups the different nomenclatures, classifications and definitions into five categories:

- (1) Vision, including CSR conceptual development within the organization, governance, ethical codes, values and reputation;
- (2) Community relations, including collaborations and partnerships with different stakeholders, corporate philanthropy and community action;
- (3) The workplace, including labor practices and human rights issues;
- (4) Accountability, including corporate transparency reporting and communication; and
- (5) The marketplace, including CSR practices directly related to core business activities such as R&D, pricing, fair competition, marketing or investment.

Furthermore, Vilanova *et al.* (2008, p. 59) argue for specifying competitiveness based on five key dimensions:

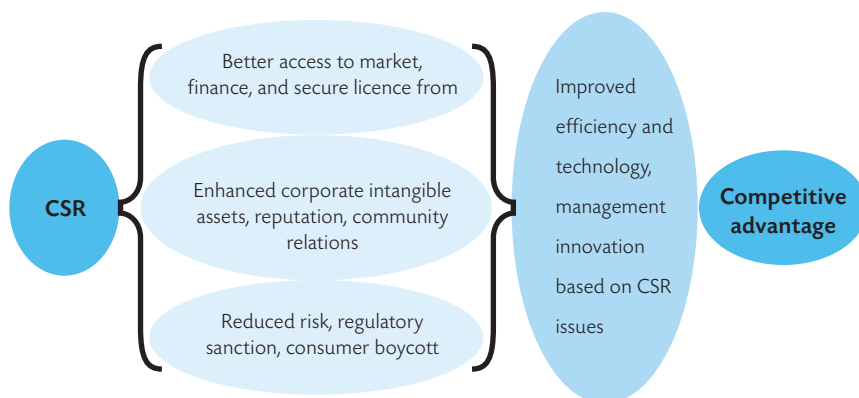
- (1) Performance, (2) quality, (3) productivity, (4) innovation, and (5) image, including corporate branding and reputation.

Here, the link to the contributions from economics is evident, although the measurements are less specific than the suggested proxies in economics.

Gugler and Shi (2008) provide another important contribution in which they suggest that links can be established based on the following reasoning:

Improved CSR results in (a) better access to markets, finance and license to operate, (b) enhanced corporate intangible assets, and (c) reduced risk, which in terms leads to improved efficiency (including better technology, management) and innovations, which finally leads to improved competitive advantages (Gugler and Shi, 2008, p. 5 – see Figure 3).

Figure 3 *Linkages between CSR and competitive advantage*



Source: Gugler and Shi, 2008, p. 5.

In spite of the aspirations in the literature, the many studies on the impact of CSER that have tried to demonstrate a positive association between CSER and financial performance have often led to somewhat positive but inconclusive results.^[182] Other studies have tried to argue for links between CSER, reputation risk and brand value. Even if an explicit, quantitative translation of socially responsible practices into specific results in terms of profit and loss has not been demonstrated, there is a growing consensus on the (positive) correlation between CSER and overall long-term corporate competitiveness (Gugler and Shi, 2008). However, more critical contributions, like Margolis and Walsh and Blowfield, are skeptical as to whether such a relationship can be established.

[182] For a recent contribution, which we have not had time to review, see Perrini *et al.* (2012).

4.1.4. Summary

In sum, the literature spans (a) contributions from economics arguing that corporate social performance (CSP—in this study CSER) effects corporate financial performance (CFP) more or less directly, to (b) contributions from business management arguing that CSER impacts market access, reputation and risk (by reducing it) and thereby enhances efficiency, which then leads to increased competitive advantages (or competitiveness), as highlighted in Gugler and Shi's framework (2008, see Figure 3).

In other words, competitiveness at firm level is a multidimensional concept that has been the subject of extensive research and various definitions (Vilanova *et al.*, 2008, p. 59). Some authors have sought to measure it more narrowly, for instance through short-term financial performance or productivity indicators. Others have argued in favor of broader and more complex ways of measuring it, including the importance of softer dimensions like “intangible capital” such as knowledge, relationships, reputation or talent (Lowell, 2007; Vilanova *et al.*, 2008; Gugler and Shi, 2008).

However, the academic literature on CSER with reference to both large and smaller firms concludes that it is difficult—some would say impossible—to establish causal relationships (Margolis and Walsh, 2003; Blowfield, 2008; Williamson *et al.*, 2006, among others).

What stands out is that the debate on the business case concept has until now mostly been focused on large companies and the literature studying the link between CSR and competitiveness has largely overlooked small and medium-sized companies.

4.2. CSER, SMEs and competitiveness

When it comes to SMEs, hardly any studies have attempted to establish links between CSER and competitiveness, and the few studies undertaken have not provided any firm conclusions. As stated in Section 2, CSER tends to mean different things to SMEs and large firms, and some or perhaps even most of the drivers of the business case and competitiveness appear to be less relevant for SMEs, including reputation risk, campaign pressure and media exposure, requirements from stock exchange investors, etc. On the contrary, other factors may be more critical to SMEs, such as human resources (recruiting a qualified workforce, retaining employees, etc.), the need to maintain key business relationships (to suppliers and customers) and other specific drivers (access to finance, for instance). So, with reference to the five

categories presented above based on Vilanova *et al.* (2008) only cost savings and human resources seem to be of relevance to SMEs. The traditional business case for CSER—if it exists—needs to be adapted to be more applicable to SMEs, as Williamson *et al.* (2006, p. 318, 326ff.) argue.

Accordingly, some authors have even pleaded for the adoption of a much narrower or specific concept when studying the relation between CSER and competitiveness for SMEs, such as “business performance” focusing predominantly on cost reductions, efficiency and meeting customer needs (Williamson *et al.*, 2006).

If we look at the literature on CSER, competitiveness and SMEs, few contributions are found, mainly providing anecdotal evidence of the relationship between CSER and competitiveness. Singh *et al.* (2008) and Luken and Stares (2005) argue for a positive relationship. Others indicate, for instance, differences in sales and profits between (a) SMEs with (substantial) CSER activities, (b) SMEs with some CSER activities, and (c) SMEs without CSER. Lund-Thomsen (2007) and Jeppesen (2004) show examples of a link between CSER and enhanced efficiency; they also show, however, that this can come at a price for SMEs and that SMEs do not necessarily acquire larger sales and market shares.

The experiences of the core team behind this report show that there can be a link between CSER, efficiency and enhanced business performance in line with what Williamson *et al.* (2006) argue.^[183] Jeppesen, for instance, proposes that five key factors can be identified as driving forces behind CSER in South African SMEs. These are: (1) a responsible approach by owners; (2) emphasis on resource efficiency; (3) emphasis on training and skills development; (4) a (supportive) relationship between management and employees; and (5) the relationship with clients (expressed through pressure for quality, price). He also highlights that four other factors have some, albeit minor, influence: (6) relations to suppliers; (7) relations to local authorities; (8) market situation and industry trends (encouraging and/or pressuring for CSER); and (9) the firm’s network (Jeppesen, 2004, Chapter 10, pp. 201-223). While some of the factors highlighted by Williamson *et al.* are also found here, Jeppesen points to additional factors of importance of internal and external nature such as emphasis on training; a supportive relationship between management and employees, and relations with clients.

[183] Similar to the arguments by Williamson *et al.* (2006, p. 318), Jeppesen (2004) is also skeptical about the voluntary nature of CSER practices among SMEs. SMEs are to a certain extent forced to undertake certain practices due to market demands and customer demands. This also means that SMEs can benefit from government regulation—we will return to this discussion in Section 6 – Recommendations.

Kothuis *et al.* (2001) propose an elaborate framework, based on a technical, engineering and managerial understanding of SMEs. In this framework, economic, information and resource flows are interrelated and, if constructed in an appropriate manner, provide the possibilities for SMEs to identify a business case for CSER. With reference to a number of cases from the galvanizing^[184] and textile/garment industries in South Africa, the authors demonstrate how SMEs are able to ensure greater efficiency through improvements in resources, energy and water consumption.^[185]

4.3. The framework for analysis of (possible) links between CSER, efficiency/performance and competitiveness among SMEs in developing countries

Based on the assessment of the CSER and competitiveness literature reviewed above and our considerations regarding applicability to SMEs in developing countries, the study proposes a framework for assessing the links between CSER and competitiveness among SMEs in the two countries along the following lines.

First, we acknowledge that the driving forces can be perceived as both firm-internal and firm-external in nature.^[186] Our suggested framework shares the same assumption as some of the earlier mentioned contributions such as Rowley and Berman (2000) acknowledging the need for a contingency approach—that sector matters.

Second, we make the following two assumptions regarding the links and perception of competitiveness, in line with Williamson *et al.* (2006) and their proposal of a focus on business performance instead of competitiveness:

- A. It is possible to engage SMEs in CSER practices that target cost savings, and hence constitute a restricted win-win approach.^[187] We extend the focus on

[184] See Naumann (2001).

[185] Numerous experiences by Bas Kothuis in heading “waste minimization clubs” in South Africa and a substantial number of other projects tell the same story.

[186] And as mentioned in the introduction, these forces furthermore need to be understood in a historical, political, economic and social context.

[187] We acknowledge that ideally it is necessary to investigate changes over time to acquire a dynamic perspective. The more well-known cost savings perspective is often of a short-term nature, gathering the “low-hanging fruit”, so we also need to incorporate a longer-term win-win perspective. This aspect is more complex than just the time dimension that we have included in the study, but this is what the resources and time frame of the study allowed.

cost savings to a broader perspective on and a measurement of resource efficiency by investigating the development of formal CSER practices such as those targeting the physical environment, the working environment, working conditions, and the more specific use of electricity, water, (raw) materials and labor.

- B. Sales figures and their development can be used as proxies for business performance (and, if desired, as proxies for competitiveness), so an increase in sales over time is viewed as similar to increased performance and/or competitiveness.^[188]

With reference to our overview model of perceiving the relations between SMEs and their context (see Figure 1 in Section 2), this means that our proposed model (reflected in the quantitative questionnaire) can be summarized as follows:

Internal factors (including management's and workers' perspectives and the relations between management and workers) and external factors (stakeholders and the environment)^[189] influence/impact CSER (use of water, electricity, raw materials, human resources),^[190] which influences/leads to improved cost efficiency and improved ability to meet customer demands, which lead to increased sales and/or profitability, which (may) lead to increased competitiveness.

This can be illustrated as shown in Figure 4.

A couple of important reflections on the limitations of the framework include:

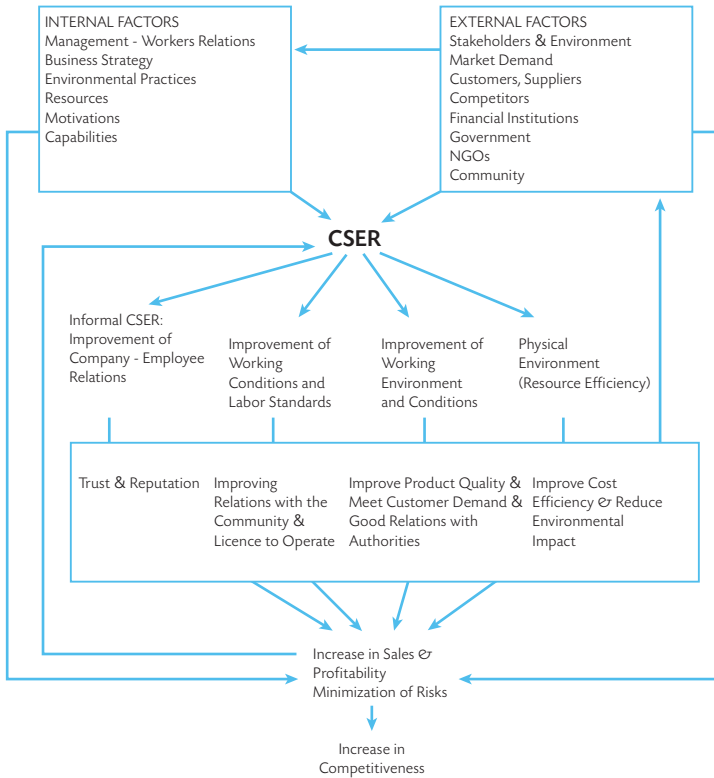
- a) We need to assume that the external environment and firm-internal factors impact CSER, based on the responses from managers and workers. We do not have data from external sources such as clients or suppliers.
- b) Following on from this, we do not know whether the external impact is from (i) business customers and suppliers making CSER demands, (ii) end

[188] We had hoped to include SMEs' profits too, although we were cautious about this from the beginning as we knew that this probably would encounter some difficulties as many companies, including SMEs, tend not be willing to disclose their profits. Our skepticism proved valid, as many SMEs did not even provide sales figures. Furthermore, some SMEs provided limited market information, but not of a quality to be used in a thorough assessment.

[189] Among other things, drawn from questions 59-69 and questions 70-73 (see Appendix B) and reflected in Figure 4.

[190] These factors again depend on the sector and how CSER is done (which [formal and informal] CSER practices are undertaken and how), which can be more or less conducive.

Figure 4 Linkages between CSER and competitiveness in SMEs



Source: Gugler and Shi, 2008, p. 5.

customers (private consumers) wanting to buy goods and services with “CSER aspects”, (iii) governments changing regulations to include more “CSER demands”, and/or (iv) NGOs and local communities making CSER demands on firms. However, the global supply chain literature reviewed in Section 2.1.4 suggests that business customers and suppliers have the strongest influence.

- c) Similarly, regarding internal factors, we do have some proxies like “increase in sales over time” and we can relate this to anticipated changes over time in formal and informal CSER practices as well as to considerations about obstacles and the need for assistance. But we do not have the concrete financial data and/or specific data on energy and water consumption from

the SMEs to make a more detailed and “hard data” assessment of the linkages from CSER to improved cost efficiency to increased sales and profitability.

- d) Finally, as stated above, we do not have the market data to show the impact on competitiveness.

In conclusion, in order to provide data for an analysis of the proposed linkages between CSER and competitiveness in the SMEs, we included the following main categories of quantitative aspects to be assessed through the interviews with management.^[191]

- I. Developments over time (sales, employees, customers);
- II. Developments in formal and informal CSER practices;
- III. Developments in efficiency (Q57:1-10) and most important areas for efficiency and competitiveness;
- IV. Importance of CSER in relation to stakeholders;
- V. Influences of competitors, industry, size, history and culture on CSER; and
- VI. Types of assistance, obstacles and how to move forward.

The quantitative data that we obtained constitute the main foundation for our analyses of CSER and competitiveness among SMEs in the three sectors and when relevant according to size, market and location in South Africa and Vietnam. However, similar to the analysis of the qualitative data, where we also used some of the quantitative data, we also draw on the relevant data from the other part of the study, namely the qualitative interviews presented in Section 3 above. Through the analyses, we will answer the aforementioned research questions of relevance to this part of the study:

- (2) How does their (non) engagement in CSER affect their *competitiveness* (broadly defined as the ability to increase efficiency and generate profits)?
- (A) How does their (non) engagement in CSER affect *labor standards and working conditions* (such as pay, work hours, overtime work and benefits)?
- (B) How does their (non) engagement in CSER affect the *physical/natural* environment (*i.e.*, air, water, etc.)?

[191] The questionnaire can be found in Appendix B.

(C) How does their (non) engagement in CSER affect *the working environment* (i.e., occupational safety, toxicity levels, toilets, sanitary conditions, green space)?

4.4. Linking CSER and competitiveness in SMEs in South Africa

We outline our findings in relation to the three sectors in South Africa. For each sector, we start with the findings on firm-internal factors (developments in terms of efficiency and the development of sales, employees, and formal and informal CSER practices). We then turn to external factors (development in relations with stakeholders and the influence of history, culture, industry, etc.). Then we discuss the findings in relation to context, and include the data on obstacles and the need for assistance. Finally, we conclude with the analysis of CSER and competitiveness in SMEs in South Africa, and address relevant differences in relation to size, location and markets, and answer the research questions.

The overall development in sales and number of employees among the interviewed SMEs was characterized by growth, mostly in sales, but also to some extent in number of employees. Nearly 70% stated that they had experienced growth and two thirds of these companies stated “more than 15%” growth since 2006.^[192] Very few stated that they had been stable, and about a quarter that their sales had dropped. With regard to the number of employees, close to 60% stated that they had grown, close to 28% had been stable, and about one in seven declined.^[193] This higher increases in sales than in the number of employees suggests an increase in efficiency since 2006.

4.4.1. CSER and competitiveness in the agro-processing industry in South Africa

The SMEs in the agro-processing industry showed the highest level of knowledge of CSER and the most widespread use of CSER practices, in particular formal CSER practices. Does this indicate that we also found the highest impact of CSER on efficiency and business performance in this sector? We will turn to this now.

The agro-processing firms stated slightly less growth than average in terms of sales and number of employees. While slightly fewer had grown, more firms had lost

[192] Equivalent to 44% of all SMEs.

[193] 40% stated growth in the number of customers, 36% stated no change, and 22% reported a drop. See also Tables SA.139-SA.140 in Appendix G.

sales.^[194] The growth in employees was similar to sales, with nearly a one third holding steady and a few SMEs having cut the number of employees.^[195] So, from this data we did not necessarily see any increases in efficiency.

Developments in terms of efficiency

Overall, the majority of agro-processing firms stated that the development of CSER practices had led to some increases in efficiency. Just short of four out of 10 stated no impact. While a small majority stated no impact from the development of CSER practices on sales, slightly more than four out of 10 did. Finally, a small majority also stated improved competitiveness due to the development of CSER practices, while close to half stated no changes.^[196]

Development in formal and informal CSER practices

The vast majority of agro-processing firms stated that they had improved their formal CSER practices in terms of the physical environment, the working environment, and working conditions. More SMEs reported improvements in the physical environment than in the working environment and working conditions.^[197]

Regarding the development of water usage, about two thirds of the agro-processing firms stated improvements. Slightly fewer SMEs had experienced improvements in their energy use and waste amounts. This partly reflects the dependence on water among wineries in particular.^[198]

In contrast to the changes in formal CSER practices, much less change was reported in the area of informal CSER practices. The majority of firms did not reply, indicating that these informal practices have been stable—and common practice—for a number of years. An additional reason might be that it is simply difficult to assess their development and impact. A minority of around one quarter of the SMEs replied that increases in donations to charity and sports clubs had taken place. Importantly, hardly any stated that they had decreased the amounts given whether in regard to the provision of loans, allowance of sick leave, donations of books, and donations of

[194] 62% had grown in sales, 7% been stable and slightly more than the average had declined (31%).

[195] See Appendix G, Tables SA.141-SA.142.

[196] See Appendix G, Tables SA.143-SA.145.

[197] 92% compared to 77% on the working environment and 62% on working conditions. See Tables SA.146-SA.148

[198] See Appendix G, Tables SA.149-SA.151.

money. This supports the observation above that the practices have been around for a number of years and are part of traditional company practices.^[199]

We now turn to external factors, where we first look at the development in relations to stakeholders and then assess the influence of history, culture, industry, etc.

Importance of stakeholders for efficiency and competitiveness

The most important areas for efficiency were “relations with customers” (31%) and “good relations with employees” as well as “producing products/services of high quality” (each 19%). The least important areas were “relations with government” (39%) and “relations with unions” and relations with the “local community” (each 27%). Similarly, in rating the most important areas for competitiveness, the highest rated areas among agro-processing firms were “making good products/services” (39%) and “good relations with customers” (23%). The least important areas were “relations with government” (39%) and “relations with unions” (31%).^[200]

In terms of other external factors, including the context for CSER in South Africa at large, nearly three quarters of agro-processing firms viewed “history” as influencing CSER practices.^[201] *“We have the lowest income group and low educational levels and other social weaknesses. People used to be paid with wine, which formed them into a society of drunks. We do CSR taking into account all those issues (e.g. we send people for rehabilitation, etc.)”* (winery) and, *“the wine industry equals alcohol related problems. So, we do training in these issues”* (winery).

Also, “size” was stated as being nearly as important as history. About half perceived “the industry” and “culture” to have an impact, while fewer stated that “competitors” had an influence.^[202] The influence of the industry was expressed as: *“We are dependent on the land. The quality of the land and the weather and the water determines the quality of the wine which is the product and which pays our salaries. So we need to look after our natural environment. Our values are directly influenced by the industry that we work in”* (winery).

With regard to the importance of making money compared to other areas, including various CSER practices, “relationship to customers” was rated highest along with

[199] See Appendix G, Tables SA.152-SA.159.

[200] See Appendix G, Tables SA.160-SA.163.

[201] See Appendix G, Tables SA.164-SA.168.

[202] See Appendix G, Tables SA.164-SA.168.

“quality” by almost all agro-processing firms. Nearly as important were “relationship to employees” and “a good image” while “delivery on time” and “preserving the working environment” came in close behind. Also quite important to eight out of 10 SMEs were “preserving the physical environment” and “suppliers”. The importance of the “local community”, “government” and “relations to unions” was seen as lower or much lower than the other items mentioned.^[203]

Factors with an impact on achieving business goals

A vast majority of agro-processing firms claimed that CSER was “important” or “very important” for achieving business goals. In comparison to the areas where most changes and developments had taken place, the working environment and working conditions were perceived as being important or very important to achieving business goals by almost all SMEs. Slightly fewer stated that the physical environment was of similar importance.^[204]

Summary of findings in terms of links between CSER, efficiency and competitiveness in the agro-processing industry and answers to research questions

Agro-processing firms had experienced some growth in sales and an even higher growth in the number of employees, indicating a potential decrease in efficiency over the last five years. While a (small) majority of firms stated an improvement in efficiency and competitiveness, this was not reflected in the impact of CSER practices on sales even though the vast majority stated improvements in formal CSER practices. Little improvement was due to changes in informal CSER practices, which seem to have been stable and tied to company traditions. So, we cannot identify a clear link between an enhanced impact of CSER on efficiency, and then on sales, and then on competitiveness.

The findings among agro-processing firms strongly indicate that CSER practices are of importance to the achievement of the business goals among SMEs and that formal CSER practices in particular have changed over the last five years and have had a positive impact on firm efficiency. The findings indicate that most changes and improvements have taken place with regard to the physical environment in terms of resource use (water and to some extent energy) although the working environment and working conditions were also reported to have changed and led to increased efficiency.

[203] See Tables SA.169-SA.179 in Appendix G.

[204] See Tables SA.180-SA.183, and SA.146-SA.148 in Appendix G.

While part of the improvement in formal CSER practices can be viewed as caused by firm-internal factors, external factors also had a major role. The agro-processing industry is highly dependent on customers, many of whom are international as 75% of SMEs have such customers. This is directly reflected in responses like *“Usually no negotiation [with customer] unless customer goes bankrupt”* (winery) and in the responses regarding the importance of stakeholders where *“relations with customers”* and *“quality”* came out on top.

From international customers comes pressure to implement formal CSER practices, as respondents stated, for instance: *“more questions from clients regarding environmental issues”*, and *“customers overseas started to show demand in environmental issues e.g. bio wine”*. As we saw in the qualitative section, this pressure includes improvements in standards on the physical environment, the working environment and working conditions.^[205]

Considerable attention has been paid to changing the industry’s image as providing a poor working environment and poor working conditions, such as low wages and bonded labor. In addition, the industry is labor-intensive, which means that improvements in efficiency need to come from areas like the working environment, labor standards/working conditions and relations between management and workers since it is difficult to replace employees with machines.

So, internal and external factors come together to change business practices, including CSER practices and ensuring higher efficiency. The importance of a good public image along with good relations to customers and to some extent suppliers (although there are a *“limited number of suppliers in South Africa”* [winery], inhibiting negotiations) also means that efficiency is tied to sales and enhanced business performance, and from this perspective to improved competitiveness.

Much less change and importance was stated regarding informal CSER practices. This might seem somewhat surprising as informal practices are widespread and undertaken by almost all agro-processing firms. Different factors seem to be part of the explanation. First of all, informal practices have been in existence for quite some time, so they are less prone to change compared to formal CSER practices, as mentioned in the analysis of the qualitative data. Secondly, while the direct impact of informal CSER practices is difficult to establish, these practices are very important for good relations between management and workers: *“The farm is about building relationships, open culture, open door policy”* (winery); *“Open door policy, training*

[205] Including the high uptake for implementation of certified management systems, as we saw in Section 3.

creating opportunities within the company, codes of conduct are fair” (winery). So, when management states that relations with employees are the second most important factor for efficiency (after “relations with customers” but on par with “quality”),^[206] it is clear that informal CSER practices are important. In addition, management similarly emphasizes the high importance of the working environment and working conditions, another key part of maintaining a good relationship between the two.

Given the high level of CSER practices and the external impact on the agro-processing industry over the last five years, it is interesting that a considerable majority (nearly three quarters) stated that they faced obstacles to CSER and that an even larger share of the SMEs (86%) stated that they would like assistance/assistance could help.^[207] A major share of the agro-processing SMEs viewed finances as an obstacle to doing more, while some reported mind-sets to be an obstacle: *“It is more mind-set. Addressing inequalities is not an overnight change”* (food producer). Similarly, a major share of these SMEs would like the government to provide assistance. We shall return to these issues in the recommendations.

4.4.2. *CSER and competitiveness in the textile and garment industry in South Africa*

A substantial number (84%) of the textile and garment SMEs had experienced growth, while a minority had shrunk. Somewhat surprisingly, given the difficulties in the textile and garment sector over the last five years, almost 70% of SMEs had had positive employee development figures since 2006. Two out of 10 had stayed stable and only 10% of the firms had shrunk.^[208]

The figures show a higher level of growth than in the other two industries, both in terms of sales and number of employees. With more firms reporting growth in sales than increases in the number of employees, this could indicate increases in efficiency.

Developments in terms of efficiency

Overall, less than half of the textile and garment firms stated that the development of CSER practices had led to an increase in efficiency (43%). Slightly fewer reported

[206] Relations to employees were, however, “only” ranked third behind “quality” (39%) and “relations to customers” (23%) when it came to the impact on competitiveness.

[207] See Tables SA.184-SA.185 in Appendix G.

[208] See Tables SA.141-SA.142 in Appendix G.

no impact (37%). While one third stated some impact from the development of CSER practices on sales, two thirds did not experience any impact. With regard to the impact of CSER practices on competitiveness, the distribution was reversed, with almost two thirds reporting some competitiveness increases and one third not reporting changes.^[209]

Development in formal and informal CSER practices

The majority of the textile and garment firms stated that they had improved their formal CSER practices in terms of the physical environment, while roughly half of them reported enhanced practices in the working environment, and slightly less than half in regard to working conditions. So, more SMEs reported improvements in the physical environment than in the working environment or labor standards/working conditions.^[210]

Regarding the development in water and energy use and waste amounts, about two thirds of the textile and garment firms stated improvements. While slightly less than two out of three SMEs had experienced improvement in their energy use, less than four out of 10 stated improvements in water use and waste amounts. This partly reflects the dependence on energy to operate the machines in garment factories.^[211]

In contrast to the changes in formal CSER practices, much less change was reported in the area of informal CSER practices. This was similar to agro-processing SMEs, namely established practices and maybe some difficulties seeing the relevance to these practices for efficiency and competitiveness. Importantly, hardly any stated that they had decreased the level of practices whether in regard to the provision of loans, allowance of sick leave, donations of books, or donations of money.^[212]

We now turn to external factors, where we first look at the development in relations with stakeholders, and then assess the influence of history, culture, industry, etc.

Importance of stakeholders for efficiency and competitiveness

The most important areas for efficiency were “relations with employees” (32%) and “making good products/services” (21%). The least important areas were “relations

[209] See Tables SA.143-SA.145 in Appendix G.

[210] 58% compared to 53% on working conditions and 47% on the working environment. See Tables SA.146-SA.148, Appendix G.

[211] See Tables SA.149-SA.151 in Appendix G.

[212] See Tables SA.152-SA.159 in Appendix G.

with unions" (37%) and "relations with government" (26%). Similarly, the textile and garment firms rated "making good products/services" (37%) and "delivery on time" (29%) highest among the most important areas for competitiveness. The least important areas were "relations with unions" (40%) and "relations with government" (26%).^[213]

In terms of other external factors, including the context for CSER in South Africa, about half of the textile and garment firms saw "history" as influencing CSER practices. "Size" received the highest response rate with nearly 60% in terms of importance. About 40% perceived "culture" to have an impact, while fewer stated that "industry" and "competitors" had an influence.^[214]

With regard to the importance of making money compared to other areas, including various CSER practices, "relationship to customers" was rated the highest along with "quality" and "delivery on time" by all textile and garment firms. Nearly as important were "relationship to employees", "relationship to suppliers" and "preserving the working environment", followed closely by "image" and "preserving the physical environment". Not as important, but still named by slightly more than half of the textile firms were "relationship to government" and "relationship to unions". The importance of the "local community" was perceived to be marginally lower.^[215]

Factors impacting achievement of business goals

A vast majority of the textile and garment SMEs claimed that CSER was "important" or "very important" for achieving business goals. In comparison to the areas where the most changes and developments had taken place, the working environment and working conditions were perceived as being important or very important to achieving business goals by all textile SMEs. Slightly fewer, but still eight out of ten, stated that the physical environment was of similar importance.^[216]

Summary of findings in terms of links between CSER, efficiency and competitiveness in the textile and garment industry and answers to research questions

The textile and garment industry in South Africa (and Cape Town) had been going through very tough times for the past five years, with one closure after another. One

[213] See Tables SA.160-SA.163 in Appendix G.

[214] See Tables SA.164-SA.168 in Appendix G.

[215] See Tables SA.169-SA.179 in Appendix G.

[216] See Tables SA.180-SA.183, and SA.146-SA.148 in Appendix G.

firm stated that *“profit margins are low”*, while another said: *“We are in a declining sector. We can do as much as we can to improve that.”* So it seems surprising that such a (very) high number of companies reported growth in sales and an almost equal number reported growth in the number of employees. One explanation could be that we got a list of companies from CLOTEX representing the industry, and perhaps that list was not a representative sample. Perhaps only the “better” companies work with CLOTEX, or perhaps the support from CLOTEX is so good that all its members saw growth. Another explanation could be that many companies closed down, and we “only” interviewed the “survivors”. The positive side is that employees who lost their jobs found jobs in the companies that had survived in the market or recently emerged. This is why we saw positive employee development figures for currently operating companies.

While less than half the SMEs stated an improvement in efficiency, a third stated an improvement in sales and two thirds reported improvements in competitiveness. The majority stated improvements in formal CSER practices, while little improvement was due to changes in informal CSER practices. So, we cannot identify a clear link between an enhanced impact of CSER on efficiency, then on sales, and then on competitiveness. Additional factors seem to contribute to the relatively high impact of improved CSER practices on competitiveness.

The findings among the textile and garment firms indicate that CSER practices are of importance to the achievement of business goals among SMEs. In particular, formal CSER practices had changed over the last five years and had a positive impact on firm efficiency. The findings indicate that the most changes and improvements had taken place with regard to the working environment and working conditions, although the physical environment in terms of resource use (in particular energy, and to a lesser extent water and waste management) was also reported to have changed and led to increased efficiency.

The textile and garment industry is highly dependent on domestic customers, in particular South African retailers, and to some extent also international customers as nearly 50% of the SMEs have such customers. As South African retailers have upgraded their standards, for instance in terms of adherence to codes of conduct, and therefore demands placed on suppliers (the SMEs) have increased over the past five to 10 years, CSER requirements are high from both domestic and international customers. This is reflected in the responses to the importance of stakeholders where “relations to customers”, “quality” and “delivery on time” came out on top. The pressure to implement formal CSER practices, as we saw in the qualitative section, includes improvements in standards within the physical environment, the

working environment and working conditions. According to one manager: *"Customers expect firms to be socially responsible."* They are also important to ensuring achievement of business goals.

The industry is also labor-intensive and therefore improvements in efficiency need to come from employees as it is difficult to replace employees with machines. A medium-sized firm expressed this: *"The manufacturing of clothing is a labor-intensive business, which requires hard and fast work."*

Furthermore, about three quarters of the interviewed SMEs were medium-sized and nearly 60% had existed for more than 10 years, giving them quite a bit of experience in terms of realizing the importance of appropriate CSER practices. The industry is also dependent on suppliers. While one manager made a softer statement: *"Our suppliers set the price of purchase"*, another one was more direct: *"The suppliers dictate prices, logistics and planning and hence impact on profit."* However, as suppliers are often larger firms with their own high standards, they can assist SMEs and ensure a spillover of higher standards to the SMEs.

Finally, although image might not be as important as it was in the other two industries, it was important to textile and garment firms, and therefore something to take notice of that had an impact on CSER practices.

The limited importance of informal CSER practices might seem somewhat surprising as informal practices were widespread and undertaken by almost all textile and garment firms (as with agro-processing firms). Different factors seem to be part of the explanation. First of all, informal practices have been in existence for quite some time, so they are less prone to change compared to formal CSER practices. Secondly, while the direct impact of informal CSER practices is difficult to establish, these practices are very important for good management-worker relations. One manager said, *"We have a family type environment with an open door policy and communication, and we work together with workers."* Another stated: *"We are small family. We have long time employees"*, while a third said, *"We have bonds of trust, which are earned from both sides. The benefits from a decent working environment and our staff are thankful, which also means no strike."* So, when management stated that relations with employees were the most important factor (along with relations with customers) for efficiency and competitiveness, it is clear that informal CSER practices were important—albeit indirectly. In addition, management similarly emphasized the (very) high importance of the working environment and working conditions, another key part of maintaining a good relationship between management and employees.

Given the level of CSER practices and the external impact on the textile and garment industry over the last five years, it is interesting that a considerable majority (nearly three quarters) stated that they faced obstacles to CSER. Again, finances were mentioned as the reason by a major share of the SMEs, while some claimed a lack of will to do CSER: *“There is a lack of will to do CSR. Mind-set”* (clothing firm). Furthermore, an even larger share of SMEs (95%) stated that they would like assistance/assistance could help.^[217] Again, similar to agro-processing SMEs, “government” was mentioned as a key source of assistance, but other actors are also able to provide financial and technical assistance: *“Guidance and technical and financial assistance from the government, workers, customers, suppliers”* (textile firm). We return to these issues in the recommendations.

4.4.3. CSER and competitiveness in the tourism industry in South Africa

In comparison to the agro-processing and textile and garment industries, it is important to restate that the SMEs interviewed in the tourism/hospitality industry were mostly small. Medium-sized firms accordingly make up for a smaller percentage (30%), compared to over 80% in the agro-processing industry and just over 70% in the textile and garment industry. So, in the light of the differences in practices that we reported in Section 3 above, we would expect the “smallness” of the SMEs to influence our findings.^[218]

Slightly more than half of the tourism SMEs reported growth, while one in 10 stated “stable” and about a third “decline”. This can probably be accounted for by the drop in the number of tourists after the FIFA Soccer World Cup in 2010. The World Cup meant a long period during which every hotel ran at full capacity in terms of occupancy; after that, it could only decline.^[219]

In terms of the number of employees, nearly half of the firms stated growth, a third that they had been stable and (only) slightly more than 20% that they had experienced a drop. So, the SMEs in the industry seem to have fared less well than the SMEs in the other two industries investigated in terms of growth in sales, while the decrease in the number of employees was larger than for the other two industries. The growth in employees was similar to sales, but as only 20% reported a

[217] See Tables SA.184-SA.185 in Appendix G.

[218] See Table SA.132 in Appendix G.

[219] See Table SA.141 in Appendix G.

drop in employees while nearly a one third had diminished sales, this does not necessarily point to any increases in efficiency.^[220]

Developments in terms of efficiency

Overall, less than half of the tourism firms stated that the development in the CSER practices had led to an increase in efficiency, while about half of the SMEs stated no impact. About four out of 10 firms stated an impact from the development in CSER practices on sales; however, none stated improved competitiveness due to the development in CSER practices. While CSER seems to have impacted efficiency and sales, no impact on competitiveness was reported.^[221]

Development of formal and informal CSER practices

The vast majority of the tourism firms stated that they had improved their formal CSER practices in terms of the physical environment. While just about half of the SMEs stated improvement in labor/working conditions, only 10% stated improvement in the working environment or, put differently, nearly 90% reported “no change” in practices. More SMEs reported improvements in the physical environment than in working conditions. So, in comparison to the other industries, significantly fewer tourism firms had seen improvements in the working environment.

Regarding the development in water and energy use and waste amounts, about half of the tourism firms stated improvements. Slightly more than half of the SMEs had experienced improvements in their energy use, and slightly less reported improvements in waste amounts. Around 40% reported improvements in water usage.^[223]

Although the improvements in formal CSER practices in the tourism industry seem smaller than in the other two industries, the (limited) development in terms of changes in informal CSER practices seems similar. Similar to the findings regarding agro-processing and textile and garment SMEs, little change and improvement was reported in the area of informal CSER practices. A minority of SMEs replied that

[220] See Table SA.142 in Appendix G.

[221] See Table SA.143-SA.145 in Appendix G.

[222] 83% compared to 10% on the working environment and 51% on working conditions. See Tables SA.146-SA.148 in Appendix G.

[223] See Tables SA.149-SA.151 in Appendix G.

increases in, for example, donations to charity and sports clubs had taken place. Importantly, hardly any stated that they had decreased the amounts given, so again we have a picture showing a set of established practices that have been around for years.^[224]

We now turn to external factors, where we first look at the development of relations to stakeholders, and then assess the influence of history, culture, industry, etc.

Importance of stakeholders for efficiency and competitiveness

The most important areas for efficiency were “relations to employees” and “relations to customers” (36% each). The least important areas were “relations to unions” and “relations to government” (39% each). Similarly, in rating the most important areas for competitiveness, the highest rated areas for tourism firms were “good relations to customers” (33%) and “making good products/services” (22%). The least important areas were “relations to government” (39%) and “relations to unions” (33%).^[225]

In terms of other external factors, including the context for CSER in South Africa at large, about 78% of the tourism firms thought that “size” influenced CSER practices. This is less surprising given that the majority of the interviewed firms were small. “History” was stated as being nearly as important as “size” (72%). Two thirds perceived both the “industry” and “culture” to have an impact, while fewer stated that “competitors” had an influence.^[226]

With regard to the importance of making money compared to other areas, including various CSER practices, “quality” was rated highest along with “relationship to customers” by almost all of the tourism firms. Nearly as important were “a good image” and “relationship to employees”, followed closely by “preserving the working environment” and “preserving the physical environment”. Also quite important to two thirds of the tourism SMEs was the “local community”. Just marginally less important were “relationship to suppliers” and “delivery on time”—both much less important than in the other two industries. The importance of the “relationship to government” and “relations to unions” was perceived to be lower or much lower than the other categories mentioned.^[227]

[224] See Tables SA.152-SA.159 in Appendix G.

[225] See Tables SA.160-SA.163 in Appendix G.

[226] See Tables SA.164-SA.168 in Appendix G.

[227] See Tables SA.169-SA.179 in Appendix G.

A majority of the tourism firms claimed that CSER was “important” or “very important” for achieving business goals. In contrast to the area where most changes and developments had taken place (a majority of firms stated the physical environment, see above), the working environment was perceived as being important or very important to achieving business goals by almost all SMEs. Slightly less—but still the vast majority—found working conditions to be important to achieving business goals, while fewer tourism firms stated that the physical environment was of similar importance (62%).^[228]

Summary of findings in terms of links between CSER, efficiency and competitiveness in the tourism industry and answers to research questions

Less than half of the SMEs reported no change in efficiency over the last five years, only 40% reported an impact on sales, and none stated an impact on competitiveness. We view this as a reflection of the situation in the industry: smaller, fairly young firms that have undertaken some developments, but in a geographical area with lots of competitors (of all sizes) and a market that has shrunk since 2010.

The findings among tourism firms indicate that CSER practices are of importance to the achievement of business goals by SMEs. Among the firms that reported improvements, formal CSER practices in particular have changed over the last five years and have had a positive impact on firm efficiency. The findings indicate that most changes and improvements have taken place with regard to labor and working conditions. Also, the physical environment, including the use of resources (energy, water and waste) was reported to have changed and led to increased efficiency. Interestingly, no improvements were reported with regard to the working environment. One stated the situation as follows: *“Tourism was always here. It is different from other industries. However, the difference between rich and poor and also educated and non-educated is big. So, trainings are needed. Now, workers are treated better.”*

The tourism industry is highly dependent on customers and all establishments had international guests as customers. This was reflected in the responses about the importance of stakeholders, where relations to customers and quality came out on top. From international customers comes pressure to implement formal CSER practices, as we saw in the qualitative section, including improvements in labor standards and to some extent the physical environment (savings on energy and water); this was also directly stated by two respondents: *“Because international*

[228] See Tables SA.180-SA.183, and SA.146-SA.148 in Appendix G.

focus in hospitality is going greener”, and “Expectations from the type of clients makes it [tourism industry] specific. They are aware of CSR.” While one would expect improvements in the working environment to be important, based on the findings in Section 3, this seems not to have happened. One explanation could be that the standards in this area were already high five years ago since Cape Town has been a top tourism destination for many years.

Considerable attention has been placed on relations to employees and public image since the tourism industry is also dependent on relations with the local community. Being close to the local community in a physical sense, SMEs rely on the “word of mouth” and any public concern can have a negative impact on firms: *“We make money out of the beauty of the environment”* (hotel). Still, the industry is labor-intensive, which is why improvements in efficiency need to come from employees, either the employees themselves or through the employees encouraging customers to follow guidelines on how to save energy and water. As stated by one, *“We are dealing with customers directly. To make them aware of the environment is one of our big goals”* (medium-sized hotel).

On the other hand, the firms in the industry are smaller than the firms in the other two industries, with a higher percentage of single-owner and family-owned firms compared to the other two, which indicates a less structured and more ad hoc approach to CSER. This might be a reason why they put less emphasis on working conditions than the other two industries. It could also be due to the long-lasting effect of the OHS legislation from 1989. In addition, nearly half of the tourism SMEs were less than five years old, while the SMEs in the other two industries were (much) more experienced, including in terms of the importance of CSER.

So, while we also saw a combination of firm-internal factors (relations to employees) and firm-external factors (relations to customers and good quality) that came together in changing business practices, including CSER practices, comparatively few SMEs have ensured higher efficiency. And while good relations with customers, good quality and relations to employees were stated as important to competitiveness, none of the tourism SMEs viewed this as impacting their competitiveness.

Here also, we found limited change and importance regarding informal CSER practices. Similarly to the other two industries, different factors seem to be part of the explanation. First of all, informal practices have been in existence for quite some time so they are less prone to change than formal CSER practices, as mentioned above and in the analysis of the qualitative data.

Secondly, while the direct impact of informal CSER practices is difficult to establish, these practices are very important for good relations between management and workers. One stated: *“Trying to create good working environment through improving work conditions (wages, benefits)–treating people fairly”*, and another said: *“Open communication, open door policy, meeting every two weeks, mutual respect and understanding”* (small hotel). So, when management states that relations with employees are the most important factor (along with relations to customers) for efficiency and competitiveness, it is clear that informal CSER practices are important. In addition, management similarly emphasized the high importance of the working environment (although no change in this) and working conditions, another key part of maintaining a good relationship between the two. *“The relationship with staff is very important because they are the face of the company to the guests”*, stated one manager.

Given the high level of CSER practices and the limited development over the last five years in comparison to the other two industries, it was less of a surprise that a considerable majority (67%) stated that they faced obstacles to CSER. As in the other two sectors, finances were mentioned as the reason by a major share of the SMEs, while some claimed an inadequate attitude toward CSER: *“The mentality and culture of people is not ready for CSR. It is also expensive to change into green”* (small guest house). An even larger share of SMEs (89%) stated that they would like assistance/assistance could help.^[229] “Government” was mentioned as a key source of assistance as well as “training/technical assistance”. As stated by one, *“Staff needs more training on CSR”* (small hotel). Still, government did not always support CSER initiatives, rather: *“Government is creating new laws the whole time which costs money.”* We shall return to these issues in the recommendations.

4.4.4. Conclusion on CSER and competitiveness in South Africa

Our findings show that traditional business practices (relations to customers, good quality and delivery on time) are rated as being most important to efficiency and competitiveness. However, CSER practices have some importance too. As we argued in Section 4.3, the practices are to be viewed in relation to each other. We have also identified that the importance of the factors mentioned and their relationship vary from sector to sector, so we present the conclusions in terms of the answers to the research questions for each sector.

[229] See Appendix G, Tables SA.184-SA.185.

The high level of engagement in formal CSER practices in the agro-processing industry does affect the development of CSER practices, in terms of the physical environment, the working environment, working conditions and labor standards. In all areas of formal CSER practices, considerable changes and improvements have taken place over the last five years, mostly in the physical environment and in terms of water and energy use. From management's perspective, this has had a noteworthy impact on efficiency and business performance/sales. In particular, external factors related to market conditions (relations to customers, making good products, and a good public image) seem to influence formal CSER practices, which in turn impact efficiency and business performance. Informal CSER practices are less impacted and can be viewed as a more indirect factor influencing efficiency. The indirect influence of informal CSER practices comes from the impact on relations between management and employees. As good relations are viewed as key to efficiency by management, upholding the present level of CSER practices seems to be of utmost importance in order to sustain the good relationships that were stated by both management and employees in the qualitative section.

The high level of engagement in formal CSER practices in the textile and garment industry does affect the development of CSER practices, in terms of the physical environment, the working environment, working conditions and labor standards. In all areas, quite some changes and improvements have taken place over the last five years, most dealing with the physical environment including energy use. From management's perspective, this has had a positive impact on efficiency and business performance/sales. In particular, external factors related to market conditions (relations to customers, making good products, delivery on time, and relations with suppliers) seem to influence formal CSER practices, which in turn impact efficiency and business performance. Informal CSER practices were stated to have less influence but they can be seen as a more indirect factor influencing efficiency. The indirect influence of informal CSER practices comes from the impact on relations between management and employees. As good relations are viewed as key to efficiency by management, upholding the present level of CSER practices seems to be of utmost importance in order to sustain the good relationships that were stated both by management and employees in the qualitative section.

The level of engagement in formal CSER practices in the tourism industry does affect the development of CSER practices, in terms of the physical environment as well as working conditions and labor standards, where some changes and improvements have taken place over the last five years, including in energy use. However, limited improvements were reported in the area of the working

environment. From management's perspective, there has been some impact on efficiency and business performance/sales. In particular, external factors related to market conditions (relations to customers, good service, and the need for a good public image) seem to influence formal CSER practices, which in turn impact efficiency and business performance. Informal CSER practices have developed less and seem to have had less impact. Still, these practices can be seen as a more indirect factor influencing efficiency. The indirect influence of informal CSER practices comes from the impact on relations between management and employees. As good relations are viewed as key to efficiency by management, upholding the present level of CSER practices seems to be of utmost importance in order to sustain the good relationships that were stated by both management and employees in the qualitative section. It is important to keep in mind the fact that the industry experienced a bit of a downturn after the World Cup in 2010, which might partially explain the figures reported.

We found considerable differences between small and medium-sized firms. In many areas, we found that medium-sized firms had higher CSER practices and had experienced higher impact of CSER practices than small firms. This is similar to what we found in the qualitative section regarding the implementation of certified management systems and codes and the development of formal CSER practices. In other areas, we did not find any differences. Finally, we actually found that small firms had developed more than medium-sized firms in the area of labor standards/working conditions. However, this could be because small firms started at a lower level of practices than medium-sized firms. This also points to a need for assistance for small firms compared to medium-sized firms, which we will elaborate on in the recommendations.

Nevertheless, though we can see more clear linkages between CSER and competitiveness in the agro-processing industry and more limited linkages in the tourism industry, including some patterns of interrelationship between the various factors investigated, these are not really consistent across sectors. Accordingly, we conclude that it is not possible to establish a direct link between CSER practices and increased competitiveness. We do, however, note that we found a number of the relationships in our model (see Figure 4) substantiated, and suggest investigating this further. A contributing factor is/can be the methodology and the lack of data, where it is clear that financial information is either sensitive and/or not available. However, the relationship between the factors—and in particular that no causal relationship can be identified—is a major or the key reason.

Still, we see what the literature has stated: from managers' perspective, (a) CSER practices—in particular formal practices—are important to efficiency and competitiveness, and (b) changes and improvements in CSER practices have taken place over the last five years and have led to improvements in efficiency and competitiveness for a majority of SMEs. As mentioned above, these changes and improvements are reflected differently in the three sectors and between firms of different sizes. We will discuss the implications of these findings in the recommendations.

4.5. Linking CSER and competitiveness in Vietnam

The overall development in sales among the interviewed SMEs is characterized by growth. 45% stated that they had experienced growth and 15% of these companies stated “more than 15%” growth since 2006. About a quarter stated no changes, and one quarter said that their sales had dropped. With regard to the number of employees, about 50% of Vietnamese firms stated no changes. However, 25% experienced increases in employee numbers while some 27% stated negative numbers.^[230] So, a higher increase in sales compared to a mostly stagnant number of employees suggests an increase in efficiency among the interviewed SMEs since 2006.

On the **market**, 75% of all textile/garment/footwear firms produce for export, compared to only 25% of agro-processing firms and 20% of hotels. The rest of the production and services from these firms is for both local and national markets.^[231]

4.5.1. CSER and competitiveness in the agro-processing industry in Vietnam^[232]

The SMEs in the agro-processing industry showed the highest level of knowledge of CSER,^[233] while the practice of CSER (in terms of certification in some management systems, codes of conduct, and producing CSR reports) was widespread in all three sectors although to varying degrees. On engagement in formal CSER practices, the evidence shows that agro-processing ranks highest, followed by textile/garment

[230] See Appendix G, Tables VN.109-VN.110.

[231] See Appendix G, Table VN.68.

[232] All percentages in each section below are based on statistics within that particular economic sector, not within the total sample (of 60 companies).

[233] 80%, compared to 60% of textile and 55% of tourism SMEs. See Table VN.14, Appendix G.

firms and then hotels. Thus, this demonstrates that all three sectors are aware of the importance of CSER practices in producing goods and providing services in the 21st century global economy.^[234] Are these characteristics related to the impact of CSER on efficiency and business performance in these three sectors? We will turn to this now.

In this context, agro-processing firms grew slightly less than all SMEs in the sample in terms of sales and number of employees. While 45% had grown, 10% of the firms had declined in sales, and about a third had stayed stable.^[235] Different from sales, the number of employees had been stable in 45% of the interviewed agro-processing enterprises, while less than a third of the agro-processing factories employed more people, and a quarter had laid off employees.^[236]

While these data do not suggest an increase in efficiency over time, they do suggest some stability in the employment of agro-processing workers. From management interviews, we found that many wanted to keep good employees once they were trained to perform many tasks efficiently. Therefore, stable employment is one way they can maintain efficient operations, and managers are more reluctant to retrain new employees as this can slow down their small-scale operations.

Development in terms of efficiency

Overall, the majority of agro-processing firms stated that the development in CSER practices had not led to changes in efficiency on all levels (the physical environment, the working environment, the working conditions). While a majority stated no changes regarding the general impact of CSER practices and CSER impact on sales, only 15% thought that the impact of both had increased modestly. Interestingly, another 15% experienced a decreased impact of CSER on sales.^[237] Also, in terms of the impact of CSER on the SMEs' competitiveness, most firms reported no changes. Slightly fewer firms (one third) perceived a growing impact of CSER on competitiveness.^[238]

[234] See Tables VN.20-VN.21, and VN.23 in Appendix G.

[235] A few firms did not answer.

[236] See Tables VN.111-VN.112, and VN.23 in Appendix G.

[237] Note that 30% did not reply.

[238] Again, note that 20% did not reply. See Tables VN.113-VN.115 in Appendix G.

Development in formal and informal CSER Practices

On the development of formal CSER practices, the overwhelming majority of small and medium-sized agro-processing firms perceived all three areas—the physical environment, the working environment and the working conditions—to be important to the achievement of their business goals.^[239]

However, turning these perceptions and beliefs into real-life practices is not always an easy task. Around half of the agro-processing firms stated that they had improved their formal CSER practices both in terms of the working environment and working conditions. About 50% to 55% reported improvements in the working environment and conditions, while only 40% reported improvements in the physical environment.^[240] This suggests physical constraints faced by many small and medium-sized agro-processing enterprises.

In contrast to the changes in formal CSER practices, much less change was reported in the area of informal CSER practices. This is consistent with the sustaining influences of history and culture to help workers, their families and local communities in difficult times. Most SMEs reported “no change” in their informal practices. Importantly, hardly any firms stated that they had decreased the amounts given in terms of the provision of loans, allowances for sick leave, and donations of books and money.^[241]

We now turn to external factors, where we first look at the development in relations to stakeholders and then assess the influence of history, and cultural practices.

Importance of stakeholders for efficiency and competitiveness

Triangulating data from both the quantitative and qualitative surveys, we found that suppliers, customers, workers, and unions to some extent played very important roles in assisting the companies with their daily production and services.

For both **efficiency and competitiveness**, most agro-processing firms ranked **“producing products/services of high quality”** highest, with 23% for efficiency

^[239] 79% saw the physical environment as important/very important, 79% labor standards, and 85% the working environment. See Tables VN.116-VN.118 in Appendix G.

^[240] 40% compared to 50% on the working environment and 55% on working conditions. Again, see Tables VN.116-VN.118 in Appendix G.

^[241] See below in the conclusion, which summarizes the findings across the three sectors. See also Tables VN.82-VN.85, and VN.119-VN.122 in Appendix G.

and 38% for competitiveness. 18% mentioned “making money” as the most important area for efficiency.^[242]

Less important areas for both efficiency and competitiveness revolved around **relations with the government, the unions and the local community**. In particular, as “least important to efficiency”, agro-processing firms named “relations to unions” (43%), “relations to local community” (30%) and “relations to government” (18%), while the least rated areas for competitiveness were “relations to government” (39%), followed by “relations to unions” (31%) and “relations to local community” (19%).^[243] Most of these SMEs abide by government regulations, but most small firms do not form unions and most do not get help from the government and to a small extent from local communities. Therefore, these stakeholders ranked very low for these SMEs’ efficiency and competitiveness.

There were concerns about the lack of technical sophistication among government environmental offices and their regulations: *“Many issues since the environmental issue is dependent on awareness of people living in society and those who are in charge of environmental laws. For example, the Environmental Office mandates that we treat waste water until it becomes type A (or equivalent to potable water), but I have different opinion. POD and COD [technical names for different types of water] water must have micro-organisms to survive. Change in perspective depends on the law makers and educated managers. So, with the requirements of 6-month water inspection, and the difficulty in treating water to type A, we were fined occasionally”* (medium agro-processing firm).

On their relations with labor unions, most small firms did not form unions, but among the medium-sized firms that did establish unions, some had positive attitudes: *“Through the union, we support and promote workers to perform well”* (medium water firm). Another one said: *“The union only plays an educational role, and does not facilitate an increase in production”* (medium agro-processing firm).

In the context of Vietnam, we need to incorporate “culture” and “history”, which were mentioned often in the manager interviews, with less than half of the firms seeing “history” and “competitors” as having an impact.^[244] For instance, a medium-sized water company expressed the influences of history and culture on informal

[242] See Tables VN.123-VN.124 in Appendix G.

[243] See Tables VN.125-VN.126 in Appendix G.

[244] See Tables VN.127-VN.131 in Appendix G.

practices: *"The Vietnamese people have a culture of solidarity, mutual sharing, being compassionate toward other people, loving other people as loving oneself. When we make money, we need to assist and share with less fortunate people and our own workers. Manager and workers should relate to each other as family members."* But a vegetable processing manager offered a more realistic expectation, while still recognizing the significance of history and culture: *"We rally support for flooded area. Each country has its own history, and that will influence its culture. Since we are not as developed (economically) as other countries, we must prioritize the basic necessities (food, clothing); while we know about a collective need to save the environment, we don't yet have money to support this cause. When our country is richer (economically), we will take care of this issue."*

Factors influencing achievement of business goals

Beyond making money, many agro-processing firms rated "relationship to customers" highest along with "quality", "delivery on time", "relations to employees" and "preserving the working environment".^[245] Customer relations were emphasized in quotes such as: *"Because if we do not receive orders, we will not have work"* (medium firm), and *"Some customers accept a higher price, some others want a competitive price"* (medium firm).

On relations with workers, overall, agro-processing managers recognized the connection among workers' contentment, stable employment and profits, especially in firms that produced for export. One small firm said, *"Because if they work well, our profit will be high."* One medium firm said, *"We have to keep our workers satisfied and happy so that they would stay with us. The percentage of workers entering our company is higher than the percentage of workers leaving the company."*

Nearly as important were "relationship to suppliers" and "a good image", with "relations to local community" and "preserving the physical environment" (in the neighborhood close to the enterprise) ranking close behind.^[246] To illustrate the importance of the suppliers of raw materials, one manager stated: *"Change in raw material prices will lead to a change in our products' prices."* Another said, *"Products' quality is dependent on the quality of raw materials,"* and a third commented that *"Due to fluctuation in price of supplies, price has increased*

[245] See Tables VN.132-VN.142 in Appendix G.

[246] See Tables VN.132-VN.142 in Appendix G.

twofold since 2005.” In sum, this indicates the significance of raw materials in maintaining efficiency and competitiveness for these agro-processing firms.

Summary of findings in terms of links between CSER, efficiency and competitiveness in the agro-processing industry

The development in sales and employees among agro-processing firms indicates a potential increase in efficiency over the last five years. Only a limited number of firms stated an improvement in efficiency and sales, while a third stated an increased impact of CSER practices on competitiveness. Some even stated a decrease. A (small) majority stated improvements in formal CSER practices. Little improvement was due to changes in informal CSER practices, which seem to have been stable and tied to company traditions. So, we cannot identify a clear link between an enhanced impact of CSER on efficiency, then on sales, and finally on competitiveness.

Perceptions about formal CSER practices are strong for the majority of the SMEs in the agro-processing sector; most faced constraints (financial, physical, policy) when they tried to turn these beliefs into real-life practices. However, they sustained their informal CSER practices. This is consistent with most firms’ belief in the sustaining influences of history and culture on labor standards (such as pay, work hours, overtime work, working conditions and benefits). Overall, most agro-processing managers recognized the connection among workers’ contentment/satisfaction, stable employment and profits, especially in firms that produced for export.

On improving their competitiveness and efficiency (for more profits), most agro-processing firms ranked “producing products/services of high quality” as most important, and relations with the government, unions, and local community as least important.

Their engagement in CSER in terms of the *physical* environment was not as pronounced. Most agro-processing firms reported using more water and generating more waste than firms in the textile/garment/footwear and hotel sectors. There were worker complaints about the *working environment* in terms of sanitary conditions, odors, etc.

About half of the agro-processing SMEs stated that they experienced obstacles to CSER (45%) and little more than half of the SMEs (55%) stated that they would like assistance.^[247] A couple of representative (in terms of size and location) quotes

[247] See Tables VN.143-VN.144 in Appendix G.

below indicate that the key obstacle they face is rising costs (such as inflation, wages, and interest). But there were other concerns: lack of government support for small and medium-sized factories in terms of finance and technical know-how (on environmental policy), and complaints about strict government regulations. For instance, a small, non-metro firm said, *“Nowadays, costs of living go up rapidly, workers’ wages also go up (although the levels are still low), and bank interest rate increases as well. The government has not yet developed any policy to support small businesses”*, and a medium-sized metro firm said, *“The company wants to increase wages for workers, but cannot do so because of the restricted wage funds due to competition.”* Furthermore, in the words of the manager of a medium-sized, non-metro company, *“Many government regulations are inappropriate [as mentioned in the other section of the interview]. Those who write environmental laws do not have adequate understanding of the science of the (physical) environment.”* We shall return to these issues in the recommendations.

4.5.2. CSER and competitiveness in the textile/garment/footwear industry in Vietnam

Every second textile and garment SME had experienced growth in sales, while about a third had seen a decline. However, 45% had cut the number of employees, only one quarter reported increased employee numbers, and another quarter stated no changes. The figures show a slightly higher level of growth compared to the other two industries in terms of sales. Simultaneously, this sector experienced the highest level of decreases in employment.^[248]

This reduction in the number of employees suggests two problems. First, the worldwide financial crisis that began at the end of 2008 has had a tremendous impact on Vietnam since 2009, especially in export-oriented industries such as textiles/garments/footwear due to a lower demand from export markets in Europe, the US and East Asian countries. Second, there is the long-term structural problem of labor fluctuation: migrant workers search around the city for jobs with perceived higher wages and/or better benefits (such as social, health and unemployment insurance). According to worker interviews, the main reasons they move around are the low, unlivable wages and the lack of benefits. On the other hand, according to many of the interviews with managers, there is an overall equilibrium in average regional wages for low-skilled workers, so workers are not likely to get higher wages by moving around the city.

[248] 45% decline in employees in textiles, compared to 25% in agro-processing and 10% in tourism. See also Tables VN.111-VN.112 in Appendix G.

Development in terms of efficiency

Overall, the impact of CSER on efficiency and competitiveness had not changed for the majority of textile/garment/footwear SME managers. 75% of textile and garment firms stated that the **general impact of CSER practices** had not changed. Only 20% of textile/garment/footwear firms reported some increases. In terms of **CSER impacts on sales**, 70% did not experience any impact, while 15% reported some increase. With regard to the impacts of **CSER practices on competitiveness**, only one third of textile/garment/footwear factories reported increases while the majority (60%) did not report changes.^[249]

Development in formal and informal^[250] CSER practices

The findings on the limited effects of CSER on efficiency and competitiveness are reflected in the responses to the impact of more specific CSER practices. The majority of the managers in the textile/garment/footwear firms stated that they had not experienced changes in terms of increased impact on the working environment, working conditions and the physical environment. Less than half of textile/garment/footwear firms had increased their formal CSER practices in terms of improving labor standards/working conditions, while only about a third reported practices to improve the physical environment, and one quarter practices to enhance the working environment. So, more textile/garment/footwear factories have paid more attention to improving working conditions than either the working or physical environment. Still, this was a minority of SMEs.^[251]

We now turn to the importance of external factors in terms of relations with key stakeholders and their impact on efficiency and competitiveness, including how the influence of history, culture, industry and other factors is perceived.

The importance of stakeholders

The **most important areas for efficiency** were “other” (43%), “relations to customers” (15%) and “making money” (13%).^[252] Some reasons given for the “other” category by textile/garment/footwear firms included: “*Sewing techniques*

[249] See Tables VN.113-VN.115 in Appendix G.

[250] We will deal with informal CSER practices in a joint section below, as the findings were similar for the three sectors.

[251] 70% working conditions, 60% each the working environment and the physical environment. See Tables VN.116-VN.118 in Appendix G.

[252] See Table VN.123 in Appendix G.

and raw materials. These two factors determine the quality of our products. The company's survivability depends on our products' quality" (small garment firm). Another mentioned the significance of workers: "Workers! If workers are not enthusiastic, and do not exert their effort, then productivity and profit will be low even when the business receives many orders." This same manager went on to stress the importance of company labor policies: "The company's policies (wage policy, work and rest policy)... The wage policy has to ensure workers' livelihood. We try to cut back on overtime work because workers nowadays do not want to do overtime which affects their health. These policies affect workers, and workers in turn affect the company's revenue and the quality of our products."

In terms of the **most important areas for competitiveness**, 20% ranked "making good products/services" first and 15% "relations to customers", while one third cited "other" areas.^[253] So overall, these textile/garment/footwear managers saw the connections among workers' skills/techniques, the quality of products/services, and relations with customers. These managers understood how these connections affect their competitiveness.

Small and medium-sized textile/garment/footwear factories faced another common challenge: having to rely on many different contract orders to break even with different buyers, different quality standards and, at times, different codes of conduct with which it can be very costly to comply. *"Our customers/clients dictate the quality of the products; therefore, if the products' quality is poor, then the whole order will be negatively affected" (small footwear firm), and "The production is faster when we receive orders of simple product model in large quantity by long-term customers. But when there are many different product models,^[254] the production would be slower. The production would be even slower if we have difficult models, especially when we have fewer workers now" (medium garment firm).*

Overall, most small textile/garment/footwear factories stated that the least important areas for efficiency were "relations to local community" (45%) and "relations to unions" (18%). As the least important areas for competitiveness, they named: "relations to unions" (40%), "relations to government" (26%) and "relations to local community" (21%). The fact that most small textile/garment/footwear factories do not form unions and only 25% of their products are for the domestic

[253] See Table VN:124 in Appendix G.

[254] Note: This means that the orders would most likely come from different customers.

market could help explain this apathy toward the local community and labor unions.^[255]

In terms of other external factors, nearly three quarters of the textile and garment firms acknowledged “**culture**” as influencing the provision of better labor standards and treating workers with compassion and understanding of their family responsibilities, even when the firms do not formally practice any particular code of conduct. Around half textile/garment/footwear firms stated that “history” had an influence on CSER practices.^[256] For instance, many managers expressed awareness of the damages done to the people and the environment in Vietnam by the US-Vietnam war: “... *Businesses must also contribute to help victims of Agent Orange [a toxic herbicide/chemical] used during the US-Vietnam war, as well as injured and disabled veterans*” (medium garment firm). Many recognized migrant workers’ need to visit home during critical times: “*Whenever migrant workers from the South have funerals, weddings, or death anniversaries, we have to allow them to go back to their home towns/villages*” (small garment). Another garment firm owner said, “*Cultural practices and traditions have tremendous influence because Vietnamese society did not experience the historical phase of capitalism (in the Marxist sense) [not yet an advanced capitalist society]...*”

The comparative influence of business practices and CSER practices on efficiency and competitiveness

With regard to the importance of making money compared to other areas, including various CSER practices, “delivery on time” was rated highest along with “preserving the working environment” by all textile and garment firms. The “delivery on time” concern clearly reflects the subcontracting nature of most textile/garment/footwear factories in Vietnam. Nearly as important were “relationship to employees”, “relationship to customers”, “preserving the working environment”, “making good products/services”, “preserving the physical environment”, and “good image”. Not as important but still named by more than half of the garment/textile/footwear factories was the “relationship to unions.”^[257]

The relationship with suppliers (in Tier 2) was very important because most of the interviewed garment/textile/footwear SMEs (in Tier 3) are subcontractors for corporate buyers/MNCs (in Tier 1) and at times also for East Asian suppliers (Tier 2).

[255] See Tables VN:125-VN:126, VN:53 and VN:68 in Appendix G.

[256] See Tables VN:127-VN:131 in Appendix G.

[257] See Tables VN:132-VN:142 in Appendix G.

Both Tier 1 and Tier 2 actors put constant pressure on Vietnamese SMEs to keep prices stable (while costs tend to go up), improve quality and/or increase speed of delivery. Most of the time, the corporate buyers (or at times East Asian suppliers in Tier 2) supply the inputs (such as fabrics) and have control over input prices, sometimes at the expense of workers: *“If the raw material prices increase, our customers [players in Tier 1 and Tier 2] will pay for it, but they do not raise subcontract price for our workers. The reason is that they provide raw materials, so they are willing to raise prices for their own products, but not for workers’ wages”* (non-metro, medium-sized garment firm).

The SMEs need to have cash available to afford flexibility in getting the right type and amount of raw materials, lest they face problems with their customers. If SMEs cannot keep the price from their suppliers stable or get the right quality on time, they face problems with their customers. *“The prices of our suppliers are influenced by market prices. If we do not have upfront cash to purchase raw materials, we would be susceptible to price fluctuation. When we sign a contract, our price will not change, while without upfront payment, the cost of our raw materials will be higher because we would be susceptible to seasonal prices”* (medium-sized textile firm) or *“because we have difficulty adjusting our prices since the fabric price has gone up. If we just keep increase our price, our regular customers will stop buying from us”* (small garment firm) or *“We use a lot of raw materials in the shoes making trade. If we do not have raw materials, we would have no work or order, and we would not be able to pay workers. We are mainly affected by prices of raw materials. If workers’ wages are too low, they will not work. The cost of raw materials is 40% of our final products’ prices, the production cost or workers’ salary is another 40%... After deducting other costs, only 11% is profit”* (footwear firm).

A majority of textile and garment SMEs claimed that CSER was “important” or “very important” for achieving business goals.^[258] This is consistent with the fact that most of these factories produce for export, so they are aware of the CSER concept since it is most often mentioned by corporate buyers/MNCs. However, the implementation of formal CSER activities lags behind management’s understanding and capability, given that these managers face a lot of obstacles—which are beyond their control—as small and medium-sized subcontractors.

All textile/garment/footwear factories reported that the working environment and working conditions were important to achieving business goals, and that they

[258] See Table VN.145 in Appendix G.

maintained the same working environment practices. Slightly fewer stated that the physical environment was of similar importance.^[259]

On relations with workers, overall, managers place high value on stable employment and the connection between skills and product quality, especially in firms that produce for export as expressed in the following quotes. *“Because they [the workers] determine the quality of our products”* (leather firm), or *“If workers are careful and produce good quality products that receives no complain from our partners [customers/buyers], the company will not be negatively affected”* (small garment firm). Finally, many textile/garment/footwear managers are aware that *“because workers are the primary productive force. Currently, there is a lack of labor due to the fact that there are also many garment companies in other provinces”* (medium-sized garment firm).

The importance of the **“local community”** and **“relations to government”** was perceived to be marginally lower.^[260] Most textile/garment factories indicated very little contact between the local community and the company, except for local inspections on labor safety issues. This is consistent with the fact that 75% of textile/garment/footwear factories produce for the export market. But those factories that care about **relations with local communities** seem to focus on the rule of law: *“There are inspections on labor safety, but they are rather lenient. Inspections are not often, they may not even come in 2-3 years”* (footwear firm). The rule of law can even empower them to challenge the State: *“Because there have been corporate laws, tax agency and the police have no right to harass us. There is no corruption. If they harass us, we can talk back...”* (textile firm).

Summary of findings in terms of links between CSER, efficiency and competitiveness in the textile and garment industry

The development in sales and employees among the textile/garment/footwear firms indicates a potential increase in efficiency over the last five years. Only a limited number of firms (20%) stated an improvement in efficiency, and 15% reported an increase in sales, while a third stated an increased impact of CSER practices on competitiveness. Some even stated a decrease. So, we cannot identify a clear link between enhanced impact of CSER on efficiency, then on sales, and finally on competitiveness.

[259] 85% physical environment, compared to 95% each on working conditions and labor standards. See Tables VN:146-VN:148 in Appendix G.

[260] See Tables VN:132-VN:142 in Appendix G.

Overall, formal CSER practices have not increased sales and competitiveness for most textile/garment/footwear factories. Most of these factories take orders from MNCs and their suppliers, and have inadequate financial resources to engage in CSER practices. Therefore, it is obvious that CSER plays a minimal role in their efficiency and competitiveness. However, over time, these managers have paid more attention to improving labor standards/working conditions compared to improving the working or physical environment. This demonstrates management's awareness of the aspects over which they have some control: the value of workers and the connection between their skills and product quality. On the other hand, they do not have sufficient resources and capital to improve both the working environment and the physical environment.

On relations with key stakeholders, these managers place high value on stable employment, and understand the connection between skills and product quality, especially for export. Most of the time, these SMEs have no control over input prices which are controlled by suppliers or MNCs, which further suppresses the wages they pay workers. The relationship with suppliers also demonstrates an unequal balance of power among these SMEs, the suppliers, and the MNCs/brands that exercise constant pressure on SMEs to deliver on time, keep prices stable even when costs go up, improve quality, and increase speed of delivery. Meanwhile, most SMEs do not have surplus cash available to buy raw materials in order to hedge against price fluctuations. Moreover, these textile/garment/footwear SMEs face another common challenge: having to rely on many different contract orders to break even with different buyers, different quality standards, and at times, different codes of conduct with which it can be very costly to comply. However, even with all these challenges, most of the textile/garment/footwear firms acknowledged "cultural" influences on providing better labor standards, and treating workers with compassion and understanding of their family responsibilities, even when the firms do not formally practice any particular codes of conduct.

Moreover, most garment/textile/footwear firms stated that they face **obstacles** to performing formal CSER activities compared to firms in the other two sectors, and 40% of the managers of textile/garment/footwear firms stated that they would like some form of assistance.^[261] Understanding their obstacles is an important first step before we can formulate recommendations to assist them.

First, one challenge is the unequal balance of power in global production. Many garment/textile/footwear companies act as subcontractors producing for big

[261] See Tables VN.143-VN.144 in Appendix G.

brands (Tier 1) and at times even for foreign suppliers (Tier 2). These managers/owners have very little control over the raw materials which are mostly provided by their foreign suppliers, either sent from abroad or produced in Vietnam. They receive very low subcontracting prices with which to pay their workers. This leads to labor discontent due to non-livable wages. Labor fluctuations (as explained above) have also been an issue. For instance, a medium-sized non-metro factory lamented, *"We have difficulties with our workforce. We experience a shortage of workers."* Another small metro factory owner said, *"Working environment for workers and wages must be ensured. We are concerned with the possibility that workers will not cooperate [or stay] with the company."*

Second, there are other obstacles such as the cost of complying with local environmental standards and reporting requirements (for both national and international standards), the time needed to perform those tasks, and labor fluctuations.^[262] A small, non-metro factory explained, *"It is time consuming to produce environmental reports for official agencies."* A manager from a medium-sized metro factory complained: *"We are currently building an environmental project according to the request of the Environmental and Natural Resources Department. This is a costly endeavor because we do not completely understand the instructions and have to hire other services (costing us about VND8million). The monitoring report is done once every six months."* We will return to these issues in the recommendations.

4.5.3. CSER and competitiveness in the hotel/tourism industry in Vietnam

Compared to agro-processing and textile and garment factories, most of the hotels interviewed were small, and medium-sized hotels accounted for only 20%, compared to more than 50% in the agro-processing industry and 65% in the textile and garment industry.^[263]

40% of the tourism SMEs reported growth, while about one third stated "stable" and a quarter said "decline." This means that fewer tourism SMEs grew compared to the other two sectors. In terms of employment, 70% of the firms stated no changes, 20% reported increases, and only 10% experienced a decline. So, the interviewed

[262] Based on four representative quotes (in terms of size and location).

[263] See Appendix G, Table VN.149.

hotels experienced the most stable development in terms of employment, compared to the other two industries.^[264]

The stability in the employment of hotel workers is consistent with workers' interviews; many tended to stay with the same managers/owners of small and medium-sized hotels if they were treated well. From management interviews, we found that many wanted to keep good employees once they had been trained to perform many tasks efficiently. Therefore, stable employment was one way to maintain efficient operations, so that managers did not have to retrain new employees, which could slow down their small-scale operations.

While this appears to be a reduction in efficiency over time (a larger reduction in sales than in the number of workers), more data are needed because sales could have dropped due to the overall financial crisis in 2009, not necessarily due to workers. This worldwide economic malaise slowed down all economic activities, which were accompanied by fewer foreign and domestic tourists coming to Ho Chi Minh City.

Development in terms of efficiency and competitiveness

Overall, more than half of the hotels stated that the development in CSER practices had not led to any changes in efficiency, while only one quarter of the hotels stated an increased impact. On the impacts of CSER practices on sales, about one third of the interviewed hotels reported an increase over time, while twice as many stated no changes.^[265]

Development in formal and informal CSER practices

The vast majority of the hotels stated that they had no changes in their formal CSER practices in terms of the working environment, working conditions, and the physical environment. However, relatively speaking, management engaged in more practices related to the working environment and labor standards/working conditions than the physical environment.^[266]

Most interviewed hotels reported limited changes in their informal CSER practices. Regarding donations to charity, 80% of all interviewed hotels maintained the same level of donations, while only 20% experienced some increases. However, in terms of

[264] See Tables VN.111-VN.112 in Appendix G.

[265] See Tables VN.113-VN.115 in Appendix G.

[266] See Tables VN.116-VN.118 in Appendix G.

donations to sports clubs, 75% of interviewed hotels found these activities to be “not applicable”, 15% the same and 10% some changes. In terms of donations to temples/churches, 70% stated “not applicable” and 30% “the same”. However, similar to the other two sectors, most hotels sustained their cultural practices to assist workers such as providing short-term loans, allowances for sick leave, and donations of books and money.^[267]

We now turn to the importance for efficiency and competitiveness of external factors in terms of relations with key stakeholders, including how the influence of history, culture, industry and other factors is perceived.

Importance of stakeholders for efficiency and competitiveness

The most important areas for efficiency were “making good products/services” (33%), “other” (25%), and “relations to customers” (20%). Similarly, the most important areas for competitiveness included “making good products/services” (43%) and “other” (45%). The least important areas for competitiveness were “relations to government” (39%) and “relations to unions” (33%), while the least important areas for efficiency were “relations to unions” (53%) and “relations to suppliers” (23%).^[268] Overall, most hotels valued services and relations with customers highly to enhance both efficiency and competitiveness, while most clearly did not value relations with unions, the government and suppliers. Since most interviewed hotels were small (16 out of 20 hotels interviewed were small), they were not required to form unions.

Most interviewed hotels rated “quality” highest along with “relations to customers” and “preserving the working environment”. For instance, relations to customers were highly valued: *“Because customers determine our revenue”, or “our customers are a decisive factor in the development of our hotel”, and “customers’ mentality really affect our profit.”*

Nearly as important were maintaining “a good image”, “relationship to employees,” and “preserving the physical environment.” **On relations with workers**, managers tended to link workers with profitability and serving customers well. For example, *“employees must have a positive attitude to increase our profit. For instance, we encourage our workers to clean windows [when not working on other tasks] instead*

[267] Further information on this issue can be found at the end of the section summarizing the findings from the three sectors. See also Appendix G, Tables VN.82-VN.85, and VN.119-VN.122.

[268] See Tables VN.123-VN.126 in Appendix G.

of hiring other people to do so.”^[269] Another hotel manager said: “Workers will perform well if we treat them well”, and another one said: “The most important thing is workers’ attitude toward customers. If they are friendly, customers will keep coming back.”

75% of all interviewed hotels rated “relations to local community” and “relations to government” as being important, while “delivery on time”, “relations to suppliers” and “relations to unions” were much less important. Most interviewed hotels were very much aware of the importance of local communities and local governments. For instance, they stressed the important roles of these local actors: “The local government actively recommends the company to customers”, and “the local community assists us in ensuring security and order.”

The majority of the interviewed hotels claimed that CSER was “important” or “very important” for achieving business goals. Almost all hotels perceived the working environment as being very important to achieving business goals. Slightly fewer hotels stated the physical environment and labor standards to be of similar importance.^[270]

The comparative influence of business practices and CSER practices on efficiency and competitiveness

Most managers were very diplomatic with their neighboring **competing hotels** in order to keep peace within the community. A manager/owner of a small hotel in HCMC said: “For example, in this area, we have to respect guests’ decisions to select the hotel of their choice. We have to be diplomatic with the nearby hotels, but not letting them bully us...” (There is fierce competition among these small and medium-sized hotels in downtown Ho Chi Minh City in a “backpackers” area.) In that competitive context, they put high value on their **customers** “Because there are too many hotels in the area.” But some did warn: “We would lose income if we have no guests. However, we select our guests, not just any guest can stay here.” (This implies issues with prostitution and drug use.)

They had a wide range of views on relations with **suppliers**, and more medium-sized hotels tended to see them as playing a more important role than small hotels. For instance, a manager at a medium-sized hotel said: “This is a factor that determines

[269] Of course, this can be seen as “speed-up” (in the context of labor-management relations): cost savings for managers and more work for employees.

[270] See Tables VN.145-VN.148 in Appendix G.

our business' survivability (such as the price and quality factors)", and "we have to bear with them since we have a passive role in this matter", and "as prices of raw materials increase, our profit will decrease." Whereas a manager of a small hotel said: *"We purchase our supplies from Metro [a supermarket chain in Vietnam], since our demand is small."*

On relations with **workers**, the managers tended to link workers with profitability and serving customers well: *"Employees must have a positive attitude to increase our profit. For instance, we encourage our workers to clean windows [when not working on other tasks] instead of hiring other people to do so."*^[271] Another hotel manager said, *"Workers will perform well if we treat them well"*, and another one said, *"The most important thing is workers' attitude toward customers. If they are friendly, customers will keep coming back."*

In terms of other external factors, 55% of the tourism firms viewed "competitors" as influencing CSER practices.^[272] One medium-sized hotel in HCMC explained, *"Because nowadays, all the establishments in the area know about each other, everything is transparent. If we do not do our CSER well, our employees will leave and go to other places [competitors]. One competitive area is development; it is a crucial thing for our survival"* (small hotel). "Size" and "culture" were stated by one out of every two firms, while fewer perceived "history" and "industry" to have an influence on CSER practices. Most managers of these hotels understood appropriate cultural practices; certainly not all enacted them in their relations with workers. One hotel manager said, *"The Vietnamese tend to be more emotional. In resolving work issues and employee management, they include both rational and emotional elements. The emotional element is rather significant."* Another small hotel explained, *"The owner treats workers well, and do not look down upon them as if they are mere laborers (this also depends on each person's educational background)..."*

Summary of findings in terms of linkages between CSER, efficiency and competitiveness in the tourism industry

Compared to the other two sectors, the interviewed hotels had experienced stable employment. Overall, more than half of the hotels stated that the development in CSER practices had not led to any changes in efficiency, while only one quarter of the hotels stated an increased impact. On the impacts of CSER practices on sales,

[271] Again, this can be considered "speed-up": cost savings for managers, and more work for employees.

[272] See Tables VN127-VN131 in Appendix G.

about one third of the interviewed hotels reported an increase over time, while twice as many stated no changes.

A majority of the hotel managers found that formal CSER practices concerning the physical environment, the working environment and labor standards/working conditions had not led to changes in efficiency or sales. But they sustained their informal CSER practices, mostly based on cultural practices, to assist workers such as providing short-term loans, allowances for sick leave, and donations of books and money.

In sum, most managers were very diplomatic with the neighboring competing hotels to keep peace within the community. They had a wide range of views on relations with suppliers, with more medium-sized hotels tending to see them as playing a more important role than small hotels. On relations with workers, they tended to link workers with profitability and serving customers well.

The lowest percentage of all three sectors, only 30% of the interviewed hotels complained that they faced **obstacles** to performing CSER tasks. In terms of size, medium-sized hotels (only a few in this sample somewhat biased toward small hotels) faced more obstacles than small hotels.^[273]

However, half of the hotels stated that they would like assistance.^[274] Concerns about the labor fluctuation problem and environmental requirements emerged. For instance, a small, non-metro hotel said, *“Many workers do not stay with us for long; we therefore cannot purchase social and health insurances for them.”* A medium-sized hotel said, *“The environmental company/agency [mentioned in Question 23] takes charge of the common environment. This is a long-term issue.”* We shall return to these issues in the recommendations.

4.5.4. Conclusion on CSER and competitiveness in all three sectors in Vietnam

Across sectors, few managers saw an increased impact of CSER on efficiency and competitiveness. Some found the physical environment, working environment and working conditions/labor standards to have had increased impact. Still, most found no change in impact on efficiency and business performance/sales. So, similar to South Africa, it is difficult to find a direct link between CSER, increased efficiency,

[273] See Tables VN.143 and VN.150 in Appendix G.

[274] See Tables VN.144 in Appendix G.

and competitiveness. In the Vietnamese situation, this was mainly because CSER seems to have limited influence and therefore few SMEs experience its impact and when they do, it is in a non-consistent pattern. Interestingly, few firms reported negative impacts of CSER on efficiency and sales.

While it was not possible to establish a direct link between CSER practices and increased competitiveness (among other things due to the lack of accurate financial information, and the unclear/ambiguous relationship between the factors investigated), we offer several overall trends/patterns and perhaps indirect links.

First, there are the changes in energy usage and waste production over time. Considering all three economic sectors with attention to size, the changes in energy usage and waste production over time suggest the advantage of medium *versus* small size in terms of cutting costs. Interestingly, compared to the other two sectors, **textile/garment/footwear factories** emerged as the sector that reported using the least energy and water and producing the least waste over time.

On **water usage** over time since 2006, 55% of all Vietnamese firms experienced no changes in their water use, while 20% claimed an increase in water use, and 17% experienced a drop in use. By size, seven small *versus* five medium-sized firms reported some increase in water usage, whereas three small *versus* seven medium-sized firms used less water. By sector, nine agro-processing firms reported using more water, compared to three hotels and no textile firms. On the other hand, seven textile/garment/footwear factories reported using less water, *versus* one agro-processing firm and two hotels.^[275] So, the data suggest that while agro-processing firms reported using more water, more textile/garment/footwear factories reported using less water over time. Also, data indicate that, compared to small firms, more medium-sized firms reported using less water. Further study could examine the potential impact of water-saving techniques/technology, which might be more available to medium-sized firms than to small firms to use less water. Moreover, further study can look into whether the market (domestic, export) plays a role in reducing water usage in these sectors to cut costs.

On **energy usage** over time since 2006, 43% of all firms noted some level of increased use, while 30% claimed no changes, and 22% used less energy. By size, 17 small firms reported using more energy *versus* nine medium-sized firms; whereas seven medium-sized firms used less energy compared to six small firms. By sector, 13 agro-processing firms used more energy, *versus* eight hotels and five textile firms;

[275] See Tables VN151-VN153 in Appendix G.

whereas eight textiles firms reported using less energy, compared to four hotels and one agro-processing firm.^[276] So, the data suggest that more textile/garment/footwear firms reported using less energy over time, compared to agro-processing firms and hotels. Also, the data indicate that, compared to small firms, more medium-sized firms reported using less energy. Further study could examine the potential impact of energy-saving techniques/technology, which might be more available to medium-sized firms than to small firms. Moreover, further study can look into whether the market (domestic, export) plays a role in reducing energy usage in these sectors to cut costs.

On **waste development** over time since 2006, 62% of all Vietnamese firms produced the same amount of waste, while 13% noted some increases and 17% produced less waste. By size, four medium-sized and four small firms reported some increases in waste production; whereas seven medium-sized firms reported producing less waste *versus* three small firms. By sector, five agro-processing factories reported producing more waste, *versus* two hotels and one textile/garment/footwear factory whereas six textile/garment/footwear factories reported producing less waste, compared to three agro-processing factories and one hotel.^[277] So, the data indicates that more medium-sized firms reported producing less waste than small firms. Also, the data indicate that agro-processing factories produced more waste while more textile/garment/footwear factories reported producing less waste over time. Further study can look into whether the market (domestic, export) and local communities play a role in reducing waste in these sectors to cut costs and pollution.

4.5.5. *Conclusion on formal and informal CSER practices by sector and size*

Many managers reported that (a) formal CSER practices were important to efficiency and competitiveness, and (b) changes and improvements in CSER practices had partly taken place and led to improvements in efficiency and competitiveness in roughly every fifth firm, while interestingly, few SMEs reported negative impacts of CSER on sales. Many opined that the least important areas for both efficiency and competitiveness revolved around relations with the government, unions and the local community.

[276] See Tables VN.154-VN.156 in Appendix G.

[277] See Tables VN.157-VN.159 in Appendix G.

The analysis of labor unions is too complex to present here, but overall, structurally, most enterprise-level unions are inefficient because they, too, are employees and thus compromised and cannot represent workers well.^[278] Moreover, as explained earlier, most small firms are not required to form unions, so most interviewed hotels (mostly small ones) did not have unions. While unions were not ranked very highly by many of the interviewed firms when it came to their influence, those who did value the unions' services were mostly medium-sized firms in all three sectors. They expressed their enthusiasm about how labor unions actually did their job of representing workers' interests well: *"Because the union is effective, sensitive to workers' needs and make timely proposals to business owner. The business owner pays everybody on time, and there has not been any problem"* (garment firm), or *"Union is the voice of workers, whatever the company plans to do, we have to consult with the union. With the consent of the union, workers will be more enthusiastic"* (garment firm), or *"The union influences workers' occupational attitude"* (small hotel), or *"Through the union, we support and promote workers to perform well"* (small agro-processing firm), or *"The union only plays an educational role, and does not facilitate an increase in production"* (agro-processing firm).

Overall, evidence shows that **medium-sized agro-processing companies** engaged in all three formal dimensions of CSER more than the other two sectors. This may be due to more stringent national and global food and environmental regulations applied to the food and beverage industry. Most **textile/garment/footwear** factories faced a lot of difficulties engaging in formal CSER activities (as cited above) because many are subcontractors for foreign suppliers and/or corporate buyers. So, when textile/garment/footwear factories rate CSER as "unimportant", it is not necessarily because they think that these CSER activities are unimportant but because they face many constraints: financial needs to engage in these activities and the lack of control over raw materials/inputs/fabrics, which are most likely provided by corporate buyers, and subcontract prices which are low and not adjusted with rising inflation (higher costs of living) in Vietnam. Lastly, most small hotels (80% of all interviewed hotels) do not engage in formal CSER practices, but engage in all forms of informal CSER practices to accommodate their workers.

[278] See Tran, "The Third Sleeve: Emerging Labor Newspapers and the Response of Labor Unions and the State to Workers' Resistance in Vietnam", *Labor Studies Journal*, Vol. 32, N°. 3, pp. 257-279, September 2007; and "The Vietnam Case: Workers Versus the Global Supply Chain", *Harvard International Review*, 33.2 (Summer 2011): p. 60
http://library2.csumb.edu:2048/login?url=http://go.galegroup.com/library2.csumb.edu:2048/ps/i.do?xid=GALE%7CA261641040&v=2.1&u=csumb_main&it=r&p=AONE&sw=w

On the other hand, for CSER practices that are within these Vietnamese SMEs' control, the vast majority of these firms rate them as "important." Most of these interviewed SMEs were concerned about the working environment, especially the textile/garment/footwear factories. This is consistent with the fact that this sector continues to employ the highest number of manufacturing workers. Some were concerned about the physical environment, such as how their products and services pollute or impact the surrounding areas and neighborhoods.

On **informal practices**, triangulating both qualitative and quantitative data, we found that most informal CSER activities in all three sectors remained stable over time. Most SMEs in Vietnam receive regular requests from local organizations such as people's committees and youth and women's unions, as well as calls for help due to natural disasters. Again, donations to sports clubs were not relevant to Vietnamese textile/garment/footwear firms since such practices are not common in Vietnam. Importantly, hardly any firm stated that they had decreased the amounts given in terms of provision of loans, allowance for sick leave, and donations of books and money.

While we saw some differences in CSER practices among medium-sized and small firms in the qualitative section, the differences on quantitative dimensions were rather small. Furthermore, and in contrast with the South African situation, in many cases small firms show a higher level of practices than medium-sized firms.

On companies' responsibilities by size, contrary to common expectations, except for responsibility for suppliers, **more small firms (than medium-sized firms) in Vietnam consistently showed responsibilities for all other areas of our study:** the working and physical environments, and working conditions (or labor standards). Of those firms responding: "*Responsibility for Working Environment*", 53% were small and 47% were medium-sized; "*Responsibility for Working Conditions/Labor Standards*", 54% were small and 46% were medium-sized; and "*Responsibility for Environment*", 54% were small and 46% were medium-sized.^[279]

Of those firms responding "**Responsibility for suppliers**", 52% were medium-sized and 48% were small.^[280] One explanation is that medium firms may have more bargaining power to negotiate with and influence suppliers, thus feeling more responsible toward them. For instance, the medium-sized Aloe Vera beverage company whose manager told us that, given the significance of aloe vera plants as

[279] See Table VN.13 in Appendix G.

[280] See Tables VN.13 in Appendix G.

the key ingredient in his beverages, he was able to talk to aloe vera farmers on the central coast of Vietnam about planting techniques (that involve the use of fertilizer and water).

On company responsibilities by sector, interestingly, about the same number of firms in the three sectors expressed responsibilities for these areas of concern (responsibility for working conditions and for the physical and working environment). However, of those firms in all three sectors responding **“Responsibility for suppliers”**, a lot more agro-processing firms (48% are agro-processing firms, 26% were textile firms and 26% were hotels) expressed their responsibility in this area.^[281] This sector demonstrated the direct health impact of the ingredients, such as aloe vera plants, vegetables, rice, flour, meat and fish/seafood, or sources of clean water, which might have led to managers’ concerns for the suppliers of these vital inputs into their final products for both domestic and foreign customers.

In investigating the **38% of “other” responses** to “most important areas for efficiency and competitiveness,” a rich list of factors emerged. In terms of **efficiency**, we found that the “workforce” ranked highest, followed by «external relations» (with customers, suppliers, local communities), and then financial issues (prices, taxes). In terms of **competitiveness**, the top factor was the importance of “prices and quality of products and services”, followed by the workforce, and then investment in infrastructure, equipment and research on how to meet customer demands. It is interesting that having a stable workforce consistently ranks very high for both efficiency and competitiveness.

While unions were not ranked very high on “having influence” by many interviewed firms, those who valued the unions’ services expressed their enthusiasm about the **importance of labor unions as follows**, *“Because the union is effective, sensitive to workers’ needs and make timely proposals to business owner. The business owner pays everybody on time, and there has not been any problem”* (small garment firm). *“Union is the voice of workers, whatever the company plans to do, we have to consult with the union. With the consent of the union, workers will be more enthusiastic”* (garment firm), and *“The union influences workers’ occupational attitude”* (small hotel).

[281] See Tables VN.16 in Appendix G.

Part Five

5. Recommendations

How do the findings and conclusions inform policy? Although the study emphasized the practical dimensions of CSER in SMEs in developing countries, the above text has mainly had an analytical focus. Now, we will draw out recommendations for policy-makers in regard to the promotion of CSER among SMEs in developing countries. We do so from the perspective of supporting SMEs in developing countries in general, as we see this segment of firms as crucial to competition at large, innovation and employment. While we will argue that some of the experiences and observations are applicable to a number of other developing countries in Sections 5.1 and 5.2, we mainly see the findings as being relevant for SMEs in South Africa and in Vietnam.

5.1. A growing foundation for addressing CSER in SMEs

Although, no similar studies exist, we have a firm view that the amount of CSER practices has increased (considerably) among SMEs in South Africa and Vietnam over the last 5 to 10 years. Knowledge of CSER has increased a lot among SMEs, as have formal CSER practices. Formal CSER practices in particular have increased and the impact of CSER practices on SMEs' development, on their business performance and maybe even on their competitiveness has increased as well. However, informal practices are of importance too and should by no means be forgotten or overlooked. Nevertheless, in spite of the increased awareness and levels of practice, not all managers and workers by far are familiar with the CSER concept. For instance, one quarter of managers and 95% of South African workers did not know the term "CSER".

We see three different types of experience and observation, which provide a foundation for recommendations to donor agencies, governments, business associations, unions and other likeminded entities as to how they could act to stimulate the existing process:

- General recommendations, based on our methodology and approach to CSER, competitiveness and SMEs;
- Recommendations derived from the difficulties that we had getting hold of SMEs for the study; and

- Country- and sector-specific recommendations based on the findings in Sections 3 and 4 above. These recommendations will be presented country by country.

5.2. General recommendations

On the basis of our methodology and the arguments that we provided in Section 2 in terms of how to conduct the study and which factors of importance to CSER SMEs need to be aware of, we find that the study confirmed the usefulness of the methodology in addressing CSER in SMEs in developing countries.^[282] Hence, we recommend that policy-makers include the following aspects when designing and implementing activities aimed at enhancing CSER among SMEs:^[283]

- ***Be sensitive to sector specificities and have a sector/industry focus,*** addressing the long term if possible.
- ***Be sensitive to size specificities*** (for example, small firms are more family-oriented, less formal and more ad hoc than medium-sized firms) and differentiate tools, instruments, etc. accordingly.
- ***Involve both management and workers in the activities.*** Such involvement should ensure a stronger foundation for the general development of SMEs and support/enhance the updating of formal CSER practices. While certain activities should be common to management and workers, other activities need to be specific in order to cater to the different levels of CSER knowledge.
- ***Include an emphasis on both formal and informal CSER practices*** as both types of practice are important to the enhancement of CSER in SMEs. As informal practices are widespread in contrast to some of the formal practices, emphasis should probably be on enhancing formal CSER practices.
- ***Address both firm-internal and firm-external conditions.*** Most of our recommendations concern firm-internal aspects of CSER. However, firm-

^[282] That is not to say that all elements of the study were without challenges. Some of the questions in the two types of investigation had different kinds of shortcomings. We deal with these issues for future research in the Appendix on the Methodology—see the subsection on “Reflections”.

^[283] We also found that the study provided a number of valuable insights and can contribute to many of the lacunas in the field that we pointed out in Section 2.2. We will use the information—with the consent of the AFD—to publish a number of journal articles and accordingly address the academic and more theoretical issues through this channel.

external conditions do clearly matter. This includes considering partnerships with other actors/stakeholders who have a specific role to play, whether they are local government, business associations, unions or the SMEs' customers and suppliers. While some would claim that market forces and MNCs' emphasis on CSER through their global supply chains have been of major importance, we would like to point out the importance of governments and regulation. Governmental regulation is an important factor in providing a level playing field for SMEs, and government entities play a supplementary role compared to MNCs. It would be a mistake to think that market forces alone through voluntary initiatives would lead to all SMEs being aware of CSER in the next few years (see the elaboration below in Section 6.2.)

5.3. Recommendations on engaging SMEs in CSER initiatives

As noted at different times in this report, we faced a number of difficulties getting hold of SMEs. While the reluctance to participate among SMEs in both countries might be due to inability to see any value in the investigations conducted by academia, we also believe the difficulties were caused by other reasons.

In South Africa, a lack of management cooperation was the reason why (only) 47 worker representatives were interviewed and why 10 SMEs dropped out of the quantitative part of the study. In particular, the management of small firms in the agro-processing and tourism industries opposed efforts/wishes to interview workers and/or spend time on the quantitative, structured interviews. In Vietnam, we were not able to interview workers in 16 companies for various reasons: work pressures/overtime, lack of union representation, and lack of cooperation from management. Unlike South Africa, workers in roughly equal numbers of firms in all three sectors were interviewed: 16 agro-businesses, 14 textile/garment factories, and 14 hotels.

SME managers are pressed for time. The main reason seems to be that SME managers are highly pressed for time. Due to such pressure, the time available to look into activities other than immediately pressing tasks for the business is limited. This includes the options to engage with government and donor agencies on CSER-related initiatives—despite a positive attitude and even knowledge of the field.

Undertake activities with the right timing, relevant information and in collaboration with other stakeholders. A particular concern should be how to overcome these barriers—without adopting the prejudiced approach “that SMEs

lack time and resources and are not interested."^[284] The recommendation is that donor agencies need to adjust interventions with **respect to the time pressures** and many requests placed on SMEs, taking into account the fact that the business case is different for SMEs and large firms. An aspect of this includes identifying "**timing**" or different phasing—i.e. determining when the appropriate time of the year is to reach SMEs during their "low season" when they might have some time. Similarly, it may also be relevant to conduct activities that **meet the SMEs on their home ground**, in firms, and do not rely on SME managers showing up at a given meeting place.

Implementing agencies should also notice that the "CSER/CSR" concept is not yet known to all SMEs. A noticeable proportion of managers and almost all workers were not familiar with the concept, as stated above. On the other hand, practices that are understood to be "CSER practices" (including preserving the physical environment, the working environment and working conditions), as well as informal practices, were acknowledged to be key responsibilities. In addition, these practices are widespread and undertaken by a very high percentage—nearly all—of the SMEs. The relevance and importance of these practices are closely related to sector conditions, which underlines the importance of awareness of sector specifics (as pointed out above). However, also very importantly, it highlights the need for **carefully designed information** when seeking to engage SMEs—ample experiences show that SMEs will not engage if they are not fully able to understand the content of such information.

And finally, **joining hands/collaborating with other actors/stakeholders can help**. Given the influence of customers and suppliers on many SMEs, partnerships with such stakeholders tend to assist in motivating SMEs. The experiences of donor agencies like GTZ (now GIZ) in partnering with MNCs have been positive. As have partnerships between Danida, local South African municipalities and consultants in the galvanizing industry.

5.4. Country- and sector-specific recommendations for South Africa and Vietnam

5.4.1. South Africa

Limited knowledge among small firms and workers. Here, we found that small firms were less knowledgeable about CSER, etc. than the medium-sized firms. Accordingly, targeting interventions to small firms seems needed. These

[284] The 13 year old view found in Hillary *et al.* (1999).

interventions should aim at, for instance, increasing knowledge of CSER among the managers and (perhaps in particular) workers, as nearly 40% of the managers and almost all of the workers did not know the term “CSER”. We also recommend focusing on the potential benefits to firms (see below in the sections on the textile/garment and tourism industries).

Across all sectors, a (very) high number of SMEs stated that they faced **“obstacles” to increasing their CSER practices**, mentioning “finance” in particular. It is important to note that different types of finance were mentioned (loans for equipment, accreditation of systems, training for employees, and so on). In addition, a similar high number would like to **receive assistance to improve/enhance their CSER practices**. Here, interestingly, the **government was mentioned as the key institution to provide assistance**, even though the government was also recorded as one of the “least important” factors in regard to impacts on sales and competitiveness. This is similar to earlier findings by Jeppesen (2004) where the “government” was the single most important actor in assisting SMEs on physical environment and working environment issues. Also, other firms in the industry with positive experiences implementing CSER practices could be valuable participants in such assistance.

Sector-specific recommendations:

Agro-Processing: In spite of a high level of CSER knowledge and widespread practices, a number of SMEs felt a lack of communication between companies in the same sectors could be seen as a missed opportunity to facilitate CSER activities. The interviews showed that some companies would like to share their experiences with successful CSER practices. Others sometimes need advice from more experienced companies. An exchange of contacts or networking would facilitate CSR practices.

Textiles and Garments: A number of small textile firms see CSER activities as a “nice thing to do”, even though it requires extra investment. CSER is rarely seen as commercially profitable (cost savings, returns on capital, or something that could lead to better trained, more qualified staff, etc.), although the interviews revealed that some SMEs had experienced the positive impact of such activities. There is clearly lack of awareness about even the potential economic benefits of CSER practices. This obstacle goes along with the lack of investment from firms and/or dedicated financial support. However, small companies often lack financial management systems, which also makes it difficult or even impossible to record such benefits. Aside from possible subsidies, small companies clearly need training in

CSER (in terms of strategies that are commercially interesting for them) combined with financial management training.

Tourism (mostly small hotels, as indicated above in the discussion on size): The hotel business is mostly reliant on customers, who are often not aware of or not interested in hotels' CSER practices. At the same time, hotel owners/managers do not present their CSER activities as "a plus" for their clients, but silently leave it to their customers to follow guidelines on how to save energy and/or reduce waste. Again, sharing good practices among SMEs would be a way to help increase customer uptake of CSER practices. The CSER activities in the hotel industry are mostly run by the managers with limited involvement from employees. This might be because there is a gap in knowledge and understanding of CSER practices between managers and workers in the small tourism firms. However, one way to address this would be through training and awareness-raising among workers.

5.4.2. Vietnam

We shall present the recommendations based on the feedback from managers and workers respectively.

Managers: In terms of obstacles, the most pressing concern of these SME owners relates to the lack of funding to deliver both formal and informal CSER activities. For example, many expressed the need to have funds for certification, monitoring, and compliance with codes. Some complained about the tremendous amount of time needed to complete environmental/CSER reports. Many textile/garment/footwear factories (Tier 3) assembling many orders from different suppliers (Tier 2) and MNCs/Buyers (Tier 1) face an added burden of having to comply with many codes of conduct, which not only takes up more time but also creates more costs for them.

Many managers expressed concerns about rising labor costs—to keep up with rising inflation rates—and high bank interest rates. Many garment/textile/footwear companies that produce for the global market are subcontractors for big brands, MNCs and/or foreign suppliers. These owners have very little control over raw materials—mostly provided by the brands or their suppliers—and thus often receive very low subcontracting prices, which means very low wages for their workers.

Moreover, managers were also concerned by the lack of government support for SMEs in terms of low-interest loans, technical training, research & development, skills, and quality so that they can upgrade their products and services. Also, they were concerned by the rising cost of state-mandated environmental agency

monitoring and bureaucratic environmental reporting. However, some owners/managers expressed appreciation that they learned regulations and protocols from these state environmental agencies.

Faced with these obstacles, many proactive Vietnamese SMEs have come up with these concrete recommendations.

First, they need financial support such as low-interest loans from either the government or international organizations as an incentive to comply with labor standards and environmental laws. One hotel owner said, *"[It is] very difficult to borrow money: we can borrow only a limited amount without having any priority. To prioritize SMEs, the government needs to ease up on things so they can expand their operations. Workers' education is so low that they continue to move around for other jobs, making our workforce unstable."*

Second, some clearly expressed a need for technical support. An owner of a small shoe factory, who speaks French fluently and is very savvy about shoe production, expressed his eagerness to get more information (via books, Internet, trade fairs) so he can learn about shoe technology and design: *"If possible, please assist smaller facilities by informing them of the latest news about the footwear industry (the market, technology, etc.)."* Some even received technical suggestions from their customers. So, programs that combine technical assistance with good CSER practices are needed. Donor agencies and business associations, including MNCs/corporate buyers, could provide this jointly.

Third, there is a clear concern for the welfare and interests of workers. One seafood factory owner addressed some of the most pressing concerns for migrant workers, which were recommended by the labor union. Another garment owner even suggested an increase in the minimum wage given the disproportionately high income tax being levied on low-income workers. This is first and foremost a task for government to ensure that minimum wages are in place and reasonable, that is to say livable (see below under worker recommendations). Here, we therefore suggest that donor organizations team up with unions and others to pressure the Vietnamese government for an increase in the minimum wage and a personal income tax exemption for poor workers.

Fourth, funding for educational, awareness-raising types of campaigns on CSER is needed. Many Vietnamese SME owners do not understand its formal definition, its intent, or its potential benefits and challenges. The government can fund educational programs about CSER so all stakeholders would understand its

advantages, disadvantages, and how it can improve not only business profitability, but also the well-being of workers and the environment. Labor unions can use their newspapers/media, nationwide networks and organization to help mobilize a CSER campaign to educate themselves and workers about the pros and cons of CSER so that they can be better informed and participate effectively in the tripartite negotiations (state-management-union) pushed for by the World Bank and the ILO in Vietnam since 2000.

Fifth, the fact that most SMEs have to bear all the costs related to CSER practices, as we have seen in particular in the textiles/garment/footwear sector, is consistent with other findings on the downward pressure from brands/corporate buyers, who have successfully transferred the costs, risks, and responsibilities down the multi-level supply chain to the SMEs at the bottom (Skadegaard Thorsen and Jeppesen, 2010; Tran, “CSR in Socialist Vietnam”, 2011). After all, CSER stands for “Corporate Social and Environmental Responsibility”. So, to overcome this unequal balance of power among these key stakeholders, it is important to design systems in which MNCs/corporate buyers share the costs with SMEs, not only for the certification process but also for impartial monitoring of CSER compliance and remediation of code violations. Big companies should collaborate with the local authorities, including the state and the unions, and donor agencies should design systems to overcome those obstacles articulated by SME owners and managers and by so doing help improve labor standards and the environment as originally intended by the CSER initiative.^[285]

In particular, ***small firms lack government support***. Government talks about it, but no improvement is felt among the SMEs. SMEs are facing rising costs to comply with environmental regulations. While enforcement of regulations might be a positive sign in and of itself, it can have considerable consequences for SMEs since it imposes additional costs on them. With tough competition, limited margins and in some cases little room to pass on the costs to customers as higher prices, the Vietnamese government needs to consider whether environmental standards could be improved in a different way, such as by providing subsidies to SMEs in the form of technical assistance and/or loans at favorable interest rates if they invest in new technology and/or equipment to clean waste products.

From workers’ perspective, they should receive livable wages, not just minimum wage. The fact that most do not earn a livable wage leads to constant overtime work to make ends meet. On average, they worked about nine overtime hours per week.

[285] Again, see Skadegaard Thorsen and Jeppesen (2010) for a suggestion of such arrangements.

Overall, workers should receive adequate benefits such as health, social security and unemployment insurance for their own well-being, not just because of management's protection of quality products and services (mostly in hotels and in agro-processing enterprises) for customers. Moreover, they should receive instructions and reading material about CSER so they too can be knowledgeable about it and demand the enforcement of labor standards which are stipulated in most codes of conduct.

On company involvement in OSH issues such as work safety, sanitation and relations with management, overall we found that hotel workers were not as satisfied as workers in textile/garment/footwear and agro-processing factories. On waste treatment of all types (solid, liquid and other), we found that female workers were less satisfied than men. Training and sharing of good practices in these sectors could assist in updating the firms that lag behind.

Abbreviations

Abbreviations

CBS	Copenhagen Business School
CSR	Corporate Social Responsibility
CSER	Corporate Social and Environmental Responsibility
DTI	Department of Trade and Industry, Government of South Africa
EU	European Union
GMP	Good Manufacturing Practice
GRI	Global Reporting Initiative
HACCP	Hazard Analysis Critical Control Point
HCMC	Ho Chi Minh City (Vietnam)
ISO	International Standard Organisation
MNCs	Multinational Corporations
MSc BLC	Master in Sciences – Business, Language and Culture
NCPC	National Cleaner Production Centre (South Africa)
SA	South Africa
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
TOR	Terms of Reference
UN	United Nations
UN-GC	United Nations – Global Compact
VN	Vietnam

VND	Vietnamese Dong
VGCL	Vietnamese General Confederation of Labour
WB	World Bank
ZAR	South African Rand

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Corporate Social Responsibility and Competitiveness for SMEs in Developing Countries: South Africa and Vietnam

SMEs—the vast majority of firms in any country—have often been viewed as laggards when it comes to practicing CSER (Corporate Social and Environmental Responsibility). Yet, such perception of SMEs is mostly based on applying “large firm thinking”. The study by a team from Copenhagen Business School, California State University Monterey and the Antea Group provides concrete evidence on how SME management and workers perceive CSER and which practices they undertake. Furthermore, our findings establish a foundation to investigate a potential relationship between CSER practices and enhanced business performance/competitiveness.

The study provides a thorough analysis of how SMEs in three important sectors (agro-processing, textiles/garment/footwear and hotel/tourism) in two countries (South Africa and Vietnam) undertake CSER. In addition to presenting the formal CSER practices, it sheds light on the often overlooked informal practices. It provides concrete evidence for workers' understanding of CSER and its on-the-ground impacts on labor standards in these sectors in the two countries.

This publication is helpful for academics, practitioners, policy-makers, and the donor and NGO communities. It provides new insights into the impacts of CSER on SMEs and offers recommendations to overcome challenges to the real intention of CSER.

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