

Implementing Responsible Business Behavior from a Strategic Management Perspective: Developing a Framework for Austrian SMEs

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ABSTRACT. This paper contributes to a growing body of literature analyzing the social responsibilities of SMEs (Sarbutts, 2003, *Journal of Communication Management* 7(4), 340–347; Castka et al., 2004, *Corporate Social Responsibility and Environmental Management* 11, 140–149; Enderle, 2004, *Business Ethics: A European Review* 14(1), 51–63; Fuller and Tian, 2006, *Journal of Business Ethics* 67, 287–304; Jenkins, 2006, *Journal of Business Ethics* 67, 241–256; Lepoutre and Heene, 2006, *Journal of Business Ethics* 67, 257–273; Roberts, 2003, *Journal of Business Ethics* 44(2), 159–170; Williamson et al., 2006, *Journal of Business Ethics* 67, 317–330) by designing a conceptual framework based on the Strategic Management Theory, which links social issues to the creation of sustained competitive advantages for SMEs. Firstly, the paper reviews literature on corporate social responsibility (CSR) and especially on the creation of social capital for SMEs. An exploration of Strategic Management Theory follows, focusing on the Positioning and Competence Based Schools, with the objective to find an answer to the question: how do social and environmental issues fit in the logic of creation of competitive advantage and what role do they play during strategic planning? The contributions of Hart (natural resourced based view) and Porter and Kramer (development of strategic intent in social responsible actions) are then related to the framework of possible growth paths of SMEs (Hong and Jeong, 2006, *Journal of Enterprise Information Management* 19(3), 292–302) in order to answer this question. Strategies that could trigger or lever these growth paths are then discussed. Following the recommendation Thompson and Smith (1991, *Journal of Small Business Management* 29(1), 30–44) gave to focus on the “study of CSR behaviors instead of perceptions,” a medium-sized Austrian company in the food producing industry has been identified for an exploratory case study analysis to test the applicability of this theoretical framework for the description of the

actual responsible business behavior (RBB) of an SME. This company is typical of one of the 250.000 SMEs which account for 99.6% of the Austrian economy. Based on the findings and the discussion, this paper presents a strategic planning tool for SMEs aiming to embed RBB into the corporate strategy.

KEY WORDS: Austria, competitive advantage, CSR, Responsible Business Behavior, SMEs, value chain analysis

Introduction

During the past decade corporate social responsibility (CSR) has gained a significant importance globally, although responsible behavior of firms has a long history now (Sarbutts, 2003, p. 341). Nevertheless, CSR in small and medium-sized enterprises (SMEs) has received relatively little attention (Jenkins, 2006, p. 241; Perrini, 2006, p. 308; Williamson et al., 2006, p. 318). Recent research highlighted the competitive advantages that can result for SMEs through ethical practices and a high level of corporate integrity (Fuller and Tian, 2006, p. 288). The obvious need of SMEs to increase their knowledge “about the potential benefits of socially responsible practices” (Perrini, 2006, p. 312), and the demand to develop specialized CSR tools for the needs of SMEs (Murillo and Lozano, 2006, p. 228) led to a growing research significance of CSR in SMEs (Jenkins, 2006, p. 241).

Almost half of the European SMEs are, to different degrees, involved in socially responsible activities (Perrini, 2006). However, especially in Austrian SMEs, executives still do not really plan and implement social engagement in a strategic way,

despite all kinds of governmental and private initiatives to foster strategies for socially responsible behavior at regional and international levels.¹ Deuerlein et al. (2003) conducted a survey of Austrian enterprises and found out that only 14% of the enterprises strategically plan their CSR activities, while 54% of the decisions are made taking into account their business policy, but still missing a concrete strategic analysis. Another 32% of the enterprises engage in CSR without any strategic relation to their business. The above-mentioned authors state a strategic relevance of the CSR-related activities with the increasing size of the firm, whereby similar findings for Italy and the rest of Europe were shown by Perrini (2006). As Porter and Kramer (2006) argue, this is partly due to the fact that companies think of and implement social responsibility issues in a standardized way instead of aligning CSR with their strategic objectives.

However, one of the main hindering factors for the engagement of SMEs in social activities as revealed by different surveys and case studies, centers around the limited human and financial resource endowments of SMEs (Lepoutre and Heene, 2006; Mandl et al., 2007). This stresses the importance of defining a framework that embeds social activities in the strategic agenda of an SME. By doing so, this will not only enhance the benefits of socially responsible business behavior² but will also help companies to focus their resources on the issues they are actually able to tackle. As Porter and Kramer state “corporations are neither responsible for the world’s problems, nor do they have the resources to solve them all. Each company can identify the particular set of societal problems that is best equipped to help resolve and from which it can gain the greatest competitive benefit.” (Porter and Kramer 2006, p. 92)

SMEs and CSR: a literature review

More than 20 million European enterprises can be classified as SMEs. This represents more than 99% of all European businesses. Most of them are not in direct competition against large enterprises, because of their limited resources (Hong and Jeong, 2006, p. 293). Nevertheless, they account for 66% of the total employment and for 60% of the EU’s gross

domestic product, achieving half of the total value added in the EU (EC, 2003) and are a major source of innovation and prosperity (PIU/SBS, 2001; Williamson et al., 2006, p. 319). They differentiate from larger firms by their structural, social, and functional characteristics (Spence and Schmidpeter, 2003, p. 96). Criteria such as employees, assets, financial turnover, market share and ownership (Lepoutre and Heene 2006, p. 258) constitute some of the differences with larger firms.

For this paper, we selected the definition of the European Union for SMEs, with the inclusion of micro-businesses, although researchers found some limitations (Curran and Blackburn, 2001; Hauser, 2000). Micro businesses are those that have less than 10 employees and the *annual turnover* and *balance sheet total* does not exceed 2 million euros. Small businesses have fewer than 50 employees, their *annual turnover* does not exceed 10 million euros and the *annual balance sheet total* is beyond 10 million euros. Medium businesses have less than 250 employees, their *annual turnover* does not exceed 50 million euros and the *annual balance sheet total* is beyond 43 million euros (EC, 2003).³

One of the main objectives of an SME is to create value for their stakeholders (Perrini, 2006, p. 312). In order to overcome different kinds of difficulties and constraints,⁴ owner-managers maintain closer and better strategic relations and build up networks with their stakeholders than managers of larger firms (Fuller and Tian, 2006, p. 287; Lepoutre and Heene, 2006, p. 268; Moore and Spence, 2006, p. 222; Parsa and Kouhy, 2007). In order to keep good and stable stakeholder relations, SMEs need to communicate clear and strong ethical business values. These values are mainly selected and implemented personally by the owner-managers (Jenkins, 2006, p. 250). Murillo and Lozano (2006) found out that the core values of the founding owner-managers also have a significant impact on decisions regarding social and environmental sustainability strategies (Murillo and Lozano, 2006, p. 237). Also, many authors have considered the concept of social capital as essential when finding an argument for SMEs to engage in CSR. Social capital relates to various important aspects of business ethics, such as transparency, goodwill, good citizenship, etc. (Spence et al., 2003, p. 18).

Today, the implementation concepts of CSR are mainly based on Freeman’s (1984) stakeholder’s

model (Jenkins, 2006, p. 243), meaning that the company's overall objective of long-term value creation by combining economic prosperity, social cohesion, and environmental protection can be best achieved by enhancing responsiveness of businesses to stakeholders' legal, ethical, social, and environmental expectations (Perrini, 2006).

Although Lepoutre and Heene (2006) argue that CSR is useful for all kinds of companies, regardless of their size or sector (Lepoutre and Heene, 2006, p. 257), the current understanding of it still fails to encourage most SMEs to decidedly implement sustainable management (Murillo and Lozano, 2006, p. 237; Roberts et al., 2006, p. 281), as most studies and literature on CSR or business ethics focus on specific characteristics of large firms (Spence et al., 2003, p. 18). Enderle (2004) underlines that standards to implement CSR may prove inappropriate for small firms because they have been developed thinking of large businesses (Enderle, 2004, p. 57).

Even though the CSR movement offers some good "hints" for SMEs, the implementation of a standardized CSR-concept in an SME cannot be considered as the best alternative for any company that wishes to embed social and environmental issues efficiently in its company strategy. Hence, we made the decision to use the term "responsible business behavior" (RBB) instead of CSR to describe our proposal for a strategic and holistic concept that should help SMEs to discover what constitutes their real economic, social, and environmental responsibilities.

Responsible business behavior (RBB) describes a holistic, stakeholder-oriented approach for companies of all sizes and sectors, encouraging them to focus on ethical and responsible issues linked to their core business. In our case, responsible business behavior is presented as an instrument to develop a sustained competitive advantage by relating social and environmental issues to the value chain of the company.

The objective of this paper is to develop a conceptual framework based on the Strategic Management Theory and on the notion that the creation of social capital is a source of competitive advantages for SMEs. The next chapter reviews the literature concerning strategic planning by SMEs and the inclusion of social and environmental issues in strategic management literature.

Strategic planning and the creation of competitive advantage as key management activities: how does responsible business behavior fit in?

The present paper applies the tools and thinking of the approaches of the *(competitive) Positioning* (also referred to as the "market based"-perspective of value creation, for a review see Pitkethly, 2003 and McGee, 2003) and the *Competence or Resource Based Schools* of Strategic Management (offering an "inside out" perspective, crafted by Penrose (1958) and reintroduced at the end of the 80s and beginning of the 90s by Barney, 1991, and Prahalad and Hamel, 1990, and others). Strategic planning is here considered a prerogative for companies aiming to create a sustained competitive advantage (Stonehouse and Pemberton, 2002, p. 854).

Teece et al. (1997) extended the resource-based approach by introducing the concept of dynamic capabilities. As Marcus and Anderson (2006) state, a general dynamic capability includes searching for new ideas and methods, comparing company practices to the best in the industry, evaluating practices in other industries and experimenting (Marcus and Anderson, 2006, p. 19).

Literature on Strategic Management Theory and sustainability

The question now is: how do social and environmental issues fit in this logic and what role do they play during strategic planning?

As Fowler and Hope (2007) state, both perspectives described above (the market and the resource based views of the firm) were developed with little regard for the competitive implications of incorporating environmental and other sustainable business practices into company strategy. However, there exist a number of studies confirming the positive relationship between firm competitiveness and a proactive environmental and sustainability strategy (Aragón-Correa and Sharma, 2003; Fowler and Hope, 2007; Porter and van der Linde, 1995). In this paper, we consider proactive management of social issues as an instrument that enables organizations to maintain dynamic alignment with their general business environment.

Hart (1995) went a step further and stated that competitive advantage becomes a function of how well firms develop the resources and capabilities to deal with the changing natural environment (Fowler and Hope, 2007, p. 28). Hart proposes three strategies for the development and deployment of tacit, rare and, ambiguous dynamic capabilities (Hart, 1995, p. 999ff):

- a) *Pollution Prevention*: a strategy that seeks to reduce emissions and waste by using continuous-improvement methods focused on well-defined environmental objectives (aligned to a TQEM, total quality environmental management). This type of strategy is people intensive and it depends upon tacit skill development through employee involvement, making it difficult to duplicate quickly.
- b) *Product stewardship*: this strategy implies the use of processes such as life cycle analysis (LCA) to measure the impact of a product throughout its life, the introduction of processes to reduce this impact and the communication with stakeholders (especially environmental staff, marketing staff, customers, media, interest groups) in order to minimize the impact of product in- and after-use. It integrates the perspectives of key external stakeholders into decisions on product design and development.
- c) *Sustainable development*: herein lies the concept of a strategy fostered by a strong sense of social-environmental purpose, providing the context for a firm's corporate and competitive strategies. This strategy includes working toward developing new low-impact technologies, the consideration of the social impacts of a firm's operations and the engagement with stakeholders. Hart also includes the aspect of social legitimacy as an additional reinforcement for a sustained competitive advantage.

These three strategies appear to be interconnected. Hart describes this interconnection as "path dependence" on the one hand and "embeddedness" on the other. As a result, Hart proposes that "a sustainable-development strategy facilitates and accelerates capability development in pollution prevention and product stewardship and vice versa"

(Fowler and Hope, 2007, p. 29; Hart, 1995, p. 1007).

A framework for defining growth strategies for SMEs

According to the work of Hong and Jeong (2006), SMEs must choose their competitive strategy, i.e., create a competitive advantage, following their relationship position in the supply chain and their strategic focus, which can be "low cost" (i.e., Porter's cost advantage) or "value added" (i.e., Porter's quality differentiation). The chain relationship position refers to the function that a particular SME takes in the value system of a given industry and to the relative strength, defined in bargaining power, which it achieves through its competitive positioning. A high expertise, innovation, and flexibility to adapt to customers' needs, for example, can be an impulse to strengthen the bargaining position of a manufacturing SME. Additionally, the ability to comply with ethical sourcing codes can give these SMEs a good bargaining position.

These firms must also be able to meet "order qualifier standards" (i.e., quality and delivery) in order to remain competitive. Frequently low costs are order-winning criteria for mature manufacturing industries and innovative elements in product and service offerings for knowledge-intensive or growing industries (Hong and Jeong, 2006, p. 295). Consequentially, one of the determinants of the strategic focus of SMEs (low cost or differentiation) is given by the industry and function in the value system. But, as discussed earlier, the dynamic capabilities and resources of a firm also play a crucial role in defining the strategic focus.

According to these characteristics, chain relationship position and strategic focus, Hong and Jeong propose four SMEs classifications: efficiency, coordination, collaboration, and innovation (Figure 1).

Efficiency SMEs: An SME with a low chain relationship position and a focus on low-cost delivery of services and products can be one of many competitors in the market. These companies usually accept cost targets set by their customers and try to conform to their demands. Social and environmental issues can focus on developing adequate cost improvement capabilities, i.e., through pollution prevention or product stewardship. These SMEs have three possible growth paths:

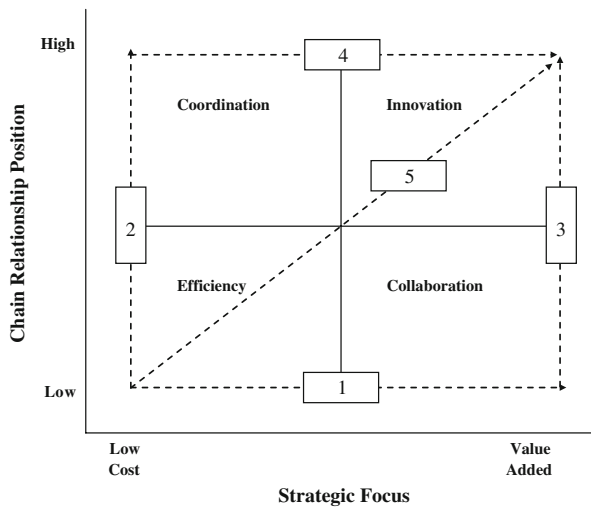


Figure 1. Classification of SMEs and possible growth paths (Hong and Jeong, 2006, p. 299).

1. from efficiency to collaboration: The central aspect of this transition is a *change in strategic focus from low cost to value-added*. This requires a turn from operational efficiencies to *customer-sensitive value creation capabilities*.
2. from efficiency to coordination: The motivation for moving from an efficiency SME to a coordination SME is to *improve the company's supply chain position*.
3. from efficiency to innovation: In order to enter this path it has to simultaneously accomplish an *intra-business process transformation and achieve an inter-organizational position of power*.

These growth paths could be triggered by a concentration on stakeholder and consumer integration in the development of new value propositions, e.g., resulting in a product innovation, as proposed by the product stewardship and sustainable development strategies.

Coordination SMEs: The *high chain relationship position, achieved mainly through productivity and flexibility dominance at low cost*, allows these firms to work toward better cost targets with their customers or improving processes and technologies with this objective. Their main capabilities lie in their *strong productivity enhancement through coordination, especially with respect to operational issues*. The growth path proposed for these type of SMEs, from coordination

to innovation, requires companies to *focus on value-creation opportunities through new product and service offerings that extend beyond waste reduction and productivity enhancement*.

Collaboration SMEs: SMEs with a *value-added strategic focus and a low chain relationship position* operate in a relatively collaborative market with a strong competitive position, i.e., their internal capabilities allow them to stay in business even if their negotiation position is not strong. Firm capabilities mainly rely on an *adequate capacity to develop products that meet customer needs*. Enhancing the relationship with their main stakeholders through product stewardship, integrated product and process design is a way of developing a growth path that leads these companies to innovation.

Innovation SMEs: These companies have a *high efficiency and strong internal competencies in relation to value creation for customers*. SMEs competing in this field usually detect and respond to changing customer needs very rapidly. A sustainable development strategy, fostered by a strong leadership, can be a way to develop this capability in a long-term perspective in order to maintain the competitive position.

In conclusion, Hart's competitive strategies, especially product stewardship and sustainable development, open up possibilities for innovations that can enhance productivity and creation of value. Pollution prevention could be defined as a strategy securing the "license to operate" for SMEs.

Strategic analysis: Porter's framework

Against the backdrop of this "extended theory" on strategic planning, the traditional tools of strategic analysis can help to identify which social and environmental issues should be addressed in order to enhance the firm's competitive strategy. Porter's (1985, 2004) value chain analysis was extended by Porter and Kramer (2006) in order to be able to chart all the social (and environmental) consequences of a company's activities. By doing this, it can create an inventory of problems and opportunities – mostly operational issues – that need to be investigated, prioritized, and addressed.

SMEs, as Jenkins (2006) states, should not wait to be forced to undertake socially responsible activities by supply chain or legislative pressure, as being

proactive gives them a positive advantage in comparison to other companies which are slower to react (Jenkins, 2006, p. 253). Hart's strategies (pollution prevention, product stewardship, and sustainable development) provide a well-defined context to evaluate the desired and undesired effects of the value chain activities.

As Argandoña (2007) notes, the social responsibility of the firm should be defined in terms of the responsibility of the company for its activities, i.e., in terms of value creation, and not in terms of all the needs of those involved, and comprised a more or less arbitrary list of "petitions."

Evidence of strategic planning by SMEs

In a survey of Austrian SMEs, Reinhardt et al. (2007) found that there are actually four dimensions SMEs consider especially relevant when developing a competitive advantage: price competition, quality competition, increasing personnel costs, and the change of the structure, demands, and expectations of customers. Being successful in price competition is considered the most important task. The three latter aspects are seen as equally relevant. Most SMEs also see *quality and customer response* as critical success factors. Thus, it can be deduced that competition between SMEs takes place in a more "value added" strategic arena.

Another finding of this and other studies is the fact that the majority of SMEs have a notion of "strategic planning" issues (Peel and Bridge, 1998; Reinhardt et al., 2007; Stonehouse and Pemberton, 2002). Nevertheless, evidence of planning behavior of SMEs show that they tend to focus on short-term goals (e.g., short-term sales, cost and profit targets) rather than long-term goals. Peel and Bridge (1998) detect particularly strong positive associations between the intensity of strategic planning and the degree of importance attached to the objectives of improving quality, relationships with customers, employee working conditions/welfare and social responsibility, and the protection of the environment. In order to enter the growth paths proposed by Hong and Jeong (2006), companies also have to analyze their markets and their competitors thoroughly.

The literature reviewed in this chapter leads to the conclusion that, although it makes sense for SMEs to

develop a strategy of RBB as a means of creating a sustainable competitive advantage, the tools proposed for strategic planning are not often implemented when it becomes necessary to detect the social issues to consider. Through strategic planning, SMEs could unfold possibilities to help them create social, environmental, and strategic distinctions in their markets.

The case study design

Background

The company chosen is a medium-sized noodle producer in western Austria, which was nominated twice (in 2004 and 2005) as the most "Trusted European Brand" in the "food" category by Austrian consumers.⁵ The company has also been chosen by the authors because its sustainability strategy is aligned with its competitive positioning: in a highly price-sensitive context it has positioned itself as a value-added, quality-oriented, and customer-responsive food producer. The company refused to get listed on the most popular discount supermarkets and it is very successful in forging the image of a traditionally Austrian product. Another aspect that makes this company interesting for a case study within this topic is the fact that the General Management has never been fond of making their efforts known as "CSR" initiatives, as they understand them as a logical implication of their strategy.⁶

Case study approach

The research design of the case study in this paper takes into account some of the suggestions Thompson and Smith (1991) make to improve research on CSR:

- 1) The focus lies on the analysis of the actual social responsible behavior of an SME, instead of sole perceptions;
- 2) The measure of behavior puts a focus on actions;
- 3) Only socially responsible actions that go beyond legal expectations have been considered as relevant for the development of a competitive advantage.

The case study that follows was designed to explore if the propositions of this paper, namely that strategic positioning and planning leads to an efficient and effective identification and implementation of social and environmental issues that foster to the creation of a sustained competitive advantage, by applying the framework based on Hart (1995), Hong and Jeong (2006), and Porter and Kramer (2006), to the experience of an Austrian manufacturing SME in the food sector.

A visit was made to the company headquarters on June 2007. During this visit, a face-to-face interview was conducted with the General Manager and time was spent observing the operations at the production site. The interview lasted 60 minutes. A semi-structured approach was taken, in which pre-designed questions were posed in order to get a description of the company's mission statement, founding philosophy, strategic objectives, decision process, and the role of social responsibility issues in the company's activities, complemented with spontaneous questions in response to answers and points of view offered by the interview partner. A range of marketing material and other company documents was also collected during this visit. Other documents reviewed included press releases from NGOs, articles from specialized journals, and information from the company's website.

Finally, the data were used by the authors to conduct a value chain analysis, in order to classify and identify the relevant social and environmental issues according to Porter and Kramer (2006).

Company overview – vision and mission statements

The company's defined mission is to provide a healthy, enjoyable and diversified diet to the Austrian consumer. In this sense, the first priorities are innovation and high-quality standards, especially regarding the freshness and quality of ingredients and production standards.

According to the framework proposed by Hong and Jeong (see Figure 1) and regarding the Austrian market, this medium-sized company can be classified as an "innovation company." The company has a market share of 31% and it covers 99% of the food retailing channels in Austria (details are described below), which assures a high supply chain position.

The specific strategic focus is quality differentiation, i.e., value added, as the main focus of the company lies on the strengthening of capabilities through innovation in the design and in delivery of the product in order to meet changing customer requirements. The communicated mission statement declares "we wish to have satisfied and enthusiastic customers. Continuous market research and investment in product development allows us to be proactive, to share our customers' thoughts and to be one step ahead of the competition. We see our customers as partners. We work on a partnership seeking to mutually discover our customers' needs and to develop the best solutions for them" (translated from the company's webpage).

The inclusion of social and environmental issues in the business strategy responds to this declared mission.

The image of a value-added product is enhanced by communicating that only exclusive and environmentally-friendly natural products are used. The main products are the traditional Austrian egg noodles and pasta sauces. Adaptations and development of the product line correspond to changing customers' needs for a more healthy, environmentally friendly, and ethical consumption.⁷

According to this, the company has created four independent product lines:

- The traditional "golden brand": The products made of durum wheat and three whole eggs per kilogram help to maintain the company's market leadership. These are destined for the traditional Austrian customer, who likes to cook original Austrian recipes (the most important product being the "Fleckerl," an Austrian noodle type and the principal component of traditional Viennese dishes).
- The product line for "conscious" and health-oriented consumers is the most innovative one. It includes biological products made of spelt wheat, biologically grown durum wheat without eggs, and some gluten-free noodle variations.
- The Italian-style pastas and sugos are targeted to satisfy consumers who are fond of introducing Italian lifestyle and culture into their homes.
- The convenience food product line: made for the modern household, this product tries to combine convenience with freshness; it is produced without preservatives.

The company started with the production of egg noodles in 1846, later it was appointed as the “imperial purveyor to the court” by the Austrian Emperors. This provided the very traditional Austrian image and ensured a good market position since the beginning of the century. Today, it produces 120 tons of different sorts of noodles daily and it has around 100 employees and two manufacturing sites in Western Austria. Their ingredients are not only guaranteed to be natural, but also “made in Austria,” raw materials are mainly delivered by Austrian farmers and producers, and the supply chain is mainly covered by Austrian suppliers.

The company is family-owned, and since the beginning it has been run by members of the founding family.

Competitive positioning

With a market share of 31%, its principal clients are the main players in the Austrian food retail and wholesale industry. The industrial production of noodles plays a minor role.

The company covers 99% of the food retailing channels in Austria as stated above. It deliberately excluded the main Austrian discount retail stores from its distribution strategy, as the strategies of these stores do not align with the value proposition of a “high-priced, high-quality product.” The products distributed through the retail stores are directed to private consumers. Principal wholesalers distribute the products to hotels, restaurants, and catering businesses. 10% of the production is exported; nevertheless, only very special products like gluten-free pasta are actually destined to foreign markets like Spain, Germany, Canada, the USA, and others.

The competitors in the Austrian market are mainly three other producers in the same sector (egg noodle producer), but the main competitor has a market share of only 15%. The company also sees trade brands of the food retailers as competitors gaining momentum. Especially trade brands targeted to attract consumers who are concerned with high biological and quality standards are an increasing threat, which is why the company started some strategical partnerships with the most important retailers by producing bio-noodles distributed under specifically biological trade brands.

According to the dimensions Porter uses to define a generic strategy of a firm, following its market scope and source of competitive advantage, the company can be described as a manufacturer of premium products serving a broad market through the food retailing industry and also a niche market by creating special products for consumers conscious of health and biological issues (Figure 2).

Analysis of value chain activities

Now the description of the strategies and activities directed to implement responsible business behavior follows: we categorize these according to Hart’s strategies and Porter’s value chain analysis framework.

a) Pollution prevention

According to Hart (1995), pollution is nothing more than a form of waste, which is to be eliminated in the pursuit of total quality environmental management (TQEM). Therefore, the creation of a sustained competitive advantage starts by implementing an internal pollution-prevention strategy: “Firms that adopt pollution-prevention strategies will evidence simultaneous reductions in emissions and capital expenditures for pollution control.” (Hart, 1995, p. 1000)

Activities concerning Technology Development: Our company began to cooperate with a local university to develop a water treatment system that would recycle the water it mainly uses for cleaning pipes.

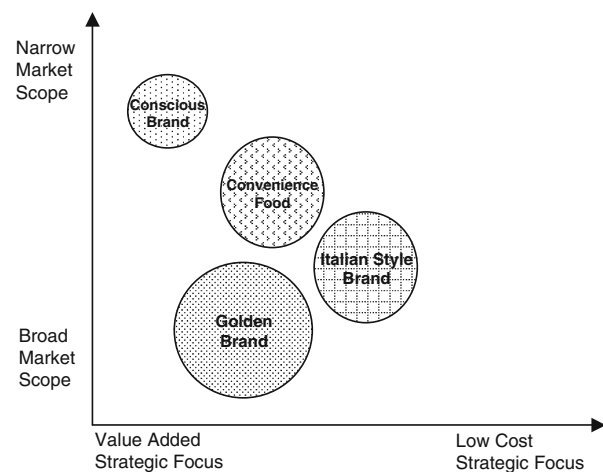


Figure 2. Brand strategies of the noodle producer.

The company uses approx. 35.000 m³ water a year, and although currently water is not a scarce resource in the region, the project could help in the future to reduce water usage. As this initiative goes beyond legal expectations, it helps to enhance the image and reputation of the company in the region.

Activities related to Inbound Logistics: The company receives a daily amount of approx. 100–120 tons of primary resources. These are delivered on trucks between 7 a.m. and 8 p.m. The unloading of the trucks produces a very unpleasant noise caused by the compressed-air unit and pernicious emissions, as the truck engines have to run idle for almost 5 h a day. In order to reduce the noise and the emissions during unloading of the trucks, the company scheduled the arrival of trucks in the afternoon only and invested in an in-house compressed air plant that is placed at the disposal of the unloading trucks. This increases the energy use for the company and at the same time it greatly reduces the noise and the emissions, as trucks do not have to run idle. This measure was adopted by primarily taking into account the health and well-being of the company's neighbors. As Hart (1995, p. 1000) states, "over time, a pollution-prevention strategy will move from being an exclusively internal (competitive) process to an external (legitimacy-based) activity," i.e., initiated by the needs of stakeholders.

b) Product stewardship

A product stewardship strategy makes a company move from a pollution-prevention strategy to a strategy that considers the impact of the product on the environment throughout its whole life cycle, i.e., from its concept and design through its manufacturing and distribution, to its usage and disposal. This means, for example, that firms are proactive in cooperating with suppliers to minimize the environmental impact of the supply chain (Fowler and Hope, 2007, p. 32).

Our noodle producing company provides us with an example related to its *procurement* activities: Eggs as the main component of the production are supplied only by farmers keeping their hens in barn systems. Due to their efforts in this matter, they received the "Good Egg Award," a prize that recognizes the effort of companies that contribute to the welfare of laying hens by switching to cage-free eggs. The company only uses cage-free eggs (also

called barn eggs) for the manufacturing of all their products. They have also arranged that their non-Austrian suppliers (sourcing a few products that they cannot produce themselves for technical reasons) only use barn eggs, which has served as an initiative to fight against the evasion of the Austrian "prohibition of battery eggs" through import from suppliers that have not changed to a barn egg system.

In the *Operations* area the company switched from the oil-based heating system to a natural gas-based one.

c) Sustainable development

"At the company level, a sustainable-development strategy should be 'fostered by a strong sense of social-environmental purpose,' and it implies a commitment to a triple bottom line that includes profitability, environmental and social goals." (Fowler and Hope, 2007, p. 32)

In our case study, the consideration of social issues is present in the *Human Resource Management* (a supporting activity) and in *Marketing & Sales* (considered by Porter as one of the primary activities of the firm).

As to the former, the company offers apartments for its employees and a system of fringe benefits and additional allowances going beyond the law requirements. It is a family tradition that every employee can take home a monthly amount of 6 kg of pasta.

The company also has an in-house academy offering training and workshops for the employees. Additional to job-related training, employees can take free language courses. As non-German speaking immigrants are part of the workforce in almost every SME in Austria, German courses are offered to promote integration and development opportunities to these employees.

Through its marketing strategy, the company fosters healthy alimentation and sportsmanship. It concentrates on sponsoring endurance sports such as biathlons, marathons, and Nordic combined (winter).

Strategic outlook according to the positioning framework

Currently, the main goal of the company should be to maintain its position and its market share, as there

are some alternative brands threatening them. The enhancement and development of the product stewardship and sustainable development strategies, e.g., by extending the activities to other areas of their value chain, can be a way to achieve this objective.

Discussion of the findings and a proposal for the strategic implementation of RBB in SMEs

The case study discussed above shows that if SMEs become aware of their position within their industry, especially regarding their chain relationship position and their intended strategic focus, they have a better starting position when it comes to identifying social and environmental issues that will enhance their strategic positioning or even lever a possible growth path. A strategic focus on consumer needs and changing behavior also directs efforts to more sustainable business practices, especially when focusing a premium sector. Hart's strategies to develop a sustained competitive advantage adapt to the situation of SMEs and can be applied as follows:

- a) The pollution-prevention strategy, as stated earlier, constitutes a "bottom line" strategy in order to get social legitimacy in the form of a "license to operate," as regulations in the European Union actually cover many aspects that can be associated with this strategy and a company is automatically engaged in pollution prevention by following all the necessary legal requirements.
- b) The product stewardship strategy can help to identify environmental and social issues that matter to stakeholders in the different life cycle stages of a product or service. By securing the participation of customers and relevant partners in the development of the value proposition (e.g., the design and delivering process of a product or service) these issues can turn into a distinction that enhances competitive advantage and either strengthens the chain relationship position or the value-added focus of the company. The value chain analysis, as proposed by Porter and Kramer, can be a useful instrument to chart all the relevant social (and environmental) issues.

- c) The sustainable development strategy manifests itself in the mission and sense of meaning (why are we here?) of the company, that excels in innovation and sustains competitiveness and leadership in the long run. When a company understands why the region or the market it serves is better off with its existence, it has found the source of relevant social initiatives that it can develop: e.g., in the form of Human Resource Development. Moreover, marketing can be a form of conscience building in some market relevant aspect (health issues, etc.). Social projects turn from "philanthropic" or good-will initiatives to a form of influence of the competitive context.

The strategic planning process can be formal or informal and it maybe true that informality of processes suits the situation of SMEs best. Nevertheless, as Berry (1998) states, it must include the substantive analytical elements of the process (e.g., scanning the environment, analyzing competitive activity, assessing strengths and weaknesses, etc.) in order to create a sustained competitive advantage as the result of the realistic valuation of the opportunities the market offers and what the company can achieve through its capabilities.

Conclusion and future research

We conclude by stressing the notion that responsible business behavior is not a matter of getting companies, especially SMEs, to move away from their "usual way of doing things," i.e., trying to increase their profits and survive in a very competitive arena. RBB constitutes the consciousness that you can only "do well" in the long run by "doing good" to the environment and the society you operate in and that the source of your competitive advantage can either be enhanced or destroyed by strategic and operational decisions you take today.

As many of the advocates of the CSR movement state, it is true that the most pressing social and environmental problems we face are caused and can be solved by companies, large and small. But is also true that SMEs cannot be held responsible for all of the world's problems, nor do they have the resources to solve them all. In this sense, they have to detect the issues they are really responsible for and they are

able to tackle. The RBB framework presented here combines a market and a resource-based view of the firm in order to help SMEs to implement responsible business action in a strategic and efficient way.

To conclude, we would like to underline the fact that, although counting with a strategic framework like the one presented in this paper, SMEs will usually experience more difficulties than their larger counterparts when detecting and engaging in business actions, especially regarding issues involving external stakeholders or the natural environment because of a lack of discretionary slack or even financial and personnel resources. Governments and industrial organizations, therefore, play a very important role in creating the awareness for shared responsibility, although, as noted earlier, companies should not be forced to engage in a standardized way.

The case study analysis in this paper presents a company with a clear value-added strategic focus. Future research could focus on SMEs following low-cost strategies, as the strategic imperatives should vary with a different competitive positioning. Another aspect that should be added through additional research is the financial component: the calculation of the total amount of expenditures and investments on specific RBB issues made by SMEs, which captures the strategic relevance of these issues for the individual companies.

As the case study analyzed in this paper was exploratory, future research could also concentrate in a survey of different companies within a single industry or region in order to provide further valuable insights into how sustainable business practices are incorporated into company strategy.

Notes

¹ E.g., the CSR-Europe initiative (www.csreurope.org), respACT Austria (www.respect.at) and many others.

² E.g., the direct correlation between social behavior and business results (Murillo and Lozano, 2006, p. 234).

³ Compare http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm (July 27, 2007).

⁴ E.g., accessing capital, recruiting and maintaining good employees, access to markets, etc.

⁵ In this survey, consumers have to mention the brand they found most trustworthy in different categories, whereas no suggestions are given (open-ended ques-

tion). These brands are then evaluated according to criteria such as quality, image, response to consumer needs, etc.

⁶ As Marcus and Anderson (2006) state, margins in the retail food industry are extremely thin and therefore the relationship between a general dynamic capability and the acquisition of any social competency in this industry will only emerge, if it becomes absolutely critical (Marcus and Anderson, 2006, p. 41).

⁷ Current sociological research has helped to define the “LOHAS”-Consumer, i.e., the consumer seeking a lifestyle of health and sustainability and taking into account health and sustainability issues in almost every consumption decision (e.g., investment, nutrition, leisure time). Studies describe an estimated \$208 billion U.S. marketplace for goods and services focused on health, the environment, social justice, personal development, and sustainable living (www.lohas.com). This has also consolidated the awareness in Europe, where consumer good producers are discovering this target group in every product category.

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