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Small Businesses and Stakeholders: Towards Successful, Sustainable Companies



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Small businesses and stakeholders: towards successful, sustainable companies

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Abstract

The stakeholder concept has become a central idea in understanding business/society relationships. There is an inherent acceptance that all businesses have stakeholders, and that managing them appropriately can help reduce risk and improve all companies' social responsibility (European Commission and Observatory of European SMEs, 2002; Irwin, 2002). However, stakeholder research has tended to focus on the 'corporation' or large company. While the important contribution of SMEs to social responsibility and sustainability is increasingly recognised, crucial questions such as which stakeholders are significant to Small and Medium sized Enterprises (SMEs), how do SMEs engage with their stakeholders, and what is the nature of these relationships have rarely been asked. By drawing on evidence from in-depth interviews with small businesses across the UK, this paper explores these issues.

SME definitions of stakeholders are as heterogeneous in nature as SMEs themselves; companies talk about those who have an 'interest' a 'stake' a 'connection' in the company and those who 'influence', 'affect' or 'depend' on the company, other commonly used terms are 'ownership' and 'owing'. The identification of key stakeholders is, however, consistent and they are employees, suppliers and customers. Examples are provided of how small businesses have developed relationships with key stakeholders that lead to socially responsible, successful and sustainable companies. These include

- SMEs who seek to teach suppliers best practice, promote social responsibility and develop learning networks
- SMEs who seek to develop innovative relationships with employees
- SMEs who seek to develop environmentally conscious, innovative products through working with customers and suppliers

It has become increasingly clear that today's successful companies are those that recognise that they have responsibilities to a wide range of stakeholders. SMEs do recognise this and have a clear role in developing stakeholder relationships that contribute to more sustainable and socially responsible companies.

About the BRASS Centre

In 2001, Cardiff University won £3.1 million in research funds from the Economic and Social Research Council to develop a Research Centre for Business Relationships, Accountability, Sustainability and Society (BRASS). The Centre is a joint venture between the University's Schools of Business, City & Regional Planning and Law. It brings together the three Schools' existing research expertise on issues of sustainability, business ethics, company law, corporate reporting and business communication.

The Centre started work in October 2001 under the leadership of Professor Ken Peattie of the Business School, Professor Terry Marsden of the Department of City and Regional Planning and Professor Bob Lee of the Law School. The funding of the Centre covers an initial five-year period, but this should just mark the beginning of BRASS' contribution to creating more sustainable and responsible businesses locally, nationally and globally.

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Introduction

The stakeholder concept has become a central idea in understanding business/society relationships. Society today consists of a wide range of people who have interests, expectations and demands as to what companies and organisations ought to provide, and the ways in which they should behave. Freeman (2001) defined stakeholders as ‘groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions’. It has become increasingly clear that today’s successful companies are those that recognise that they have responsibilities to a wide range of stakeholders that go beyond mere compliance; there is also an inherent acceptance that all businesses have such stakeholders, and that managing them appropriately can help reduce risk and improve all companies’ sustainability (European Commission and Observatory of European SMEs, 2002; Irwin, 2002). If the notion of organisational effectiveness is increasingly becoming associated with multi-stakeholder satisfaction, as is the case with a move towards greater business sustainability, in order to respond positively to the changing environment and to perform effectively, companies need to devote much of their time and effort listening carefully to their customers, while at the same time participating in the development of their organisations (Choueke and Armstrong, 1998).

While this may be true, one significant sector of business¹, Small and Medium Sized Enterprises (SMEs²) have been largely ignored in debates about stakeholder theory (Jenkins, 2004a). Crucial questions such as which stakeholders are significant to SMEs, how do SMEs engage with their stakeholders (if at all), what is the nature of these relationships, and how can such relationships lead to greater sustainability³ have barely been asked (*ibid.*). This paper aims to redress this imbalance by exploring key stakeholder relations from the perspectives of UK SME owner-managers.

By drawing on evidence from in-depth interviews with small businesses across the UK, this paper investigates how developing successful relationships with key stakeholders (identified

¹ SMEs make up over 90% of businesses worldwide and account for between 50 and 60% of employment (UNIDO, 2002).

² The EU defines SMEs based on employee numbers, turnover or balance sheet total and ownership. An SME-

- Has fewer than 250 employees, and either
- An annual turnover not exceeding ECU 40 million, or
- An annual balance sheet total not exceeding ECU 27 million, and
- Is an independent enterprise, i.e. 25% or more of the capital or voting rights cannot be owned by large enterprise/s. (Hillary, 2000).

in this paper as suppliers, customers and employees) can lead to greater business sustainability and social responsibility. The paper looks at: the definition of ‘stakeholders’, who are key stakeholders, and the nature of stakeholder relationships in small businesses. Examples of successful stakeholder relations with suppliers, customers and employees that have led to business success and increased sustainability are presented through a number of case studies.

SMEs and stakeholders

Stakeholder theory is an important element of research in the fields of sustainability and social responsibility, but little of the research has focused on SMEs. This section discusses the nature of the SME, and stakeholder theory from a small business perspective. It goes on to discuss the nature of SME relations with the key stakeholders identified in this paper: suppliers and customers (the supply chain), and employees.

The SME

A common assumption made about the SME sector is that it is homogeneous, the defining characteristic explaining its behaviour being size (Wilkinson, 1999). SME research tends to pigeonhole small businesses, viewing them from either a ‘bleak house’ or a Schumacherian ‘small is beautiful’ perspective (*ibid.*). Whilst size is a factor, and many SMEs may conform to such views, there are other internal and external dynamics that explain their behavioural characteristics. SME behaviour is often understood in terms of the psychological characteristics of the entrepreneur or ‘owner-manager’, as Bolton (1971) noted SMEs tend to have a personalised style of management and a lack of formal management structures with specialised staff. These characteristics are bound to vary widely depending on individual personalities and differing ownership structures. Burns (2001) describes small businesses as social entities that revolve around personal relationships, which are often short of cash, likely to operate in a single market, who find it difficult to diversify business risk and are vulnerable to the loss of customers. The SME manager may be responsible for several business tasks at once (Spence, 1999) and awareness of issues beyond the day to day running of the business may be low (Tilley, 2000). SMEs can be difficult to regulate as they are both reluctant to

³ The practice of sustainability is about creating new ways to live and prosper while ensuring an equitable, healthy future for all people and the planet. See http://www.naturalstep.org/learn/understand_sust.php [accessed 18/08/2004].

adopt voluntary regulation but are also distrustful of bureaucracy (*ibid.*), and are less responsive to institutional pressures e.g. legal, competitor benchmarking, government agencies, public and private interest groups (Dex and Scheibl, 2001). Even notions linked to SMEs, such as ‘community’ and ‘small business owner’ (Burns, 2001) have become more complex (Curran *et al.*, 2000) suggesting a fragmented, far from homogeneous sector operating in numerous economic spheres, in a dispersed supply chain, with differing managerial styles and ownership structures. Thus, the assumption of one SME ‘type’ is false, and attempts to study the sector must not only consider its diversity, but embrace it.

SMEs and stakeholders

Stakeholder theory centres on the idea that companies have stakeholders, who may be an individual, or a group, who can affect or be affected by and organisation, and may have certain demands or expectations of an organisation (Freeman, 2001). Mc Intosh *et al.* (1998) cite the five key stakeholder groups or individuals that a company has as shareholders, employees, customers, suppliers and the community at large. Whilst the nature of stakeholder relationships for SMEs may not be drastically different, the management of such relationships is likely to be (Jenkins, 2004a). Cultural differences between large and small companies may influence managerial practices (Gibb, 2000) with regards to stakeholder engagement and management. Stakeholder relationships for an SME may be based on a more informal, trusting basis and characterised by intuitive and personal engagement with less of a gap between the relative power and influence of company and stakeholder; whilst large companies are far more likely to engage in carefully planned, formal strategic stakeholder management with the majority of power to dictate outcomes lying with them (Jenkins, 2004a).

SMEs and employees

The small business sector has long been regarded as the natural home for ‘bleak house’ employment relations (Bacon *et al.* 1996). Employment culture and employee characteristics are different in SMEs to large companies (Jenkins, 2004); the small business workforce may differ from the large business workforce in terms of education, race, origin, age and part-time status (Headd, 2000), and there is often less distinction between owner and employee in an SME as the owner may take on the role of co-worker (Marlow, 2001). Cassell *et al.* (2002) note that SMEs tend to take a more ‘pick and mix’ contingency approach to employee

management rather than develop coherent strategies and Hill and Stewart (2000) suggest that the approach of each SME to employee management will be unique, and as much directed by internal needs as external opinion.

There is a wide range of research that demonstrates a positive relationship between better people performance and bottom line performance; commentators have suggested that personnel and development practices can improve company performance by:

- Increasing employee skills and abilities.
- Promoting positive attitudes and increasing motivation.
- Providing employees with expanded responsibilities so they can make full use of their skills and abilities (Huselid, 1995; Guest, 1997; Guest *et al.*, 2000; Thompson, 2000).
- Improved employee recruitment and retention (PWC, 2003).

Positive employment relations lead to a more effective workforce, greater efficiency and increased sustainability. Good working conditions contribute to the social responsibility of a business by improving people's work-life balance, bettering education and providing job stability.

Recent evidence suggests that employee relations in UK SMEs are improving and employee management techniques are becoming more sophisticated (Bacon *et al.* 1996; McCall, 2004). The most family friendly employer in the UK in 2003 (according to an NSPCC award⁴) was an SME employing 37 people and the number one company in the Financial Times Top 50 Best Workplaces in the UK 2004 Survey is an SME employing 100 people⁵. In a recent article on the 50 Best SMEs to work for in Britain⁶ McCall (2004) states that '*Well-led and close-knit, small companies often outdo their bigger rivals in creating ideal working conditions*', while Bacon *et al.* (1996) suggest that small companies are the ideal place for the development of good employment practices for the reasons outlined below:

⁴ NSPCC Family Friendly Employer Award. See <http://www.nspcc.org.uk/html/home/newsandcampaigns/familyfriendly2004.htm> [August 19th, 2004].

⁵ Great Place to Work. See <http://www.greatplacetowork.co.uk/news/index.php?date=20040428> [August 19th, 2004].

- Communications are more direct
- People have to work more flexibly
- Flatter hierarchy
- Impact of each individual employee on organisational performance is greater
- Greater insecurity makes the organisation more responsive to changes in market and customer demands.

SMEs and supply chains

The restructuring, rationalisation and move towards closer collaboration with suppliers through more effective supply chain management are changing the context of business relationships (Macpherson and Wilson, 2003). However, little information on SMEs and supply chain management practices exists and the prevailing view of SME supply chain relations is fairly negative:

- SMEs view supply chain management as an exertion of power by customers and consequently it is seen as a one-way process.
- SMEs do not employ supply chain management; rather they are managed at arms-length by larger customers (Quayle, 2003).

In a number of organisations cost effective supply chain management is a matter of survival (Quayle, 2003). SMEs are often at the receiving end of cost cuts and efficiency drives which push down their profit margins, leaving them in a vulnerable position with little power to resist. Cox (1999) suggests that there is a need to approach supply chain management thinking based around the concepts of power and value appropriateness and there is a need to better understand dependencies through supply chains (Michaels, 1999), for example the small company solely dependent on one large customer.

While SMEs are often not in the position to dictate the direction and nature of such relationships, SME supply chain relationships may not be all negative experiences. Many forward thinking SMEs are seeking to be creative about the relationships they form with customers and suppliers as a path to innovation (Kim and Mauborgne, 2003) and greater

⁶ The Sunday Times 50 Best SMEs to Work For. See http://business.timesonline.co.uk/article/0,,12229-1017991_2.00.html [August 19th,

sustainability; for instance, getting involved in a lean manufacturing scheme with suppliers and customers. Studies of learning in SMEs have shown a preference for learning from the business context and business relationships (Macpherson and Wilson, 2003); the supply chain could provide excellent opportunities for imparting knowledge and working together for increased business sustainability. This paper explores how some SMEs are working with their supply chain, both suppliers and customers to improve education, skills, design-out waste and inefficiency, maintain competitive advantage and improve business sustainability.

Research methodology

This paper is based on qualitative data derived from in-depth semi-structured interviews with SMEs from across the UK. The intent of the interviews was to explore current social responsibility and sustainability best practice in UK SMEs, and this necessitated the choice of companies who had a theoretical relevance to the study. Therefore, companies with a proven track record in social responsibility related activities such as community initiatives, environmental management and employee related initiatives were selected from a search for award winning businesses⁷. Interviewees were asked questions relating to CSR such as:

- How would **you** define CSR?
- Do you think that CSR is an appropriate term to use for SMEs?
- What CSR related activities does your company undertake?
- In your opinion, what would you say are the business benefits of CSR?
- What are the specific challenges your company faces in trying to become more socially responsible?
- From which sources do you feel the pressure to become more socially responsible comes?

The research is grounded in the perspectives of owner managers, whose personal values often influence the strategic direction a company takes (Burns, 2001), and shows how social responsibility and sustainability is balanced with the daily activities of a company.

2004].

⁷ For example local and regional environmental awards e.g. <http://www.arenanetwork.org/awards/index.asp>, Business in the Community's Awards for Excellence <http://www.bitc.org.uk/awards/index.html>, The National Business Awards <http://www.thenationalbusinessawards.com/home.htm>, The Queen's Awards for Enterprise, National Training Awards (Investors in People), <http://www.iipuk.co.uk/IIP/Internet/MediaCentre/PromotionsandEvents/Promotions/NTA+2004+entry.htm>, Employer of the Year Awards, http://www.workingfamilies.org.uk/asp/awards/a_EYA_awards.asp.

The geographic distribution⁸ of the companies was chosen to provide an overview of sustainability in SMEs across the UK; this was partially predetermined and to some extent determined by the location of award winning companies. The definition of SME size itself has proved complicated and problematic. With no universal definition of an SME, research is based on varying interpretations, making comparisons between studies difficult. In order to minimise variability due to size companies were selected within a middle range of 40-120 employees. This research was not intended to be industry specific so companies were drawn from a variety of industries, which was determined by those who had won awards⁹.

The interviews were designed to reveal background information on companies, and sought to discover levels of social responsibility and sustainability awareness. The interviews also explored the levels of awareness and definitions of the term ‘stakeholder’, the nature of stakeholder relationships, the emergence of key stakeholders and the development of stakeholder relations with key groups. Interviewees were asked: [W]hat does the term stakeholder mean to you? How do you, as a company, identify and prioritise different stakeholders? How would you classify your style of engagement with different stakeholders? In discussing such issues with companies the research sought to discover how successful and innovative stakeholder relations in SMEs can contribute to greater business success, social responsibility and sustainability.

Results

This section of the paper presents the results of in-depth interviews with UK small businesses. The interviews explored the levels of awareness and definitions of the term ‘stakeholder’, the nature of stakeholder relationships, the emergence of key stakeholders and the development of stakeholder relations with key groups.

Stakeholder definitions

All of the interviewees are aware of the term ‘stakeholder’ and are able to explain clearly what it means to their company, although some are more comfortable with it than others.

⁸ The regions studied were the South East of England, the East Midlands, London, South Wales, the North West of England, the South West of England and Yorkshire and Humber.

⁹ Industrial sectors of interviewees; 3 printing companies, 2 engineering companies, 3 manufacturing companies, 1 construction company, 1 property development company, 1 IT training company, 1 PR company.

‘Stakeholder’ is described as a ‘new’ term that is now used frequently in business, but is also seen as somewhat jargon. Commonly used phrases to describe the relationship of stakeholders to the company include:

- Those with a **stake** in the business.
- Those **connected** to the business.
- Those with an **interest** in the business.
- Those **involved** in the business.
- Those who can **influence** the business.
- Those with **ownership** of the business.

When discussing what the term ‘stakeholder’ means each company listed key company stakeholders. While these vary from company to company, each mentions **employees**, **customers** and **suppliers** as key stakeholders. There is also a feeling that ‘anybody’ can be a stakeholder. In addition, companies distinguish between direct and indirect stakeholders and local, regional and national stakeholders.

‘Well it isn’t a very exciting term, but it means anybody who’s got a stake in the business which would be a supplier, be it customer, and be it employee...the local community, anybody who’s got a stake in the business’ [IT training company].

Although companies are aware of the term and are able to define it and identify key stakeholders, few companies actually use the term in the company and explicitly set about to identify key stakeholders and prioritise their salience.

‘No we’ve never done that, never, stakeholder is a word in this business that to be honest has never really been used either; we don’t describe it like that’ [manufacturing company].

However, companies that did purposefully identify and prioritise stakeholders found that it helped them work out where the focus and emphasis of the company should be and to develop strategic relationships with important stakeholders.

‘... it’s easy to identify what we call the key stakeholders, because then it helps us to get a focus. So certainly customer focus and supply focus is quite important. The Investors in People is very good to keep us focused on the employees stakeholders’ [printing company].

Business/stakeholder relations

In general companies describe relations with stakeholders as open, close, strong and good, but the nature of relations varies from company to company depending on the stakeholder. For instance some companies feel that customer and supplier relations are very strong, having been built up and maintained over long periods, but employee relations are weaker, whilst others feel that employee relations are very good and customer and supplier relations can be improved.

Conflict with stakeholders is another issue that was discussed during the interviews. Although all of the companies admit that there are actual and potential areas of conflict in their relations with stakeholders none mention any serious problems. Where conflicts do arise they would be dealt with in a professional manner through communication and compromise. Several companies note that stakeholder relations can be difficult as different groups have different agendas, and confusion can result from the different language used by different groups. One company called for a 'common platform' from which all stakeholders can work together.

'Well all areas are difficult because basically there are four issues that we're constantly hit with, and it's basically ignorance, arrogance, cynicism or confusion... and at different levels those things come through'
[printing company].

The following section describes the relationship of the companies in this study with the three key stakeholders identified: employees, customers and suppliers (the supply chain).

The development of employee relations in SMEs

Good employee relations in a company can lead to better staff motivation and morale, increased efficiency, business success and overall social and economic sustainability. All of the companies identify employees as a key stakeholder and are well aware of the important benefits of good employee relations for their company. Table 1 illustrates the types of employee relations initiatives that companies carry out. Nearly all of the companies state that in-company communication is open and transparent and many produce staff newsletters containing financial results, key performance indicators and employee related news.

'...we update everybody on how we're doing, what orders we've got, what issues we've got, what's going on generally, including our own social activities. As I say when you've got 45 people, communication generally is relatively easy. The quickest way to get anything around the factory is to say to [redacted] who's the cleaner 'don't tell anybody but...' [engineering company].

Many of these companies are characterised by flat management structures, lacking strict hierarchy and with good promotional opportunities. The companies value their staff and seek to achieve a good work-life balance for employees (see box 1).

'And that's what people value, they value the fact that they're trusted, they're respected and they're treated like adults and like capable people, and are given the power to do things' [IT training company]

'...the areas that we want to concentrate on... one is our employees, and making sure that we comply with all the things and we try and make this a really good place for them to work, and their well rewarded and all those kind of things, good opportunity to progress...' [PR company].

Other common employment features are the presence of training and development schemes (see box 2) and the Investors in People (IIP) accreditation¹⁰. All but two companies have IIP, and several companies feel that the Standard helps them to focus and to provide a framework for running the company, as well as being an important external auditing tool.

'...we did that [IIP] because we believed it would benefit the business, and help us to improve the way that we did things... I think it's helped us to just focus on the things that we should be doing, and make sure that we are doing what we should be doing. The problem with any business, but particularly with a small business, is that everybody has to do a whole myriad of different tasks, so you might have responsibility for health and safety, you might have responsibility for sales or maintenance or whatever, and you have a very limited amount of time to deal with any one of those aspects, and that can be quite difficult. So sometimes, if you get a framework like Investors in People it just helps you to bring a bit of formality...' [engineering company].

The companies in this study often attempted to involve employees in social responsibility related schemes such as fund raising and working with local schoolchildren. In general they report that their employees are fairly ambivalent about becoming involved in such schemes due to the demands of the job and external commitments. However, they are more interested if they can see how such schemes can directly relate to their job and provide them with opportunities for training and development. For instance one company, whose main employee

¹⁰ Investors in People is the national Standard which sets a level of good practice for training and development of people to achieve business goals. See <http://www.iipuk.co.uk/IIP/Internet/default.htm> [August 24th, 2004].

drain is people leaving to go travelling, set up a scheme where employees were sent abroad to train people in developing countries, thereby providing employees with experience and broadening their horizons, and disadvantaged people with access to training (Jenkins, 2004b).

Whilst most companies would classify their employment relations as good, some companies seek to be truly innovative (see box 3) in their development of human resources strategies. Some examples of innovative ideas are:

- The provision of a free, confidential employee counselling service for both work-related and personal stress and difficulties.
- Employee profit sharing.
- 360 Degree Appraisal: a process of ensuring everybody in the company gets all-round feedback - from above, from their peers and from anybody they manage, as well as from customers.

The companies list several sustainable benefits to maintaining good employment relations, these include:

- Increased employee motivation and morale.
- Lower staff turnover.
- Improved their attractiveness to potential employees and reduced recruitment costs.
- Improved customer service.
- Increased flexibility.
- Release the potential in people.

Despite some very positive development in employee relations, companies still experience a number of difficulties in developing successful, sustainable employee relations. These include limited time and resources, particularly the lack of a member of staff dedicated to the development of human resources, ambivalence amongst employees, principally in the involvement in activities not related to their day to day job, and a general lack of awareness of external support mechanisms to improve employee relations.

Types of initiative	Companies											
	Printing	Printing	Printing	Engineering	Engineering	Manufacturing	Manufacturing	Manufacturing	Construction	Property development	IT training	PR
Funds for employees to apply for to make improvements in the local community	Y							Y				
Staff newsletters	Y			Y	Y	Y	Y	Y				
Open and transparent communication	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y
Investors in People	Y	Y	Y	Y	Y		Y	Y	Y		Y	Y
Flat management structures					Y	Y					Y	Y
Good promotional opportunities				Y	Y	Y						Y
Confidential employee counselling service												Y
Employee involvement in CSR related activities	Y			Y		Y		Y	Y	Y	Y	Y
Frequent one to one progress reviews					Y						Y	Y
Low staff turnover				Y	Y				Y	Y	Y	Y
Employee training and development schemes		Y		Y	Y	Y	Y	Y	Y		Y	
Good work-life balance (family friendly)					Y					Y	Y	Y
Time-bank for employees to do charity work									Y		Y	Y
Employee profit sharing						Y					Y	Y
Employee perks										Y	Y	Y

Table 1 Types of employee initiatives present in the companies studied (✓ -present)

'Human resources is something you have to do in your spare time here, it's just good management, and you have to...human resources, environmental issues are bolted onto somebody's day job...' [engineering company].

Case study 1: Achieving a good work-life balance

The steps that one engineering company took to ensure a good work-life balance for its staff:

- Good communication and openness about likely future workloads.
- Work 9-5 hours, no 'silly hours'.
- Accommodate flexible work patterns e.g. for parents, for employees past the retirement age.
- Have flexible rules so people can fit work in to suit their own personal situation.

'I consider that we have a social responsibility in terms of the employees...and getting the right work-life balance, that's a big important thing ... giving them the right work-life balance, considering their needs, not pushing people beyond their limits, having open communication with them...we have regular staff meetings where we give them the opportunity to communicate to us what they feel is going on and the way we can improve things'.

Box 1. Achieving a good work-life balance

Case study 2: Employee training and development, knocking down barriers to success

This manufacturing company felt that a lack of education and training development in their employees was becoming a barrier to company progress, so they introduced an employee training and development scheme to try to improve matters.

'About five years ago my brother and I basically did everything and ran everything, and decided on everything, so this culture of the employees always looking upwards for decisions and not sorting things out for themselves was becoming quite a barrier to our progress.'

The company took several important steps forward:

1. The recruitment and formal recognition of a senior management team, leading to greater delegation of important responsibilities.
2. All senior management (including the owners) were sent on a business management course.
3. Every single member of staff attended an NVQ course on world class manufacturing (all but one passed).
4. Company achievements were recognised by a Management Learning Award.
5. Set up a culture of 'limitless achievement' in the company and encouraged employees to 'raise the post' for their own ambitions.

'...it's just raising the post a little bit as regards people's ambition. It's definitely having an effect on a lot of people... and you can see the stars starting to emerge that previously might have been somewhat subdued by the management systems...'

Box 2. Employee training and development

Case study 3: Innovative ideas

The owner-manager of this IT training firm believes that the greatest impact a business can have is on its employees. The company's key ethos is about understanding people and their needs and it is focused on providing a great place to work. The company believes that mutual benefit in stakeholder relationships is crucial to sustainability.

'...we seek to create a good place to work...The core is giving people autonomy, and to make their own decisions about their job. It's giving people a framework within which to work and then saying feel free to do things however you want. And that's what people value, they value the fact that they're trusted, they're respected and they're treated like adults and like capable people, and are given the power to do things'

Key initiatives:

- 360 Degree Appraisal: a process of ensuring everybody in the company gets all-round feedback - from above, from their peers and from anybody they manage, as well as from customers.
- Employees as shareholders.
- An employee 'time bank' for charity and community work.
- Training and development schemes such as sending employees abroad to train people in developing countries- providing employees with new experiences.

This PR company has had a special employment culture characterised by open and flat management, employee share ownership and a 'gregarious' atmosphere right from its inception. Some innovative ideas that it has come up with are:

- Artwork by employees is displayed in a gallery in the office.
- The provision of a free, confidential employee counselling service for both work-related and personal difficulties.
- Many opportunities for employees to get involved in CSR related schemes and be rewarded for their efforts.

'...we're a very creative business...so when we look at these kind of subjects we are quite creative in our own right in coming up with new ways of doing things, and interesting ways of thinking'

Box 3. Innovative ideas

The development of supply chain relations in SMEs

Whilst the prevailing view of SME supply chain relations is fairly negative, SME supply chain relationships may not be all depressing experiences. The results of this study show that some SMEs are working with their supply chain, both suppliers and customers to improve

education, skills, design-out waste and inefficiency, maintain competitive advantage and improve business sustainability.

Table 2 illustrates the types of supply chain initiatives that the SMEs in this study engage in. Most companies are members of a relevant trade body or business association, reflecting their stated preference for peer learning and networking. Some companies take this further and have become involved in supply chain best practice initiatives, for example developing world-class supply chains and lean manufacturing with large customers. Here, the SME gets involved in a scheme initiated and controlled by a large customer, but the study also revealed examples of companies who were initiating supply chain projects e.g. the design of products for end of life take-back, with customers and suppliers (see box 4).

'...it's nice to be able to impart some of the things, achievements that we've made on our customers, and sometimes they'll specifically come to me and say oh look, we're doing a project on the supply chain, you know what's your experience of it, there's a great bit of knowledge sharing that can go on...' [manufacturing company].

Several companies state that they seek to develop supportive relationships with their suppliers and supplier learning schemes to impart best practice and to improve business efficiency (see box 5). While all the companies have fairly open relationships with other companies in their supply chain, a number go out of their way to invite suppliers and customers into their business e.g. through the Inside UK Enterprise scheme¹¹.

Two key elements of SME supply chain relations that feature strongly in many of the interviews are:

- Companies who seek to develop strong long-term relationships/ partnerships with customers and suppliers.
- Companies who seek to move away from negative, antagonistic relationships with customers and suppliers (see box 6).

¹¹ IUKE, see <http://www.dti.gov.uk/bestpractice/other/visits.htm> [August 25th, 2004].

'Nearly always we create end user relationships, partner relationships with companies... our work is repeat business over and over again for the same customers, developing new relationships with new customers... we have strategic relationships with all our suppliers, we train with the same people over and over again, get them into thinking that the way you operate is that you perform well, do a good job, you develop a close relationship with a customer, you get more work off them. Move away completely from this antagonistic, fighting situation, we don't do that at all, we co-operate and develop partnership relationships with everybody, customer, suppliers, any stakeholders in the business, that's the way we operate, and that's a theme that runs right through the whole company.' [engineering company].

'...we build up relationships with customers, and we hope to be the exclusive supplier of those products to them...' [manufacturing company].

'We have a very strong relationship with the customers because we retain them for such a long period. A lot of our major customers have been ones that have been there maybe since the start of the business...' [printing company].

Companies were also asked whether they actively encouraged suppliers and customers to embrace CSR and sustainability principles and initiatives. The results were mixed, and illustrate the relatively weak influence SMEs believe they have in the supply chain. Several companies state that they do actively encourage members of their supply chain to improve social and environmental responsibility; these tend to be companies proactively engaged in sustainability related supply chain projects (see box 4). However, most companies 'hope' that they can encourage people, rather than actually doing something positive.

'In that sense we will hopefully encourage other people to do the same, and we've had a number of people say 'bloody hell that's a good idea, we ought to do that'...' [engineering company].

Types of initiative	Companies											
	Printer	Printer	Printer	Engineering	Engineering	Manufacturing	Manufacturing	Manufacturing	Construction	Property development	IT training	PR
Encourage suppliers/customers to embrace CSR principles	Y	Y	Y				Y		Y		Y	Y
Open house policy for suppliers, customers and competitors	Y			Y			Y					
Members of trade body		Y	Y	Y	Y	Y	Y	Y	Y			Y
Supply chain initiatives with suppliers/customers				Y	Y		Y		Y	Y		
Members of business associations	Y	Y	Y	Y				Y	Y		Y	Y
Measure Key Performance Indicators and feedback to customers/suppliers					Y						Y	
Move away from antagonistic relationships with customers/suppliers					Y	Y			Y			
Seek to develop long-term partnerships with customers/suppliers		Y	Y	Y	Y	Y		Y	Y		Y	Y
Positive, supportive relationships with small suppliers	Y								Y		Y	
Supplier learning schemes to impart best practice						Y	Y					
Supply chain best practice initiatives	Y			Y			Y		Y			Y
Develop supply chain projects with customers/suppliers e.g. design of products for end of life take-back			Y	Y		Y	Y		Y	Y		

Table 2 Types of supply chain initiatives present in the companies studied (Y -present)

Most SMEs feel that they have no tangible influence over customers and large suppliers due to a lack of financial ‘clout’ and purchasing power.

‘I always have arguments with them, but what effect does it have, I discuss Third World loans and things like that with them, but I don’t think it’s going to change policy’ [IT training company].

‘We have very little clout at all to be quite honest...The effect that we have on our suppliers is fairly minimal to be quite honest, we do a supplier evaluation, it’s more a goodwill gesture...’ [printing company].

‘But you can’t dictate to your suppliers can you, some of these suppliers are bigger than you are’ [printing company].

Conversely, the SMEs were asked to what degree they felt under pressure from their customers to improve their sustainability; there was an interesting response. Most companies feel no pressure to improve social responsibility, only environmental responsibility. There is a general cynicism of customers who ask SMEs to prove their social and environmental responsibility because:

- It is perceived that customers only do so as part of a particular system, not through any genuine social and environmental responsibility of their own.
- Customer companies should improve their own social and environmental responsibility before asking suppliers to demonstrate theirs.
- Some of the SMEs feel that they are ahead of many large customers in terms of social and environmental responsibility.

‘...they need to get their house in order before they start coming to small businesses about getting our house in order’ [IT training company].

Furthermore, many of the companies feel under almost impossible and contradictory financial and time pressure from customers, who want them both to do a job as cheaply and quickly as possible, and to demonstrate good financial, social and environmental credentials.

'So they want you to be making money so that you're a substantial company and you're not going to go bust, but they don't want you to be making any money out of them. So it's an interesting dilemma is that, they want to see that you're successful but they don't want to feel that you're actually making money out of them; you're just there to give them a service as sub-contractor that seems to be the way that some of the larger business view you' [engineering company].

Case study 4: Supply chain projects for environmental improvement

This company, which manufactures office furniture, has a very strong customer focus. The company is keen to develop supply chain projects with customers and suppliers as it believes that much knowledge can be shared through the supply chain.

'...it's nice to be able to impart some of the things, achievements that we've made on our customers, and sometimes they'll specifically come to me and say oh look, we're doing a project on the supply chain, you know what's your experience of it, so you know, there's a great bit of knowledge sharing that can go on'.

The company is an environmental leader in its field and tries to encourage customers and suppliers to embrace environmental responsibility. The company is responding proactively to legislative challenges through the supply chain by talking to customers about taking products away from them at the end of the life-cycle and developing recyclable products. The managing director of the company believes that difficulties in talking to customers about new projects may be overcome when the 'business case' can be made for an initiative.

'...being able to say to a client, listen we'll take the chair away from you at the end of the life cycle, people go 'what...and they turn around and say Christ that's unheard of in our industry'.

'...you're making a business case, and that's when people start to listen, and that's when it really gives you the competitive advantage'.

Box 4 Supply chain projects for environmental improvement

Case study 5: Partnering with suppliers

From adversarial cost-driven relationships to partnering for mutual benefit.

This manufacturing company decided to set up a supplier learning network of ten of its small suppliers. Historically the company had a 'loyal' relationship with its suppliers but felt that:

'...there should be more to a business relationship than just getting what you want when you want it, occasionally having a little argument about prices and so on and so forth.'

This was formalised into an agreement with key suppliers that their relationship was a 'partnership' and that more was expected out of the relationship than had been in the past.

The central aim of the partnership is to find ways of mutual business improvement and benefit, taking waste and inefficiency out and sharing cost savings, for example, working together on joint projects to design products that use fewer materials.

Box 5 Partnering with suppliers

Case study 6: Less adversity, less waste

The customer focused construction company.

This construction company is seeking to change the nature of customer-supplier relations in the building industry, which it sees as negative, adversarial and wasteful. The company develops relationships with clients based on trust, honesty and integrity, and seeks to develop long-term repeat business with customers. The company's ethos is 'they won't be the cheapest, but they'll be the best' - they'll give an honest price and time-scale, and deliver it. In doing so, the company can afford to employ the best people, pay them well, train and develop them and ensure they produced the highest quality work and maintain it.

'what we'd like people to think about us is and say about us, is yeah they're really good, and they always finish on time, and they're very straight forward, they're a little bit expensive but you know you get what you pay for... And on the back of that we ... can employ the best people, pay them good money, employ the best carpenters, and we can spend money training them, so it's a sort of circular thing, if you can get good clients that don't mind paying, you can make good profits, if you make good profits you can pay good wages, and you can train people, and those people then will deliver what the clients want which is you know good quality work, on time, so that's our sort of niche really, we're more focused on the customer really, I'd like to think, than most building companies'.

Box 6 Less adversity, less waste

Discussion

Stakeholder definitions

Although SMEs have been largely ignored in debates about stakeholder theory and little research has focused on issues such as stakeholder salience in SMEs (Jenkins, 2004a), this study shows that SMEs are both fully aware of the term and able to define it clearly. Most companies don't actually use it on a day to day basis, but it is a key element of how they view their company and surroundings; whilst a handful of companies do use the stakeholder model to structure their company and as a framework for developing relationships with key internal and external groups.

Even though considerable variation exists in the actual stakeholder definitions used, they all essentially demonstrate the same thing: that they have a relationship with these groups and feel a responsibility towards them. The nature of this relationship and the degree of responsibility felt varies between companies and groups, but customers, suppliers and employees are uniformly identified as key groups. The nature of such relationships can have an important impact on the sustainability and success of companies.

The notion of 'mutual benefit' in stakeholder relationships is crucial to the sustainability of businesses. This type of mutually beneficial outcome is best exemplified by the company who, to offset a problem caused by employees leaving to go travelling, set up a scheme whereby employees were sent abroad to train people in developing countries, thereby providing them with experience and broadening their horizons, and disadvantaged people with access to training, which they could pass to others. However, the power to define this mutuality may not always rest with the SME. In employment relations the SME has much of the control, but in supply chain relationships much of the power to dictate mutually beneficial outcomes lies with the large customer organisation, or even the large supplier.

SMEs and employees

The SMEs in this study are well aware that their employees are a key asset and therefore value and respect them. Whilst this had been an integral part of some companies' ethos since they were formed, others had come later to an understanding and demonstration of the importance of their employees. Many companies have pursued the Investors in People Standard, improved work-life balance and had provided increased training and development

for employees over the last few years, recognising the numerous benefits to their company, and learning how to change their organisations for the better. Pedlar *et al.* (1991, p.1) note that a learning company is an organisation that facilitates the learning of all its members and continually transforms itself. Many of the companies were undergoing, or had undergone, a process of internal organisational change and learning, which had enabled them to respond positively to internal and external stakeholder concerns. For example, companies who moved away from hierarchical management structures and shared responsibilities throughout the company found that management had more time to devote to issues such as human resources, that organisational openness, transparency and communication improved, and that staff had greater opportunities for advancement and development.

Just as in large companies, small businesses that recognise employees as important stakeholders, and strive to make their company a good place to work, will be more successful and sustainable. Staff who are happy in their work will be more motivated, work harder and more efficiently and provide better customer service, this will lead to improved morale, teamwork and loyalty. Loyalty amongst employees leads to a lower staff turnover, and an external image as a good employer helps to attract a high calibre, skilled workforce (Greening and Turban, 2000). Several companies experienced recruitment difficulties due to low unemployment in their area and a lack of skilled people; they felt that being seen as a good employer helped them to overcome this barrier to recruitment.

SMEs and supply chains

There is a trend amongst the companies in this study of changing the way in which customer-supplier relationships are approached. Relations with both customers and suppliers were in the past seen as negative, often antagonistic and primarily cost-driven, and the companies believed that this was not good way to do business. Thus many of the companies promoted their commitment to excellent customer service, and had begun to develop positive partnerships with customers and suppliers exemplified by developing long-term partnerships with customers and engaging in supply chain initiatives that improve overall business sustainability. The companies believe that good supply chain relations are crucial to their continued business success and to maintaining competitive advantage. Innovative companies actively sought partnership projects with other members of their supply chains.

Developing positive, strong and long-lasting relationships with key customers gives small businesses more stability, both financially and within the supply chain, which in turn allows them to pay their suppliers on time, pay employees well and employ the best people, and build on the success of their company. Stable supply chains are more sustainable, a fact that these companies seemed to have grasped strongly.

SMEs have the creativity, flexibility and communication skills to build great relationships with stakeholders that can lead to lasting, sustainable partnerships; however they often lack the time and resources needed to develop such relationships, and suffer from power imbalances in the supply chain that weakens their ability to become the engager; such power imbalances may lead to un-sustainability.

Despite signs that positive things are happening in SME relations with suppliers and customers, problems do remain, and relations with customers can be particularly difficult. Small companies often find themselves in a dilemma when acting as a supplier to a large customer company. They are asked to demonstrate their financial success and credibility in order to become a supplier and then are beaten down on price so they're not able to make any money. Developing strong, positive relationships with customers, and working in partnership (rather than being dictated to by a large organisation) may reduce the vulnerability of the SMEs position and even-out power imbalances.

The supply chain can be an excellent place to impart knowledge, such as lean manufacturing and environmental responsibility, and SMEs often state their preference for learning from their peers and through networking. Supply chain initiatives may promote best practice, and several of the companies in this study were involved in such schemes. Companies were also interested to learn from customers with regards to social and environmental responsibility, but two factors emerged as barriers to such learning. Customers often want SMEs to demonstrate social and environmental responsibility, but also squeeze them financially and temporally so that they have limited resources to commit to improving their social and environmental responsibility. The cynicism that the companies studied showed towards the motives of large companies that get involved in CSR may also act as a barrier to stakeholder dialogue and sharing knowledge and practice between SMEs and large companies.

Conclusions

Though SMEs have thus far been largely ignored in stakeholder research, this paper aims to address this imbalance and has clearly demonstrated that the stakeholder model is just as relevant for an SME as for larger organisations. The study companies recognise that there are individuals and groups with an important stake in their operations, and are able to define their relationship and importance to the company. Commonly used stakeholder terms include 'connected', 'interest', 'involved', 'influence' and 'ownership'. Key stakeholders were uniformly identified as employees, customers and suppliers.

The SMEs in this study see the nature of their relations with key stakeholders as open and close; although they do suffer from power imbalances in their influence over the supply chain. Unlike large organisations, where stakeholders are likely to be formally identified and they will engage in strategic stakeholder management, the approach of small companies to stakeholder management is based on personal engagement, trust and informality.

Employment relations in small businesses have traditionally had a poor reputation. Research suggests that human resource practices are typified by direct management control, poor terms and conditions, high staff turnover and little staff training (Bacon *et al.* 1996). This study reveals that employment relations in some SMEs do not conform at all to traditional stereotypes. These companies valued employees as key stakeholders and treated them with respect. Employment relations in the study companies were characterised by:

- Open and transparent communication.
- Flat management structures.
- Lack of hierarchical control and delegated responsibilities.
- Good work-life balance.
- Low staff turnover.
- Good training and development opportunities.

The companies recognised that there are numerous beneficial outcomes from developing good employee relations and they are crucial to the sustained success of their business. Benefits include increased employee motivation and morale, lower staff turnover, improved attractiveness to potential employees and reduced recruitment costs, improved customer

service, increased flexibility and releasing the potential in people. However, SMEs are unlikely to have a strategic approach to employee relations. Such management practices are typically flexible and *ad hoc*, based on informality and trust and are heavily influenced by the personal style and preferences of the owner-manager of the company. SMEs are unlikely to formally identify employees as key stakeholder and develop specific human resource strategies; the process of developing good employee relations is more intuitive. Nevertheless, much can be learned from the study companies with regards to making a company a ‘good place to work’, and they are keen to share this experience and knowledge with their peers.

As with employee relations, the prevailing view of supply chain relations in SMEs has been fairly negative (Quayle, 2003). While the study companies regarded suppliers and customers as key stakeholders and sought to develop strong, long-lasting relationships with them, barriers do still exist. Quayle (2003) notes that SMEs view supply chain management as an exertion of power by customers, a one-way process in which they are managed at arms-length. The companies in this study often felt powerless in their customer relations, and also felt that they did not hold sway over suppliers either due to a lack of purchasing power. Power imbalances and an inability to control the outcomes of mutual benefits leave SMEs vulnerable and may cause un-sustainability in the supply chain, and there is a need to address these issues.

Despite this, many of the study companies strove to improve supply chain relations by attempting to move away from antagonistic, cost-driven relationships to long-term, collaborative partnerships. SMEs have the flexibility to be innovative in this respect and can respond quickly to the changing demands of the supply chain, an imperative if they are to sustain competitive advantage. Several companies were developing environmentally responsible products with supply chain partners.

There is also much potential for learning and knowledge sharing through the supply chain. SMEs are keen to learn in this way, but are often cynical of the motives of large companies. Large companies may overcome this barrier by partnering and networking with them, rather than engaging at arms-length.

The business world recognises the imperative of having good stakeholder relations and engagement to maintain business success and sustainability. Though SMEs are not exposed to

the same level and types of risk as large companies, the companies in this study understand that improving their relationships with key groups can help make them more successful, maintain competitive advantage, and improve social, environmental and economic sustainability. Through numerous best practice examples this paper has illustrated how some SMEs are achieving improved success and sustainability, and furthermore show that there is much to be learnt from the approach of innovative small companies to stakeholder relations.

The heterogeneous nature of SMEs and the variability in their styles of stakeholder management (often dictated by the personality and principles of the owner-manager) suggests that stakeholder management tools and strategies designed for large companies may not be suitable for SMEs. More research is therefore needed to understand the many facets of stakeholder relations in SMEs, and design appropriate tools and strategies to support good stakeholder management in small businesses.

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