

# Theoretical and practical notions about ethics and social responsibility of the Venezuelan SME's.

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## Summary

This article addresses the conceptual and theoretical perspectives from where the subjects of ethics and corporate social responsibilities are analyzed, focusing the attention on the area of medium and small enterprises. The article presents the work methodology and the technique used in the study and presents the preliminary results of the fieldwork. The study is encouraged by the overall purpose of characterizing, knowing and understanding the perceptions, knowledge, leading practices and the exercise of ethics and social responsibility. It presents a first estimate of the investment the SME destines to the realization of projects, programs and initiatives with social responsibility.

The assessment includes both, the activities and programs that the companies develops with its workers, managers and shareholders or investors, such as those designed to meet the requirements of the community and the environment. It aims to build indicators and indices to characterize the current situation that can be monitored later on.

This is a unique effort. First, the study was done nationwide. Secondly, it applies to a sample of more than 400 companies, medium and small. This last feature is of great importance, being that, until now, the discussion on the issue has revolved primarily around large companies.

Finally, this study is part of a broader and more ambitious project: the construction of the third of the SME Center of Venezuela. With this we give continuity to the previous observations, the first was done in 2001 and the second in 2004.

## Abstract

This article analyzed de most important theories and paradigms of enterprise ethics and social responsibility. Its character is unique: is the first national study on social responsibility, it's also the first study in the small and medium enterprises and is the first time we obtained information about the quantities that SME invest in social responsibility programs.

The objectives of the research are:

1. Providing a conceptual analysis of SME ethics and corporate social responsibility.
2. Identifying the main practices of social responsibility
3. Building the main indicators of the social responsibility programs
4. Characterizing the knowledge of entrepreneur of SME about social responsibility and ethics.

These research has been possible thanks to the support of the following institutions: Scientific and humanistic council of Central University of Venezuela, the students of sociology school of the central university, The center for the disclosure of economic knowledge for freedom (Cedice) and the center for technical advice for the organizational productivity ( CEATPRO).

Keywords: Ethics, social responsibility, Smal and Medium Enterprises (SME), enterprise, social economics, model of economic rationality, SME Observatory

## **1. - Introduction**

This research is part of a broader effort: the design and preparation of the third SME Observatory of Venezuela, which this time will be devoted to the topic of ethics and social responsibility of small and medium enterprises. We believe that it possesses unique attributes. It has national scope, it applies to a sample made up of more than 400 companies from all sectors of the economy, industry, commerce and services, and is done in the sector of small and medium enterprises. In this sense, one can establish a parallel with similar studies carried out in the European Union.

The specific objectives that inspire this study and this article are as follows:

1. - To conduct a conceptual approach to the issue of social responsibility and business ethics in the field of small and medium enterprises.
2. - To characterize ethical practices and corporate social responsibility with emphasis on micro, small and medium enterprises.
3. - To build a set of indicators to take account for the practices, programs and to achieve a major approach about the amounts invested in programs of ethics and social responsibility of the SME.
4. - To characterize the degree of knowledge/ignorance that entrepreneurs in the SME have as far as the concepts of ethics and social responsibility.

The investigation has been made possible thanks to the assistance of several institutions, who we'd like to express our sincere recognition: First, Scientific and humanistic council of Central University of Venezuela, (CDCH), the center for technical advice for the organizational productivity (CEATPRO), The center for the disclosure of economic knowledge for freedom (CEDICE) and the School of Sociology at the Universidad Central de Venezuela, for their contributions in terms of field work and for providing the infrastructure necessary to conduct the study. We extend our thanks to all the companies that showed their readiness to provide all the information required by the study.

## **2 .- Background and justification of the study.**

The topics of ethics and social responsibility are not new and have worried the entrepreneurs, researchers, training centers and business leaders in general for centuries. Today, however, they have acquired an unusual strength that is evidenced by texts, agreements, seminars, inquiries and resolutions of a global nature. Perhaps, we dare to affirm; the novelty lies in the fact that today is structured around it, with the participation of actors and organizations, policies and strategies to promote ethics and corporate social responsibility in a systematic manner.

There are multiple demonstrations of the previous statement. The establishment of ethic centers in universities and enterprises, development of consensus about methodologies among enterprises, projects to create standards and support manuals in order to promote the exercise of social responsibility in businesses and organizations. Today, in addition, we are witnesses and actors in a publicly growing debate on the issues of ethics and corporate social responsibility.

The issue has become a central topic for companies and organizations in general, demanding the establishment of well defined concepts, to avoid the risk of trivializing the issue or turning it into fashion and, as such, becoming temporary, hence it is necessary to prevent that ethics turn into cosmetics.

## **3 .- Conceptual approach to ethics and social responsibility**

The practice of ethics and social responsibility is only possible in democratic contexts, when there is actually a chance to choose between different options. Hannah Arendt points this out clearly whenever she establishes a difference between labor, job and action. The last one being what is between the community's reach, that space where decisions are made and responsibility for the facts is taken, even when the consequences of those acts are not completely clear, or even predictable. (Arendt, H, 1974, pp. 20-28)

This brings our attention to another feature that defines the exercise of ethics and social responsibility: it operates in the area of the autonomous decisions. Therefore, when trying to convert social responsibility into law or something statutory, that's when the ability to make a choice or an autonomous decision disappears and it becomes taxation. This explains why in authoritarian regimes where democracy is stifled, the exercise of ethics and social responsibility is restricted to a minimum or simply disappears.

The centrality of the company, as a portentous socioeconomic device, generating wealth and employment, and its corollary, private ownership, seems to be beyond question, especially as we have witnessed the noisy collapse of the centralist and statist models that have been relentless against property and business (Pipes, R. chap. V pp-271-357). But we cannot reduce the company nor conceive it as a purely economic phenomenon. Nor can we reduce the market to simple economic transactions, because it is a complex system of socio-economic relations and coordination of human activities. Assuming the market and the companies only as economic relations leads to evade the social, cultural and emotional, human and ultimately, to lose sight of the relationship between businesses, market, democracy and ethics.

The debate about social responsibility and business ethics is far from exhausted. There are plenty of examples of arguments (Emeterio Gómez, Charo Mendez, Victor Guédez, Jesus Christ, etc). We are interested in emphasizing that today the issue transcends, fortunately, specialists and researchers and has become a matter of a social nature. Today there is an increased level of awareness that includes entrepreneurs, executives, managers, workers and communities. This also relates to the fact that today is easier to measure quantitatively and qualitatively the effects and impact of corporate social responsibility (See Global Reporting Initiative of the United Nations, The Green Book of Social Responsibility of the European Union, The Etnor foundation, etc).

For this reason we believe it is neither possible nor advisable detaching the debate from the social, political and economic aspects of the issue at hand. Along with the previously outlined reasons lies the fact that for us it is a premise: while companies are created they contribute to producing specific social contexts. For that reason, ethics and business, borrowing Granovetter words, are socially embedded (Granovetter, Mark, 1985 pp.1-20)

It is that relationship that provides sense to this debate. This idea has been also discussed by the ET-NOR foundation, in Valencia, Spain. They suggest that enterprises are not and cannot be autistics; they cannot isolate themselves from the contexts that they contribute to build and where they develop their initiatives. They cannot be conceived apart from the big social, cultural, political and economic changes.

The exchange rate has increased exponentially and the time frames for those increases have decreased. A clear example of this is the world of the new information and communication technologies. However, there are other transformations happening that are highly relevant to this discussion. We refer to changes in the perception of the environment, the renewed interest in self-development, assessment and expansion of what is defined as the quality of life and human development, only to mention a few.

The mentioned changes redefine the relationship of communities, markets, employees and customers with businesses. Customers and the market are organized to punish inappropriate practices by many different reasons. These include a wide range of possibilities, such as military reasons, environmental, participation of the company in acts of corruption, not meeting or rather ignoring the customer, not to give due attention to human capital, among many others. “Bad” management practices are sanctioned by the communities and cause serious consequences for the company.

The increased level of awareness of ethics and social responsibility translates into greater pressure on the company from customers (including large corporations), suppliers and communities. This demands from the company a substantial improvement in their standards of performance, forcing them to improve quality and provide satisfactory answers to the needs of communities. As members of this society, managers, executives and workers have also pushed or have been under pressure over a range of topics related to ethics and social responsibility. This has promoted a greater awareness, greater conviction and a better appreciation of the importance of ethics in their attitude towards business.

However, the practice, as well as evaluation of social responsibility and ethics is closely related to the concept of enterprise that is used. Those who argue that the company encourages only the insatiable thirst for earnings exclude from the definition of the possibilities of ethics.

The statement that the company is a tool to produce profits is based on two totally opposite angles at their origin and purpose. However they end up meeting and coinciding at the end. Therefore, this convergence always causes surprises. The fact that a definition can be used for such dissimilar purposes, to defend and also to attack the company, is in some ways an indicator of the inconsistency of the definition.

A typical author, who defends the company, is Milton Friedman. He states, in relation to corporate social responsibility, that “... The corporate social responsibility is not no business, since the main purpose of the company and maximize profits for shareholders within the legal framework” (Friedman, Milton, pp.35, year 1953). The author reminds us that the primary responsibility of the enterprise is to create wealth and employment, which is no small thing and carries a big responsibility in itself.

Coinciding with Friedman's postulations, although from an opposite angle, attacking the company, there are those who argue that the search for profits of the company is selfish, inhuman and thus cripples the company to think, let alone exercise ethics and social responsibility. In this position lies a plot even more troubling, the criticism of the model of democracy and capitalism as a whole.

Despite the abundant evidence against it; despite the existence of codes of ethics for businesses, strategies and programs of social responsibility that show varying degrees of success and impact and despite cooperative programs of social responsibility, just to mention some experiences, some still refuse to accept the possibility that the company can be both ethical and socially responsible. When those who feel that way seem to accept the possibility that the company can develop the ethical and social responsibility, they conclude by saying that they do it precisely to boost profits and as a marketing effort.

Faced with the inability of the company, namely the "machinery of selfishness," to develop the ethical and social responsibility, the calling is for greater state intervention and standards and legal frameworks that turn the individual interest. It is the aged and artificial debate between the collective interests confronted with the individual interest, in other words, the state confronting the greed of the business.

Those who maintain this argument tend to forget the strength of the evidence, data and the resounding failure of the models statist, collectivist and centralized, not only in the economic sphere: poverty, social disintegration and lack of freedom, both of them, the one that has driven the Marxist-inspired socialism in the countries of Eastern Europe, as well as the closest statist and populist models in Latin America who have found an excellent breeding ground (Andres Benavente Urbina and Julio Alberto Cirino, 2005.)

The clamor for a strong state participation is made on behalf of a diffuse and amorphous public interest. This has been the alibi that totalitarian regimes have used in their versions Marxist or fascist. In the end, as Umberto Eco has pointed out, both are expressions of the same, the eternal Fascism or ur-fascism (Umberto Eco, ... and chapter). In those contexts, and particularly in the totalitarianism inspired by Marxism, the goal is to replace private enterprise and the individual for the party and, ultimately, by whom at that time is in the exercise of the leadership of the party in power.

Although we do not share Friedman's definition of the enterprise, and given that the premise of the party that is exploited by those who criticize the company and capitalism, we highlight a difference, that according to our understanding is basic, it is that the author recognizes the centrality of the company and the share of responsibility assumed when creating wealth and jobs.

At this point it is appropriate to dwell briefly on the analysis of the topic of the profits. The benefit could be conceived as an end in itself or as a result of management and market competition. From the latter perspective, the profit is subject to many variables that go beyond the interest of the employer, which minimizes and says the centrality of the profit motive as an individual act explanatory. The latter becomes independent of individual interest and passes upon factors that it does not control and may even contradict their desire and aspiration.

Taiichi Ohno, recognized as a leader of the Toyota Company, develops an interesting discussion on this topic (Taiichi Ohno 1972. In particular the discussion of the theory of profit, part one). The author asserts that the traditional model, which reflects the definition noted in previous paragraphs, led to the following formula. The price was a result of the costs, which constitute a factor (though partial) and then adding the estimated profit desired by the employer and out of the summation of both the price was built. This belief has been assumed as a religion while presenting business projects to public financial institutions in Latin America.

For that reason, he opposes to the idea that prices are built in the market and that to produce some profit the only thing the employer can do is control costs, and he cannot control them all. According to this, both the price and profit results are beyond the control of the employer. Expressed in another way, and as a proverb that we have read in some text of Peter Drucker says, "... running a business just for profit is like playing tennis with an eye on the scoreboard and not on the ball."

Nothing herein shall diminish the importance to the issue of profit, without which the company is not viable and could hardly devote resources to the development of ethics and social responsibility. We have only reformulated its scope and parameters and we have enclosed it with more realistic and comprehensive ones. The individual interest is mediated, then, for acts such as innovation, competition, the market, ignorance, misinformation and regulations. We also maintain that the risk assumed by the entrepreneur when he takes the decision to establish the company is kind of a heroic act that not many are willing to assume.

What's been said allows us to connect with the intense debate, which in recent years has been in the field of economic science, and that has torn up the long perspective of economic rationality. New schools have emerged who have made invaluable contributions to the understanding of the company: The institutional perspective, the discussion of Amartya Senn, the school of Public Choice, among others. The inclusion of new dimensions and variables has undoubtedly contributed to enrich the understanding of

this portentous socioeconomic phenomenon that is the company (1).

We agree with the tenets of the Encyclical Centesimus Anus when it states that "... the option of investing in one place and not another, in a productive sector rather than another, is always a moral and cultural choice." This is an important starting point for discussion: the relationship between ethics and business creation. Somehow, the decision to create a new product or service and thereby impose a reality and a new sense course of action, in a context in which it is possible to choose, is inherently an ethical act. The entrepreneur and businessman define, among other features, the ability to visualize needs that others in their same conditions are not able to see (Israel Kirzner, 1989, Michael Novack, 1999. Specifically the chapters about the definition of enterprise and entrepreneurship).

Creating a company involves risks and is an action whose consequences are unpredictable. The results can be flattering or disastrous. As previously noted, this creative act is related to the points made by Hannah Arendt, quoted, when referring to the human "action", different from the activities of work and job, those activities destined to participate in public matters. The decision to take the risk expresses the intimate desire, the conviction to pursue a creative act, a commitment to himself and a great dissatisfaction with what already exists.

The success of the enterprise depends not only on the benefits they get, it is also a consequence of the way the business is managed. The question that arises immediately is whether it is possible to split these benefits from the social and ecological benefits. As noted in relation to the role played by the context and social pressure, the answer is no. The business success is increasingly associated with the ability to ensure the loyalty of employees, shareholders, consumers and the communities where they operate. As shown by some data, an increasing and not insignificant percentage of companies understand and exercise the ethics and social responsibility worldwide.

In general, business and employers are aware that the best way to achieve and maintain success is a function of the degree of social approval and endorsement of all those involved in the business: shareholders, employees and workers, suppliers, customers and community. The idea has been synthesized by Keith Davis as the iron law of social responsibility.

The conventional approach of companies omits a number of complex issues such as the innovative act, the creative act, analysis of needs, assuming that a company necessarily leads to work with others in community. The dimension of cooperation was ignored for too long and the emphasis was placed on a narrow view of competition, being that in the end they are two sides of the same coin. Also the enterprise is a



complex of human relationships and hence social, cultural and anthropological, that cannot be retracted failing to create a reductive definition and therefore explains very little of the scope and direction of the company.

The economic prospect puts the owner as the only major actors in the enterprise, and as previously stated; we know that this is insufficient to define the company and is far from reality. The company is composed by other actors: employees, suppliers, customers, the community. It is this feature that gives it a pluralistic character, closer to one of the hallmarks of democracy. These interest groups have been identified as stakeholders of the company.

The inclusion of these actors in the analysis allows us to build a less personal and individual point of view, thus more social and plural of what characterizes and defines a company. We became aware of this during the entrepreneurs training. The writing of the business plan, costs, sales and earnings estimates contained therein must be understood as an illustration, because when the company begins to acquire life it changes all the data dramatically.

#### **4 .- Social Responsibility and Small and Medium Enterprises (SMEs).**

What's been said allows us to move into the second dimension of this article, the small and medium enterprises. We are aware that there is an inadequate assessment of them and the role it can play in the field of ethics and social responsibility. This is what leads to the following questions that we will try to answer in this article: Is social responsibility a matter that concerns only the big companies? And closely associated with it, Why an analysis of ethics and social responsibility of the SME?

For some, the answer to both questions is simple: a resounding yes to the first and a conditional yes or no without conditions for the second. The argument takes shape when accompanied by the statement: the contributions that SMEs make are "peanuts" when compared with those who are capable of conducting large national companies or the huge multinational complex.

If the chances of exercising the ethics find their answers in the size would not have anything to add to what was stated in the preceding paragraph. It is, however, that the subject is somewhat more complex and that ethics does not depend on the size of the company but the decisions they take, regardless of their size.

There's no doubt that ethics and social responsibility are associated with large national or multinational complexes. They are very significant characteristics that allow them to be able to exercise them:

financial capacity, billing volumes, overall visibility, and so on. Faced with the ability of large multinational complex, complete countries are overshadowed in terms of income, not to mention smaller companies. However, it is worth reiterating that responsibility, although expressed in figures, is not directly proportional to the amount invested.

We maintain, however, that ethics and social responsibility are rather referred to more substantive aspects such as how to design the company, the management perspective, how to manage human capital, the decisions in the field of the relationship with the community and this is independent of the degree of turnover of the company. What really matters is that there is a decision, a concern, an interest and a commitment to all the actors who are part of it.

This is precisely what allows them to develop strategies for inclusive social responsibility. Large companies can act as motivating and multiplier agents, stimulating the development of social responsibility among the suppliers and customers, namely the cluster in which they operate.

It is no coincidence that, after the Green Paper was published, which contains the guidelines that were developed by large European companies in the field of corporate social responsibility, there have been several studies to assess and understand the role that Small and medium enterprises can play in this area. Just a couple of years ago some studies were done in Europe and Latin America with the aim of evaluating the role of SMEs in the field of ethics and social responsibility. (Inter-American Development Bank, 2004, European Union, 2003)

The findings reveal that the social responsibility and ethics are not an exclusive preserve of large corporations. Even the small and medium enterprises have a huge space reserved for the exercise of ethics and social responsibility. This happens despite the fact that the parties responsible for carrying this out lack awareness of what they are doing.

The strength of the data that speaks of the importance of the SME is beyond any discussion. In Europe, 95% of the total numbers of establishments are small and medium business. They rested on the enormous responsibility of creating and generating wealth and an important part of the job. It is estimated that 7 out of every 10 jobs in Europe makes it into this sector. In addition to the huge amount of goods and services it provides, its importance is being felt in the data of the economic structure in this sector reached, and in some countries exceeds 50% of GDP. They are also significant contributions to their local and national treasury.

This answers the second question. The size and importance of the sector justifies conducting this analysis. We produced the answer by analyzing the different angles from which one can look at the small and medium enterprises. The first of these refers to the quantitative dimension of the sector. A second angle is related to the volume of employment that is capable of absorbing. A third angle is referred to the ways and amounts that the SME intended to exercise social responsibility.

We have stressed the quantitative importance of the sector in the world; now let's move on to characterize their importance in Venezuela. 99% of the country's enterprises are located in this area and we dare say that the average size of productive units forced to create the category of micro enterprise. So the more appropriate term would be that of MSMEs (micro, small and medium enterprises). The large, in our case, would be those enterprises with more than 100 employees, representing only 0.8% of the total number of companies.

Added to this, there is about 50% of the economically active population, which plays in what is called informal economy. In this area there are an unspecified number of micro and small enterprises involved. The fact that there are so many small and medium-sized, formal and informal businesses is enough justification for the assertion that the economic network of the country is made up of small units. 76% of companies employ fewer than six people, billing levels, accepting the opacity of the data, are relatively low and the capital structure is also relatively small. (Tomas Paez, 2201 and 2004, in particular the first part, pp, 8-50)

Sometimes small and medium enterprises use associative mechanisms and strategies for deploying their own networks of social responsibility. Among these mechanisms are the trade associations and business chambers, sectorized initiatives and networks to carry the programs of corporate social responsibility.

#### **5 .- The ethics and social responsibility, voluntary exercise and legal framework.**

You cannot ignore the discussion of these issues given the particular situation in which it is Venezuela and some countries in the region. The pursuit of the enterprise and private initiative with asphyxiating requires legal frameworks to dwell on the analysis of the relationship between the standard and the exercise of ethics on the part of the company.

As noted at the beginning of this article, one of the axioms of those who departed in the definition of social responsibility is one who maintains that it is a voluntary decision by the company and that it transcends the maximum demanded by the legal framework. Because otherwise, the fact that it complies

with the legal framework does not make the company socially responsible. Arises, however, question the contrary, will I be socially responsible if the company fails to comply with the legal framework?

We believe that here lies a key aspect of this debate.

To start the discussion, we feel it is appropriate to provide some data that constitute the framework of this controversy. The following chart contains basic information on the costs of some of the many regulations and decrees, which any company in Venezuela should engage in:

Total Cost of Enterprise

Social Benefits 5% Monthly Salary

S.S.O 9% Monthly Basic Salary

Loans Regime Law Job 2% Monthly Basic Salary

Housing and Habitat Loans Law 2% Monthly Basic Salary

I.N.C.E. 2% Monthly Basic Salary

Food Program Law (0.25 Tax Unit) Approximate U.S. \$ 197,568 Monthly

LOPCYMAT (0.75% minimum risk - up 10%) 0.75% Monthly Basic Salary

Law on Science and Technology Company 0.5% Net Income

Additional Profit Company

Insurance H.C.M (Grant)

Life Insurance Policy (Total Cost Prima)

Accident Insurance Policy (Total Cost of Prima)

Funeral Policy (Total Cost Prima)

Dinning (Grant)

Observatory SME 2008. Social responsibility of the SME. Currently under editing process.

We stress that these are just a part of the complex set of rules whose volume is like a big spider web in which the victim is the company. More recently it has created new rules and decrees which have no aim other than to curtail the rights of ownership and company access to preferential dollars, legal framework that facilitates expropriation and intervention in business, law on agricultural development and food sovereignty, Copyright laws and much more.

Added to this there's the information in the study conducted by the World Bank. It states that: to start a business in Latin America are needed, on average, 70 days and 11 different procedures and costs repre-

sent significant percentages of GDP. Venezuela exceeds this degree of inefficiency by far and to set up a company in the country it demands more than 116 days. The average cost for setting up a company range between 136 dollars and 600 dollars. The amounts of data are eloquent and justify that instead of talking about administration we talk about doing a costly ordeal of administrative procedures (World Bank, page 80, 2004).

The legal framework can act as a sponsor or its opposite, a deterrent to business. The region is replete with evidence to confirm that the legal framework and legal uncertainty associated with it, have served as instruments that promote informality and discourage private investment. This means that the legal framework cannot be accepted as a fact and something that must be met. We maintain, by contrast, not only the need to discuss and to review the consistency of such legal frameworks but also to confront them.

If so, as we argue, the definition of social responsibility to promote the big European companies is inadequate. As previously pointed out, it assumes that the company must meet the minimum legal requirements. No doubts about the soundness of the concept for the European and American realities. These realities are ruled by a certain balance between the private and public sectors. Is not expected surprises capitalized on changes in policy. We disagree, however, on their validity to the reality of some Latin American countries. Our disagreement is based on the chart and pointed out in previous paragraphs.

The legal baggage has been strengthened with a series of administrative measures, asphyxiating tax and audit, the administration of foreign exchange, price controls, control of foreign exchange in a country that imports large part of what it consumes, protection companies and sectors, local and national tax issues, and so on. Let alone the discussion surrounding the creation of the Social Security Act that meant excessive burdens on the company. The legal framework is not harmless, and it's extremely expensive.

The predictable result of this legal situation, as continuously demonstrated by the history of the countries of Eastern Europe and many Latin American countries, is the failure, this is his vocation. The same is expressed in a of private enterprises; in the widening of the state and the consequential losses and inefficiencies and in a disproportionate increase in informality. The scenario is well known. Against this, the question that we considered, from ethics and social responsibility, is whether it is possible to accept a legal framework that contradicts basic principles of democracy and that hurts, not just one sector, but the very concept of private property and consequently, the very existence of the company?

We maintain that the ethical thing is to confront and not validate a legal framework that contains the death certificate of private property and enterprise. This is not a rule or a law in particular, but a political

model which claims inspiration from Marxism. From this perspective, socialism or communism, no matter the adjective of the moment, leads to the elimination of private property and enterprise. This is what explains that poverty, disruption and death are unique to this model.

This discussion involves a lot of interest for this study and the position before it is possible to derive some conclusions. A not insignificant percentage of small and medium enterprises do not fully comply with the demands of the legal framework and yet they invest in social responsibility programs, both inside the company and in the community in which they operate. If we accept the definition of the European Union these companies could not be considered as socially responsible. A more flexible and more realistic approach, however, would arrive at opposite conclusions.

## **6.- Work Methodology, a research tool and results analysis.**

In the opening paragraphs we presented the overall purpose and specific objectives of the study. This section will focus its attention on the methodological aspects of the investigation. The initial phase was devoted to analyzing the literature and the studies conducted on the social responsibility of small and medium enterprises in Europe and Latin America. Similarly, different models were evaluated, manuals and standards designed to promote corporate social responsibility.

Inputs from the literature review are the starting point of this investigation. In particular, we should mention the European Union and by the IDB in Latin America. The discussion of the materials mentioned was very helpful in designing the research tool. The same, before being used, was submitted for evaluation in the pilot project and subsequently was evaluated by a panel of experts.

The other dimension of the study consisted in design of the “sample” of companies to apply the research tool. Its national character led to the choice of the regions in which the companies would be selected. The criterion of choice was based on the regional classification developed in the Observatories of SME Venezuela (Tomas Paez 2001 and 2004, ranking regional final pages of both texts). We chose six areas that concentrate the bulk of the business establishments. It was decided to include a region relatively less developed, in order to make comparisons with the results of the more developed regions.

The regions were selected in order of importance: the Capital Region, formed by the Capital District and Miranda State, Zulia State, Carabobo, Bolivar, Aragua, Lara and Anzoategui. Trujillo was selected as the representative of the relatively less developed regions in terms of the sample, the capital region accounts for approximately 45% of the total and the other rates are distributed in an equitable way in the

remaining regions.

The fact that 99% of firms in the country are small and medium facilitates the choice of companies. However, we place emphasis on larger companies of the SME, those with a greater number of workers. To do this we resorted to the database which in recent years we have built in the Technical Assistance Center for the Improvement of Productivity (CEATPRO).

Another criterion was added, the sector of economic activity. It was essential to establish the percentages of companies in manufacturing, trading and services that make up the sample. The percentage, somehow, must be consistent with the relative weight of the sub-sector in the total enterprises in the country. The industrial sector accounts for approximately 4% and 6% of total establishments. The remaining percentage, 94% to 96%, is divided between the sectors of trade and services.

The questionnaire was applied to the companies on the selected region. It aims to gather information about the characteristics of the company, including its size and conformation. It also evaluates the commitment, the degree of knowledge and the exercise of social responsibility. Around the latter we established two different methodologies. From one side, the responsibility towards the interior of the company, in connection with workers primarily, on the other, social responsibility with communities and the territory in which the company operates. Over 20 in-depth interviews with business owners and presidents of business associations throughout the country were done. The aim is to complement the quantitative data with qualitative information about exercise and knowledge of ethics and social responsibility of SMEs.

## **7.- Quantitative and qualitative results.**

Preliminary results of the study, in relation to the characteristics and dimensions of the company, agree with those obtained in other research about Venezuelan SMEs. Company Limited is the legal form that prevails in the country's SMEs. The modalities of SRL (Limited liability Company) and personal signature is decreasing in number, proportion and significance.

In relation to new technologies, it is clear that there has been a slow but steady growth in the acquisition of infrastructure and Internet use. This is what explains that the level of connection of the companies has doubled in the last three years. This percentage drops in companies that are located in less developed regions.

In relation to the infrastructure of computer hardware, roughly 40% have fewer than three computers and nearly one third have between three and ten computers. This result is about the average size of the company SME in Venezuela. About the number of employees, 45% of the selected companies have more than 20 workers. The remaining percentage is located below this figure.

The businessmen interviewed, more than two thirds, admit to have information about the meaning of social responsibility. However, when one looks more specifically, to have information does not translate necessarily into knowledge of the subject. It is this that explains that social responsibility is defined by some businessmen as a synonym for compliance with the legal framework, but as we have pointed out, this does not make a company “socially responsible”.

We’d like to point out one of the arguments that defines social responsibility, which expresses a considerable percentage of entrepreneurs on his relationship with the conceptual debate that developed in the early part of this article. They argue that the “act of setting up a business in itself is an exercise in social responsibility, as it is producing wealth, employment, in addition to contributions to local and national treasury.” In the context of legal and administrative ordeal in which the company operates in Venezuela and Latin America, this statement acquires a different meaning from that given, for example, by Friedman, whom I quote in part one of this article.

Interestingly, however, many employers understand that social responsibility goes beyond the creation of the enterprise and compliance with the law. They argue that social responsibility is linked to the support that the company provides to the community in which it operates and workers and employees involved in the company. The emphasis of the answers is placed in the internal dimension of the company, for example, the support it provides to its employees, compared with 53% accentuating the external dimension of social responsibility, namely the support that the company provides to the community.

There is a proper understanding of the two major areas in which social responsibility is exercised; inside the company and with the community and the territory in which they exist. Around the internal dimension that workers are seeking support from the company. The most common requests are ranked as follows; 72% of them refer to personal loans and permits. It is followed, in order of importance, by the demand for medical aid and support for continuation of the studies. In addition to this are the demands of collective character that tend to be concentrated in the areas of health and administration of overtime work.



The companies are reacting to these demands for support in the following way: 52% of firms said that they'd be willing to facilitate time and resources so that their workers would be able to complete their studies and 16% said that they offer partial support in this area. 18% of the companies are also developing special training programs. Also, the company provides support to transport its workers, 13% said that makes it totally or partially.

He also inquired about the involvement of workers in social responsibility programs that run businesses. 27% say that their workers are involved, 16% expressed that they are partially involved. The remaining percentage excludes this possibility. In connection with the values that the employer considers fundamental to send to its workers, there are: honesty, respect, personal attention, commitment to the customer and the enterprise and to highlight the family values.

In regards to the other dimension of social responsibility, the company with the community and environment, we found the following behavior. The needs and demands of the community are concentrated in the following areas and themes: urban cleanliness, improved infrastructure, remodeling, access, health and education. Far away is the demand in the areas of culture and sports. Let's keep in mind that these figures refer to the perception and memory of their employer and are not necessarily data properly registered.

Faced with the demands of the community, 61% said that the company is working with the community. They provide support either directly or in collaboration with other institutions, as it says 21% of those surveyed. In order of importance, the company is involved in the improvement of infrastructure 11%, 8% sports, health, recreation and cultural. 18% expressed that they participate in round-table discussions with the community. 11% say they use services produced by the community, thus creating major chains in the locality.

The other aspect of the company's relationship with the environment is referred to the environmental issue. It includes several aspects, such as energy conservation and recycling, among others. A large number of entrepreneurs, 41%, are aware of the importance of the environment and also the policies of prevention, recycling and savings would generate significant revenue to the company.

However, only minor percentages are actively involved and develop specific policies regarding the environment. In terms of energy savings 38% stated that they develop specific programs. In terms of recycling, 32% expressed that they carry out actions of this type. In relation to the reduction and waste management, 21% said that they do it normally or occasionally. In terms of gas emissions and protecting water

and air, third replied that actions are being taken to prevent pollution.

These results are really encouraging. However, it is worrying that the remaining percentages, ranging between 60% and 70%, do little or nothing, and pay little attention to environmental issues.

The knowledge and perception of the legal framework gives results of great interest. In general, employers express knowing the legal framework and in particular those related to the workers. This was expressed by 72% of the interviewees. The perception of this legal framework, according to employers, is that the same brings benefits to workers. Among the responses that we found, a significant percentage believes that it benefits the company excessively, while others added that the legal framework also hurts the company.

One thing of interest in this study is referred to the average amount that small businesses invest in programs of social responsibility. The first approach is made on the basis of estimates, based on his memory; hence the data only reflect a trend. 31% of respondents think the amount is on the range of 2 million (approximately \$ 1,000) to 10 million Bs (5,000 dollars) a year. 26% of respondents say the amount is on the range of less than U.S. \$ 2 million (less than 1000 dollars) and 10% of respondents believe the amount is on the range of more than U.S. \$ 10 million (more than 5000 dollars) a year.

When we add the contributions, that is, when we multiply the average contribution of each company by the numbers of SMEs those results acquire another meaning. The average round three thousand dollars, by multiplying by the percentage of companies that advance social responsibility programs, large numbers throws in a contribution of around one billion dollars.

## **8 .-. Conclusion.**

The findings made so far, allow us to make some conclusions that obviously have the character of pioneers and consequently dismissed. The foundations have been laid to assess the development of the social responsibility of SMEs in Venezuela and built the first indicators.

1 .- The results show that SMEs are running programs of social responsibility and that resources are being destined for that purpose, which viewed in the aggregate across the sector, given the volume of business, it is significant.

2 .- In relation to the assessment of the legal framework, those interviewed expressed knowledge. But the opinion of the majority is that it primarily benefits the employee and that is not necessarily beneficial

for the company. We found a great convergence of views with regard to the suffocation of the legal, institutional and administrative and adverse business climate.

Compliance with the rules of law is not a simple or cheap matter. Certainly, we find here in this sector a lesser compliance with legal requirements when compared with that of the major production units. This result is consistent with studies in other countries (Bailan Beatriz, 2004)

The above may call into question the role of SMEs in the area of social responsibility and the exercise of ethics. It can be said that a company is socially responsible, which contributes nothing negligible and that contributes to community development and worker without, at the same time, fully complying with the legal framework? We maintain that this is an issue that does not accept narrow simple answers or dichotomous models. We believe that the gray area is more appropriate to respond in an affirmative way to the question posed.

3.- It can be deduced from the results that the social responsibility that brings forward the company is reactive in nature: react to the demands and requests of workers and communities. There seems to be no strategic plan for the exercise of social responsibility in the case of small and medium enterprises. From some perspectives and models, this could not be viewed as social responsibility, since it is only possible when it is incorporated into the company's strategy. (For a discussion of this point see the Handbook of Social Responsibility developed by the founding ethos. Brasil)

The topic, however, is not so simple. Many of our companies do not have what is seen elsewhere as elemental: business plans, strategies and marketing, and so on. But have managed to survive, succeed and endure over time, which is no small thing. In addition, they have done in the context of high turbulence and volatility. Hardly many of these companies would pass any tests as to minimum standards of management, not to mention the "passport" posed by ISO 9000 series and new series of international standards.

4.- The reality could be found eventually ordered in accordance with the different phases in which it has sought to organize social responsibility. The first step is for the work of philanthropy and this is possibly the location that corresponds to the reality of social responsibility that we have found.

However, we believe that the issue is more complex and the findings richer. We found that companies have turned social responsibility programs into management philosophy of the company and in this case it would be necessary to place it in the last of the steps of the social responsibility when it is part of the

company's strategy. In many other cases the exercise of social responsibility is in intermediate steps where it needs decisions and active engagement of business with it.

This is an issue that requires further clarification and in this article we want to establish the importance of continuing to develop initiatives that make possible. Without doubt, an effort of this nature allows us to find out and overcome the accounts of the adjectives (philanthropy, active measures, part of the strategy), and this is very useful. However, he says very little about the decisions taken by the employer to support their workers and communities that are part of the integral and how those decisions also alter the reality.

5.- The growing recognition of the importance of the SME sector and the role it plays in the field of ethics and social responsibility coexists with data indicating that a significant percentage of companies are not providing the topic the attention it deserves. This makes it necessary and suggests the need for progress in the dissemination of social responsibility as a model of corporate governance.

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