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Drivers and Barriers of CSR and the Size and Internationalization of Firms

Abstract

Purpose – *The purpose of this article is to analyze how drivers and barriers of corporate social responsibility (CSR) vary with regard to stages in the transformation process from a small- and medium-sized enterprise (SME) to a multinational enterprise (MNE)*

Design/methodology/approach – *The main method used is a literature survey. The survey covers 47 journal articles. A limited survey of managers in the Norwegian clothing business is used to validate the findings in the literature survey.*

Findings – *Eight main drivers and barriers of CSR are identified in the literature survey and are also supported by a regression analysis based on Norwegian survey data. By relating the drivers and barriers to more general social science models, it is shown how they are affected by different business contexts and vary with regard to stages in the transformation process from a SME to a MNE.*

Practical implications – *The article suggests that public policies for CSR should be adapted to four main contexts, referring to stages in the growth and internationalization of the firm, and overcoming barriers and boosting drivers for CSR.*

Original Value – *The article contributes to a better understanding of how and why drivers and barriers of CSR differ with respect to the size and internationalization of firms.*

Key words *Corporate social responsibility, Internationalization, Firm size, Drivers, Barriers*

Paper type *Research paper*

Introduction

The entities we refer to as “firms” are indeed a heterogeneous group. A “firm” may be a local one-man shop or a global network. It may be an industrial manufacturer or a brand retailer. It may be labour-intensive or capital-intensive. It is evident that drivers and barriers of corporate social responsibility (CSR) must vary between different firm types. However, a large number of influential research articles and books on CSR do not qualify the main entity of their inquiry (e.g. [Carroll 1979](#), [Wood 1991](#), [Schartz & Gibb 1999](#), [Zadek 2001](#), [McIntosh et al. 2003](#), [Porter & Kramer 2006](#), and [Wall 2008](#)).

It is also evident that the notion of socially responsible corporations has received an increasing amount of attention from the academic community. In Google Scholar (<http://scholar.google.com>) the number of publications mentioning “corporate social responsibility” was 222 in 1996, 555 in 2000, and 5,140 in 2008. It would be quite surprising if this increase did not reflect an increase in CSR-related activities as well. This raises the question of antecedents – which mechanisms, circumstances, or contexts may this increase be attributed to?

In this article we focus on how drivers and barriers of CSR may vary with respect to firm size and the degree of internationalization. It is reasonable to believe that drivers and barriers of CSR vary with respect to these two dimensions: The size of a firm correlates with the economic impact of the firm’s operations, while the degree of internationalization correlates with differences in both labour standards and cost levels within its area of operations. Large differences in this area amounts to a high “CSR potential”, according to Laudal (forthcoming).

With only few exceptions, large global companies started as small and local businesses (see e.g. US Small Business Administration 2000 and [Acs et al. 1997](#)). Hence, even though the great majority of small and medium-sized enterprises (SMEs) remain small and locally oriented, we may best understand how multinational enterprises (MNEs) engage in CSR by studying how drivers and barriers of CSR vary with regard to stages in the transformation from a SME to a large MNE.

The European Union (2003) defines a “SME” as a firm with more than 250 employees, a turnover less than EUR 50 million and an annual balance sheet of less than EUR 43 mill. According to Curran & Blackburn (2001) “turnover” and “balance sheet” may hide the real size of the firm because one does not distinguish between sales and production, because different accounting practices makes it difficult to compare figures, and because of different rates of inflation. The number of employees is not a perfect measure either. This measure is influenced by the degree of labour intensity. Still, when we take account of the business sector, the number of employees seems to be a satisfactory measure of business size for our purpose. Thus, in the following an “SME” denotes a business with 250 employees or less.

A “MNE” is here understood as a business with operations in at least two countries which should be integrated to a certain degree. This definition is in line with Eells & Walton (1974) and OECD (2000). The degree of internationalization of MNEs is often measured by the amount of foreign assets controlled by the firm (UNCTAD 2009).

This article is structured as follows: We start by defining CSR and discussing the conception of “drivers” and “barriers”. Then, in a literature survey of 47 scientific publications between 1994 and 2009, drivers and barriers of CSR is identified. In a limited survey of the Norwegian clothing business we then consider whether these drivers and barriers are validated. The survey section also demonstrates how we may study drivers and barriers at different stages in the transformation process from a SME to a MNE by referring to the two dimensions; “size” and “internationalization”. In an effort to better understand how these drivers and barriers vary, we then consider how they relate to more general models in the social science literature. The drivers and barriers may be framed as a special case in more general social science models. Finally,

possible implications for public policy are presented, given that the government's objective is to strengthen CSR.

A market-centric approach to CSR

Before entering into an analysis of drivers and barriers, the concept of CSR should be clarified. Many definitions speak of “spheres” or “layers” of responsibility of firms, e.g. “ethical”, “legal”, and “economic” responsibilities (Carroll 1991, Waddock 2004, Matten & Crane 2005, and Wolff & Barth 2005). However, relatively few definitions focus on the main objective of the firm in a market economy: to earn a surplus by exchanging products and services and to perform as well as, or preferably better than, competitors.

Crouch (2006) analyzes the incentives for responsible behaviour and links his definition of CSR to a fundamental property of the market exchange: the externality recognition of firms, that is, when a firm, as part of a voluntary exchange of products or services, recognizes third parties that have costs imposed involuntarily, or benefits received free, due to the exchange. Earlier contributions have linked CSR to the “response to nonmarket forces” (Sethi 1979), and to the “concern for the impact of all corporate activities on the total welfare of society” (Bowman 1973). But Crouch seems to be the first non-economist¹ who suggests that CSR may be linked to externalities. “Recognizing externalities” should not be confused with recognizing, or contributing to, public goods. Some economists define CSR as “private provision of public goods” (see Bagnoli & Watts 2003 and Besley & Ghatak 2007). However, as pointed out by Keim (1978), CSR in the form of philanthropy may well be a private good. For example, in a poor community only the recipients of scholarships may enjoy the benefits of an expensive education in a foreign country.

Identifying externalities does not necessarily involve normative judgements. However, it does if we identify “negative” and “positive” externalities. The case for CSR arises when firms produce negative externalities.

The central puzzle of CSR is how to reconcile the notion of a profit-maximizing firm, and a firm engaged in activities that will cost it something, but for which it will not – everything else equal – receive payment. The solution, in general terms, lies in the *marketization* of CSR goals, according to Crouch (2006). Desirable CSR outcomes that lack commercial incentives in a narrow business analysis should be embedded in a structure that creates an incentive for action. The structure may be established or promoted by the government, or put in place by the firms themselves. In either case, CSR should create a competitive advantage in the long run. This advantage depends on the company's ability to internalize and institutionalize CSR (Bowman 1973). Firms may:

- *respond* to perceived opportunities and threats in a market by improving CSR-related conditions,
- *adapt* to a regulatory regime where CSR-related goals are marketized by creating a competitive advantage within a relevant market, or

- *influence* trends in a relevant market, or government policies, by improving CSR-related conditions, making CSR goals more legitimate, or by raising expectations of their own CSR performance.

When firms *comply* with specific national or international CSR-related requirements, they do not display CSR *per se*, since their actions in this case are motivated by the *government's* externality recognition – not their own. There has to be an element of choice on the part of the firm to qualify as CSR.

The conception of drivers and barriers of CSR

Variations in CSR may be attributed to factors other than “drivers” and “barriers”. “Management attitudes” is an example of a factor which influences CSR without always being defined as a “driver” or “barrier”. In fact, CSR, as defined above, *demands* a favourable management attitude. A favourable attitude towards CSR may therefore be regarded as a mediating variable between drivers and barriers of CSR, and CSR performance. To ensure a clear distinction between “drivers and barriers” and “attributes” of CSR, we associate drivers and barriers with factors affecting CSR which are external to corporate decision-makers.

Financial returns, or the cost advantage in the long run (as stated above), are not listed as a driver in this article. This is because the financial return is regarded as a motive behind all CSR related actions.

The market-centric approach may seem narrow when we consider acts of good will that appear to be unrelated to the main business of a corporation. For example, should active participation in NGO-run projects not be counted as CSR? The market-centric approach to CSR does not exclude acts of this kind. However, it leaves open two interpretations: such acts may be interpreted as acts affecting externalities produced by business transactions and thereby qualify as CSR, or they may be interpreted as acts with no connection to externalities in which case they would not qualify as CSR. In the latter case there are two options: either these acts are interpreted as regular business investments where the profit motive is primary, or they are interpreted as acts of individual members of the corporation, but not as acts by the corporation as a whole.

Our understanding of CSR will obviously influence which drivers and barriers we identify in a literature survey. A broader understanding of CSR (e.g. Carroll 1979 or Wood 1991), would include individual commitments among managers as drivers/barriers of CSR.

Drivers and barriers in the CSR literature

The drivers and barriers of CSR in this literature survey are drawn from 47 academic publications. These publications were identified by searches on Google Scholar using the key words “driver”, “CSR”, “ethics” and “business”, and considering the 200 most cited articles published after 2000. In addition, relevant articles from other sources were included in the survey. The selection of articles is based on four criteria: they should be

fairly recent, they should refer to empirical data, they should address drivers and barriers of CSR, and they should distinguish between SMEs, and MNEs.

In the literature survey four drivers/barriers are associated with MNEs and four are associated with SMEs. The eight drivers and barriers are presented in the following paragraphs and summarized in Table 1.

1. SME barrier: Cost/benefit ratio (capacity)

MNEs have options that SMEs lack due to sheer size: a cost equal to one percent of the turnover might enable a MNE to recruit specialists responsible for its CSR strategy and to participate in demanding social accounting schemes, while the same percentage in a SME is insufficient for making any lasting kind of impact. Many empirical studies show that MNEs are more active in CSR-related activities than SMEs are, and they underline typical features of SMEs which do not favour CSR: more competitive pressures and lack of financial resources to allow for CSR investments (see Williamson *et al.* 2006, Lepoutre and Heene 2006, Studer *et al.* 2005, Skjaereth 2004, Jenkins & Hines 2003, Tilley 2000, and Spence 1999). It is evident that many CSR-related activities require capital expenditures which give MNEs an advantage of scale. This is pointed out by McWilliams & Siegel (2001:123):

A large diversified firm can spread the costs of CSR provision over many different products and services. For example, the goodwill generated from firm-level CSR-related advertising can be leveraged across a variety of firm's brands.

Matten *et al.* (2003) emphasize a qualitative element related to firm size and *corporate citizenship*: many SMEs play an active role in their community – with rights and responsibilities to follow that are not very different from those of private citizens. In contrast, MNEs take upon them responsibilities and powers traditionally associated with the state – the traditional *administrator* of citizen rights. MNEs, therefore, do not share a similar status of citizenship as individuals do, according to Matten *et al.* (2003), but instead tend to exploit economies of scale in *all* areas associated with CSR.

There are many elements related to scale that favour CSR-related activities in MNEs. This translates to a barrier for SMEs and is named “cost/benefit ratio”.

2. SME barrier: External control (risk)

SMEs may be deterred from engaging, or may be unable to engage, in CSR due to lack of knowledge and monitoring capacity of their market environment. A literature survey by Lepoutre & Heene (2006) concludes that SMEs, to a lesser extent than MNEs, recognize CSR issues. SMEs are generally lacking expertise in this field. However, owner-managers who are able to create “discretionary slack” are more likely to recognize CSR issues, according to Lepoutre & Heene. This corresponds with the finding in CSR literature that sensitivity to local stakeholders is an SME driver for CSR. There are also empirical studies underlining SMEs’ lack of expertise. According to a postal survey of 600 SMEs in England, only one quarter of the firms were aware of an important national environmental standard (Hutchinson & Chaston 1994). There are

many empirical studies that emphasize the lack of capacity to engage in CSR among SMEs (See [Longo et al. 2005](#), Observatory of European SMEs 2002, Spence 1999, and Hillary 1999).

SMEs are often a part of the same complex supply chain as MNEs within the same industry. For SMEs with a diverse product range – a typical feature for western food and clothing retailers ([Abernathy et al. 1999](#)) – the challenges of monitoring their supply chains is huge. [Cramer \(2008\)](#) shows that SMEs with a diverse product range usually limit themselves to monitoring products that may lead to risks, or products that are strategically important.

Ensuring compliance with social and environmental requirements at the suppliers' premises will in many cases be futile for SMEs. Without the capacity to collect and review relevant information, SMEs will also lack an important incentive to engaging in many CSR-related activities. Finally, if the lack of capacity is evident, it may even be a pretext for SMEs to do nothing in this area. This barrier is named "external control".

3. SME driver: Sensitivity to local stakeholders (reputation)

According to [Jenkins \(2006\)](#), the CSR concept has been developed in and for MNEs. The assumption has been that SMEs are "little big companies" and advances to stimulate CSR can simply be scaled down to fit SMEs. But even though SMEs are unlikely to see CSR in terms of risks to public reputation and brand image, they are often likely to follow sentiments closer to home such as employer motivation and retention, and community involvement. In a survey of 24 "CSR-awarded" SMEs in the UK, [Jenkins \(2009\)](#) finds that CSR was understood simply as supporting the local economy and community by being profitable and successful companies and employing people. [Worthington et al. \(2006\)](#) studied a sample of the UK Asian business community in England which is dominated by SMEs. Virtually all firms in their sample regarded "local community involvement" as an important issue, and were engaged in social or environmental activities at the local level. This is in line with findings in a report published by UNIDO (2002). While MNEs are generally regarded as more active in CSR-related activities, SMEs often have strong incentives for CSR at the local community level, for example:

- they are typically family-owned businesses exhibiting a strong philanthropic approach, and
- they have typically more links to the local civil and cultural environment and tend therefore to be more aware of local risks and emerging issues than MNEs.

[Amato & Amato \(2006\)](#) show that SMEs with a close attachment to the community give relatively more to charities than larger firms. A study of CSR among SMEs in Hong Kong ([Studer et al. 2005](#)) found that SMEs are less exposed to public pressure, but are heavily influenced by their customers' environmental attitudes and demands. UNIDO (2002) found that SMEs are less mobile and may therefore take a more long-term view of investments in a local community. According to [Crouch \(2006\)](#), there are locational sunk costs that restrict the geographical mobility of SMEs and which may force the management to respect local norms of good collective behaviour as they may lose

customers if they do not conform. A review article by [Kusyk & Lozano \(2007\)](#) supports this view. They found that “customers” were the most frequently mentioned driver under the heading “external stakeholders” in a questionnaire to SMEs.

In the food and clothing sectors a typical MNE is supplied by hundreds of independent manufacturers and have a similar number of stores / points of sales (see OECD 1999, Abernathy et al. 1999, and OECD 2008). These MNEs are not susceptible to pressures from individual suppliers. Reich (2007) points out that the linkage between MNEs and place has been weakened as a result of an increase in power of the investors and consumers in big businesses.

Empirical studies suggest that SMEs are more susceptible to the influence of local stakeholders than MNEs. This driver is named “sensitive to local stakeholders”.

4. SME driver: Geographical spread (risk)

In a study of 50 companies in seven Asian countries, Chapple & Moon (2005) found a relationship between MNEs with international sales and/or foreign ownership and “level of CSR”. They offer two possible explanations: when firms cross borders there is a stakeholder multiplier effect that is driving firms to engage in CSR. Another reason could be that firms exposed to international competition will, in most cases, acquire higher CSR standards. Chapple & Moon do not explain this further. However, there are other reasons why exposure to international competition may have a positive relationship to CSR: if a firm is exposed to international competition, it is likely that it is also exposed to different norms and ideas on workplace conditions and environmental protection. The firm must consider these norms and ideas when choosing its strategy; this constitutes the starting point of CSR-related activities. According to UNIDO (2006), firms producing for non-branded or extremely price sensitive consumer segments, with no connections to foreign investors or markets, experience very low pressure for implementing CSR-related activities.

Firms relying on a global network of suppliers are exposed to large differences in cost levels between their source regions and their sales regions, and are therefore inclined to establish multiple CSR standards. This is termed “the pressure of changing societal expectation” in [Scherer & Palazzo \(2008\)](#) and is associated with a growing CSR engagement. When firms have multiple standards in sensitive areas like working conditions and environmental protection, they run the risk of a confrontation with NGOs and public institutions in charge of monitoring business practices. In sum, expanding their geographical area of business to include both high-cost and low-cost regions may accentuate the need for firms to focus on CSR. And as MNEs, by definition, already are exposed to these kinds of international differences, this driver is most relevant for SMEs that are expanding into international markets and is named “geographical spread”.

5. MNE barrier: Internal control (risk)

Several studies have shown that the level of CSR in SMEs is very much dependent on the owner or manager of the firm (see [Spence 1999, Jenkins & Hines 2003, Murillo &](#)

Lozano 2006, and Jenkins 2009). The majority of these companies are family-run or owner-managed and do not have shareholders or investors to consider. According to Jenkins & Hines (2003), certain types of CSR could be carried out in SMEs more easily as the strong example and guidance of the leadership can readily convey socially responsible principles. SMEs may have an advantage with regard to the execution of their CSR strategy, and at the same time, the risk of being publicly exposed as a "bad guy" is less, due to a smaller organization and less complex business operations compared to MNEs.

Oppenheim *et al.* (2007) confirm the importance of internal control as a barrier for CSR in MNEs: in a survey of 391 MNEs participating in the UN Global Compact, they found that four out of ten companies selected the option "complexity of implementing strategy across various business functions" when asked what keep them from implementing an integrated and strategic company-wide approach to CSR issues.

Generally speaking, large and complex organizations will have greater difficulties in controlling all aspects of corporate behaviour than smaller organizations. This indicates that having a high *public* CSR profile – and thereby raising expectations of corporate behaviour – represents a liability for large firms. This barrier is named "internal control" and seems to be most relevant for MNEs.

6. MNE driver: Following leading companies (conformity)

Empirical CSR studies from the United Kingdom / Japan (Bansal & Roth 2000), Chile (Colwell & Beckman 2007), and Malaysia (Amran & Siti-Nabiha 2009) refer to the influence of stakeholders and "foreign MNEs" when they explain the dissemination of CSR. When firms' actions are determined by the sway of business this may be interpreted as "herd behaviour" or "legitimacy-seeking behaviour", according to Misani (forthcoming). The tendency of firms to follow the practices of leading companies in their field, is often presented in contrast to "strategic" or "competitive" behaviour and it is normally not considered an outcome of completely rational decisions (e.g. Bansal & Roth 2000 and Husted 2003). In empirical studies this driver is associated with larger firms. It is considered a MNE driver and is named "following leading companies".

7. MNE driver: Sensitive to public perceptions (reputation)

One of the most cited drivers of CSR is corporate reputation, or more specifically, the public perception of the firm or of the firm's products or services. This may include the perception of consumers (Bhattacharya & Sen 2004), of the firm's employees and potential employees (Branco & Rodrigues 2006 and Brekke & Nyborg 2008), and of investors, creating a market for social responsible investments (Hellsten & Mallin 2006). Reputation can be understood as a fundamental intangible resource (Branco & Rodrigues 2006). Several studies point out that reputation is more important for MNEs than for SMEs (see Graafland & Smid 2004, Maloni & Brown 2006, Jeppesen 2006, and Amato & Amato 2006). Graafland & Smid questions the reputation mechanism with regard to CSR actions among SMEs.

Too much faith in the self-enforcing working of the reputation mechanism is unwarranted for (SMEs). Hence, government regulation remains important, especially with respect to the creation of transparency. (Graafland & Smid 2004:301)

Elliot & Freeman (2000) found that the firms which were most vulnerable to unfavourable publicity were those with high brand recognition, well-known logos and those targeting young consumers. The majority of these firms are MNEs.

SMEs are less vulnerable to NGO protests and have less formal means of public communication (Lynch-Wood & Williamson 2007). Larger firms are, in average, more visible, more likely to have an environmental impact and have more recognizable brands. This means that SMEs less often have customers who are willing to pay more for added “CSR content”. This driver is named “sensitive to public perceptions” and seems to be most common among MNEs.

8. MNE driver: To ward off government regulation (autonomy)

A prime interest of firms is to guard against threats to their autonomy. CSR-related activities may be part of such a strategy. MNEs may use codes of conduct and other corporate measures to fend off restrictive government regulations (see [Crouch 2006](#), [Florini 2003](#), [Moon et al. 2005](#), [Rondinelli 2003](#), [Michael 2003](#), and [Barkenmeyer 2009](#)). It is difficult to prove or disprove the importance of this driver as long as it only involves an intention. This is a CSR driver which demands considerable corporate resources. Empirical studies show that many SMEs *favour* external forms of regulations compared to self-regulation, due to lack of competences within the social and environmental field and the perceived advantage of having a “level playing field” (see [Williamson et al. 2006](#), [Tilley 2000](#), and [Studer et al. 2005](#)). In other words, many SMEs seem to lack resources, competences, and even the rationale, to utilize CSR as an instrument to fend off government regulations. [Moon \(2004\)](#) argues that the government is a major driver for CSR in the United Kingdom. Business in the United Kingdom has been particularly susceptible to pressure from government, according to Moon. In more specific areas, like responsible purchasing, the US federal government has been found to be more influential than the UK government ([Worthington et al. 2008](#)). Still, the literature in general describes businesses’ perceptions of government as a threat to autonomy rather than as a source of inspiration. This driver is named “ward off government regulation”, and seems to be most relevant for MNEs.

Summing up drivers and barriers of CSR

The literature survey has highlighted five drivers for CSR and three barriers. Table 1 sums up these drivers and barriers and the literature references.

Table I: Drivers and barriers of CSR – in SMEs and MNEs					
	Driver/Barrier	References	SME	MNE	CSR effect
1.	Cost/benefit ratio (capacity)	- Graves & Waddock (1994) - Jenkins&Hines (2003) - Lepoutre & Heene (2006) - Matten et al.(2003) - McWilliams & Siegel (2001) - Skjaereth et al.(2004) - Spence (1999) - Tilley (2000) - Waddock & Graves (1997) - Williamson et al. (2006)	small or negative	positive	SME barrier
2.	External control (risk)	- Cramer (2008) - Hillary (1999) - Hutchinson & Chaston (1994) - Lepoutre & Heene (2006) - Longo et al.(2005) - Observatory of European SMEs (2002) - Spence (1999)	relevant	less relevant	SME barrier
3.	Sensitive to local stakeholders (reputation)	- Crouch (2006) - Jenkins (2009) - Kusyk & Lozano (2007) - Reich (2007) - UNIDO (2002) - Worthington et al. (2006)	sensitive	less sensitive	SME driver
4.	Geographical spread (risk)	- Chapple & Moon (2005) - Scherer & Palazzo (2008) - UNIDO (2006)	relevant risk	relevant risk	SME driver
5.	Internal control (risk)	- Graafland & Smid 2004 - Jenkins&Hines (2003) - Jenkins (2009) - Kusyk & Lozano (2007) - Oppenheim et al. (2007) - Spence (1999)	less relevant	relevant	MNE barrier
6.	Following leading companies (conformity)	- Amran & Siti-Nabiha (2009) - Bansal & Roth (2000) - Colwell & Beckman (2007) - Misani (2007)	less relevant	relevant	MNE driver
7.	Sensitive to public perceptions (reputation)	- Battacharya & Sen (2004) - Branco & Rodrigues (2006) - Brekke & Nyborg (2008) - Elliott & Freeman (2000) - Graafland & Smid (2004) - Hellsten & Mallin (2006) - Jenkins (2006) - Jeppesen (2006) - Lynch-Wood & Williamson (2007) - Maloni & Brown (2006)	less sensitive	sensitive	MNE driver
8.	To ward off government regulation (autonomy)	- Barkemeyer (2009) - Crouch (2006) - Florini (2003) - Howard et al. (2003) - Michael (2003) - Moon et al. (2005) - Ruggie (2004) - Rondinelli (2003) - Studer et al. (2000) - Tilley (2000)	rare motive	possible motive	MNE driver

Table I: Drivers and barriers of CSR – in SMEs and MNEs (47 publications are included in the survey)

The literature survey suggests that the explanatory power of driver/barrier 1-4 is stronger for SMEs than for MNEs and that the explanatory power of driver/barrier 5-8 is

stronger for MNEs than for SMEs. These expectations are examined in an analysis of data from a survey of the Norwegian clothing sector in the next section.

Survey of the Norwegian clothing sector

In this section we consider whether the main drivers and barriers identified in the literature survey above is validated by a survey of managers in the Norwegian clothing sector. The survey is limited and will therefore be indicative at best. However, another aim of this section is to demonstrate how we may design a study in order to examine not only how drivers and barriers vary between SMEs and MNEs, but also how they vary between stages in the transformation process from a SME to a MNE. That is, how the drivers and barriers of CSR vary with reference to firm size and internationalization.

Design, data collection, and coding

A web-based survey of approximately 300 managers was conducted among Norwegian clothing businesses.² One-hundred eighty-two respondents completed all instruments in the questionnaire. Respondents needed an estimated 20 minutes to complete the questionnaire. It is likely that the managers who completed all instruments had a more positive attitude toward CSR than the average manager in the Norwegian clothing business. It is also likely that the proportion of managers with knowledge of CSR among these respondents was larger compared to the proportion in the entire population of clothing managers. However, these biases do not threaten the reliability of the survey because the aim is to identify differences between two pre-defined subsets of the sample: SMEs and MNEs. It should be satisfactory if the biases above are distributed equally among SMEs and among MNEs. Given our random selection process, and similar modes of contact with MNEs and SMEs, there is no reason to believe that these biases are more pronounced in one of the two subsets.

Five company categories were included in the survey: chain offices (headquarters of retail corporations), agents, wholesalers, producers and stores. Non-autonomous clothing stores controlled by clothing chains (16 stores) were excluded to ensure relatively independent respondents.

SMEs and MNEs are associated with specific advantages in business studies. SMEs may be engines of job creation and innovation, and therefore may show exceptional growth rates in the high-tech field (OECD 2002). MNEs may contribute to growth by internalizing transaction costs (Coase 1937), investing in innovation (Baumol 2002), and in emerging economies (Wolf 2004). Here we focus on how the size and the international scope of a business influence its drivers and barriers of CSR. Since most MNEs began as small companies (see introduction) it would be desirable to operationalize “SME” and “MNE” with a reference to the two dimensions that characterize the distinction between SMEs and MNEs: the number of employees, and the degree of internationalization.

One way of measuring drivers and barriers of CSR among SMEs and MNEs would be to construe them as two boolean variables with reference to size and

internationalization. However, this would pose two challenges: first, the two criteria sets could result in two overlapping samples. Second, this solution would not explain variation during the transformation from a SME to a MNE. An alternative is to utilize a technique applied in "fuzzy set analysis" (Ragin 2000). Fuzzy sets extend boolean sets by permitting membership scores in the interval between 0 and 1. The basic idea behind fuzzy sets is to permit the scaling of membership scores and thus allow partial or fuzzy membership (Ragin 2000). We have two "memberships" in this analysis, "SME" and "MNE". In stead of treating these as two boolean variables, an index variable is introduced with an interval scale³. "SME" and "MNE" are end points on a six point scale, determined by three criteria with a maximum score of 1.0:

- *Number of employees:*
0.2 is added if the number of employees exceeds 9,
0.4 is added if the number exceeds 49
0.6 is added if the number exceeds 249.
These thresholds are low compared to the standard definition of SMEs (see European Union (2003) due to small average firm size in Norway.
- *Sales:* 0.2 is added if the firm has retail sales in foreign countries.
- *Ownership:* 0.2 is added if the firm is owned by a foreign entity.

We label firms with a score of 0.4 or lower "SME", and firms with a score of 0.6 or higher "MNE". Figure 1 shows the coding of the SME-MNE scale, and the distribution of respondents on the three variables included in the SME-MNE scale ("foreign ownership", "number of employees", and "foreign sales"), and the distribution of respondents on the SME-MNE scale.

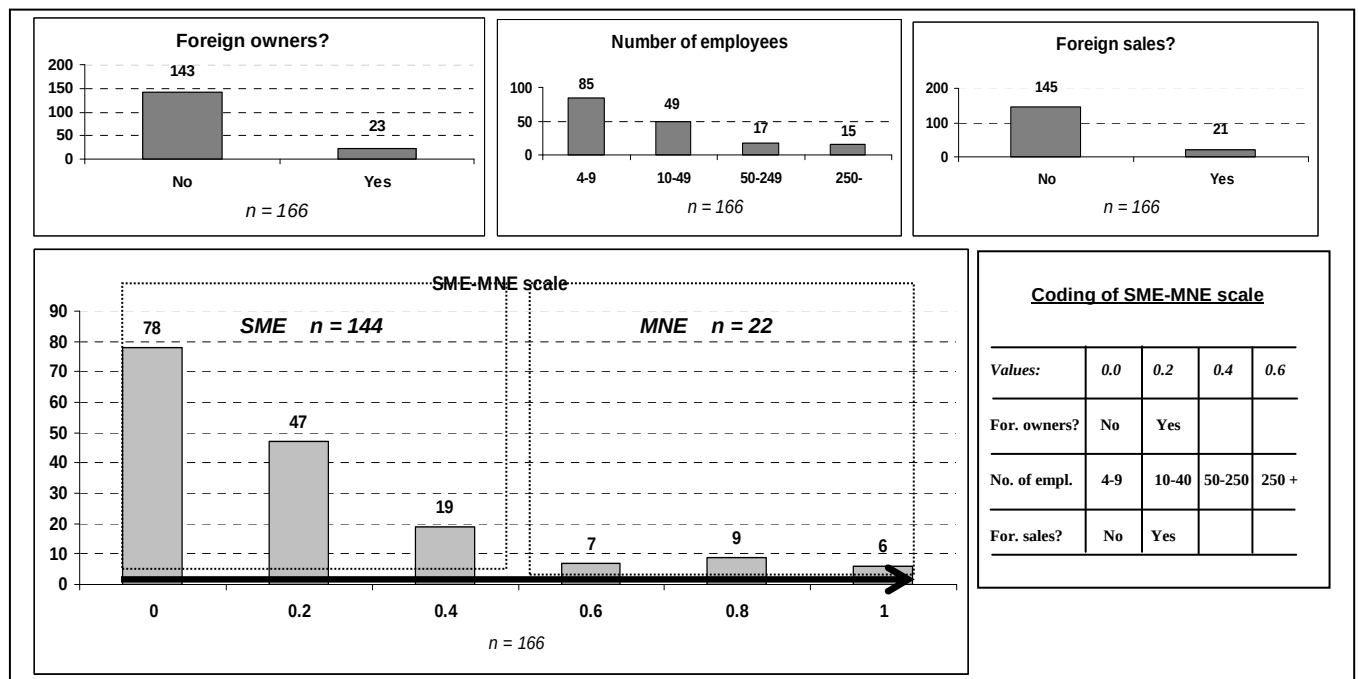


Figure 1. Distribution of companies on the SME-MNE scale

“CSR performance” and the eight drivers and barriers were operationalized by using an index based on variables in the survey. The CSR performance index consists of six survey variables, all emphasizing firm practices with the aim to reduce negative externalities (see “market centric approach” above).

Table 2: CSR performance (dependent index variable)	
No.	Survey variable
23	Does your company have written guidelines on ethics/social responsibilities?
34 – 1	Has your company signed up to the voluntary program “Inclusive worklife”?*
34 – 4	Does your company inform customers about possible environmental risks?
34 – 7	Has your company implemented measures to reduce the consumption of energy this year?
34 – 10	Has your company supported charities, sport events, or cultural events this year?
38	Your suppliers are informed of the company’s social and environmental requirements in the following areas; the environment, work relations, human rights, and corruption**

Table 2: The dependent index variable; CSR. Each item is answered by “yes” or “no”. Recoding ensured that all items were aligned.

** This is a government-sponsored program between the labour unions and employers in Norway with an aim to keep as many as possible as part of the workforce.*

*** For each area where the responded answered “yes”. 0.25 was added to this variable.*

The eight drivers/barriers identified in the literature survey is represented by eight variables of which there were three index variables and five single-item variables. The survey variables are shown in Table 3. The survey items are recoded to ensure that each variable has a value range between “0” and “6”.

Drivers and barriers (independent variables)	
Var. no.	Survey variable
1. Capacity: Cost/benefit ratio (additive index variable)	
43 – 1	Factor that may make it difficult to impose demands on suppliers as regards environmental and social conditions. We lack time and/or financial resources
43 – 2	Factor that may make it difficult to impose demands on suppliers as regards environmental and social conditions. We do not have the necessary knowledge of the area
2. Risk: External control is difficult	
43 – 5	Factor that may make it difficult to impose demands on suppliers as regards environmental and social conditions. We are unable to monitor whether these requirements are being met.
3. Reputation: Sensitivity to local stakeholders	
35 - 29	Factor to bear in mind when as a manager you must make decisions and decide on time priorities. Local community
4. Risk: Geographical spread	
15	What proportion of your company's products is supplied from abroad?
5. Risk: Internal control is difficult (additive index variable)	
33-6	Threat to your company's reputation: Business practices in the domestic market
33-7	Threat to your company's reputation: Business practices abroad
6. Conformity: Following leading companies	
36 - 3	Threat to your company's reputation: Leading companies work on social responsibility.
7. Reputation: Sensitive to public perception	
36 – 1	Reason for your company's work with social responsibility: The company's reputation
36 – 9	Reason for your company's work with social responsibility: Demands from customers
36 – 14	Reason for your company's work with social responsibility: Demands from employees
8. Autonomy: To ward of government regulation	
44-5	The extent to which you personally agree or disagree: The private business sector should be regulated and monitored via international agreements so as to protect the needs of the population

Table 3. The independent index variable; Drivers and barriers of CSR.

The dependent variable "CSR performance" and the eight drivers/barriers are re-coded to have an equal interval with a range between 0 and 6.

Are the main drivers and barriers in the literature survey supported?

The multiple regressions (see Figure 2) show that the explanatory power (R square) of R^{SME} is stronger than R^{MNE} , and R^{MNE} is considerably stronger than R^{SME} . This is in line with the expectations based on the literature survey above. However, the explanatory powers of all coefficients are weak. Only R^{SME} is significant at the 0.005 level. One reason for this is the low number of units. There are few MNEs in the Norwegian clothing business.

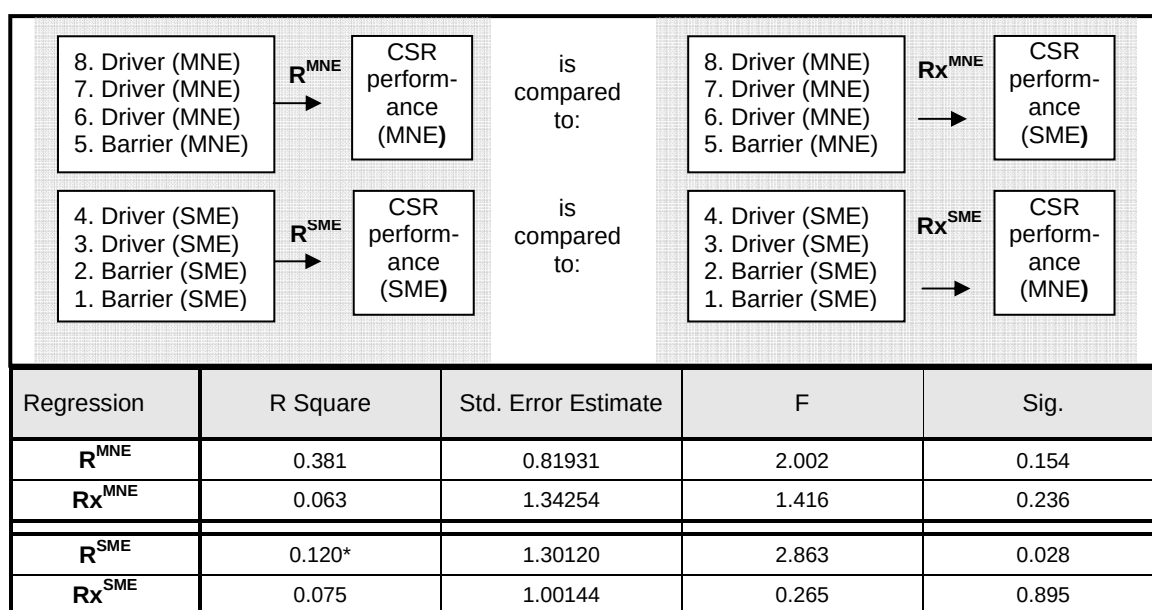


Figure 2. Explanatory power of drivers and barriers on CSR performance. Multiple regression
 *The effect is significant at the 0.05 level. Rx^{MNE} is based on the SME subset, and Rx^{SME} is based on the MNE subset.

Table 4 shows that the bivariate effects have the sign which is predicted in the literature survey. Table 4 also shows that the effects are stronger for the subsets we would predict on the basis of the literature survey: the upper half of table 4 shows stronger effects than the bottom half with the exception of column “7”. However, they are generally weak and only two effects (“3. SME driver” and “4. SME driver”) are significant at the 0.05 level.

	1. SME barrier Capacity Cost/ benefit ratio	2. SME barrier Risk External control	3. SME driver Reputation Sensitive to local stake- holders	4. SME driver Risk Geo- graphical spread	5. MNE barrier Risk Internal control	6. MNE driver Conformity Following leading companies	7. MNE driver Reputation Sensitive to public per- ceptions	8. MNE driver Autonomy Ward off govern- ment regulations
Subsets in line with lit. review:								
Pearson Corr.	- 0.175	- 0.208	0.249 (*)	0.237(*)	- 0.096	0.415	0.031	0.195
Sig. (2 tailed)	0.101	0.050	0.018	0.025	0.697	0.078	0.901	0.437
N	89 (SME subset)	89 (SME subset)	90 (SME subset)	90 (SME subset)	19 (MNE subset)	19 (MNE subset)	19 (MNE subset)	18 (MNE subset)
Inverse subsets:								
Pearson Corr.	- 0.125	- 0.017	- 0.268	0.107	0.097	0.176	0.059	0.161
Sig. (2 tailed)	0.621	0.948	0.267	0.663	0.365	0.097	0.578	0.133
N	18 (MNE subset)	18 (MNE subset)	19 (MNE subset)	19 (MNE subset)	90 (SME subset)	90 (SME subset)	90 (SME subset)	90 (SME subset)

Table 4. Bivariate effects of drivers and barriers of CSR for the sample (SME and MNE subsets of sample)
 * Correlation is significant at the 0.05 level (2-tailed)

Alternative drivers/barriers in the survey

The purpose of the empirical section is to consider whether a survey of the Norwegian clothing sector validates the drivers and barriers identified in the literature survey. However, there are additional drivers and barriers included in the survey. The survey includes variables which are rarely mentioned in academic contributions though they qualify as a driver/barrier of CSR. This includes the following “reasons to work with CSR”;

- “applicable legislation and public guidelines” (pearsons = 0.086 / Sig. 2-tailed = 0.372)
- “the work of employer and trade organization on CSR” (pearsons = 0.054 / Sig. 2-tailed = 0.574)
- “demands and pressure from the owners (pearsons = 0.115 / Sig. 2-tailed = 0.233)

As indicated in brackets, these variables do not have a significant effect on the CSR index in this survey.

Summing up the empirical findings

It is shown that the regression coefficients and bivariate effects are compatible with the literature survey above, though they are weak. However, this survey does not provide an adequate validation. Larger surveys in larger markets are necessary to validate the eight drivers/barriers identified in this literature survey. For now, we can only claim that the drivers and barriers highlighted in the CSR literature seem plausible in light of the results of this limited survey. The next question is how they vary with respect to firm size and degree of internationalization. To better understand this we consider how they relate to more general social science models.

Drivers and barriers of CSR and general social science models

The eight drivers and barriers of CSR may be identified as special cases of more general social science models. By considering their relations to a wider frame of business contexts, we may better understand how they vary with regard to stages in the transformation of an enterprise from an SME to an MNE.

1. SME-barrier: Insufficient Cost/Benefit Ratio

Critical mass

One may assume there are economic thresholds which must be passed before investments in CSR can be expected. The thresholds are linked to a certain level of financial freedom. The CSR performance will normally represent a fixed cost, and as fixed costs in general, it demands a “critical mass” with regard to turnover to justify the necessary funding. A “critical mass” denotes the existence of a momentum in a social system such that the momentum becomes self-sustaining and fuels further growth. In

this context the critical mass is linked to the required size and geographical spread which allow companies to profit from CSR investments. A critical mass is required in other areas of business management as well; sophisticated asset management is not recommended for SMEs, and direct access to intergovernmental organizations are also out of reach for most SMEs. [Bouwen \(2002\)](#) shows that “large individual firms” have the highest degree of access to the European Commission. For small firms with very little financial freedom, there is little room for CSR.

2. SME-barrier: External Control

Critical mass

Many SMEs are unable to acquire the necessary knowledge to implement an effective CSR policy. They often have insufficient knowledge to exploit advantages, or to mitigate threats, outside of their area of operation. Thus, SMEs are preoccupied with running the day-to-day operation and seem to lack the strategic capability to devise CSR policies of their own. The complex supply chains, and legal, political, and cultural frameworks surrounding these, are difficult to overview for most SMEs. This means that the CSR performance requires a capacity to allocate time and expertise in an area where no immediate returns on investment could be expected. Hence there is a “critical mass” linked to the limited knowledge base of SMEs. CSR performance becomes an inaccessible source of competitive advantage for SMEs due to their lack of knowledge and external influence.

3. SME-driver: Sensitivity to Local Stakeholders

License to Operate

The SME driver “sensitivity to local stakeholders” highlights the concept “license to operate” for firms in a local community. The notion of a license to operate derives from the fact that every firm needs tacit or explicit consent from public authorities, political parties, associations and other stakeholders in order to do business ([Porter & Kramer 2006](#)). Many have pointed out that SMEs, in particular, depend on a license to operate in their local community (see WBCSD 2007 and European Union 2007). The roots of this notion may be traced back to the “social contract” and Rousseau (1968). The social contract signifies a silent agreement between a sovereign people and their ruler without relinquishing the absolute sovereignty of the people. Today, both heads of state and business leaders are part of such an agreement. *Central governments* uphold the agreement by accomplishing real social improvements and influencing citizens’ perceptions by political marketing. Crouch (2004) refers to political marketing as a symptom of “post-democracy” where the global firm is the “key institution”. *Local business leaders* uphold the agreement by improving the real quality/price ratio of their products and by influencing customer’s perceptions of their products. In a local context, CSR performance becomes similar to what is referred to as “corporate citizenship” ([Moon et al. 2005](#)). Here, the firm’s role is not restricted to the role of participant/lobbyist in the political process, but also encompasses the role of a quasi-executive in a public governance context.

4. SME-driver: Geographical Spread **Cost Disease Theory**

The “geographical spread” of corporate operations is often linked to a tendency entitled “the race to the bottom” whereby competition between nations and firms searching for low-cost markets lead to the progressive dismantling of regulatory standards (World Bank 2002). A variant of this tendency is when SMEs – or not fully accomplished MNEs – select production regions according to the best ratio of production costs and adequate manufacturing skills. The mechanisms behind the geographical spread within labour-intensive industries may be highlighted by the “cost disease” theory presented by [Baumol and Bowen \(1965\)](#). This refers to the continuous productivity lag of services, and refers to performing arts as a case in point. Normal productivity gains are out of reach here; thus, a rise in unit costs can be seen. In labour-intensive industries in developed countries, productivity gains may be restricted in a similar fashion. However, there are important differences; labour-intensive industries may outsource production and at the same time retain, and even increase, their profit margins and turnover. The steady movement of production capital to lower-cost regions may be understood as the remedy for rising unit costs. The gains realized by global sourcing overshadow the costs of implementing related defensive measures (CSR) to avoid public criticism and fulfil consumer expectations. Evidence from the international clothing industry supports this thesis: the textile industry, which is less labour-intensive than the clothing industry, did not migrate as fast as the clothing industry to developing countries during the decades of Multi-Fibre Agreement (MFA)-related quotas in 1974-1994 (OECD 2004). Global outsourcing becomes a calculated risk which is mitigated by investments in CSR.

5. MNE-barrier: Internal Control **Principal-agent model**

Large MNEs face major challenges with regard to “internal control” (MNE barrier). A pledge to be socially and environmental responsible is difficult to follow up on in large MNEs. This challenge may be framed as a principal agent situation within the corporate organisation⁴. Top management commits itself publicly to serving stakeholders and to protecting the environment by signing a code of conduct which relies on the expertise of a large group of agents (employees) to succeed. The self-interest of each agent may be in conflict with the CSR objectives, and the task of the top management is to minimize opportunistic behaviour by implementing an internal incentive structure. The difficulties of putting in place such structures to ensure compliance with CSR standards increase as the number of suppliers and internal departments increase. There are three basic methods for motivating agents to act on behalf of their principals according to Cohelo *et al.* (2003:21):

- to ensure transparency,
- to align interests of middle management with top managers, and
- to have an effective control system in place.

CSR standards cover a diverse set of objectives and actors which have different interpretations of the standard texts. To motivate agents for CSR is therefore

particularly difficult and must rely heavily on “transparency” and “aligning of interests” between different management levels. This is critical when the firm is a large MNE. Large MNEs are no longer conglomerates controlled from central headquarters issuing orders to manage the flow of goods through large warehouses (see Reich 2007). The organization model of the current “lean” retail corporation is based on real-time feedback from points of sales. Computer software handles aggregated sales data and manages the rate of replenishments and the introduction of new items (see OECD 1999, Abernathy *et al.* 1999, and OECD 2008). While retail corporations have made huge progress in their handling of economic and logistical data, their handling of social and environmental data are lagging. Many purchasers in the retail business utilize sophisticated ICT-based management systems, but rely on ad-hoc policies to ensure compliance with social and environmental standards.

6. MNE-driver: Following leading companies

Mimetic Isomorphism

The driver “following leading companies” refers to a process whereby firms imitate the CSR practices of competitors, or of influential stakeholders, in order to seek a competitive advantage or to increase their legitimacy. This is a context described by DiMaggio & Powell (1983) under the heading “mimetic isomorphism”. “Isomorphism” refers to a process where organizational characteristics are modified in a direction that enhances their compatibility with environmental characteristics. Institutional isomorphism is studied through the development of “organizational fields”. These are fields where organisations, in the aggregate, constitute a group of key resources, suppliers, customers, consumers, and regulatory agencies contribute to the production of similar products. According to DiMaggio & Powell (1983) mimetic isomorphism is a form of institutional isomorphism which is expected in circumstances where

- technologies are poorly understood
- goals are ambiguous
- the environment create symbolic uncertainties

Under these conditions we expect organisations to model themselves on other organisations. The ambiguities and uncertainties in these circumstances suggest that the dissemination of CSR requires “first movers” in the CSR field.

7. MNE-driver: Sensitive to Public Perception

Shaping Market Conditions

The MNE driver “sensitive to public perception” seems to imply that firms invest in CSR if this may enhance or protect their public image. We expect firms to adapt to findings in consumer intelligence reports and to stories concerning their operations in the media. However, firms not only adapt and respond to public perceptions, but also engage actively and routinely in shaping these perceptions (see e.g. Mills 1956, Galbraith 1967, Lindblom 1977, and Crouch 2004.) Hence, this driver is not to be considered only as a defensive measure motivated by perceived threats and opportunities in the public sphere, but also as an opportunity to positively influence the

image of the firm held by the public. Branding is the main manifestation of this in retail businesses: Big consumer brands are used as social role models, but they are also the targets of anti-globalisation activists. Michel Ogrizek (2001) claims that the key social marketing strategy must be to communicate proactively the business activity's *raison d'être*.

This illustrates that “influencing public perceptions” may be a basic strategy for MNEs to generate positive public support, not only a defensive and reactionary strategy to respond to negative public exposures.

8. MNE-driver: Ward Off Government Regulation

The Logic of Collective Action

The MNE driver “to ward off government regulation” rests on the assumption that firms are willing to carry individual costs in the pursuit of a collective good; less government regulation. It is likely that the individual benefit from the collective good will be less than the individual costs of investing in CSR. This suggests that firms do not invest in CSR merely in their role as market actors, but also as organizations (Crouch 2006). As organizations, firms try to influence, and not only adapt to, market conditions. Firms are seeking to profit from what Mancur Olson (1971) referred to as “inclusive collective goods”. These are goods which expand as the group that seeks them expands, in contrast to “exclusive collective goods” where the individual portion of the collective good decreases when the group expands. From a business perspective, the sum of CSR impact may be understood as a substitution of the collective good arising from government actions. In other words, the CSR impact may become an inclusive collective good. In this perspective, how can one explain the actions of MNEs to ward off public regulations? Are there non-collective benefits only available to the MNEs involved? Olson (1971:143) explains the voluntary business associations and lobbying efforts in the 1960s by the relatively small number of large corporations in the United States and a range of available non-collective benefits. Today, the individual global corporation is less dominant, according to Reich (2007). The dominant corporations in the United States no longer have the power to raise prices as they had in the 1960s and 1970s, and there is no longer a place for “corporate statesmen”. Could it be that “enhanced public reputation” provides the required non-collective benefit today? When large MNEs influence government policies it may be as a distinguished member of a government committee, or as a keynote speaker and sponsor at major conferences. Aram (1989:275) points out that this may be an example of “selective incentives inducing contributions by group members”. Thus, MNEs may be spurred to increase what they see as an inclusive collective good – the autonomy of corporations in general – by the non-collective good “public reputation”.

Summing up drivers and barriers, and general social science models

The above shows that the eight drivers and barriers of CSR may be viewed as special cases of a more general phenomenon described in the social science literature. This

contextualization gives us a better understanding of the drivers and barriers of CSR and may help us to understand how drivers and barriers vary with regard to stages in the transformation of an enterprise from an SME to an MNE.

Drivers and Barriers of CSR and the Stages in the Transformation Process from a SME to a MNE

The eight drivers and barriers of CSR are not only relevant for the two subsets of the population of firms (SMEs and MNEs), they may also refer to different stages in the transformation process from an SME to an MNE. There is no fixed chronology; the stages may appear in a different order than the one shown in Figure 3. However, analysis of the drivers and barriers suggest that these stages influence the drivers and barriers of CSR.

Barriers “1” and “2”. At this stage firms lack the economies of scale and the expertise and influence with which to facilitate CSR. Public regulations may reduce the barriers if they create a level playing field by increasing transparency, especially within the supply chain, and by reducing SMEs’ fixed costs related to CSR performance. A firm may be responsible for “good deeds” or for donations to charities, but its limited resources suggest a limited business rationale for these types of actions.

Driver “3”. Material and intangible assets of the firm are considered valuable by local stakeholders at this stage. The firm engages in mutually beneficial partnerships. Thus, the firm may influence the decisions of actors in the local community and enhance its local reputation by demonstrating social and environmental responsibility.

Driver “4”. The driver of CSR is stronger when firms expand their operations into foreign markets. This expansion increases the number of external stakeholders and the number of risks, and calls for investments in CSR to mitigate these risks.

Barrier “5”. Direct control of internal operations is a problem when the numbers of markets, suppliers, partners and employees pass certain levels. Promising much and thereby raising expectations for CSR may in this context represent a risk. However, continuing to invest in CSR performance may still be rational as long as the public expectations are in line with a realistic level of performance.

Driver “6”. When the firm reaches a certain size, and certain contextual factors are present, it tends to overcome uncertainties and ambiguities in its surroundings by imitating the practices of its competitors and influential stakeholders.

Driver “7”. When the firm, or a brand which the firm controls, has become well-known in major markets, a damaged reputation may have critical consequences. With considerable financial resources and a large staff, the firms may both adapt to, and shape, their market conditions. Investing in CSR may therefore be both a defensive and an offensive strategy at this stage.

Driver “8”. The firm may at this stage influence market conditions and certain issues related to public regulations. CSR represents a strategic tool which enables the firm to mitigate market risks, exploit market opportunities, and engage in public policy

processes. Thus, in the eyes of the firm, CSR may become a tool for influencing and even substituting public regulations.

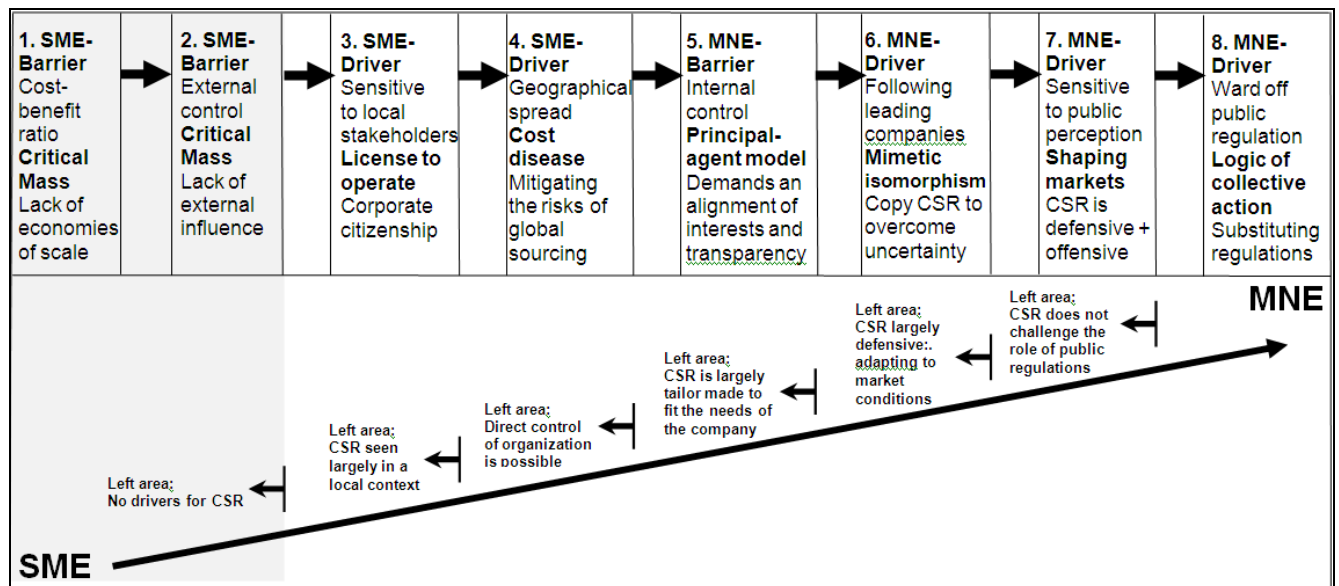


Figure 3: Drivers and barriers of CSR and stages in the transformation process from a SME to a MNE

Possible implications for public policy

Given that the objective of the government is to strengthen CSR, what kind of public policies should the government pursue? This article suggests that policies should be adapted to four main contexts, referring to stages in the transformation process from a SME to a MNE:

1. Ensuring that firms have the capability to perform CSR activities. (*Overcoming barriers 1 and 2.*)

Governments should see to it that firms have the necessary capability to perform CSR activities. One should reduce the burden of fixed costs related to CSR, and increase transparency with regard to supply chains and the social and environmental impact of their operations in general.

2. Strengthening market incentives for CSR. (*Boosting drivers 3 and 4, and overcoming barrier 5.*)

Public policies should support mutually beneficial coalitions between firms and public authorities by stimulating public-private partnerships, and by including business representatives in public forums and council meetings. Public authorities could also reward businesses that take action to enhance their social and environmental impact by introducing fiscal stimulus programs and by establishing markets where corporate investments in CSR becomes a competitive advantage.

3. Support “first movers” and distribution of best practices. (*Boosting driver 6.*)

Governments should publicly acknowledge the symbolic value of “first movers” in the CSR field. The government should also support the development and distribution of best practices adapted to different business sizes and different degrees of internationalization.

4. Designing public policies in partnership with business representatives. (*Boosting drivers 7 and 8.*)

Firms affecting state finances and national markets are not only targets of public policies, they also influence them. They do so directly by participating in deliberative processes together with government representatives, and indirectly by the fact that government representatives consider business interests when they design public policies. Government representatives should recognize this and should therefore collaborate with business representatives of both MNEs and SMEs in order to learn from their experiences.

Conclusion

This article contributes to a better understanding of how and why drivers and barriers of CSR differ with respect to size and internationalization of companies. On the basis of a literature survey, eight drivers/barriers of CSR were identified. These drivers and barriers were shown to be compatible with the results of a limited Norwegian survey. By considering these drivers and barriers as special cases of more general social science models, we gained a better understanding of how they are affected by different business contexts and how they vary with regard to stages in the transformation process from a SME to a MNE. In the first two stages, firms lack the economies of scale and the expertise and external influence to implement CSR. In the third stage the firm is capable of engaging in mutually beneficial partnerships and may use CSR in its interactions with local stakeholders to improve their reputation and framework conditions. In the fourth stage, the international expansion of the firm increases the number of stakeholders and the number of risks. CSR may then be used to mitigate these risks. In the fifth stage, a vast corporate organisation no longer permits the top management to control the organisation. We see risks related to opportunistic behaviour among its employees. At the sixth stage firms may overcome uncertainties in their environment by imitating the CSR practices of competitors and stakeholders. At the seventh stage, the firm has become well known and is able to influence market conditions. CSR may now be part of both a defensive and offensive strategy. At the last stage, the firm may be able to influence both market conditions and public policies. Engaging in CSR reflects an ambition to advance long-term business interests by improving their framework conditions.

The analysis above suggests that different public policies are appropriate at different stages in the transformation process from a SME to a MNE. If the government's objective is to stimulate CSR, public policies should be adapted to four main contexts. Towards SMEs the focus should be to ensure that they have the capability to perform CSR activities. When firms are in a transition phase between an SME and an MNE, the focus should be on strengthening market incentives for CSR and to disseminate best

practices. Towards large MNEs, public policies should forge partnerships between governments and business representatives in order to utilize corporate competencies and to protect the long-term interests of both MNEs and SMEs as long as these are compatible with government objectives.

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¹ A number of economists have studied the effects of CSR and links CSR to externalities – e.g. Husted & Salazar (2006) and Besley & Ghatak (2007). These kind of economic articles have in common a structure where a list of propositions is tested by calculating marginal utility based on a set of explicit premises. This setting does not include political, social or cultural variables which do not fit into their axiomatic framework.

² The survey is part of a larger project sponsored by the Norwegian Research Council, entitled “International developments, dissemination and implementation of CSR in the Norwegian clothing sector”. It was carried out from May to July, 2007. Three-hundred thirty firms responded to the web-based survey of the Norwegian clothing businesses. However, only 182 respondents completed all instruments in the survey. This response rate is comparable to similar surveys of corporate managements (see e.g. Ghoshal & Notria 1989)

³ This analysis will not utilize the “fuzzy algebra” put forward by Ragin (2000), as we only need this index as a control variable for other index variables.

⁴ See Solomon (2007:17) for a presentation of “agency theory” related to shareholders and managers, and Moe (1984:750) for a general introduction of the principal-agent model.