IRIS

Oluf Langhelle, Bjørn-Tore Blindheim, Thomas Laudal, Atle Blomgren, and Rune Dahl Fitjar

Conceptions of Corporate

Social Responsibility

Case: The Clothing Business

Project number:	7252173
Project title:	International developments and the dissemination and implementation of CSR in the clothing sector
Commissioning:	The Research Council of Norway

Stavanger

Oluf Langhelle (signature)	10/10-09	*Einar Leknes* (signature)	15/10-09
Oluf Langhelle	Sign.dato	Einar Leknes	Sign.dato
Prosjektleder		Kvalitetssikrer	

Gottfried Heinzerling (signature)	16/10-09
Gottfried Heinzerling	Sign.dato
Overordnet leder	

Preface

This project report concludes the project "International developments and the dissemination and implementation of CSR in the clothing sector", commissioned by The Research Council of Norway. This has been a joint effort between the Faculty of Social Sciences at the University of Stavanger and The International Research Institute of Stavanger.

The report contains most, but not all, publications and assignments emanating from the project. Assignments written as part of a master course, or PhD course, and articles which is not intended for publication were not included in the report.

I would like to thank the valuable contributions from all members of the project group during the last three years; Aslaug Mikkelsen, who was project leader before she was elected Rector at the University of Stavanger, Bjørn-Tore Blindheim, Thomas Laudal, Atle Blomgren, Rune Fitjar, Ove Heitmann Hansen, Olaug Øygarden, Ellen Anne Teigen Vinje, and Einar Leknes.

I also thank the reference group for important feedback; Kristin Holter (Ethical Trade Initiative Norway), Morten Sandberg (The Federation of Norwegian Commercial and Service Enterprises), Erik Lundeby (Confederation of Norwegian Enterprise), and Annabelle Lefebure (Varner Group). We also include the following sources the first part of this project; Pia A. Gaarder (NorWatch), Live Nordby (Tekstilforum), Karen Beate Theodorsen (LO), and Gunnstein Instefjord (Norwegian Church Aid).

Attention: The articles included in this report are all being submitted to scientific journals. None of the articles should therefore be quoted without prior permission from the author.

Stavanger, 1 October 2009.

Oluf Langhelle, Project leader

Presentations, academic, and non-academic publications related to this research project:

Conference Presentations of papers:

- Laudal, Thomas: Earlier version of study II presented at the Political Science Conference "Fagkonferansen i Statsvitenskap" in Trondheim, Norway, 3-5 January 2006

- Blindheim, Bjørn-Tore: Early version of study XIII presented at the 13th Annual International Sustainable Development Research Conference, Vesterås, Sweden, June 2006.

- Blindheim, Bjørn-Tore: Early version of study III at The sixth annual colloquium of the European Academy of Business in Society (EABIS), Barcelona 20-21 September, 2007.

- Laudal, Thomas: Early version of study II presented at the ISIAM conference, Agadir, Morroco, 9-10 April 2007.

- Laudal, Thomas: Early version of study VIII presented at the EABIS conference at Cranfield School of Busiiness, UK, 11-12 September 2008.

- Laudal, Thomas: Early version of study X presented at the CRR Conference at the University of Vaasa, Finland, 8-9 September 2009.

Presentations on conferences / seminars

- Laudal, Thomas (2008): Presentation at the IEH/Fritt Ord seminar in Oslo 5 March 2008.

- Langhelle, Oluf (2008): Presentation at the National CSR conference on CSR in Stavanger, 11 November 2009.

- Participation in KOMpakt working group on CSR and SMEs, Autumn – Spring 2007/2008.

- Participation in the Norwegian "Speilkomiteen" under Standards Norway on the ISO 26000.

In newspapers / magazines

- Blindheim, Bjørn-Tore (2007): Article on CSR in the clothing industry, Vårt Land,

- Blindheim, Bjørn-Tore (2007): Article on CSR in the clothing industry, Forskning.no

- Laudal, Thomas (2007): Article on CSR and municipality investments in Stavanger Aftenblad,

- Laudal, Thomas (2008): Article reviewing the state of CSR in the Norwegian Magazine "Ny Tid", September 2008.

- Laudal, Thomas (2009). Article in Tekstilforum no. 4, 2009, *Etikk på kinesisk og norsk* (Tekstilforum is the leading clothing publication of the clothing sector in Norway)

Notes to the KOMpakt Working Group on CSR and SME's

- Fitjar, Rune Dahl and Laudal, Thomas (2008): Bedrifters samfunnsansvar og små og mellomstore bedrifter. Working Paper, February 2008.

- Blindheim, Bjørn-Tore and Langhelle, Oluf (2008): Bedrifters samfunnsansvar. Working Paper, February 2008.

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INTRODUCTION AND THEORETICAL PERSPECTIVES

Introduction

This report is the result of a 3 year research programme funded by the Norwegian Research Council with the title *International developments and the dissemination and implementation of CSR in the Norwegian clothing sector.* The overall aim of the project was to follow the international development of Corporate Social Responsibility (CSR) and to study how CSR disseminates and influences the clothing branch in Norway at the chain and firm level, with a special focus on small- and medium sized firms. And further, to measure attitudes towards -and implementation activities of CSR and identify barriers towards effective CSR implementation on the company level. At the outset, the project focused on 4 key research questions:

1. How does the evolvement of an international CSR framework contribute to the development, institutionalization and dissemination of CSR in the clothing industry? How does the branch, chains and firms adopt and contribute to the international developments of CSR?

2. How does eventually such an institutionalization and dissemination of CSR in the clothing industry manifest itself a) on a branch level?, and b) on the chain/company level?

3. How can obstacles and barriers of adapting CSR in small and medium sized companies be removed?

4. What are the explanatory factors behind firms' decisions to implement CSR tools or not?

The research questions where to be answered by document studies; interviews with key stakeholders; a survey measuring basic attitudes to CSR in clothing companies; and case studies of CSR perceptions and implementation in small- and medium sized companies. In their approval of the project, the Research Council asked for a stronger focus on CSR in the supply chain within the clothing sector. This is reflected both in the case studies included in this report and in the surveys developed. It also initiated research collaboration between the University of Stavanger/International Research Institute of Stavanger (IRIS) and Bejing Institute of Clothing Technology (BIFT) (now Bejing Institute of Fashion Technology (BIFT).

This report consists of a number of articles probing the above research questions. The research questions and an extended focus on the supply chain have served the function as organising principles for the different sub-parts of this research project. Some

research questions, however, have been dealt with less extensively, while other research questions became more important. This is partly a result of the fact that the project was organised around articles and sub projects – thus the main part of this report consists of a collection of articles. Partly it reflects the research process. As the project developed, other research questions became increasingly important. Although it came as no great surprise, it became clearer during the project that the concept itself, *Corporate Social responsibility (CSR)*, is and continue to be a *contested* concept. Much work, therefore, has been devoted to analytical and conceptual discussions and attempts to clarify what the contested nature of the phenomenon of CSR actually consist in. How should it be defined? How should it be understood? What are its defining characteristics? And which perceptions of CSR can be identified in the clothing industry? Different conceptions and interpretations of CSR are politically contested. It is not, however, restricted to the political sphere, but also exists in the academic literature. Also in the research team working on this project, different perceptions of what CSR are or should be are present. This is thus reflected in the articles included in this report.

Another development which occurred in the research process was opening up of theoretical perspectives. The original research proposal had a clear anchoring in new institutional theory. As the project developed, however, it also became clear that it would be difficult if not impossible to limit the different sub-projects to one single theoretical perspective. The report therefore draws on different theoretical approaches, including new institutional theory, and is better described as eclectic in its approach.

In the rest of this chapter, we start out by addressing different approaches and cleavages in the study field of CSR, or what some like to term 'the study field of business and society'. Thereafter, we outline some of the key international developments concerning CSR, most notably the work done by John Gerrard Ruggie as a United Nations Special Representative on the issue of Human Rights, Transnational Corporations and Other Business Enterprises and the work within ISO to develop a new standard for CSR, ISO26000. In this section, we also address the Report to Parliament on CSR from the Ministry of Foreign Affairs in 2009. We then turn to an empirical description of the Norwegian and Chinese clothing industries providing the necessary background and context for the chapters that follow. We end this introductory chapter by an outline of the report.

The Concept of CSR –and the Study Field of Business and Society

Since the 1950s, the role of business in, and the responsibility of companies towards, society has increasingly been addressed through the concept of corporate social responsibility (CSR). The idea of social responsibility has its modern roots in the first decades of the 19th century. Early research theme concerns the divide between professional managers and owners of corporations and the abuse of market power (Hadley 1908, Clark 1926, Berle and Means 1932, Burnham 1941, and Drucker 1942). According to traditional belief among scholars until the beginning of the 20th century, the individual owner's desire for personal gain and profits could be relied upon as an effective incentive for the efficient use of industrial property. In 1932 Berle and Means

stated that this assumption no longer holds. Berle and Means documented a separation of ownership from control in large corporations in the United States. Burnham (1941) regarded the divide between corporate executives and owners as part of a broader trend towards a totalitarian "managerial" society. He stated that modern technology contributed to an increase in the division of labour and in international trade which in turn would lead to the gradual shift of locus of sovereignty from the nation-state to a transnational state. Drucker (1942) did also regard several forms of managerial power as illegitimate but argues that Burnham's thesis that the rise of managers inevitably leads to a society where business managers rule, is wrong. Legitimate power must be based on existing and accepted basic principles, according to Drucker (1942).

Early definitions of CSR focused on society's interests and referred often to the concern that increased corporate and managerial power could harm public interests. Discussions of CSR typically referred to moral ideas about the primacy of human interests over corporate ones and the desire to modify many of the negative consequences of corporate power - environmental degradation and poisoning, unhealthy products, inhumane workplaces, and more (Logsdon and Wood 2002).

In 1953, Howard R. Bowen defined CSR as the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action that are desirable in terms of the objectives and values of society. Later, Davis (1973) defined CSR as the firm's consideration of, and response to, issues beyond its narrow economic, technical, and legal requirements to accomplish social benefits, along with the traditional economic gains that the firm seeks.

Crane and Matten (2004) argue that probably the most established and accepted conceptualization of CSR is the "four-part model of corporate social responsibility" initially proposed by Carroll (1979), who suggested CSR as a multi-layered concept that can be differentiated into the four interrelated aspects of economic, legal, ethical and philanthropic responsibilities. Carroll and Buckholtz (2000) define CSR as 'the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time'. The concept later evolved into different approaches, covering other related terms such as social responsiveness (Frederick, 1987), corporate social performance (Wood, 1991), the stakeholder approach (Freeman, 1984), corporate citizenship (Crane and Matten, 2004), the 'triple bottom line' approach (Elkington, 1994, 1997) and corporate sustainability (Marrewijk, 2003). In other words, CSR may be understood as an umbrella term covering economic, social and environmental issues (Welford, 2003), wherein the relationship between business and society is studied.

This variety of definitions and perceptions of CSR represents a challenge. According to Crane et al. (2008), the study of CSR has been "hampered by a lack of consensus on the definition of the phenomenon, unifying theory, measures, and unsophisticated empirical methods. In addition, globalisation has added to the complexity of CSR issues to be addressed" (Crane et al. 2008:568). In the views of Crane et al. (2008:6), therefore, CSR is still a developing field of research where CSR "is best understood not as a concept, a construct, or a theory but as a field of scholarship", based on the existence of competing conceptions of CSR.

Another way to cope with this variety of CSR perceptions is provided by Blowfield and Murray (2008).[1] Also here, CSR is seen as an umbrella term:

> *Rather than try to adopt a and defend a particular definition … we use corporate social responsibility as an umbrella term that captures the various ways in which business' relationship with society is being defined, managed and acted upon … we do not pretend there is one unifying vision of corporate responsibility* (Blowfield and Murray, 2008:16).

Within this "umbrella", they identify three main approaches. The first approach is "Values-driven business", which address CSR by stressing the importance of "company values". Underlying this way of thinking about CSR is "a common acceptance that a legal construct such as a corporation can have values, and that notions of ethics, justice, responsibility, and obligation rooted in human experience can be meaningfully adapted to guide corporate behaviour" (Blowfield and Murray, 2008:16-19).

The second approach is termed "Business and society" and focus upon the role of business in society and its relationship to civil society and the state. Carroll's (1979) four-part model of corporate social responsibility is one such CSR approach. Here, *economic responsibility* refers to the fundamental responsibility of business to produce goods and services that society wants and which sells it at a profit. Making money is thus part of business responsibilities. Companies also have *legal responsibility*, that is, to fulfil its economic obligations within the confinement of the law. Respecting the rules and regulations is thus part of business responsibilities. *Ethical responsibilities* refer to the responsibility to do what is right, beyond what is required by the law. *Discretionary responsibilities* refer to voluntary responsibilities such as philanthropy, which a company can assume even if there are no clear-cut obligations or expectations that a company has to do so (Carroll 1979, Blowfield and Murray 2008:20-24).

The third approach is the answer not to the question of why a company should be responsible as the two previous approaches focus on, but rather the question of what it is that companies *are being* held responsible for. This is called the "taxonomy of business responsibilities" (Blowfield and Murray 2008:24-28). Prominent areas of corporate responsibility identified by Blowfield and Murray (2008:24) are legal compliance, environmental management, sustainability, animal rights, human rights, workers rights and welfare, market relations, corruption and corporate governance.

The legal-voluntary fault line

Legal compliance is a disputed part of corporate responsibility. There are two main positions here. One is reflected by Davies (1973) who argues that corporate responsibility begins where the law ends. It implies that CSR is concerned about what companies do with regards to making positive contributions "above and beyond" what constitutes their legal obligations (Blowfield and Murray, 2008:13). This approach to CSR is also reflected in the Report to Parliament from the Ministry of Foreign affairs in Norway, *Corporate social responsibility in a global economy*, which defines CSR the following way:

> *The Government's position is that CSR involves companies integrating social and environmental concerns into their day-to-day operations, as well as in their dealings with stakeholders. CSR means what companies do on a voluntary basis beyond complying with existing legislation and rules in the country in which they are operating. Companies should promote positive social development through value creation and responsible business conduct, and by taking the local community and other stakeholders into consideration* (Ministry of Foreign affairs, 2009:8).

It can be questioned, however, if the definition of CSR as "voluntary" is actually applied consistently. The paragraphs prior to the quote above read as follows:

> *The Government views the following areas as central when it comes to corporate social responsibility in international operations: respecting human rights; upholding core labour standards and ensuring decent working conditions; taking environmental concerns into account; combating corruption; and maximising transparency ...*

> *All companies operating abroad are expected to comply with the host country's laws and regulations, as well as with Norwegian legislation insofar as it applies to activities or operations carried out abroad. CSR extends beyond a company's statutory obligation to comply with national legislation. It may also be a matter of complying with legislation that is not properly enforced by the local authorities* (Ministry of Foreign affairs, 2009:8).

Here, legal compliance seems to be part of CSR after all. Later, however, it is stated that "Corporate social responsibility concerns what companies do beyond complying with applicable legislation in the countries where they operate" (Ministry of Foreign affairs, 2009:76). The Committee on Foreign Affair in Parliament argued in their comments to the Report, that "social responsible behaviour does not stop being precisely social responsible behaviour by being turned into law … companies that really take their social responsibility seriously are the companies that do not only follow laws and rules, but that manage to understand how global advantages as development, environment, poverty and corruption impacts on the company and handle these issues in a long-term, profitable and responsible way … (Committee on Foreign Affair, 2009: 3).

The dilemma is of course, that with a definition of CSR limited to voluntarism, a profitable company following and obeying all legal requirements and paying their taxes, ends up being *not* socially responsible. And the more of social responsibilities which are regulated by law, the less space there is for voluntary social responsibility. On the other hand, by limiting responsibility to the law, companies will have few obligations operating in countries with poor legislation, widespread corruption or absence of the rule of law. Or as formulated by Mark Taylor (2008): "For many years this meant companies could ignore human rights and still obey the law: human rights protections were either non-statutory (declarations but not legislation), not enforced or non-existent."[2]

Companies engaged in commercial activities in such countries "face special challenges and dilemmas" (Ministry of Foreign Affair, 2009:56).[3] Seen in this context, a plausible reason for this more narrow CSR definition is that CSR first and foremost is directed towards companies that invest or operate abroad, that is, "primarily with companies international operations" (Ministry of Foreign affairs, 2009:11). Thus, the primary context of CSR in the report to Parliament is international, not national.

Seen in more general terms, however, the exclusion of legal compliance creates the problem that what is regarded as CSR behaviour will ultimately vary according to what is required by law or not in the countries which the companies operate when CSR is seen as voluntary. Blowfield and Murray (2008:25), belonging to the group that includes legal compliance in CSR, makes the following argument for including legal compliance:

> Perhaps the most fundamental responsibility that a company has towards society is to obey the law. No matter how innovative or exciting corporate responsibility may sometimes appear, the fact remains that, in most of the world, the basic expectation is that companies make a profit and stay within the law. But not all companies are law-abiding, just as they are not always profitable; any definition of responsibility that ignores legal compliance is inherently flawed. Local, national, and international law sets out the rules by which corporations play, and, over time has prescribed what companies can and can not do with regards to areas such as employment, environmental protection, corruption, human rights, and product safety. One only needs to think of pornography, arms sales, and narcotics to realize how the law defines what is legitimate business activity; one need only consider corporate law to appreciate how it spells out the purpose of the company.

On the other hand, as Blowfield and Murray (2008:25) argue, there are also "strong reasons for saying that CSR is more than legal compliance". Corporate philanthropy is one such area, were business may feel compelled to give something back to society. More fundamentally, however, the "beyond legal compliance" is linked to broader societal expectations towards companies. This is acknowledged in the report from John Gerrard Ruggie to the General Assembly:

> *Companies know they must comply with all applicable laws to obtain and sustain their legal licence to operate. However, over time companies have*

found that legal compliance alone may not ensure their social licence to operate, particularly where the law is weak. The social licence to operate is based in prevailing social norms that can be as important to the success of a business as legal norms. Of course, social norms may vary by region and industry. But one of them has acquired near-universal recognition by all stakeholders, namely the corporate responsibility to respect human rights, or, put simply, to not infringe on the rights of others (UN, 2009:13).

International CSR developments on the legal – voluntary fault line

The legal – voluntary fault line has also been import in the international sphere. According to Ruggie (2007:2), "the state-based system of global governance has struggled for more than a generation to adjust to the expanding reach of and growing influence of transnational corporations". The onus of responsibility for regulating corporations has also shifted considerably in recent decades. The shift is sometimes characterized in terms of a transition from so-called state-led "command and control" regulation in the 1960s and 1970s, to corporate self-regulation in the 1980s and 1990s, to a more recent emphasis on co-regulation or multi-stakeholder initiatives. Seen in relation to Ruggie (2008), these initiatives can be seen as voluntary attempts to close the governance gaps created by globalisation:

> The root cause of the business and human rights predicament today lies in the governance gaps created by globalization - between the scope and impact of economic forces and actors, and the capacity of societies to manage their adverse consequences. These governance gaps provide the permissive environment for wrongful acts by companies of all kinds without adequate sanctioning or reparation. How to narrow and ultimately bridge the gaps in relation to human rights is our fundamental challenge (United Nations, 2008:3).

What is commonly referred to as "The Global Eight" - the UN Global Compact; ILO Conventions; the OECD Guidelines for Multinational Enterprises; ISO 14000 Series; the Global Reporting Initiative; the Global Sullivan Principles; Social Accountability 8000; AccountAbility 1000 – represent voluntary initiatives which are also multi-sectoral and can be applied to a wide range of industries (McIntosh et al. 2003). They can be seen as expressions of the voluntary route to the closing of the governance gaps created by globalisation.

Internationally, the legal – voluntary fault line has primarily played out between NGOs in favour of regulations, and reluctant business and states favouring the voluntary approach (and largely the voluntary understanding of CSR). In 2003, the proposal from a working group under the UN Sub-Commission on the Promotion and Protection of Human Rights, *UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to Human Rights*, made new headway into the legal – voluntary fault line. The so-called "UN Norms" proposal, seemed to assume that companies had legal obligations in relation to human rights. The Norms were directed towards transnational corporations and "other business enterprises", understood as "any

business entity, regardless of the international or domestic nature of its activities". Among other things, the proposal included a provision that "each transnational corporation or other business enterprise shall adopt, disseminate and implement internal rules of operation" in compliance with the proposed Norms in contracts or other arrangements with "contractors, subcontractors, suppliers, licensees, distributors, or natural or other legal persons". The proposal also included periodically reporting, periodic monitoring and verification, and the establishment and reinforcing of "the necessary legal and administrative framework for ensuring that the Norms and other relevant national and international laws are implemented". In addition, the proposal includes a paragraph on compensation for violations of the Norms, which includes "reparations, restitution, compensation and rehabilitation for any damage done or property taken", and the Norms were to be "applied by national courts and/or international tribunals, pursuant to national and international law" (United Nations, 2003:5).

When the draft norms were submitted to the member states of the UN Human Rights Commission in 2004, they were rejected, primarily due to the position to hold non-state entities directly accountable for human rights violations. Several of the member states opposed this as they felt this would dilute state responsibility (Ministry of Foreign Affairs, 2009:76). The Human Rights Commission made it clear that the draft entailed no legal obligations, but the proposal no doubt moved beyond pure voluntarism. In April 2005, the UN Commission on Human Rights adopted a work programme against the votes of United States, South Africa and Australia. The resolution, which was supported by Norway, requested the UN Secretary General to appoint a *Special Representative on the issue of Human Rights, Transnational Corporations and Other Business Enterprises*. The Special Representative was mandated to identify standards of corporate accountability for businesses; elaborate on the role of states in effectively regulating the role of business, including through international cooperation; research and clarify concepts such as "complicity" and "sphere of influence"; develop materials and methodologies for undertaking human rights impact assessments of business activities; and compile a compendium of best practices of states and businesses (United Nations, 2005).

In July 2005, John Gerard Ruggie was appointed as The Special Representative by UN Secretary general. Ruggie mandate as special representative have been renewed several times, and his colleges have delivered a number of reports and articles. Some conclusions, however, emerged early. Ruggie saw the UN Norms proposal as an impossible foundation "for moving forward (Ruggie, 2006, 2007). Second, as part of his work, Ruggie mapped international standards and practices regarding business an human rights into five clusters along a continuum, "starting with the most deeply rooted international legal obligations and ending with voluntary business standards" (Ruggie, 2007:13). The five clusters discussed by Ruggie was "the state duty to protect against corporate abuses; corporate responsibility and accountability for international crimes; corporate responsibility for other human rights violations under international law; soft-law mechanisms; and self-regulation" (Ruggie, 2007:13).

According to Kinley and Nolan (2008:351), Ruggie has tried to move past the "pro- and anti-Norms lobbyists by illuminating what unites rather than what divides the two camps". Ruggie's third report was unanimously approved by the UN Human Rights Council in June 2008. It outlined an overall framework for business and human rights based on three pillars; "the state duty to protect against human rights abuses by third parties, including business", which has both legal and policy dimensions, "the corporate responsibility to respect human rights", which is defined as a soft-law instrument, and "the need for more effective access to remedies", which may be legal giving access to formal judicial systems or non-judicial mechanisms (United nations 2008, Marmorat 2009).

Of these, the state duty to protect human rights abuses by third parties has been most controversial in Norway. Under this pillar, Ruggie (2007, 2008) have argued that there are opportunities within existing international law to regulate the extraterritorial activities of businesses incorporated in their jurisdiction. That is, "a state may choose to require corporations (domiciled in their jurisdiction) to abide by certain standard regardless of the country in which they are operating" (Kinley and Nolan, 2008:349):

> *The extraterritorial dimension of the duty to protect remains unsettled in international law. Current guidance from international human rights bodies suggests that States are not required to regulate the extraterritorial activities of businesses incorporated in their jurisdiction, nor are they generally prohibited from doing so provided there is a recognized jurisdictional basis, and that an overall test of reasonableness is met. Within those parameters, some treaty bodies encourage home States to take steps to prevent abuse abroad by corporations within their jurisdiction* (United nations, 2008:8).

The background for this described "the expanding web of potential corporate liability for international crimes, reflecting international standards but imposed through national courts", summarised as four significant legal developments:

> *In previous reports, the Special Representative noted four significant legal developments: the growing international harmonization of standards for international crimes that apply to corporations under domestic law, largely as a by-product of converging standards applicable to individuals; an emerging standard of corporate complicity in human rights abuses; the consideration by some States of "corporate culture" in deciding criminal responsibility or punishment; and an increase in civil cases brought against parent companies for their acts and omissions in relation to harm involving their foreign subsidiaries* (United Nations, 2009:8).

This part of Ruggie's first pillar was further elaborated in paragraph the 2008 report by the following:

21. Further refinements of the legal understanding of the State duty to protect by authoritative bodies at national and international levels are highly desirable. But even within existing legal principles, the policy dimensions of the duty to protect require increased attention and more imaginative approaches from States.

22. It is often stressed that governments are the appropriate entities to make the difficult balancing decisions required to reconcile different societal needs. However, the Special Representative's work raises questions about whether governments have got the balance right. His consultations and research, including a questionnaire survey sent to all Member States, indicate that many governments take a narrow approach to managing the business and human rights agenda. It is often segregated within its own conceptual and (typically weak) institutional box - kept apart from, or heavily discounted in, other policy domains that shape business practices, including commercial policy, investment policy, securities regulation and corporate governance. This inadequate domestic policy coherence is replicated internationally. Governments should not assume they are helping business by failing to provide adequate guidance for, or regulation of, the human rights impact of corporate activities. On the contrary, the less governments do, the more they increase reputational and other risks to business (United Nations, 2008:8).

National CSR developments on the legal – voluntary fault line

The legal – voluntary fault line, placed under the pillar of state duty to protect human rights abuses by third parties, has also been controversial in Norway. In the report to Parliament on CSR by the Ministry of Foreign Affairs, the whole of chapter 8 was devoted to this part of Ruggie's first pillar. Chapter 8, called "Evaluation of legal instruments" started with an outline of the positions of the main non-state political actors in relation to CSR, the NGOs, and the social partners, the Confederation of Norwegian Enterprise (NHO) and the Norwegian Confederation of Trade Unions (LO). The chapter started out with the following:

It has been argued that the social responsibility of Norwegian companies operating abroad should be legislated. The underlying rationale is that more and more Norwegian companies are operating in countries and regions where there are serious human rights violations and whose judiciaries, national legislation and democratic institutions are weak and ineffective (Ministry of Foreign Affairs, 2009:86).

This position was linked explicitly to two NGOs:

The Norwegian Forum for Environment and Development (ForUM) and Amnesty International Norway, for example, have advocated drawing up binding national guidelines that set minimum social responsibility standards for financial institutions and business enterprises, regardless of where they operate. ForUM also advocates extending corporate management

responsibility in practice by making managers personally liable for the consequences of their company's operations in the case of serious transgressions. They also maintain that companies and financial institutions should have actual legal liability based on Norwegian criminal law, including for acts committed outside Norwegian territory (Ministry of Foreign Affairs, 2009:86).

The opposite position or "a different approach" was linked to the social partners:

The Confederation of Norwegian Enterprise (NHO), emphasises the importance of international agreements and guidelines for the private sector that are adapted to national legislation. It considers that special Norwegian rules for companies' international operations would have a limited effect on international developments. In NHO's opinion, developments can best be influenced on the international level …

LO does not … currently see the need for binding national guidelines for corporate social responsibility. LO points out that the combination of the legislation, arrangements and certification systems that are already in place is adequate provided that they are complied with. It is of the view that voluntary arrangements, action plans developed by individual companies and good checklists can be useful supplements for Norwegian companies setting up business abroad. (Ministry of Foreign Affairs, 2009:86).

In their response, Government made it clear that corporate social responsibility, in their opinion, does not include legal compliance: social CSR is "neither a legal nor a judicial concept, referring instead to something over and above what companies are legally liable for pursuant to the applicable legislation in the countries in which they operate or are established. In normal legal language, if standards and norms are *legally binding*, any violation is unlawful and may be subject to sanctions" (Ministry of Foreign Affairs, 2009:87). In the discussion, Government presents a mixed view on legal instruments. One the one hand is clear that it is possible once the new General Civil Penal Code of 2005 enters into force, the criminal prosecution in Norway of acts committed abroad will be permitted and where international law entails an obligation or a right to prosecute such acts, and even the double criminality requirement (i.e. the offence must also be a crime in the country in which it was committed) has not been met. In other "cases in which companies are perceived as not having exercised social responsibility abroad, there are only grounds for criminal prosecution in Norway if the conditions of the Penal Code have been met (Ministry of Foreign Affairs, 2009:87).

On the other hand, the Government argues that one should be cautious about prosecuting acts committed abroad in Norway. It was therefore concluded that Government:

- considers that the recent increase in the number of global instruments entailing criminalisation obligations paves the way for more effective protection of the most fundamental standards for companies' international operations;

- does not consider it expedient to propose unilateral Norwegian penal provisions concerning companies' social responsibility with regard to their operations abroad. (Ministry of Foreign Affairs, 2009:88).

This position was heavily criticised by several NGOs. In a joint statement (Tuesday 10 February 2009) on the Report to Parliament, Amnesty, Forum for Environment and Development, Future in our hands and Norwegian Church Aid stated the following:

> *… the Report to the Storting [Parliament] is neither ambitious nor concrete. The suggested measures would not prevent cases such as Aker Kværner's business at Guantanamo, deaths at SN Power and child labour at Telenor from happening again. Rather, the government seems committed to spending all available sources in their thesaurus in order to spell the word "hope". Words like* demand, claim *or* require *doesn't seem to exist in their vocabulary when it comes to CSR … It must be historic that the government can present the first national white paper on a new corporate policy without a bleep from neither the corporate nor the trade unions. The paper seems based on an underlying premise that Norwegian corporations are good, means well and are global actors in order to do good and create sustainable development. All other examples of the opposite is a result of misunderstandings and lack of guidance, it seems.*

The report to Parliament was also noted in the report to the UN Human Rights Council: "The Norwegian Government's 2009 Corporate Social Responsibility White Paper discusses the framework extensively" (Human Rights Council 2008:4). No further comments were made. Others, however, have argued that the struggle over clarity as to the business responsibilities for human rights is not over. As argued by Taylor:

> *It remains to be seen how the national courts and legislators will translate the emerging social expectations concerning the human rights responsibilities of companies … There is hard grassroots political work to be done to get states to take the necessary next steps to ensure corporate respect for human rights, to fill the gaps in the international legal order with respect to the responsibility of companies and, not least, to prosecute those companies who insist on ignoring the law governing international human rights crimes. It is possible, although by no means certain, that a decade from now states will have matched the rights that companies have been given with a responsibility to respect human rights for which they will be held accountable* (Taylor 2009).[4]

The legal – voluntary fault line thus constitutes a major and an important part of the CSR context which individual companies operate within. In the Norwegian context the legal – voluntary fault line primarily seems to represent a cleavage between NGOs on the one hand and the social partners and Government on the other. There seem, however, to be more agreement on the issue of what companies are *expected* to take into account, regardless of the legal – voluntary cleavage.

Societal expectations – what companies are expected to take into account

There seem to be widespread agreement that social expectations towards companies and their responsibilities and behaviour have amplified the last decades. While societal expectations are neither constant nor necessarily stable, there are several issues on which CSR responsibilities seem to converge. Carroll and Buckholtz's (2000) definition of CSR include the addendum "at a given point in time". And at this point in time, the "taxonomy of business responsibilities" (Blowfield and Murray 2008:24-28), that is, what companies *are being* held responsible for are converging on a number of issues. Except for the legal compliance part discussed above, the issues include environmental management, sustainability, animal rights, human rights, workers rights and welfare, market relations, corruption and corporate governance.

The draft ISO 26000 standard (ISO/TMB/WG SR N 172, 2009:7), argue that social responsibility "involves an understanding of the broader expectations of society". Social responsibility is described generally the following way:

> *The essential characteristic of social responsibility is the willingness of an organization to incorporate social and environmental considerations in its decision-making and be accountable for the impacts of its decisions and activities on society and the environment. This implies both transparent and ethical behaviour that contributes to sustainable development, takes into account the interests of stakeholders, is in compliance with applicable law and consistent with international norms of behaviour, and is integrated throughout the organization and practised in its relationships.*

Also the draft ISO standard recognises that social responsibility "entails actions beyond legal compliance and the recognition of obligations to others that are not legally binding", and these obligations "arise out of widely shared ethical and other values". Moreover, respect for the rule of law and compliance with legally binding obligations is described as a "fundamental principle of social responsibility" (ISO/TMB/WG SR N 172, 2009:7). The issues addressed in the ISO draft are grouped under 7 core subjects and issues.

Box 1: ISO26000 draft core subjects (in bold) and sub-issues

Organizational governance; **Human rights**; Due diligence; Human rights risk situations; Avoidance of complicity; Resolving grievances; Discrimination and vulnerable groups; Civil and political rights; Economic, social and cultural rights; Fundamental rights at work; **Labour Practices**; Employment and employment relationships; Conditions of work and social protection; Social dialogue; Health and safety at work; Human development and training in the workplace; **The environment**; Prevention of pollution; Sustainable resource use; Climate change mitigation and adaptation; Protection and restoration of the natural environment; **Fair operating practices**; Anti–corruption; Responsible political involvement; Fair competition; Promoting social responsibility in the sphere of influence; Respect for property rights; **Consumer issues**; Fair marketing, information and contractual practices; Protecting consumers' health and safety; Sustainable consumption; Consumer service, support,

and dispute resolution; Consumer data protection and privacy; Access to essential services; Education and awareness; **Community involvement and development**; Community involvement; Education and culture; Employment creation and skills development; Technology development; Wealth and income creation; Health; and Social investment.

In the report to Parliament, broader societal expectations towards companies addressed among others, are formulated in terms of expectations "to develop and comply with guidelines for social responsibility. Companies' employees – and, as far as possible, their partners in the supply chain – should be familiar with these guidelines" (Ministry of Foreign Affairs, 2009:27). What Government expect Norwegian companies to do are formulated in both concrete and more abstract terms. In concrete terms, the following list is provided:

The Government expects Norwegian companies to:

- *integrate a clear awareness of CSR in their boards, management teams and corporate culture;*

- *build and further develop the necessary expertise within the company;*

- *acquaint themselves with the OECD Guidelines for Multinational Enterprises and follow them in their operations;*

- *consider joining the UN Global Compact;*

- *draw up and implement guidelines for social responsibility;*

- *follow their own guidelines with regard to the supply chain, by setting requirements, having control procedures and promoting capacity-building;*

- *take good corporate practices with them from Norway, including models for cooperating with employees and employee representatives;*

- *develop their own CSR standards, using best practice within their field or branch as their guiding principle and goal;*

- *establish mechanisms or schemes for whistle-blowing or notification of unacceptable circumstances;*

- *show transparency with regard to the economic, social and environmental consequences of their operations;*

- *actively seek out information and guidance in connection with international operations, particularly in developing countries*

(Ministry of Foreign Affairs, 2009:31).

In more abstract terms, companies are among other things expected to integrate social and environmental concerns into their day-to-day operations; to promote positive social development through value creation and responsible business conduct; to take the local

community and other stakeholders into consideration; to contribute to innovation (meaning to produce new or better solutions to social challenges like the environment); to contribute to technology transfer to developing countries; and contribute to increased welfare, poverty reduction and development in developing countries.

Thus, the scope of CSR is relatively broad.

Towards the clothing sector - Supply chain management

One of the core responsibilities of CSR which has emerged and received increased attention on the CSR agenda is supply chain management. As stated in the report to Parliament: "Social responsibility in the supply chain is a rapidly developing field, which is attracting growing attention and becoming increasingly important" (Ministry of Foreign Affairs, 2009:39). This is also a responsibility which goes to the core of this research project. Due to factors such as declining barriers to trade, improved communication technology and reduced transportation costs, production patterns have changed over the last few decades. Functionally integrated activities are increasingly split up across both organisational and geographical boundaries, the outsourcing trend has stretched supply chains across the globe (Jørgensen and Knudsen 2006, Pande, Raman and Srivatsan 2006).

Clothes are increasingly made in low cost countries in Asia and Eastern Europe. Very few brand companies in Norway or elsewhere own the companies that produce their clothes (Gaarder 2004:9). The brands have shifted their attention away from production to branding and marketing. They rarely invest directly in manufacturing, and they outsource through agents, some of which are huge companies with networks of hundreds to thousands of factories worldwide (Yimprasert and Hveem 2005:13). Factories may further outsource to sub-contractors, who again may also give parts of the orders further to even cheaper manufacturers (Gaarder 2004:9). We see that this creates an extremely complex system where contractors and sub-contractors often combine in a multi-tier system of intermediaries (see Figure 2.1) and the clothing industry is infamous for having supply chains that are difficult to keep track of. One pair of jeans may be ordered from a brand by a small, Norwegian retailer, the brand hires an agent to find a factory, a few large factories receive the order, and further subcontract it.

Retailers, and some agents and brands, are located domestically. Brands and agents can however also be foreign actors. Producers are located in a number of different countries. According to import statistics, the major supplying country to Norway is China. In 2006, the value of clothing imports from China was more than five times as high as the value of imports from Turkey, number two on the list. Italy, Denmark, India, Poland, Bangladesh, Hong Kong, Sweden and Portugal also made the top ten (Statistics Norway 2007a). However, origin of import is not necessarily equal to place of production, just to the last stop made before the clothes reached their destination in Norwegian stores. Also, the country of production stated on the label may just be the country where production was finalized, and the garment could have been through several processes in other countries first (Gaarder 2004).

Figure 1: The supply chain of textile and clothing. (Source: Eurotex brochure "Textspin", published in 2003.)

Figure 1 shows the supply chain, beginninig at the right side where yarne is produced ,and ends up at the "point of sale". But the "point of sale" may determine how the supply chain really is designed. Large retailers have more "vertical control" than the very small retail shops. And the textile and clothing industry is dependent on many overlapping functions like the chemical industry, service providers, garment producers, non-conventioanl textiles, and retail. Finally there is the function of disposal/recycling. These nyanses are included in Figure 2 below.
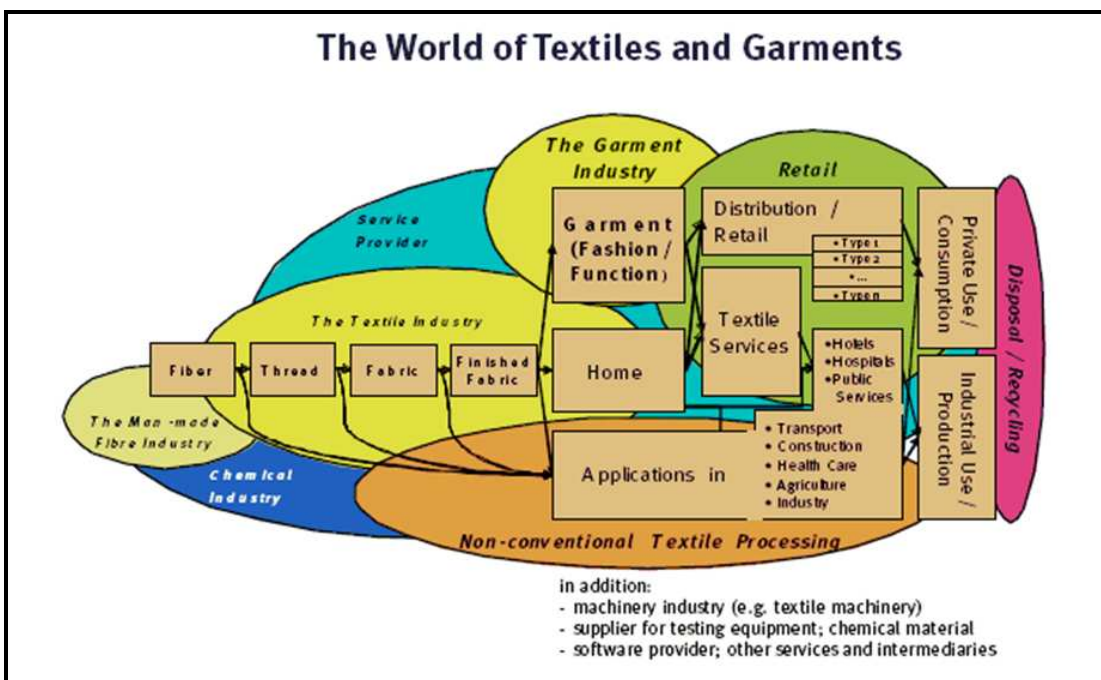
Figure 2: The overlapping supply chain of textiles and garments (Source: Eurotex brochure "The future is.. .. textiles!", published in 2006.

This intricate system, the development of big brands and clothing chains has tipped the balance of power between the producers and the sellers. Brand power is based on big orders and on control of design and marketing. The terms of the buyer have become law, and the majority of value added ends up at the top of the chain (Gaarder 2004:9). With this outsourcing of production through global networks and supply chains, multinational companies have created a new economic space for their activities, and Northern-based companies control a web of Southern suppliers (Bhandarkar and Alvarez-Rivero 2007, Jenkins, Pearson and Seyfang 2002). This is thus another important context for the articles that follow.

The Norwegian and Chinese Clothing Industry

The Norwegian clothing sector

The last 40 years Norway has become more and more dependent on imports of clothes from low-cost countries. Today more than 95 percent of Norwegian clothing sales are imported items. The share of Chinese imports has increased the most the last ten years and now counts for nearly 45 percent of the total clothing import more than five times the second largest import country, Turkey.

In most Western European countries there is a similar story: There is virtually no clothing production left, except for some in Italy, Spain and Portugal. And the imports are increasingly from low-cost markets: Today more than 70 percent of clothing imports to EU member states are from developing countries (World Bank 2007).

In this part of the report we will first present the decline of Norwegian clothing production and then describe the main structure and capabilities of the current clothing retail in Norway.

The Decline of Norwegian Clothing Production

Since the 1950s the Norwegian textile and clothing manufacturing has experienced a prolonged decline. In 1960 the Norwegian footwear and clothing industry employed 28,000 persons and the national production covered approximately 80 percent of the domestic demand (Kamsvåg 1990). 25 years later, in 1985, the footwear and clothing industry employed only 6,200 persons and the rate of self-sufficiency had dropped to under 20 percent. In 2007 this industry employs only 1,500 persons and more than 95 percent of all clothes and shoes are imported.

The threat from foreign suppliers of clothes has been apparent since the beginning of the 20th century. The protective measures put in place by the Norwegian government, has changed over time.

In the 1890s the textile and clothing industry, including home industry, had become the second largest manufacturing industry in Norway, surpassed only by sawmills (measured in terms of employment). The common market in textiles with Sweden ended when the Intra-union Act was repealed in 1897. The tariff revisions from 1897 to 1905 intended to protect the Norwegian industry against Swedish competitors, changed Norway from having a fundamentally free-trade stance to being a much more pragmatic supporter for free trade. Between 1900 and the 1930s national trade tariffs for textile products were increased several times, both in Norway and in many other western European countries. During this period the home industry in clothing manufacturing increased substantially in Norway. In 1918 the home industry was for the first time regulated by a legislation requiring minimum wages, work conditions and working hours. In 1939 there were 4.200 home workers in the clothing industry in Norway – approximately the same number as those employed in clothing manufacturers at the time (Zachariassen 1967:131,238).

In the 1940's the Norwegian textile industry was characterized by extensive modernization and growth in the protective shadow of the war, occupation and reconstruction. The growth of synthetic fibers – in large part delivered by Borregaard – had been huge.[5]

When the borders were gradually reopened for trade in textiles and clothes between 1952 and 1957, measures had been taken to establish an educational and vocational infrastructure that up to then had been lacking. The Textile Association demanded that Norway should increase its tariffs to the maximum levels within the GATT agreement. And the other Nordic countries managed to negotiate even smaller increases in import quotas than the general reduction levels allowed by GATT (Søilen 2002:172).

Norway joined the MFA agreement when this went into force in 1975, but opted out in 1979 due to disagreements with Hong Kong. As a reaction to the gradual reductions in trade tariffs in EFTA in the 1960's and the MFA agreement after 1974, forcing Norway to open its borders to competitive textile industry in low-cost countries, new national subsidies to Norwegian clothing producers were introduced in 1975.[6] The central government encouraged mergers in the clothing sector to create stronger entities and advantages of scale. However, it became clear that neither state subsidies nor limited mergers had any real effect, and many argued for the abolition of all state aid in the textile/clothing area.[7] Norway entered the MFA (III) treaty in GATT in 1984. In 1986 the state subsidies to Norwegian manufacturers of clothes were cut significantly and soon after eliminated. According to Espeli (1997) the decline of the Norwegian textile industry most certainly was inevitable because of the basic logic of the international division of labour in the post war period.

In 2009 the very few clothing manufacturers left are specializing in yarn clothing, uniforms, and specialized outdoor clothing, and most are situated at the west coast of Norway.

Clothing Retail in Norway today

The clothing retail business – defined as the trade, distribution and sale of clothes to consumers – is increasingly dominated by larger retail chains. According to Tekstilforum (2009) the seven largest clothing retailers in Norway in 2009 controls nearly 60 percent of the entire Norwegian clothing market:

1. Varner Gruppen (Norwegian owned with a market share of approx. 18 percent),

2. Hennes & Mauriitz (Swedish owned with a market share of approx. 13 percent),

3. Voice Gruppen (Norwegian owned with a market share of approx. 7 percent)

4. Bestseller (Danish owned with a market share of approx. 6 percent),

5. Texcon (Norwegian collaborative network with a market share of approx. 5 percent),

6. Lindex (Swedish owned with a market share of approx. 4.5 percent), and

7. KappAhl (Swedish owned with a market share of approx. 4.5 percent).

A characteristic of the Norwegian retail business in general is the relatively few large retailers:

Percent of total number of employees in retail[8]

	Norway	*United Kingdom*
0-4 employees:	**64 percent**	**61 percent**
5-9 employees:	**22 percent**	**22 percent**
10-19 employees:	**11 percent**	**10 percent**
20-99 employees:	**4 percent**	**6 percent**
100+ employees:	**0.15 percent**	**1.25 percent**

In Norway only 0.15 percent (57 companies) of the total number of retail units has more than 100 employees. In contrast 1.25 percent (3 670 companies) of British retailers have more than 100 employees.

However, even if we see that the largest clothing retailers are getting larger in Norway, the size of Norwegian *owned* corporations remain small compared to larges international clothing retailers: The annual sales of the entire Norwegian clothing retail business amounts to 3.1 billion euro. The eleven largest global clothing retailers have each a larger individual turnover than the Norwegian clothing retail business in total.

The clothing retail business is well suited for a CSR study as it is one of the most global businesses in the world, with closely coordinated production and distribution lines spread out in regions with great variations in government regulation, employment and environmental protection, and wage levels. Thus, clothing companies must handle a multitude of legal and moral standards.

The dominant position of Chinese clothing export and the development of CSR

The emergence of Chinese clothing export

The garment and textile industry involves nearly 20 million direct jobs in China and many of them are low-income workers. This makes it a highly sensitive industry and the awareness and development of CSR is seen by central authorities as important. The industry also finds it beneficial to demonstrate an interest in CSR to their overseas partners (Jun et al. 2008:50).

Guangdong has been a key textile and garment manufacturing and trading centre in China since the 1980's. Alongside Zhejiang and Jiangsu Province, Guangdong is one of the three largest garment and textile manufacturing bases in China. However, in the recent years, the competition from the Yangtze River Delta (YRD, Shanghai and neighbouring provinces) has been increasingly stiff (Thorborg 2006). Chinas two most important cotton-producing regions are Gansu and Xinjiang. The demand for cotton is larger than domestic supply can deliver, resulting in an increase of cotton imports. The

11th Five-year Plan (2006-2010) announced that the textile industry in coastal provinces was expected to continue its fast growth, however the plan stated that relocation towards inland provinces is a priority. The final objective of China's textile industry is the transformation from "Made in China" to "Made by China".

Figure 3: The regions of China and the main two rivers

In 1995, as part of the Uruguay round, the Multifiber Agreement (MFA) was replaced by the Agreement on Textiles and Cloting (ATC) which specified a transitory regime between MFA and full integration of textiles and clothing into the multilateral trading system. This was to be accomplished in four stages between 1995 and 2005. In 2005 all remaining quota restrictions on international trade in textiles in WTO were removed. There are however exemptions due to safeguard measures.

It is broad agreement that China was one of the main beneficiaries of the liberalisation of international trade in textiles. Chinas share of world exports of clothing increased from 29 percent in 1994 to 38 percent in 2005 during a decade where the total imports of clothing increased by more than 150 percent (World Bank 2007). This has made China by far the leading clothing exporter in the world. The number two and three of global clothing export, Turkey and Mexico, have a share of approximately 4 percent

each. (OECD 2004) China's share of the US market increased from 14 to 32 percent in 1990-2006 (Martin 2007) and China's share of the EU market increased from 16 to 32 percent in 1994-2005 (World Bank 2007).

The application of CSR standards in the Chinese clothing sector

According to Jun et al. (2008) the cost of doing business is increasing in China: The garment and textile industry is hit by the raise of interest rate from the banks and the liquidity crunch. In this situation the strategy to simply expand the economic of scale to achieve development is now facing challenges. The contribution of science, technology and brands will play an even more important role in the future. In this context, there is clear evidence that CSR is playing a more important role to boost productivity (Jun et al. 2008:55-56).

Today there are over 900 enterprises passed the certification for SA8000 in the world. The garment and textile enterprises accounted for 30 percent of these. Among the SA8000 certified Chinese enterprises, the garment and textile enterprises accounted for 50 percent (Jun et al. 2008:51). For a long period Chinese clothing manufacturers have been torn between different foreign codes of conduct such as SA 8000, BSCA, and FLA. This system was a synonym of CSR in China and it was viewed as a form of trade barrier – a strategy of the West to slow down China's development. An estimate in 1995 showed that at least 8000 factories in the coastal areas of China have undertaken the social responsibility inspection made by the multinational companies (Shen & Kaiming 2002:25). A survey of the effects of code of conducts in 26 multinational enterprises' trading in China in 2001, found that they had a very limited effect on the CSR practices in China. They also found that some of the multinational enterprises were considering putting more emphasis on the integration with the labour laws of the host country (Shen & Kaiming 2002). Therefore, Chinese government reacted and decided in 2005 to develop a CSR management standard in the textile industry; the CSC 9000t.

The Chinese National Textile & Apparel Council (CNTAC) released the standard in June 2005. It was launched as a management system applying Simon Zadek's five stages of organizational learning (Thorborg 2006). As of August 2005 roughly 170 Chinese firms had signed up to the CSC 9000t. In March 2007, the first training session for CSC9000T trainers and evaluators was held in Beijing (CNTAC 2008). In May 2007 CNTAC selected 100 companies in 10 different textile clusters to establish a CSR management system fulfilling the CSC 9000t. This provides CSR training to small and medium-sized companies (Levine 2008). By July of 2007, over 3,600 managers and employee representatives from 940 enterprises in the clusters had received training and 114 major enterprises had been selected to take part in the CSC9000T system development program (china.econmic.net, 30 June 2008). In August 2007, eleven experts from four partner organizations, including Det Norske Veritas (DNV), participated in the second training in Beijing and became CSC9000t evaluators and trainers accordingly (CNTAC 2008). In June 2008, CNTAC issued the "PRC Textile and Apparel Industrial CSR Reporting Guidelines", which encourage companies to comply with voluntary CSR rules. These guidelines were published together with the annual report of CNTAC, starting in the annual report for 2007.

According to Domoney (2007) CNTAC sees the CSC 9000t as a means to claim back Chinese control over their workers rights, streamline the multiple codes and auditing procedures that have been used up until now, and to improve China's labour standards in the eyes of the global community. However, CSC 9000t does not allow for freedom of association and falls short of key ILO standards. ITGLWF has pointed out that it lacks the FoA provision, living wage allowances and freedom from discrimination on political affiliation or sexual orientation (see Domoney 2007.

Zhou Weidong, a Chinese consultant and expert on CSR, states that the emergence of a CSR movement modern in Western countries did not rely solely on the enlightened self interest of corporations. It required individual citizens and civil society organizations to take an active and participatory role in pushing the agenda. China, however, lacks a strong voice from its citizens and civil society, according to Weidong (2007). Weidong see the development of CSR in China in three phases:

- *The Introduction: CSR 101 (1996-2000)*
  During the mid-1990s, Chinese exposure to CSR came from those multinational corporations mainly in the consumer goods and retail sectors that began auditing Chinese factories. Chinese enterprises passively accepted some of these foreign CSR requirements. At this time, the government, public, media and domestic Chinese enterprises had little exposure to the topic. To many Chinese, CSR was a completely new idea. Discussion of CSR seldom was seen in newspapers or in online discussions.

- *The Wait-and-See Years (2000-2004)*
  As the novelty of these new demands wore off, Chinese academics, international organizations and NGOs worked to further explore and introduce the concept of CSR to China. Chinese suppliers felt increasingly burdened by excessive and often duplicative auditing efforts and demands. Of greatest importance, several government departments began to pay closer attention to CSR. Their overriding concern was that international organizations and multinational corporations might seek to link trade and labour conditions. Accordingly, groups such as the Ministry of Labour, the Ministry of Commerce, and the Chinese Enterprise Confederation (CEC) all created CSR investigation committees. They were wary of how CSR was being promoted in China, and some government departments were especially concerned that improving CSR practices would increase the cost of exports. In spite of these misgivings, the government chose to take a wait-and-see approach towards CSR, neither completely accepting CSR nor rejecting it outright.

- *Engagement (2004-)*
  As more Chinese government departments, business associations and trade groups conducted their own research on CSR, interest in it broadened beyond export processing companies to include domestic-facing, state-owned enterprises (SOEs). China's attitude towards CSR has also shifted from a passive approach (i.e. fearing economic sanctions and trade barriers) to an active and participatory approach. Now the Chinese government is playing this role and is beginning to

see it as a way to improve Chinese corporate competitiveness instead of just being a topic pushed upon China by others.

In addition to the development of the CSC 9000t standard, China has introduced general CSR standards and at least eight laws the last decade which contain CSR elements and requirements (Jun et al. 2008:52-53). These laws include; provisions covering workers rights, women's rights, protection of juvenile workers, production safety, and minimum wage. With the exception of independent labour federations, it seems that CSR in general is supported by many regulations and that the Chinese government is paying more attention to these issues (Lattemann et al. 2009). However, many regulations are not implemented, or only partly implemented, at the factory floor (Sustainability 2007), and heavy bureaucracy and the lack of checks and balances in the political system reduces the public pressure for CSR (Lattermann et al. 2009).

Outline of the Report

The main purpose of this introduction has been to present some of the core issues and contexts which constitute the background for the studies that follow. As argued earlier, the concept of CSR is contested. What does the phenomenon of CSR actually consist in? How should it be defined? How should it be understood? What are its defining characteristics? And which perceptions of CSR can be identified in the clothing industry? These questions are central in all the articles that follow. As the reader also will notice, there are different perceptions of CSR in the different studies. In a broad sense, there are two main approaches to CSR included in this report. The first can be placed within the "Business and society" approach of Blowfield and Murray (2008), and focus upon the role of business in society and its relationship to civil society and the state (see introduction).

Another strand of the literature on CSR sees CSR as an activity closely linked to the company's market-economic context: Companies, including those who choose to integrate social and environmental concerns in the way they do business, must at all times remain competitive and profitable. This suggests that the CSR definition should be related to the market context of the company. One way of doing this is to see CSR as an activity related to externalities produced by business transactions. CSR arises where producing positive externalities does cost something. That is; when companies internalize externalities. This may be due to corporations' own long-term business strategies, or government incentives. Thus, the rationale for CSR is perceived business opportunities. Externalities of this kinid may be a public good (or bad) (see Baron 2001, Bagnoli & Watts 2003, Kotchen 2006, and Besley & Ghatak 2007), or both a public *and* private good (or bad) (see Bowman 1973, Sethi 1979, Boatright 1999, Crouch 2006, and Calveras et al. 2007). This understanding of CSR is labelled "the market centric approach to CSR".

For practical purpose in this report we will refer to studies belonging to the "four-part model of CSR" (i.e. Carroll 1979, 2002) and later developments within this multidisciplinary field, as the "business and society approach to CSR".

In addition, these studies operate at different levels of analysis, have different theoretical points of departure, and some are more conceptual than others, others again are more empirical. Given this, the studies included can be grouped according to the following table:

	Conceptual studies	Empirical studies
Market centric approach	Study: II, X, XI	Study: VI, IX
Political approach	Study: XII, XIII	Study: I, III, IV, V, VII, VIII

Study I, III, IV, V, VI, VII, VIII and IX are primarily empirical studies, while study II, X to XIII are primarily conceptual papers.

Study II, VIII, IX, X and XI apply a more or less "market centric approach to CSR", while the rest of the studies apply an understandings of CSR which may be associated with the "Business – society" or "political approach to CSR".

In study I, *Results from the clothing surveys in Norway and China*, *Thomas Laudal*, presents the results of the Norwegian clothing survey. The main themes are; clothing manager's knowledge of CSR, implementation of written guidelines, control of the suppliers' fulfilment of CSR requirements, attitudes towards CSR, and whether CSR is seen as a competitive advantage or not. The second section of this study compares the results of the Norwegian clothing study with a virtually identical survey of the Chinese clothing industry. The level of knowledge of CSR seems to be quite similar among the Chinese sample and the Norwegian sample. Attitudes are also quite similar in the two samples when we compare workforce health and diversity, balancing CSR and profitability, harmful effects on the environment, corruption, and inspection of suppliers.

In study II, *May we Determine the CSR Potential of the International Clothing Business?*, *Thomas Laudal* considers the "CSR potential" within the clothing sector. There is high "CSR potential" when sector-specific features indicate that the risk of violating CSR standards is high. Thus, "high CSR potential" indicates that there is a potential for positive influence through CSR-related actions. Based on several sector studies, Laudal identifies six features that indicate a high CSR potential. These features are shown to be consistent with more general features of the global economy. Thus, the CSR potential of the international clothing business seems not only to be a product of sector-specific properties, but also of more systemic and general features of the global economy. This suggests that the CSR performance of individual companies may enhance their social and environmental impact, but probably will have little effect on the features that determine the CSR potential. To affect these features we rely on governments to act.

In study III, *Norwegian Manager's Perceptions of Corporate Social Responsibility*, *Bjørn-Tore Blindheim* takes the explicit-implicit CSR framework as a point of departure, and basically asks how managers within a national institutionalised context perceive the notion of explicit CSR, and how the national institutional context can contribute to our understanding of manager's perceptions of CSR. The empirical results of focus group interviews with Norwegian managers indicate the existence of multiple perceptions and manifestations of CSR within a national institutionalised setting. Based on the empirical illumination of the neo-institutional arguments of the paper, the paper indicates the existence of four different institutionally informed models of CSR: Explicit expansionist, implicit contractive, implicit expansionist, and explicit contractive CSR. The different models constitutes very different ideas about at which level to locate agency and construct governance mechanisms, and about what issues the corporate entity appropriately should attend.

In study IV, *Measuring Manager's Orientations Towards Corporate Citizenship, Bjørn-Tore Blindheim, Torvald Øgaard,* and *Aslaug Mikkelsen* develop and validate a scale for measuring manager's orientation towards the broad range of issues constituting the current CSR agenda. Based on the conceptual vantage point of citizenship and thinking of the corporate entity as a citizen, seven different CSR issue components are identified and empirically validated: Socio-economic development, anti-corruption and bribery, environmental responsibility, workers' rights and welfare, supply-chain responsibility, political participation, and accountability.

In study V, *CSR attitudes and practise in small- and medium sized enterprises (SME) clothing companies in Norway*, *Olaug Øygarden* and *Oluf Langhelle* explore attitudes and practices towards Corporate Social Responsibility (CSR) with a special focus on the supply chain in the Norwegian clothing sector. The article is based on a survey mapping managers CSR attitudes, and the survey was answered by more than 200 managers of mostly small or medium-sized clothing firms in Norway. The study reveals a gap between CSR attitudes and practice, and discusses remedies to close the gap.

In study VI, *Little Big Firms? CSR in a Norwegian Small Business Market*, *Rune Fitjar* examines the drivers and barriers for CSR in a market consisting entirely of small businesses, the Norwegian graduate uniform industry. It finds that these businesses' CSR activities are not particularly well explained by the existing literature on CSR in SMEs. The businesses are not very deeply embedded in local communities, nor do they escape media scrutiny. They also do not find size to be an issue in terms of the costs of CSR. The only size-related problem faced by these businesses in the CSR arena is that of leverage. The article finds that the businesses are mostly driven by external pressure to improve their social responsibility. Such pressure stems partly from news reports on their activities and partly from increasing competition leading to a situation where the small businesses operating in the market scrutinise each others' activities.

In study VII, *The ability and willingness of the SME to embrace social responsibility - the significance of knowledge supply*, Ellen Anne Teigen Vinje discusses how a company's organisation affects the way in which it implements CSR in respect of the supply chain. The article takes as its starting point a comparative case study of two small/medium-sized clothing companies. The SME size and the clothing industry are examples of economic, social and cultural structures which direct the attention of the decision makers and thereby their decisions. Such structures convey different parties into the company's decision-making environment. These parties carry with them different kinds of knowledge and represent different interests and will influence the implementation of CSR in different directions. It is shown how such structures affect the operational practice of the CSR concept in terms of various actions and how they influence willingness and ability to work towards these goals.

In study VIII, *Drivers and Barriers for CSR: Do we need to distinguish between SMEs and MNEs?*, *Thomas Laudal* analyzes drivers and barriers for CSR and distinguish between small and medium sized enterprises (SMEs) and multinational enterprises (MNEs). Out of approximately 40 recent empirical CSR studies, seven main drivers and barriers are identified. These drivers and barriers are validated in a survey of Norwegian

clothing businesses. Analysis suggests that options for CSR related activities typically are restricted in SMEs, a predominantly defensive measure in medium sized firms, and both a defensive and an offensive measure in MNEs.

In study IX, *Executives' perceptions of the link between CSR and profits in the Scandinavian textile industry: Short run vs. long run effects*, *Atle Blomgren* explores the relationship between CSR and profits in the Scandinavian clothing industry. The literature on the business case for Corporate Social Responsibility (CSR) identifies a number of mechanisms for CSR to affect profits positively. Many scholars, however, argue that these mechanisms will eventually be subject to diminishing returns so that CSR will have no effect on profits in the long run. The empirical literature on the link between CSR and profits is inconclusive with results ranging from negative to neutral, through to positive. The goal of this paper is to study the relationship between CSR and profits for retailers and suppliers in the Scandinavian textile industry with a focus on the possible distinction between effects on profits in the long run and punctiliar effects in the short run. 18 senior executives from retail textile companies present on the Norwegian market have been interviewed on their *perceptions* on the link between CSR and profits. The results from the interviews indicate the following: 1) Introduction of CSR may affect profits in the *short run* either negatively, as in cases where CSR forces retailers to switch to more costly suppliers, or positively, as in cases where suppliers become preferential suppliers and thus achieve economies of scale. 2) For retailers, CSR is mostly seen as an essential part of general risk management (risks of reputation and quality); as risks are commonly thought to be evenly distributed over time, CSR is not seen to have any discernable effect on profits in the *long run*. 3) For suppliers, CSR is mostly seen as a means of attracting customers and thus achieve economies of scale, but these economic benefits are in the *long run* assumed to disappear due to strong competition.

In study X, *What Determines a strong CSR Impact? Case: European Clothing Retail*, *Thomas Laudal* distinguishes between 'CSR performance' and 'CSR impact'. Based on literature on corporate strategy and leadership, Laudal presents two expectations: A stronger CSR impact is expected (1) when the CSR performance is focused on core competencies and (2) when the CSR performance is perceived to be profitable by the corporate management. A case study of eight international clothing retail corporations show a pattern which is in line with these expectations. This result not only supports certain expectations with regard to the empirical relationship between competencies, perceptions, and impact. It is also argued that it supports the use of a market centric approach to CSR.

In study XI, *Is the CSR craze good for society? A discussion of the welfare economic approach to CSR*, *Atle Blomgren* discusses CSR from a welfare economic approach to CSR. Among the literature on Corporate Social Responsibility (CSR), a small but growing body of work discusses CSR's desirability from the vantage point of society's overall welfare as modelled by economic analysis. In the general CSR literature, CSR's desirability is most often studied in terms of appropriate firm behaviour in light of sociological, profit, ethical or political considerations. Such analyses, however, may be said to be partial in that they do not consider the effect of alternative means to achieve

the same ends as the CSR policies. The welfare economic approach to CSR allows comparing CSR's contribution to society's welfare to other possible contributions (governments, non-profits). This paper a) develops a typology of cases for CSR to be desirable based on Besley and Ghatak (2007) and b) discusses the main assumptions of the welfare economic approach to CSR in light of the general CSR literature. Two assumptions are found to differ and regarding them it is argued as follows: The assumption of CSR as provision/curtailment of public goods/bads *must* hold for any CSR-policy assumed to affect some social good. The assumption of self-interest as sole economic motivation deviates from reality, but may be justified due to concerns for modelling simplicity and indications that self-interest tends to trump ethics. Finally it is argued a by including the assumption of self-interest, the welfare economic approach to CSR may be seen as a cautionary tale: How is CSR likely to affect society *if* corporations and/or governments and/or non-profits are purely self-interested?

In study XII, *Towards a Political Conceptualization of Corporate Social Responsibility*, *Bjørn-Tore Blindheim* argues that CSR can be counterproductive to, and undermine the institutional conditions required for a sustainable development path. On this background, the author argues in favour of an orientation towards a political conceptualization of CSR in which business assumes a limited, rather than expansionist role in society. The author identifies business contribution to sustaining and developing political and collective level responsibility mechanisms, as a key area of CSR.

In study XIII, *Corporate Social Responsibility: A Pragmatic Approach*, *Bjørn-Tore Blindheim* and *Oluf Langhelle* argues for a pragmatic approach to the role and responsibility of business in society, in which the normative deficiencies of Corporate Social Performance (CSP) theory can be strengthened through democratic iterations over some or the other ethical treatise, and thus come to constitute a justified foundation for companies' efforts on the societal arena. The authors illustrate the approach to a normative theory of business in society by reinterpreting the principles of Corporate Social Responsibility – constituting the normative foundation of CSP theory – from the vantage point of sustainable development.

In the concluding chapter, we draw out some of the main findings and discuss future areas for research.

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INSTITUTIONALIZATION AND DISSEMINATION OF CSR

Study I:
Results from the clothing surveys in Norway and China

Author: Thomas Laudal, University of Stavanger.

ABSTRACT:

The first section of this study presents the results of the Norwegian clothing survey. The main themes are; clothing manager's knowledge of CSR, implementation of written guidelines, control of the suppliers' fulfilment of CSR requirements, attitudes towards CSR, and whether CSR is seen as a competitive advantage or not. Managers in large companies indicate that they have more knowledge than managers in small companies. Individual stores, agents and whole-salers have rarely adopted written guidelines for CSR, while more than 75 percent of chain offices have adopted CSR guidelines. However, only 33 percent of the chain offices had implemented a program for third party inspection of suppliers. In general there is a strong support for CSR standards. But there were clear limits: very few supported the claim that businesses should contribute to local infrastructure in industralized countries. A clear majority of the respondents state that they see CSR as a competitive advantage.

The second section of this study compares the results of the Norwegian clothing study with a virtually identical survey of the Chinese clothing industry. The average size of the Chinese entities was much larger than the Norwegian entities. Results indicate that Chinese companies have a larger capacity for CSR performance than the smaller Norwegian companies. Still the level of knowledge of CSR seems to be quite similar among the Chinese sample and the Norwegian sample. Attitudes are also quite similar in the two samples when we compare workforce health and diversity, balancing CSR and profitability, harmful effects on the environment, corruption, and inspection of suppliers. Attitudes differed the most with respect to union membership (Chinese most positive), responsibilities for work conditions at supplier's premises (Norwegians most positive), and viewing CSR as a key performance target (Norwegians most positive). A larger proportion of Chinese managers saw "the competitive advantage", "leading companies" and "requests from public authorities" as a driver for CSR, compared to the Norwegian managers.

Findings in the Norwegian clothing survey

In May – July 2007 a survey of approximately 220 managers was conducted among Norwegian clothing companies, covering five categories: Chain offices (headquarters of retail corporations), agents, wholesalers, producers and stores. Non-autonomous clothing stores were excluded from the sample, as was entities with fewer than 4 employees. This was to ensure relatively independent respondents within a professional firm and to avoid small family run craft shops.

In this section we will consider the following issues:

- What are the most important sources for clothing companies wishing to implement CSR? And how much do they know about CSR?

- How many, and what category of firms, have adopted guidelines on CSR?

- Do they control their suppliers? If so, what do they control?

- How do Norwegian clothing companies view CSR? What element of CSR is considered most important, and do they regard CSR as a competitive advantage?

Knowledge of CSR and participation at courses and conferences

Clothing managers answered that their source of information on CSR was the mass media and branch publications (60 percent), public authorities and branch organizations (40 percent), and other companies (15 percent). Less than 10 percent said they had received information about CSR from labour organizations, NGOs, or intergovernmental organizations. This may be seen as a paradox given that labour organizations represent one of the main beneficiaries of CSR-related actions.

Among our sample of Norwegian clothing companies we find that managers in larger entities state that they have more knowledge about CSR and attend more often CSR courses and conferences than managers in smaller entities (Table 1).

Have your heard about the concept CSR?

	Number of employees				
	1-3	4-9	10-49	50-249	Over 250
Never	20,0%	15,2%	5,0%		6,7%
Little knowledge	60,0%	52,5%	53,8%	35,4%	25,0%	26,7%
Some knowledge	20,0%	27,3%	35,0%	56,3%	62,5%	40,0%
Very good knowledge		5,1%	6,3%	8,3%	12,5%	26,7%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Have you attended CSR courses or conferences?

	Number of employees					
	0	1-3	4-9	10-49	50-249	Over 250
Yes	25,0%	3,1%	5,0%	6,3%	43,8%	46,7%
No	75,0%	93,9%	90,0%	83,3%	43,8%	20,0%
Don't know		3,1%	5,0%	10,4%	12,5%	33,3%
Total:	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Table 1. Knowledge of CSR and attendance at cources/conferences compared to company size

We also observe that managers in companies with a large share of supplies outside of Western Europe are more knowledgeable about CSR than those with only national ties to their supply chain and also more often attend CSR courses and conferences (Table 2). The relationship between internationalisation and CSR engagement is logical and in accordance with the ideals in CSR standards which emphasize the influence of western companies on poor communies through their supply chain.

Have your heard about the concept CSR?

	Share of supplies outside of Western Europe				
	Nill	Below 10 percer	10-50 percer	Above 50 pe	Don't know
Never	11,9%	4,8%		5,5%	17,9%
Little knowledge	51,2%	54,8%	52,8%	30,1%	57,1%
Some knowledge	31,0%	38,1%	41,7%	50,7%	17,9%
Very good knowledge	6,0%	2,4%	5,6%	13,7%	7,1%
Total	100,0%	100,0%	100,0%	100,0%	100,0%

Have you attended CSR courses or conferences?

	Share of supplies outside of Western Europe				
	Nill	Below 10 percer	10-50 percer	Above 50 pe	Don't know
Don't know	2,4%	4,8%	11,1%	2,8%	33,3%
No	94,0%	88,1%	75,0%	77,8%	66,7%
Yes	3,6%	7,1%	13,9%	19,4%	
Total:	100,0%	100,0%	100,0%	100,0%	100,0%

Table 2. Knowledge of CSR and attendance at cources/conferences compared to share of supplies outside of Western Europe.

Implementation of written guidelines on social responsibility (code of conduct)

As expected we see that only head offices of retail chains are those entities with the highest score on the question concerning implementation of code of conduct; 76 percent (Figure 1). Among Norwegian producers of clothes, clothing agents, and clothing wholesalers only 20 percent have implemented a code of conduct.
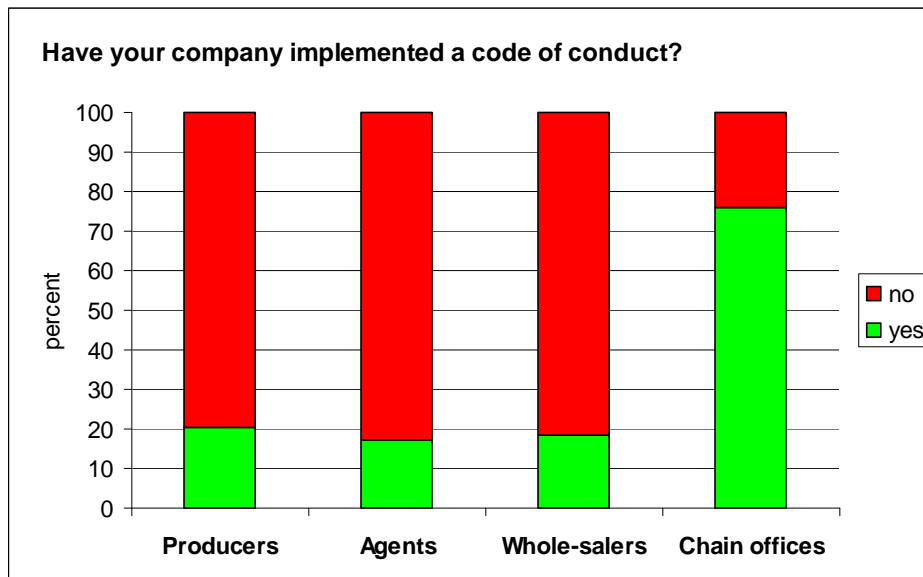

Figure 1. Implementation of code of conduct on different categories of clothing entities

This suggests that larger companies that are exposed to consumer sentiments are most prone to implement a code of conduct. When agents and wholesalers do not implement a code of conduct it also suggests that the critical factor is not the exposure to differences in standards between the rich (recipient countries) and relatively poor (supplying countries), but rather the risk of being exposed of wrong-doing in a business segment where a positive reputation is critical. Large clothing retailers depend on their reputation and image – being recognized through large advertising campaigns and by being visible in most high streets in cities around the world. It might seem that anticipating and interpreting consumer perceptions are important drivers. In part 6 we will return to the question of drivers and barriers to CSR.

Control of suppliers

One instrument in the survey asked whether the company of the respondent is making use of *third party inspections* to make sure that their suppliers fulfil their CSR-related requirements. Only one third of the respondents representing retail chain offices confirmed that they had implemented this kind of supplier control.

Most inspection schemes concerned environmental conditions, local working conditions, and human rights. Only half of the respondents stated that their inspection scheme covered issues related to corruption.

45 percent of agents and 20 percent of wholesalers had third party inspections. However, the proportion of agents and wholesalers are not fully reliable due to few respondents in these categories.

A large majority of Norwegian retail chains lack a scheme for independent control of suppliers. It should be noted that some of these retail chains have little or no direct contact with manufacturing units in developing countries because they rely on agents and wholesalers for their sourcing. Still, we believe findings in this survey indicate that a majority of Norwegian clothing retailers lack a system for an independent supplier inspection.

Attitudes towards CSR

The questionnaire contained 34 statements mapping the respondents attitudes toward CSR. Respondents were asked to indicate their degree of agreement/disagreement on a five-point scale. Below we show 17 of the items divided into three groups: items where the respondents had the most positive response, items where the respondents had the most negative response, and items where the response was most balanced or neutral.

Items where the response were most positive:

- In cooperation with employees, companies should develop support schemes for a smooth return to work after illness, repetitive strain injuries or similar

- In their recruitment companies should endeavour to achieve diversity in the workforce

- Companies should only choose suppliers who guarantee satisfactory working conditions for their employees

- Companies should contribute to the observation of human rights through an informed choice of suppliers

- Companies should not use suppliers who employ child workers under the age of 16

- Companies should limit harmful effects to the environment through the use of energy saving, reductions in waste, environmentally-friendly transport, etc.

- A key performance target for companies should be the greatest possible reduction in harmful effects on the environment

We see that managers strongly supported standards related to both their own work force and to their suppliers. In addition they agreed that environmental protection was an important element of CSR.

Items where the response were most negative:

- In order to ensure profitability and to secure jobs, minor infringements of the law are acceptable

- Companies should only take social and environmental considerations into account if this does not affect profitability

- It is not the duty of companies to help ensure that human rights are observed

- Companies should contribute to the local infrastructure and building of institutions when operating in or purchasing goods from industrialized countries

The items receiving the least support was expressions suggesting that full compliance is not necessary in "minor cases", or if this affects profitability. Managers show signs of being uncompromising when they answer the survey, but does not rule out a more pragmatic stance in practical operation of their business. The other two items here are an inverse version of the one item receiving the strongest support (*not* the duty to ensure human rights) and one asking whether philanthropy directed to infrastructures is required in industralized countries.

Items where the response was most balanced, or neutral:

- Companies should encourage their employees to belong to a union

- Companies should always relocate production/choose new suppliers if this results in increased profitability

- Apart from complying with relevant legislation, the company's only responsibility is to run a profitable business

- Companies should adapt to local practice on what is defined as corruption in the countries where they are located or from which they purchase goods

- Companies should prioritize the purchase of services and products from local suppliers

- Companies should contribute to the local infrastructure and building of institutions when operating in or purchasing goods from developing countries

Overall, it seems like the most positive responses are related to statements of good intention that is not, on the face of it, threatening the profitability of business, while the most negative responses concern the statement that minor infringements to the law are acceptable, and the expectation that businesses should contribute to building infrastructure in industralized countries.

CSR and the competitive advantage

Finally, the survey included an instrument which asked if the respondent (the manager) see CSR as a competitive advantage. The respondents representing retail chains were most positive categories of companies, as shown by Figure 2:
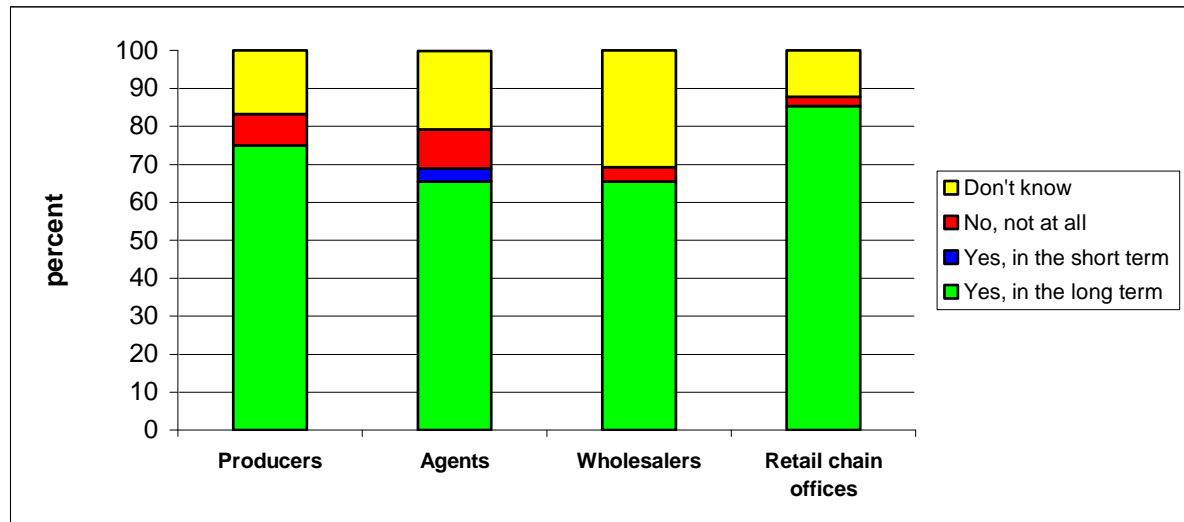

Figure 2. Responses to the question: In your opinion, does your company see
Corporate Social Responsibility as a competitive advantage?

It is interesting to note that a clear majority – and 85 percent of respondents representing retail chain offices – answered that they see CSR as a competitive advantage in the long term. At the same time a large majority of all respondents dismissed the view that one should only support CSR if it does not affect profitability. In other words, respondents support CSR even if it affects (negatively) profitability and at the same time they see CSR in general as a competitive advantage. These two views are compatible: respondents may state that CSR should not be reserved to acts that increase profits *because* they generally see CSR as a competitive advantage in the long term. This is rational when "profitability" is seen as a narrower concept than "competitive advantage". According to Michael E. Porter (1998) the competitive advantage depends on how the company deals with competitive forces in its environment by striving for 'cost leadership' (having lower costs than its competitors) and 'differentiation' (being unique in dimensions that are valued by buyers). A competitive advantage ultimately translates into profitability, but it demands a wider focus. Profitability analysis concerns the difference between total revenues and total costs, and requires these numbers to be identified. Analysis of a competitive advantage includes a range of elements like the bargaining powers of suppliers and buyers and intangible assets such as brand recognition and company reputation.

We conclude that the survey indicates there is a distinction between profitability and competitive advantage which is relevant for an evaluation of CSR: a particular CSR

practice may be regarded as a competitive advantage even though it is not possible to identify any contribution to the company's profitability.

The Chinese and Norwegian Survey Compared

The survey we conducted in China in 2008, in partnership with researchers at the Beijing Institute of Fashion and Technology (BIFT), was nearly identical with the survey we conducted in Norway in 2007. However, one important difference was the type of companies participating in the surveys. The majority of the Chinese companies exported more than 50 percent of their products abroad[9].The Norwegian companies are importers or receive their items from agents and wholesalers in Norway. In China only producers were included, and they were on average significantly larger than the Norwegian companies.

Company size and capacity for CSR:

In the Norwegian survey almost 80 percent of all companies employed less than 50 persons. In the Chinese survey almost 65 percent of the companies employed more than 200 employees.
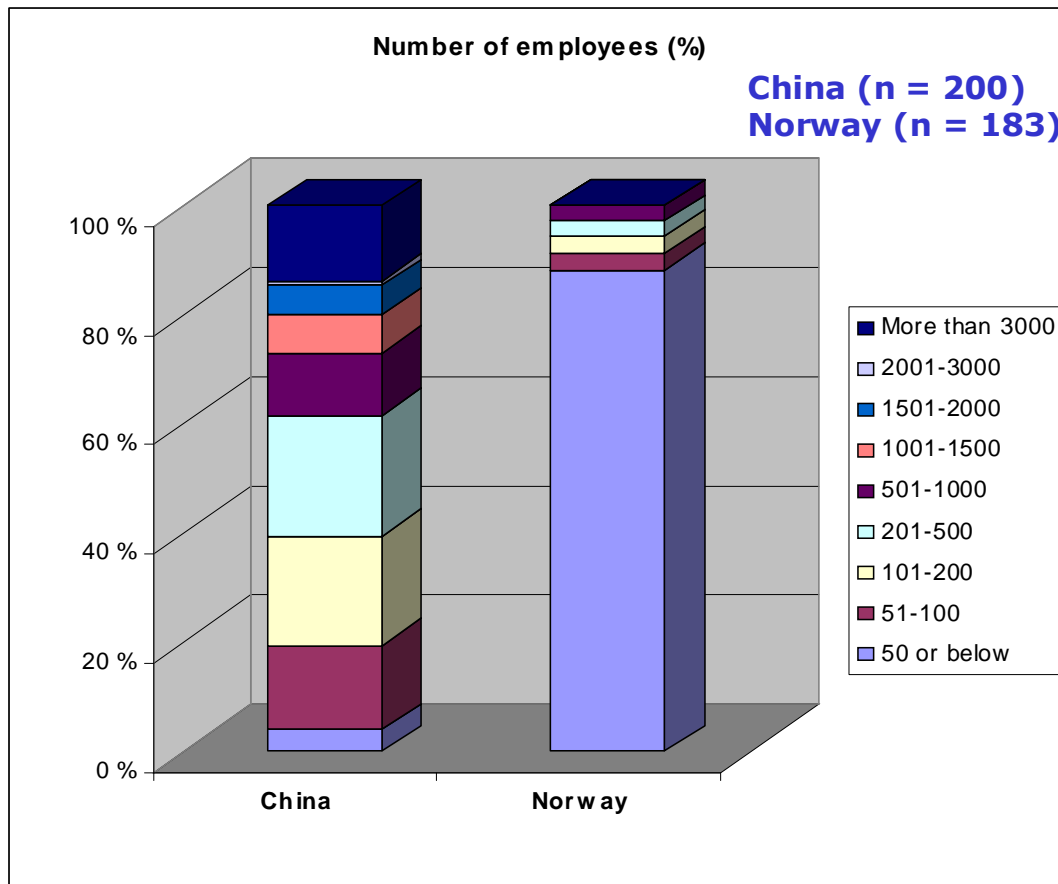

Figure 3. The sample of companies in the Chinese and Norwegian survey.

The differences in size are reflected in the responses regarding their capacity for CSR in the two surveys. Only 28 percent of Chinese companies answered thet they lack time and/or financial resources, while the figure in the Norwegian sample was 46 percent (Figure 4).
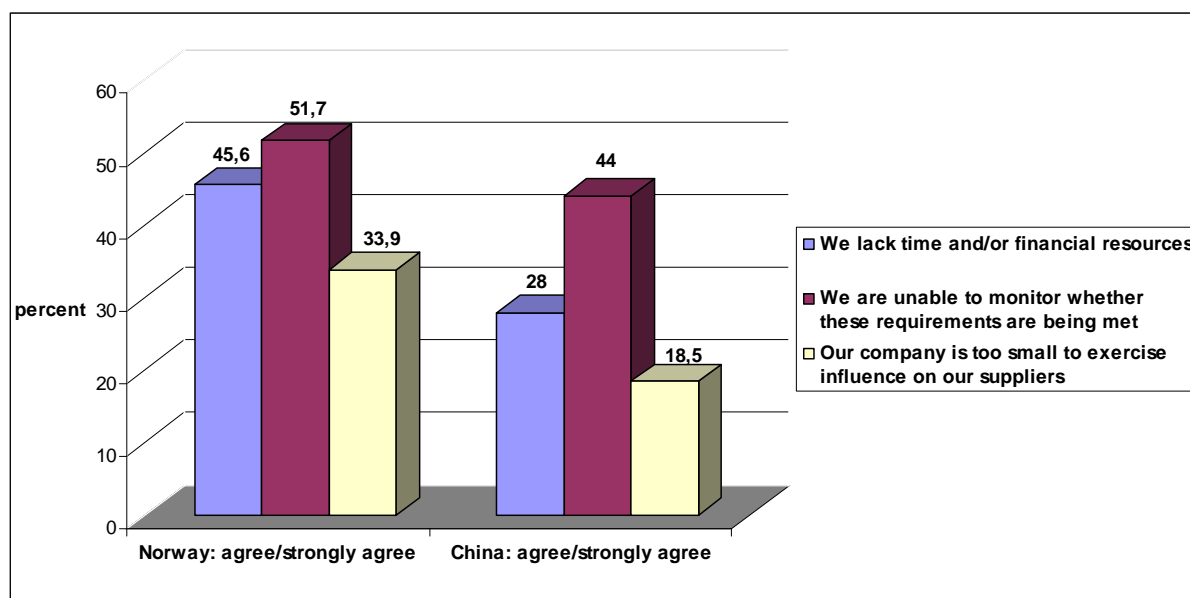
Figure 4. Comparison of items related to the capacity to perform CSR in the supply chain

On average Chinese respondents find lack of time/financial resources, their ability to monitor suppliers and their own size a lesser problem than Norwegian companies.

Given this difference in size and capacity for CSR we would expect a difference with regard to knowledge about CSR in favour of the Chinese managers. However, the surveys find that their knowledge of CSR is virtually identical. When we asked about knowledge about the term CSR, *both* surveys found that approximately

- 8 percent "knew the term very well and had a good knowledge of what it implies".

- 38 percent responded they had "heard the term and know what it implies".

- 47 percent responded that they had "heard the term but have little knowledge of what it implies".

- 7 percent responded that they had "never heard the term".

Attitudes towards CSR

The attitudes towards CSR-related issues were *quite similar* between the two groups of respondents on items related to workforce health and diversity, balancing CSR and

profitability, harmful effects on the environment, corruption and inspection of suppliers.

Statements / Items:	Illustration of scores (red=China, blue=Norway)
"In cooperation with employees, companies should develop support schemes for a smooth return to work after illness, repetitive strain injuries or similar"	
"In their recruitment companies should endeavor to achieve diversity in the workforce"	
Apart from complying with relevant legislation, the con responsibility is to run a profitable business"	
"Companies should limit harmful effects to the environment through the use of energy saving, reductions in waste, environmentally-friendly transport, etc."	
"Companies should work actively to avoid corruption"	
"Companies should set requirements for the monitoring and inspection of the supply chain"	
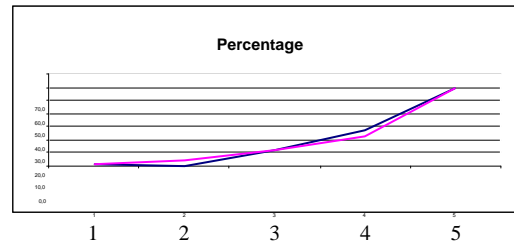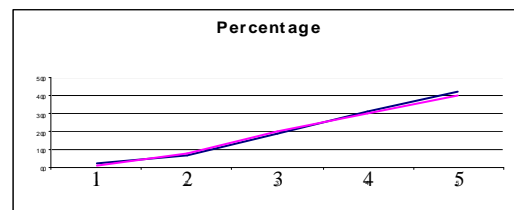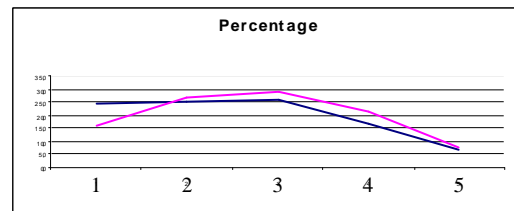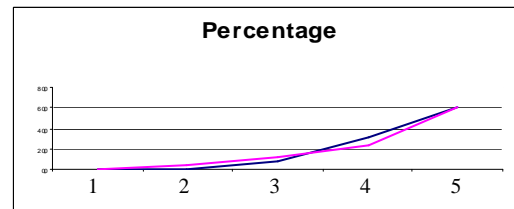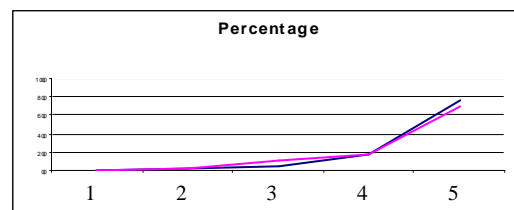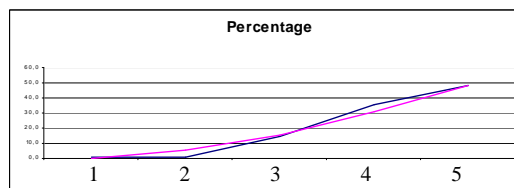
*Table 3. Statements where the responses in the Norwegian and Chinese surve*e *similar*

Attitudes toward other CSR-related issues *differed profoundly* between the Norwegian and Chinese respondents on attitudes towards union membership (Chinese most positive), responsibility for working conditions and human rights at suppliers' premises (Norwegian most positive), and on having CSR as a key performance target (Norwegian most positive).

Statements / Items:	Illustration of scores (red=China, blue=Norway)
"Companies should encourage their employees to belong to a union"	
"Companies should only choose suppliers who guarantee satisfactory working conditions for their employees"	
"Companies should contribute to the observation of human rights through an informed choice of suppliers"	
"Good working conditions should be a key performance target for companies"	
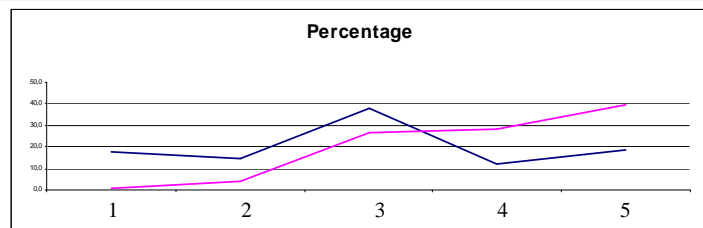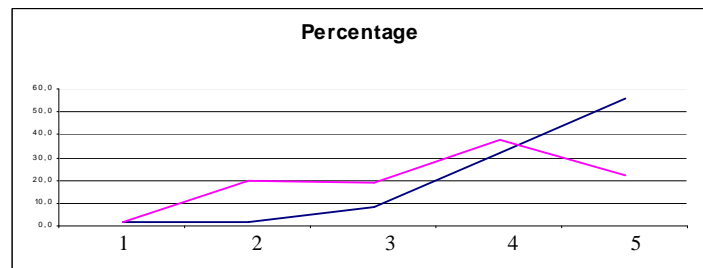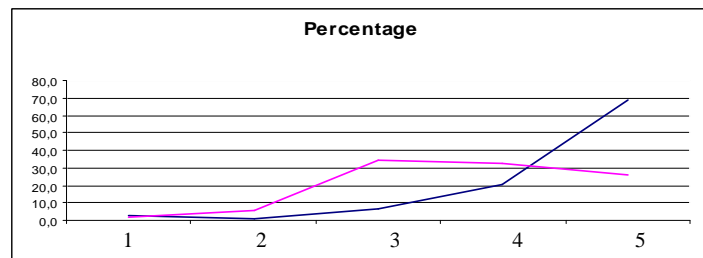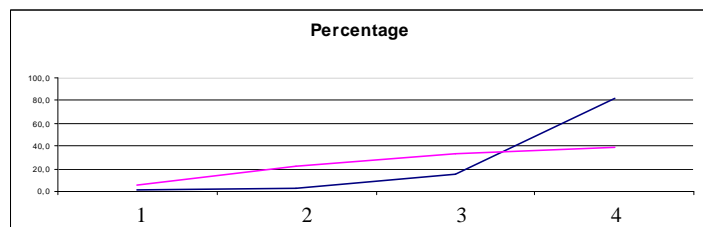
Table 4. Statements where the responses in the Norwegian and Chinese survey differed

In China membership in the state controlled labour union is a required of all employees. This may explain the more favourable opinion in China with regard to union membership. Most of the suppliers to the Chinese clothing industry are domestic and exposed to similar political, cultural and economical pressures as the clothing companies represented in the Chinese survey. Norwegian clothing companies receive most of their supplies from relatively poorer countries where the social and economical standards are lagging compared to the Norwegian level. This may be the reason why Norwegian clothing companies put more emphasis on working conditions and human rights at suppliers' premises. The difference with regard to having "good working conditions" as a key performance target may be attributed to the differences in the economic systems in China and Norway. Chinas planned economy – from the top level to the production level are governed by targets and time frames. Thus, the concept of targets may be understood quite differently by managers in a liberal market economy compared to managers in a planned economy.

Drivers of CSR

How does the perception of drivers of CSR compare between the Norwegian and Chinese sample?

	China	Norway
Reputation	84.0	70.9 (top 3 score)
Competitive advantage	79.0 ◄►	56.6
Leading companies are responsible	60.0 ◄►	33.0
Increased public attention	49.5	30.5
Employer organsation	49.5	35.5
Voluntary organisation	14.0	15.8 (lowest score)
Organisations where company participates	30.0	25.1
Legislation - guidlines	66.5	69.0
Customers	72.5	76.8 (top 3 score)
Intergovernmental organisations	35.5	35.5
Requests from public authorities	71.5 ◄►	45.8
Media coverage of company	54.5	63.1
Owners	60.0	49.7
Employee pressure	40.0	61.6
Management values	74.5	81.8 (top 3 score)

Figure 5. Drivers for CSR in Norwegian and Chinese clothing business compared

Figure 5 shows that the top three drivers (by degree of agreement) are identical in the Norwegian and Chinese survey: The most important drivers are "management values", "reputation", and "customers". The least important driver is also identical; "voluntary

organisations". However, the Norwegian and Chinese respondents differ the most when it comes to "competitive advantage" (stronger Chinese agreement), "leading responsible companies" (stronger Chinese agreement), and "requests from public authorities" (stronger Chinese agreement). Concerning the competitive advantage, it is clear that the result varies significantly among different firm categories in the Norwegian sample. Retail chain offices were just as strongly in agreement as the Chinese sample. The influence of clothing companies on each other seems to be stronger in China compared to Norway. This may signal a potential for a stronger collaborative approach led by employer organizations and labour organizations. The difference with regard to the role of public authorities should be attributed to differences between the political system in Norway and China where a "request" from a public authority is interpreted and sanctioned differently.

Study II:
May we Determine the CSR Potential of the International Clothing Business?

Author: **Thomas Laudal, University of Stavanger, NORWAY**

ABSTRACT

Most empirical studies of corporate social responsibility (CSR) focus on variables at the company level. In this article I focus on the sector level: I consider features of the international clothing business, and of the global economy in general, that may influence the CSR potential. There is high 'CSR potential' when sector-specific features indicate that the risk of violating CSR standards is high. Thus, 'high CSR potential' indicates that there is a potential for positive influence through CSR-related actions. Based on several sector studies I identify six features that indicate a high CSR potential. These features are shown to be consistent with more general features of the global economy, whether we emphasize asymmetric relations and unequal distribution, the product cycle, or transnationalization. Thus, the CSR potential of the international clothing business is not only a product of sector-specific properties, but also of more systemic and general features of the global economy. This suggests that the CSR performance of individual companies may enhance their social and environmental impact, but will probably have little effect on the features that determine the CSR potential. To affect these features I argue we rely on other institutions to act – mainly governments. Finally I conclude that this study shows that it is useful to identify the CSR potential of a business sector. We get a picture of which part of the international CSR standards companies run the greatest risk of violating, and of which structural issues intergovernmental actions should address to reduce the potential for violating CSR standards.

Introduction

Most empirical studies on corporate social responsibility (CSR) either analyze CSR at the company level, or consider the relationship between CSR and corporate stakeholders, the government or the natural environment (Carroll 1999, Waddock 2004, Gariga & Melé 2004, Kakabadse et al 2005, and Lockett et al 2006). In this article I

focus on variables at the sector level: I consider features of the global economy and of the international clothing business[10] that may influence the potential for change through CSR-related actions. High 'CSR potential' implies that businesses have a high potential for positive influence through CSR-related actions. This is typically the case when businesses operate in environments where many requirements of international CSR standards are not fulfilled.

The practical question motivating this article is whether we should try to identify sector features that indicate the potential for CSR before we study CSR within a specific company or group of companies. Are there 'hot spots' within a business sector where one would expect a particularly important role for CSR? The underlying assumption is that by studying the CSR potential in a business sector we will be better prepared for CSR studies at the company level, and better assess the risks for corporations that fail to invest in CSR. The issue under scrutiny here is what determines the CSR potential in a sector – not the actual consequences of acting (ir)responsible.

This article focuses on the international clothing business. This business is well suited for a CSR study as it is one of the most global industries in the world, with closely coordinated production and distribution lines spread out in regions with great variations in government regulation, employment and environmental protection, and wage levels. Thus, clothing companies must handle a multitude of legal and moral standards.

I will focus on the CSR potential within clothing retail in the developed countries. In most Western European countries, there is virtually no clothing production left and more than 70 percent of clothing imports to EU member states are from developing countries (World Bank 2007).

The objective of the first part of this article is to define 'CSR' and 'CSR potential,' and then to identify features that may indicate a CSR potential in the international clothing business specifically. My point of departure is international CSR standards. Based on several studies of the international clothing business I find that six features indicate significant CSR potential. In the second part of the article I argue that the features of the international clothing business that contribute to CSR potential also appear to be attributes of the global economy generally. This seems to be true whether we emphasize asymmetric relations and unequal distribution, the product cycle, or transnationalization. The implication is that CSR may enhance businesses' social and environmental impact, but is not capable of altering the structural elements that causes CSR potential in the first place. Finally I briefly discuss how the concept of 'CSR potential' may be applied to describe the division of labour between governments and companies in this area.

Defining CSR

Definitions of CSR refer normally to the company as the main actor, operating within a framework of public regulations and social norms. Kakabadse et al. (2005) analyze the CSR literature since the 1950s, and find that most scholars agree that 'abiding by the law' does not qualify as CSR. However, the voluntary-mandatory distinction is not a simple dichotomy (Jørgensen 2004, Fox et al 2002, and Ruggie 2004). Regulations

may encourage companies to act rather than dictate them: Framework regulations and state subsidies can create a situation where the company's fulfillment of a public policy objective becomes a competitive advantage. In addition, voluntary initiatives often, over time, crystallize into mandatory minimum standards. Finally, the 'voluntary' versus 'mandatory' divide promotes a narrow understanding of CSR which makes little sense in developing countries, where tools to encourage compliance with minimum legislation can be a significant part of the CSR agenda.

CSR is linked to actions taken by the company that is interpreted as socially or environmentally responsible. More generally it is linked with the role of business in society. I define CSR in line with this view:[11]

Companies engage in CSR when they integrate social and environmental concerns in their business operations and thereby improve human well-being and fulfill or exceed requirements in international CSR standards.[12]

In this article I define "improvements" as changes that fulfill the combined requirements of two well-established global CSR frameworks; the UN Global Compact and the SA8000. These frameworks have quite different origins and functions—the UN Global Compact is a 'policy framework' launched by Secretary General Kofi Annan in 2000 where firms enlist and thereby subscribe to ten CSR-related 'principles.' The SA8000 is a comprehensive standard, launched by Social Accountability International (SAI) in the United States in 1997, enabling firms to be assessed and receive the SA8000 certificate by an independent organizations accredited by SAI. The SA8000 standard includes nine CSR-related 'requirements'.

Defining the CSR Potential

The 'CSR potential' is defined by business features that trigger the risk factors linked to global CSR standards presented in the following paragraphs. At the company level 'CSR performance' is determined by attitudes and resources which are influenced by internal and external drivers and barriers. Finally the 'CSR performance' causes a 'CSR impact':
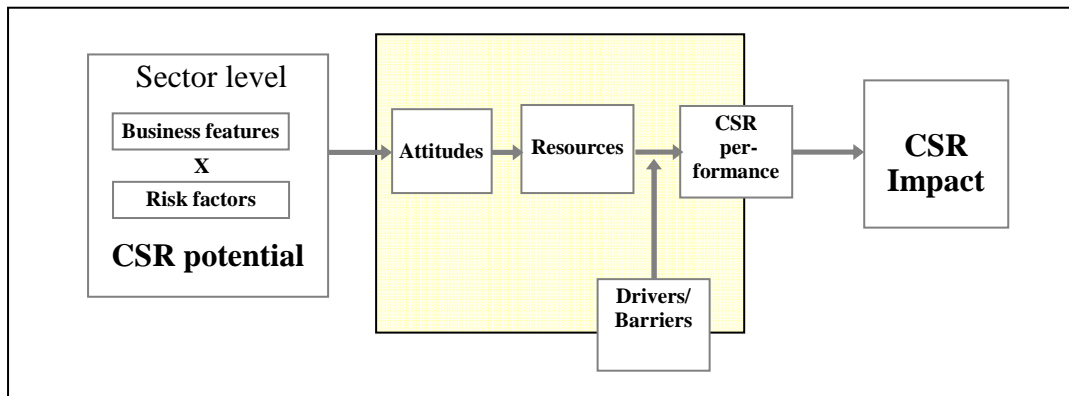
Figure 1:   CSR potential, CSR performance, and CSR impact. This article addresses the variables determining the CSR potential at the sector level, not the CSR variables at the company level (the CSR performance, or the potential at the company level), nor the CSR impact.

CSR potential is determined by features at the sector level, indicating a potential for change through the fulfilment of well-established global CSR standards. I refer to the UN Global Compact and the SA8000 in this article, as both frameworks refer to the corporation and the corporation's suppliers and subcontractors – that is, both cover the source regions and recipient regions of companies.

One way of expressing the potential for change through a fulfilment of a CSR standard is to reverse the requirements of the standard and elevate them from the company level to the sector level. In this way we obtain a set of risks representing possible characteristics of a business sector or a region. In Table 1 I list the combined requirements of the UN Global Compact and SA8000 and the risk factors (reverse requirements) within each CSR area:

REQUIREMENTS AND RISKS RELATED TO GLOBAL CSR STANDARDS:

CSR area	*CSR Requirements (company level)* *'GC' = Global Compact* *'SA' = SA8000*	*Risk factors (sector/society level)* *Corporations established in a source region / recipient region characterized by:*
Human rights	Businesses should • support and respect the protection of human rights within their sphere of influence (GC), • make sure that they are not complicit in human rights abuses (GC), • not engage in or support the use of corporal punishment, mental or physical coercion, and verbal abuse (SA).	• HUMAN RIGHTS ABUSES
Labour standards	Businesses should • uphold freedom of association and the right to collective bargaining (GC + SA), • uphold the elimination of all forms of forced and compulsory labour (GC + SA), • uphold the abolition of child labour (GC + SA), • eliminate discrimination in recruitment and among workers (GC + SA), • comply with applicable laws and industry standards on working hours (SA), • ensure that wages meet legal or industry minimum standards, and are sufficient to meet basic needs of personnel (SA).	• SUPPRESSION OF INDEPENDENT UNIONS • USE OF COMPULSORY LABOUR • USE OF CHILD LABOUR • DISCRIMINATION AT WORK PLACES • EXCESSIVE WORKING HOURS • WAGE LEVELS BELOW MINIMUM STANDARD
Environmental standards	Businesses should • support a precautionary approach to environmental challenges (GC), • undertake initiatives to promote greater environmental responsibility (GC), • encourage the development and diffusion of environmentally friendly technologies (GC), • provide a safe and healthy working environment (SA)	• DANGEROUS WORK PRACTICES • UNHEALTHY WORK PRACTICES • WORK PRACTICES DAMAGING THE NATURAL ENVIRONMENT
Anti Corruption	Businesses should • work against all forms of corruption, including extortion and bribery (GC).	• CORRUPTION • BRIBES • EXTORTION
Management systems	Businesses should • define and implement a policy for social accountability and labour conditions which include a system for review and control of suppliers and subcontractors (SA).	• MANAGEMENT SYSTEM UNDERMINE THE PRACTICAL FULFILMENT OF THE CSR REQUIREMENTS

Table 1: Requirements and risks related to global CSR standards

These risk factors represent CSR potential as companies in this kind of an environment are faced with a choice: to strive to uphold international standards, or to conform to the business environment. If a company in these circumstances fulfils all the international standards, it will have a positive influence. However, if the company adjusts to the typical behaviour in this kind of an environment, it will have a negative effect. In other words, in this kind of an environment there is a *potential for positive influence through CSR-related actions*. In environments where none of these risk factors are present the potential for positive influence through CSR-related actions is reduced. Thus, the level

of CSR potential measures the difficulty that companies face when making social or environmental changes through their policies.

One might ask, why not end the analysis here? In the international clothing business these risk factors are well documented.[13] However, revelations at the company level do not necessarily tell much about the CSR potential of the sector. The potential at the company level may change rapidly depending on decisions related to sourcing strategies or sales strategies. But the potential of the business sector does not change that rapidly. Determining the CSR potential of the entire sector may therefore be wise before we study CSR within a specific company or sample of companies.

However, the risk factors listed in Table 1 are not sufficient to determine the CSR potential of any given sector. They do not relate to features in any particular market or any specific relationship between businesses, stakeholders, or governments. The main function of the risk factors is to specify the direction of change that we seek when studying the CSR potential in a particular business sector. The next step is to consider the CSR potential of the international clothing business.

The CSR Potential of the International Clothing Business

There have been published several characteristics of the international clothing business: it may, for example, be characterized as a 'buyer-driven commodity chain' (Gereffi 1999), or as 'lean manufacturing' (Abernathy 1999/2004). In addition there are a large number of characteristics based on descriptive economic data (e.g. Baden 2002, Gaarder 2004, Nordås 2004, OECD 2004, and ILO 2005). However, no publication has been found which characterizes the international clothing business for the purpose of analyzing CSR. Based on a number of studies of the international clothing business I have identified six features – or common denominators among these studies – that are related to CSR potential by interacting with the risk factors listed in Table 1.

1. Labour-intensive production and traditional technology

2. Large differences in general cost levels between source region and recipient region

3. A buyers' market

4. Short deadline and low predictability in ordering procedures

5. Low transparency

6. Communication barriers

In the following paragraphs I will show how I arrived at these six features and at the same time explain how they tend to increase the potential for CSR in the international clothing business.

Feature 1: Labour-intensive production and traditional technology

Clothing manufacturing relies on sewing techniques that have changed little over the last century (OECD 2004:139, Nordås 2004:6). This prevents the supplier countries from many of the advantages of scale which are available in other parts of the supply chain: *Below*, in textile/fibre production, and *above*, in design, distribution, and marketing. According to Abernathy et al. (1999), the reason why clothing manufacturing has so frequently proven to be an early step in the industrialization process is that 1) it requires few workers with sophisticated skills, 2) capital requirements are small, and 3) it allows a transition from household to workplace production.

When a business sector is labour-intensive, dominated by traditional production technology, and has low capital requirements, there will be few improvements of the work conditions due to investments in new production methods. It also means that the labour force is relatively unskilled and easy to substitute. Low capital requirements allow relatively poor countries to establish production units. The work force is more likely to experience harsh conditions under these circumstances. Therefore a labour-intensive production and traditional technology are characteristics that increase the CSR potential of this business sector.

Feature 2: Large differences in general cost levels between source region and recipient region

Technological progress in telecommunications and transport networks has made it easier for clothing manufacturers to fragment production segments internationally, and to take advantage of lower cost levels in developing countries (OECD 2004:41). Major clothing businesses are increasingly outsourcing their production in order to lower costs (Baden 2002). In 2004 developing countries accounted for three-quarters of world clothing exports (ILO 2005:5). China is the world's dominating exporter of clothes with a global share of more than 37 percent in 2005. The number two exporter, Turkey, had a share of 7.6 percent (World Bank 2007:90). These export shares are recorded before the ending of the Multi-Fiber Arrangement in the textile and clothing sector in the WTO in 2005. The Chinese world share of exports is most probably even higher today. The average hourly labour cost in clothing manufacturing was US$ 8.89 in the United States, while only $0.88 in coastal China, $0.68 in inland China and below $2.00 in Turkey (Abernathy et al 2004:34).

When the general cost levels in the typical source region are very low compared to the typical recipient region, this difference is a core element of the business model of international companies. But when economic levels vary significantly, it is likely that environmental and social standards also vary significantly. Such differences will also increase chances of corruption because is becomes affordable for the purchasing company, and may be an important supplementary income for the seller. Large differences in cost levels therefore represent an increase in the CSR potential of the clothing business.

Feature 3: A buyers' market

The shift from the traditional retailing to the large and lean retail groups enables these groups to exert considerable pressure on suppliers, and to capture a large share of cost savings and economic rents available throughout the supply chain (Abernathy et al 1999:75, Baden 2002:107, OECD 2004:45). The largest international clothing companies have for some time increased their national market shares in Western industrialised countries (Datamonitor 2008, Nordås 2004:3, Baden 2002:6, Gereffi 1999:44) and have such a vast supplier structure that the cost of exchanging a supplier is relatively low.

These clothing companies may choose among many alternative source countries and regions, and many regard the movement towards lower cost regions as vital for maintaining their competitive edge. If the clothing company can relatively easily replace a supplier due to price advantages or shorter lead times, the competitive pressures may lead to overexploitation of resources at the manufacturing site. Thus, chances are that the risk factors in Table 1 are present. A buyer's market therefore represents an increase in the CSR potential.

Feature 4: Short deadline and low predictability in ordering procedures

Retailers in developing countries are moving towards greater product specialization, brand-name products and market segmentation (Baden 2002:6, OECD 2004:45). In the international clothing business we see an increased frequency of orders, less forward buying, and more replenishment, in addition to greater requirements for product variation (Abernathy et al 1999, Baden 2002). Lean retailers in the United States typically replenish their stores on a weekly basis. Due to direct flows of information between retail stores and textile plants, the manufacturer is required to fill orders within a week. Within the replenishable segment, manufacturers may have a stock-keeping unit, but this is not possible for clothes with a higher fashion content (Nordås 2004, Abernathy et al 2004).

The pressure for clothing manufacturers has increased due to an increase in the number of seasons, a demand for shorter lead times, and the need for large advertising campaigns introducing clothing lines before they arrive in the stores (Nordås 2004, Abernathy 2004). There have been an increasing number of orders and the average volume is getting smaller (Gaarder 2004:10). A general trend towards shorter deadlines and lower predictability may thus lead to overexploitation of resources at the manufacturing site and contribute to an increase in CSR potential.

Feature 5: Low transparency

Low transparency in the supply chain reduces the clothing company's ability to assess the risk factors listed in Table 1 (Gaarder 2004). This is a particular challenge for small and medium sized companies in the clothing business, and for companies that rely on wholesalers or agents in sourcing. In addition, very few clothing companies disclose the names of their suppliers, reducing the transparency for third parties and the general public (ILO 2005, ETAG 2003).

Without disclosing the names of the source factories, independent organizations cannot access the production facilities and consider the social and environmental conditions. It is therefore impossible to verify the CSR reports of the clothing companies, and possible breaches of the CSR standards may go unnoticed.

It is reasonable to expect more breaches when names of source factories are held secret, or are unknown to the retailer, compared when retailers and the public have access to this information. I therefore assume that the CSR potential is greater when transparency with regard to the supply chain is low, compared to when it is high.

Feature 6: Communication barriers

Even if there is transparency with regard to the supply chain, and independent organizations have access to the manufacturing site, it is difficult to gather information if one relies on interpreters, or if there is no system of direct communication between the international retailer and workers at the factory site.

As mentioned above, more than 70 percent of the clothes imported to member states of the EU are from developing countries where very few workers speak English (World Bank 2007). Some international clothing companies try to meet this challenge by nurturing a close and long-term relationship with their factories and by engaging in partnerships with local consultants and NGOs. But this effort is limited by the fact that most managers in western clothing retail do not master the local language at the production site. With limited communications and knowledge of the suppliers, the ability to control social and environmental standards at the supplier's premises is reduced. These circumstances contribute to a high CSR potential.

Summing up

The presence of these six features increases the potential for positive influence by companies striving to uphold international CSR standards because they are exposed to many risk factors (Table 1) which they may mitigate by CSR-related actions. However, further empirical evidence is needed to identify the critical features influencing the CSR potential of the clothing business. Particularly, a systematic and comprehensive survey of how the suppliers view this potential is needed, in addition to a broad international sample of clothing companies.[14]

The Global Economy and the CSR Potential of the International Clothing Business

Thus far I have attempted to identify features that influence the CSR potential of the clothing industry. The CSR potential is said to be determined by six features at the sector level. This suggests that individual companies are only able to influence the CSR potential of their industry to a limited extent. This is evident in the case of a single company, but not at the sector level. We may ask if a leading group of companies – exposed to the same political pressures and being equally prone to mimic each other – could alter sector characteristics in such a way that they reduce the CSR potential of the industry. In other words, could widespread CSR action reduce CSR potential? In the case of the international clothing business I argue that this is not likely. The features of

the international clothing business that contribute to CSR potential appear to be attributes of more general features of the global economy, whether we emphasize asymmetric relations and unequal distribution, the product cycle, or transnationalization. I will now consider more closely these three views of the global economy and their relationships to the CSR potential of the international clothing business.

Global Economy: Asymmetric relations and unequal distribution

The CSR potential of the international clothing business concerns the relationship between companies in a relatively rich recipient region, and factories in a relatively poor source region. This relationship may be characterized as a part of a web of international asymmetric relations and qualify as 'structural imperialism' in the terminology of Johan Galtung.

In Galtung's much cited article, 'A structural theory of imperialism' (1971), he describes imperialism not as a Marxist-Leninist concept, but as a general dominance relation between 'centre' and 'periphery' nations, and centre and periphery structures within nations. We find 'harmony of interest' when the gap of living standards between the centre and periphery nations is decreasing, and a 'conflict of interests' if the gap of living standards is increasing. If the gap is constant it is referred to as 'disharmony.' Living standards may be measured by using indicators such as income and standard of living (in the usual materialistic sense), but also by notions such as 'quality of life' or 'autonomy' (Galtung 1971:82). Galtung also includes two 'mechanisms' in his model: 'vertical interaction' creates inequalities (more spin-offs for the centre than for the periphery), and 'feudal interaction structures' protect these inequalities by reducing transparency and protecting the competitive advantages of each corporation.

Galtung's terminology may be applied to the international clothing business. More than two thirds of EU clothing imports originate from low-cost nations (World Bank 2007) and the level of living standards is very high in the EU (the 'centre nations'), compared to the source countries ('periphery nations'). Management and employees in source countries have the characteristics of the 'centre' and 'periphery' in Galtung's model. With virtually no employees involved in production, the consumer of clothes in the EU may fit the role of the 'periphery' in the centre nation. Even if the processing level is low, the value content in the EU is still high due to the control of design, marketing, distribution, and retail. Galtung (1971:83) defines 'imperialism' as a relationship between a centre and a periphery nation fulfilling the following three conditions:

Harmony of interests between the centre of a centre nation and the centre of a periphery nation

Are there decreasing differences in living standards between managers in the centre nation and managers in the periphery nations? Do the top exporters of clothes – China and Turkey – fulfil this condition? China's senior managers are not among the highest paid internationally, but the tremendous increase in general income levels in urban areas

show that the senior salaries are growing faster than salaries in the EU and the United States. Senior managers in Turkey receive the highest pay levels worldwide according to the global consulting group Hay Group (2006). The first condition seems to be fulfilled: management pay in China and Turkey are catching up with, or exceeding, management pay in the Unites States and the European Union.

More disharmony of interests within the periphery nation than within the centre nation

Do income differences increase more in source countries than in recipient countries? A report from the Chinese Ministry of Labour and Social Security confirms that the income differences in China are rising.[15] In addition, the Gini index in China and Turkey is increasing.[16] Official statistics show that income differences in China and Turkey are greater than in the United States and significantly greater than those in the EU-15 (OECD 2006). Thus, Galtung's second condition is fulfilled.

Disharmony of interests between periphery of centre nation and periphery of periphery nation

Are there increasing differences in living standards between consumers in the EU and employees at factories in source countries? It seems that this condition is not fully satisfied: Despite an increase in income inequalities, the average living standard is increasing in many 'periphery' nations today: according to national authorities in China, both urban and rural households have increased their disposable income significantly the past five years – far more than the average income in the EU and the US[17]. However, if we look at the differences in living standards between the consumers in the Western countries and the changing group of workers producing clothes for these countries in the last 20 years, the difference in living standards have increased significantly. Clothing manufacturing was first outsourced from Western design and retail chains in the 1960s and 1970s and has gradually moved to regions with lower and lower production costs and salaries (Abernathy 1999, OECD 2004). I conclude that the purchasing power of Western consumers is increasing, while the salaries of the (changing) apparel manufacturers are being reduced. Thus, we see that the third demand of Galtung is satisfied as long as we compare western consumers with the changing group of workers producing clothes.

Feudal interaction

In addition to these three conditions, Galtung underlined the existence of a 'feudal interaction' structure between entities in developed and developing countries. The international clothing business is also dominated by large retailer groups in developed countries interacting with relatively weak manufacturers in developing countries. Short deadlines in ordering procedures accompanied by low predictability are a further indication of the dominance of centre nations. This dominance is also expressed by the traditional technology and labour-intensive production in periphery nations which

contribute to large differences in value content between the centre and periphery nations. The supply chain is fragmented with companies at the top refusing to disclose – or having no knowledge of – the identity of their suppliers (OECD 2004:17, 28, 41). Low transparency with regard to the supply chain, limited access for inspectors at the factory site, and communication barriers all resemble a feudal interaction structure.

The asymmetric relations of the global economy are reflected by the alleged discrepancies of the GATT trade agreement on the textile and clothing industry and the general trade principles of the GATT and later WTO agreement: The quota system of the Multi fibre agreement (MFA) effective from 1974-1994 restricted international trade in textiles and clothing and violated four principles of multilateral trade, according to Nordås (2004): the most favoured nation principle, the prohibition of quantitative restrictions and of discriminating developing countries, and transparency. The transitory regime, the Agreement on Textiles and Clothing (ATC) effective from 1995-2004, and the present 'normal' system of multilateral trade, still discriminate against developing countries due to the safeguard measures (1995-2004) and the new trade restrictions (2005-) protecting the national interests of developed countries, with no similar options available for developing countries (Delpeuch 2007).

Summing up: this view of the global economy, emphasizing unequal distribution and asymmetric relations, is consistent with the features which contribute to a high CSR potential of the international clothing business:

Global economy, asymmetric relations and unequal distribution		Features of the international clothing business increasing the CSR potential
Larger increase in differences in living standards between the (changing) work force of the source country, and consumers in the recipient country	is consistent with	large differences in general cost levels between source region and recipient region (feature 2)
Larger increase in differences in living standards within source countries than within recipient country	is consistent with	a buyers' market (feature 3)
Feudal interaction structure	is consistent with	a buyers' market, low transparency, low predictability, and communication barriers (features 3, 4, 5, 6)

Table 2: The global economy (1) and the CSR potential of the international clothing business.

Global Economy: The product cycle

In 1966 Raymond Vernon published an article where he introduced the product cycle model. This theory does not put as much emphasis on the comparative cost doctrine as most contemporary scholars of international economy in the 1960s. By also focusing on the timing of innovation, the effects of scale economies, the uncertainty in influencing

trade patterns, and recognizing that knowledge is not a free good, Vernon managed to show how international investment and trade flows evolved by referring to the product cycle. He distinguished between 'new', 'maturing', and 'standardized' products. In the 1960s the U.S. market was in many respects unique among the market economies of the world. It had more affluent consumers, more advanced technology, and by far the largest number of global firms and brands (Vernon 1979). Since then, many have pointed out how corporations have become less confined by national frameworks. In location of R&D and production, in investments, and in trade flows, national boarders are less important (See e.g. Cantwell 1995 and Grant & Gregory 1997). However, the predictions regarding the trade flows and production of standardized products may still hold. Almor et al (2006) demonstrates this by showing how internationalization may be a mechanism employed to overcome the progressive erosion of proprietary knowledge in the later stages of the product cycle where standardized products dominate.

Staff functions and R&D departments have been transformed by increasing internationalization the past decades, but standardized products do not demand the same level of continuous support from these functions (Cantwell 1995). According to Vernon (1966) investment decisions referring to standardized products are still dominated by comparative cost analysis where low wages are an important criterion. Vernon predicted exports from less-developed countries where products meet the following five set of economic characteristics (Vernon 1966, 203-204):

1. Significant input of low-cost labour

2. Products with a high price elasticity of demand (many substitutes on the market)

3. Products whose production process do not rely heavily upon external economies

4. Products that could be precisely described by standardized specifications

5. High-value items capable of absorbing significant freight costs would be more likely to appear than bulk items low in value by weight.

These characteristics fit nicely with the international clothing industry, according to Vernon (1966). Vernon predicts that the greatest exports of standardized products will come from newly industrialized countries – typically many parts of Europe in 1966, and countries like China, India and Malaysia today. Grant and Gregory (1997) point out that there may be a challenge with regard to changing corporate locations for the most mature products due to tacit knowledge. In the later stages of the product cycle, when there is often a significant portion of tacit knowledge involved, the transfer of product and manufacturing specifications is difficult. However, it is unlikely that this restriction is relevant for the clothing industry. Today major international clothing corporations design new garments with the aid of Computer-Aided-Design (CAD). The system stores design specifications, measurements, costs and detailed construction information in

multiple languages (Abernathy et al 1999, 134). Thus, both the products and the communications between customers and suppliers, are standardized and explicit.

Summing up: the product cycle theory predicts decisions on foreign investments in the manufacturing of standardized goods to be based on comparative cost analysis and a growing portion of export from newly industrialized countries. These general features of the global economy are consistent with features that contribute to the high CSR potential of the international clothing business:

Global economy and the product cycle		*Features of the international clothing business increasing the CSR potential*
Investment decisions referring to standardized products are dominated by comparative costs analysis and levels of salary	is consistent with	labour intensive production (feature 1)
A growing portion of standardized product exports come from newly industrialized countries	is consistent with	large differences in general cost levels between source region and recipient region (feature 2)

Table 3: The global economy (2) and the CSR potential of the international clothing business.

Global Economy: Transnationalization

A large volume of literature points out that the globalization process seems to favour certain political and economic structures. Brink Lindsey (2001) defines globalization as three distinct but related developments:

1. Globalization is about increasing integration of markets across political boundaries due to political or technical causes. This is partly due to a second development:

2. Globalization is about falling government-imposed barriers to international flows of goods, services and capital. This is partly due to a third development:

3. Globalization is about the global spread of market-oriented policies in both the domestic and international spheres.

Castells (2000) explains globalization in light of the advances in information and communication technologies which seems to be partly due to the first development listed by Lindsey (2001): the global economy is characterized by a state where its core components have the capacity to work as a unit in real time, or chosen time, on a planetary scale. Hirst and Thompson (1992, 2002) do not believe that we have reached a

stage where global economic forces are in the process of replacing national institutions and powers on a grand scale. They present four expected consequences of a globalized economy which they contend are unfulfilled. However, in light of the different opinions regarding the scale of globalization, we may consider whether these consequences can be observed within the international clothing business:

Governing the global economy will represent a fundamental challenge

Global markets would, according to Hirst and Thompson (1992), be difficult to regulate and firms would not expect special treatments as 'national champions' but be expected to seek to share the risks and opportunities through intercorporate investments, partnerships, joint ventures and other arrangements.

This view is supported by the UN special representative on the issue of human rights and transnational corporations: "In principle, public authorities set the rules within which business operates. But at the national level some governments may simply be unable to take effective action, whether or not the will to do so is present. And in the international arena States themselves compete for access to markets and investments, thus collective action problems may restrict or impede their serving as the international community's 'public authority.'" (Ruggie 2007:25)

According to several publications by the OECD and other intergovernmental organisations, the international clothing business, after the phasing out of the MFA agreement, has become one of the most globalized business sectors in the world (see OECD 2004, ILO 2005, and UNCTAD 2005).

Multinational corporations will transform into transnational corporations

According to Hirst & Thompson (1992), manufacturing companies would source, produce and market at the global level. They would no longer have a predominant national location. Today the large clothing retailers' overseas offices go well beyond their original buying functions, and they are actively engaged in product design, fabric selection and procurement, and monitoring contracted sewing as well as other production functions handled by offshore manufacturers (Gereffi & Memedovic 2003, 7). Clothing retailing across the United States and the EU has been marked by substantial concentration in the 1990s (Gereffi & Memedovic 2003, Datamonitor 2008).

The decline in the political influence and economic bargaining power of labour

Hirst and Thompson (1992) forecast a dramatic decline in bargaining power of labour. Clothing manufacturers exporting to developed countries today are situated in countries that lack an independent labour movement (China), or in countries where the influence and status of the labour unions are relatively weak (India, Mexico, Turkey). According to the International Confederation of Free Trade Unions, liberalisation due to the phasing out of the MFA has led to a race to the bottom in terms of labour rights and

working conditions. (ICFTU 2005). This impression is supported by Guy Ryder, the General Secretary of the International Trade Union Confederation (ITUC), in an article published by AccountAbility (2007): "Today's model of globalization enables jobs to move from one country to another, but unacceptably, companies shift production and locate supply chains to avoid trade unions and to circumvent workers rights."

The impression that trade union rights within the clothing business is in decline is also supported by independent scholars. According to Yimprasert and Hveem (2005), only five percent of the textile and garment workers worldwide are unionised. They conclude that the only way to improve conditions in a sustainable manner in this sector is to introduce a universal law for all companies, thereby creating a level playing field for all in a very competitive business sector.

Growth in fundamental multi-polarity in the international political system

According to Hirst & Thompson (1992), a consequence of a global economy is that hegemonic nationals' powers no longer will be able to impose their own distinct regulatory objectives. A variety of bodies – from international voluntary agencies to transnational corporations – would gain in relative power at the expense of national governments.

With respect to the part of the political system responsible for regulating large corporations, there is little doubt that the system has a multi-polar structure. This is described by Keohane and Nye (1977) as a state of 'complex interdependence.' In international politics today, and especially within the international regulation of business, there is widespread agreement that nation-states have become more intertwined with international organisations and corporations, and more dependent on each other as international competition intensifies (see Crouch 2004, Rondinelli 2003, Ruggie 2004, Scherer et al 2006). The structure and market approach of the international clothing business is increasingly transnational. Demand is defined by global buyers who are wary of the risks of concentrating their demand in a small number of countries (World Bank 2007). We also see the emergence of transnational apparel producers, according to UNCTAD (2005).

Summing up: The predicted consequences of the global economy put forward by Hirst and Thompson (1992) are consistent with features that contribute to the high CSR potential of the international clothing industry:

Transnationalization		*Features of the international clothing business increasing the CSR potential*
Multinational corporations will transform into truly global transnational corporations	is consistent with	• a buyers' market (feature 3)
The decline in the political influence and economic bargaining power of labour	is consistent with	• large differences in general cost levels between source region and recipient region (feature 2)
Growth in fundamental multi-polarity in the international political system	is consistent with	• low transparency (feature 5)

Table 4: The global economy (3) and the CSR potential of the international clothing business.

Conclusion

The six features of the international clothing business indicate a high CSR potential. These features are consistent with more general features of the global economy, whether one emphasizes asymmetric relations and unequal distribution, the product cycle, or transnationalization. Thus, the CSR potential of the international clothing business seems not only to be a product of sector characteristics, but also of more general features of the global economy. This is summarized in Tables 2, 3, and 4 and illustrated in Figure 2.
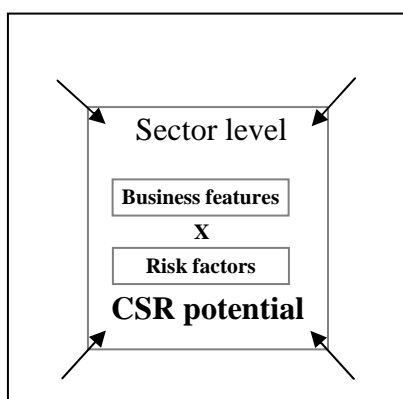
Figure 2: The CSR potential is an integral part of the global economy

The CSR performance of individual clothing companies may enhance their relations with stakeholders and the natural environment, but they seem to have little effect on the features that determine the CSR potential. Put differently, corporate strategies and actions may enhance their social and environmental impact, but they are not capable of altering the structural elements that cause the risks of violating international CSR standards. What does this mean for businesses? Do companies in sectors with a high CSR potential have a greater responsibility for CSR than companies in sectors with a

low CSR potential? The answer is "yes" if the company's aim is to abide by international CSR standards. International clothing companies operating in developing countries normally have a higher CSR potential than clothing companies operating in developed countries because the risk of violating CSR standards are higher in developing countries. To uphold CSR standards, companies in developing countries must demand, and control, the fulfilment of CSR standards with less support from local governments compared to companies operating in developed countries. In developed countries, most of the requirements of international CSR standards are codified in law. However, given that companies are not able to influence the structural causes determining the CSR potential, we must rely on other actors to grapple with the CSR potential itself. Considering the global nature of the international clothing business, it would require an intergovernmental effort to reduce the CSR potential in this sector. This is in line with John Ruggie (2007), who concludes that states should more proactively structure business incentives.[18] According to Ruggie, five "clusters of standards and practices" govern CSR. Only one of these refers to actions initiated by companies themselves. In other words, CSR is seen as part of a wider framework aiming to regulate, influence and encourage international business to respect global environmental standards and human rights. If the objective is to avoid violations of international CSR standards, then one aim of this framework should be to reduce the CSR potential of international business.

This study shows that it is useful to identify the CSR potential of a business sector as part of our preparation for studies at the company level: when we identify the CSR potential of a particular sector we get a picture of which part of the international CSR standards companies run the greatest risk of violating, and of which structural issues intergovernmental actions should address to reduce the potential for violating CSR standards.

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Study III:
Explicit and Implicit Institutional Manifestations of CSR

Author: **Bjørn-Tore Blindheim, University of Stavanger, NORWAY**

ABSTRACT:

This study takes the explicit-implicit CSR framework as its point of departure, and basically asks how managers within a national institutionalised context perceive the notion of explicit CSR, and how the national institutional context can contribute to our understanding of the manager's perceptions of CSR. The empirical results of focus group interviews with Norwegian managers indicate the existence of multiple perceptions and manifestations of CSR within a national institutionalised setting. Based on the empirical illumination of the neo-institutional arguments of the paper, a development and refinement of the explicit-implicit framework is suggested, a development and refinement that a) take into account how the existence of multiple logics and institutional contradictions within a nationalised institutionalised setting can enable agency in the form of multiple interpretations and manifestations of CSR, and b) that identify what the institutionally informed explicit and implicit manifestations of CSR consists of, that is, its corporate level properties.

Introduction

This study takes the explicit-implicit CSR framework (Matten and Moon, 2005, 2008) as its point of departure, and basically asks how managers within a national institutionalised context perceive the notion of explicit CSR, and how the national institutional context can contribute to our understanding of the manager's perceptions of CSR. The empirical results of focus group interviews with Norwegian managers indicate the existence of multiple perceptions and manifestations of CSR within a national institutionalised setting.

Two observations inform the theoretical arguments and empirical illustration and illumination of this paper. The first observation is that the explicit-implicit CSR framework together with some of the current institutional analysis of CSR relies on a somewhat one-dimensional and over-deterministic account of institutional theory that only to a limited degree take into account recent developments within institutional theory (e.g. Lounsbury, 2008), theory that explains how to account for heterogeneity, contestation and practice variation, as well as homogeneity and consensus within a

distinct institutional field. Further, through emphasizing how a dominant and exclusive (Scott, 1994, 2001) institutional logic of the role and responsibility of business in society informs consensus around the manifestations of CSR within an institutionalised national framework, the explicit-implicit CSR framework somewhat ignore the very essence of the notion of CSR, that of managerial discretion or agency (e.g. Carroll, 1979; Matten and Moon, 2008; Marrewijk, 2003). Consequently, the framework also somewhat ignores how actors do not only adapt to their institutional context, but also often play an active role in shaping those contexts (e.g. DiMaggio, 1988; Maguire and Hardy, 2006; Meyer and Rowan, 1977; Levy, 2009; Lounsbury, 2008).

The second observation is that it is not really clear what the institutional informed models of explicit and implicit CSR consists of. While explicit CSR is defined in terms of some corporate level properties, implicit CSR is defined more in terms some institutional properties, that is, what institutional conditions that inform an implicit manifestation of CSR, rather than what it is. This limitation has potentially both descriptive and normative implications. First, it makes it difficult to study the actual institutionalization or de-institutionalization of one or the other manifestation of CSR within a national institutionalised context. Second, in its current form, the explicit and especially implicit model of CSR constitutes somewhat unclear normative alternatives to the appropriate role and responsibility of business in society.

The overall aim of this paper is to suggest a further development and refinement of the explicit-implicit CSR framework, a development and refinement that a) take into account recent developments within neo-institutional theory that explain how multiple logics and institutional contradictions within a nationalised institutionalised setting can enable agency and multiple manifestations of CSR, and b) that identify more closely what institutionally informed explicit and implicit manifestations of CSR consists of, that is, its corporate properties.

Outline of the paper

This paper proceeds as follows. In the next section of the paper (section two), I argue that the current institutional analysis of CSR often assumes that homogeneity and consensus occur around the manifestation of CSR within a national setting, due to the existence of dominant and exclusive institutional logics within that field. Further, I argue that this body of research often assumes a very limited role for agency in the manifestation of CSR within a national context. In section three of the paper, based on recent developments within neo-institutional theory and theories of institutional entrepreneurship, I promulgate an institutional explanation of heterogeneity and contestation around the manifestation of CSR within a national institutional setting. Then, in section four of the paper, building on the institutional thesis of heterogeneity and contestation, I essentially ask what the different institutionally informed manifestations of CSR would look like, that is, what explicit and implicit manifestations of CSR consists of. Part five and six contain respectively the research setting and the methodology of the study. I argue that the Norwegian institutional context contain two co-existing, but very different logics of the role and responsibility of business in society.

Part seven of the paper contains the empirical section of the paper, illustrating and illuminating the theoretical arguments of the paper. The paper is concluded with a discussion of the implications of the proposed arguments and analysis for theory and research.

The Current Institutional Analysis of CSR and the Explicit and Implicit CSR Framework

The position taken in this paper is that notions of responsibility cannot be analysed and properly understood apart from the institutional context where they are applied. An increasingly large body of literature acknowledge this insight, and argues that we need to pay more attention to how institutional mecha¬nisms influence whether or not corporations act in socially responsible ways, and to account for different manifestations of CSR (Bűhner, Rasheed, Rosenstein and Yoshikawa, 1998; Hoffmann, 1999; Jones, 1999; Doh and Guay, 2006; Orlitzky, Schmidt and Rynes, 2003; Walsh, Weber and Margolis, 2003; Camp¬bell, 2006; Aguilera et al., 2007; Matten and Moon, 2005, 2008). Focusing on the institutional determinants of CSR is important because companies are embedded in a broad set of political and economic institutions that affect their behaviour (Campbell, Hollings¬worth, and Lindberg, 1991; Fligstein, 1990, 2001b; Roe, 1991, 1994).

However, looking at both theoretically (Aguilera, et al., 2007; Matten and Moon, 2005, 2008) and more empirically oriented studies (e.g. Antal and Sobczak, 2007; Levy and Newell, 2000; Maignan and Ralston, 2001; Gjølberg, 2009), one are left with the impression that a dominant and exclusive (Scott, 1994, 2001) institutional logic (Alford and Friedland, 2001) has the potential to, or in fact, informs homogeneity and consensus around the meaning and practice of CSR within an national institutionalised framework or field .

Levy and Newell (2000) argue that cultural and political differences between the European countries and the U.S. can contribute to explain differences in how European and U.S. companies respond to the environmental issues of climate change, ozone depletion, and genetic engineering of food. Maignan and Ralston (2002) found strong differences in how U.S. and U.K. business managers, on the one hand, and French and Dutch managers, on the other hand, understood and defined CSR. When explaining the differences in managers' understanding of CSR between the countries, Maignan and Ralston (2002) pointed to some of the national characteristics and the institutional environment in the different countries. The edited collection of case studies "Corporate Social Responsibility Across Europe" (Habisch, Jonker, Wegner, and Schmidpeter, 2005), covering over 20 European nations, is perhaps the most ambitious and systematic account of CSR manifestations within national level institutional fields. In that book, Korhonen and Seppala (2005) explained the late arrival of CSR in Finland by the role of the government in providing free education, health services, and social security. The responsible company has paid its taxes, complied with laws and regulations, and sponsored sports and culture. Morsing (2005) tells a somewhat similar story about CSR in Denmark. To accommodate extensive state responsibilities for welfare services,

companies are exposed to pay a high level of taxes. The introduction of explicit CSR in Denmark can be connected to the establishment of the "inclusive labour market strategy" by the Danish minister of social affairs in 1995, and reflected the government's call for corporate assistance in meeting the problems of the Danish welfare model in the 1990s. The inclusive labour market strategy has since been the predominant CSR issue in Denmark.

Matten and Moon (2005, 2008) has perhaps developed the most sophisticated and theoretically influential argument within this body of research. Building on the varieties of capitalism literature (e.g. Hall and Soskice, 2001) and the national business system (NBS) approach (e.g. Whitley, 1992, 1999, 2002), they argues that the specific manifestation of CSR within a national context can be understood and accounted for with reference to the specific institutional logics dominating a countries' historically-grown institutional framework. The argument is that national institutionalised environments characterised by the logic of the liberal market will, in general, leave clear incentives and opportunities for business to take an explicit responsibility for various social issues, that is

"corporate policies that assume and articulate responsibility for some societal interests. They normally consist of voluntary programs and strategies by corporations that combine social and business value and address issues perceived as being part of the social responsibility of the company" (Matten and Moon, 2008, p. 409).

National institutional environments characterised by the logic of the coordinated market, on the other hand, will – compared to liberal market economies – leave fewer incentives and opportunities for business to assume a direct, explicit responsibility for social issues. Rather, companies' responsibility for social issues has been implicit, referring to

"…a corporations' role within the wider formal and informal institutions for society's interests and concerns. Implicit CSR normally consists of values, norms, and rules that result in (mandatory and customary) requirements for corporations to address stakeholder issues that define proper obligations of corporate actors in collective rather than individual terms" (Matten and Moon, 2008, p. 409)

In a recent empirically oriented study, Gjølberg (2009) tested and discussed some of the assumptions of Matten and Moon (2005, 2008). The study revealed clear differences between 20 countries CSR practices and CSR performance. The results is explained with references to the specific institutional logic dominating within institutional fields at the national level, or with references to a dominant institutional logic characterising groups of countries. For example, the CSR score for the Nordic countries are explained with reference to a common national-level institutional logic, that of the coordinated

market informing homogeneity and consensus within "similar" institutional fields (Gjølberg, 2009, p. 20):

> "These countries are characterised by close, cooperative and consensual relations between the state, business, and labour, as well as long-standing traditions for involving civil society in policy-making. The result is a carefully crafted system of roles and responsibilities, duties and rights, in which all parties have vested interests. This consensual interaction has evolved over decades and has fostered a business culture for balancing business interests and societal interests in a more long-term perspective, as well as management style based on consensus-building and participation…"

The literature reviewed above indicates that there are strong cases for arguing that CSR is institutional contingent and varies between national institutionalised frameworks. Although this insight arguably is of great importance for ethics and CSR perspectives that to often understand "corporate practices, prices, and working conditions as matters of managerial discretion rather than an outcome of production networks as economic, political, and ideological systems" (Levy, 2008, p. 947), the current application of institutional theory on CSR possesses two important problems.

First of all, the current institutional analysis of CSR does not fully take into account that institutional fields – such as national business systems – can possess not only a specific, dominant, and exclusive (Scott, 1994, 2001) institutional logic, but also multiple, and contesting logics (Friedland and Alford, 1991; Lounsbury, 2008; Meyer and Rowan, 1977) of the role and responsibility of business in society. As a result, the institutional analysis of CSR thus does not fully recognise, take into account, and theorize how institutional theory not only can account for isomorphism, homogeneity, and consensus, but also heterogeneity and contestation around the meaning of CSR within an institutional field.

Second, the current institutional analysis of CSR relies on a somewhat one-dimensional and over-deterministic account of institutional theory that results in somewhat of a paradox: While a key hallmark of CSR arguably is the principle of managerial discretion (e.g. Carroll, 1979, 1991; Matten and Moon, 2008; Wood, 1991), the current institutional analysis of CSR envisage managers choices and corporate action as structurally bounded and highly institutionalised, and thus – to borrow a phrase from Meyer and Rowan (1977, p. 344) – "in some measure beyond the discretion of any individual participant or organization". In slightly other words, the current institutional analysis of CSR very much discharge the very essence of the notion of explicit CSR itself, that of managerial discretion or agency, allowing "each entity, individual or group" some relative freedom to act according to its awareness, capabilities and best understanding of its situation" (Marrewijk, 2003, p. 98), within some political, economic, and cultural bounds.

A more satisfactory institutional analysis of CSR needs to account for the existence of multiple and contesting logics (Friedland and Alford, 1991; Scott, 1994; 2001) and its

embedded institutional contradictions (Meyer and Rowan, 1977) existing within an institutional field, and the role of actors and agency in molding the material practices and symbolic constructions constituting the organising principle of a given institutional logic and order.

An Institutional Explanation of Heterogeneity and Contestation

Early neo-institutional theory in general has emphasized homogeneity and the development of consensus around institutional phenomena within the boarders of institutional fields (e.g. Jennings and Zandbergen, 1995). More recent analysis (e.g. Lounsbury, 2007) however, has begun to show how heterogeneity, practice variation, and contestation can materialise in the context of a pluralistic environment promulgating not only multiple, but also possibly contradictionary rationalised myths of reality and institutional logics (e.g. Meyer and Rowan, 1977).

The materialization of the notion of institutional logic has been a turning point in the redirection of institutional analysis away from the study of homogeneity to heterogeneity and practice variation (Lounsbury, 2008). The notion refers to a set of material practices and symbolic constructions constituting an institutional order's organizing principles (Friedland and Alford, 1991), and can be defined as, "the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their reality" (Thornton, 2004, p. 69). Institutional logics both shape individual and collective understandings of what conditions are problematic, as well as what practices represents appropriate solutions to these problems (Green, Li, and Nohria, 2009).

Institutional fields differ in the exclusiveness (Scott, 1994) enjoyed by their logics. Some fields may indeed be characterised by one central, relatively coherent set of beliefs. Other fields however, will contain secondary logics that compete for adherence or – as emphasised in this study – multiple, contradictionary and conflicting belief systems and material practice. Pluralistic political systems tend in general to be characterised by multiple and contentious institutional logics, rather than dominant exclusive ones (Scott, 2001). This insight is important as it constitutes a point of departure for explaining how multiple forms of rationality may exist within a national level institutional field (Meyer and Rowan, 1977), and, as such, provides a foundation for the explanation of heterogeneity and practice variation within that field (Lounsbury, 2008).

Within this theoretical thesis, actors – as individuals and organisations – do not passively adapt to the logics and scripts embedded in the institutional field. Rather, multiple logics provide an institutional foundation (Lounsbury, 2008), rends possible, and enable actors to advance competing claims and diverse courses of action as they engage in continued processes of sense-making and interpretation. In slightly other words, multiple logics provides a foundation for agency and institutional

entrepreneurship as actors draw upon different logics in ongoing struggles for appropriate and non-appropriate interpretations of reality (Maguire and Hardy, 2006).

The co-existing of multiple logics and institutional contradictions thus brings questions of interest, power, and agency into institutional analysis, key phenomena within the emerging and rapidly growing body of literature on institutional entrepreneurship (e.g. DiMaggio, 1988; Friedland and Alford, 1991; Lounsbury, 2008; Maguire, 2007; Maguire, Hardy, and Lawrence, 2004; Selznick, 1957; Zilber, 2002; Zucker, 1987). Perhaps the key question addressed by the literature on institutional entrepreneurship, is how actors – being embedded in an institutionalised field characterised by rationalised myths that is "in some measure beyond the discretion of any individual participant or organisation" (Meyer and Rowan, 1977, 344) – are capable of imagine new interpretations of reality and practices (Hardy and Maguire, 2008). The position taken in this paper is that imagination, acts of interpretation, and enabling actors is made possible through field conditions characterised by the existence of multiple and contesting institutional logics (e.g. Clemens and Cook, 1999).

Drawing on a social constructionist assumptions (Berger and Luckmann, 1967) emphasizing translation (Latour, 1986), at the micro-level (Czarniawska and Joerges, 1996), rather than diffusion of institutional phenomena, this study see institutions as formed and changed as meaning come to be shared and taken for granted. Actors are not only carriers of institutional meaning (Zilber, 2002), but also active interpreters "formulating, conforming to, disobeying, and modifying" (Scott, 1994, p. 60) institutional phenomena in their efforts to making sense out of the world (Weick, 1995). In this respect, actors "sensemaking", imagination and acts of interpretation of institutional phenomena – that is, the attribution of meanings to structures and practices (Zilber, 2002) – can be understood as an important form of institutional agency (e.g. Hajer, 1995; Maguire and Hardy, 2006, 2008; Munir, 2005; Zilber, 2002, 2006), in which actors play an role in shaping, as well as being shaped – by their institutional environment.

Building on the notion of institutional field at the national level as constituted by multiple logics and institutional contradictions enabling actors to invoke upon multiple meaning as they make sense of and interpret CSR, the assumption of homogeneity and consensus around manifestations of CSR within a national institutional framework can be questioned and challenged by an assumption of heterogeneity and contestation upon the manifestation of explicit CSR within a national institutionalised framework. If it can be assumed – as I do in this study – that both the logic of the liberal and coordinated market are embedded in institutional fields at the national level, both explicit and implicit manifestations of CSR will be evident within a specific national framework, as well as hybrid combinations of the two, as actors invoke upon the institutional logics and their embedded contradictions in order to make sense of the role and responsibility of business in society.

The corporate properties of institutional manifestations of explicit and implicit CSR

The question then becomes what the different institutionally informed manifestations of CSR would look like, that is, what explicit and implicit manifestations of CSR consists of. A weakness with the dual construct of explicit-implicit CSR, is that while explicit CSR is defined in terms of some corporate properties ("corporate policies that assume and articulate responsibility for some societal interest…"), implicit CSR is defined more in terms some institutional properties ("Implicit CSR normally consists values, norms, and rules that result in (…) requirements for corporations to address stakeholder issues…"). While the definition of explicit CSR as "corporate policies" has an intuitive validity in the context of established definitions of CSR as involving the Principle of Self-Determination (Marrewijk, 2003) or managerial discretion (Carroll, 1979), the definition of the dualistic opposite to explicit CSR falls somewhat short of identifying the notions corporate properties.

Drawing on Matten and Moon (2005, 2008), and based on the logics of the models of the liberal and coordinated markets, I would suggest that the explicit and implicit models of CSR differ in two respects: 1), in the basic *responsibility mechanisms* to address social issues, and 2) in *the range* or scope of issues to which the corporate entity is expected to attend.

The models of the liberal and coordinated market *differ considerably in how what is valued should be addressed and governed*. That is, the logic differs in at which level to locate agency and how to construct governance structures (Dobbin, 1994). Where the logic of collective responsibility embedded in the model of the coordinated market in general prescribes rulemaking and rule following as the appropriate strategy, and hence a role for obligatory agency and associated actors, the logic of corporate responsibility embedded in the model of the liberal market in general envisages a greater role for isolated corporate initiatives and discretionary agency to address such issues. As a result, within the model of explicit CSR, the responsibility mechanisms are more *corporate* than collective in nature: the corporate entity – through voluntary corporate policies and programmes – assumes a direct organisational level responsibility for various social issues. Within the model of implicit CSR on the other hand, the responsibility mechanisms for obtaining what is valued is more *collective* than corporate in nature: the corporate entity, as a member of the societal institution of business – through values, norms and rules – assumes an *indirect* responsibility for various social issues, *together* with the other major institutions of society. Moreover, the enterprise does not enjoy the same degree of status as a model for organising societal affairs (e.g. Byrkjeflot, 2001; Røvik, 1998; Sahlin-Andersson, 1998) as it does within the model of the liberal market. As such, the collective responsibility strategy of implicit CSR bear an resemblance to what Midttun (2005) has referred to as "shared responsibility". The key difference between corporate and collective level responsibility mechanisms is that while the former are situated *inside* an organization and are issued with the authority that managers are granted within formal organizations, the latter are situated *outside* organisations and are issued without the authority that managers are granted within formal organizations[19].

While the models of the liberal and coordinated market evidently differ in how what is valued should be addressed and governed, the logics of the liberal and coordinated market models *share some basic assumptions about what is valued*, having similar commitments to democracy, capitalism, and welfare (Matten and Moon, 2008). The similarities in what is valued do not, however, transcend to the corporate level in terms of the *scope of issues* the corporate entity is expected to assume a responsibility for. Within the model of the liberal market, incentives and opportunities are left to the corporate entity in assuming a direct responsibility for contributing to obtain what is valued; democracy, capitalism and welfare. As a consequence, explicit CSR is associated with a potential broad range of social issues. For example, Vogel (1992) shows how businesses have played a significant role in the development of U.S. cities and communities and, therefore have been assigned "substantial responsibility for the moral and physical character of the communities in which they have invested". It becomes legitimate for the corporate entity – more or less decoupled from other societal actors – to expound the needs of society and to develop strategies and measures that can contribute to realise what is valued, that is, the corporate interpretation of democracy, capitalism and welfare.

Within the model of the coordinated market on the other hand, the corporate entity has far lesser discretion in expounding the needs of society and in developing strategies that will contribute to realising those needs. Such acts are more the result of collective institutional level efforts. As a result, the corporate entity – within the model of implicit CSR – will attend to a narrower range of social issues. For example, due to the role of the state in Europe in providing social welfare (Clough, 1960; Grahl and Teague, 1997), social responsibility has been defined very narrowly and has been constrained mainly to offering good working conditions (Weaver, 2001). Byrkjeflot (2001) notes that for the coordinated market economies of Scandinavia, there has been little tradition for (or acceptance of) business and managers themselves establishing a vision for society beyond the core economic activity of the firm.

To summarise the argument so far, while the logic of the liberal market in general will inform a manifestation of CSR in which the corporate entity assumes organizational level responsibility mechanisms for a broad range of social issues, the logic of the coordinated market in general will inform a manifestation of CSR in which the corporate entity enters collective level responsibility mechanisms, in which it assumes a responsibility for, or a role in the administration and managing of a relatively narrow range of social issues, for which collective level actors, e.g. the state, industry associations, and tripartite-structures, has the prime responsibility.

However, given the ambiguity of the national institutional environment (Morgan, 2007; Scott, 1994) possessing both different and possible conflicting logics (Meyer and Rowan, 1977; Lounsbury, 2008), other combinations are possible. Combining the dimensions of responsibility mechanisms (corporate vs. collective) and appropriate scope of issues to attend to (broad vs. narrow), gives the following possible manifestations or models of CSR.

Responsibility Mechanism

		Corporate	Collective
	Broad	1.	3.
CSR Issues	Narrow	4.	2.

Model 1: Four distinct CSR models outlined from the explicit-implicit CSR framework

The empirical section of the paper further illustrates and illuminates the arguments developed in the two sections above. First however, I substantiate the claim that the national institutionalised framework of Norway embeds to basically different and contesting logics of the role and responsibility of business in society.

Research Setting: Institutional Contradictions of the Norwegian Institutionalised Setting

In this study, the national historically grown institutional framework is conceptualised as an institutional field (Gooderham, Norhaug, and Ringdal, 1999; Mayer and Wittington, 2004; Tempel and Walgenbach, 2007). Building on existing literature on political-economic institutions within the Norwegian institutional contexts (e.g. Byrkjeflot, 2001; Dølvik, 2007; Engelstad, 1999; Gooderham, Norhaug, and Ringdal, 1999; Gustavsen, Hofmaier, Philips, and Wikman, 1996; Hall and Soskice, 2001; Løken and Barbosa, 2008; NOU, 1982; Reve, 1994; Sejersted, 1993, 2001; Willums, 2005; Østerrud, Engelstad, and Selle, 2003), two co-existent, but basically different and conflicting logics of the market can be identified, each with somewhat different notions about at which level to locate agency and responsibility mechanisms for social issues, and consequently with different notions about the legitimacy of the enterprise as an interpreter of what is valued in society, and the scope of issues companies should attend to.

The institutional logic that has been the dominating within the Norwegian society up to the 1980s (e.g. Byrkjeflot, 2001; Østerrud et al., 2003), is what can be termed the logic of the role and responsibility of business in society within a coordinated market (Hall and Soskice, 2001). Norway is often – together with the other Scandinavian countries – characterised as *the* typical example of a coordinated market economy (e.g. Hall and Soskice, 2001). Social issues, such as worklife issues and environmental protection, have mainly been addressed through collective responsibility mechanisms at the industry and/or national levels (e.g., Sørensen and Wathne, 2007). As a result, companies have mainly attended a rather narrow range of social issues. Broader social issues – such as social benefits to workers and their families and different welfare services – have not been a corporate level responsibility, but rather a task for the government to secure. In sum, the logic of the role and responsibility of business in

society within the coordinated market can be characterised through the following key words (Matten and Moon, 2008): collectivism, obligatory agency, solidarity, partnership governance, interlocking actors, and policies providing obligations.

Since the 1980s, the logic of the coordinated market has been challenged by another institutional logic (e.g. Byrkjeflot, 2001; Østerrud et al., 2003), the logic of the role and responsibility of business in society within the liberal market (Hall and Soskice, 2001). For example, the role of the Norwegian state vis-à-vis the market is very different today than it was some 20 years ago. While the state earlier was seen as the stronger party vis-à-vis the market and business, there has been a change in power relations so that business often is understood as the stronger party vis-à-vis the state, and not the other way around (e.g. Østerrud et al., 2003). The governing of the market has changed from, exactly, governing the market, to securing the effective functioning of the market (Byrkjeflot, 2001). Within the rebalanced Norwegian institutional framework, different groups in society and business constituencies, to a wider extent than previously, expect the social institutions of businesses and companies to assume direct organisational level responsibility for various social issues, not only in their primary and secondary areas of operations, but also beyond. Norwegian companies are, for example, expected to play a larger role than before in offering welfare services (Hole and Osmundsen, 2006). In 2009, the Norwegian government produced a white paper on CSR in which they encourage companies to assume a more extensive – and corporate level – responsibility for a broad range of social issues. On the level of the firm, there are several signs of explicit CSR growing in strength. About 30 Norwegian companies (e.g. StatoilHydro, DnBNor, Telenor, Yara International, and the Kongsberg Group) are currently members of the Global Compact[20]. Gjølberg (2009) has found that Nordic companies rank at the very top of international CSR indexes, such as the Dow Jones Sustainability index, indicating that these companies have established organisational level voluntary CSR strategies and systems to implement those strategies, as well as publishing reports on their economic, social, and environmental performance. In sum, the logic of the liberal market, evidently co-existing with the logic of the coordinated market within the Norwegian institutional framework, can be characterised through the following key words (Matten and Moon, 2008): Individualism, discretionary agency, liberalism, network governance, isolated actors, and policies providing discretion.

Methods

To analyse managers' perceptions of CSR and how the cultural context in which they are embedded influences these perceptions, the focus group interview (Morgan, 1996) was chosen as the preferred data gathering method. "Focus groups are useful when it comes to investigating what participants think, but they excel at uncovering why participants think as they do" (Morgan, 1988, p. 25). In general, a focus group examines how ideas develop and operate within a given cultural context (Kitzinger, 1994).

This study build on the definition of focus groups as suggested by Morgan (1996, p. 130): "Focus groups are a research technique that collects data through group interaction on a topic determined by the researcher". The importance of this definition is

that it clearly locates the interaction in a group discussion as the source of the data. In contrast to data generated through other methods, e.g., individual interviews and surveys, the data elicited in focus group discussion is interpersonal and negotiated, allowing different and differing views to be presented and challenged (Kitzinger, 1994). Thus, the main purpose of focus group interviews is to access group norms and understandings of a subject (Bloor, Frankland, Thomas, and Robson, 2002); in this study, the purpose is to learn the group's understanding of explicit CSR, and more specifically, the basic responsibility mechanisms and issues inherent in the concept. As such, the unit of the analysis becomes the group[21] (Brandt, 1996); the results are a shared understanding of the participants' views; and although it is possible to pick out the individuals from transcripts, the unit of analysis remains the group (Crabtree, Yanoshik, Miller, and O'Connor, 1993) rather than the individual.

Focus group interviews are especially suitable to reveal data about subjects and issues where there exist strong norms of what is and is not appropriate (Guldvik, 2002). The subject of CSR is an obvious example of such an area, being considered as "appraisive" or valued (Moon, Crane, and Matten, 2005). The advantage of the focus groups is that the method encourages the participants (respondents) to contest the meaning of a subject and challenge each other's viewpoints; thereby uncovering meaning beyond what initially is valued and considered as appraisive.

Data Collection: Groups, Participants, Questions and Procedures

The focus groups consisted of managers with varied experience and knowledge of CSR, including representatives from the Norwegian textile industry, the oil and gas business (both operating companies and suppliers), the energy sector, food and nourishment industry, agriculture, and hotel and service companies. Given the homogeneity of the respondents constituting the focus groups – they belong to the profession of managers – five focus groups were considered a sufficient number to reach saturation. Several industries were selected because studies have shown that industry affiliation may systematically influence perceptions of CSR (Ibrahim, Angelidis and Howard, 2006). More than 30 managers were assigned to five groups. Each group was interviewed twice. The first interview was used to uncover the respondents' understanding of explicit CSR. During the second interview, the groups were asked to verify and further discuss the preliminary analysis of the first round of interviews. Notes were taken during the sessions and the interviews were audio recorded and transcribed.

Analysis and Interpretation

In general, this paper is based on qualitative coding, which can be defined as "(…) the process by which segments of data are identified as relating to, or being an example of, a more general idea, instance, theme or category (Lewins and Silver, 2007, p. 81)". Analysis of the interview transcripts, after verbatim transcription, occurred in two phases. In the first phase of analysis, researchers engaged in open coding (Strauss and Corbin, 1998). In this phase, we were looking for sensitising concepts (van den

Hoonaard, 1997) from the literature – e.g., "voluntary", "legal compliance", "human rights", "local community", and "working conditions" – characterising different dimensions of the concept of CSR (itself an example of a sensitising concept), drawing attention to a complex range of issues and elements all related to the function of business in society (Jonker, 2005). In the second phase of analysis, the data was coded more systematically into four categories deduced from the theoretical construct of explicit-implicit CSR, and, as such, constituted an example of theoretical (Lewins and Silver, 2007) or deductive (Miles and Huberman, 1994) coding.

In this way, the theoretical construct of explicit-implicit CSR – differentiated on the basis of the level of responsibility mechanism and the range of issues to attend to at the corporate level – was used as competing codes, each code representing a "particular system of beliefs, values, and images of the ideal" (Philipsen, 1987, p. 249).

In practice, there are several difficulties with using the categories outlined in the model. In the "real world", managers would most likely express both collective and corporate level strategies of responsibility for both a narrow and a broad scope of social issues. Furthermore, determining the borders between broad and narrow CSR issues is not easy (e.g., see Jones [1980] discussion about Preston and Post's [1975] distinction between social issues within and beyond a firm's legitimate scope of responsibility). On this background, while the overall coding strategy built upon theory (Lewins and Silver, 2007), the modes of data analysis may best be characterised by abduction (Danemark et al., 2002) rather than deduction. In contrast to the latter, an abductive way of analysing data constitutes *a plausible interpretation* rather than producing a logical conclusion. Abductive inference is thus a matter of interpreting a phenomenon in terms of some theoretical frame of reference (Dey, 2004), which in this case is the explicit-implicit CSR framework.

Narratives of Institutional Interpretation of Explicit CSR

The data evidently revealed the existence of multiple narratives about the appropriate meaning of explicit CSR, each constituted by a somewhat different set of statements or story-lines.

Responsibility Mechanisms

		Corporate	Collective
CSR Issues	Broad	"You know, the point of departure was to start an alternative-thinking company that can sniff around in what everyone else takes for granted, and challenge political authorities on issues having to do with protection of animals, environmental conservation, human rights, etc." "When you create community trade [CT] projects, these projects are to ensure that the population gets a fair wage. Profits from the cooperative are spent on building up infrastructures such as health, school system and roads." "What we talk about in any context is social responsibility and sustainable development. In Venezuela, we ran training courses on human rights for high court judges. That is [an example of] practising social responsibility. Norwegian authorities thought that was interesting and wanted to run the same programme for military court judges."	"What I mean is that companies have a social responsibility, along with the authorities and others, to go into [learning institutions], stimulate, help, and use their own skills [to promote learning]. We aren't just supposed to engage in social responsibility by employing people, but also bring our skills and human resources back to society." "Actively participating in developing industry norms, actively participating in the context of the OLF[22] … that is ensuring social responsibility. Voluntarily helping to develop an industry that will bring big returns to the surrounding community is something I would claim is social responsibility." "Authorities and companies initiate collaborative projects in order to create enough apprenticeship positions."
	Narrow	"Social responsibility has got to do with attitudes and [needs to be understood] in terms of what the company is able to influence." "… and it's obvious that there are limits as to what responsibility a company can and should take upon itself. I think it's up to the individual business to set limitations. "In my opinion, social responsibility isn't something that necessarily brings about results that are ethically right. Because companies make their own choices based on external pressures, [social responsibility] doesn't necessarily heed reason."	"Don't we have a responsibility to be even more profitable so that the state gets more tax revenues and, in those terms, there will be more to distribute [back to society]? Isn't that what our social responsibility is: taking as a basis what we have at our disposal…?" "… and part of social responsibility is utilising local suppliers […] No matter where we set up our rigs, we will make a big mark locally. In that way we can say that we are practising an implicit form of social responsibility." "Thinking long-term in terms of each individual having a job and salary is social responsibility."

Table 1: Categorisation of managers' statements about the role of business in society

Narrative 1 can be labelled the "the discourse of explicit expansionist CSR". This discourse consists of some credible and attractive story-lines: 1) the notion of the corporate entity as possessing an identified organizational level responsibility for

attending some social issues, and 2) the notion that the corporate entity has a responsibility to attend a broad range of issues on the societal arena. Within this manifestation of CSR, the discussions in the focus groups embedded interpretations of CSR in which the corporate entity was seen as a legitimate actor in expounding the needs of society, and in developing corporate strategies and mechanisms for attending self-interpreted societal issues. The corporate entity and the social institution of business were portrayed as a credible and efficient supplement to government or collective level initiatives for addressing societal issues. The following statement well illustrates the discourse of explicit expansionist CSR:

"You know, the point of departure was to start an alternative-thinking company that can sniff around in what everyone else takes for granted, and challenge political authorities on (social) issues… (…) Today we cooperate extensively with women's shelters in Norway. It is part of our close community focus. Women's shelters in Norway have never received state subsidies. Granting money for women's shelters is voluntary for local governments. When the local government cuts costs, they obviously cut back on services that aren't imposed by law [such as funding for women's shelters]. Over a period of three weeks, our shops collected signatures [in support of our local women's shelters]. We invited television companies and all the big newspapers to our presentation of the signing of the document by Bondevik [the Norwegian prime minister at the time]. He didn't come, but his secretary came… In the subsequent revised national budget, crisis centres got 4.5 million kroner…"

The discourse of explicit CSR thus embedded statements in which the logic of the coordinated market were contested and challenged, and where the corporate entity in part was interpreted as a social and political, and not only economic actor in society.

Narrative 2 can be labelled "the discourse of implicit contractive CSR". This discourse consists of some credible and attractive story-lines: 1) the notion of collective level responsibility for social issues, and 2) the notion of a narrow range of social issues for the corporate entity to attend to within the frames of collective level responsibility mechanisms. Within this manifestation of CSR, the discussions in the focus groups embedded interpretations and translation of explicit CSR in which the notion was understood and adapted to what can be called the traditional role and responsibility of business within the Norwegian society. The corporate entity was thus not seen as an appropriate object for identification and model for organising societal affairs. Rather, CSR was related to the core economic objective of the firm within a capitalist society, that of capital accumulation and profitability, and to legal compliance. The following two statements well illustrate the narrative of implicit contractive CSR:

"Don't we have a responsibility to be even more profitable so that the state gets more tax revenues and, in those terms, there will be more to distribute [back to society]? Isn't that what our social responsibility is: taking as a basis what we have at our disposal…?"

"If you read all labour legislation regulations regarding employees, you'll see that companies have a great responsibility towards their employees. (…) So there's this core element of social responsibility that is already imposed by law."

While the two narratives presented above respectively come close to the ideal types of the role and responsibility of business in society embedded in the model of the liberal and coordinated market, the two latter discourses of CSR combines elements of both logics towards hybrid manifestations of the concept.

Narrative 3 can be labelled "the discourse of implicit expansionist CSR". This discourse consists of some credible and attractive story-lines: 1) the notion of collective level responsibility for societal issues, and 2) the notion of a broad range of social issues for the corporate entity to attend to within the framework of some collective level responsibility mechanisms. Within this manifestation of CSR, the discussions in the focus groups embedded interpretations of CSR in which – as in the case of the discourse of implicit contractive CSR – the appropriate responsibility mechanisms for addressing social issues was collective, rather than corporate in nature. However, the important difference between the discourse of implicit contractive CSR and the discourse of implicit expansionist CSR, is that where the former only envisaging a role for the corporate entity in complying with existing – mostly national – legal and collective level frameworks regulating a relatively narrow range of social issues (e.g. health and safety at the work place), the latter envisaging a role for the corporate entity in complying with collective level frameworks – national as well as international – addressing a broader range of social issues (e.g. issues of community development and human rights). The following two statements are illustrative:

"But I think it will happen sooner or later: we will get a set of international regulations that regulate transparency and openness about how bonuses that companies pay in order to get a permit are spent. I'm most likely speaking to the detriment of my own company when I say that, but I would welcome it, the sooner the better. There will always be certain people who don't do it [demonstrate transparency on their own initiative]. So I personally would welcome international regulations or something similar."

"… I think that both public debate and initiative [regarding social responsibility] can come from the UN, EU, international labour and employer organisations, and NGOs. For instance, the EU can set regulations that we must take into consideration…"

The discourse of implicit expansionist CSR is in some respect the discourse of using politics and national and global governance mechanism to address the typical issues of explicit expansionist CSR, as human rights abuses, child labour, long working hour, and unhealthy working conditions. Where the discourse of explicit expansionist CSR embeds story-lines and interpretation of CSR in which the corporate entity develops mechanisms to address such issues, the discourse of implicit expansionist CSR embeds the very same broad scope of issues, but the appropriate solution is found in politics rather than in business.

Narrative 4 can be labelled "the discourse of explicit contractive CSR". This discourse consists of some credible and attractive story-lines: 1) the notion of corporate level responsibility mechanisms, and 2) the notion that the corporate entity should attend a narrow more than broad range of social issues through its corporate level responsibility strategies and mechanisms. Within this manifestation of CSR, the discussions in the focus groups embedded interpretations of CSR in which the notion was defined in terms of an identified corporate level responsibility for social issues. As such, and as within the discourse of explicit expansionist CSR, the corporate actor – more or less decoupled from other societal actors –was perceived as a legitimate actor in expounding societal problems, and in developing strategies and mechanisms to address social issues.

However, where the discourse of explicit expansionist CSR embedded story-lines and statements in which the corporate entity assumed an expansionist role in addressing a very broad scope of social issues, the key feature of the story-lines constituting the explicit contractionist CSR discourse, was the idea that CSR most appropriately must be understood in relation to the nature of the core economic activity of the individual firm or industry. As stated by two respondents: "Social responsibility must be defined in terms of an individual company's business activity." "An oil company has a responsibility to protect the environment, but no responsibility to contribute when natural disasters occur [famines, for instance]." An identified aspect of this position was a certain unease and reluctance about the expectation that companies should assume a to expansionist role in society, and assume a role for a very broad scope of social issues, an unease and reluctance well illustrated by the following statement:

> "… because it's obvious that the road to hell is paved with good intentions, and now we've got a whole lot of stuff that gets presented as corporate social responsibility. As a chief executive, I no longer manage a company; I manage society! I'm a little scared that it might get a bit overwhelming [and too many things get defined as corporate social responsibility]."

Closely connected to the position that CSR most appropriately must be understood and defined in relation to the nature of the economic activity of the firm, was the idea that the scope of issues companies should attend to must be defined in terms of what issues the firm has an possibility to influence or not: "Social responsibility has got to do with attitudes and [needs to be understood] in terms of what the company is able to

influence." Embedded in this position was statement and story-lines in which the actors do not denies the idea of companies assuming an expansionist role in society from a specific ideality point of view, but rather ends up in a more contractive and functional position on the background of companies – constituting first of all an economic institution in society – has a limited ability to efficiently attend a number of social problems:

> "I hang corporate social responsibility on 3 pegs: one is profitability or value generation. The second is environmental responsibility. The third is social responsibility. However, the last two items must be weighed up against profitability/value generation. That's where you've got the biggest opportunity to influence things. Companies can't assume responsibility for situations that they are unable to influence."

In sum then, the discussions in the focus groups evidently embedded four very different manifestations of CSR. Based on the four narratives of CSR, the explicit-implicit CSR nexus can then be more formally expressed in the following institutional models:

Explicit Expansionist CSR. Responsibility mechanisms in which the corporate entity – with the authority managers are granted within the framework of a formal organization – assumes a responsibility for a broad range of issues beyond the core economic operation or mission of the firm. Examples can include companies' charitable giving and voluntary support for society and local community development, the building of recreation facilities for employees and their families, support for schools and hospitals, and sponsoring of art events and sport arrangements.

Implicit Contractive CSR. Responsibility mechanisms initiated by collective level actors, and where the collective level actor function as the prime responsibility bearer, but where corporate entities affiliated with the responsibility program, gets involved in the administration of a narrow more than broad range of issues close to the core economic functioning of the corporate entity. Examples may include corporate internal administration of issues of health and safety, working conditions, emission reduction, etc.

Implicit Expansionist CSR. Responsibility mechanisms initiated by the state or other collective level actors, and where the collective level actor function as the prime responsibility bearer, but where corporate entities affiliated with the responsibility program or project, gets involved in the administration of a broad range of social issues. Examples may include the field of voluntary standard setting – like the Forest Stewardship Council – in which industry associations, companies, and nongovernmental

organizations assume responsibility for policy-making and enactment for a broad range of issues within a specific field (Gulbrandsen, 2008).

Explicit Contractive CSR. Responsibility mechanisms initiated by the corporate actor and with the authority managers are granted within the framework of a formal organization – in which the corporate entity assumes a responsibility for a narrow more than broad range of social issues, that is, for some issues close to the core economic functioning of the organisation. Examples may include philanthropic activities close to the company's mission, e.g. when a telecommunications company is teaching computer networks administration to students of the local community, or different bottom-of-the-pyramid strategies.

Discussion and Conclusion

Within the current institutional analysis of CSR, it is common to argue that a national level institutional field informs homogeneity and consensus around a specific manifestation of CSR within that national institutionalised framework (e.g. Aguilera et al., Gjølberg, 2009; Matten and Moon, 2005, 2008). What this study indicates however, is that multiple and contesting perceptions of explicit CSR exists within a national institutional field. Each of the four different narratives or manifestations of CSR identified in this study can be seen as informed by different institutional logics (Friedland and Alford, 1991; Thornton, 2004) – or different combination of these – co-existing in the historically grown national institutional framework.

The discussions and manifestations of explicit CSR should however not be understood as a "conventional" institutional analysis in which actors passively adapts to one or the other institutional script or logic. Rather, what this study indicates is that the existence of multiple logics and institutional contradictions informs agency (Clemens and Cook, 1999; Hardy and Maguire, 2008), in the form of enabling actors to attribute meaning to CSR in multiple ways. The actors become interpreters invoking upon, disobeying, and combining the features of different institutional logics as they promulgate multiple translations of a new convention like explicit CSR. The institutional analysis of this paper thus highlights the discursive and interpretative struggles (Zilber, 2002) that take place in the context of the translation and institutionalisation of explicit CSR within a national institutional field.

Within the manifestation of explicit expansionist CSR, actors actively disobey the logic of the coordinated marked in which agency is located in politics and political institutions. Rather, the discourse of expansionist CSR invoke upon the logic of the liberal market and the logics embedded notion of where to locate agency, in order to promulgate the corporate entity as a legitimate societal – and not only economic – actor that appropriate should develop strategies and corporate level responsibility mechanisms to address a broad range of social issues.

Within the manifestation of implicit contractionist CSR, the picture is the opposite. Actors evidently disobey the logic of the liberal market and invoke upon the logic of the coordinated market in order to promulgate an interpretation of CSR in which agency is located at the collective level, and where the corporate entity as a result assumes a role – within collective responsibility mechanisms – in the managing of a narrow more than broad range of social issues.

The manifestations of explicit contractionist and implicit expansionist CSR can be seen as hybrid manifestations of CSR in which actors invoke upon and combine different institutional logics in the attribution of meaning and interpretation of CSR. Within the discourse of explicit contractionist CSR, actors invoke upon the logic of the liberal market and its embedded notion of at which level to locate agency in order to promulgate a story-line of corporate rather than collective level responsibility mechanisms. At the same time, the discourse disobeys the institutional feature of the liberal market that the corporate entity appropriately should assume a responsibility for, and attend a broad range of social issues through corporate responsibility strategies.

Within the manifestation of implicit expansionist CSR, actors invoke upon the logic of the coordinated market in order to locate the responsibility mechanisms for social issues within political institutions an by other collective level actors. At the same time – and contrary to the discourse of implicit contractionist CSR – the discourse identifies a role for the corporate entity to attend a broad range of social issues, but within the frames of collective responsibility mechanisms.

Implications

The theoretical argument and empirical illumination promulgated in this paper has important implications. On the descriptive level, the argument suggested in this paper open for a better understanding of the specific institutional underpinnings informing different manifestations of CSR, underpinnings that brings attention to an institutional account of heterogeneity and contestation, rather than homogeneity and consensus, around manifestations of CSR within a given national institutionalised setting, and to the role of agency in promulgating multiple discourses and models of CSR. Different manifestations of CSR can thus be understood as originating in human agency, but in a context of institutional logics and structures that enable, as well as constrain, their agency (e.g. Giddens, 1984; Hajer, 1995; Zilber, 2002).

Further, the thesis of this paper opens for a better understanding of what explicit and implicit manifestations of CSR consists of. For example, the explicit expansionist model of CSR constitute a very different approach to the role and responsibility of business in society than its institutional informed opposite, the implicit contractionist model of CSR, in this study containing very different story-lines of appropriate responsibility mechanisms and issues for the corporate entity to attend to.

The identified narratives and manifestations of CSR are also inherently normative, and thus have important normative implications. Explicit expansionist, explicit contractive, implicit expansionist, and implicit contractive CSR constitute different alternatives to

the appropriate role and responsibility of business in society. CSR is thus not only about – like in the explicit expansionist model – developing corporate level responsibility mechanisms for a potential broad range of social issues based upon a corporate interpretation of what is valued in society. Nor is it only about – like in the implicit contractionist model – about assuming a role in managing a narrow range of social issues within the frames of some collective responsibility mechanisms. It is also about contributing to develop and/or assuming a role within collective responsibility mechanisms which aims to address the complex set of issues companies currently are expected to attend. The responsibility manifestations of most firms are likely to possess the features of both explicit expansionist and contractive CSR, and implicit expansionist and contractive CSR. The CSR configurations suggested in this paper may help societal actors to more clearly understand and envision the different (institutional embedded) alternatives available to the responsible company. Neither explicit expansionist nor implicit contractive manifestations of CSR are given or indomitable. Rather, hybrid manifestations will occur, as actors continue to invoke upon the logics of both the liberal and the coordinated market, confirming to, contesting, or combining the logics key assumptions about the role and responsibility of business in society.

Future research should reveal the further institutionalisation and mix of the different models of CSR indicated through the research reported in this paper. Especially welcoming – I believe – would be research that closely investigated the role of companies in promulgating different models of CSR, and the way in which agency impact on the institutionalization or deinstitutionalization of the institutional logics enabling institutionally given agency and manifestations of CSR in the first place. As such, the institutional analysis of CSR would be able to acquire increased insight and understanding into the conflicts of interests, power-battles, and politics that evidently take place within the rebalancing or corporations' relationship with societal institutions (e.g. Banarjee, 2008; Crane, Matten and Moon, 2008; Hanlon, 2008; Levy, 2008; Scherer and Palazzo, 2007; Vogel, 2005).

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Study IV:
Measuring Orientations Towards Corporate Citizenship

Authors: **Bjørn-Tore Blindheim, University of Stavanger, Torvald Øgaard, Aslaug Mikkelsen / NORWAY**

ABSTRACT

The literature on institutional analysis, comparative political economy, and corporate governance has stressed that the cognitive frames, mindsets, conceptions of control, and worldviews of corporate managers are important determinants of how managers run their firms (Campbell, 2007). In spite of this knowledge, only a few scales have been developed to measure managers' attitudes regarding the role and responsibility of business in society. Measurements of individuals' orientations towards the full range of issues companies are expected to assume a corporate level responsibility for and act upon are especially scarce. Based on the conceptual vantage point of citizenship (e.g. Stoke, 2002) and thinking of the corporate entity as a citizen (e.g. Moon, Crane, & Matten, 2005, and Nèron & Norman, 2008), we develop and validate a scale measuring managers' orientation towards seven different CSR issue components: Socio-economic development, anti-corruption and bribery, environmental responsibility, workers' rights and welfare, supply-chain responsibility, political participation, and accountability.

Corporate Social Responsibility (CSR) has become a truly global phenomenon (e.g. Matten & Moon, 2008a). It can be understood as a regulatory trend (Sahlin-Andersson, 2006) in which society – through politically sanctioned standards and guidelines – expects companies to assume voluntary responsibility for a broad range of social issues[23]. These issues include those close to the core economic activity of the firm, such as marketing and consumer issues, as well as those illustrating companies' social and political role in society (e.g. Hsieh, 2009; Matten & Crane, 2005, and Scherer & Palazzo, 2007), such as workers' rights and welfare, community development, environmental protection, human rights, institutional capacity building, and accountability[24].

Given the voluntary nature of the regulatory framework of CSR (e.g. O'Rourke 2003; Utting, 2002), corporate compliance as well as the precise manifestation and direction of corporate responsibility lie at the discretion of companies (Matten & Moon, 2008a). However, a number of factors affect companies' adaptation to the CSR policies, standards, and guidelines constituting the regulatory framework of CSR, hence impacting managerial and organizational discretion. Such factors include variables at multiple levels, e.g. the socio-cultural, national, industry, firm-specific, and individual levels (e.g. Aguilera, Rupp, Williams, & Ganapathi, 2007; Campbell, 2007; Jones, 1999).

In this paper, we focus on the potential influence of the individual level on the organizational level manifestation of CSR. The literature on institutional analysis, comparative political economy, and corporate governance has stressed that the cognitive frames, mindsets, conceptions of control, and worldviews of corporate managers are important determinants of how managers run their firms[25] (e.g. Aquilere & Jackson, 2003; Dore, 1983; Hall & Soskice, 2001; Ocasio, 1997; Whitley, 2004). As such, the individual level is, in many ways, the key level in determining whether social responsibility will be "realized in decisions by real people in organizational and other settings" (Jones, 1999: 172).

Despite the potential impact of managers' orientation towards various social issues on the actual organizational level management of these issues (Sharfman, Pinkston & Sigerstad, 2000), and on how managers and ultimately corporations use their discretion to adapt or not adapt to societal expectations about acting responsibly, there is limited knowledge about managers' orientation towards the different economic, social, environ¬mental, and political issues constituting the construct of CSR.

Only a few scales have been developed to measure managers' attitudes towards the issues of CSR. In addition, scaled measures of individuals' orientations towards the full range of issues which companies are expected to assume a corporate level responsibility for and act upon appear to be lacking. Therefore, the aim of this paper is to develop and validate a measure of managers' orientation towards the broad range of issues constituting the CSR construct. The goal is to explore issues revealing not only the economic, legal, and social nature, but also the political nature of companies' role in society (e.g. Matten and Crane, 2005), where managers' attitudes have the potential to affect not only organizational level variables, but also the conditions for political participation and societal development (e.g. Dahl, 1982)[26].

In order to accommodate the different roles and broad scope of issues the corporate entity is expected to assume responsibility for, this paper builds on the notion of developmental democracy (e.g. Stokes, 2002) and of thinking of the corporate entity as a citizen (e.g. Moon, Crane, & Matten, 2005, and Nèron & Norman, 2008). The advantage of citizenship is that it is a concept which is expressly concerned with roles and responsibilities (Crane et al., 2008, p: 4):

"…citizenship is an organising principle for aligning roles and responsibilities among members of political communities (i.e. on a horizontal dimension) and between them and other institutions wielding power and responsibility (i.e. on a vertical dimension)."

Below, we first clarify our initial understanding of CSR. Based on this account, we briefly review the literature on existing scales within the corporate responsibility literature. Based on thinking of the corporate entity as a citizen, we identify seven CSR issue components. After presenting the methodology for the current study, we assess the scale reliability and validity. Finally, we discuss the theoretical, managerial, and research implications of the suggested CSR issues scale.

THEORETICAL AND EMPIRICAL REVIEW

What is Corporate Social Responsibility?

In recent work, Matten & Moon (2005, 2008a) defined CSR as a dual construct consisting of the two distinct element of explicit and implicit CSR. While implicit CSR refers to the corporation's role within the "wider formal and informal institutions for society's interests and concerns", explicit CSR refers to

"... corporate policies that assume and articulate responsibility for some societal interests. They normally consist of voluntary programs and strategies by corporations that combine social and business value and address issues perceived as being part of the social responsibility of the company" (Matten & Moon, 2008a: 409).

The explicit notion of CSR represents our point of departure for the inquiry reported in this paper. Following this latter definition, CSR can be identified trough *the institutional level* in which the basic responsibility mechanisms for addressing social issues are located. Making a distinction between organizational/corporate and collective level responsibility mechanisms, the responsibility mechanisms of CSR are inherently more corporate than collective in nature. The corporate entity has a distinct and independent responsibility to develop mechanisms addressing various social issues.

Secondly, CSR can be identified trough the *broad scope or range of issues* (e.g. Whetten, Rands, & Godfrey, 2002) the corporate entity is expected to assume an organizational level responsibility for and act upon. This means that the scope of issues includes not only issues within companies' primary, but also in their secondary area of operations (Brummer, 1991; Preston & Post, 1967), in which the indirect as well as direct effects of companies' activities become social issues as well.

The *broad scope of issues* companies are expected to assume an *organizational level responsibility* for and act upon become visible when looking at some of the standards and guidelines constituting the regulatory framework of CSR (see Table 1).

CSR Issue Categories	Examples of CSR Issues
Accountability	Transparency, stakeholder engagement, reporting, monitoring, etc.
Business conduct	Legal compliance, anti-corruption and bribery, political activities, etc.
Community involvement	Economic development, philanthropy, employment of local workers, etc.
Environmental protection	Precautionary principle, product life cycle, emission, etc.
Human rights	Working hours, health and safety, indigenous rights, child labour, etc.
Marketplace/consumer	Marketing, product quality, consumer privacy, etc.
Workplace/employees	Non-discrimination, training, maternity/paternity leave, etc.

TABLE 1: Selected issues constituting CSR as a regulatory framework (adapted from Gordon, 2001)

The broadness of scope can be understood with reference to the construct of CSR being both appraisive and having very open rules of application (Moon, et al., 2005). As societal expectations have changed, new issues (e.g. global warming and sustainable development) have arisen and been added to the agenda without the old ones (e.g. air, water, and noise pollution) disappearing (Carroll, 1999; Frederick, 2006; Roome, 2005), constantly forming and re-constituting the construct, or what issues the corporate entity is expected to assume responsibility for.

Although the literature on CSR underlines the importance of identifying the issues of CSR (e.g. Carroll, 1979), the formative rather than reflexive nature of the construct (Frederick, 2006; Gjølberg, 2009) is perhaps one reason why few studies have been developed to systematically measure managers' attitudes and orientations towards it (Sharfman et al., 2000). The study reported in this paper represents a contribution to filling the void in knowledge about managers' perceptions regarding the broad scope of issues constituting the CSR construct.

Existing Scales Measuring Managers' Attitudes Towards CSR and Social Issues

Below, we briefly present and review the scale development literature within the study field of CSR. The review is limited to scales measuring managerial attitudes towards corporate social responsibility and the issues constituting this construct. It thus does not review the large literature on measuring the manifestation of CSR at the organizational level or corporate social performance. See Turker (2008) for a recent overview of this latter area.

Van Over & Barone (1975) measured executives' perceptions as a "CSR ethic" versus a more traditional view of the role and responsibility of business in society: "the profit ethic". The scale does not measure the importance of different issues within the CSR model. In addition, the scale builds on a somewhat narrow or traditional understanding of CSR (e.g. Carroll, 1999) as only providing philanthropic contributions.

The scale developed by Ostlund (1977) was mainly designed to measure the difference between top- and mid-level managers' attitudes towards nine given areas of corporate responsibility. Although a promising investigation into the dimensionality of CSR, the proposed dimensions are not carefully integrated into existing literature and may seem

rather ad hoc. Furthermore, five of a total of nine CSR areas appear to be measured by one or two items, and the study reports no formal validation of the proposed scales.

Based on Carroll's (1979) CSR construct, Aupperle (1982, 1984, and 1985) developed a scale to measure individual perceptions of the relative importance of the CSR categories. This scale has been used in numerous studies concerned with measuring managers' CSR orientations and attitudes (see, for example, Ibrahim and J. P. Angelidis, 1995; Marz, Powers, & Queisser, 2003, and Pinkston & Carroll, 1994). The scale does not, however, inform us about how managers perceive and judge the relative importance of the issues and topical areas with which these categories are affiliated (e.g. environmental protection, human rights, corruption, etc.).

In a somewhat similar manner as Van Over and Barone (1975), the four-item Socially Responsible Attitudes Scale developed by Hunt, Kieker, & Chonko (1990) does not measure the importance of different issues within the CSR concept. Rather, it measures "the willingness to (at times) sacrifice corporate goals, interests, and needs to those of society" (Hunt et al., 1990: 241).

The measure of social responsibility developed by Goll & Zeitz (1991) includes items about the company's beliefs regarding monitoring opportunities to solve social problems, performing in ways consistent with philanthropic expectations, and emphasizing philanthropy as a useful measure of corporate performance. As with the measure developed by Van Over & Barone (1975), the measure builds mainly on the fourth category of the Carroll (1979) construct, and, in addition, does not measure the importance of different CSR issues.

From our perspective, the 13-item Perceived Role of Ethics and Social Responsibility (PRESOR) scale developed by Singhapakdi, Vitell, Rallapalli, & Kraft (1996), is more interesting. The instrument consists of items reflecting different dimensions of ethics and social responsibility within an organization. However, the overall aim of the instrument is to measure managers' perceptions regarding the role of social responsibility in achieving organizational effectiveness. The items mainly ask about the importance of social responsibility relative to more conventional measures of organizational effectiveness. The PRESOR scale does not offer a systematic measure of the different topical areas and issues of CSR.

Quasi & Brian (2000) developed a scale measuring managers' attitudes towards CSR based on conceptualising CSR as a two-dimensional model. By combining the span of corporate responsibility (narrow vs. wide responsibility) with the range of outcomes of corporate social commitments (benefits vs. costs of CSR actions), their scale aimed to measure attitudes based on four distinct models of CSR: Modern View, Philanthropic View, Socioeconomic View, and Classical View. Although this scale is useful for measuring the CSR perceptions of managers' in different cultural and economic contexts (Turker, 2008), the scale does not systematically measure how managers evaluate and perceive the different issues constituting the CSR construct.

Of special interest is the Social Issues Scales developed by Sharfman et al. (2000). Based on a social issues (Wartick & Mahon, 1994) literature review, Sharfman et al.

(2000) developed a list of 16 items measuring various social issues. To identify the structures underlying these items, exploratory factor analysis was used, resulting in a three-factor solution, labelling factors 1 to 3 as follows: community issues, regulatory issues, and political issues. Although this scale is interesting, for our purpose, it is somewhat too narrow in scope to measure the very broad range of issues on the CSR agenda.

As the CSR scales development literature discussed above clearly reveals, none of the existing scales purports to measure the broad range of social issues the corporate entity is expected to assume a corporate level responsibility for and act upon. We can thus conclude that there is a need to develop a reliable and valid scale measuring the different responsibility areas and issues of CSR. Next, we present an approach from which we identify the issues of the construct of interest.

ISSUES OF CSR: A CORPORATE CITIZENSHIP PERSPECTIVE

There are different ways to identify and categorise the issues that fall under the corporate responsibility heading. One method, building on an integrative approach to CSR (Garriga & Melè, 2004) is to deduce issues and categories from what Sahlin-Anderson (2006) referred to as the regulatory framework of CSR[27]. Another approach is to deduce issues and categories of CSR from a specific theoretical or conceptual vantage point (e.g. Steurer, Langer, Konrad, & Martinuzzi, 2005). In this study, we combine the two. We thus want the categories and issues of CSR to be contingent on a theory determining the overall role and responsibility of business, while at the same time reflecting the broad range of issues society expects companies to assume a responsibility for and act upon through politically sanctioned standards and guidelines.

In this study we build on theories of democracy and the concept of citizenship. This is because thinking about the corporate entity as a citizen reveals both the broad ranges of issues companies are *expected* to assume a responsibility for and act upon, as well as the economic, legal, social, and political roles the corporate entity *plays* in contemporary society (Crane, Matten, & Moon, 2008). Through CSR issue resolution, managers and companies are part of societal governance (Moon, 2005) – that is, as an aspect of the system which "provides direction to society" (Peters, 1997: 57) – and the authoritative allocation of values and resources in society. How companies act (or not act) in regards to various social issues – e.g. workers' rights and welfare, community development, environmental responsibility, and accountability – impact on the conditions for citizens' political participation (e.g. Dahl, 1982; 1989) and, ultimately, for a thriving democracy and societal development.

Using the conceptual vantage point of developmental democracy and corporate citizenship, the current study joins a growing body of literature explicitly acknowledging the political nature of CSR and asking for more politically rooted conceptualizations of CSR and analysis of the firm (e.g. Crane et al., 2008; Hanlon, 2008; Hsieh, 2009; Levy, 2008; Levy & Kaplan, 2008; Matten and Crane, 2005; Matten

& Moon, 2008a,b; Moon et al., 2005; Nèron & Norman, 2008; Reich, 1998; Scherer and Palazzo, 2007, and Vogel, 2005[28]).

Aligning Citizenship with the Corporate Entity: The Corporation as a Citizen

Within the business and society literature, the notion of citizenship has been connected to the unit of the firm and the concept of corporate social responsibility in at least four different ways[29]: corporations as governments (Matten & Crane, 2005), corporations as (similar to) citizens (e.g. Logsdon & Wood, 2002; Moon et al., 2005; Nèron & Norman, 2008, and Crane et al., 2008), stakeholders as citizens (Crane, Matten, & Moon, 2004), and corporations as constructing and transforming the notion of citizenship itself (Matten & Moon, 2008b). In this paper, we adopt the second approach, and hence discuss the issues and responsibility areas of CSR while thinking of the corporate entity as a citizen[30]. We do this from the conceptual vantage point of developmental democracy.

Theories of Developmental Democracy[31]

Theories of developmental democracy (e.g. Dahl, 1982, 1989; Marshall, 1965, and Rawls, 1973, 1993) suggest that for the polity and society to flourish, the principles and institutions of protective democracy (Held, 2006) are insufficient. In addition, individual participation in politics and communal bonds between individuals is needed. Individual participation in politics is not only a condition for a thriving polity, but also for personal development. Therefore, the "good citizen", from a developmental democracy point of view (Stokes, 2002: 37):

"… participates in political activity wherever possible, at all levels within a polity. Citizens will vote in elections, but also participate in the other non-political associations of civil society. While participation may include relatively unreflective political action such as casting an uninformed vote, it also ought to include participation in informed public discussion and debate. (…) It is assumed that, as citizens become more active in their local communities, workplaces and churches, they will come into touch with wider national issues… (…) Although citizens can pursue their own interests, one of their duties is to seek the common good, which may also reach beyond their national community."

Concern for the common good is central for theories of developmental democracy. In some sense, theories of developmental democracy represents a critique of capitalism and property, and the liberal minimalist belief that civic practice similar to the model of the market in which human beings are understood as competitive individualists will make democracy thrive. Therefore, developmental democracy theorists generally envisage an interventionist conception of the state in order to enable its members to fulfil themselves and their civic duties. The aim is to use collective resources in order to expand the overall conditions of society. On this ground, developmental democracy allows citizens more extensive rights (e.g. education, health, and social welfare) than liberal theories (e.g. Marshall, 1965), but, as a result, where liberal theory places emphasis upon the rights of citizens, developmentalists also stress the importance of

citizens' *obligations* to the larger community. This latter point is critical when thinking of the corporate entity as a citizen.

Implications of Thinking of the Corporation as a Citizen: Responsibilities and Issues

Theories of developmental democracy have far-reaching implications for the role and responsibility of business in society when thinking of the corporation as a citizen, implications which are beyond the scope of this paper to discuss. Here, we will narrow our discussion to identifying possible issues in which the corporate entity can assume an organizational level responsibility for and act upon.

What characterises theories of developmental democracy is the breadth and scope of citizens' participation in society. Political participation is not confined to political institutions and voting in elections. Rather, the arena for citizenship and political participation is extended to the civil and economic spheres of society, where social flourishing depends on citizens' active participation in society. On this ground, Moon et al. (2005) and Crane et al. (2008) argued that the "triple bottom line" (TBL) concept – directing attention not only to the economic, but also to the social and environmental value companies add to society (Elkington, 1994; 1997) – represents a way of conceptualising the role and responsibility of companies from the lenses of developmental democracy theories. Stokes (2002: 38) came to a somewhat similar conclusion, arguing that theories of developmental democracy reach beyond the traditional CSR activity as charitable contributions, including "internal obligations to treat their workers according to certain standards, as well as external duties to avoid bringing social and ecological harm to communities". In a discussion of CSR implications from somewhat similar theoretical assumptions, Nèron & Norman (2008) suggested that companies' responsibilities include issues such as obeying relevant laws and regulations, contributing to community betterment though charitable giving and through the core economic activity and operations of the firm, valuing economic activity, and, finally, responsible participation in public processes and in the development of frameworks and institutions aimed at regulating the activities of business itself.

Based on the above discussion, we suggest that the following seven responsibility areas and issues of CSR can be identified from the conceptual vantage point of citizenship and developmental democracy (Figure 1): socio-economic development (SED), anti-corruption and bribery (ACB), environmental protection (EP), political participation (PP), working rights and welfare (WRW), supply-chain responsibility (SCR), and accountability (A)[32]. These are the seven principal components used in the development of the CSR issues scale in this study. CSR issue orientation is thus hypothesized to be a multidimensional construct consisting of seven one-dimensional components.
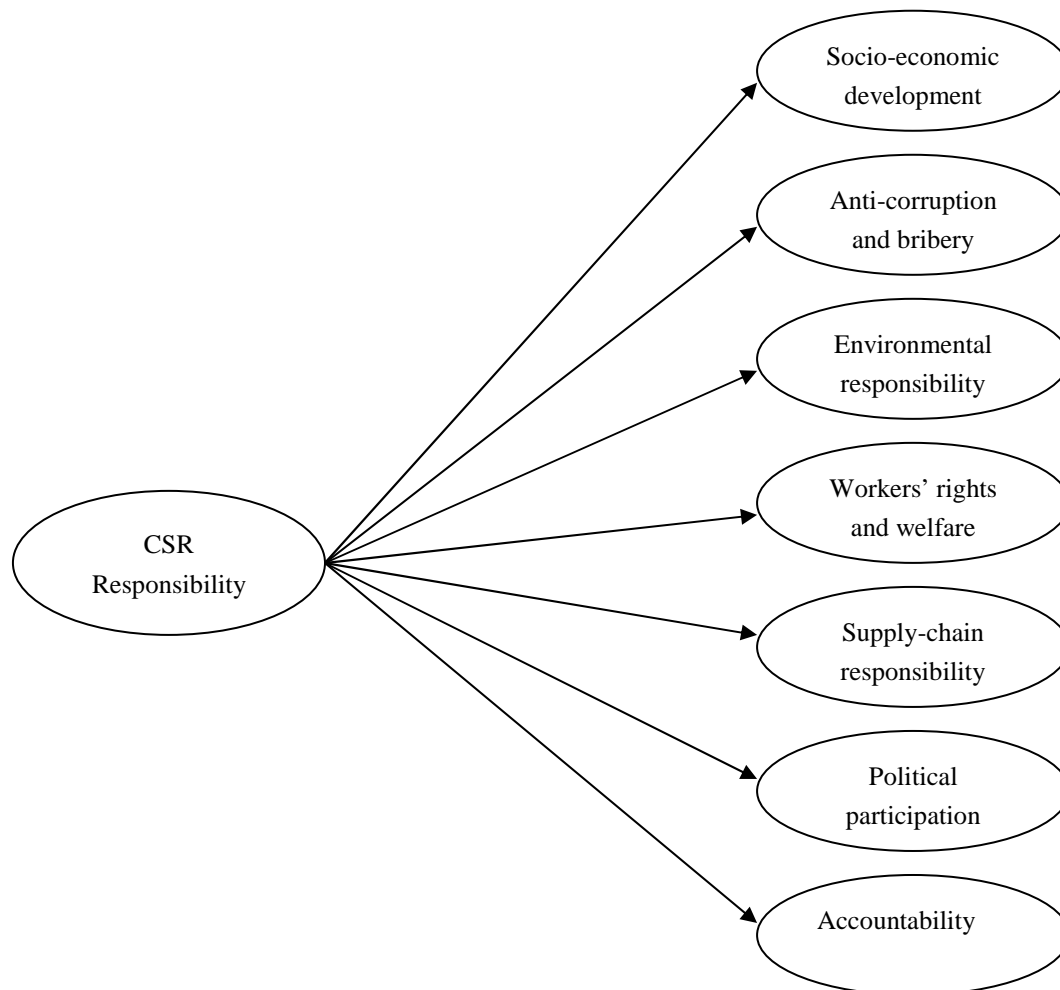
FIGURE 1: Responsibility areas of CSR from a corporate citizenship perspective

The importance of these issues is not just that they emerge as issues for which the corporate entity should assume responsibility in one form or the other, but also that they represent areas which society – through politically sanctioned standards and guidelines – expects business to accommodate. The seven components are, for example, all represented in the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact. In addition, the identified issues are all represented in the forthcoming (2010) ISO standard for corporate responsibility (ISO 26000), in which representatives from governments, consumers, industry, labour organizations, NGOs, and other interested parties participated in creating (ISO[33]). It thus seems reasonable to conclude that the identified issues all constitute aspects of what Sahlin-Anderson (2006) referred to as the regulatory framework of CSR.

METHODOLOGY

Churchill's (1979) research paradigm on developing constructs was used to construct measures of attitudes towards the issues and responsibility areas of CSR in the current paper. The process of developing an instrument in this paradigm involves: 1) specifying the domain of the construct; 2) generating sample items; 3) collecting data; 4) purifying measures; 5) assessing reliability and validity; and 6) developing norms.

Generating the Item Pool

In order to develop a list of items representing each of our theoretical dimensions, we used focus group interviews (e.g. Barbour & Kitzinger, 1999). The groups consisted of managers with varied experience and knowledge of CSR, including representatives from the Norwegian textile industry, the oil and gas business (both operating companies and suppliers), the energy sector, food and nourishment industry, agriculture, and hotel and service companies. More than 30 managers were assigned to five groups. Each group was interviewed twice. In the first interview, each group was asked to identify and describe preferred corporate actions based on our theoretical approach to CSR. During the second interview, the groups were asked to verify and further discuss our preliminary analysis of the first round of interviews. Notes were taken during the sessions and the interviews were audio recorded and transcribed.

In order to generate the initial list of items, we engaged in both open (Strauss & Corbin, 1998) and theoretical/deductive (e.g. Lewins & Silver, 2007; Miles & Huberman, 1994) coding. In the first phase, in order to get an initial overview of the data, we were looking for sensitising concepts (van den Hoonaard, 1997) from the literature – e.g. human rights, local community, and working conditions. In the second phase of item generation, the data were coded more systematically into the CSR issue components deduced from the theoretical construct of citizenship (Stoke, 2002) and from thinking of the corporate entity as a citizen (e.g. Nèron & Norman, 2008). In sum, this analysis generated 171 items to be further evaluated.

To ensure adequate coverage of the CSR issue domains, each of the 171 items was evaluated and classified on two dimensions: the seven components of CSR issues and the four categories of responsibilities suggested by Carroll (1979, 1991; discretion, ethical, legal, and economic responsibilities; see Figure 2). The classifications were made by an expert group consisting of seven academics (master students, Ph.D. students, professor) all familiar with the CSR concept. The group decisions were based on a general consensus. After removing and/or revising items considered to be irrelevant or ambiguous, the list of items was further reduced after a discussion about which items best represented the domain of the components given our theoretical approach. Great care was taken to secure items within the seven components and four responsibility categories. This procedure resulted in 29 items.

CSR ISSUE COMPONENTS	Socio-economic development	Economic	Legal	Ethical	Discretion
	Anti-corruption and bribery				
	Environmental responsibility				
	Workers' rights and welfare				
	Supply-chain responsibility				
	Political participation				
	Accountability				

CATEGORIES OF RESPONSIBILITY

FIGURE 2: The relationship between the categories and issues of corporate social responsibility

Empirical Setting, Data Collection, and Sample

We chose the textile industry to test the CSR issue scale for two reasons. First, the industry has substantial potential for CSR (Laudal, 2009), and is facing a range of different CSR issues, such as issues related to the payment of living wages, the adoption of fair purchasing practices, and respecting workers' right to freely associate and bargain collectively[34]. Second, given the variety and complexity of the industry (Frynas, 2003), e.g. the different type of organizations constituting the industry (e.g. producers, agents, wholesalers, and shops), it is natural to expect significant variance in the focal variables.

To secure variance in the focal variables, we drew a quota sample (Blaikie, 2000). The Norwegian Register of Business Enterprises was used to develop the sample. The clothing and leisure part of the clothing industry consists of about 5,000 companies. The sampling strategy was based on company type (5 categories: chain offices, stores, agents, wholesalers, and producers) and size (5 categories based on number of employees: 0-3, 4-9, 10-49, 50-199, 200 >). In total, 868 companies were included in the sample, covering all possible 25 categories of companies emerging from cross-classifying the categories of company type and size.

In each of these companies we identified the managers who had main responsibility for importing merchandise or who were in control of the activities regarding CSR in the supply chain or at the strategy level. These managers received an e-mail with a link to the electronically-based questionnaire. After three weeks, nonrespondents received a follow-up e-mail. The questionnaire was completed by 233 of a total sample of 868 managers, for a response rate of 28 percent. Although not overwhelming, this response rate is comparable to similar surveys of management level (e.g. and senior executives (Ghoshal & Noria, 1989).

The gender distribution of the sample was roughly equal (see Table 2), with a mean age of 45 years. A large majority of the managers were from small- and medium-sized companies, and only 8 percent were from companies with 250 employees or more (see Table 2). About 60 percent of the managers represented shops and chain stores. The

remaining 40 percent were divided among the groups representing producers, agents, and wholesale dealers. Together, the data indicate that the responding managers are well-distributed over the population.

Gender	Male	50.3 %	
	Female	49.7 %	100%
Number of employees	*1 – 9*	62.0 %	
	10 - 49	21.0 %	
	50 - 249	9.0 %	
	250 – and above	8.0 %	100%
Type of business	*Producers*	20.0 %	
	Agents	12.0 %	
	Wholesale dealers	11.0%	
	Shops and chain stores	57.0%	100%

TABLE 2: Characteristics of the sample

RESULTS: ASSESSMENT OF SCALE RELIABILITY AND VALIDITY

The data were analysed using SPSS (Norusis, 2008) and LISREL (Jöreskog & Sörbom, 1996). With 233 respondents in the final sample and a maximum of 29 scale items to be analyzed, the degrees of freedom did not fully meet the Nunnally (1978) criterion for factor analysis of at least a 10 to 1 ratio of cases to items. The Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) was .87, well within the limits (Kaiser, 1970, 1974). However, since the initial factor analysis is done on the sub-scales with a maximum of 5 items, the degrees of freedom are more than adequate.

Reliability and Unidimensionality of the Scales

In order to evaluate the unidimensionality – or homogeneity – of the seven subscales, we conducted exploratory factor analysis (EFA) of the items constituting each component. Some of the items showed less than desirable factor loadings, and based on an evaluation of the loadings and theoretical considerations, eight items were deleted from the scale, leaving a total of three items per dimension, as illustrated in Table 3 below.

Components	Item description	Value
Socio-economic development	Companies should support organizations, activities, and projects in the local community	.758
	Companies should prioritize the purchase of services and products from local suppliers	.639
	Companies should contribute to the local infrastructure and building of institutions when operating in or purchasing goods from developing countries	.803
Anti-corruption and bribery	Companies should work actively to avoid corruption	.771
	Company employees should not give or receive gifts other than promotional gifts of little value	.597
	Companies should raise the awareness of employees concerning what is regarded as corruption in their own company	.919
Environmental protection	Companies should limit harmful effects to the environment by saving energy, reducing waste, using environmentally-friendly transportation, etc.	.741
	Companies should do more than required by the public authorities in production countries to safeguard the environment	.712
	A key performance target for companies should be the greatest possible reduction in harmful effects on the environment	.805
Workers' rights and welfare	In cooperation with employees, companies should develop support schemes for a smooth return to work after illness, repetitive strain injuries, or similar	.779
	In their recruitment, companies should endeavor to achieve diversity in the workforce	.700
	Management should always confer with employees in important matters	.600
Supply-chain responsibility	Companies should contribute to the observation of human rights through an informed choice of suppliers	.823
	Companies should not use suppliers who employ child workers under the age of 16	.672
	Companies should only choose suppliers who guarantee satisfactory working conditions for their employees	.771
Political participation	Companies should support organizations that work for the improvement of human rights in the countries in which their business activities are located…	.736
	Companies should promote stricter environmental requirements in their country of operation	.703
	Companies should enter into an open dialogue with customers, suppliers, the local community, and others about problematic aspects of their activities	.695
Accountability	Companies should make public all contributions given to voluntary organizations, charities, sponsorship, etc.	.664
	Companies should provide clear and precise information about their products and activities to customers, suppliers, the local community, and others	.859
	Companies should investigate whether there are any negative effects on the local community where their activities are based…	.721

TABLE 3: Items and item-values object for confirmatory factor analysis

To further check for the unidimensionality of the subscales, we assessed: a) the mean inter-item correlation of the items constituting each of the seven subscales, and b) the range of the inter-item correlation (e.g. Clark & Watson, 1995).

Components	N. of items	Co. Alpha	Mean-inter item correl.	Range	Explained variance	Lowest factor loading
Socio-economic development	3	0.66	.391	.304 – .482	60 %	.707
Anti-corruption and bribery	3	0.64	.440	.319 – .599	63 %	.687
Environmental protection	3	0.71	.422	.324 – .524	64 %	.761
Workers' rights and welfare	3	0.58	.326	.259 – .416	55 %	.667
Supply-chain responsibility	3	0.69	.430	.325 – .514	62 %	.734
Political participation	3	0.60	.339	.267 – .389	56 %	.713
Accountability	3	0.56	.333	.149 – .465	56 %	.644

TABLE 4: Reliability and convergent validity

Briggs & Cheek (1986) suggested that the average inter-item correlation should fall between .15 and .50. The results in Table 4 show a mean inter-item correlation for each of the seven dimensions ranging from .333 to .440, which is well within the limits. The inter-item correlations also cluster close to the mean value, thus indicating a satisfactory level of unidimensionality of the subscales.

Crobach's alpha (Cronbach (1951) was used to further assess subscale reliability. Coefficient alphas ranged from 0.56 for "accountability" to 0.71 for "environmental protection" (see Table 4): Some of these values do not meet the usual 0.8 criterion for basic and applied research (Nunnally, 1978). Nunnally (1978), however, suggested that an alpha of 0.5 or 0.6 could be sufficient at the early stages of research. Furthermore, the coefficient alpha is sensitive to the number of items included in the scale (Clark & Watson 1995). With the small number of items per scale, the convincing factor analysis results, and the satisfactory inter-item correlations, we concluded that the reliabilities of the scales are adequate.

Convergent Validity

Convergent validity refers to the degree of agreement for two or more measures of the same construct (Trochim, 2006). Table 4 reveals that, for each subscale, the one-factor solution explains a considerable amount of variance of the three items of each scale (55% - 64%), and all factor loadings are considerable. Thus, the scale has good convergent validity.

Discriminant Validity

We started the assessment of discriminant validity with an analysis of the correlations between the seven components constituting the CSR issues scale (Table 5). None of the correlations in Table 5 are large, indicating that the sub-dimensions of CSR are different constructs and that the measures we have developed have discriminant validity.

	SED	ACB	EP	WRW	SCR	PP	A
SED	1						
ACB	0.190	1					
EP	0.310	0.200	1				
WRW	0.250	0.170	0.170	1			
SCR	0.180	0.180	0.230	0.210	1		
PP	0.420	0.190	0.300	0.190	0.200	1	
A	0.340	0.160	0.210	0.150	0.160	0.260	1

TABLE 5: Correlations among the seven components of the CSR issue orientation
[a] All correlations are significant at the 0.01 level (p < .01)

Further, the somewhat low levels of correlation between the components indicate that, although the components belong to a common construct, they can not be explained by one general unidimensional "CSR issues variable". Rather, our proposition of CSR issues as a multidimensional construct is supported.

To further investigate the discriminant validity of the scale we conducted a confirmatory factor analysis comparing a one-factor solution to the 7-factor solution. The results presented in Table 6 clearly indicate that the 7-factor model has a better fit to the data than the common-factor model.

	Chi-square	Df	p	RMSEA
1-factor solution	911.98	252	<.00	.144
7-factor solution	302.21	168	<.00	.056
Difference	609.77	84	-	-

TABLE 6: Table 6: Goodness of fit test for a one-factor vs. a seven-factor model

Final Test of Model Fit (and Construct Validity)

To assess the goodness of fit of the full measurement model, confirmatory factor analysis was performed. The analysis of the 21-item, 7-factor model provided an acceptable level of goodness-of-fit (chi-square = 302.21, df = 168, p < .00, RMSEA[35] = .056, Goodness of Fit Index (GFI) = 0.89, Adjusted Goodness of Fit (AGFI) = 0.85) Although the GFI and AGFI fall just below the usual 0.9 criteria, we find it acceptable because research on the political aspects of CSR issues is in an early stage.

Nomological Validity

Nomological validity refers to the degree to which the construct, as measured by a set of indicators, predicts other constructs that theoretical and empirical work indicates it should (e.g. John & Reve, 1979). Nomological validity for the scale was assessed by correlating the scores of the seven subscales with scores on a variable measuring whether the company had written CSR guidelines or not. As stated earlier, the literature on institutional analysis, comparative political economy, and corporate governance has stressed that the cognitive frames, mindsets, conceptions of control, and worldviews of corporate managers are important determinants of how managers run their firms (e.g. Aquilere & Jackson, 2003; Dore, 1983; Hall & Soskice, 2001; Ocasio, 1997, and Whitley, 2004), and there are a great number of studies showing that attitudes and behaviour are significantly associated (Rundmo & Hale, 2003). Written CSR guidelines can be understood as a manifestation of corporate social behaviour (Wood, 1991). It thus seems reasonable to expect that an individual level orientation towards the different components of CSR issues would be significantly – although not strongly – associated with the existence of a CSR policy. The results (Table 7) indicate a positive correlation between managers' attitudes towards CSR issues and the existence of written CSR guidelines on six of the seven CSR issue components, providing evidence of nomological validity.

CSR Issues Components	CSR Guidelines
Accountability	-.147*
Socio-economic development	.005
Supply-chain responsibility	-.216**
Workers' rights and welfare	-.162*
Bribery and corruption	-.186**
Political participation	-.195**
Environmental protection	-.199**

TABLE 7: Correlations between CSRIS scores and the existence of written CSR guidelines
* p < .05,   ** p < .01

IMPLICATIONS OF THE STUDY

This study has theoretical and managerial implications, as well as implications for future research.

Theoretical Implications

The corporate entity evidently plays a number of political roles in society (e.g. Scherer & Palazzo, 2007). In this paper we have conceptualized the issues of CSR from the perspective of developmental democracy (e.g. Stokes, 2002) and corporate citizenship

(e.g. Moon et al., 2005). This paper thus contributes to our understanding of social issues as not only economic, legal, and social, but also political in nature, in which the managing of these may not only have company internal impact, but also with potentially important consequences for political participation in a society. The paper thus contributes to the critique of the assumption of a clear divide between the economic and political domains underlying much of the CSR literature (Crane et al., 2008; Vogel, 2005). Further, we have developed a reliable and valid scale to measure managers' orientation towards the broad range of issues constituting the CSR construct, and cutting across the categories of the concept. In sum then, this paper contributes to the development of a foundation for further theoretical and empirical enquiry into the political nature of managers' and companies' CSR orientations and engagement.

Managerial Implications

For practicing managers, this paper first of all draws attention to the societal expectation that corporations and their members should perform acts that "benefit shareholders, stakeholders, and the general public, both in the primary areas of their business decision making and in secondary and tertiary areas as well" (Brummer, 1991: 190), where the indirect effects of business activities become prominent. Further, the paper indicates aspects of the political nature of the issues which businesses are expected to act upon, and which also constitute an important aspect of contemporary decision-making and business activity.

The literature on the nature of CSR (e.g. Carroll, 1979) has been criticized for being difficult to translate into management practice (Frederick, 2006; Waddock, 2004). In some respect, focusing on CSR issues represents a more practical – and managerial – approach to CSR (Blowfield & Murray, 2008). For larger companies, the scales developed in this study can be used as a diagnostic tool in order to identify managers' orientations towards different CSR issues. Such measurements may be used by management for instrumental, cultural, and "myth-managing" purposes (Christensen, Lægreid, Roness, & Røvik, 2007). Considering the instrumental use of such measurements, management may use them to strengthen the instrumental aspects of CSR leadership, e.g. as a foundation for developing internal training programs and strategies as well as the formal normative organizational structure of the organization. Management may use such measurements – or internal discussions about what issues the company has a organizational level responsibility to attend – to strengthen the cultural aspects, or what Selznick (1957) referred to as the value-based leadership of CSR. This may include enacting explicit issues of CSR with implicit norms and values for integrating broader economic, social, and environmental considerations in decision-making and activities, or in short, making the company's CSR policy an integrated aspect of the values, norms, and vision of the corporate entity. Considering the myth-managing purpose of such measurements, management may also use them to strengthen the symbolic aspects of CSR leadership. Building on organizational theory, a complete model of CSR leadership must incorporate all three aspects: the instrumental, cultural, and symbolic aspects.

Research Implications

It is important to note that the study reported in this paper represents an early attempt to develop and validate a scale to measure managers' orientations towards the different issues of CSR. First, this study should be replicated within different industries and historically grown institutional contexts and cultures. Second, based on the conceptual approach of developmental democracy and corporate citizenship, we hypothesized CSR issues as a multidimensional construct consisting of seven uni-dimensional components. Further refinement of this theoretical approach may reveal further issues to include, such as economic issues (e.g. Nèron & Norman, 2008), making the CSR issue construct more comprehensive. Third, this study builds in part on the assumption underlying the theory of "the complete cycle of choice" (March & Olsen, 1979), meaning that individual perceptions and attitudes will affect individual and organization level decision-making and activity. Thus, an important avenue for future research is the impact of managers' CSR issue orientation on the nature of companies' CSR engagement. Fourth, CSR issue orientations should not only be threaten as explanans, meaning that it is used to explain something else, but also as explanandum (van Oosterhout & Heugens, 2008), that is, analysis of what variables inform variations in managers' judgement of CSR issues.

CONCLUSION

Through CSR issue resolution, managers and companies are part of societal governance and the authoritative allocation of values and resources in society. Issues such as workers' rights and environmental protection are not only economic, legal and social issues, but also have a thoroughly political nature, impacting the conditions for citizens' political participation and, ultimately, a thriving democracy and societal development (e.g. Dahl, 1989). Building on the assumption that managers' judgements of social issues (in some circumstances[36]) impact individual and organizational level decision-making and activity, measuring managers' orientations or attitudes towards the broad range of issues constituting the CSR construct becomes important. Despite the centralities of the issue construct in the CSR literature (e.g., Blowfield & Murray, 2008) and in the global governance structure constituting what Waddock (2008: 87) referred to as the "new institutional infrastructure for corporate responsibility", few scales have been developed to measure how managers evaluate social issues. The aim of this study was thus to develop and validate a measure of managers' orientation towards the broad range of issues constituting the CSR construct, cutting across what Carroll (1979) referred to as the categories of the construct. Based on a political understanding of the corporate entity and the roles and responsibility of the business firm and the conceptual approach of corporate citizenship (e.g. Crane et al., 2008), we hypothesized that CSR issue orientation is a multidimensional construct consisting of seven unidimensional components: socio-economic development, anti-corruption and bribery, environmental protection, working conditions and welfare, supply-chain responsibility, political participation, and accountability. Our data support this hypothesis: the data show that the measures converge on common constructs, with satisfactory discriminant and nomological validity. On this background, we conclude that the proposed scale for

measuring managers CSR issues orientation meets standards for reliability and validity. However, the development of reliable and valid scales may be described as a "never-ending story" (Chen, Cogliser, & Vandenberg, 2005). The instrument should hence be tested and validated both within other industries and societies.

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APPENDIX

Description of the issue components outlined from the citizenship perspective

Socio-economic development: Socio-economic development refers to corporations' role in and responsibility for active participation in economic and civil society institutions in order to promote social flourishing. More specifically, socio-economic development refers to a company's responsibility to (together with government and civic society institutions) promote economic and social progress and development in their communities of operations and in society in general.

Anti-corruption and bribery: Corruption and bribery is generally recognised as one of the biggest barrier to social flourishing and a thriving democracy (e.g. United Nations, 2003). Anti-corruption and bribery can therefore be identified as a responsibility area of CSR from a corporate citizenship perspective.

Environmental protection: Societal flourishing does not only depend on socio-economic development, but also on environmental protection and corporate ecological citizenship. *Environmental protection* refers to companies' duties to avoid bringing ecological harm to communities and society by saving energy, reducing waste, using environmentally-friendly transportation, etc.

Workers' rights and welfare: Workers rights and welfare can be identified as another possible responsibility area of CSR. Because the corporate entity can be thought of as an arena for citizenship, developmental democracy theorists have generally recommended the democratization of the workplace and opportunities for worker participation in corporate affairs. More specifically, workers' rights and welfare refer to issues of working conditions, worker participation in decision-making, and diversity at the workplace.

Supply-chain responsibility: A developmental theory of democracy and citizenship do not confine acts of citizenship to the national polity, but also sees opportunities to promote the common good at the international level. It can thus be argued that the corporate entity, constituting an arena for citizenship, is not only responsible for its own employees' rights and welfare, but also in regards to external economic relations. Supply-chain responsibility can thus be identified as a responsibility area of CSR from a corporate citizenship perspective. More specifically, this dimension refers to corporate responsibility for issues in what Levy (2008) referred to as the economic, but also political, phenomena of global production networks, such as working conditions, human rights, and child labour.

Political responsibility: From a citizenship perspective, corporate political participation is a key responsibility area of CSR. As such, the corporate entity – based upon the issues one comes into touch with on the societal arena and deliberation – should assume a responsibility for strengthening civil society and political institutions' ability to promote a thriving democracy and the common good. Political responsibility thus refers to companies' participation in public will formation and processes aimed at better regulation of corporate activity, but also corporate support to organizations

working with issues beyond the ordinary economic scope of the corporate entity, such as human rights.

Accountability: Accountability can be understood as a basic condition for applying the notion of citizenship on the corporate entity (Crane et al., 2008). As defined by Henriques (2004, p. 27), accountability is about "the ability to give an account of something to somebody who has an interest in it". From the viewpoint of developmental democracy, not only are the owners and shareholders of a corporation entitled to information and some kind of account of company activities, but the government and company "fellow citizens" or constituencies representing the different spheres of society, including constituencies representing the natural environment, are as well.

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Study V:
CSR attitudes and practise in small- and medium sized enterprise (SME) clothing companies in Norway

Author: **Olaug Øygarden and Oluf Langhelle**

ABSTRACT

This article is an explorative mapping of attitudes and practices towards Corporate Social Responsibility (CSR) with a special focus on supply chain management in the Norwegian clothing sector. It is based on a survey mapping managers CSR attitudes, and the survey was answered by more than 200 managers of mostly small or medium-sized clothing firms in Norway. Three research questions are explored: What attitudes do managers in Norwegian clothing firms have towards CSR in international supply chains, and to what degree have their firms implemented formalized practices in accordance with these attitudes? What attitudes do managers in Norwegian clothing firms have towards CSR in international supply chains, and to what degree have their firms implemented formalized practices in accordance with these attitudes? What are possible explanations for the lack of implementation of the formalized CSR practices that would have been in accordance with the dominant attitudes? Lastly, we discuss some tentative answers to the question of what can be done to increase formalized CSR practice in the Norwegian clothing industry.

1. INTRODUCTION

Norwegian clothing firms are now linked, through international supply chains, to suppliers where the production may not happen according to what we see as ethical standards. The growth of global trade, increased transparency, corporate vulnerability, and ethical awareness among consumers are factors that contribute to the discussion about corporate social responsibility (CSR). This article is based on a survey mapping attitudes towards CSR that was answered by more than 200 managers of mostly small or medium-sized clothing firms in Norway. It is an explorative mapping of attitudes and practices, and contributes with an empirical overview of a field where much is said but little is known about the actual status.

This article looks at the attitudes of managers towards CSR and supply chain management by asking three different but interrelated research question, the first being: *What attitudes do managers in Norwegian clothing firms have towards CSR in international supply chains, and to what degree have their firms implemented formalized practices in accordance with these attitudes?* This question draws on the assumption that managerial attitudes play an important part in the way firms practice CSR, a theoretical perspective that will be discussed in the following chapters. The mapping of the managers´ attitudes is based on Brummer´s (1991) grouping of CSR theories into the categories of classical, stakeholder, social demandingness and social activist theories, and the reported attitudes are placed and discussed within this structured definitional universe.

After identifying where the majority of managers placed themselves, we went on to examining whether they reported practices that were in accordance with this view. They were not. The next question raised is therefore: *What are possible explanations for the lack of implementation of the formalized CSR practices that would have been in accordance with the dominant attitudes?* Lastly, we discuss some tentative answers to the question of what can be done to increase formalized CSR practice in the Norwegian clothing industry.

2. THEMATIC BACKGROUND

2.1 Supply chains in the clothing industry

Due to factors such as declining barriers to trade, improved communication technology and reduced transportation costs, production patterns have changed over the last few decades. Functionally integrated activities are increasingly split up across both organisational and geographical boundaries, the outsourcing trend has stretched supply chains across the globe (Jørgensen and Knudsen 2006, Pande, Raman and Srivatsan 2006).

Clothes are increasingly made in low cost countries in Asia and Eastern Europe. Very few brand companies in Norway or elsewhere own the companies that produce their clothes (Gaarder 2004:9). The brands have shifted their attention away from production to branding and marketing. They rarely invest directly in manufacturing, and they outsource through agents, some of which are huge companies with networks of hundreds to thousands of factories worldwide (Yimprasert and Hveem 2005:13). Factories may further outsource to sub-contractors, who again may also give parts of the orders further to even cheaper manufacturers (Gaarder 2004:9). We see that this creates an extremely complex system where contractors and sub-contractors often combine in a multi-tier system of intermediaries and the clothing industry is infamous for having supply chains that are difficult to keep track of. One pair of jeans may be ordered from a brand by a small, Norwegian retailer, the brand hires an agent to find a factory, a few large factories receive the order, and further subcontract it.

Retailers, and some agents and brands, are located domestically. Brands and agents can however also be foreign actors. Producers are located in a number of different countries. According to import statistics, the major supplying country to Norway is China. In 2006, the value of clothing imports from China was more than five times as high as the value of imports from Turkey, number two on the list. Italy, Denmark, India, Poland, Bangladesh, Hong Kong, Sweden and Portugal also made the top ten (Statistics Norway 2007a). However, origin of import is not necessarily equal to place of production, just to the last stop made before the clothes reached their destination in Norwegian stores. Also, the country of production stated on the label may just be the country where production was finalized, and the garment could have been through several processes in other countries first (Gaarder 2004).

 The development of big brands and clothing chains has tipped the balance of power between the producers and the sellers. Brand power is based on big orders and on control of design and marketing. The terms of the buyer have become law, and the majority of value added ends up at the top of the chain (Gaarder 2004:9). With this outsourcing of production through global networks and supply chains, multinational companies have created a new economic space for their activities, and Northern-based companies control a web of Southern suppliers (Bhandarkar and Alvarez-Rivero 2007, Jenkins, Pearson and Seyfang 2002).

2.2 Working conditions in the clothing industry

Globalisation has brought a lot of good, but some will say it has also impacted developing countries negatively. Among other things, competition among poor nations has led some countries to try and attract foreign companies by providing very low wages and poor working conditions (Sethi 2002). The most pressing labour issues in the industry are the lack of living wages, long working hours and an unlimited demand for overtime work, seven day working weeks, the absence of unions and collective bargaining, labour organisers being threatened and fired, forced labour and slave-like conditions, discrimination, sexual harassment, and a lack of health, safety and environment measures causing dangerous working environments (Rene Klær 2007:3, Gaarder 2004:10).

This list of issues is essentially a list consisting of human and labour rights violations. On the basis of data collected between 1994 and 2000 by the Clean Clothes Campaign[37] (CCC) and a Dutch research and advisory board, the Centre for Research on Multinational Corporations (SOMO), interviews with workers and factory managers, and visits to the locations by SOMO, the CCC or CCC member organisations, Frynas (2003) investigated the working conditions at 73 clothing factories in South and South-East Asia. He found ten rights and prohibitions stated in United Nations (UN) human rights standards and International Labour Organisation (ILO) norms to be especially relevant to the clothing industry. Poor ventilation, lighting and seating, high noise levels, little or no protection from dangerous chemicals and machinery, and poor fire security and sanitary conditions are widespread problems throughout the industry. Frynas found that the majority of the firms he analyzed had at least one of these problems (2003:171-172).

The right to form and join trade unions[38] was violated in several ways in the firms Frynas studied. He found many instances where union activities were hampered by management. Activists are intimidated, physically abused, subjected to financial penalties, and assigned to the toughest jobs. Union members risk unfair dismissals (Frynas 2003:168). In China, the world's leading exporter of clothes, independent unions are not allowed, and in India and Sri Lanka unionisation is deterred by employers in spite of legally sanctioned rights for workers to form and join unions (Rene Klær 2007:6). Morocco is the biggest clothing exporter on the African continent, and unions have been repressed there for 25 years (Raworth 2004:49, 53).

More than 80 per cent of the workers who make clothes are women (Hearson 2006:24). Frynas (2003:169-170) found that their right to freedom of discrimination[39] was frequently violated. Women were paid less than their male co-workers, they had weaker contracts, and were subjects to sexual harassment and forced pregnancy tests. Provisions for maternity leave were rare, and pregnant women were often fired. Foreign or domestic migrant workers and older workers were other victims of discrimination.

Frynas (2003:177-178) found some evidence of child labour[40], but it did not stand out as a major issue in interviews with workers. However, he is careful not to conclude on the scale of the problem because violations are difficult to detect and prove. There are big differences between countries on the issue, and the child's alternatives to factory employment have to be kept in mind when evaluating the problem. Attending school may be far from the most likely alternative, and Bangladeshi NGOs warn that working in the informal sector may be much worse than factory employment (Bangladesh People Solidarity Centre 1998 in Frynas 2003:177).

Home workers have the right to be treated equally to other wage earners[41]. Frynas (2003:176-177) found that there are large differences in the treatment of these two groups, but since the working conditions of those sewing at home are difficult to observe, it is hard to draw conclusions. Other sources, however, report that home work is increasing globally and that millions are precariously employed in home based jobs where they are paid well below the minimum wage, they have no formal rights, they work in isolation and their only contact with the buyers of their products is through middle men. The entrepreneurs who start small scale businesses like these are also taking an enormous financial risk due to the irregularity of orders (Gaarder 2004:68-70).

All workers have the right not to be fired without valid reason related to the quality of his or her work[42]. Yet, unfair dismissals seem to be part of the game in the clothing industry. Labour union activities and strikes are common reasons for dismissals, and some of the firms Frynas investigated systematically fired workers who had been employed for more than four years because five years of employment entitled them to extra payment. The fact that many workers are not given contracts at all, or practices where workers are forced to sign their own resignation at the outset, make such dismissals easier for employers (Frynas 2003:174-175). Labour Behind the Label found that fewer than half the workers they surveyed in Bangladesh and China's Guangdong Province had written employment contracts (Hearson 2006:24).

Frynas found no evidence of labour conditions that violated the prohibition against forced or compulsory labour as it defined in the UN human rights treaties[43] (2003:170-171). However, he found many instances of people working under duress. Many workers had been attracted by stories of high wages, only to arrive at the factories to find that wages were low, and that they are not allowed to leave, or not able to leave because they had not been paid. Frynas also found many cases of forced overtime work.

Extremely long working hours are a major issue in clothing production, and the right to an 8-hour day or a 48 hour work week[44] is a distant reality to the majority of sewers. Frynas found many examples of work weeks far exceeding 48 hours (2003:172-173). A 2004 report published by Oxfam found several cases in China where young women worked 150 hours of overtime every month. The normal workday was reported to be 10 to 12 hours, but days of 15 to 16 hours were not uncommon. The same report found that Moroccan workers sew for 12 to 13 hours daily, sometimes even up to 16 hours, without being paid the extra 25 per cent that is required by law for overtime work (Raworth 2004:63,53).

Violations of the right to leisure and rest during work[45] are widespread, and pose serious health concerns. Frynas (2003:173-174) found that few breaks, working on public holidays, limitations to bathroom visits, and difficulties in obtaining sick-leave were common features of working in the factories he examined. In a factory in the Philippines workers had been on duty for seven days a week for two months without a single day off. Oxfam found instances in China where workers got only one or two days off every month. In Morocco they documented kidney problems in workers resulting from restrictions on using the toilets (Raworth 2004).

The right to a minimum wage[46] is widely violated (Frynas 2003:175-176). In Morocco, 10 to 20 per cent of the workforce is women aged 14 to 18, and they are only paid 55 per cent of the minimum wage (Raworth 2004:53). Even where workers are paid the legal minimum wage, the amount is often not adequate to cover basic needs for workers and their dependants, nor to leave a small amount of discretionary income – it is not a living wage (Hearson 2006:24). In Bangladesh, the minimum wage was 99 NOK per month until 2006, and by then it had fallen by half in real terms since 1996. After a series of strikes, demonstrations and riots the government adjusted the lowest legal wage to 174 NOK per month (Rene Klær 2007:5, Hearson 2006:4). Frynas (2003:175-176) also found that wages are often delayed, production mistakes are punished by deducting from wages, and the amount a worker makes each month fluctuates heavily with the irregularity of work caused by irregular amounts of orders. Other reports document that money is often deducted for disciplinary reasons, and many workers are not given understandable information about their wages (Hearson 2006:24).

2.3 The role of clothing production in economic development

While working conditions in many clothing factories have proved to be appalling, the industry certainly also plays a constructive role in many developing countries that have not industrialized to the same degree as the richer, Western countries. The entry level for new businesses into the industry is quite low due to the fact that only a small

investment in physical capital is needed. The basics do not include more than a building and a line of sewing machines, and even entrepreneurs in poor countries can adopt relatively modern technology at low costs. It is also a labour intensive industry, offering entry-level jobs for unskilled labour. It has created employment for about 100-120 million people, many of which are women. Clothing production is generally viewed as a suitable beginning stage of industrialization in poor countries, and some of them, including Bangladesh, Sri Lanka, Viet Nam and Mauritius, have experienced high output growth rates in the industry. Since clothing factories started opening up in East Asia in the 1960s, clothing production have become an important and valuable part of export strategies for many developing economies. The industry now contributes with valuable export to at least 50 countries in the world (Nordås 2004, Gaarder 2004, Raworth 2004:49).

Economic development is desperately needed in a number of countries, not least in the countries where clothing production takes place. For many who are employed in the clothing industry, even if the work under harsh conditions, there may not be many alternative sources of income. It is also possible that because competition between clothing producing countries may have increased following the end of the Multi-Fibre Agreement (Nordås 2004, Yimprasert and Hveem 2005), ethical guarantees could become a competitive advantage. In China, the largest clothing producer by far, we may see signs of preparation for that potential situation. They have developed a national voluntary CSR initiative specifically targeted at the clothing industry (the CSC9000t), and legal developments have strengthened workers´ rights (Observatoire sur la Responsabilité Sociétale des Entreprises 2006, Initiativ for Etisk Handel 2008a).

3. THEORETICAL BACKGROUND

In this section we present and discuss theoretical contributions on two issues that are at once distinct and related. First, we deal with theories of the content of CSR, and secondly we discuss theoretical contributions to the problem of CSR implementation. Both of these theoretical discussions will be related specifically to social responsibility in international clothing supply chains.

3.1 What *is* CSR – and how do we *do* CSR?

When we say that the two issues are theoretically distinct, we mean that they can be seen as existing in two different "spheres" within the total field of CSR debate and practice. The conceptual content of CSR can, although perhaps it should not, be debated in principle without specifically relating the debate to the practicalities of operationalisation and implementation. It can be purely a normative debate of which responsibilities a firm *should* take on. Different theoretical contributions present us with different answers to the question, and the conceptual debate is far from over.

Our starting point is Brummer's (1991) approach to CSR. He offers a categorisation of theories that highlights their differences in terms of the degrees of responsibility that are assigned to firms[47], and what firms may have to do in order to maintain not just legal, but normative legitimacy. The issues of implementing CSR can also be, and often are, discussed without specifically defining the principal, normative content of which responsibilities are to be implemented. In the discussion of CSR implementation, we take the model presented by Pedersen and Huniche (2006) as the point of departure. This model simply outlines some preconditions for firm ability to operationalise CSR. However, different definitions of corporate responsibility will mean different demands for action, and different problems of operationalisation and implementation. The issues are therefore related to the conceptual debate. The theoretical framework on CSR implementation will form the background for discussing the findings on supply chain CSR practices in the Norwegian clothing industry.

3.2 Classical, stakeholder, social demandingness and social activist theories

Brummer´s (1991) four categories of CSR theories are not mutually exclusive. We see them as containers for theoretical contributions that share important similarities. The limits between the categories delineate their differences, but this does not mean that there are not boundary-spanning similarities between theories that have been placed in different categories. Frameworks like this one have a flaw in that the aggregated content of each category may in the end represent something close to a caricature, a picture that does not completely represent any of the individual contributions. Despite this drawback, we see this particular categorisation as a useful tool to map the theoretical field.

3.3 Classical theories of CSR

Classical theories of CSR hold that companies will achieve and maintain their legitimacy in society simply by performing well economically within the boundaries of the laws of society (Sethi 1977:74 in Brummer 1991:102). Companies can best contribute to a successful society by performing their institutional economic functions and leaving other functions to be performed by other institutions (Jones 1980:61 in Brummer 1991:102). Along this line of arguments Friedman once stated: "there is one and only one responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game (…)" (Friedman 1970:124). He claimed that the idea of companies having social responsibilities was subversive and could potentially undermine the current organisation of society.

According to Davis (1977:40 in Brummer 1991:104) companies and society both benefit when executives focus on lowering costs and increasing revenues, sales or profits. Friedman argues that all participants in the market will gain from an economic system with limited corporate social activities (Friedman 1968:133ff in Brummer 1991:106). Shareholders will get greater and more secure returns on their investments, consumers will get better prices, and financially successful firms will be able to hire

more workers, pay them more and provide better working conditions. This approach to social responsibility is also seen as especially appropriate for firms that rely on exports. Foreign buyers may be deterred by the costs that social projects add to products or services, while firms that concentrate on cost reductions will stimulate foreign trade (Davis 1977:42 in Brummer 1991:107).

In principle, the collection and spending of tax money are governmental functions. Corporate executives have not been elected through political processes, and therefore they should not act as civil servants by spending money on aims that lie outside the responsibility of making more money. If they were to spend money in this way, Friedman argues that a political process would have to be set up to decide how much to collect and what objectives should be served by spending the money. This would in turn imply an "acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses" (Friedman 1970:122).

3.3.1 What would be responsible firm behaviour in a clothing supply chain according to the classical theory?

The classical theories claim that companies should do their utmost, within the boundaries of law, to increase their profits. Cutting production costs is one strategy to accomplish this. Over the last decades, Western clothing firms have been able to lower their costs significantly by outsourcing production to low cost countries, and quality, price and delivery time are the key sourcing criteria (Raworth 2004:56). Also, buyer firms have to a large extent spread their outsourced production to several different countries and factories. Since moving just one part of the production is easier than finding one new producer for all of the production, this allows for flexibility in case the buyer firm should find cheaper solutions. Their remaining risk is therefore limited to the possibility of being stuck with unsold merchandise, but they are not responsible for a large production staff that they can no longer pay if sales should drop (Gaarder 2004:10,13).

The move to cheaper production has caused a significant reduction in retail prices. In 2006, the Norwegian price index for clothes had fallen to the same level it was on in 1982, and it had fallen by about 54.4 per cent since 1992 (Statistics Norway 2007b). Following similar developments in many Western countries, customers have responded by buying more clothes. Clothing imports in Norway increased by 90 per cent from 37.300 tons in 1990 to 70.300 tons in 2005. This has coincided with a shift where stores have gone from changing their collections just twice or four times a year, to ideally having something new in store every month (Hearson 2006:11). These continuous changes require smaller orders and allows for quicker sales (Gaarder 2004:10). As a result of these changes in the direction of "fast fashion", speed has become an increasingly important sourcing criterium.

3.4 Stakeholder theories of CSR

Stakeholder theory expands corporate responsibilities from doing whatever it takes to make money for the shareholders, to include direct responsibility towards other groups of individuals as well. These stakeholders may be defined as the individuals or groups who have formal contracts with the firm, and are directly affected, or are likely to be affected, by decisions made by the firm (Mitchell, Agle and Wood 1997, and Sethi 1977:74 and Bock 1979:12, both in Brummer 1991:144).

Although the consideration of other actors than the shareholders had been suggested earlier, several authors attribute the advent of the stakeholder approach to Freeman and his 1984 book "Strategic Management – A Stakeholder Approach" (among others: Freeman and Velamuri 2006, Donaldson and Preston 1995). The context for this book was a realization of the fact that companies and their managers were increasingly encountering environmental turbulence and change, and the approach deals with questions of which demands a manager should take into consideration, and what responsibilities the company should assume (Freeman and Velamuri 2006:5-6). The firm is seen as both affecting and affected by a multitude of actors such as governments, investors, political groups, customers, communities, employees, trade associations, and suppliers (Donaldson and Preston 1995:69).

One way to argue in favour of the stakeholder approach to corporate responsibility is by pointing out the potential benefits for the firm itself, the approach may offer a way to achieve company goals by attaining support from all those who are affected by company actions. According to Freeman (1984:52ff. in Brummer 1990:150), managers who respond to stakeholder concerns make their firms more resilient to attacks from external groups. A basic premise of the theory is that the only way for a company to survive over time is to balance the interests of multiple stakeholders (Freeman and Velamuri 2006:7-8).

Stakeholder theory is at the same time both a description of what an organisation is, and a prescription for how decisions should be made. The approach brings in values as an important factor in decision-making, and it requires a thorough understanding of the stakeholders that relate to each firm (Freeman and Velamuri 2006:7-8). Compared to the classical theory of corporate responsibility, stakeholder theory does not give a clear answer to the question of which responsibilities the firm managers should take on. According to Brummer (1991:144-145.150), different motivations for applying a stakeholder perspective to management can push the content of the perspective either in the direction of the classical or the social demandingness perspectives. When good stakeholder relations are seen to promote sound economic health for the corporation, and the motivation as such is mainly corporate or shareholder self-interest, stakeholder theory becomes more or less a version of the classical theory. However, if the argument for the need for good stakeholder relations is based on the grounds that such management is the one favoured and expected by society, stakeholder theory becomes very similar to the social demandingness position.

Freeman's definition of stakeholders is very broad as it includes any group or individual who can affect or is affected by the achievement of the organisation's objectives (Freeman 1984:46 in Mitchell et.al 1997:856). The reality is that a company can be

vitally affected by, or vitally affect, almost anyone, and this is a very complex definition for managers to apply. In an attempt to narrow it down, Freeman limits the term to only apply to those groups that can presently damage a firm or its reputation in some important respect (Freeman 1984:55 in Brummer 1991:145). Another proposal is to include only those groups on which the organisation is dependent for its survival, those of direct relevance to the firm's core economic interests (Mitchell et.al. 1997). Other common criteria for being considered a stakeholder is either to be in a contractual relationship with the firm, or to be directly affected by corporate decisions and actions (Brummer 1991:146).

3.4.1 What would be responsible firm behaviour in a clothing supply chain according to stakeholder theories?

Freeman and Velamuri (2006) argue that proper stakeholder management ensures responsible corporate behaviour. By realizing that stakeholder interests go together over time and that stakeholders are real and complex people, by seeking solutions that will satisfy many stakeholders at once, communicating with stakeholders, committing to voluntary initiatives instead of leaving the regulation of this to government, learning as much about the stakeholders as possible, never trading off the interests of one stakeholder versus the other continuously over time, negotiating with a wide range of stakeholders, constantly monitoring and redesigning processes to make them better serve the stakeholders, and being committed to the stakeholders – a company will be behaving responsibly.

What does this imply for establishing responsibility throughout a complex supply chain? The firm has to consider the impact that their way of doing business has on their stakeholders, and a main issue then is obviously to establish who the stakeholders are. In the context of this paper, the question would be whether or not Norwegian clothing firms should consider garment workers in developing countries as definitive stakeholders. In a situation where the firm itself owns and operates a clothing factory, the answer would be a straightforward yes, but as we have seen, this is very rarely the case.

According to Brummer (1991:149), a direct effect is neither wholly nor partly a product of the choices of other people. Based on this definition, Norwegian buyer firms cannot necessarily be said to directly affect the conditions for workers. They are, however, dependent on the existence of clothing workers for their own survival as firms, and this makes them potential stakeholders. The question is whether they are vitally reliant upon workers in the specific factory, or factories, that they have sourced production too, or whether the abundance of factories and willing workers makes the reality of being left without anyone to make their clothes too distant for the firms to consider individual factory workers vitally important. And although the poor working conditions may represent an urgent claim to attention, the workers themselves have limited power to make the buyer firms listen and act.

There is, however, another diverse groups of actors whose claim to stakeholdership needs to be considered. Consumer groups and other NGOs have played an important

part in pushing the CSR agenda over the past decades (Jenkins et.al. 2002:3). They have served as powerful media for the urgent worker claims, and have shown that they can vitally effect a company´s reputation, making them stakeholders that, although not directly affected themselves, need to be considered as stakeholders when firm policies are developed. When these two groups combine, there may be a definite claim to stakeholdership where concerns related to poor working conditions can enter into the decisionmaking process in Norwegian clothing firms.

The complexity of weighing potentially conflicting stakeholder demands against each other remains as a major issue. A simple example is the fact that customers, who are also stakeholders, primarily want trendy clothes at cheap prices. Firms are currently developing products that are certified with the social qualities of production, (Bhandarkar & Alvarez-Rivero 2007:394-395), trying to catch a market of ethical trade that they believe will expand. However, most consumers are seemingly not yet willing to choose values over value, and few consumers are willing to change purchasing habits unless the negative corporate practices affect them directly (Vogel 2005 in ibid.).

3.5 Social demandingness theories of CSR

The core of the social demandingness theories of corporate social responsibility is that firms should carry out those activities that are expected or demanded of them by society, managers must respond to the expressed interests and needs of society. To operate according to legal requirements is an important part of obtaining legitimacy, but it will only ensure a minimal standard (Brummer 1991:165-166, 170-171).

The least demanding version of social demandingness theory requires firms to perform those moral and social duties that would cause serious and negative reactions if they were *not* done. The choice of actions is to be based on demands from society. A broader definition includes also the actions that are expected, but not necessarily demanded. Performing these tasks would be seen as good or beneficial, but not performing them would not necessarily cause serious harm. The most demanding version of this theory comes very close to the social activist perspectives. It requires firms to take part in the promotion of social welfare, and managers should be responsible even to the interests that the public has yet to formulate into expectations and demands. A problematic side to these theories is obviously the difficulty in finding adequate methods for identifying these demands, expectations or interests, and for measuring their relative strength. But however the firms should choose to do this, a central point to this group of theories is that firms can no longer solely focus on providing goods and services, they are framed as social institutions that have social and moral responsibilities (Brummer 1991:166-171).

In contrast to stakeholder theories of CSR, social demandingness theories hold that managers are responsible directly to the general public, even to those who are only indirectly affected by firm policies (Brummer 1991:165-166). They therefore have to listen to and consider the opinions, demands or expectations of all members of the public – stakeholders and non-stakeholders, especially when it comes to social or moral corporate activities.

Another difference from many contributions to stakeholder theory is the claim that managers are required to consider both direct and indirect effects from corporate actions. They should be held accountable even if they do not know about all the likely indirect effects of their decisions and policies, as contributory causation is a ground for responsibility (Brummer 1991:173). Lack of expertise is not an adequate defense for not being able to predict indirect effects, rather, acquiring this expertise can be included as one of the manager´s social or moral responsibilities (Solomon and Hanson 1983:247 in Brummer 1991:173).

3.5.1 Which responsibilities does the public demand clothing companies to assume in their supply chains?

The content of responsibility will be relativistic to time and place under social demandingness theories. The theories do not state any specifics of what firms and managers are always responsible to do, making CSR very much a moving target. And even though we already determined that the group managers need to listen to is wider than just consisting of stakeholders, who are the demanding actors – the majority of people in society, or a certain segment of the population expressing their demands (Brummer 1991:167,170)? And what do they want firms to do?

NGOs could be defined as that certain segment of the population that expresses societal demands. However, the demands for assuming more responsibility in clothing supply chains seem to be rooted in the wider public as well. A 2006 survey found that 80 per cent of Norwegian consumers want clothing firms to make their list of manufacturers public (Baltzrud 2006). This can perhaps be interpreted as an expression of a demand for companies to recognize that they have responsibilities that reach throughout their supply chains. The Norwegian public wants information that can ensure that Norwegian clothing firms are not sourcing production to factories with oppressive working conditions and as such contributing to human rights violations.

The demand to publicise names of producing factories is one of many included in a new CCC set of ethical advice for clothing firms (Merk 2008). Some of the demands may be more appropriately categorised under social activist approaches, and will be discussed in the next section, but others represent the demands that have been most commonly directed at companies since the early 1990s. First, firms are asked to adopt a code of conduct. The code should be comprehensive in terms of applying to all workers who are employed directly by the company as well as employees who work throughout the supply chain. The code should also be credible in terms of including rights that are stipulated in the ILO Core Labour Rights Conventions on child labour, forced labour, discrimination, and freedom of association. Other issues to be covered are harassment and abuse, the right to a living wage for a 48-hour workweek, health and safety rights, security of employment, the company´s alignment with the best practices in the sector, and a policy of no forced overtime. The code should require compliance with all relevant local labour laws, and a commitment to following the highest standard if local

and international standards differ. Code transparency is to be achieved by circulating it to firm and supply chain employees, and it should be easily available to the public.

Next, the CCC recommends that management level personell are responsible for the implementation of the code. They should also be trained so that they are qualified to sufficiently and credibly monitor code compliance. Implementation and monitoring should also be verified by external actors. If code violations are detected, the firms should work with factories (and other stakeholders) to correct the problems, they should not cut off suppliers unless this is a last resort after continuous attempts to resolve issues.

A final common demand is that firms should inform stakeholders and the general public about the firm code, monitoring and verification practices, and results of code compliance verification. They should be fully transparent about all business operations by disclosing the identity, location and country details of all their supplier factories. According to Barrientos and Smith (2007:5), more and more firms have come to see that they have a responsibility for the rights and conditions of workers who produce their good, even when they are employed by far away factories. The typical response has been to adopt voluntary codes of conduct that determine minimum labour standards for suppliers to implement. Many have invested resources and effort in the monitoring of compliance, and some even work with suppliers to improve standards over time.

3.6 Social activist theories of CSR

The idea of a universal standard for determining responsible corporate conduct is at the core of social activist theories. This standard is independent of the interests of shareholders or the claims of stakeholders. Like in social demandingness theories, this standard demands concern for the welfare of the public, but the guideline is not necessarily the public´s expressed interests, but rather their ideal or rational interests (Brummer 1991:185-186). The standard is independent of current expecatations, demands and sometimes even the current interests of the groups who are served or affected by management decision making, it is comprehensive and all-encompassing, and should be applied to all decisions and actions as it has an ethical foundation and is independent of what people presently think about it. This is the main way to distinguish social activist theories from social demandingness theories, as they primarily deal with the interests that the public expresses.

The standard often demands greater social or moral activism from corporate leaders than what has been provided by many of them in the past or is currently demanded of them by the other theories of corporate responsibility. It requires managers to take a proactive stance, to be social and moral leaders in the corporate community rather than the moral followers they would be if they followed the lead of the other theories (Brummer 1991:185,187). The consequentialist arguments for social activists theories do not primarily connect the approach to favourable outcomes for the individual firm, but place firms and managers in position as providers of societal goods. Singer claims that executives are required to promote the common good, to relieving avoidable pain or

suffering (1982:360), Camenish thinks they should be responsible to contribute to human flourishing generally (1981:64 in ibid.), and Williams thinks they should contribute to optimize the welfare of everyone, while they also promote harmonious relationships in society (1982:15ff, all three in Brummer 1991:187).

3.6.1 What is responsible supply chain behaviour according to social activist theories?

Brummer (1991:188-189) treats a list of decisions that a range of authors have suggested as suitable if firms are to take on a social activist approach to CSR. These include to actively examine the ethical impact of their actions, and to disclose the results of their social activism in social performance reports made available to shareholders and the public, to develop and implement a code of conduct in their organisations, willingly discuss social issues openly and frankly with their critics, perform social impact studies before important business decisions are made, and develop the proper offices to implement social responsibility planning. A true social activist policy would have to include further measures than what is envisaged by social demandingness. In addition to the CCC advice discussed in the previous section:

- firms should adress the impact their own purchasing practices have on working conditions in the supply chain

- firms should promote sector-wide change and co-operation

- firms should take specific steps to adress gender-related workplace issues

- they should cooperate with worker rights training initiatives

These demands go further into the economic practices in terms of assessing the effect of one´s own business policies instead of just adding an ethical code on to the status quo. They also demand a proactive role in industrywide efforts, new issues to address (gender) and new ways of addressing "old" issues (worker training).

The relationship between the four categories of theories can be conceptualised as one where the degrees of responsibility towards society increases as we move from the classical, to the stakeholder, social demandingness and social activist approaches (Blindheim 2008). The classical theories have the most limited definition of which responsibilities firms should take on, while the social activist category has a much more expanded view on responsibility.
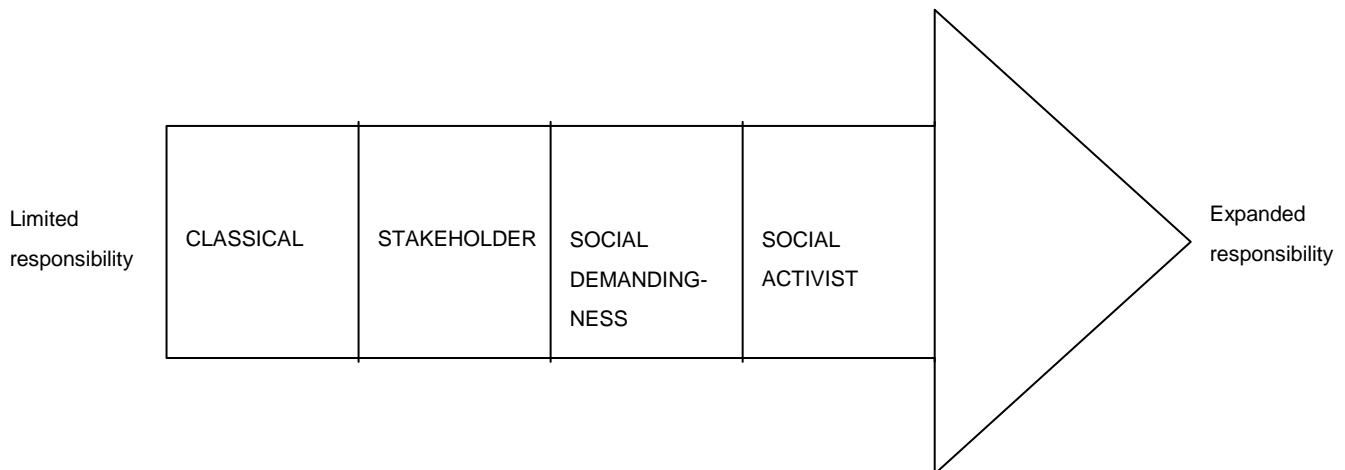
Figure 3.1: The degree of responsibility assigned to business in different approaches to CSR (Blindheim 2008:60).

The discussion of these different approaches form the background for the question of which attitudes the managers in the Norwegian clothing industry holds. But before going on to examine that question, we present a theoretical framework for CSR implementation.

3.7 Preconditions for CSR implementation

According to Pedersen and Huniche (2006), four organisational preconditions need to be in place for CSR rhetoric to become operationalised into concrete actions. The authors do not claim to have developed a comprehensive model that can apply to all situations, but argue that it can be used to structure a discussion of what determines the way firms work with CSR in practice (ibid:101). The four influencing factors in the model are consensus, consciousness, commitment and capacity. *Consensus* has to do with the degree to which different stakeholders agree on what the relevant issues and the best solutions are. The *consciousness* factor is based on an assumption that the organisation and its stakeholders need to be aware of social issues before these can yield concrete CSR measures. The implementation of such measures depends on the attention that the issues get within the organisation, and especially from the level of management. *Commitment* means that there is a will to work with CSR. Unless someone within the organisation takes CSR issues seriously, it is not likely that any resources will be allocated to the operationalisation of responsibility. It is especially important that management shows commitment to this work. *Capacity* refers to the economic, technical and human resources that are available in the organisation, and the ability to use these resources in the CSR work. The Pedersen-Huniche model is inspired by a stakeholder perspective on organisations, and capacity may therefore imply both internal and external resources. Implementing CSR is not identical in small and big

firms, and small firms have characteristics that have an impact on the way they operationalise their social responsibility (Lepoutre and Heene 2006:257). Some of these characteristics make them better equipped than large firms to take on CSR, while others disadvantage them. Some of these issues will be discussed in the following.
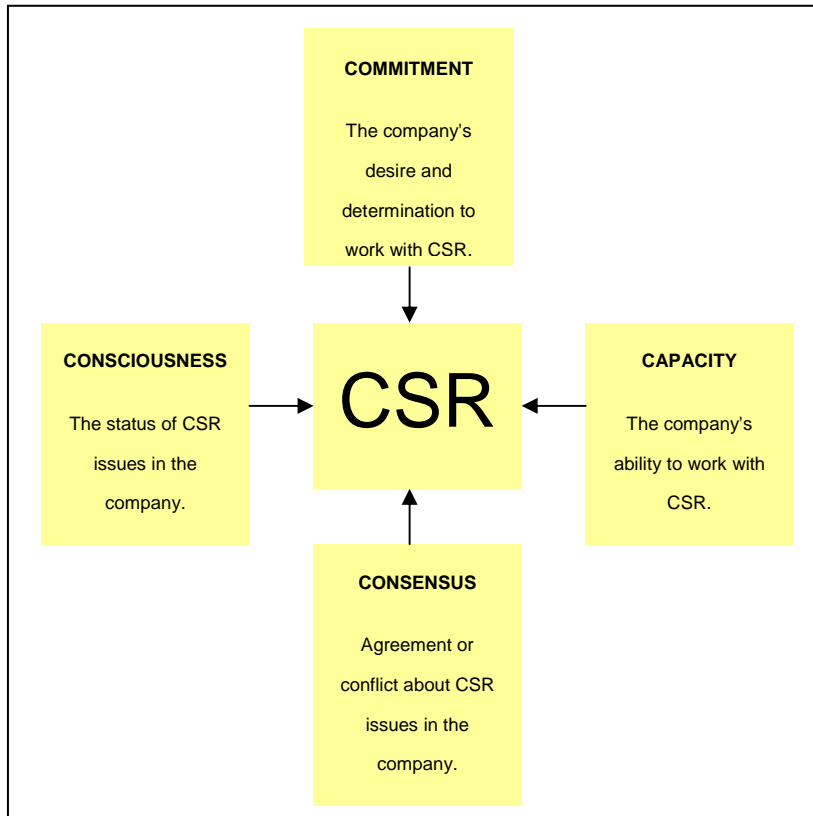
Figure 3.2: Four factors influencing the operationalisation of CSR
(Pedersen and Huniche 2006:101).

None of the four preconditions in the Pedersen-Huniche model are in and of themselves enough to facilitate CSR implementation. Also, they are not completely separate, and they will influence each other. Stronger consensus may spur consciousness and hightened commitment, and perhaps an ability to use the capacities that are present instead of focusing on the ones that are not. To some extent, they may even be seen as preconditions of each other, or at least as parts of a circle – hopefully a virtuous one. But the implementation issues are also related to the conceptual CSR discussion. The box in the center of the model has to be filled with content – in this context with one of Brummer´s four theoretical categories. If this is done, the process of building consensus, consciousness and commitment will be related to a specific view on CSR, and the necessary capacities can be defined.

4. DATA AND METHOD

The sampling for the survey was done by using the Brønnøysund Register/Infomediahuset (RAVN). The sampling strategy was based on firm size, as measured by the number of employees, and membership in the Norwegian Ethical Trade Initiative (IEH). A preliminary search found that there are 1873 Norwegian firms belonging to the clothing and leisure part of the wider clothing industry. 1631 of these have less than 10 employees. The sample consisted of about 841 firms, and among these were all the IEH members that belong in the industry. The individuals who responded were all on management levels in the companies, and defined by being the manager with the main responsibility for the import of products, or the control of CSR activities in the supply chain or on a strategic level in the firm. The managers received an e-mail containing a link to a server with the electronic questionnaire. After three weeks those who had not responded received a follow-up mail, and a round of telephone calls to nonrespondents was also made. The questionnaire was fully completed by 233 out of a sample of 841, a response rate of 28 per cent[48]. More than 80 per cent of the responding firms were small or medium-sized, and for this reason the issue of firm size will be central to the discussion of findings in the next chapter.

The availability of these data provided an opportunity to explore the status on CSR attitudes and practices in the Norwegian clothing industry, a status of which so far little has been known. The methodological approach is very basic one, presenting the frequency findings on survey items that deal with attitudes, priorities, practices, and knowledge. The items that have been used were based on the theoretical contributions that have been discussed in the previous sections. The items used to explore the manager attitudes were selected from a list of items that were included in the survey as an instrument to measure the relative importance of seven different responsibility areas and issues of CSR (Blindheim 2009). Items selected are based on a fit between each item and each of the four categories of CSR theories.

A similar approach was used in the selection of the items that measure practice, and the presence or lack of preconditions for implementation. It was guided by the theoretical framework, and the items that seemed to provide the best match to this framework were chosen.

5. FINDINGS ON ATTITUDES AND PRACTICE

5.1 Classical CSR attitudes

Although writers within the category of classical CSR theories mention societal values and ethical considerations, a central argument is that firms should mainly focus on making a profit, and leave the social considerations to other actors. A strict classical view on responsibility encourages firms to keep pushing prices and delivery times, and to keep moving as long as lower prices can be found, as long as it does not violate any laws. To examine the respondents´ attitudes towards this view, we selected four survey questions that reflect classical theories. The questions were formed as statements that

respondents were to indicate their level of agreement with. A small majority of survey respondents disagreed with the full extent of the classical theories (see Figure 5.1).

Views on the demands of classical theories.
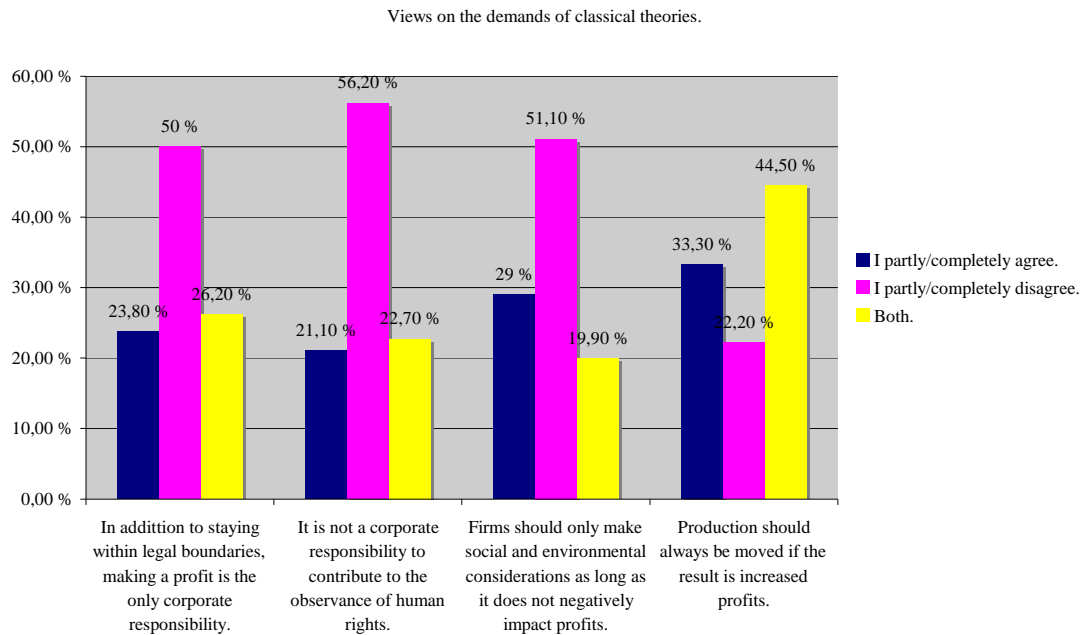
Figure 5.1

Less than one fourth of the respondents partly or completely agreed with the statement that defines corporate responsibility as exclusively legal and financial. Half of the respondents reported holding attitudes implying that firms should also go beyond profit-seeking in order to behave responsibly. Less than one fourth partly or completely agreed that contributing to the observance of human rights is outside the scope of corporate responsibilities, and a majority of 56.2 per cent did not acquit firms of a shared responsibility for this task. Less than one third of respondents partly or completely agreed that social and environmental considerations should only be made as long as it does not impact negatively on profits. When asked whether production should always be moved if doing so would increase firm profits, one third of the respondents partly or completely agreed. While this is also a minority, even fewer partly or completely disagreed with the statement.

The first three statements do not mention any specific initiatives to be made by the firms. They do for instance not define what "contributing to human rights" would mean in practical terms, or which specific "social and environmental considerations" are to be made, or not to be made. The last statement, on the other hand, asks respondents to take a stand on a specific business decision, whether or not to move production whenever this would increase firm profits. While only one third of respondents agreed that this is something firms should do, less than one fourth of them disagreed. In sum, the findings on these variables indicate that the majority of respondents, if a small one, do not

identify their attitudes with the classical view on CSR, at least not when the content of this view is stated purely as principles.

5.2 Stakeholder theories.

The content of CSR under stakeholder theories differs according to who are defined as stakeholders, and also according to the motives that drive stakeholder management. A central point across the theories, however, is that firms should consider the interests of not only shareholders, but also those of other actors in the organisational environment. The survey included only one pure attitudinal question where respondents could indicate their agreement or disagreement with a practice that lies within the boundaries of stakeholder theories on CSR. It concerns one of the potential ways firms can be considerate of their stakeholders, and asked whether or not firms should maintain an open dialogue with the wider stakeholder environment about problematic business practices.

Views on the demands of stakeholder theories.

Firms should maintain an open dialogue about problematic sides of their own business practices with customers, suppliers, local communities and others.
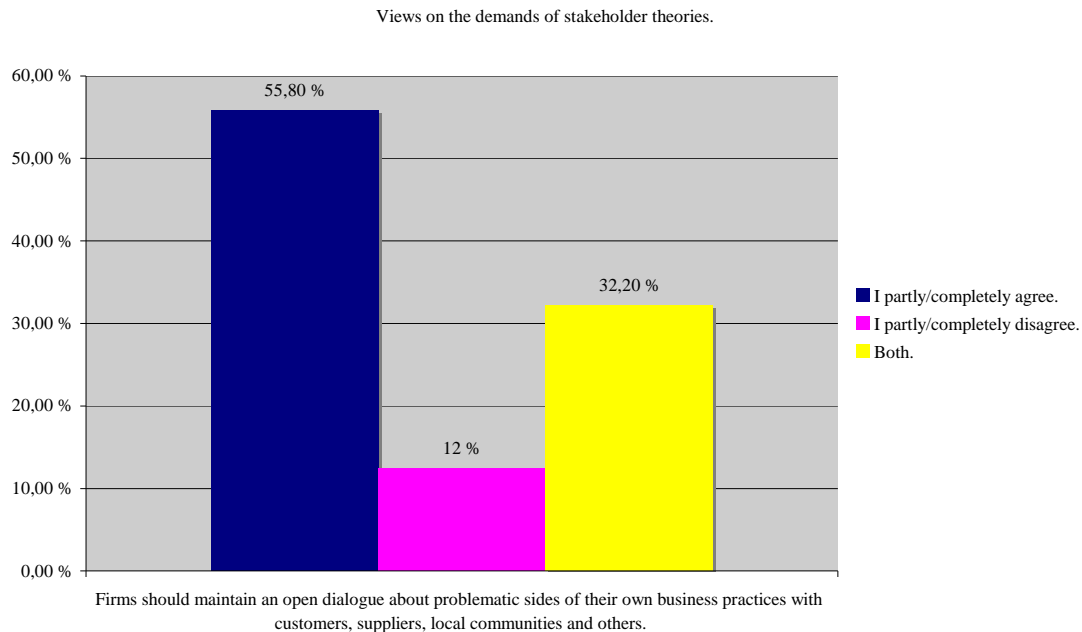
Figure 5.2 (a)

55.8 per cent of respondents partly or completely agreed that firms should engage in such dialogues (see Figure 5.2 (a)). In other words, a majority agrees that this practice lies within the boundaries of corporate responsibility.

The survey also included a set of issues and actors that the respondents were to rate according to whether or not they felt they could consider them in their daily work. While this can be interpreted as a question of actual managerial practice, the prioritisation of stakeholders can also be seen as an indication of the attitudes managers have about their respective importance. 81.1 per cent reported that they feel they can consider demands from firm owners to a fairly or very large degree in their daily work,

96.8 per cent feel they can consider customers to a fairly or very large degree, and 81.3 per cent feel they can consider their own subordinates to a fairly or very large degree (see Figure 5.2 b).

Stakeholder prioritisation.

I feel like I can consider these factors to a fairly large or very large degree in my daily work.
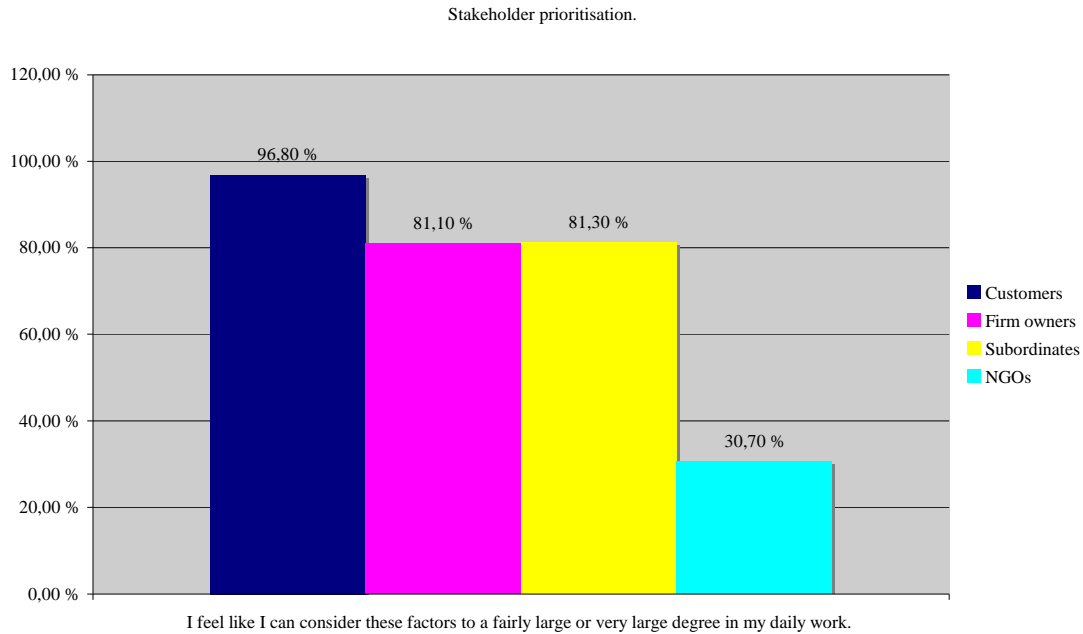
Figure 5.2 (b)

Attention to all these three groups can be based on a classical logic. The fulfilment of owner demands is at the core of a classical concept of corporate responsibility, and paying attention to customers (the source of income) and subordinates (the wheels of the machinery) may be nothing more than the most obvious means to this end. However, as discussed in the theoretical chapter, if firms were to engage in CSR based on stakeholder principles, the NGO community is often pointed out as a group that should be paid attention to. They can be seen as vehicles for the urgent demands of workers in the clothing industry, and they may have the power to damage firm reputations. Less than a third of the respondents indicated that they felt they could consider NGOs to a fairly or very large degree in their daily work. In addition to the clearly higher rating of the demands of customers, firm owners and employees in comparison to the concern for NGO demands, only 8.4 per cent of respondents rated NGOs as an important source of information about CSR in another survey question.

The data presented here are not adequate to give a definite answer to whether or not the managers agree with stakeholder theories of CSR. However, while a majority report that they are in favour of communicating with the wider stakeholder environment about problematic issues, only one third of respondents feel they can consider NGOs in their day-to-day work. Admittedly, a manager may agree with the principles of stakeholder theories even if she does not consider their demands on such a regular basis, but the fact

that only a very small group identified them as an important source of information may indicate that the majority does not adhere to a stakeholder perspective on CSR.

5.3 Views on the demands of social demandingness theories

The demands for satisfactory working conditions, contribution to human rights observance, and opposition to child labour are all part of the public attitudes the CCC express in their list of firm advice. Their key tool for accomplishing this is by adopting a comprehensive code of conduct, and by credibly monitoring its implementation in the supply chain. Firms should also inform the public about the code, its monitoring and verification practices, and the results of compliance verification.

Views on the demands of social demandingness theories.
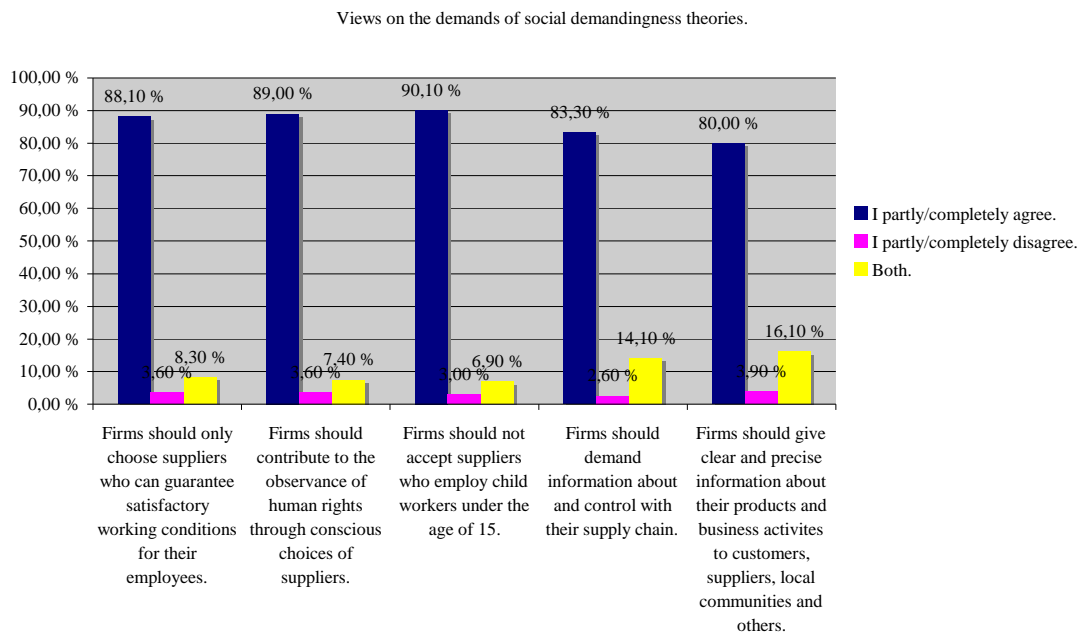
Figure 5.3

Very few respondents disagreed with the demands that social demandingness theories of CSR put on firms (see Figure 5.3). 88.1 per cent agreed with the principle that firms should only choose suppliers that can guarantee satisfactory working conditions for their employees, and 89.0 per cent agreed that firms should contribute to the observance of human rights through conscious choices of suppliers. 90.1 per cent agreed that firms should not accept suppliers who employ child workers below the age of 15, and 83.3 per cent agreed that firms should demand information about and control with their supply chain. 80.0 per cent agreed that firms should exercise transparency by giving clear and precise information about their products and business activities to customers, suppliers, local communities and others.

In contrast to the responses to claims associated with the classical and stakeholder theories of CSR, there is a clear tendency among the majority of our respondents to

agree with the public's demands for socially responsible business practices. Only a very small minority disagreed, and compared to the attitudinal questions about the two other theories fewer respondents indicated that they neither agreed nor disagreed by answering "both". I therefore conclude that more respondents have made their mind up about these issues, and their reported attitudes are more in line with the social demandingness theories than they are in agreement with the two preceding categories of theories.

5.4 Views on the demands of social activist theories

Social activist theories offer a less concrete definition of the tasks that a socially responsible firm should take on. The main point is that firms should go further than just addressing the issues that the public clearly expresses a wish for them to deal with. CSR may therefore include anything from philanthropic endeavours to active involvement in welfare services.

71.2 per cent of the respondents agreed that firms should consider the negative effects they may have on the local communities where they do business (see Figure 5.4). We included this statement here because the consideration of effects on communities implies going a step further than addressing issues within the walls of the supplier factory. The demands we included in the discussion of social demandingness theories do not concern the wider community.

Views on the demands of social activist theories.
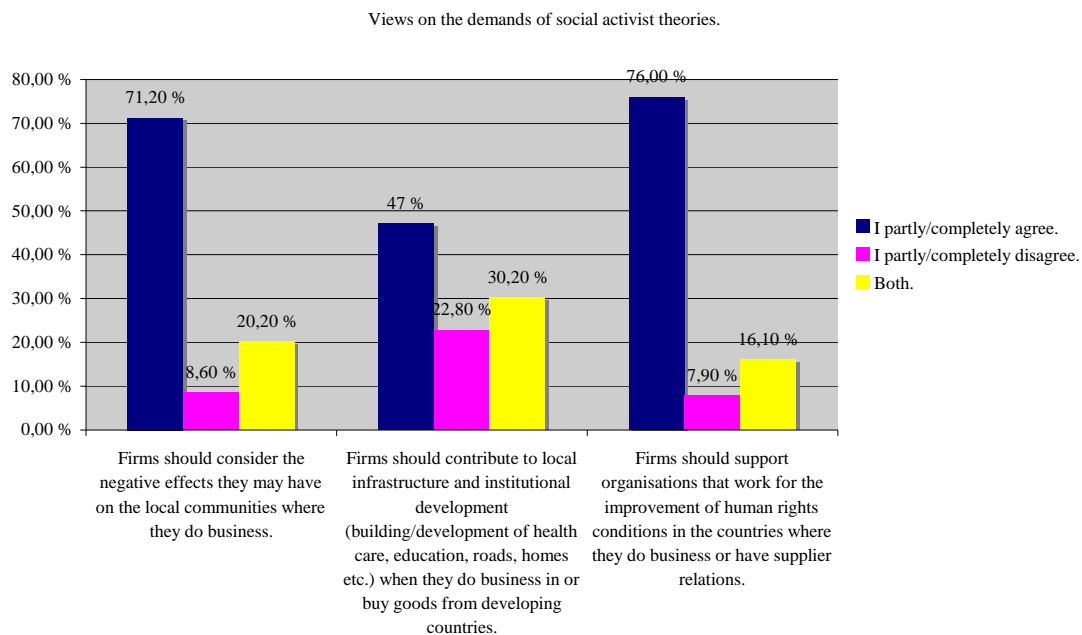
Figure 5.4

A minority of 47.0 per cent agreed that firms should contribute to local infrastructure and institutional development when they do business in or buy goods from developing countries. The majority either disagreed or did not take a definite stand on this issue.

76.0 per cent agreed that firms should support organisations that work for the improvement of human rights conditions in the countries where they do business or have supplier relations.

While many respondents agreed with demands that could be identified as social activist in nature, the support is not as strong as it was for the demands of social demandingness theories. Also, compared to the responses to those demands, more respondents answered "both", indicating that they were not sure whether they agreed with the social activist demands or not.

5.5 Summary of findings on attitudes

The four CSR theories offer different answers to the question of which responsibilities firms should take on. Only a minority of respondents, one third or less, agreed with the classical definition. The majority disagreed, indicating that they think corporate responsibilities include more than just legally making a profit. While a majority agreed that firms should openly communicate with their environment about problematic issues, only one third felt they could consider NGO demands in their daily work, and only a very small minority saw NGOs as an important source of CSR information. The statements belonging to a social demandingness view on CSR received the clearest support. All the five statements were agreed with by 80 per cent of respondents or more. The results on the level of agreement with social activist theories were not as clear, although a quite large majority agreed with two of the statements.

5.6 Perceived risks of unethical conditions in the supply chain

A large majority of survey respondents agreed that firms should only choose suppliers who do not employ child workers, and who can guarantee satisfactory working conditions. But how sure are they that the products they sell have been produced under such ethical standards?

Perceived risks of unethical conditions in the supply chain.
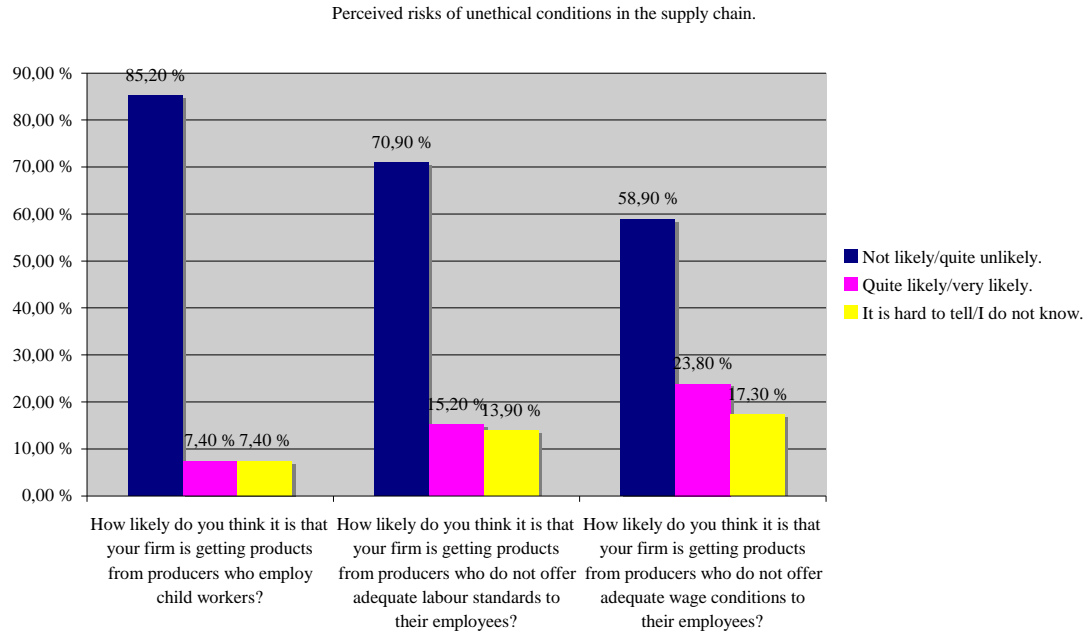
Figure 5.5

A large majority of 85.2 per cent thought that it was unlikely that their firm got products from producers who employ child workers (see Figure 5.6). 70.9 per cent thought that it was unlikely that their firm got products from producers who do not offer adequate labour standards to their employees. The respondents were least sure about whether or not their firm might get products from producers who do not offer adequate wage conditions to their employees, but a majority of 58.9 per cent still thought this was unlikely.

The majority of the managers seem to think that they have taken adequate measures to avoid connections to child labour and to a certain degree also poor labour standards, while they are less sure about wage conditions. I addition to these results, the survey also shows that no more than 17.3 per cent think that the firm's ethical conduct could be a major threat to the firm's reputation. Only 3.9 per cent rate the firm's business practices abroad as such a threat.

5.7 To what degree have the firms implemented formalised CSR practices in accordance with these attitudes[49]?

Written guidelines for ethics/CSR.
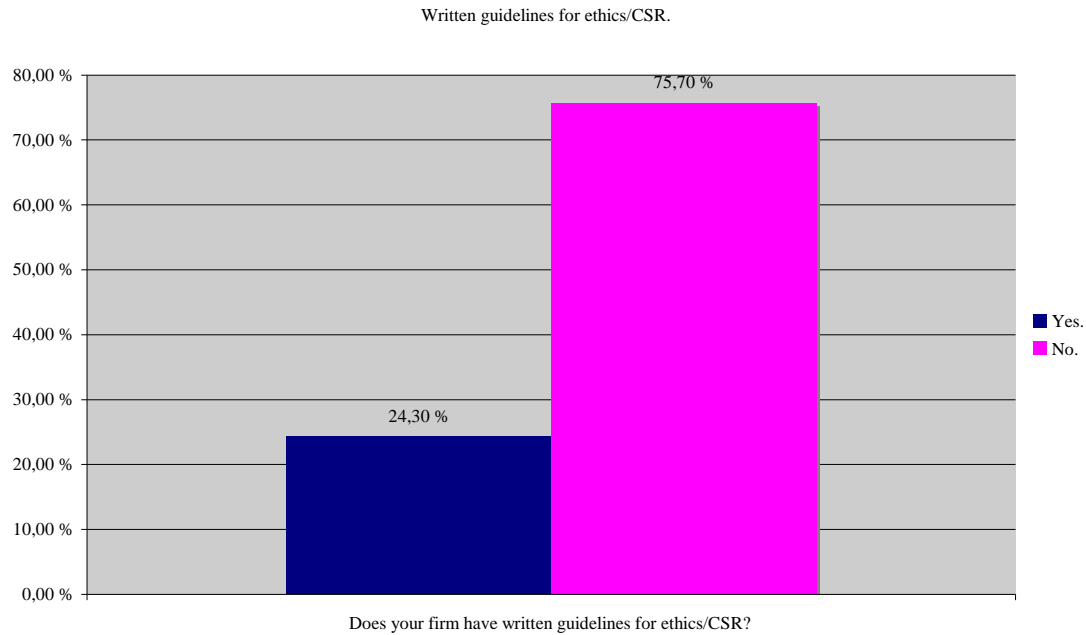
Figure 5.6 (a)

Only one fourth of respondents reported that their firms had written guidelines on ethics/CSR (see Figure 5.6 (a)). 75.7 per cent of the firms did not have such guidelines. Knowing that an overwhelming majority of respondents reported that they agreed firms should not accept products from producers who employ child workers or cannot guarantee satisfactory working conditions, that firms should contribute to human rights observance through conscious choices of suppliers, and that firms should demand information about and control with their supply chains, the degree to which the survey respondents have adopted codes of conduct is very low. Very few firms have formalised their commitment to a social demandingness view on CSR by putting it in writing.

Auditing of performance on working conditions.
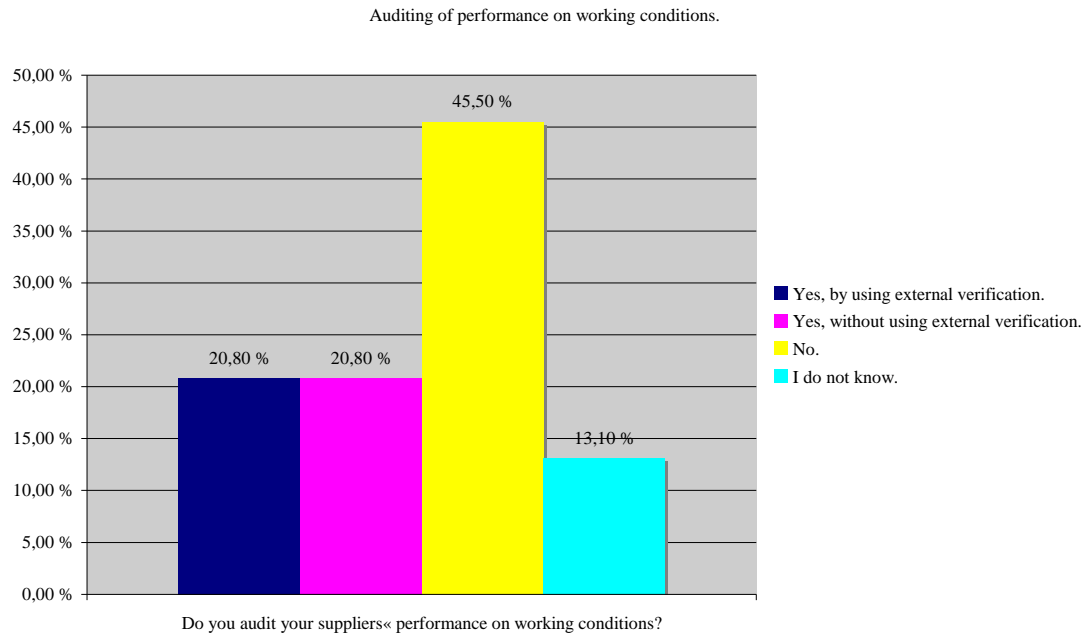
Figure 5.6 (b)

The CCC argues in favour of external actors verifying both the code implementation, and the monitoring of code compliance. 20.8 per cent of respondents reported that their firm audits supplier performance by using external verification (see Figure 5.6 (b))[50]. 20.8 per cent reported that they audit suppliers without using external verification. The majority either does not audit suppliers on these issues, or they did not know whether or not their firm does this. Again, only a minority of respondents have implemented this type of procedure. In sum, the data show that formalised CSR procedures in the form of written codes of conduct or external auditing of suppliers are uncommon in the surveyed firms. This lack of such practice means that most of the surveyed firms have no verifiable way of ensuring that they are taking on the responsibilities that the majority of respondents agreed were within the boundaries of corporate responsibility. Neither do they have a verifiable way of ensuring that the ethical risks are as low as they think themselves.

5.8 Discussion of the findings on practice

The findings in this survey are not unique compared to other Scandinavian data on formalised CSR practices in SMEs. A study of 304 Danish SMEs carried out in 2005 found that the majority of firms did not apply any social or environmental requirements to their suppliers (Copenhagen Centre for Corporate Responsibility 2006, Jørgensen and Knudsen 2006). The Danish firms operated in different industries. The majority had other business enterprises as their most important buyers, and their suppliers were located in both low and high-income countries. While 42.8 per cent of the firms did apply some form of requirements to their suppliers, only 11.2 per cent applied requirements related to labour rights. Many of these requirements were not

communicated neither in writing or orally, and verification of standards was rare. The share of SMEs that applied labour rights requirements and communicated these was only 6.3 per cent. The share of SMEs that applied labour rights requirements that were subject to verification was 6.7 per cent, while the share of SMEs that applied requirements that were both communicated and subject to verification was only 4.8 per cent. The study also showed that there was limited diffusion of social requirements via SMEs in the value chain. Among those who received requirements from their own buyers, only a minority of 19.0 per cent applied requirements to their own suppliers. Regarding requirements that specifically dealt with labour rights, 75.9 per cent did not pass on the requirements that they received themselves.

The main conclusion in the Danish study is supported in this study – the majority of surveyed firms do not apply formalised CSR practices in international supply chains in the form of having written guidelines or requirements, or by auditing or verifying that suppliers meet the ethical demands. Still, a small majority, 51.1 per cent, of the Norwegian survey respondents reported that social considerations are greatly or quite important in the choice of suppliers (see Figure 5.7 (a)). No more than 12.3 per cent reported that such considerations were of little or no importance.

Social considerations in the choice of suppliers.
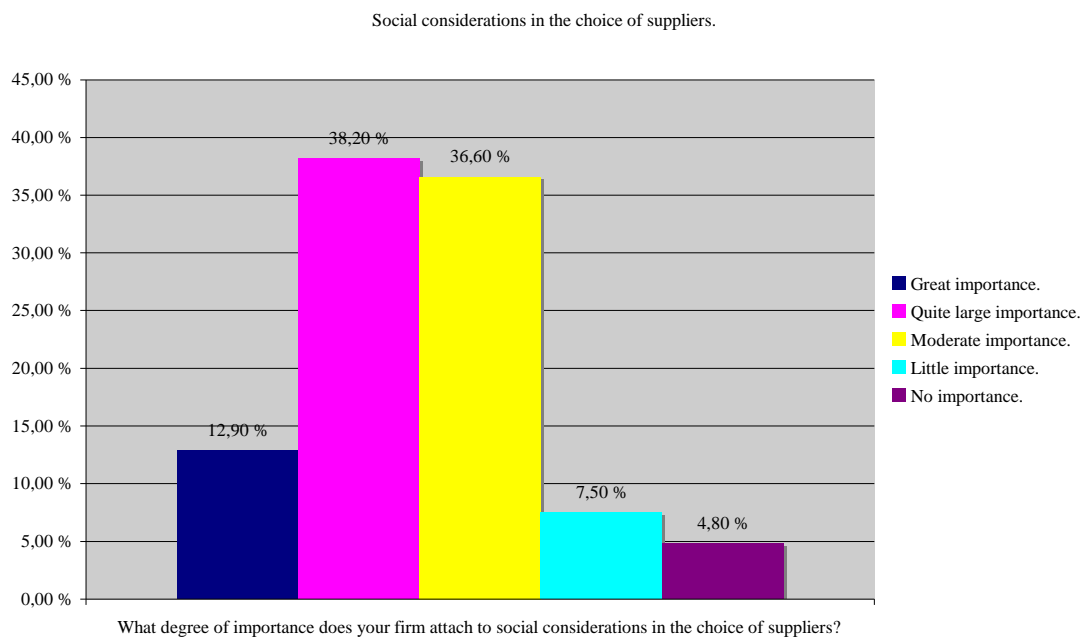
Figure 5.7 (a)

More respondents than just the ones who say they have written guidelines for ethical behaviour, however, do in some way state their demands related to working conditions to their suppliers (see Figure 5.7 (b)). These two findings imply that there may be other, and informal, ways of doing this in addition to the practice of using codes of conduct. Still, less then half of those who have answered these questions, report that they in any way communicate preferred ethical standards to their suppliers.

Communication of demands related to working conditions.

Do you inform your suppliers of the firm«s demands related to working conditions?
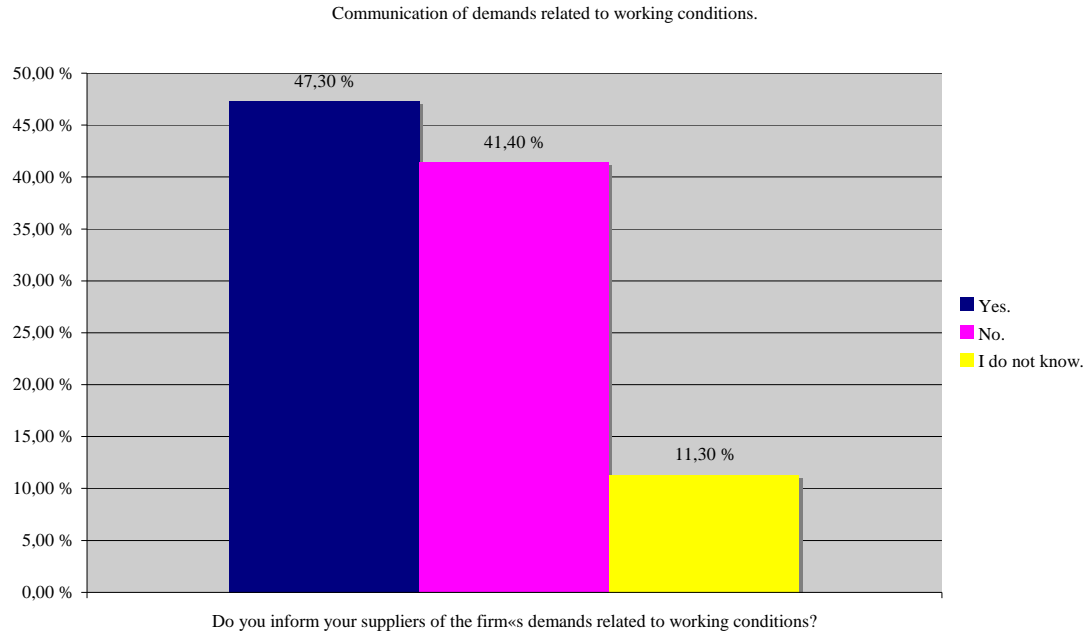
Figure 5.7 (b)

5.9 Possible explanations for the lack of formalised practice

As discussed in the theory chapter, Pedersen and Huniche (2006) argue that consensus, consciousness, commitment and capacity, both in organisations and their wider stakeholder environment, are preconditions for CSR implementation. This following section discusses whether these preconditions are present or not in the surveyed firms and the wider clothing industry. If they are not, we may have one possible explanation to why the rate of implementation of formalised CSR practices is so low.

5.9.1 Consensus

Our survey reveals highly different perceptions of what CSR is across company managers. Although a majority seems to fall within the social demandingness category, we have no way of arguing that there is consensus *within* the companies or not. It seems plausible, however, to assume that the variation among managers will also be present within different companies. Moreover, if the individuals in the organisation do not have autonomy to influence policy decisions, their personal attitudes may not be reflected in decision making processes. Perhaps our survey respondents do not enjoy this necessary amount of autonomy. It may also be the case that, autonomy or not, they do not apply their personal attitudes concerning CSR to work-related situations. If this is the case, we should not necessarily expect a match between expressed attitudes and actual practices. Finally, if ethical issues are not discussed in the organisation, the necessary consensus about issue priorities can not be expected to form. Lack of conversations about ethical issues also points to the next factor necessary for CSR operationalisation as it reveals a lack of consciousness in the organisation.

5.9.2 Consciousness

In our survey, only 7.7 per cent of respondents felt that they had a thorough knowledge of CSR and the content of this concept. No more than 7.7 per cent reported that they had never heard the term, but as many as 47.9 per cent felt that they had little knowledge of what the concept implies (see Figure 5.8 (a)).

Familiarity with the concept of CSR.
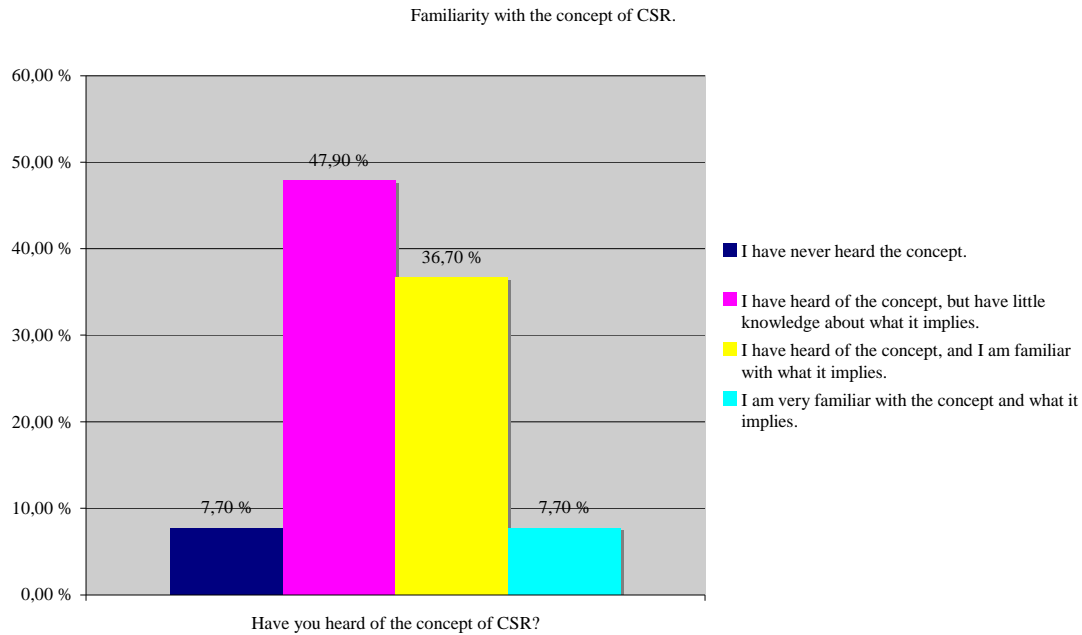
Figure 5.8 (a)

91.9 per cent have never participated in a course, seminar or conference about the issue, and only 9.5 per cent knew that anyone else in their organisation ever had (see figures 5.8 (b) and 5.8 (c)).

Participation in seminars, courses or conferences on CSR.

Figure 5.8 (b)

Participation in seminars, courses or conferences on CSR.
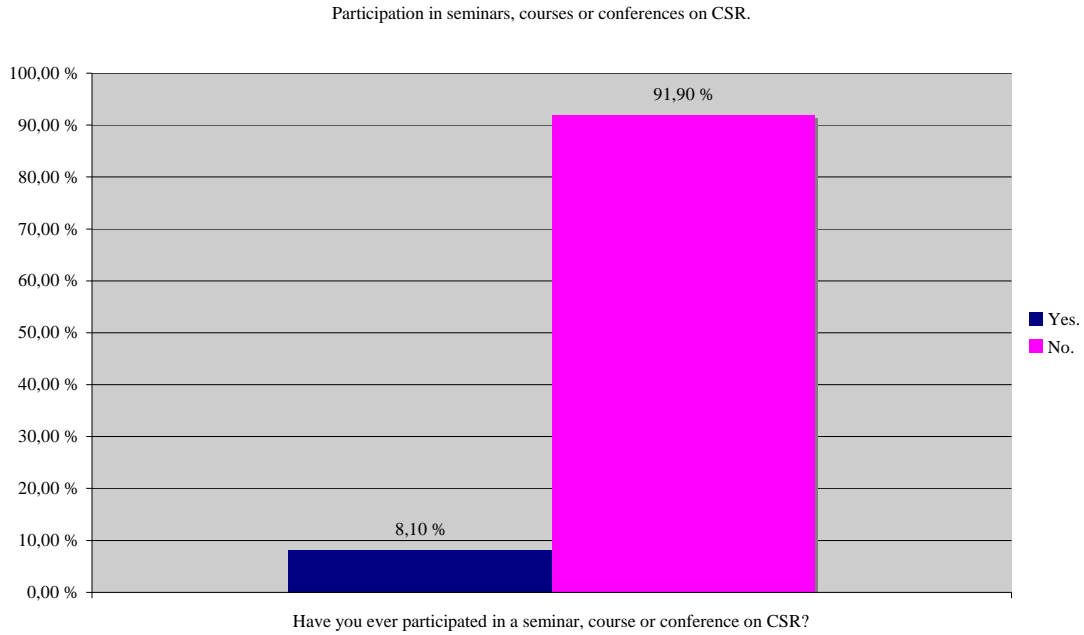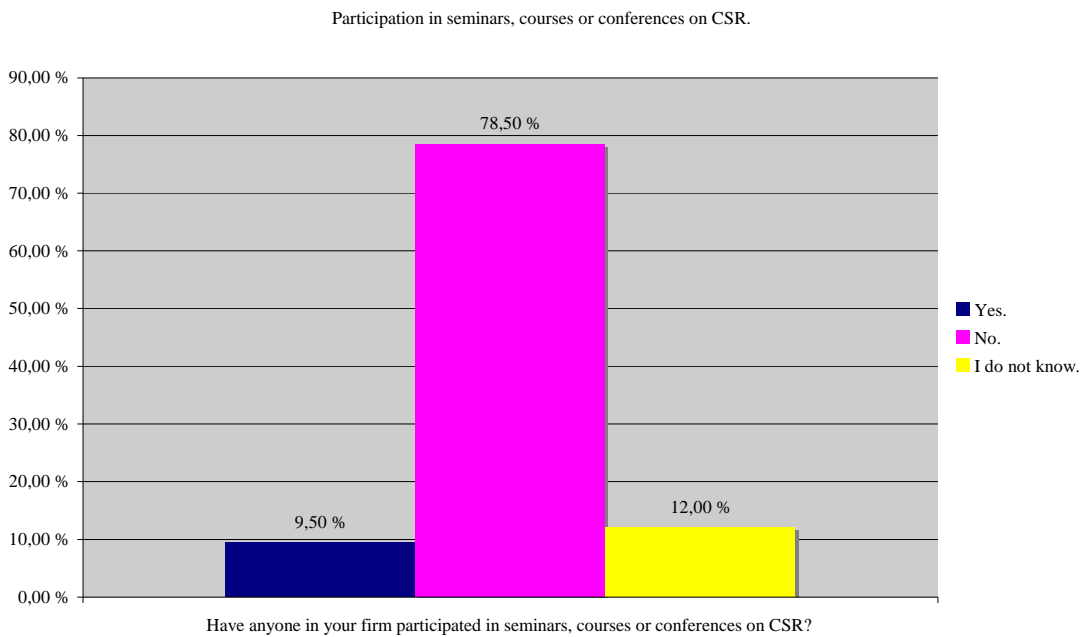
Figure 5.8 (c)

The level of knowledge about the most central CSR standards was also very low (see Figure 5.8 (d)). As many as 59.1 per cent of the respondents had never heard of the Confederation of Norwegian Enterprise (NHO) guidelines or learning materials on

ethics and CSR, The Norwegian Ethical Trading Initiative's (IEH) code of conduct, The UN standard for CSR, Global Compact, The OECD guidelines for multinational enterprises, or the Social Accountability International's (SAI) SA8000 standard. The NHO guidelines and IEH code of conduct were the best known, but only about one fourth of the respondents indicated that they had heard of them before.
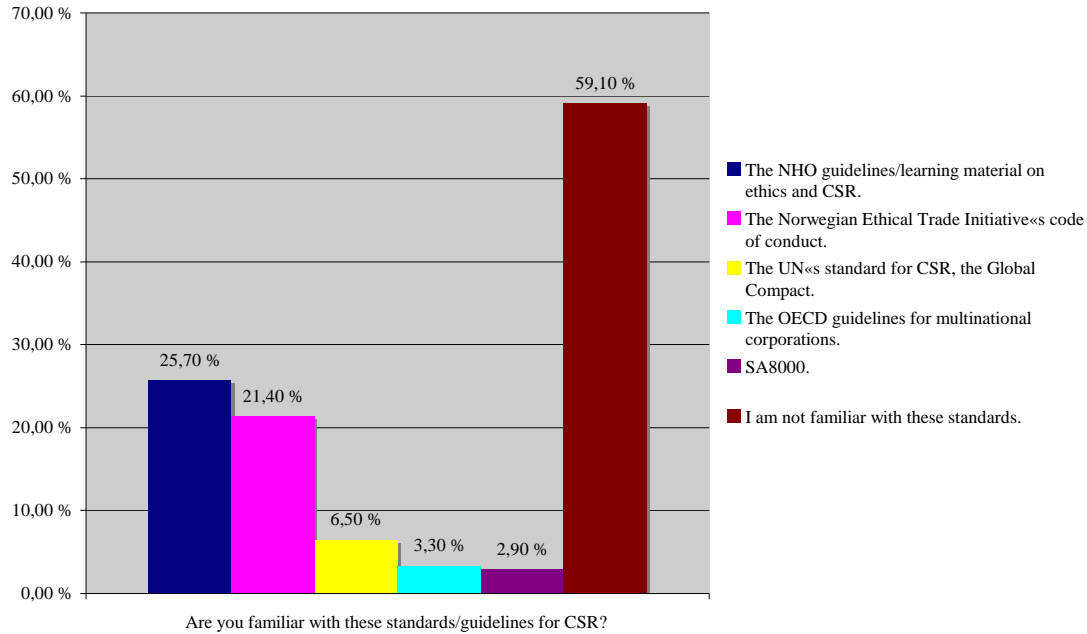
Figure 5.8 (d)

Based on these findings, it is perhaps not surprising that as many as 80.2 per cent of respondents report that their lack of insight about the (CSR) issues is a moderately, quite or very important reason for it being difficult to pose social demands to suppliers (see Figure 5.8 (e)).

Lack of insight as a factor that makes it hard to raise demands with suppliers.
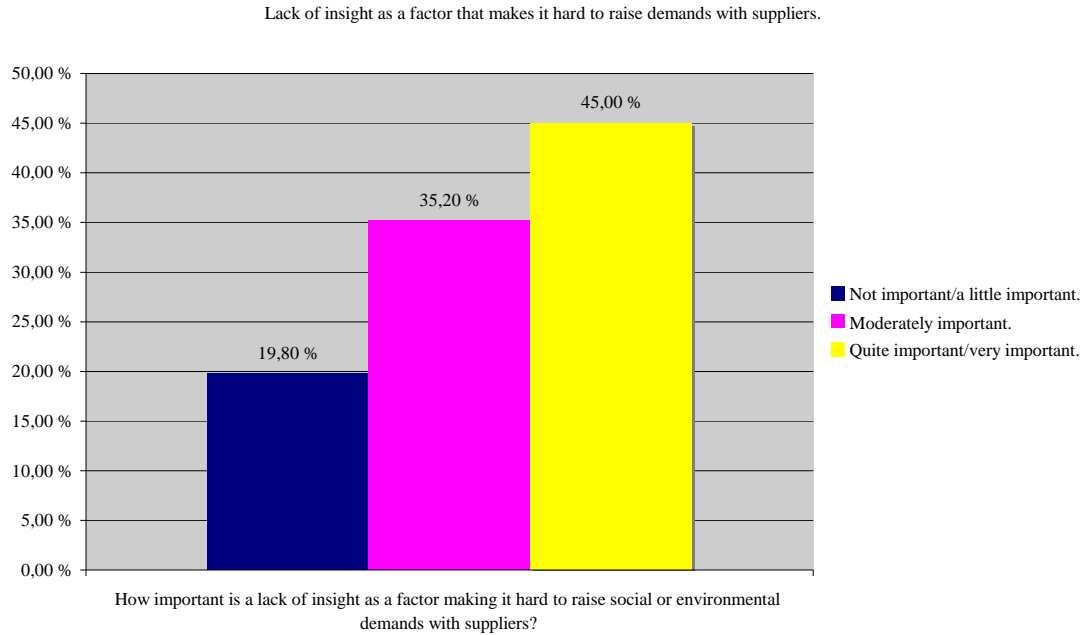
Figure 5.8 (e)

With such low levels of knowledge and awareness of CSR, the necessary precondition of consciousness seems to be missing in a majority of surveyed firms. The indications of low consciousness in both organisations and the organisational environment may contribute to the explanation of why formalised CSR practices are so unusual.

The lack of consciousness may also in a quite different way partly explain why the match between respondent attitudes and firm practices is so poor. Perhaps survey respondents have not really taken a conscious stand on the issues they were asked about before, and just indicated the answers that seems to be politically correct. Low levels of consciousness may perhaps also explain why the perceived risks of unethical conditions in the supply chain are so low. If the respondents do not really have knowledge of how widespread poor working conditions are in clothing supply chains, and how hard they may be to detect, they may worry less about these issues and think they are more "safe" than their actual practices are able to guarantee.

5.9.3 Commitment

Organisations need to allocate resources to CSR for them to be able to develop and implement policies. Since no organisation has unlimited resources, this means that there has to be a commitment to prioritising CSR. When asked which factors they felt they could consider in their day to day work, 95.4 per cent of survey respondents answered that they could consider their customers to a very or quite large degree (see Figure 5.2 (b)). 89.8 per cent answered that they felt they could consider the firm's economic situation to a very or quite large degree, and 87.5 per cent answered that they could consider laws and regulations to a very or quite large degree (see Figure 5.9 (a)). 72.8

per cent answered that they felt they could consider ethical standards to a very or quite large degree, while 60.8 per cent answered that they could consider CSR to a very or quite large degree. Although the figure for CSR is considerably smaller than the ones for financial situation and laws and regulations, a clear majority still feels like they are able to prioritise CSR on a day to day basis. Still, we have seen that very few organisations have formal CSR policies in place.

Priorities in the managers« daily work.
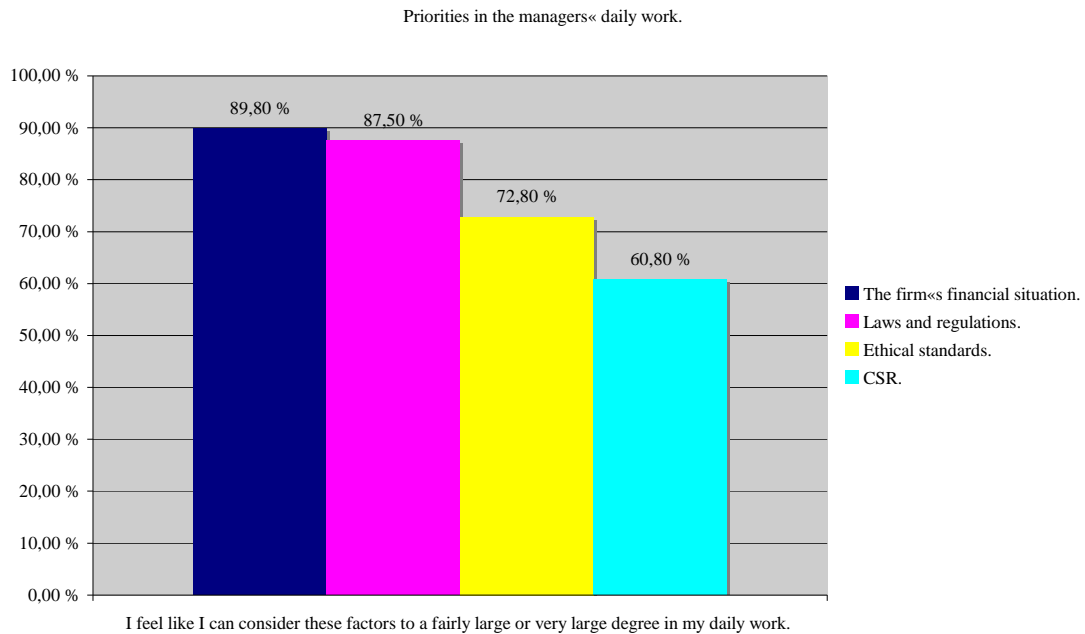
Figure 5.9 (a)

When asked how important different factors were in the choice of suppliers, 97.9 per cent answered that quality is very or quite important, 87.1 per cent put this same emphasis on delivery time, 74.7 per cent answered that price was very or quite important, and, as already mentioned above, 51.1 per cent answered that social considerations were very or quite important. We see that only a small majority of managers emphasise social considerations, while almost everyone emphasise quality and large majorities emphasise delivery times and price (see Figure 5.9(b)).

Important factors in the choice of suppliers.

These factors are very or quite important in the choice of suppliers.
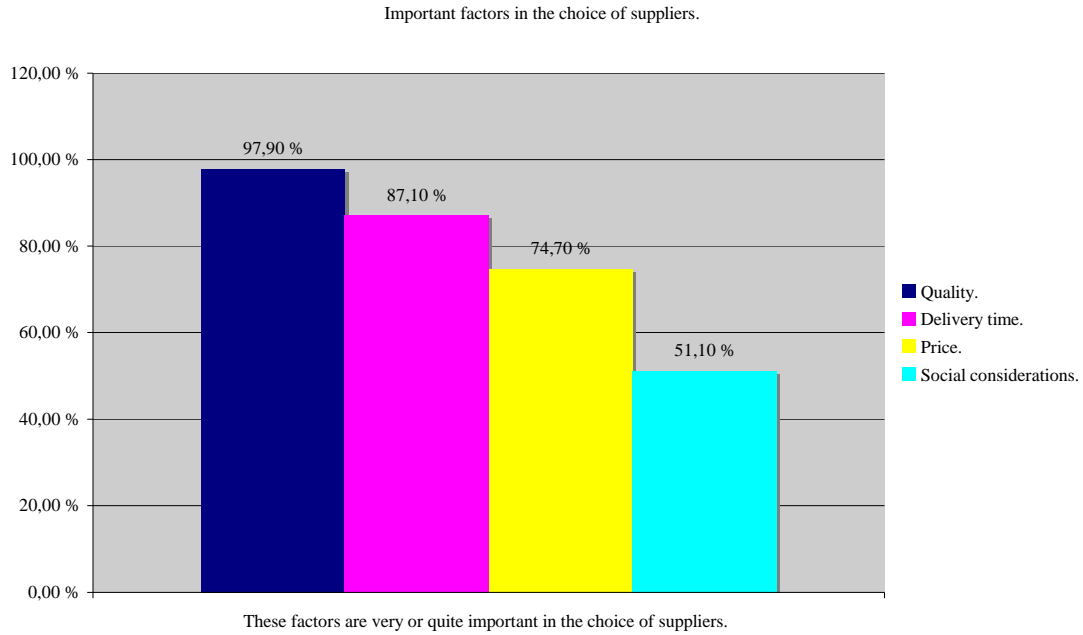
Figure 5.9 (b)

5.9.4 Capacity

Economic, technical and human resources are necessary for firms to be able to operationalise CSR (Pedersen and Huniche 2006). We already saw that almost half of the surveyed managers think that a lack of insight is a quite or very important factor making CSR hard to do (see Figure 5.3.2(e)). Only a minority of 45.6 per cent reported that a lack of time and financial resources were quite or very important factors. If we include those who reported it to be a moderately important factor, a majority of 73.6 per cent reported that these factors were important to some extent (see Figure 5.3.4).

The importance of capacity-related factors in making it hard to pose requirements.
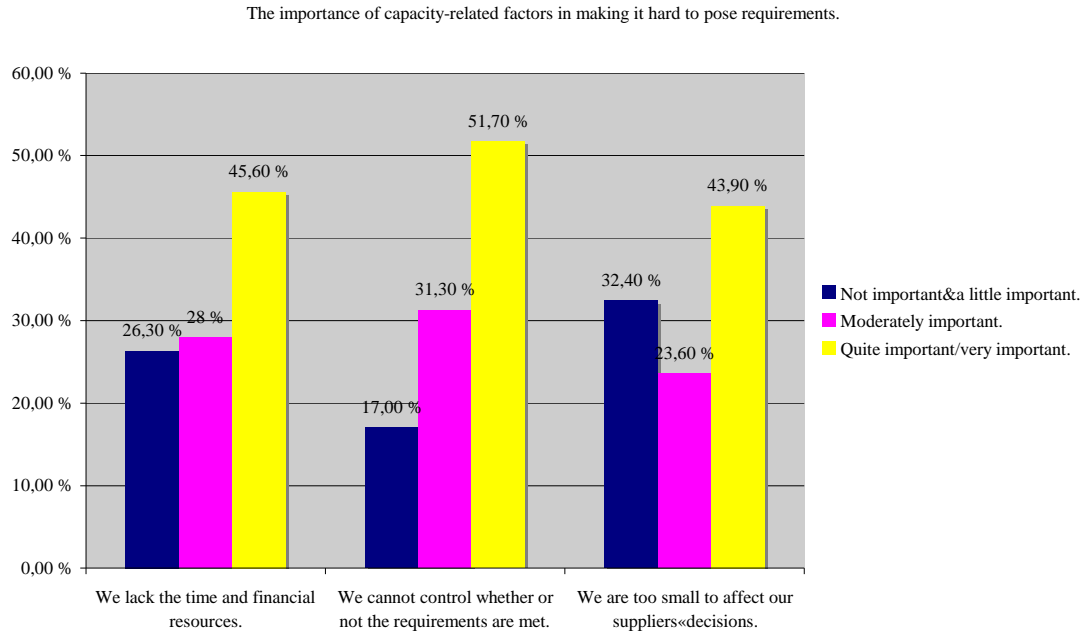
Figure 5.10

The ability to control whether or not the requirements are met, or being an actor large enough to affect suppliers´ decisions may be defined as capacities relevant to relational power resources. A majority of respondents reported that a lack of capacity in these areas were moderately, quite or very important as factor making it hard to pose requirements to suppliers (see Figure 5.10).

I sum, the respondents report that a lack of both insight, financial resources, time and relational power resources are moderately, quite or very important reasons making it hard to pose requirements to suppliers.

5.10 Concluding remarks on findings

Our survey data of mostly smaller firms indicate that formalised supply chain CSR practices are not widespread, and capacity constraints are identified by the respondents as important obstacles. One possible explanation to why the survey respondents' firms have not implemented such practices, may be that the preconditions of the Pedersen-Huniche model are not present. There is a lack of consensus in the organisational environment, i.e. the industry, on which issues are relevant. The level of consciousness of and knowledge about CSR-related issues is low. CSR is not highly prioritised in comparison to other firm tasks, perhaps reflecting a lack of commitment to these issues. Also, the firm managers themselves report that they lack relevant capacities necessary for CSR implementation in international supply chains.

A relevant question to consider on the basis of these findings is whether or not small firms can be expected, or should be expected, to try and implement ethical supply chain management, knowing that the supply chains are as complex and hard to gain information about. Afterall, a large segment of the survey respondents manage small clothing stores and have very little direct contact with the factories that produce their clothes.

6. POTENTIAL REMEDIES.

Assuming that a discrepancy between what the surveyed firm managers believe firms should be responsible for, and the actual steps taken to assume this responsibility should be closed, we sketch out two possible strategies for bringing the actual state closer to the desired one. The two suggested solutions we present are located at two different levels. One is internal to each firm, and one is suggested on an inter-organisational level.

6.1 Organisational development for stronger CSR implementation

Any organisation development process needs to be firmly anchored at the management level of the firm (French and Bell 1999). Firm managers therefore need to make a decision to increase the attention paid to ethical supply chain management[51]. Next, they need to actively communicate their support for an increased focus on the ethical issues in the supply chain, and a commitment to a code of conduct and auditing and verification of the labour standards in the supplier factories throughout the firm. For firms that are not in direct contact with factories themselves, there should be a managerial commitment to obtaining the relevant information from the agents or brand companies they buy their products from. The manager, or managers, should also actively participate in the further learning processes, both in order to be educated themselves, and to signal their commitment.

In order to establish consensus and raise consciousness in the firm, all staff members should receive training about the ethical issues that exist in the supply chain, and the magnitude of these issues, and also about the tools that exist for handling the issues, such as codes of conduct and monitoring processes. Employees could be given the opportunity to provide input as to how their particular firm can re-organise work processes in order to strengthen the CSR work. Participation is a key factor in innovative processes (Tønnesen 2005), and the sense of ownership towards the new solutions among the employees is important in order to make lasting changes (French and Bell 1999).

The final goal of such a process should be to design new work processes that make ethical supply chain management realistic. Concrete tasks and specific and delegated responsibilities related to the firm´s CSR implementation may make it easier to put in the necessary commitment. The procurement processes and staff will be central for the

firms who have such departments. If the firm deals directly with factories, the sourcing processes may be altered so that delivery deadlines are not too short, since extremely short lead times are known to negatively impact the situation for factory workers. A code of conduct should be adopted if the firm does not already have one, or the work related to following up the existing one should be intensified and formalised in work routines. For firms that buy their products from agents or brands, the commitment to demanding information about the supply chain from these actors should be operationalised in routines that are employed in the buying process.

Although the organisation development process has the potential to impact consensus, consciousness and commitment in important ways, it also has limitations. First, while training initiatives can increase firm capacity by strengthening the knowledge resources, the constraints related to time, money and relational power resources may remain unchanged. Second, it is not necessarily possible to predict the outcome of training and informational work (Shaw 1997). Finally, in order to initiate a process like this one, there has to be a certain degree of consciousness and commitment already in place – if not, the idea would probably not come up, or at least not be put into practice.

6.2 Inter-organisational development for stronger CSR implementation

CSR have become a central subject for branch organisations in Norway. The Norwegian Ethical Trade Initiative (IEH) was founded in 2000 by stakeholders from the business, NGO and labour communities (Initiativ for Etisk Handel 2000). Their aim is to contribute to improvements in member firm supply chains. Member firms have to adopt the IEH code of conduct, or one that is equally comprehensive, make a plan for implementing it, offer training to all employees who are involved in work related to the supply chain, evaluate the working conditions in supplier factories, implement remediation when necessary, and commit to independent monitoring of compliance. The IEH secretariat guides and helps the member firms in this process. The initiative can also help firms identify potential local partnerships that can further the process of improving conditions in the localities where they source their products from. IEH offers employee training and software tools aimed at helping procurement staff implement ethical trade principles into their purchasing practices and systems.

The Federation of Norwegian Commercial and Service Enterprises (HSH) is Norway´s leading organisation for businesses and employers in the private service sector, including the clothing sector, and was a co-founder of IEH. This was a positive step in the sense that it signaled a desire for CSR to be a priority for Norwegian firms. SMEs are particularly impacted by the issue consciousness in their surroundings. 39.4 per cent of the survey respondents reported that industry associations was an important source of information about CSR, and 54.0 per cent attached the same kind of importance to industry publications, making these the most valued sourced of information by survey respondents. The signals that the HSH sends out may therefore have an important impact.

Our second suggestion for a strategy to strengthen the preconditions of CSR in the SMEs in the Norwegian clothing industry is therefore for the HSH to intensify its

commitment to CSR and take steps in cooperation with IEH towards establishing a strong interorganisational network aimed directly at SMEs. As SMEs are generally not good at utilizing the knowledge resources in their environment (Lepoutre and Heene 2006), this issue needs to be especially addressed.

The association already offers learning networks for managers which focus on issues such as HR/personnel, safety and finance (HSH 2008a), and these efforts could be expanded to include learning networks for CSR, perhaps even at regional levels. The HSH also offers a database where members can find suppliers in developing countries offering low prices, quality products and service minded cooperation (HSH 2008b). A further step could be to develop a similar database for suppliers that are serious about improving working conditions. The initiative should set ambitious goals as to the number of participants, and have a specific goal of increasing the understanding in SMEs of their own potential contribution in terms of CSR.

One possibility could be to make membership in initiatives such as IEH mandatory, and to strengthen the capacity to sanction those who do not follow up on their commitments. This would, however, challenge the view that CSR first and foremost is voluntary, not mandatory.

7. CONCLUSION

This study has shown that although the majority of the surveyed clothing industry managers report that they support a view of CSR that puts a fairly extensive degree of social responsibility onto the firm, very few have implemented formalised procedures in order to ensure that they live up to this responsibility. A possible explanation is that the preconditions of CSR consensus, consciousness and commitment, and the relevant capacities, are not present in the individual firms or in the industry at large. In order to bring practice into accordance with the managers´ attitudes towards CSR, steps could be taken on the individual firm and industry levels.

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Study VI:
Little Big Firms? CSR in a Norwegian Small Business Market

Author: Rune Dahl Fitjar, International Research Institute of Stavanger (IRIS), NORWAY

Article submitted to Business Ethics: A European Review, September 2009.

ABSTRACT

This article examines the drivers and barriers for CSR in a market consisting entirely of small businesses, the Norwegian graduate uniform industry. It finds that these businesses' CSR activities are not particularly well explained by the existing literature on CSR in SMEs. The businesses are not very deeply embedded in local communities, nor do they escape media scrutiny. They also do not find size to be an issue in terms of the costs of CSR. The only size-related problem faced by these businesses in the CSR arena is that of leverage. The article finds that the businesses are mostly driven by external pressure to improve their social responsibility. Such pressure stems partly from news reports on their activities and partly from increasing competition leading to a situation where the small businesses operating in the market scrutinise each others' activities.

Although originally used mainly to discuss the ethical merits of big corporations, the corporate social responsibility (CSR) literature has long since started to include the perspectives of small and medium-sized enterprises (SMEs). A growing body of research discusses the particular challenges faced by SMEs in implementing CSR practices, as witnessed by the special issues on CSR in SMEs published by *Business Ethics: A European Review* in 2009 and *Journal of Business Ethics* in 2006. This reorientation of the literature is appropriate, given that SMEs make up the vast majority of businesses in Europe and consequently have a major impact on the assessment of how responsibly European businesses behave. This line of research has also demonstrated that when it comes to CSR, SMEs are not "little big firms" (Tilley 2000) and should not be treated as such. Much of the CSR literature pertaining to large companies has little relevance to SMEs, as a fairly different set of mechanisms are in play when SMEs decide on how responsibly they should behave.

While CSR in SMEs is now understood much better, the literature has so far mostly looked at SMEs that compete in markets dominated by large corporations. This article examines a different type of market altogether: The Norwegian sixth-form graduate uniform (*russeklær*) industry, which consists entirely of small businesses. The article analyses the implementation of CSR practices in the small businesses in this market, examining whether the literature on how small businesses differ from large corporations when it comes to drivers and barriers for CSR is useful in understanding their CSR

engagement. The study finds that several of the constraints associated with small size, such as higher costs and lower payoffs from CSR work, are of limited importance to understanding these firms, as are drivers such as local embeddedness. The study examines pressures from consumers and the media for the companies to adopt CSR, finding that public scrutiny and increased market competition are the main drivers behind their increased focus on CSR.

CSR in Small and Medium-sized Enterprises

It might seem paradoxical to be discussing corporate social responsibility in the context of SMEs. The "corporate" aspect of CSR suggests a particular business model: Corporations are separate legal entities with limited liability. Many SMEs are corporations, in which case the term CSR still applies. However, this article also discusses the social responsibility of SMEs that are organised in other ways: As sole proprietorships, partnerships, cooperatives or otherwise. Authors use various terms for including these types of businesses in their discussions: Lepoutre and Heene (2006) speak of "small business social responsibility", Moore and Spence (2006) refer to "responsible business practice", while Fuller and Tian (2006) discuss "responsible entrepreneurship"[52]. However, many authors (Williamson et al. 2006, Sweeney 2007, Murillo and Lozano 2006) still prefer to use the term CSR when discussing the social responsibility of all types of businesses, as this has become a familiar concept and signals comparability with the larger CSR debate. In line with this tradition, this article will use the term CSR when discussing the social responsibility of all forms of SMEs.

The discussion of CSR is based on what is sometimes referred to as the consensus definition: Situations where a business "engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by the law" (McWilliams et al. 2006). While recognising that there are several competing definitions that differ from this definition in important respects, the article does not intend to discuss the validity of different definitions of the term. The discussion of SMEs will be based on the European Commission's definition, in which small and medium-sized enterprises are defined as having fewer than 250 employees, a turnover of less than € 50 million and a balance sheet total of less than € 43 million (European Commission 2003). In 2003, this category made up 99 percent of all businesses in the European Union, providing around 65 million jobs.

Much of the academic debate on CSR in SMEs has centred on whether SMEs are more or less socially responsible than large companies – whether they are foot-draggers or pace-setters on the CSR scene. This section reviews the various reasons that have been offered for each of these positions.

Foot-dragging SMEs

Several studies indicate a positive correlation between firm size and CSR work: Brammer and Millington (2006) find a strong positive correlation between firm size and

charitable giving in their study of 334 companies listed on the London Stock Exchange. Among SMEs, a 2001 survey of more than 7600 Western European SMEs found that 70 percent of medium-sized enterprises claimed to be involved in external community causes, compared to 65 percent of small enterprises and 48 percent of very small enterprises (fewer than 10 employees) (Observatory of European SMEs 2002). In a similar study from Latin America, Vives, Corral and Isusi (2005) find that 67 percent of medium-sized enterprises claim that their CSR activities are of a habitual nature, compared to 48 percent of small ones. This section will examine possible reasons for this state of affairs, focusing on three dimensions along which the incentives to CSR work may be smaller for SMEs than for large companies: Costs, payoffs and impact.

Costs

CSR activities represent a lumpy cost to the business and are hence relatively more costly to SMEs in relation to the size of the company. While the scale of CSR activities in SMEs is usually smaller than in large corporations, there are several aspects of CSR that do not vary a whole lot in their resource demands. Producing a CSR report will for instance require almost as much time for an SME as for a large business and hence consume a much larger proportion of available staff resources in an SME than in a large business. Devoting five out of 5000 staff to full-time CSR work is doable for any business, devoting one in a company of 10 is almost impossible in most cases.

This is supported by a survey of SMEs in the UK, where the SMEs highlighted cost, lack of time and resources, and bureaucracy as the main barriers to CSR work for their business (Business in the Community 2002). In particular, many businesses complained about the administrative burden associated with responding to new initiatives and fulfilling standards. The operations of SMEs tend to be less formalised than those of large companies, and hence excessive amounts of paperwork intended to show compliance with CSR standards can be a significant burden to these businesses. Sweeney (2007) also cites the lack of time, financial and human resources as the main obstacles to CSR in her study of SMEs in Ireland.

The problems are compounded by the fact that SMEs often operate on narrower margins than large companies. Spence (1999) comments that small businesses tend to be occupied by immediate issues of day-to-day survival and hence have few opportunities to invest large sums in CSR activities that may or may not pay off in the long run. SMEs struggle more than large companies in terms of cash flows as well as access to finance, and hence need to focus their cash reserves on issues that immediately concern their bottom line. An equally big concern is the lack of time to devote to CSR work, as there are fewer employees to whom managers can delegate such tasks. Managers of SMEs tend to be responsible for a wide range of tasks themselves and have less time to strategise about the long-term future of the firm than do managers of large companies. This can leave little time to reflect on CSR aspects of the company's operations, and may result in a reactive rather than a proactive attitude to these issues (Spence 1999). Williamson, Lynch-Wood and Ramsay (2006) studied CSR in 31 small manufacturing enterprises in the UK, finding that they tend not to engage in CSR activities, as these are

usually perceived as extra costs. When their margins are under pressure, SMEs will not be able to run the risk of investing in CSR, hoping that it will pay off later.

Payoffs

In addition to higher relative costs of CSR to SMEs, the payoffs from CSR work may also be lower than for large companies. Reputation is perhaps the most important payoff from investing in CSR. While reputation is crucial to all businesses, there are several reasons to expect that it matters more to large corporations than to SMEs. Graafland and Smid (2004) argue that large corporations are more visible on the capital, labour and product markets. Reputation matters in each of these markets, dictating how much it is worthwhile to spend on CSR. Even though reputation is important to SMEs as well, its relatively lower importance means that SMEs cannot justify spending as much on CSR as large corporations.

In the product market, a good reputation for ethical conduct shields companies against the effects of consumer boycotts. Occasionally, it even enables them to sell their products at higher prices, as in the case of so-called fair-trade products. Auger et al. (2003) show that consumers are willing to pay a substantial premium for products that were manufactured under decent working conditions. On the other hand, their findings also indicate that people are usually unaware of the ethical features of the products they consider, meaning that salience matters quite a lot. This is important in the case of SMEs, who tend to be fairly anonymous (although they could well be highly visible on a local level) and usually avoid media scrutiny. They are rarely victims of boycotts, so the payoffs from reducing the risks of such consumer actions are limited. Conversely, SMEs who invest in CSR might lack the size to capitalise on their reputation and market it to a broader audience (Lepoutre and Heene 2006). SMEs are usually also local, or at least national, companies, and as a result might enjoy more goodwill among consumers for that reason alone.

In the labour market, a good reputation matters both when it comes to the recruitment of new staff and in relation to the commitment of current employees. Companies with a good reputation for corporate social performance are rated as more attractive among job seekers, in particular among those who have a high level of job choice. Hence, these companies are able to attract better employees at lower salaries (Albinger and Freeman 2000). Brekke and Nyborg (2004) suggest that people who are willing to work for ethical companies at lower salaries are also likely to behave more cooperatively in the workplace. Hence, ethical companies may be able to use their position as a labour market screening device to select more productive employees. CSR may therefore be conducive to constructing a climate of trust and cooperation in the company, solving internal collective action problems. It may also increase job satisfaction and reduce staff turnover (Graafland and Smid 2004). However, SMEs are less visible and hence less likely to be supported by a good reputation. Besides, turnover is usually lower, and new staff is hired through informal networks or among people whom the owners already know. Once hired, employees tend to work more closely together, making it easier to achieve trust and cooperation among colleagues.

In the capital market, ethical and social criteria are becoming increasingly important in the selection and management of investment portfolios (Graafland and Smid 2004), as evidenced perhaps most clearly by the growth of ethical mutual funds. In his survey of investors, Nilsson (2007) finds that people invest in ethical funds both because they expect them to perform better financially and because they want their investments to "make a difference". Furthermore, Webley et al. (2001) find that ethical investors are more likely to keep their investments, even if they perform badly or indeed if they are ethically ineffective. These concerns are less relevant to many SMEs. Although they still need to maintain a good reputation on the capital market in order to get access to loans and compete for contracts, most small businesses are not traded on the stock market, and they are hence to a lesser extent, and less continuously, exposed to CSR evaluations in the capital market.

Morsing (2006) argues on the basis of a quantitative study and two case studies of Danish SMEs that while the CSR debate in large corporations has moved on from normative to commercial arguments, few people have so far discussed possible commercial advantages of CSR for SMEs. To a large extent, SMEs engage in CSR activities because it is the correct, ethical or normal thing to do, not because it pays off. CSR is a norm and not a strategy in this group. Hence, SMEs might not even be aware of the actual payoff that CSR investments do bring, compounding the problem that these payoffs are lower in the first place. An alternative interpretation is that responsible SMEs might not focus on the commercial aspects of CSR because they suspect that it does not pay off.

Murillo and Lozano (2006) find that a majority of the French and Spanish SMEs that they studied, justified CSR activities with their effects on the market position of the business. However, none of the businesses could demonstrate the impact of their CSR work on the company's profits: "Contrary to the statements in different interviews, there is no explicit, quantitative translation of socially responsible practices into specific results that affect the profit and loss account", although "[a]ll of the companies without exception, and with great conviction, defend the correlation between social practices and results" (Murillo and Lozano 2006: 234).

Impact

Besides the economic disincentives in terms of higher costs and lower payoffs associated with CSR investments for SMEs compared to large companies, there is also a difference between the two groups when it comes to their impact on society. There are two strands to this argument: On the one hand, SMEs assume that the negative externalities resulting from their activities are minimal as the businesses themselves are fairly small. This is most evident when it comes to environmental issues. Holland and Gibbon (1997) show that many SMEs are simply not aware of the impact that they have on the environment. When the negative externalities of the business are perceived as small, there is no ethical imperative to redress them through engagement in CSR. This factor has been identified as one of the most important barriers to CSR among SMEs in Europe as well as in Latin America (Observatory of European SMEs 2002, Vives et al.

2005). On the other hand, SMEs might also assume that any positive effect that their CSR activities would have on society would also be minimal. Any CSR activities that they implemented would not make much of a difference (Lepoutre and Heene 2006). One can recognise this reasoning from many individuals' attitudes towards charities or voluntary work.

The lack of awareness among businesses themselves is reflected in the awareness of possible negative social or environmental effects of their activities in the community in general. SMEs are scrutinised to a lesser extent by interest groups and the media than large corporations. It is difficult to check up on a large number of SMEs, and any findings will yield less attention than criticism of large corporations (Graafland and Smid 2004). Lynch-Wood, Williamson and Jenkins (2009) note that SMEs are less visible and tend to be overlooked by communities and interest groups, resulting in little external pressure on them to behave responsibly.

Pace-setting SMEs

While the preceding section mentioned surveys indicating that SMEs behave less responsibly than large companies, other studies claim that this connection is spurious, resulting mainly from the tendency for SMEs to underreport their CSR activities. This argument is based on the idea that SMEs are less likely to be aware of the CSR work that they actually do engage in (Business in the Community 2002). SMEs have to a lesser extent codified their CSR activities in the way of agreements, organisations or standards, and they do not tend to produce mission statements or CSR reports, preferring instead to use more informal instruments to convey their CSR activities to the public (Graafland and Smid 2004, Russo and Tencati 2009). They also tend not to use the official CSR terminology, including the term CSR itself (Spence 2007). Hence, much of their CSR work is likely to go unrecognised. At the same time, there are reasons to believe that SMEs might actually be more socially responsible than large companies. This section focuses on two reasons for this: Their deeper integration into the local communities in which they operate and their focus on other concerns besides profit-maximisation.

Integration in the local community

In an overview of past research into how the size of the enterprise affects CSR engagement, Lepoutre and Heene (2006) point to the argument that SMEs are more deeply integrated into their local communities, resulting in a larger degree of social responsibility in SMEs, as this necessitates maintaining a good reputation. SMEs have closer relations to local stakeholders than do large corporations (Graafland and Smid 2004, Perrini 2006, Fisher et al. 2009). This is most obvious if one considers the manager-employee relationship at a small workplace compared to a large company. Managers of SMEs have close personal contact with most or all of their employees, and this allows for the development of personal relationships between managers and their

employees. Furthermore, SMEs tend to have more informal recruitment procedures, and as a result, managers may hire acquaintances, friends or family members (Spence 1999). In such circumstances, responsible behaviour towards staff is more a matter of course than a CSR strategy.

However, close stakeholder relationships are not restricted to employees. Managers of SMEs also tend to deal personally with customers, suppliers and even competitors (Spence 1999), and hence need to maintain good relations with each of these groups. They tend to live in the neighbourhoods within which their businesses operate, and therefore have a personal interest in maintaining a good reputation among neighbours. Consequently, they are confronted with issues and concerns among their stakeholders on a daily basis: Physical closeness can easily translate into moral closeness (Spence 2007).

In a study of CSR among Asian-owned SMEs in the UK, Worthington, Ram and Jones (2006) show that most businesses are active in programmes designed to strengthen the local community and in particular the relation between different local ethnic groups. They are often motivated by a desire to give something back to the community in which they live. Economic rewards are less important in motivating CSR, whereas the attitude of the owner is an important explanatory variable. Crouch (2006) also points to the value of SMEs' integration into the local community. SMEs are less mobile than large companies due to the presence of locational sunk costs – costs that the business has already incurred through establishing itself in a local community and that cannot be retrieved in a move. He further points out that SMEs are expected to respect local norms for collective behaviour and frequently punished through market mechanisms if they fail to uphold these norms. The norms can include compensating negative externalities of the business's activities as well as producing positive externalities beyond economic growth: SMEs are frequently expected to be pillars of the community, support charities and so forth. Similarly, Russo and Tencati (2009) note that small businesses are more dependent than large firms on strong community relations in order to survive.

Profit-satisficing

Spence and Rutherfoord (2001) argue that it is important to realise that not all SMEs are profit-maximising. In their interviews with 20 owner-managers of small businesses, they find that many of the businesses pursue profit-satisficing strategies. Many SMEs are content just to stay in business. They provide employment for the owners and some employees, but have no desire to expand and grow beyond this. Running the business may simply be a means to an end for the owner. It may even be a means to pursue a social end: Some owners may be driven by the desire to contribute to society. In this line of reasoning, which Spence and Rutherfoord (2001) label the "social priority" frame, running a business may be more about a lifestyle choice than a wealth-maximising strategy. Managers with this approach to running a business could be expected to want their business to behave responsibly and ethically.

A Case Study of CSR in a Small Business Market

The review of the literature revealed that SMEs differ from large companies in several ways that may impact on their likelihood to invest in CSR activities. Higher costs and lower payoffs from CSR investments compared to large companies reduce the incentives for SMEs to focus on this area. This is compounded by the notion that the impact of SMEs on their environs is proportional to their size – meaning that there are minimal negative externalities to redress, and minimal gains to society from their CSR work. On the other hand, much CSR work in SMEs goes unreported. SMEs are sometimes seen to be socially responsible by default: They are well integrated into their local communities, have close relations with their stakeholders and small, flexible organisations. Managers of SMEs are also not always motivated by profit-maximising concerns. However, SMEs do not have the capacity to spend time on the bureaucracy of CSR reporting, and the CSR jargon does not capture their imagination. Much of the CSR work that they do therefore goes unnoticed, both by the businesses themselves and by their stakeholders.

This study examines the drivers and barriers for the implementation of CSR policies in the Norwegian *russeklær* market, exploring whether the constraints identified by the "foot-draggers" literature and the push factors outlined in the "pace-setters" literature can explain the activities of the small businesses in this market. The study examines the role of external pressure from consumer preferences and media coverage, and also discusses how the CSR behaviour of the firms has been affected by growing competition. The study is based on CSR reports and questionnaire replies from the owner of Russeservice, as well as newspaper reports on the *russeklær* market. Consumer input has been examined through interviews with presidents of the graduates' committees (*russestyre*) of a selection of high schools, with the purpose of gaining an understanding of the decisions behind the selection of suppliers and in particular which weight is given to ethical concerns in relation to other factors in the decision-making processes.

The *Russeklær* market

The *russeklær* market is currently divided between two small businesses, having been dominated by one company, Russeservice, until 2003. In that year, two new companies were established: Redress and RussOnline, although the latter was unsuccessful and declared bankruptcy in 2005. Although students can buy their clothes from any supplier, the graduates' committees at high schools tend to negotiate special discounts with one of the companies in return for marketing their products, organising orders and deliveries and allowing them exclusive rights to exhibit their products at the school. This has a strong impact on the market decisions of individual students.

Russeservice was established in 1982 and monopolised the market for most of the 1990s. It has around 10-15 employees off-season, rising to around 40 in the main sales season, running from February to May. The company's turnover in 2007 was € 5 million, an increase of € 1 million on the previous year, making a profit of € 1 million.

The company is owned mainly by Smedsrud Drift AS (90.2 percent), a holding company owned by Ole Jørgen Smedsrud, who is also CEO of Russeservice. Smedsrud Drift is also the main owner of the internet company Russ.no, which runs a news service and discussion forum aimed at graduates, doubling as an online shop for Russeservice's clothes. Smedsrud is CEO of all three companies. In May 2008, he also established Russebuss AS, another company with graduates as its main customer base.

Redress was established in 2003 and has gradually increased its market share, as well as its geographical coverage and clothes line. The company sells clothes under the brand name Russedress. It has 2 permanent employees and had a turnover of € 6500 in 2003, growing rapidly to more than € 2 million in 2007, when it made a profit of more than € 400,000. The company is owned by Nørstrud Holding AS, a holding company owned by Knut Alexander Matheson Gresvig (50 percent) and Henrik Børke Nørstrud (50 percent). Gresvig and Nørstrud are also the chairman and CEO of Redress AS, respectively, while Nørstrud is both chairman and CEO of the holding company.

As is the case for most Norwegian clothing businesses, both companies order the vast majority of their clothes from Chinese factories. The main CSR concerns for the Norwegian clothing industry have been to avoid trading with businesses that employ child labour or those where staff work under sweatshop-like conditions or suffer human rights abuses. The industry has sought to address these concerns through establishing common guidelines and support agencies such as The Clothing Panel (*Tekstilpanelet*) and Ethical Trading Initiative – Norway (ETI-N). A solid majority of Norwegian clothing companies are SMEs, with 87 percent having less than ten employees. There are some indications that fewer resources are devoted to CSR activities in these companies than in their larger counterparts, with few of them having joined ETI-N, for instance.

Consumer preferences

Given that *russeklær* only sells to graduating high school students, the consumers make up a fairly homogeneous segment. Most graduates are 18 or 19 years old, have no or little income, no higher education and tend to live with their parents. Survey data on consumer behaviour from Synovate's *Norsk Monitor* in 2007 reveal that 15-19 year olds have fairly distinctive preferences in relation to ethical trading compared to other cohorts. Teenagers are for instance less likely to stop buying products from consumers that pollute the environment. While 43 percent of respondents in the survey say that they are likely to stop buying such products, only 30 percent of 15-19 year olds agree. Conversely, 28 percent of 15-19 year olds say that they are not at all likely to stop buying products from polluting consumers, compared to 14 percent across the full sample. On the other hand, teenagers are somewhat more likely to emphasise so-called fair trade: 16 percent say that they lend weight to the presence of the fair trade logo when shopping for food, compared to 13 percent in the full sample.

Teenagers are also less nationalist in their consumer preferences. Only 18 percent of 15-19 year olds cite "produced in Norway" as a major factor when shopping for food,

compared to 39 percent in the full sample. Similarly, 27 percent think it very or fairly important that the food they buy or eat is produced domestically, compared to 54 percent across the full sample. 34 percent of teenagers say that it does not matter at all where the food is produced, compared to 18 percent of all respondents. Specific questions on the provenance of beef, chicken and eggs yield similar results.

While many of these questions are related to food, it seems unlikely that teenagers would be any more nationalist when it comes to clothes. The attitudes suggest that producers for this age group need not worry as much about loss of sales if they outsource production. The cost of bad press also seems smaller, as most consumers are unlikely to leave the brand for reasons related to the social responsibility of the producers. On the other hand, gaining the approval of a fair trade organisation might sway a few more consumers in this age group.

The attitudes of the broader teenage population are reflected in interviews with graduates' committee members from the class of 2008 at ten high schools. None of the interviewees expressed any knowledge at all about the production locations of the clothes, or any particular interest in this issue. One of the interviewees replied that "I suppose it's in the Far East somewhere", whereas another thought that they were produced in Sandefjord [the company headquarters of Russeservice]. The others simply stated that they had no idea, and that the companies' sales representatives had not provided any information about this.

The interviewees also expressed little interest in the working conditions under which the clothes had been produced. The committee members cited a range of reasons for selecting one particular supplier over the other, including the price and quality of the products, a reputation for timely delivery, and the eagerness of the sales representatives. Several interviewees focused on discounts for the committee members themselves, who were promised a varying amount of free products for every paying customer at the school, as the main reason for their decision.

None of the interviewees mentioned CSR as a reason for selecting a particular supplier. One person stated clearly that working conditions would not have mattered at all in their decision: "There has been some focus on working conditions at IKEA factories, but people still shop there. No, I think people mostly care about having the fanciest clothes during those three weeks [of celebration]". Another replied that "we don't really know if they use child labour or anything like that, if that's what you mean. We don't have a clue". Following up, she conceded that it might have been a plus if one of the suppliers "had organic clothes or that sort of thing, which a lot of people care about", but thought it unlikely that they would have changed their decision had they known of any major differences in the CSR activities of the two firms.

Public scrutiny

Contrary to many other SMEs, the Norwegian *russeklær* industry has habitually been the subject of media scrutiny. The high school graduation festivities are highly visible and frequently controversial in Norwegian society, and accordingly, a lot of media

attention is devoted to all aspects related to the events, including the provision of clothes.

The most thorough independent report on the CSR aspects of the industry was published by the leftist CSR watchdog Norwatch in 2004. Norwatch tracked the supply chain involved in the production of trousers for Russeservice step by step down to the cotton fields of Multan, Pakistan (Gaarder 2004b). At the time, the trousers were sewn at the factory ScanTex in Karachi, which had been the main supplier to Russeservice for six years. Working conditions at the factory were good by local standards, with reasonable pay, working hours and health and safety standards. However, the factory's owner noted that the margins were small as they faced tough competition from other factories. The main suppliers to ScanTex were also modern and well-organised factories. The weaving mill Master Textile in Karachi was certified by SA 8000 and its employee contracts included a decent pay, free accommodation and a pension plan. The spinning mill Sapphire in Lahore provided similar working conditions, also including subsided schooling for children and literacy programs for workers. However, the cotton farms at the bottom of the chain were mostly run by poor farmers who in turn provided employment for mostly female day labourers at low commission-based pay and with no rights. At the factories where the cotton was seeded and carded, salaries were fixed, but still low (Gaarder 2004b).

An earlier article version of Gaarder's report (Gaarder 2004a) generated media attention from Norway's largest selling daily, *Verdens Gang* (*VG*), and a national Christian newspaper, *Vårt Land*. The *VG* article focused on the low pay and use of child labour on the cotton fields, contrasting worker's pay with the profits made by Russeservice. In the article, Russeservice acknowledged the problems of low pay for cotton pickers, saying that it was a major challenge for the company as there was no way of knowing exactly which plantation supplied the cotton used in their products. However, the company promised to work towards a solution to this problem (Brøndbo 2004). On their website, the company published an appeal to national governments and international organisations to take a lead in improving control of cotton production, while also restating their own responsibility as buyers (Gaarder 2004b). *VG* also interviewed a committee member for the class of 2004 at Kongsbakken high school in Tromsø, who explained that he did not know the clothes were produced in Pakistan. He suggested that some graduates would probably have preferred to purchase from a company who was "conscious about sending parts of their profits back to the manufacturing country", if such a company were to enter the market, and provided that the clothes were of a decent standard (Brøndbo 2004). Both *VG*'s and *Vårt Land*'s (Bjåen 2004) article put a markedly different spin on the story from that of the original Norwatch report, negatively singling out Russeservice as the target of criticism. Norwatch, on the other hand, had emphasized that all Norwegian clothing companies used similar production lines, but most others would not disclose any details of their supply lines. This implied that Russeservice actually behaved more responsibly, or at least were more open about their supply chain, than most others in the industry.

The discounts offered to committee members for selecting Russeservice as the school's preferred supplier have also been the subject of negative press attention. Redress, along with a company called Seetex, made a formal complaint to the Norwegian Competition

Authority in 2003, arguing that many graduates' committees chose Russeservice as their supplier because of the discounts offered to committee members, even though the company might not necessarily have made the best offer. Following the complaint, Russeservice claims to have stopped demanding exclusive rights for any discounts or commissions to kick in, and in 2004 the Competition Authority cleared it of any wrongdoing, partly due to the small amounts in question. However, *VG* still focused on the issue in 2006, interviewing two law professors who argued that the practice was possibly illegal and could lead committee members to put their own interests ahead of those of the students in the selection of suppliers (Aartun 2006). Russeservice argued that the intention was that the discount should be shared amongst all students at the school, either as a cash discount for everybody or as a contribution to events in which the students would participate. Several other newspapers have run similar stories, including *Dagens Næringsliv* (Mossige and Høie 2007) and *Stavanger Aftenblad* (Eisenträger and Ingemundsen 2006).

CSR strategies

As seen in the discussion of public scrutiny, the companies in the *russeklær* industry need to deal with CSR issues both in their relations with suppliers and with consumers. This paper focuses on ethical considerations in the companies' contact with these two groups and will not discuss relations with employees, charity work, impacts on the environment or other aspects of CSR as these concerns are less pressing for the businesses being studied here.

Supply-chain management has gradually become a focus area for Russeservice. As previously mentioned, their business plan is to sell their own branded merchandise, which an agent arranges to be made to order at an overseas factory. Most of the company's clothes were manufactured in Pakistan until 2005, when most orders were moved to China. Russeservice cited lower costs as the main reason behind the decision and were publicly criticised by Norwatch for the move. Norwatch argued that Russeservice contributed to instability and uncertainty for workers in the Pakistani industry (Gaarder 2005). Russeservice retorted that they had gradually reduced their orders over the past three or four years and were a fairly small customer at ScanTex even when they ordered all their trousers at the factory. Redress have had most of their clothes produced in China since the company's establishment in 2003.

Both companies are members of the Ethical Trading Initiative Norway (ETI-N), an organisation that seeks to support its members in developing ethical trade practices. In joining the organisation, members commit themselves to improving working conditions in their supply chain and to publishing annual reports on their progress. Russeservice joined ETI-N in 2004, with Redress following suit in 2006.

Russeservice's 2007 annual report to ETI-N notes that the company has developed their own Codes of Conduct that are communicated to all producers. They have personally corresponded with producers about their demands in terms of working conditions at factories and have had each producer complete a self-assessment questionnaire on their

success in meeting the Codes of Conduct. The CEO and chairman of the company also both travelled to China in 2007, examining working conditions at the four main production sites as part of their visit. Redress have not made their annual reports to ETI-N available for this research, nor did they want to be interviewed on their CSR practices.

As mentioned above, Russeservice have been criticized in the past for unethical practices in their relations with consumers. They claim that they no longer demand exclusive rights to sell or advertise their merchandise at any school, although a 2006 newspaper report found evidence that both Russeservice and Redress had demanded exclusive rights to deliver clothes to particular schools for any commissions to kick in (Benonisen et al. 2006). In any case, the practice of offering commissions or discounts to committee members who organise the distribution of clothes and collection of payments is problematic, potentially leading the committees to select a supplier that makes an inferior offer and thus distorting the market. The industry has also been criticized by teachers for overly aggressive marketing against a fairly young and impressionable group of consumers (Larsen and Svevad 2007). This includes making offers with short deadlines in order to push the committees into signing contracts with the companies. By making students order their clothes at an early stage, the companies can also adjust their production to match actual, rather than prospective, orders. In the past, Russeservice have even earned interest on payments received from graduates several months before the delivery of clothes. However, these proceeds are now donated to charity following customer complaints (Benonisen et al. 2006).

Drivers and barriers

The companies in the *russeklær* industry seem to be taking steps to improve their social responsibility, even if there are still ethically questionable aspects of their business practices. Which drivers are behind the improvements in their CSR focus, and which barriers prevent further implementation of CSR in the industry? Returning to the literature on CSR in SMEs, this section examines the role of costs, payoffs and impact in explaining the developments in these small businesses. Finding that these factors are of limited importance in understanding the drivers for CSR in these companies, the role of public scrutiny and increased competition is examined and found to be more important to the growing focus on CSR in the industry.

Costs do not appear to be a major barrier to CSR for the SMEs in the *russeklær* industry. Russeservice claim that their CSR activities do not represent a known cost to the company. In terms of time and human resources, the company notes that "the internal resources we spend on these activities do not amount to figures that notably change our prices". When it comes to the price of clothes, the company says that "we have never asked for quotes from the cheapest manufacturers, who are usually located further away from the central production sites. Therefore, we don't know much about prices at factories 'with or without CSR'.

However, there are also few *payoffs* to the companies' CSR investments. Consumer preferences do not appear to work as a driver for CSR in the *russeklær* industry. The interviews with representatives of the consumers revealed no evidence of any interest in or knowledge of the conditions under which the clothes are produced. Survey data also suggested that fewer people in this age group were likely to value ethics in their consumer behaviour. On the other hand, the businesses might perceive a stronger demand for CSR in their customer base than what is actually the case. Russeservice's CEO Smedsrud notes that: "Unfortunately, we don't get a lot of direct requests for information about our CSR activities, but we know that there is some consciousness about the topic and that our customers are becoming more concerned with these questions". He does not "believe that graduates are any less preoccupied with these issues than other young people". On the other hand, he does not consider CSR to be a competitive advantage for the company, given that their main competitor is also a member of ETI-N. In Smedsrud's judgment, price, quality, product range and design are the main factors for consumers. Russeservice also do not market their CSR activities beyond a mention of their ETI-N membership in the product catalogue and on the company website, which could be taken as an indication that ethical production is not considered among the main priorities of the company's customers.

Impact might be said to be a problem for Russeservice, although in a manner that is quite different from what has been argued in the previous literature. The company recognises its impact on society and believes that its CSR activities can have a positive impact. However, the company still finds small size to be a problem in terms of impact insofar as they find their leverage to be an issue in the implementation of their Codes of Conduct in the supply chain. Manufacturers listen more attentively to their biggest customers and are more likely to ignore the demands of less important clients. Russeservice have therefore concentrated their efforts on their main suppliers and aim to reduce the number of suppliers. On the other hand, they have also found that most of the other clients at their main suppliers have presented similar Codes of Conduct, making their job easier. Russeservice are trying to resolve problems related to size through cooperating with other importers from 2009 on joint inspections based on common Codes of Conduct. Ideally, Russeservice would like ETI-N to set up a system of independent controls for all members, and they have invited the organisation to work towards achieving this. According to the company, increased controls by Chinese authorities also help to improve working conditions at the factories. While Russeservice admit to having little knowledge of Chinese legislation, they claim to know that their suppliers comply with local regulations.

Graafland and Smid (2004) point out that SMEs have closer *relations to local stakeholders*. This is not the case for these companies, at least not when it comes to the relations with suppliers and customers. The suppliers are located in another part of the world, and the customers are scattered across the country. Most of the customers know little of the companies and deal with them only on one occasion, buying clothes for a particular event. Hence, they have no particular loyalty to any one firm. Spence and Rutherfoord's (2001) ideas of *profit-satisficing* rather than profit-maximising SMEs also do not appear to fit these companies particularly well. The owner-manager of Russeservice has made substantial profits through the activities of the company over the

years and is still looking to develop his business further, while Redress aims at winning their share of the market.

If many of the mechanisms that have been identified by previous research as influencing CSR in SMEs are of little consequence in this market, what are the key drivers of CSR for these small businesses? Beyond what might be termed a *zeitgeist* that has made CSR a fashionable concept for businesses to engage with, the businesses in the *russeklær* industry seem to have been affected by two sources of external pressure in their increasing CSR engagement.

Firstly, the lack of impact has not prevented *public scrutiny* from having been a major driver for CSR in the industry. Conditions in Russeservice's supply chain were the subject of thorough scrutiny by the NGO Norwatch and generated a fair amount of press coverage in major national newspapers. This attention appears to be partly responsible for the company's decision to join ETI-N in 2004, as well as the decision to move production from Pakistan to China in 2005. The company has avoided negative attention related to their Chinese manufacturers. Similarly, the ethics of Russeservice's sales methods have been the subject of scrutiny on a number of occasions by a range of newspapers, and also by public authorities. This appears to have resulted in a change of practice away from demanding exclusive rights to market and sell products at particular schools. However, several interviewees still admit to giving Russeservice exclusive rights, and all admit to spending the full commission on discounted products for the board members only.

Secondly, one of the most notable changes in the industry during the time period studied in this article is the emergence of *competition* following the entry into the market of Redress and another short-lived competitor, RussOnline, in 2003, ending the monopoly of Russeservice. Gaarder (2004b) briefly discusses the effects of increased competition in the market, not surprisingly noting that the prices of trousers fell in the Norwegian market in the years after 2003. However, the more interesting question in this discussion is what effect, if any, increased competition has had on the companies' CSR activities. Gaarder (2004b) worries that the costs of lowering prices will eventually be passed on down the supply chain, increasing the risk of unethical business practices.

However, her report concludes that the costs have so far been borne by the Norwegian companies and not passed on down the supply chain. The CEO of Russeservice, Ole Jørgen Smedsrud, commented that his company needed to adjust to the competition in terms of quality as well as price. Negotiating a lower price from suppliers would risk compromising the quality of the products delivered. Similarly, switching to a cheaper supplier would also most likely mean lower quality products. Therefore, the price paid to suppliers actually went up rather than down following the increased competition. The CEO of RussOnline, Hans Jørgen Østraat, agreed, arguing that the price drop was a result of Russeservice no longer being able to exploit its monopoly. Production costs were already so low that no further savings could be made at this stage (Gaarder 2004b).

Rather than compromising the ethical standards in the *russeklær* industry, competition seems to have created further incentives for CSR. Competition has provided checks and balances against unethical practices, such as the above-mentioned complaint fielded by

Redress and Seetex against Russeservice's discounts and commissions for graduates' committees. Russeservice have also joined ETI-N after they were exposed to increased competition, as have Redress.

Conclusion

There is an uneasy and somewhat paradoxical relationship between SMEs and CSR. On the one hand, SMEs seem to have fewer incentives than large corporations to engage in CSR activities. On the other hand, they are sometimes seen as being responsible by default, given that they tend to be more deeply embedded in local communities and have owners who pursue other aims besides profits. This study has examined a market consisting entirely of small businesses with profit-maximising owners and a low level of local embeddedness.

It finds that size is to some extent an issue for these companies, but not through the mechanisms outlined in previous literature. Size matters not so much in terms of costs or payoffs as in terms of leverage. The companies find it difficult to get their message across to manufacturers and to organise reliable inspections. However, their small size and impact have not prevented the companies from being exposed to public scrutiny, which seems to have been one of the main drivers behind their increasing CSR activities. The other main driver is the emergence of competition in what used to be a monopoly for Russeservice. Competition has provided checks and balances as the companies monitor each others' activities in an effort to ensure that competition is fair. As such, these businesses fit with Morsing and Perrini's (2009) description: "[S]takeholder pressure rather than a pro-active CSR engagement is still the most frequent encouragement for many SMEs to improve their social initiatives".

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Study VII:
The ability and willingness of the SME to embrace social responsibility - the significance of knowledge supply

Article based on the master thesis of Ellen Anne Teigen Vinje, University of Stavanger, Norway

ABSTRACT

The term "corporate social responsibility" (CSR) implies responsibility on the part of the company for the social and environmental impact of its business, as well as for its financial results. Within the clothing sector there is an apparent disconnection between production and design. Clothes are designed and sold in countries with a high standard of living but are stitched on contract in countries that have lower requirements in terms of pay and working conditions. Even though they do not own the production sites themselves, it is implicit in the CSR concept that companies have a responsibility for the conditions under which their clothes are produced.

This article discusses a company's organisation affects the way in which it implements CSR in respect of the supply chain. The article takes as its starting point a comparative case study of two small/medium-sized clothing companies. The SME size and the clothing industry are examples of economic, social and cultural structures which direct the attention of the decision makers and thereby their decisions. Such structures convey different parties into the company's decision-making environment. These parties carry with them different kinds of knowledge and represent different interests and will influence the implementation of CSR in different directions. We show how such structures affect the operational practice of the CSR concept in terms of various actions and how they influence willingness and ability to work towards these goals.

Introduction

Is it a lack of willingness or of ability that prevents small and medium-sized businesses from accepting social responsibility? In this article we will demonstrate how knowledge flow affects both the ability and willingness of SMEs to accept social responsibility.

The term Corporate Social responsibility (CSR) is based on a fundamental premise that a company has a responsibility that transcends that of creating profit for its owners and stable employment – it also has a social and environmental responsibility to society at large. High salary levels have led many businesses to design and sell their goods in Norway whilst the labour-intensive aspects of production are subcontracted to locally-owned factories in companies with low salary levels. When considering CSR in a global perspective, responsibility for suppliers is essential. When a business does not own its production companies, what responsibility should, and not least, can, be taken for production conditions?

What's with the SMEs? Many studies indicate that fewer SMEs than large companies accept social responsibility. With limited resources at all levels it would seem that the daily fight for survival is sufficient for SMEs. However, in this article we will look at two small companies which both will and can. Despite having the same moral attitudes regarding their responsibilities towards suppliers, the two companies implement this differently. We suggest that a reason for this can be the way in which the company is organised – the extent to which external knowledge and skills are imported into the company.

The discourse around CSR is often connected to stake-holder theory. The company's actions or lack of actions affect many different internal or external "stakeholders". To a varying extent the latter will influence the company towards protecting their interests. Which stakeholders affect the company's thinking depends both on which stakeholders are "visible" to the decision-makers, on an assessment of their legitimacy and, not least, on the practicality of implementing such interests.

We will discuss this by combining an attention-based view of the firm, as Ocasio described it in the *Strategic Management Journal* in 1997, with newer theoretical contributions regarding the introduction of corporate social responsibility.

Ocasio states that economic, social and cultural structures determine the decision-maker's focus of attention and the legitimacy of the various alternative courses of action. The size and nature of the business are examples of such structures. These structures draw various *players* into the company's *decision-making environment*. The players are the bearers of varying attitudes and skills, and thereby will influence the company's ability and willingness in respect of different actions – in this instance, the establishment of CSR.

Pedersen and Huniche (2006) show how such factors affect the company's implementation of the "social responsibility" value in respect of various types of action. *Consciousness* of the theme is important if one is to be aware of the problem in the first place. At the same time, one must be *committed* to working with it. It is important that the leader supports the CSR initiative since it is he who allocates resources to this work. The company's *capacity* – its economic, technical and human resources – is another factor that affects its operational establishment of CSR. The opportunity to accept social responsibility over and above the level of survival as a company influences the willingness to do so, and vice versa. *Consensus* between the various stakeholders can produce both awareness and commitment, whilst disagreement can put a spoke in the wheel for work with CSR.

Mette Andersen (2006) expands this by examining how various organisational factors can stifle or promote implementation of CSR initiatives. The manner in which knowledge is created and distributed within an organisation affects both the willingness and ability to turn ideas into action.

Values and norms bind Andersen's factors together. *The leadership* must communicate the values to all parts of the organisation. Allocation of resources lends legitimacy to the values, at the same time as giving actual possibilities for acting on the basis of these values, whether through training or through practical solutions. Training gives employees important knowledge and skills. Knowledge supports values. Understanding of why CSR is important influences attitudes and thereby the willingness to prioritise social and environmental considerations over and above other factors (price, production time, quality). Knowledge also ensures the quality of the actual steps taken by company representatives in connection with their contact with the suppliers. Good *technical systems* assist the practical realisation of this, but are also important for the sharing of knowledge and thereby of attitudes to all the different parts of the organisation.

The case studies on which this article rests show how an external body contributes knowledge to the company and thereby adds ability and willingness to take social responsibility.

Background

The University of Stavanger and the International Research Institute of Stavanger (IRIS) are working during the period 2006-2009 on a substantial research project about corporate social responsibility (CSR). The project title is *"International developments and the dissemination and implementation of CSR in the Norwegian clothing sector and its supply chain"* As a part of this project, a comparative case study was conducted between two small/medium-sized clothing producers who design and sell their clothing in Norway, but subcontract the sewing of them to foreign companies. This article is based on findings from this study.

The companies in the case study were subjectively selected on the basis that they claim to take social responsibility for their suppliers. Through personal interviews and documentary analysis, we have attempted to identify which organisational factors are significant for establishing CSR. In addition we have examined how contact with

external bodies influences these organisational factors. The focus has thus been on the organisation of the companies, on the assumption that this is the starting point for all production and thus for the economic, social and environmental effects of it.

Corporate social responsibility

In the term "corporate social responsibility" (CSR) there is an underlying view that companies have a responsibility that extents beyond that of earning money for their shareholders (Freeman and Velamuri, 2005). One may say that the company has a three-fold bottom line: it should work for economic, social and environmental gain. CSR means that companies must regard their operations as a complete entity, but in reality it is not possible to take the interests of all *stakeholders* into consideration. The companies' awareness of and assessment of such stakeholders is decisive for their definition and implementation of CSR.

This article builds on Waddock's definition of corporate responsibility as *"the degree of responsibility manifested in a company's strategies and operating practices as they impact stakeholders and the natural environment day to day* (Waddock, 2004). Stakeholders are defined as individuals or groups who can affect or be affected by the actions of the company (Donaldson and Preston, 1995). The article has an institutional perspective and assumes that the choice of which stakeholders the company takes account of is influenced by legal, moral and cognitive norms.

The theme of this article is the responsibility of the company for the *supply chain.* In much of the general CSR literature the supply chain does not seem to be given much prominence. As a rule, actions for the benefit of employees and the environment are discussed as CSR, together with support for the local community and charitable organisations. When we speak of CSR in a global perspective, however, the relationship to the suppliers becomes an important question. Where should the limit for the company's responsibility lie? Within the supply chain some of the stakeholders are not only external in terms of the company but are also situated in another country and another culture. Cross-border trade makes the question of voluntary operation of CSR particularly important. In the absence of globally-applicable legal norms and of the enforcement of these, various voluntary initiatives arise to help their members take social responsibility. In Norway there is, amongst others, The Clothing Panel (Tekstilpanelet) and Ethical Trading Initiative - Norway (hereafter IEH).

IEH aims to be a resource centre and a pressure organisation for companies taking social responsibility for the supply chain (Ethical Trading Initiative, 2007). In this article we will see how membership in IEH influences a company's implementation of CSR. IEH assists members with training, advice and access to a worldwide contact network of bodies concerned with CSR. Members commit themselves to work for a better environment and working conditions within their supply chain and to report to IEH on an annual basis (Winum, 2007a; IEH, 2007).

IEH offers its members a definition and operational system for the concept of CSR in the supply chain. Its application is limited to the company's core activity (IEH, 2007) and it is practiced through codes of conduct that apply both to the member company and, ideally, to its suppliers. These guidelines build on central international UN and ILO conventions for working standards and environment. IEH also offers tools for practical implementation, for instance forms for suppliers' self-reporting about social and environmental matters ("Factory Profiles"). IEH emphasises that another part of social responsibility is *helping* the supplier to fulfil these requirements (IEH, 2007; Winum, 2007).

Social responsibility in the clothing sector

Sewing clothes does not demand much technologically advanced equipment, but it does demand a good deal of work. Many people – who can fold, cut and sew. Salary levels in Norway and other industrialised countries have led to a high proportion of clothing production being moved abroad, often to "low-cost" countries such as India, China and Turkey, where labour costs less. This has happened within many industries, but what is distinctive about the clothing industry is that the clothing companies do not own the production sites themselves. Clothes designed in Norway are sewn up in locally-owned factories. This means that the Norwegian companies have fewer opportunities to decide the conditions under which the clothes are produced than if they had owned the factories themselves. At the same time, there are frequent reports of breaches of human rights in just such low-cost countries. When we are looking at corporate social responsibility in the clothing sector it is therefore particularly important to focus on the supply chain.

The supply chain in the clothing sector has many links between the raw materials, the factory and the shop. The material is manufactured in one place, the thread, buttons and zips in another. It is sewn up in yet another location and may receive post-production attention in a fourth. Even if there are some individual companies who attempt to maintain oversight over the entire chain there are few who manage this – not even amongst the big multi-national companies. How, then, is a small or medium-sized business to manage it?

Kristin Davik (2006) interviewed six leaders of small Norwegian clothing companies about their attitudes towards CSR. It became apparent that they had many thoughts about what corporate social responsibility could involve, but that they defined their own social responsibility primarily in terms of company survival. This is a classical economic view of company responsibility (Friedman, 1979; Donaldson and Preston, 1995). In addition they regarded it as their responsibility to keep within Norwegian law and avoid goods produced by child labour (Davik, 2006).

Davik concluded that leaders of small companies felt they lacked the resources to accomplish anything. They cited a lack of time, money and staffing, and expressed a feeling of powerlessness in terms of taking social responsibility for the suppliers. Complicated supply chains, involving agents and subcontractors, made it difficult to maintain oversight, and there were some expressions of distrust regarding the agents

and factory owners. Another barrier against taking responsibility for workers and working environment in the supply chain is that of economy. Those questioned felt that goods produced ethically cost more. As small companies they could not shoulder this extra cost. It was the end users who should take responsibility and be willing to pay more. As long as other companies did not do the same, the small companies could not bear the additional costs of taking social responsibility beyond that required by law (Davik, 2006).

According to a survey published in *Opinion* (2006) 78 % of customers say that they would be interested in buying goods from developing countries if they were accredited by an organisation that could confirm that the goods were produced by workers under satisfactory working conditions. But when the sales figures for such goods are examined, the figures are far lower.[53] In other words, it is easy to have good intentions, but at the moment of sale other criteria are decisive. Purchasers of clothing are amongst those who are least preoccupied with the ethical aspects of trade. 12 % regard ethical production as extremely important and only 4% consider the land of origin to be extremely important (*Opinion*, 2006). A study of retailers of clothes for Norwegian sixth-form graduates ("russ") also shows the customers had little or no knowledge of or interest in the working conditions under which the clothes had been produced (Fitjar, 2008). What is it that makes clothing customers less concerned with this issue than, for instance, food customers?

One reason may be a lack of consciousness regarding the issue. Whilst there has been NGO pressure since 1997 to get Fair-trade-marked foodstuffs into the shops (Fair-trade Max Havelaar Norge, 2007), there has been little focus on the conditions under which clothes are produced. There have been some media revelations about poor conditions in sweat shops, but constructive alternatives have been less discussed.

Opinion's survey indicates a great demand for information in the market: 71% wished to know more about ethical marking and where "ethical goods" could be purchased. 45 % wish for a guarantee or mark from organisations promoting ethical trade (Opinion, 2006).

Customers thereby face more ambiguity of definition about ethics than is the case in respect of other products. Food products carrying the "Fair Trade" marking are raw materials with a short supply chain. It is possible to keep track of and provide guarantees of good social and environmental production conditions. Clothes are a complex product for which the raw materials and the production process are sourced separately. Fair-trade Labelling Organizations International (FLO) has considered whether or not it is possible to provide marking of the value chain in respect of clothing but decided that this would be too difficult (Røynstrand, 2009). It is however possible to find clothes with the Fair Trade guarantee in respect of the raw material cotton, even though FLO cannot provide a guarantee for the entire chain from raw materials, manufacture and distribution (Røynstrand, 2009) . Åshild Røynstrand in *Fair Trade Norge* points out that this logo looks a little different from the ordinary Fair Trade logo

(Røynstrand, 2009). For the non-specialist it is however difficult to see the difference and one may speculate as to whether this represents an improvement to or a confusion of the Fair Trade mark.

The ambiguity may make the problem less apparent (Lai and Grønhaug, 1994; Haukedal and Grønhaug, 1994) and customer demand thus becomes a weak form of pressure for CSR in the clothing sector.

Small and medium-sized clothing companies

The Norwegian clothing sector is typified by small and medium-sized companies. Several studies indicate a positive correlation between firm size and CSR work (Brammer and Millington, 2006) and indicate that there are few SMEs working actively with CSR (e.g. Hitchens, 2003, Jorgensen and Knudsen, 2007. Is there something about the SME size that hinders taking social responsibility?

Attributes of SMEs

Norwegian commerce consists largely of small companies. 99% of companies have fewer than 100 employees, and 96% have fewer than 50 employees. Apart from the large chains, most (98 %) clothing companies have fewer than 50 employees[54]. The companies that form the background for this article have 15 and 30 employees respectively.

Little research has been carried out on Norwegian data, so this article also draws on studies in which companies with up to 250 employees are referred to as SMEs: small and medium-sized companies (e.g. Observatory of European SMEs, 2002; Jorgensen and Knudsen, 2007). One study also addresses companies with up to 500 employees (Hitchens, Trainor, Clausen, Thankappan and De Marchi, 2003). The characteristics of SMEs nevertheless appear to be the same:

SMEs are often owned and led by the same person, they have a close relationship with local society, they are informal and personal in their relationships, both internally (management and employees) and externally (towards customers and suppliers). Time, personnel, knowledge and capital are scarce resources, and a lack of economic elbow room is often cited as the most significant hindrance to establishing social responsibility (Hitchens, 2003).

The driving force for accepting social responsibility is rarely economic gain, but more generally a moral issue. Lepoutre and Heene (2006) describe CSR at SMS as being fuelled by personal engagement and ethical attitudes reflecting cultural context. The manner in which it is carried out is characterised by informal institutions and close relationships with stakeholders (Lepoutre and Heene, 2006). This is entirely consistent with the study on which this article is based. The two company leaders respectively cite personal relationships with stakeholders and a desire to contribute to a better world as the background for their moral attitudes.

Advantages and disadvantages of being small

Surveying the attitudes of company leaders to social responsibility, there is an apparent tendency for the leaders of small and medium-sized companies to view size as a hindrance to establishing social responsibility (Blindheim, 2007). Clothing companies stood out particularly in this respect.

A small number of employees implies scarce human resources. There is a lack of skills and of personnel to acquire these skills. Setting up, overseeing and documenting the work is demanding (Business in the Community, 2002). Available resources are allocated first to the most pressing tasks, and often simple survival as a company is demanding enough. It is shown that SMEs implement social responsibility firstly by keeping the rules and regulations that are in place. They make fewer demands of others (Jorgensen and Knudsen, 2007).

On the other hand, size can also be an advantage for SMEs as opposed to larger businesses. A small administrative apparatus means a short decision-making process, and this makes rapid adjustments possible (NOU 1997: 21). The flow of knowledge and values between different parts of the organisation is an important prerequisite for establishing social responsibility in the supply chain (M. Andersen, 2006). Gunelie Winum in IEH describes how IEH's sister organisation IET in Britain has far more large companies as members, and these complain of "watertight partitions" (Winum, 2007) between management and those who are to carry out the decisions. In SMEs the organisation is flatter and the danger of goal distortion is less. Physical proximity and personal relationships mean that knowledge and attitudes can flow more easily between parties.

Long-term relationships

Long-term relationships are one of the most important means of taking social responsibility for the supply chain, according to IEH (Winum, 2007). When the supplier knows that the customer will return they can be more willing to establish those social and environmental measures that the customer wishes for. Mutual trust built up through long-term relationships also reduces the danger of trickery and false reporting in order to secure contracts.

CSR or otherwise, on account of their size, most SMEs choose to have long-term relationships with their suppliers. They do not have the time or staffing to shop around for the lowest price. When they have found a supplier who produces satisfactory quality, they will keep to them (Winum, 2007). SMEs are as a rule one of many customers of the supplier. Long-term relationships help ensure that they will receive priority in terms of quality and supply time even though they are "small" customers (Jæger, 2007a; Olsen, 2007a).

Presentation of the companies studied

Stormberg – formal follow-up and checks

Stormberg Group AS (hereafter "Stormberg") produces the clothing brands "Stormberg" and "Leketøy". This is clothing designed for outdoor activity, both outer and under clothing for adults and children. The company has enjoyed good growth since it was founded in 1998 and today it has 30 employees. Six of these work in design. Like most Norwegian clothing producers, Stormberg does not own its factories in China but subcontracts its sewing work there.

Stormberg has profiled itself as a socially-aware company both through the media and through their own channels such as advertising, website and the information that accompanies items of clothing. Within the company itself, Stormberg has a strong profile in terms of environment and inclusive working conditions and of devoting 1% of its annual turnover to charitable organisations.

Stormberg defines its social responsibility towards the supply chain in terms of working to ensure that suppliers operate within Stormberg's codes of conduct. These are specified in a series of check points that the factories must answer for twice a year by means of written "Factory reports". Stormberg[55] is aware that one cannot blindly trust self reporting (C.Hansen, 2007), but uses the reports for following up conditions at the factories and in dialogue concerning possible improvements. Against the background of the reports, Stormberg prepares a "Plan of Action" for each supplier and for themselves (Stormberg, 2006b). As an SME and thereby a small customer, Stormberg cannot make ultimate demands to the suppliers that they keep every point in the ethical guidelines, but they use these as a negotiating tool, according to Stormberg's ethical trade officer, Christina Hansen (2007). The company attempts to explain how good working conditions can benefit the factory owners and how requirements expressed by Stormberg in relation to issues such as working hours are in fact rooted in Chinese law (C.Hansen, 2007, Olsen, 2007a).

In addition there are annual sample tests with unannounced checks, carried out by an externally-hired consultant. One Stormberg employee is freed up from some of their normal work to give time for follow-up on other aspects of "ethical trade". The six designers at Stormberg have personal email contact with the factories that sew "their" clothes, via the export office that has this factory in its portfolio, but it is the Managing Director who selects and agrees contracts with the various factories (C. Hansen, 2007; Olsen, 2007a).

Stormberg became a member of the organisation "Initiative for Ethical Trade" in 2002, and through IEH has arranged employee courses in initiating, guiding and resources for the implementation of social responsibility in the supply chain; codes of conduct (identical to IEH's proposed "goals"), and a form for the suppliers' self-declaration concerning environmental and social conditions at the factories, the "Factory Profile."

Lene-V Norge – trust and personal relationships

Lene-V Norge is a Norwegian clothing chain owned by the company Conseptor ASA. In addition, the Lene-V Norge clothing brand "Lene-V," designs and markets fashion clothing for women. It is on Lene-V as a clothing producer that this case study will focus. Lene-V Norge has had turnover problems in recent years and had to substantially cut back its central administration at the beginning of 2007, when nine out of 24 employees had to leave (B.E. Hansen, 2007). Today, 15 people work in the retail and development department which administers the shops and the Lene-V chain. Of these, four people work with design (B.E. Hansen, 2007). The cutbacks are not treated as a topic in this article, but it is worth noting that the Lene-V management claims that financial circumstances do not affect the implementation of social responsibility (Jæger, 2007a).

Previously, Lene-V has mainly had its clothing sewn in India, China, Turkey and France. In connection with the 2007 reorganisation, Lene-V has moved over to a new concept in which new Lene-V collections are continuously introduced into the shops. To follow fashions, these clothes are manufactured with a shorter delivery time. This means that the clothes have to be of simpler design, making them quicker to manufacture, and production had to be moved to Europe (including Turkey) in order to shorten transport time (B.E.Hansen, 2007).

When we take up the theme of corporate social responsibility, both the Chief Executive Officer Bjørn-Egil Hansen and the Head of Design, Arne Jæger, refer immediately to the supply chain: child labour, working conditions and not least a desire to support the economic survival of the supplier.

At the heart of Lene-V's relationship with social responsibility[56] is their personal relationship with factory owners. After 20 years in the business, the head of design, Arne Jæger, has developed a wide network both in Europe and Asia. Many of the suppliers have been known to him for years and through these new suppliers have been recommended who achieve the standards he desires, both in terms of quality and of social conditions (Jæger, 2007a). Jæger regards the most important CSR tactic as being the avoidance of middle-men or "agents". This is a principle he applies rigidly, even in times of economic downturn. When one uses middle-men one loses sight of the conditions under which the clothes are produced, he says (Jæger, 2007a). By means of personal relationships and of developing long-term mutual trust one can ensure that there is "no nonsense", as Jæger puts it (2007a and b). By "nonsense" he means breaches of expectations and agreements in respect of quality, colours and delivery, or that working conditions or similar breach Lene-V's codes of conduct (Jæger, 2007b). In addition to the mutual trust in personal relationships, transport time also acted as a control mechanism when there were suppliers in Asia, Jæger reports (2007b). Lene-V only pays for goods once they have arrived in Norway. If "any nonsense" came to light during the 2-3 months taken to transport the goods, the supplier would not receive payment. "They know this", says Jæger, "and it made them careful to satisfy Lene-V's criteria (Jæger, 2007b).

Lene-V has had good experiences with its suppliers in Asia, but is aware that working conditions in that part of the world can be poor. To ensure that the interests of people and the environment were protected it was important to use trustworthy suppliers. Lene-V has kept well away from countries in which it does not have good contacts, reports Jæger (2007a and b).

Lene-V has a set of codes of conduct, presented to the supplier at the time of signing contracts, but the questions were not taken up afresh with each new order (Jæger, 2007a). Since many of the subcontracts are long term, a long time may have passed since they were presented by Lene-V and accepted by the supplier. Today's ethical guidelines are not tied down to concrete inspection points, but Jæger and the designers are aware of the working conditions when they travel and place orders (Jæger, 2007a). Much is based on gut feeling and trust. This is more important than a document with codes of conduct, according to Jæger (2007a and b).

Similarities and differences in the implementation of CSR[57]

In both companies we see leaders who are concerned with the company's moral responsibility for suppliers. They are of the opinion that the companies *have* a social responsibility and that they *take* responsibility. Both Olsen (2007a) and Jæger (2007a and b) claim that their strategies have improved working conditions in the suppliers' factories.

What the companies *actually do* in relation to the suppliers is nevertheless different[58]. Stormberg has a formal system of work to secure the implementation of CSR, with formal attribution of roles, routines and written documents for reporting, evaluation and follow-up, internal and external. Lene-V has an informal system in which the norms are generally not documented (codes of conduct do exist), but are communicated through personal contact both internally and externally.

Both the case companies view their suppliers and their factory employees as stakeholders with moral legitimacy. Although they believe good working conditions at the factories to be advantageous for their own company, they use mainly moral arguments to support taking social responsibility (cf. Donaldson and Preston, 1995; Morsing, 2006).

Lene-V does not include the environmental dimension in its definition of CSR. Even though they are not averse to the idea of taking up environmental questions in the future, such as the use of chemicals (B.E. Hansen, 2007) and the use of ecological cotton products (Jæger, 2007a), it is principally the economic and social aspects with which they are concerned.

Both have codes of conduct which describe the conditions required from the supplier, but they use them in different ways. Stormberg uses them operationally for checks and concrete suggestions for improvements, whilst Lene-V to a greater extent uses them to *communicate* their values to the supplier. The Lene-V management expresses scepticism regarding the value of checks. The dishonest will always manage to find a

way round them, so it is more important to establish relationships with trustworthy suppliers, according to Jæger (2007a and b).

The implementation of CSR in the two companies thus differs in terms of approach (formal/informal) and extent (environmental/social). In addition we see differing attitudes to how breaches of expectations should be punished. Jæger in Lene-V states: "I will not accept any nonsense … we would then cut them out" (2007a), whilst Stormberg notes in the introduction to the suppliers' self-reporting form (Factory Profile) that in the case of breaches of ethical guidelines they will not "*terminate the contract, but seek how and when corrective actions/improvements can be made. If necessary, Stormberg can also consider taking part in financing some of the improvements/investments that needs to be made.*" (Stormberg, 2007)

In Norway it is a current moral and cognitive norm[59] that one should discontinue suppliers who do not conform to ethical requirements, for instance who use child labour. There has been less debate regarding what companies can do to solve the actual problem of child labour. IEH is one of the spokesmen for this "alternative" method of relating to breaches in codes of conduct. It is therefore natural to assume that IEH has affected Stormberg's implementation of CSR in this respect.

Table 1: Comparison of implementation of CSR in terms of suppliers.

Implementation theories

Within the social sciences there is no single theory of implementation, but in organisational and political theory it is popular to look at *what, how and why* in relation to something that is being done, - or *not* being done.

Many studies indicate that few SMEs take social responsibility. A lack of resources is often identified as the obstacle. Is it ability that controls the willingness to take responsibility – or is it the other way round? This article discusses a study of two SMEs that believe they both *can* and *will* take social responsibility. The companies have the same moral attitudes towards CSR, but what they actually do is dissimilar. Here we will examine which organisational structures influence the willingness and ability to implement CSR.   In the following analysis, theoretical and empirical aspects will be set side by side.

Overall theory: What influences perceptions of social responsibility?

Humans have a limited cognitive capacity: we cannot focus on everything and everyone all the time. We have to limit our attention, and what it is that makes us prioritise our attention towards one thing rather than another depends on several different factors. Similarly, several factors affect our interpretation of the things towards which we are directing our attention.

Lai and Grønhaug (1994) and Haukedal and Grønhaug (1994) discuss how signals or environmental stimuli are interpreted. *Whether* one becomes aware of signals and *how* one interprets them is affected by the mental models of the observer. Our knowledge and experience from working life, from private life, from education: all this forms the mental framework through which we see the world. If one enters factory premises, what does one notice? Whether the lighting is good, whether the workers sew quickly, whether there are smoke detectors?

The actions of a company are the sum of the decisions of the individuals involved. Whilst Lai, Grønhaug and Haukedal focus on the individual and their mental framework, Ocasio (1997) takes a step back and looks at the organisation as an entity. How do economic, social and cultural structures in the company organisation affect the mental frameworks? What does the actual decision-taker observe of problems and solutions and how does he interpret and prioritise these?

Ocasio's reasoning is that attention processes at individual, group and organisational level affect and influence each other and contribute to shaping the behaviour of the company:

1. The actions of a decision maker depend on which aspects he focuses on: the *Focus of Attention.* Within the clothing sector, the buyer may, for instance, focus on the price or the quality of the garment. Alternatively on manufacturing conditions: whether there are environmentally-damaging emissions, what working conditions are like, and so on.

2. The focus of attention is affected by the situation one is in*: Situated Attention*. The idea resembles "The garbage-can model" (Cohen, March, and Olsen, 1972): the result of each individual decision is determined by the people, resources, problems and solutions that happen to be present in that situation. The company director is generally involved when the company establishes a relationship with a new supplier, and codes of conduct may form a part of the negations. But when the designers subsequently are in touch with the supplier, it will generally be the shaping of the garment, the opportunities for adjustments and the delivery time that are issues for discussion, not whether the supplier will respect the ethical guidelines.

3. Ocasio expands this by showing how structures within the company determine *who* and *what* are brought together in a decision-making situation. Economic, social and cultural structures and social circumstances (such as company rules, resources and culture) *regulate the flow* of problem, solution and decision makers into different decision-making situations: the *Structural Distribution of attention*. Such attention structures determine the value of and legitimation of themes and answers (for instance, is worker pay a relevant issue when discussing sewing jobs? Is the minimum pay sufficient?), the development and distribution of procedures and channels of communication (such as ethical guidelines or "Factory Profiles"), and interests and identities that steer the actions of the decision takers.

All these elements which are brought together in a decision-making situation are termed by Ocasio (1997) the *environment of decision*. Socio-cultural and economic structures determine which elements form part of the environment of decision. At the same time, such structures determine the focus of attention of the decision taker: which elements he is aware of and how he relates to these (as with the "problem identification" described by Lai and Grønhaug, 1994 and Grønhaug and Haukedal, 1994). This provides an interesting angle of approach to the stakeholder discussion that often crops up in connection with CSR: in whose interests should the company act? Which stakeholders do the decision takers *see*, and to whom do they give priority? Those with moral or legal legitimacy? (Donaldson and Preston, 1995) Or does the power, legitimacy and urgency of the stakeholders play a part? (Mitchell, Agle and Wood, 1997). A company has various stakeholders, both internally (management, employees, owners) and externally (customers, suppliers, affected third parties, interest groups/NGOs and the like.). Ocasio calls such stakeholders "players" (1997), meaning those who influence the decision-making processes. When Stormberg became a member of IEH a new player entered the decision-making environment which affected the relationship with the suppliers. IEH is bearer of certain norms and values and contributes both demands and skills to the decision-making environment.

This case study is looking at small and medium-sized clothing businesses. The clothing sector is a part of a decision-making environment: the market with its customers and competitors, particular characteristics of the sector (such as rapidly-changing fashions, the tendency for clothing to be sewn by subcontractors) and institutionalised norms such as laws and regulations (legal norms), perceptions of right and wrong (moral norms) and cognitive norms, in other words, perceptions of how the world "is" and how things are connected. In today's clothing sector one can for instance observe that there are laws regulating the use of certain chemicals (legal norms), there is a board consensus that child labour is negative (moral norms), but there is a certain acceptance that salary and working conditions amongst suppliers cannot be of Norwegian standard since the factories are located in countries with poorer economies and different cultures (cognitive norms).

Similarly, the size of a small company forms part of the economic, social and cultural structures which direct the focus of attention: a lack of resources, flat organisation and personal relationships.

Putting the "social responsibility" concept into operation

External factors such as the characteristics of the clothing sector and internal factors such as the size and organisational model of a company also affect the implementation of CSR. In the previous paragraph we have seen how economic, social and cultural structures affect the decision makers' perceptions of the various stakeholders, problems and solutions. Both the companies we have examined in the case study "view" their suppliers as stakeholders to whom they owe consideration on moral grounds. They have thus a common set of values: "we have a social responsibility for the supply chain" But there are differing views concerning how this should be implemented. The two companies perceive the supply chain problem differently and have differing views

concerning how they should be solved. They put the "social responsibility" value into practice with different goals and formal/informal procedures which govern their relationships to their suppliers.

Stormberg and Lene-V also have different perceptions of what they as companies are responsible for in respect of the supply chain. On the basis of the differing social-responsibility goals between the two case-study companies, let us examine how different organisational factors affect the opportunities to accomplish these goals.

Putting it into action: from abstract concept to action

An open and unspecific CSR term allows the companies a great deal of freedom to define and put into effect their social responsibilities. Pedersen and Huniche (2006) examine how certain organisational factors affect the implementation of CSR: awareness, capacity, commitment and consensus. Pedersen and Huniche have a stakeholder perspective on CSR, and therefore do not create a sharp division between the business and its surroundings. Both internal and external actors can affect all these four factors.
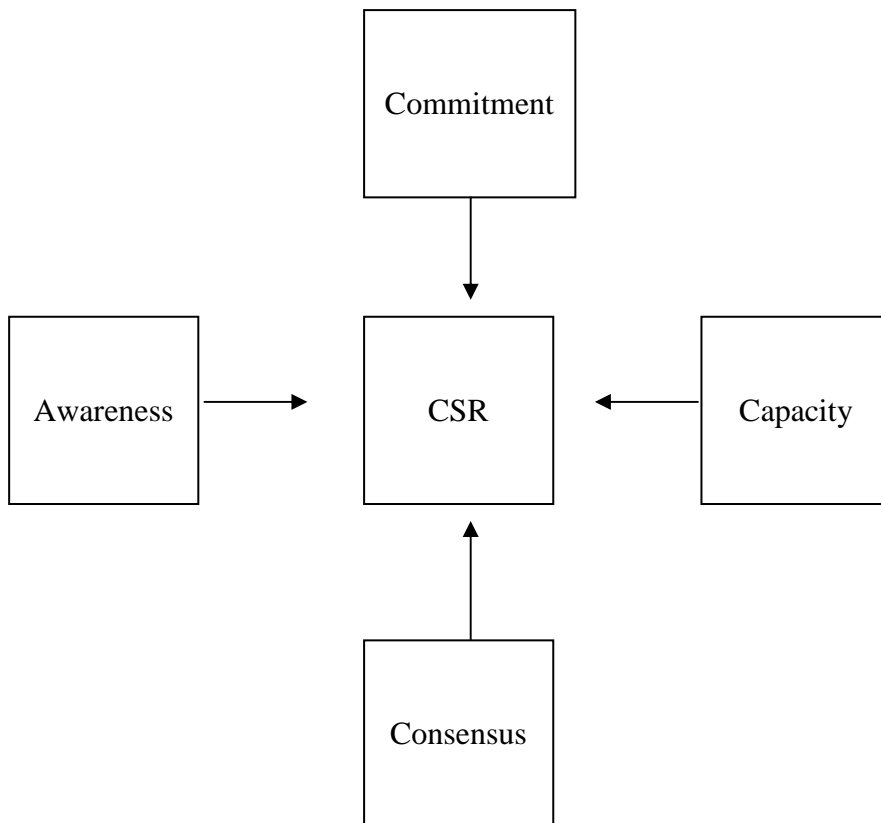
Model 1: Pedersen and Huniche (2006) Four factors affecting the operational implementation of CSR.

Awareness

Awareness is a prerequisite for the implementation of CSR. In particular, management awareness of the issue is important to enable resources to be prioritised in this direction (Pedersen and Huniche, 2006). Awareness is in itself a limited resource: many things are competing for attention in the course of a working day. We recognise this both with Lai and Grønhaug (1994), Haukedal and Grønhaug (1994) and Ocasio (1997). Research indicates that clothing customers have little interest in ethics, so that market forces do not seem to be an important driving force for the implementation of CSR.

At both Lene-V and Stormberg the management has clear, fundamental values regarding how relationships with suppliers should be. But how to what extent these values are at the forefront of their attention on a daily basis is different.

"*We don't talk so much about it... but they know my views*," says Arne Jæger about company awareness in respect of questions about Lene-V's social responsibility to the supply chain (2007a). Both he and the Chief Executive Officer describe their implementation of social responsibility as "*normal humanity.*" Not something one discusses so often, but rather something that is taken for granted (Blindheim, 2006). Jæger er også av den oppfatning av leverandørene what his/Lene-V's attitudes are (2007a).

Steinar Olsen in Stormberg claims to be generally aware, whilst taking decisions, of issues relating to people and the environment. The company's core values are always mentioned in the company's assemblies and meetings, even if the supply chain is not specifically identified in this context (Olsen, 2007a). "Ethical trade" officer Christine Hansen says that the question of working conditions and similar amongst the subcontractors is not a frequent topic of discussion amongst the employees, even though her experience is that everyone supports the values (2007).

Capacity

Pedersen and Huniche define capacity as "*economic, technical and human resources that are available to the company and its ability to use these resources in their work with CSR*" (Pedersen and Huniche, 2006:105). Capacity is a matter both of internal issues such as economic elbow room and external factors such as goodwill within the local community, local government and similar (Pedersen and Huniche, 2006).

As we have already seen, SMEs are often short of resources: time, staffing, capital and skills base. We have also discussed the "cost" of social responsibility. Do SMEs have the financial capacity to deal with social responsibility beyond that of surviving as a company? Both Lene-V and Stormberg deny that CSR is a financial issue. Both are of the opinion that the clothes can cost a little more because of their social or environmental demands in relation to production, but they have not made any financial calculations concerning this (Olsen, 2006 and 2007a; Jæger, 2007).

When we speak of social responsibility in the supply chain within the clothing sector, it is economic and human resources to a greater degree than technical resources that are decisive.[60] As a rule, implementation involves human activity in terms of influencing and checking on suppliers.

Lene-V's strategy of direct contact involves them in a good deal of travel, which is demanding of both time and money. But even in financially-difficult times, Lene-V has prioritised this. Not just as a CSR measure, but because "*that's how I work*", says Jæger (2007a). Personal relationships are also a part of the strategy for ensuring quality and supply. These factors seem to be interdependent, and in conversation with Jæger it is not clearly apparent which is the most important.

Stormberg uses a certain amount of "extra" resources in following up their "ethical trade" work, even though Olsen believes that this also contributes to quality assurance of the goods. Better working conditions give, for instance, more focussed workers and therefore fewer sewing faults, according to Olsen (2007a). A Stormberg employee is responsible for the "ethical trade" work, but she does not have a clear picture of how great a part of her post is devoted to this. The workload is variable, peaking twice a year when the self-report statements come in from the factories (C. Hansen 2007). Stormberg also pays an external controller to make unannounced visits to check on selected factories in China.[61]

In terms of knowledge, there is a marked difference between Lene-V and Stormberg. Lene-V bases its policy on the personal experiences of Jæger and after a while also the other designers (Jæger, 2007a).

Steinar Olsen at Stormberg has also travelled to some extent in the supply countries and considers that he learns a lot from his suppliers. Stormberg also relies on information from external parties such as Stormberg's external inspector, business organisations and through membership in IEH.

Commitment

Commitment is a matter of willingness and desire to work with CSR. A commitment to work with CSR is essential if it not simply to be empty words. It is therefore important that the management backs CSR initiatives. It is the management that allocates resources to various purposes in the company. It does not necessarily only managers who are the driving force, but those individuals who "burn" for CSR must have management acceptance (Pedersen and Huniche, 2006). Ocasio (1997) is of the opinion that management has a special responsibility for creating structures that ensure the correct focus of attention. Bringing players with knowledge resources into the decision-making environment can be a measure that causes the actual decision makers to have both desire and willingness to work with CSR.

Lene-V does not have any official strategy regarding social responsibility in the supply chain. Here, it seems as though it is the section leader, Jæger, who is passionate about his suppliers and receives acceptance for his "no agents" policy from the Chief Executive Officer and the owners. It is he who is responsible for contact with the

suppliers and who therefore shapes the terms on which the designers take decisions about them. Amongst other things, he takes them on journeys with him so that they can themselves create personal relationships with the suppliers.

In Stormberg it appears to be the founder and senior manager who is the enthusiast. He has built up the company around his values. He allocates resources to the implementation of this work by, for instance, freeing up one of the employees from part of their normal duties in order to take care of supervising "ethical trade". He also directs players into the decision-making environment by inviting external organisations to hold lectures.

Stormberg has directives built into its organisational structure that are intended to ensure the company's implementation of CSR, whilst in Lene-V this is a matter of informal culture. Jæger is the person[62] who has been with the company for the longest time, and it is therefore natural that it is his attitudes that have formed the basis of company culture. Personally he believes that current attitudes are not dependent on him. "*The girls* [the other two designers] *are more sceptical than me*", he says about the standard that Lene-V expects from possible new suppliers in terms of working conditions (Jæger, 2007a).

Consensus

Consensus is a matter of harmony/level of conflict within an organisation, internally or in relation to its surroundings. Authors define consensus in this context as "*the degree of unanimity between the company's stakeholders about social and environmental issues and their solutions*" (Pedersen and Huniche, 2006:107). Criticism from stakeholders outside the company can put pressure on the company to take a greater degree of social responsibility or to implement it differently. The media has been shown to be a useful channel of communication for stakeholders who wish to shed light on issues of concern.

It is usually larger companies that attract critical examination from journalists, and this applies also within the clothing sector. The many small and medium-sized companies are not as visible in the eyes of the media. They not only have a small turnover but they have also small reputations, often serving local customer areas. They are therefore of less interest to the large-scale media that serve a public far distant from the local clothing company. The companies in this case study have customers spread over the whole country, but their turnover is nevertheless relatively little in relation to the total clothing market. Having said this, it is worth noting that Stormberg has received much media coverage over the past few years precisely on account of its social engagement. Reputation is important for SMEs, but this is to a greater extent locally based, through the personal buying practices of it customers (Ottesen, 2005). The supply chain for clothing companies is located far away from the SME's customers, and indeed those of the regional media. In this sense, the danger of scandalous media coverage is a less significant driving force for taking social responsibility for the supply chain (secondary risk (Power, 2004)). Moral sensibilities such as those cited by Lene-V and Stormberg appear to be a greater incentive.

The level of conflict, both internal and external, in respect of implementing CSR seems to be low at the companies in this case study. No-one has experienced criticism from external stakeholders in respect of relationships to the supply chain, but critical articles in the media have contributed to increasing awareness of the topic, reports Jæger in Lene-V (2007a). Internally there also seems to be no conflict of priorities. "*the salesmen are obviously preoccupied with price, but quality is also important, and when working conditions are good, the quality is also better*", says the managing director of Stormberg (Olsen, 2007a). He has the impression that the company's sales force is in agreement with his reasoning. The company's "ethical trade" officer is also in agreement. She has not experienced employee resistance to the implementation of CSR in respect of suppliers. On the other hand, nor are the employees particularly concerned with it. It is largely a matter between her and the managing director, she reports (C. Hansen, 2007).

Arne Jæger also meets no resistance for his view at Lene-V, either from higher management or amongst the employees. He too reports that the topic is not widely discussed but is rather taken for granted – a matter of principle taken as a starting point in every-day work (Jæger, 2007a).

Secure implementation: anchoring CSR work into the organisation

Many companies implement their social-responsibility policies for the supply chain through codes of conduct to which they expect suppliers to adhere. But actual conditions do not always match the ideas on paper. Mette Andersen claims that one reason for this is that CSR work is too poorly anchored into the organisation (2006).

M. Andersen (2006) describes how knowledge and skills are created and distributed within an organisation, and how this affects the organisation's capacity to implement CSR in the supply chain. Knowledge and skills affect the ability of individuals to work effectively with CSR. Here we recognise the ideas of both Lai and Grønhaug (1994), Haukedal and Grønhaug (1994) and Ocasio (1997) about how knowledge and structures direct the attention, priorities and decisions of individuals. Sharing knowledge also affects attitudes and values amongst the various individuals in an organisation, according to M. Andersen (2006). Although she does not take up the question of conflict in the same way as Pedersen and Huniche (2006), her reasoning suggests that sharing values can contribute to limiting conflict and resistance within the organisation and thus strengthening the implementation.

M. Andersen further develops the model proposed by Leonard-Bartons (Leonard-Barton, 1992 referred to in M. Andersen, 2006) which sketches the core capabilities of a business: knowledge and skills, technical systems, values and norms and management systems. M. Andersen's starting point is that knowledge and skills are the most important resource in a company. She shows how this is connected to the other three dimensions, how all four are expressed and are mutually interdependent in the company's social-responsibility work in respect of the supply chain.
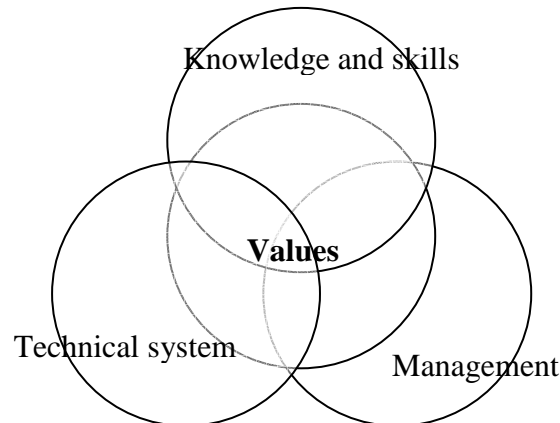
Model 2: The four capability dimensions used on CSR in the supply chain (Andersen , 2006)

Knowledge and skills

Employee knowledge and skills are important for their ability and willingness to work for social responsibility in the supply chain, and this also affects the ability and willingness of the *suppliers* to accept social responsibility (M. Andersen, 2006).

Employees must have factual knowledge regarding both environmental and social factors, in addition to practical knowledge/skills concerning how specific improvements can be implemented.   But this is not enough, claims M. Andersen (2006). They must also have motivation to prioritise people and environment, both in relation to other factors (time, money, quality and the like) and in the long term once the initial "pressure" has lapsed. To create such attitudes requires more than practical knowledge: a fundamental understanding of why this matter is important is also required (M. Andersen, 2006). It can be seen that a fundamental understanding of this sort can contain both moral questions about justice and responsibility and an understanding of the underlying causal context.

It is important that there should be consequences attached to the signals given by the company to the supplier. It is no use for the company to require the supplier to adhere to their codes of conduct if the employees who are in contact with the supplier emphasise other criteria, such as buyers emphasising price and delivery dates whilst technical officers emphasise technical aspects of production (M. Andersen, 2006). The company must show the supplier through concrete priorities that they actually mean what they say.

The supplier is located far from the end user, in both a concrete and abstract sense. The supplier has no particular brand name to protect and has no direct contact with the end user. They do not, therefore, share the same awareness of the existence and development of ethical demands on the part of the users. In addition, factual knowledge of social and environmental factors can be lacking, both in respect of legal issues and of

long-term effects, according to M. Andersen (2006). This means that it can be difficult for the supplier to engage with, understand and prioritise the company's requirements for social and environmental responsibility (M. Andersen, 2006). If employees possess this basic knowledge they will be in a position to transmit it to the suppliers.

Knowledge and skills at Lene-V and Stormberg

We examined the knowledge resources of Lene-V and Stormberg during the discussion of Pedersen and Huniche's model (2006). Both the design manager at Lene-V and the managing director of Stormberg appear to have good factual and cultural knowledge about the countries in which their goods are produced. They also regard themselves as possessing the skills to implement their social responsibility in terms of the suppliers.

In small companies the leader works with production as well as with the administrative responsibility. As the company gradually becomes larger, the administrative tasks grow and the distance from actual implementation increases (Opstad, 1991). It is characteristic of SMEs that there is a short distance from leadership to implementation – if, in fact, they are not the same person. This means that knowledge has little distance to travel. For clothing companies that produce garments it can be the same person that designs the clothes, signs contracts for manufacturing orders, supervises production and receives the finished result.

At both Lene-V and Stormberg it is the management (at Lene-V, the design manager) who enters into relationships with suppliers and discusses prices, whilst designers are responsible for following up "their" clothes directly with the factory. In both companies all the employees work closely together and this gives many opportunities for sharing knowledge and attitudes. The physical proximity of their places of work means that the employees and the management meet each other many times in the course of a day, in both formal and informal situations. For instance, both companies have communal lunch breaks in which management and workers meet on equal terms and can chat about anything.

Technical systems

Jointly-held values and knowledge are an important prerequisite for consistency of signals from the company to the supplier. Such knowledge is often laid down in the company's production or information systems, where employee experience, knowledge and skills are collected and systematised, for instance through information and procedures. Databases with information about suppliers and how they fulfil the codes of conduct are an example of such technical systems (M. Andersen, 2006). This makes it possible to spread knowledge and skills to different parts of the organisation so that everyone who is contact with the suppliers has the same basis of knowledge.

Since knowledge flows more easily in small organisations with close and personal collaboration, technical systems for sharing knowledge will be of less significance. Verbal communication is quicker than looking through written data.

Lene-V stores information about the various suppliers, but matters concerning environmental and social issues are not documented. This knowledge is acquired and shared between the relevant designers and the management on an informal basis. At Stormberg, this informal sharing of knowledge is supplemented by written documents: Factory Profiles, Plan of Action and results of checks.

Values and norms

As in Ocasio's theory of focus of attention (1997), M. Andersen also highlights how values and norms determine what knowledge and which skills are regarded as important and thereby prioritised through systems and procedures (2006).

Management can send out signals to all parts of the organisation that they regard social and environmental questions as important. In practice, this can be done by shaping values for company engagement in specific areas (M. Andersen, 2006). Overall values provide direction, and the realisation of these in specific areas guides employees in their daily work. Many companies have formulated their values into keywords that are intended to say something about what the company stands for. A way of making these values concrete for the supplier can be through codes of conduct.

Values as Lene-V and Stormberg

That the value "we have a social responsibility for the supply chain" is shared internally in both companies is evident. During visits to the companies it was striking that the people we met used the same terms and expressions. At Stormberg, the same rhetoric is also used on their website.

It is natural to believe that our subjects had spoken together about the topic before they were interviewed, but there are nevertheless grounds to believe that these values actually *are* shared amongst the employees. As described earlier, the companies are small/medium-sized, and the employees work together and in close collaboration, formally and informally. The flow of knowledge is good and there are grounds to believe that values are similarly shared.

Both leaders seemed charismatic, of the type that is both jovial and authoritative. It is evident that when they argue in favour of their attitudes, others will be convinced. These two have been involved in their companies since they were founded, which also gives a basis to believe that their attitudes have helped shape the companies.

This takes us on to the final point of M. Andersen (2006) about how implementation of CSR must be internally anchored within the company, through management and management systems.

Management systems

Values are worthless unless they are translated into every-day practice, so that employees can see that the management takes the values seriously. Practical implementation of values can be achieved through establishing systems which ensure that employees will be aware of the values, which encourage them to work with them and which provide practical assistance to carrying out the activities, writes M. Andersen (2006).

Through their actions, management can both *create* and *control* knowledge and skills. Through training, systems for knowledge sharing and organisational coursing, and contact with external partners and similar, they can create skills and knowledge. Through systems for evaluation and rewards they can control and direct such knowledge (M. Andersen, 2006).

M. Andersen has a good illustration for the ideas of Ocasio (1997). Position within the company directs which themes are regarded as being "right" to discuss with the suppliers: whilst sales staff are concerned with price, designers may be more concerned with quality. It is therefore an important managerial role to create channels for the spread of knowledge and to communicate that environment and working conditions are also proper and important parameters with which to assess suppliers.

Knowledge leadership at Lene-V and Stormberg

In small and medium-sized companies in which employees work closely, formal systems for knowledge diffusion are of lesser importance. Nevertheless it is an important management function to steer the informal processes in the right direction.

The management of Lene-V and Stormberg are clear and convincing in their attitudes. We have also seen that formal and informal structures in the companies (such as working in close proximity and communal lunch) enable the flow of knowledge, skills and attitudes between employees and management.

Attitudes towards social responsibility for the supply chain are not formally expressed at Lene-V. Jæger speaks of this as something not often discussed, but that perceptions are nevertheless shared (2007a). This can be termed "implicit" knowledge. Grønhaug and Hansen distinguish between *coded knowledge* which is documented in writing and *implicit knowledge* which to a greater or lesser extent is subconscious and often experience-based (2001). Sharing implicit knowledge often occurs through sharing experiences. At Lene-V the leader and designers often work closely together. "*Obviously, when we travel such as when Gry came with me now* [visiting suppliers in Turkey], *then we are together … and we talk together for 19 hours in the day. So obviously our attitudes will become fairly similar after a while*" (Jæger, 2007a).

Stormberg has formal systems to ensure the implementation of CSR through their "ethical trade" work. The other designers, together with those who work with transport/logistics, also have direct contact with suppliers but do not use these systems.

It is only the managing director and the "ethical trade" officer who do this (C. Hansen, 2007). It is therefore important to share knowledge that comes in through these systems in order to ensure that the same values are apparent in the contact between all employees and the suppliers. In addition to informal channels, the managing director also uses formal meetings and gatherings to disseminate such knowledge. He reports that the various departments can be asked to present a case to illustrate how the underlying values (that is, not necessarily in relation to the supply chain) are relevant within their department. Humanitarian organisations that Stormberg supports also visit the company and hold lectures for the employees (Olsen, 2007a). There are also formal and informal structures that channel "players" with different knowledge and skills into the decision-making environment.

Contact with external bodies

M. Andersen (2006) describes contact with external bodies as another leadership activity that helps anchor the implementation of CSR. External bodies can contribute with knowledge and skills that support social-responsibility values. Collaboration with external organisations can be an example of this, as can contact with other companies, for instance through trade networks.

Relationships with external inspectors should also be well functioning and long-term so that these can contribute knowledge. Simultaneously, the company has an opportunity to ensure that issues they regard as important will be inspected (M. Andersen, 2006).

Lene-V's and Stormberg's contact with external bodies

Stormberg has several different connections with external bodies Stormberg uses 1% of its turnover to support humanitarian organisations. Olsen is quick to point out that this is not a form of charity, but is money (and to some extent company-produced clothing) that Stormberg uses actively to implement their vision of contributing to a better world (Olsen, 2006 and 2007a). Stormberg defines this as part of the company's social responsibility. Olsen has also used the media to claim that all companies ought to take social responsibility of this kind (Tønnesen, 2006). Even though this is not included in our definition of the company's social responsibility in the supply chain (which should affect the company's core activity, i.e. the production or sale of clothing), this does express something of the company's general social engagement. This is significant for the implementation of CSR in the supply chain through the flow of knowledge and solutions.

External parties that have a direct influence on Stormberg's relationship with its supply chain are the "Ethical Trade Initiative" organisation and the external inspector used by Stormberg. Chen Wei has carried out surprise inspections at Stormberg's suppliers since 2004 (Wei and Ling, 2004). Olsen says that cooperation with Chen Wei functions well. They have had a good dialogue about what issues should be checked (Olsen, 2007a). Stormberg has presented its ideas and Chen Wei has contributed local knowledge.

Stormberg also actively uses the information that emerges through the reports to shape its relationship with its suppliers (Olsen, 2007a; C. Hansen, 2007).

Stormberg has been a member of IEH since 2002. Through IEH they have received help amongst other things to prepare codes of conduct and reporting forms that are used to follow up conditions at the factories (Olsen, 2007a). IEH has contributed with training, though mainly in the start-up phase. The present "ethical trading" officer has not had any training from IEH, but has had informal training from Olsen and from other employees who have held the position previously (C. Hansen, 2007). As a member, Stormberg has an obligation to report annually on progress in CSR work. This report is made on a standard form that is identical for all IEH members (IEH, 2007).

Lene-V, on the other hand, is more in line with Spilling's conclusions that Norwegian SMEs often do not involve outside agencies to provide impulses (2000:30). Lene-V's design section works outwardly and is often travelling and in direct contact with the suppliers. As fashion creators, it is important for them to travel to fashion events and learn about new trends, but in terms of collaboration with other parties it appears that Lene-V operates in a fairly isolated manner. Although the company is a part of the Conseptor group, Jæger reports that there is little formal contact between the various sections (2007a and b). The different clothing brands are organised to supplement each other, so one can draw the conclusion that lack of contact is a conscious strategy. Lene-V is also not a member of trade organisations, nor does it collaborate formally with other organisations (B.E. Hansen, 2007).

Discussion of factors that can affect implementation of CSR

So far we have shown that what companies *actually do* to implement their social-responsibility strategies is affected by how the CSR value is operationally embedded as a strategy/goal and how this strategy is actually put into practice. The characteristics of the SME and of the clothing sector form (part of) the economic, social and cultural structures that affect the company's actions by steering players, resources, norms and similar into the decision-making environment.

We have examined two models which illustrate how economic, social and cultural structures affect these two aspects of implementing CSR. Pedersen and Huniche's (2006) model is based on how organisational factors affect the operational implementation of CSR. Mette Andersen (2006) shows how goals can be achieved by embedding CSR work into the company through the flow of knowledge and values.

A characteristic of SMEs is the close collaboration between (owner), leader and staff. Both at Lene-V and Stormberg it appears that the employees share the leadership's moral position on CSR, and that distortion of goals or inconsistent signals to suppliers is not a problem. The *flow* of knowledge and sharing of values within the company (M. Andersen, 2006) therefore seems not to be a critical organisational factor so far as implementation of CSR is concerned.

But when CSR is operationally applied to different goals, the actual actions will necessarily be dissimilar, when in terms of form or extent. Pedersen and Huniche (2006) describe how organisational factors such as awareness, commitment, consensus and capacity affect a business' operational implementation CSR. A lack of *commitment* and *consensus* does not seem to be a great problem for the businesses in the case study. It is the leaders who are enthusiastic about the matter, and as SMEs with small-scale operations and close relationships these values "flow" easily on to the other employees.

Awareness and *capacity* seem to play a larger role. Customers are not very *conscious* of ethics and do not make demands of the businesses in this respect. A lack of regulation also does not direct attention towards CSR questions. For SMEs, with limited resources, other and more pressing problems will therefore often receive priority. The businesses in the case study are in this respect distinctive from the stereotype SME, but they were chosen precisely because their leaders had clearly-defined attitudes to CSR.

In other studies we have seen that a company's *capacity* has affected the operational implementation of CSR in the sense of limiting it to the economic dimension – creating turnover and surviving as a company (Davik, 2006). *Capacity* can mean both time, human resources, capital and knowledge. In SMEs these are often limited resources. It is interesting that both companies in the case study regard themselves as *having* the capacity to undertake extended social responsibility. But they implement CSR in different operational ways. Can this be explained on the basis of the structural distribution of attention?

We have observed many features of SMEs that suggest that the flow of knowledge and values within the companies is good. This is substantially in accordance with what we have observed in the case studies. But they are distinctive from each other in terms of the *flow* of knowledge and values. Economic/social/cultural structures in Lene-V consist amongst other things of direct contact with the suppliers, in other words, the factory owners. This presumably gives a good flow of knowledge about their experiences. The personal relationship gives this knowledge more weight than for instance impersonal knowledge via the media. But the decision-takers in Lene-V do not appear to have a great deal of contact with external bodies which can contribute with alternative input about, for instance, the situation of workers or environmental questions.

At Stormberg we can see economic/social/cultural structures which lead knowledge and skills into the company from several external bodies. In particular, membership of IEH appears to have influenced both the form and the extent of CSR at Stormberg. It has affected aspects such as both knowledge, network and technical resources (such as the "Factory Profile").

Because of the limited extent of this study we have nevertheless no justification for saying that the *absence* of IEH membership has been decisive in how CSR is put into operation and initiated at Lene-V. But it seems clear that in both companies the *enthusiasm of the leaders* and moral values are decisive for the company's implementation of CSR. The leaders have influenced the structures which again influence the focus of attention of both their own and other workers. "*I have always*

been socially active", says Steinar Olsen (2007c). He has been an active local politician for 10 years and his political appointments have made him aware of many social questions (2007c). When he, as managing director, enrolled his company into IEH, he brought an important player into the decision-making environment, which has influenced the implementation of CSR to a great extent.

Ability and willingness to implement CSR

Various organisational factors affect the implementation of CSR, both through willingness to take social responsibility and the ability to do so. Ability and willingness are mutually influential and are in continuous development. *Willingness* is a matter of values and priorities, whilst *ability* is a matter of the company's capacity to implement CSR. The sense of not having the capacity, be it on account of economy, knowledge, personnel, or time, will affect willingness to accept social responsibility. At the same time, willingness can be a motivation for searching for opportunities to accomplish this.

Economic, social and cultural structures influence the ability and willingness to take social responsibility. Organisational factors such as awareness, consensus, commitment and capacity contribute to creating and maintaining the structural distribution of attention. We have seen how flow of external knowledge resources influences the implementation of CSR, both through operational establishment of the term and the ability to reach this goal.

Conclusion

A characteristic of the clothing sector is the disconnection between design and production: clothes are designed and sold in "rich" countries but sewn under subcontract in countries with lower salary levels and lower employment standards. This means that the company's relationship to its supply chain will be of particular interest in respect of the company's social responsibility (CSR).

In this article we have examined the organisation of the companies to see which organisational factors affect their implementation of CSR in respect of their suppliers. We can conclude that the organisational factor *knowledge capacity* – access to and sharing of knowledge – is significant for the implementation of CSR in two ways:

- Knowledge gives a basis for attitudes that govern the company's awareness of and operational incorporation of values into goals for the company's implementation of social responsibility.

- Knowledge as a resource affects the company's capacity to implement its CSR goals.

Against the background of awareness theory we can thus understand how the same value, in this instance "we have a social responsibility in relation to our suppliers" is put into operation in different ways. Those from whom decision takers receive impulses, whether they are internal within the same organisation or are external bodies, will contribute to shaping this "individual" interpretation of the term social responsibility. External bodies influence the operational implementation of the term social responsibility. IEH offers an operational framework for the term "CSR in the supply chain", and they assist members with knowledge and network resources that are necessary in order to succeed in attaining these goals.

A characteristic of small and medium-sized companies is a close collaboration amongst employees and between employees and management. The internal flow of knowledge is therefore good, both in terms of creating a climate of opinion and of ensuring that stated goals are achieved. This is an advantage for the SMEs. But on account of their size, SMEs typically are also short of knowledge resources. This is a significant hindrance for the SME's success with CSR: the *input* of knowledge. External bodies can contribute knowledge and thereby compensate for the disadvantages that the SMEs suffer through being small.

Both the authorities and NGOs can play an important role in contributing with knowledge resources to the SMEs. They can also influence the SMEs in the desired direction by offering both "factual knowledge" which contributes to building values and attitudes (thus forming the SMEs' operational implementation of the concept) and they can offer "practical knowledge" concerning how CSR can operate in practice.

This article has focused on the *organisation* of the companies, and we have seen which opportunities and disadvantages lie in the size of the SME in terms of operating CSR for the supply chain. Further research should look in greater depth at the *relationship* between the clothing company and their foreign suppliers. Since the clothing companies do not own the production sites themselves, their main responsibility will be to influence the suppliers in such a way that they take account of people and environment. The supplier's capacity to operate CSR is therefore decisive. Perhaps the idea of knowledge as a resource, as discussed here, can be used to provide possible approaches to this question?

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Tables and models

Table 1.

	Lene-V Norge	**Stormberg Group AS**
Value	We have a responsibility to the suppliers	We have a responsibility to the suppliers
Operational goals	Be respectful and reliable in relation to suppliers. Use trustworthy suppliers	Ensure suppliers abide by codes of conduct.
Communi-cating goals to employees	Informal	Formal by means of routines and documents. Informal through training.
Conveying goals to suppliers	Informal	Formal
Measures or "tools" for Implement-ation	Personal contact/meeting. No use of agents. Influencing through conversation.	Follow-up through codes of conduct, Factory Profile and Plan of Action. Dialogue about ways in which one can help. Checks without prior notice.
Sanctions	Cutting out supplier.	Not cutting out supplier in the first instance, but looking how they can help the supplier satisfy requirements.
CSR-dimension	Economic: Supplier's economic survival/growth. Social: Working environment/conditions	Economic: Not discussed in interview. Social: Working environment/conditions. Environment: Supplier's waste disposal and emissions.

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Study VIII:
Drivers and Barriers for CSR: Do We Need to Distinguish Between SMEs and MNEs?

Author: **Thomas Laudal, University of Stavanger, NORWAY**
To be submitted to Social Responsibility Journal..

Earlier version presented at the Cranfield Conference, UK, 11-12 September 2008.

ABSTRACT

A large number of influential research articles and books on corporate social responsibility (CSR) do not qualify the main entity of their inquiry: the firm. In this article I analyze drivers and barriers for CSR and distinguish between small and medium sized enterprises (SMEs) and multinational enterprises (MNEs). Out of approximately 40 recent empirical CSR studies, seven main drivers and barriers are identified. Regression analysis, on a data set from a survey of the Norwegian clothing business, shows that the explanatory power of drivers and barriers of MNEs were strong while the explanatory power of SMEs were insignificant. One MNE driver and three SME drivers/barriers are individually correlated with CSR performance. The drivers and barriers may be framed as special cases of more general social science models and concepts. Based on the individual correlations in the survey, three models seem to be of particular relevance to the CSR performance of SMEs and MNEs. These fit well with three stages in the timeline of a growing firm: 'Critical mass' is relevant for smaller firms with little capacity for allocating money and staff to explore the advantages of CSR related activities. 'Cost disease theory' is relevant for firms that are increasingly exposed to large economic and social differences as they outsource operations to low-cost markets. And 'shaping market conditions' is relevant for MNEs with the capacity to influence brand recognition and consumer tastes. This suggests that options for CSR related activities typically are restricted in SMEs, a predominantly defensive measure in medium sized firms, and both a defensive and an offensive measure in MNEs.

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. The huge differences suggest that drivers for and barriers to environmentally and socially responsible business practices vary strongly between firm types. However, a large number of influential research articles and books on corporate social responsibility (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).

In this article I analyze drivers and barriers for environmentally and socially responsible behaviour of small and medium sized enterprises (SMEs), and of multinational enterprises (MNEs). I refer to such behaviour as 'CSR'. My initial argument is that drivers and barriers for CSR vary with respect to firm size and the international scope of their operations. This may sound pretty obvious, but in light of the many studies omitting any reference to firm categories, I believe a better understanding of how drivers and barriers of CSR vary between SMEs and MNEs would be a valuable research contribution. I focus on manufacturing and retail within global value chains.

This article is structured as follows: First I identify seven main drivers and barriers for CSR within 40 scientific publications between 1994 and 2009. Here I distinguish between drivers and barriers for SMEs and drivers and barriers for MNEs. Then I consider the validity of these drivers and barriers. I use multiple regression on a data set consisting of 182 managers/firms in a CSR survey of the Norwegian clothing business, controlling for 'type of firm' (SME/MNE). Thereafter I consider how these drivers and barriers relate to more general theoretical models in the social science literature. Are the identified drivers and barriers mechanisms that may be framed as a special case in general social science models? I argue that this is possible and that these general models help us to better understand the social and economic setting of the drivers and barriers. Finally, based on the empirical evidence and on how drivers and barriers relate to general social science models, I present a model of how conditions for CSR vary with regard to three stages in the development of firms.

A Market Centred Approach to CSR

Before I enter into an analysis of drivers and barriers, I will attempt to clarify my understanding of 'CSR'. There are many over-lapping and related concepts in this field. Two survey articles of CSR studies between the 1950s and 2000 show that the definitions of CSR range from highly conceptual, to very practical statements.[63] Kakabadse et al.(2005) list eight 'core elements' in many CSR definitions:

1. Philanthropy

2. A long-term perspective

3. Efforts beyond the immediate requirements by the law

4. Accountability to stakeholders

5. A social contract perspective

6. The notion of power

7. A focus on legitimacy

8. Sensitivity to contextual factors

Many definitions speak of 'spheres' or 'layers' of responsibility of firms; e.g. 'ethical', 'legal', and 'economic' responsibilities (e.g. Carrol 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, their competitors. Garriga & Melé (2004) distinguish between four groups of CSR theories. The first group view CSR only as an instrument for wealth creation and its social activities as means to achieve economic results. These theories are not so much distinguished by how they view the *firm* as how they view the *purpose of CSR* (increasing firms' profits). I do not assume that CSR has any particular purpose, but I take the view that *firms* have profit maximization as a basic purpose and that CSR should be understood in this context. As the aim of this article is to study drivers and barriers of a certain kind of firm behaviour ('CSR performance'), it would be strange *not* to refer to their basic purpose.

Crouch (2006) analyzes the incentives for responsible behaviour and links his definition of CSR to a fundamental property of the market exchange: Firms' externality recognition. 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. '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), philanthropy may well enhance human well-being without being a public good.

To identify externalities does not have to involve normative judgements. However, it *does* if we identify 'negative' and 'positive' externalities. According to Crouch (2006:1535) the case of CSR arises where firms are producing positive externalities. He does not discuss what constitutes a 'positive' externality except in specific cases. I choose to ad a normative element to indicate, in general terms, what I mean by a 'positive externality'. Several CSR studies demonstrate that there is no consensus among scholars regarding the ethical content of CSR.[64] There is no unifying answer to the question; 'what *should* we expect from environmental and social responsible firms?' I therefore choose to refer to the political arena where there is a certain degree of consensus among NGOs and, albeit to a lesser extent, among governments, of the basic ethical content of CSR. There are several international CSR standards referring to international law, supported by international NGOs and firms.[65] We would be even more specific if we added a reference to the desired *end result* of CSR. Therefore I refer to the concept 'human well-being' which is defined by the World Health Organization.[66] My operational definition of CSR is then as follows:

We see CSR when firms choose to produce externalities that increase human well-being by meeting or exceeding requirements in international CSR standards.

Firms are not required to recognize these externalities *explicitly* as "CSR" as long as they choose to 'do good'. Thus, my definition covers both 'explicit' and 'implicit' CSR, as referred to by Matten & Moon (2008).[67] The definition is in line with the CSR definitions of Crouch (2006), Calveras et al. (2007), and of the UK Government / DTI (2004).

The central puzzle of CSR, according to Crouch (2006), 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.[68] The resolution, in general terms, lies in the *marketization* of CSR goals, according to Crouch. 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. Firms may:

- *Respond to perceived opportunities and threats in a market* by improving CSR related conditions and/or showing a *will* to improve these kind of conditions [69].

- *Adapt to a regulatory regime* where CSR related goals are marketized by creating a competitive advantage within a relevant market.[70] There has to be an element of choice on the part of the firm, and firms must do more than required: In countries where the rule of law is weak CSR encompasses a voluntary allegiance to the law. In countries where the rule of law is strong CSR demands a strict interpretation and active fulfilment of the law.

- *Influence government policies, or trends in a relevant market*, by improving CSR related conditions, making CSR goals more legitimate, or by raising expectations of their own CSR performance[71]. They do this in their role as *organizations* – as opposed to their role as *nexus of markets*, according to Crouch (2006).

When firms *comply* with national or international CSR related regulation, they do not display CSR per se, since their actions in this case are motivated by the *government's* externality recognition – not their own.

An increase in CSR related activities in recent years

In the last ten years the notion of a socially responsible corporation has received an increasing amount of attention, both from investors, corporate management, and from the academic community. There are several indicators: The number of companies enlisted in the FTSE4Good index has increased from 50 in 2003, to 500 in 2008. The number of companies releasing sustainability reports, based on the guidelines issued by the Global Reporting Initiative, increased from 50 in 2000, to 560 in 2008. UN's Global Compact reports an increase from 850 enlisted companies in 2004, to 4300 in 2008. In addition we see a tremendous increase in numbers of academic publications: A search in Google Scholar reveals an increase in the number of academic publications per year mentioning 'corporate social responsibility' from 200 in 1996, to 3500 in 2007. A search in Business Source Premier (EBSCO) shows an increase in the number of journal articles from 23 in 1996, to 444 in 2006.

It would be quite surprising if this increase in attention did not reflect an increase in CSR related activities as well. The increase in CSR related activities raise the question of antecedents: Which mechanisms, circumstances, or contexts, may this steep increase be attributed to? What are the drivers and barriers of CSR? This is the subject of the remaining part of this article.

Drivers and barriers in the CSR literature

In this article drivers and barriers for CSR are drawn from a review of approximately 40 academic publications, selected from more than 300 CSR related publications in all.[72] The selection is based on three criteria: They should be fairly recent, they should refer to empirical data (primary or secondary) and they should differentiate between both drivers and barriers for SMEs, and drivers and barriers for MNEs. The last selection criterion may have led to some underlying factors being left out: This criterion highlights differences between SMEs and MNEs and does not capture all antecedents to CSR.

The drivers and barriers identified in the CSR publications are grouped in four main drivers and three main barriers. Three are assumed to be relevant for MNEs and four are assumed to be relevant for SMEs:

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

2. *MNE driver:*   Sensitive to public perceptions (reputation)

3. *MNE barrier:* Internal control (risk)

4. *SME driver:*   Geographical spread (risk)

5. *SME driver:*   Sensitive to local stakeholders (reputation)

6. *SME barrier:* External control (risk)

7. *SME barrier:* Cost benefit ratio (capacity)

Financial returns, or 'the business case for CSR', is not listed as a driver. This makes sense because the financial return is the end motive of more or less *all* corporate initiatives. It is likely that the perception of how CSR may contribute to profits varies among firms, but most empirical studies view this as an indirect relation mediated by other variables; in particular by reputation, but also by firms' perception of risks, and by their desire for autonomy.

The main drivers and barriers for SMEs and MNEs are in the following described with references to academic publications:

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 voluntary measures to fend off restrictive government regulations (see Crouch 2006, Florini 2003, Moon et al.2003, and Rondinelli 2003). However, it is difficult to prove or disprove the importance of this driver as long as it only involves an intention. However, this is clearly a CSR driver which demands significant 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 both resources,

competences, and even the rational, to utilize CSR as an instrument to fend off government regulations. I call this driver 'Ward off government regulation' and conclude that this driver is most relevant for MNEs.

MNE driver: Sensitive to public perceptions (reputation)

One of the most cited drivers of CSR is firm reputation, or more specific; the public perception of the firm or of the firm's products or services. Several studies point out that reputation is more important for MNEs than for SMEs (see Maloni & Brown 2006, Jeppesen 2006, and Graafland & Smid 2004). Graafland & Smid (2004) 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.

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

SMEs are less vulnerable to NGO protests and have less formal means of public communication (see Lynch-Wood & Williamson 2007). In addition, with little or no investments in branding, they rarely have customers who are willing to pay more for added 'CSR content'. I call this driver 'sensitive to public perceptions' and conclude that this driver seems to be most common among MNEs.

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, Jenkins 2009, and Vinje 2009). The majority of these companies are family run or owner-managed and so do not have shareholders and 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 the MNEs.

Oppenheim et al. (2007) confirms 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 keeps 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 means that having a high *public* CSR profile – and thereby raising expectations of corporate behaviour – represents a liability for large firms. I call this barrier 'internal control'.

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 in most cases will acquire higher CSR standards.[73] 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 region and their sales region, and are inclined to establish multiple CSR standards.[74] When firms have multiple standards in sensitive areas like working conditions and environmental protection, they run the risk of having a confrontation with NGOs and public institution in charge of monitoring business practices. Therefore acquiring a broader supplier base that includes high-cost and low-cost regions will be a driver for CSR engagement. In sum: Increasing geographical spread may accentuate the need for CSR. And as MNEs, by definition, already are exposed to these kind of international differences, this driver is most relevant for SMEs that are expanding into international markets. I call this driver 'geographical spread'.

SME driver: Sensitive to local stakeholders (reputation)

According to Jenkins & Heledd (2006) the CSR concept has been developed in and for MNEs. The assumption is often 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 risk to 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 CSR, (understood as 'involved in your local community') as an important issue, and were engaged in social or environmental activities at the local level. The findings in a report published by the UNIDO (2002) support this view. While MNEs generally are regarded as more active in CSR related activities, SMEs often have strong incentives for CSR at the local community level:

- They are typically family owned businesses exhibiting a strong religious/philanthropic approach.

- SMEs may have more links to the local civil and cultural environment and tend therefore to be more aware of local risks and emerging issues than MNEs.

SMEs' sensitivity to local stakeholders is in contrast to MNEs: We see a concentration of capital and growing national market shares of the major international brand companies, especially in the food and clothing sectors (see OECD 1999, Abernathy et al. 1999, and OECD 2008). A typical MNE in these sectors are supplied by hundreds of independent manufacturers. These MNEs are not susceptible to pressures from a single supplier. 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 business. In contrast to this decoupling of MNEs and place, there are strong indications that SMEs are more sensitive to local customers and suppliers than MNEs: A study of CSR among SMEs in Hong Kong (Studer et al.2005) found that SMEs are less exposed to public pressure, but 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 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. Lynch-Wood & Williamson (2007) claim that SMEs are *not* susceptible to factors that are part of a 'social licence'. However, their five-factor model focuses on environmental behaviour and equals 'customer power' and 'consumer power', missing MNE influence through the supply chain, and equals 'community pressure' and 'NGO pressure', missing the general attitudes and responses of individuals in the local community.

I conclude that empirical studies suggest that SMEs are more susceptible to the influence of local stakeholders than MNEs. I call this driver 'Sensitive to local stakeholders'.

SME barrier: External control (risk)

SMEs may be deterred from, or may be unable to, engage in CSR due to lack of knowledge and lack of 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 cognitive capabilities 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 our finding in CSR literature that sensitivity to local stakeholders is a SME driver for CSR performance. There are also empirical studies underlining SMEs lack of cognitive capacity. In a postal survey of 600 SMEs in England found that only one quarter of the firms were aware of an important national environmental standard.[75]

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 retailers and clothing retailers[76] – the challenges of monitoring their supply chains is huge. Cramer (2008) shows that SMEs with a diverse product range usually limit themselves to monitor 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 engage in many CSR related activities. Finally, if the lack of capacity is evident, it may even be a pretext for SMEs to do noting in this area. This barrier is called 'external control'.

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 their 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 and they underline typical features of SMEs which do not favour CSR: More competitive pressures, less concern for the social and environmental dimensions, and lack of finances to invest in a CSR strategy (see Williamson et al.2006, Lepoutre and Heene 2006, Studer et al. 2005, Skjaerseth 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 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, according to Matten et al, but tend to exploit economies of scale in *all* areas associated with CSR.

We see there are many elements that favour CSR related activities due to the sheer size of MNEs. This translates to a barrier for SMEs and is named 'cost benefit ratio'.

Summing up drivers and barriers for CSR

The review of CSR publications has highlighted four drivers for CSR and three barriers to CSR. Below I sum up these drivers and barriers:

	Driver/Barrier	References	SME	MNE	CSR effect
	Table I: Drivers and barriers of CSR – in SMEs and MNEs				
1.	Autonomy: To ward of government regulation	• Crouch (2006) • Florini (2003) • Howard et al.(2003) • Moon et al.(2003) • Ruggie (2004) • Rondinelli (2003) • Studer et al.(2000) • Tilley (2000)	rare motive	possible motive	MNE driver
2.	Reputation: Sensitive to public perceptions	• Elliott & Freeman (2000) • Graafland & Smid (2004) • Jenkins & Heledd (2006) • Jeppesen (in Pedersen & Huniche 2006) • Lynch-Wood & Williamson (2007) • Maloni & Brown (2006)	less sensitive	sensitive	MNE driver
3.	Risk: Internal control	• Graafland & Smid 2004 • Jenkins&Hines (2003) • Jenkins (2009) • Kusyk & Lozano (2007) • Oppenheim et al. (2007) • Spence (1999) • Vinje (2009)	less relevant	relevant	MNE barrier
4.	Risk: Geographical spread	• Chapple & Moon (2005) • Scherer & Palazzo (2008) • UNIDO (2006)	relevant risk	exposed (no risk)	SME driver
5.	Reputation: Sensitive to local stakeholders	• Crouch (2006) • Jenkins (2009) • Kusyk & Lozano (2007) • Reich (2007:118) • UNIDO (2002) • Worthington, Ram and Jones (2006)	sensitive	less sensitive	SME driver
6.	Risk: External control	• Cramer (2008) • Hillary (1999) • Hutchinson & Chaston (1994), published in Spence (1999). • Lepoutre & Heene (2006) • Longo et al.(2005) • Observatory of European SMEs (2002) • Spence (1999)	relevant	less relevant	SME barrier
7.	Capacity: Cost benefit ratio	• Graves & Waddock (1994) • Jenkins&Hines (2003) • Lepoutre & Heene (2006) • Matten et al.(2003) • McWilliams&Siegel (2001) • Skjaerseth et al.(2004) • Spence (1999) • Tilley (2000) • Waddock & Graves (1997) • Williamson, LyncWood, and Ramsay (2006)	small or negative	positive	SME barrier

Table I: Drivers and barriers of CSR – in SMEs and MNEs.

The two SME drivers (row "4" and "5") may seem to be contradictory, but they are not: The first refers to the demand for CSR when SMEs increase their international presence and thereby increase their exposure to social and environmental shortcomings.[77] The second refers to SMEs' often strong links to local customers and partners.

The popular notion that CSR is more frequent in MNEs compared to SMEs suggests that the aggregate of rows "1", "2", and "3" in table 1 are stronger than rows "4", "5", "6" and "7". However, this remains to be tested empirically. The following paragraph

is an initial attempt to consider these drivers and barriers within the Norwegian clothing business.

An attempt to validate the drivers and barriers within the clothing business

Design, Data Collection, and Coding

A survey of approximately 200 managers was conducted in the Norwegian clothing business, covering five company categories: Chain offices (headquarters of retail corporations), agents, wholesalers, producers and stores.[78] Non-autonomous clothing stores were excluded from the sample, as was entities with fewer than 4 employees. This was to ensure relatively independent respondents within a professional firm (excluding small family run craft shops).

The distinction between SMEs and MNEs is different in different studies and the statistical categories vary in different regions and countries. One way of distinguishing between SMEs and MNEs is to construe them as two boolean variables. However, this would leave us with two challenges: First, we had to make sure that the two criteria sets didn't result in two overlapping sub-samples. Second, this solution would not explain how firms change from SMEs to MNEs; it would not establish a continuum between 'SMEs' and the 'MNEs'.

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 with an interval scale is introduced.[79] I choose to define 'SME' and 'MNE' as positions on a six point scale, determined by three criteria:

- 0.4 added if the firm has sales in foreign countries. This is given a high score since this is evidence of active operations in two or more countries.

- 0.2 is added if the firm is owned by a foreign entity. This is given a lesser score since it is only evidence of a strategic interest of a foreign firm, and no evidence of multinational operations.

- 0.2 is added if the number of employees exceeds 9 and 0.4 is added if the number exceeds 49. These thresholds are low in an international context due to a small average firm size in Norway.

The distribution of firms in the survey on the SME-MNE scale, based on respondents answering all the questions in the web questionnaire, is as follows:
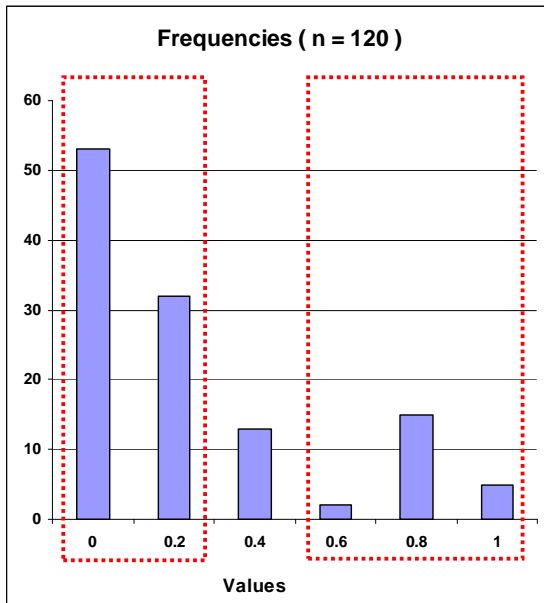
Figure I: The distribution of firms on the SME-MNE-scale (SMEs on the left and MNEs on the right)

As indicated in figure "1" I leave out firms scoring 0.4 on the SME-MNE scale to polarize, and thereby accentuate the differences between the two groups. This leaves us with a relatively well-defined group of 22 MNEs and 85 SMEs in the final data sample.

'CSR performance' and the seven drivers/barriers were then operationalized by using indexes based on variables in the survey.

Table II: CSR performance (dependent index variable)		
No.	*Survey variable*	*Coding of responses*
23	Does your company have written guidelines on ethics/social responsibilities?	0: No 1: Yes
26	In your opinion does your company see <CSR> as a competitive advantage?	0: Don't know 0: No, not at all 1: Yes, the short term 1: Yes, the long term
34 – 1	Has your company signed up to the voluntary agreement "Inkluderende arbeidsliv"?*	0: Don't know 0: No 1: Yes
34 – 4	Does your company inform customers about possible environmental risks?	0: Don't know 0: No 1: Yes
38	Do you make sure that your suppliers are informed of the company's social and environmental requirements in the following areas: (four areas)	0: Don't know 0: No 1: (If all four='yes')**

Table II: The dependent index variable; CSR.
* This is a government sponsored agreement 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 the responded answered 'yes' 0.25 was added to this variable.

The CSR performance index consists of five survey variables, all emphasizing firm practices, except one which asked if the company saw CSR as a competitive advantage (variable no. 26 – see table 2). This variable is a proxy indicating a favourable view of CSR and an understanding of the need to marketize externalities. The index is in line with the CSR definition I use above which refers to firms producing positive externalities.

I applied multiple regression to compare the total explanatory power of the drivers and barriers by comparing the 'correct' subsets (the left side of figure 2) with the inverse subset (the right side of figure 2):
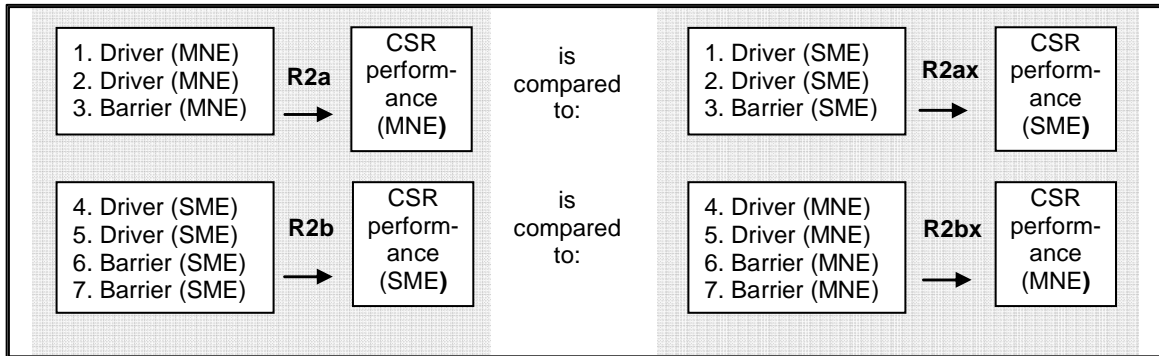
Figure II: Comparing total explanatory power of drivers and barriers by multiple regression

Findings

Based on the CSR publications – and the interpretation of these in this article – we would expect the total explanatory power "R2a" to be stronger than "R2ax", and "R2b" to be stronger than "R2bx" (see figure 2). The difference in explanatory power is significant for "R2a" compared to "R2ax". The difference in explanatory power between R2b and R2bx is however insignificant.[80] This shows that the drivers and barriers thought to be most relevant for MNEs (R2a) were supported by this overall effect, but not drivers and barriers involving SMEs (R2b).

The strongest bivariate correlation between drivers/barriers and CSR performance was MNE driver 'sensitive to public perceptions' (2). [81] This corresponds with findings in the studies I refer to in this article. Three bivariate correlations were moderate: SME driver 'geographical spread' (4), SME barrier 'external control' (6), and SME barrier 'cost benefit ratio' (7).[82] The remaining correlations between drivers/barriers and CSR performance were insignificant.

No effect contradicts any of the assumptions linked to firm category and drivers/barriers. The relatively weak effects may be attributed to both national characteristics and methodological challenges:

- There were in general relative small differences between MNEs and SMEs in Norway. This may be attributed to the design of subsets. To secure a significant

number of respondents in each subset, the threshold related to number of employees was set comparatively low.[83]

- There are difficulties with regard to measurement of the MNE-driver 'warding off government regulation' (1). It is inherently difficult to prove intent on the part of corporate management. And it is still more difficult to make the case when management success ('warding off') constitutes a non-event. Having an intent which often lacks legitimacy in public opinion ads to these measurement difficulties. The operationalization of this driver may therefore not have succeeded in measuring the phenomenon denoted by the driver and may explain the non-significant bivariate relationship with CSR performance.

- The MNE barrier 'internal control' (3) shows no significant correlation with CSR performance. This barrier is triggered by MNEs that choose to have a high CSR profile. There are few MNEs within the clothing industry in Norway, and particularly few with a high CSR profile. Thus, few MNEs have reasons to be concerned about their (lack of) internal control.

- The SME driver 'sensitive to local stakeholders' (5) shows no significant correlation with CSR performance. This may be explained by the fact that independent stores and stores with fewer than 4 employees were excluded from the sample in this survey. Among the remaining entities few were exposed to local stakeholders.

Additional surveys will hopefully give a stronger indication of how precise and relevant the seven drivers and barriers are as determinants of CSR. The web based survey in the Norwegian clothing sector may well be repeated in other countries.[84] For now, I will let the empirical evidence rest, and focus on possible links between drivers/barriers and general social science models.

Drivers and barriers of CSR and general social science models

In this section I consider whether the seven drivers and barriers identified in academic CSR publications may be seen as special cases of more general social science models and concepts. If this is the case, it would help us to better understand the effects of the drivers and barriers, and it may also shed light on how governments and stakeholders could influence the level of CSR in their country.

The Logic of Collective Action

The MNE driver 'to ward of government regulation' rests on the assumption that firms are willing to carry individual costs in the pursuit of a collective good for all firms with similar interests; the interest of less government regulation. But chances are 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. 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. As CSR investments are becoming larger and more wide-spread, and more and more business managers believe that CSR have long-term advantages, CSR is seen as a substitute for government regulation. In a business perspective, the sum of CSR may be understood as a substitution for the collective goods arising from government actions. In other words, CSR becomes an inclusive collective good.

Still, this does not explain *why* MNEs ward of public regulations: Are there non-collective benefits only available to MNEs? Olson (1971:143) explains the voluntary business associations and lobbying efforts in the 60's by the relatively small number of large corporations in the US and a range of available non-collective benefits. Today global corporations are less dominant: According to Reich (2007) the dominant corporations in the US no longer have the power to raise prices as they had in the 60's and 70's, 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 is often in the public role as a distinguished member of a government committee or as a keynote speaker at a major conference. Thus, MNEs may be spurred to increase what they see as an inclusive collective good (their corporate autonomy) by the non-collective good 'public reputation'.

Firms 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 respond to stories concerning their operations in the media. However, Crouch (2006) points out that firms not only adapt and respond to public perceptions, but also engage actively and routinely in shaping these perceptions.[85] 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 influence* the image of the firm held by the public. Branding is the main manifestation of this in retail businesses: Branding is a strategic activity, planned and managed by the firm. The strategic importance of branding is described by Michel Ogrizek (2001:215), an international expert in reputation management: *Nowadays several big consumer brands are used as social role models, but they are also the targets of anti-globalisation and anti-logo activists. In order to avoid such an outcome – not to mention corporate mortification – the key social marketing strategy must be to communicate proactively the business activity's raison d'être of a business and indeed to contest its current exclusion from 'civil society'.* This illustrates that 'influencing public perceptions' may be a *required* offensive strategy for MNEs, not only a strategy to avoid unfortunate public exposures.

Principal Agent Theory

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 – let alone guarantee – in large MNEs. This challenge may be framed as a principal agent situation:

Top management commit itself publicly to serve stakeholders and to protect the environment by signing a code of conduct which relies on thousands of agents/employees to succeed. Each agent may have self interests which are in conflict with the CSR objectives. The days are passed when large MNEs were huge conglomerates controlled from a central headquarter in charge of detailed strategy and planning, issuing orders to manage the flow of goods and large warehouses.[86] The organization model of the current 'lean' retail corporation is based on real-time feedbacks from the point 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 advantages in their handling of economic and logistical data, their handling of social and environmental data are lagging behind. Many purchasers in the retail business must daily balance sophisticated policies to ensure best price/quality, but rely on an ad-hoc policy for social and environmental standards. The difficulties of putting in place internal incentive structures to ensure full compliance with CSR requirements grow as the number of suppliers and internal departments increases. 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 (opening up decision-making and allowing access to documents), to align interests of middle management with top managers, and to have an effective control system in place. These measures are especially challenging for large multinational corporate organizations and constitute a barrier for CSR.

Cost Disease Theory

'Geographical spread' (SME-driver) is linked to a tendency often 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.[87] A variant of this tendency is when SMEs – or not fully accomplished MNEs – select production regions according to where they can find the lowest production costs combined with adequate manufacturing skills. Both the 'race to the bottom' and the current outsourcing trend assume that businesses move away from established supply regions as new lower-cost regions develop adequate manufacturing technology. The strong tendency to increase the geographical spread within labour intensive industries may be explained by the "cost disease" theory of Baumol and Bowen. This refers to the continuous productivity lag of services and referred to performing arts as a case in point. Normal productivity gains are out of reach here, thus we see a rise in unit costs (Baumol & Bowen 1965). In rich developed countries productivity gains may be restricted in a similar fashion in labour intensive industries. However there are important differences. Only the labour intensive industries may outsource production and at the same time retain, and even increase, their profit margins and turnover.[88] The race to the bottom, or the steadily movement of production capital to lower cost regions, may thereby be understood as the remedy for rising unit costs.[89] The gains realized by global sourcing overshadow the costs of implementing defensive measures (CSR) to avoid public criticism and fulfil consumer expectations.

License to Operate

The SME driver 'Sensitive to local stakeholders' highlights the role of a '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 'permission' from public authorities, communities and other stakeholders 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 Rousseau and the 'Social Contract'. The 'social contract' signifies a silent agreement between a sovereign people and their ruler without relinquishing the absolute sovereignty of the people. Today, the *heads of state* and political parties struggle to uphold the social contract by accomplishing societal improvements and influencing citizen's perceptions by political marketing.[90] *Business managers* work to uphold their license to operate by improving the quality/price ratio and by influencing customer preferences by marketing and branding.

Critical mass (01)

Many SMEs are unable to acquire the necessary knowledge to implement an effective CSR policy. They have insufficient 'external control' (SME barrier). SMEs are preoccupied with running the day-to-day operation and seem to lack the strategic capability to devise a CSR policy of their own. The complex supply chains, and legal, political, and cultural frameworks surrounding these, are difficult to overview for most SMEs. However, this does not mean that intelligent CSR policies are unaffordable for SMEs. It means that CSR requires a will and capacity to allocate time and acquire expertise in an area where no immediate returns on investment are expected. The 'critical mass' is in this case linked to the limited knowledge base of SMEs.

Critical mass (02)

The SME barrier 'cost benefit ratio' assume there are economic thresholds which must be exceeded before investments in CSR can be expected. The threshold may be linked to a certain level of financial freedom, a certain capacity to design and implement a CSR strategy, or a certain ability to communicate the firm's CSR actions to the public. CSR initiatives typically represent a fixed cost in large firms.[91] This is an area were CSR may demand a 'critical mass' with regard to turnover to justify the necessary funding. A critical mass is required in other areas of business management as well: Sophisticated asset management is not recommended for SMEs, global business councils have annual membership fees which makes them unaffordable for most SMEs[92], and direct access to government committees and intergovernmental organizations[93] are also out of reach for most SMEs.

Summing up

We have seen that the seven drivers and barriers of CSR identified in the CSR literature may be framed as special cases of more general phenomenon described in the social science literature:

	Table III: Drivers and barriers and general social science models		
	Driver / Barrier	**Social science model**	**CSR effect**
1.	Autonomy: To ward of government regulation	**The Logic of Collective Action** In a business perspective, the sum of CSR may be understood as the substitution of 'inclusive collective goods' arising from government actions. The MNE's effort to influence government regulation may today be explained by the non-collective benefit 'enhanced reputation'.	MNE driver
2.	Reputation: Sensitive to public perceptions	**Firms Shape Market Conditions** Firms not only adapt and respond to public perceptions, but also engage actively and routinely in shaping these perceptions. 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 influence the image of the firm held by the public. Branding is a manifestation of this. Enhancing reputation may be a required offensive strategy for MNEs, not only a strategy to avoid unfortunate public exposures.	MNE driver
3.	Risk: Internal control	**Principal Agent / Incentive Structures** The difficulties of putting in place internal incentive structures to ensure full compliance with CSR requirements grow as the number of suppliers and internal departments increases. There are basic methods for motivating agents to act on behalf of their principals. These measures are especially challenging for large MNEs.	MNE barrier
4.	Risk: Geographical spread	**Cost Disease Theory** The tendency to increase the geographical spread within labour intensive industries may be explained by 'cost disease' theory. This refers to the continuous productivity lag of certain services where normal productivity gains are out of reach, thus we see a rise in unit costs. In rich developed countries productivity gains may be restricted in labour intensive industries. However, labour intensive industries may outsource production and at the same time retain, and even increase, their profit margins and turnover.	SME driver
5.	Reputation: Sensitive to local stakeholders	**Licence To Operate** The roots of this notion may be traced back to Rousseau and the 'Social Contract'. Politicians must work to uphold the social contract by accomplishing 'societal improvements' and influencing citizens' perceptions, while business managers must work to uphold their license to operate by improving quality/price and by influencing customer preferences.	SME driver
6.	Risk: External control	**Critical Mass 01** SMEs are preoccupied with running the day-to-day operation and seem to lack the strategic capability to devise a CSR policy of their own. The complex supply chains, and legal, political, and cultural frameworks surrounding these, are difficult to overview for most SMEs. There is a 'critical mass linked to the limited knowledge base of SMEs.	SME barrier
7.	Capacity: Cost benefit ratio	**Critical Mass 02** CSR typically represents a fixed cost in large firms. The required investments will often be out of reach for SMEs due to their lack of resources.	SME barrier

Table III: Summing up drivers and barriers and general social science models.

Conclusion

Many influential research publications on CSR deal with the relations between business and society without qualifying the main entity of their inquiry: the firm. I have analyzed empirical studies of CSR that *do* refer to different firm categories. Out of approximately 40 studies, I identified seven main drivers and barriers for MNEs and SMEs.

These drivers and barriers were validated was carried out by applying multiple regression, and correlation tables in a survey of managers in the Norwegian clothing business. The regression analysis shows that the explanatory power of drivers and barriers of MNEs were strong, while those of SMEs were collectively insignificant. However, four drivers/barriers were individually correlated with CSR performance:

- 2. Reputation (MNE driver): Sensitive to public perceptions (0.542).

- 4. Risk (SME driver): Geographical spread (0.280)

- 6. Risk (SME barrier): External control (- 0.205)

- 7- Capacity (SME barrier): Cost benefit ratio (- 0.230)

Based on the bivariate effects, three general social science models/concepts seem to be of particular relevance with regard to the CSR performance of SMEs and MNEs:

- MNEs have the capacity to *shape market conditions* and public perceptions (number 2 in table 3).

- SMEs are affected by the *cost disease* trend (number 4 in table 3).

- SMEs are struggling with a *critical mass* related to a limited knowledge base and a limited financial capacity (number 6 and 7 in table 3).

These three models/concepts fit well with three stages in the timeline of a growing firm: *Critical mass* is relevant for smaller firms with little capacity for allocating money and staff to explore the advantages of CSR related activities. *Cost disease theory* is relevant for firms that are increasingly exposed to large economic and social differences as they outsource operations to low-cost markets. *Shaping market conditions* is relevant for MNEs with the capacity to influence brand recognition, tastes and other customer preferences. Thus, the most significant drivers and barriers for CSR in this study lead us to highlight three stages in the development of firms:

THREE STAGES	SME (Critical mass)	SME/MNE (Cost pressures)	MNE (Shaping market conditions)
Drivers		Geographical spread (risk)	Sensitivity to public perceptions (reputation)
Barriers	External control (risk) Cost benefit ratio (capacity)		
Conditions for CSR	CSR related activities are severely restricted by the **lack of critical mass** with regard to the knowledge base and the financial capacity.	CSR related activities are part of a defensive strategy to avoid negative publicity after **cost pressures** have forced the company to expand operations to low-cost markets.	CSR related activities are both an offensive and defensive strategy to influence reputation and to **shape market conditions**.

Table IV: Conditions for CSR and three stages in the development of firms

Table IV: Development stages of firms and conditions for CSR

CSR related activities may be means for reducing market related risks for medium sized firms, and a tool for exploiting market related opportunities for MNEs. In other words, options for CSR related activities may be severely restricted in SMEs, a predominantly defensive measure in medium sized firms, and both a defensive and an offensive measure in MNEs. The defensive measure corresponds with social responsibility as 'responding to opportunities and threats in markets' and 'adapting to a regulatory regime', while the offensive measure corresponds to 'influencing government policies and market trends' in the paragraph "Market centred approach to CSR" above.

The model is the outcome of a review of empirical studies and a limited survey of the clothing business in Norway. It does not exclude additional determinants of CSR related activities. Further studies are necessary before this model can be presented as anything more than a plausible relationship between CSR conditions and three stages in the development of the firm.

Annexes

Annex 1:

MULTIPLE REGRESSIONS AND BIVARIATE CORRELATIONS

The multiple regressions for the to subsets of the sample:

MNE subset: 1 (driver), 2 (driver) and 5 (barrier) on CSR performance: $R2 = 0.335$

 - The same regression on the SME subset:
          $R2 = 0.043$

SME subset: 3 (driver), 4 (driver), 6 (barrier), and 7 (barrier) on CSR performance: $R2 = 0.156$

- The same regression on the MNE subset:
          $R2 = 0.157$

The MNE drivers and barriers differentiated more between MNEs and SMEs, and were in general stronger, than the SME drivers and barriers.

The drivers and barriers considered most relevant for SMEs has the same R2 for SMEs and MNEs. This suggests that they may be equally relevant for SMEs and MNEs.

Bivariate correlations

	Bivariate correlations (CSR Performance)	
	MNE subset	SME subset
1. MNE driver: Ward of government regulation	**0.041**	0.196
2. MNE driver: Sensitive to public perceptions	**0.542**	- 0.039
3. SME driver: Sensitive to local stakeholders	- 0.006	**0.186**
4. SME driver: Geographical spread	- 0.041	**0.280**
5. MNE barrier: Internal control	**- 0.096**	0.034
6. SME barrier: External control	0.302	**- 0.205**
7. SME barrier: Cost benefit ratio	0.261	**- 0.230**

We see that no effect contradicts the assumptions made with reference to firm size and drivers/barriers.

Annex 2:

INDEXES FOR DRIVERS AND BARRIERS OF CSR

	Drivers and barriers (independent index variables)	
Var. no.	**Survey variable**	**Coding of responses**
Autonomy: 'To ward of government regulation' (additive index variable)		MNE DRIVER
33 - 4	In your view what are the greatest threats to your company's reputation? Please tick the threat or threats that you consider to be most important. Option 4: Political involvement in relation to the company	0: No 3: Yes
36-11	How important are the following reasons for your company's work with social responsibility? Option 11: Requests from public authorities that the business community should assume social responsibilities.	0. Not important 1: A little important 1: Fairly important 2: Quite important 3: Very important
Reputation: Sensitive to public perception (additive index variable)		MNE DRIVER
32	What importance does your company's reputation have for your business activity?	0: Not important 0.5: A little important 1: Fairly important 1: Quite important 2: Very important
36 – 1	How important are the following reasons for your company's work with social responsibility? Option 1: The company's reputation	0: Not important 0.5: A little important 1: Fairly important 1: Quite important 2 Very important
36 – 6	How important are the following reasons for your company's work with social responsibility? Option 6: Pressure from external voluntary organisations	0: Not important 0.5: A little important 0.5: Fairly important 0.5: Quite important 1 Very important
36 - 12	How important are the following reasons for your company's work with social responsibility? Option 12: Negative media coverage of the company	0: Not important 0.5: A little important 0.5: Fairly important 0.5: Quite important 1 Very important
Risk: Internal control is difficult (additive index variable)		MNE BARRIER
33-6	In your view what are the greatest threats to your company's reputation? Please tick the threat or threats that you consider to be most important. Option 6: Business practices in the domestic market	0: Don't now 0: No 3: Yes
33-7	. In your view what are the greatest threats to your company's reputation? Please tick the threat or threats that you consider to be most important. Option 7: Business practices abroad	0: Don't now 0: No 3: Yes
Risk: Geographical spread (single variable)		SME DRIVER
15	What proportion of your company's products is supplied from abroad?	0: Don't know 0: Do not deliver abroad 2: Less then 10% 4: Between 10% and 50% 6: Over 50%
Reputation: Sensitivity to local stakeholders (single variable)		SME DRIVER
35 - 29	There are many factors to bear in mind when as a manager you must make decisions and decide on time priorities. To what extent to you feel that you take into account, or *can* take into account the following in your daily work as a manger? Option 29: Local community	0: Not able to answer 0: Not important 2: A little important 4: Quite important 6: Very important
Risk: External control is difficult (single variable)		SME BARRIER
43 – 5	Below are some factors that may make it difficult to impose demands on suppliers as regards environmental and social conditions. How important are these for your company? Option 5: We are unable to monitor whether these requirements are being met.	0: Not important 2: A little important 3: Fairly important 4: Quite important 6: Very important
Capacity: Cost benefit ratio (additive index variable)		SME BARRIER
43 – 1	Below are some factors that may make it difficult to impose demands on suppliers as regards environmental and social conditions. How important are these for your company? Option 1: We lack time and/or financial resources	0: Not important 1: Fairly important 1: A little important 2.: Quite important

		3: Very important
43 – 2	Below are some factors that may make it difficult to impose demands on suppliers as regards environmental and social conditions. How important are these for your company? Option 2: We do not have the necessary knowledge of the area	0: Not important 1: Fairly important 1: A little important 2.: Quite important 3: Very important

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Study IX:
Executives' perceptions of the link between CSR and profits in the Scandinavian textile industry: Long run vs. short run effects

Author: **Atle Blomgren, International Research Institute of Stavanger, NORWAY.**
Article submitted to Corporate Social Responsibility and Environmental Management, September 2009

ABSTRACT

The literature on the business case for Corporate Social Responsibility (CSR) identifies a number of mechanisms for CSR to affect profits positively, but many scholars argue these mechanisms will eventually be subject to diminishing returns so that CSR will have no effect on profits in the long run. The empirical literature on the link between CSR and profits is inconclusive with results ranging from negative to neutral through to positive. The goal of this paper is to study the relationship between CSR and profits for retailers and suppliers in the Scandinavian textile industry with a focus on the possible distinction between effects on profits in the long run and punctiliar effects in the short run. 18 senior executives from retail textile companies present on the Norwegian market have been interviewed on their perceptions on the link between CSR and profits. The results from the interviews indicate the following: 1) Introduction of CSR may affect profits in the short run either negatively, as in cases where CSR forces retailers to switch to more costly suppliers, or positively, as in cases where suppliers become preferential suppliers and thus achieve economies of scale. 2) For retailers, CSR is mostly seen as an essential part of general risk management (risks of reputation and quality); as risks are commonly thought to be evenly distributed over time, CSR is not seen to have any discernable effect on profits in the long run. 3) For suppliers, CSR is mostly seen as a means of attracting customers and thus achieve economies of scale, but these economic benefits are in the long run assumed to disappear due to strong competition.

Introduction

Among the literature on Corporate Social Responsibility (CSR) there is a substantial literature addressing the so-called *business case for CSR*, i.e. establishing that CSR generates a sufficient return to justify the effort (Kurucz et al., 2008). Even though a number of possible causal mechanisms for CSR to affect profits positively have been identified (Orlitzky, 2008), a number of scholars argue that these mechanisms will eventually be subject to diminishing returns so that CSR in the long run will have no effect on profits (McWilliams and Siegel, 2001; Elsayed and Paton, 2005; Kolstad, 2007). The large empirical literature on the link between CSR and profits has not managed to establish any definite conclusions with results ranging from negative to positive through to neutral (McWilliams et al., 2006; Kolstad, 2007). The empirical literature is also characterized by a wide variety in methodologies used.

This paper makes two assumptions. First of all it is argued that the difference between the scholars arguing for the business case for CSR and the scholars arguing that CSR eventually will be subject to diminishing returns, may be resolved by making a distinction between the short and the long term. While CSR might have beneficial effects on profits in the short run, there is no reason to assume theses effects will persist in the long run. Second, it is argued that the proposed causal mechanisms for CSR to affect profits positively are quite different with some focusing on issues mostly relevant for producers and some relatively more relevant for retailers. The paper therefore proposes to study CSR's effects on profits in both the long and the short run for two different kinds of actors, retailers and suppliers.

The paper will study the textile industry, an industry with a long history of CSR-related activities and with a strict distinction between retailers and suppliers. The textile industry, with its large prevalence of manual labour, has been central to discussions of CSR both before and after the actual term was coined in the early '50s (Bowen, 1953). The world's first child labour law was passed in Great Britain in the early 1800s to discourage under-age labour in the country's textile mills (McWilliams et al., 2006). The textile industry was one of the first to outsource production to low-cost countries in the early 80's and it is commonly assumed that the trigger for the modern-day CSR was the discovery of NIKE of using sweatshop labour (Doane, 2005).

Today, the textile industry is characterised by retailers in mostly western countries procuring supplies from suppliers in countries like India and China. The textile retailers boast of a serious commitment to CSR with most of the major textile companies having CSR-policies. However, there are still claims that suppliers' competition for western buyers leads to a race to the bottom and thus infringes on the possibility of upholding the CSR policies: 'The unruled competition on price, quantity and delivery time, especially the price war, has directly infringed the interests of employees in terms of wages and welfare, working hours and occupational health and safety' (China National Textile and Apparel Council, 2007: 12)[94].

In stead of conducting a quantitative study of the relationship between CSR and profits, it is here proposed to follow in the vein of Murillo and Lozano (2006) and study the CSR-profits relationship by interviewing senior executives on their *perceptions* of the link both for themselves and for their respective suppliers. The data is drawn from

interviews with senior executives with 18 of the largest textile companies present on the Norwegian market. This dataset may be seen as representative for the Scandinavian textile industry as most of the companies are Scandinavian and all companies procure textiles from abroad.

The first part of the paper presents both the business case for CSR, i.e. the various possible mechanisms for CSR to have a positive effect on profits, and the criticism of the business case that holds that these beneficial effects may be subject to diminishing returns so that CSR will have no effect on profits in the long run. The second part presents the lack of conclusive results in the empirical research on the link between CSR and profits and shows that the different results obtained may be subject to differences in methodologies used. It is then argued that the discrepancy between the business case for CSR and the seeming inability to confirm a positive link between CSR and profits may be due to CSR having an effect on profits in the short run, but not in the long run. The third part presents the research design, data and methodology. The fourth part presents the results from interviews with 18 executives from the Scandinavian textile industry. The final provides conclusions.

The business case for CSR

The literature on the business case for CSR (Kurucz et al., 2008) tries to establish that CSR generates a sufficient return to justify the effort. Kurucz et al (2008) identify two different business cases: *CSR as cost and risk reduction* and *CSR as enhancing competitive advantage*. Orlitzky (2008) presents a more expanded list with six possible causal mechanisms for a possible link between CSR and profits: Boosting sales revenue; enhancing organizational reputation; reducing business risk; improving internal efficiency; attracting a more productive workforce and increasing rivals' costs.

Orlitzky (2008) argues that CSR may *boost sales revenue*s through premium prices for CSR related products or increased customer base. Orlitzky, however, concedes that empirical research has so far failed to prove that CSR actually leads to increased prices. Tirole (2006) point to evidence of investors being willing to accept smaller returns for not investing in firms that behave in an unethical way, but adds that very few are willing to accept a *very* large reduction.

An *improved reputation* may affect profits in many ways. It may attract a larger customer base and thus increasing sales volumes; Navarro (1988) argues that CSR functions basically as a kind of advertising. CSR may also make local or central government more friendly towards company concerns (Waddock and Graves, 1997). As CSR may make the company more attentive to risks in their environment, they may be able to take pre-emptive actions to *reduce risks* of clashes with governments or activist NGOs; Fougère and Solitander (2009) argue that the proactive use of CSR is mostly a matter of anticipating financial risks. In addition van Oosterhout and Heugens (2008) argue that corporate ethics programs may be one way of reducing the risk of fraud.

CSR may simply make a company more *efficient*. Orlitzky (2008) argues that as CSR implies constant scanning of the company's environment, companies conducting CSR may be more prepared for external changes or turbulences. The Economist argues that

CSR may be likened to good business practice in that it 'helps businesses look outwards more than they otherwise would and to think imaginatively about the risks and opportunities they face' (Franklin, 2008: 22).

In 1776 Adam Smith argued that in the long run the use of slaves would be more expensive than the use of freemen (Smith, 1776)[95]. Modern scholars argue similarly that good employee relations may enhance morale and thus productivity (Waddock and Graves 1997). Brekke and Nyborg (2008) show that morally motivated workers, with little shirking, may self-select to good companies and thus *improving the productivity of the company's workforce.* Murillo and Lozano (2006), similarly, argue that the most important criterion for legitimising CSR in four companies studied is improvements in the internal working climate.

CSR may affect market positions if the CSR company's technology should become industry standard and thus *increasing rivals' cost*s. The introduction of the world's first child labour law in Great Britain in the early 1800s was supported by owners of textile mills that used new technology instead of under-age labour (McWilliams et al., 2006). Portney (2008) argues that DuPont's decision to support a ban on ozone-depleting aerosol propellants was partly based on the fact that they had already developed an alternative, non-ozone depleting technology.

There is, however, a sizable opposition to the viability of the business case for CSR. The gist of the criticism is that any economic benefits of CSR will be subject to the law of diminishing returns and thus eventually reach a point where further CSR expenditures will yield no economic benefits (Elsayed and Paton, 2005; Kolstad, 2007). Elsayed and Paton (2005) refer to proponents of a positive link between CSR and profits as win-win scholars and argue that CSR should simply be seen as an investment that is carried out until the marginal costs equal the marginal benefits. McWilliams and Siegel (2001) make the case for a neutral effect relationship between CSR and profits in a simple model. Two firms produce an identical product except that one of the firms adds a costly social characteristic (CSR). The income of the CSR firm will inevitably rise, but so will costs so that in equilibrium the two firms will earn identical profits. McWilliams and Siegel (2001) concede that CSR-actions could lead to higher quality or productivity at a lower cost, but add that such examples are hard to find 'whereas examples of higher costs for CSR products abound' (McWilliams and Siegel 2001: 124). Besley and Ghatak (2007) provide a stylized model where a firm providing a costly CSR characteristic will earn higher profits. However, to establish equilibrium it is assumed that the sum of these above average profits will be exactly equal to the investments necessary for being able to provide the CSR characteristics. If the expected profits were higher than the necessary investments, the market would be flooded by companies providing CSR until the profits were driven down. It follows that the only way for CSR to have a lasting positive benefit on profits would be if CSR in and of itself constituted a barrier to entry.

It has been shown that a discrepancy exists between one group of scholars arguing for the business case for CSR and one group of scholar arguing that as long as CSR itself does not constitute an insurmountable barrier to entry, any economic benefits of CSR will eventually be subject to diminishing returns so that CSR in the long run will have

no effect on profits. The next chapter will present empirical results on the link between CSR and profits

Empirical Findings on the link between CSR and Profits

One central issue in the CSR literature is investigating possible links between CSR and profits, often referred to as the link between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP). The starting point for most studies is to prove or disprove the business case for CSR, i.e. it is implicitly assumed that indications of a positive relationship between CSR and profits implies that CSR affects profits and not the other way round. While not necessarily doubting the possibility of a business case for CSR, many scholars argue that there might also be a reverse relationship with profits being the causal mechanism for companies' willingness to conduct CSR (Preston and O'Bannon, 1997; Waddock and Graves, 1997; Orlitzky, 2008). However, some pundits argue that the willingness to accept cuts in profits was more prevalent from the end of WWII up until the early 1970s when companies reaped abnormal profits from the prevalence of oligopolies (Reich, 2007). The focus in what follows will be on CSR as the potential causal factor.

Griffin and Mahon (1997) surveyed 51 studies of the CSR-profits relationship and showed that while most studies find a positive relationship between CSP and CFP, a large number report contradictions, inconclusiveness and an impressive number finding a negative relationship. Orlitzky et al (2003) conducted a meta-analysis of 52 quantitative studies of the CSP-CFP link and found that CSR in generally tends to *pay off*. In a broad discussion of the empirical literature McWilliams et al. (2006) found the relationship between CSR and profits to vary widely from negative to positive. A meta-analysis of 167 studies (Margolis et al., 2007) found a statistically significant but only mildly positive effect between CSR and profits. In criticizing the business case for CSR, Portney (2008) mentions that the Vice Fund, a mutual fund specialising in sin industries like defence, gambling, tobacco and alcohol[96] generally perform quite respectably. Callan and Thomas (2009) find statistically significant links between CSR and three out of four measures of financial performance.

Over the years a number of hypotheses have been forwarded to explain the discrepancy in the CSR-profits studies and the studies have become increasingly more and sophisticated. Griffin and Mahon (1997) present a fourfold hypothesis for the contradictions: First, industry differences in profit levels not controlled for. Second, differences in measures of financial performance used. Third, deficiencies in definitions of CSR, e.g. not using multiple sources. Fourth, not controlling for dynamic effects between CSP and CFP. Later a fifth explanation for contradictions has been forwarded, namely that firm heterogeneity in profit level are not controlled for (McWilliams and Siegel, 2000; Callan and Thomas, 2009). In what follows each of these five hypotheses will be discussed:

First, if industry differences in profit levels are not controlled for, a relationship between CSR and profits could simply mean that the CSR companies happen to be clustered in industries with high profit levels. Griffin and Mahon (1997) found no clear

link between Social and Financial Performance when restricting their study to seven firms in the US chemicals industry. Elsayed and Paton (2005) study the effects of environmental performance on the financial performance of 227 UK firms. For cross-section estimation they found a statistically significant effect of CSR, but when conducting separate panel data analyses for each of 38 industries, they found a positive statistically significant effect of CSR on profits in only two industries and a negative statistically significant effect in six other industries. Other studies control for industry differences and still find that CSR affects profits positively: Hart and Ahuja (1996) find that CSR in the form of emissions reductions do have a lagged effect on various profits measures. Ruf et al (2001) find that changes in CSR affect changes in sales immediately and that profits are only affected after a lag of 3 years. Callan and Thomas (2009) find that CSR affects three out of four financial measures.

Second, firm heterogenity could potentially skew the results in the same manner as industry differences. Relative intensity in research and development intensity (R&D intensity) could imply higher profits due to product differentiation; advertising intensity could imply entry barriers with resulting monopoly/oligopoly profits unrelated to CSR. These two variables were controlled for by both Hart and Ahuja (1996) and McWilliams and Siegel (2000) with only the former still obtaining a positive relationship between CSR and profits. Telle (2006) uses plant-level data from Norway and finds a positive statistically significant relationship between CSR and profits when correcting for firm characteristics like size or industry, but not when taking into account plant heterogeneity in management and technology.

The third possible explanation for the differences in the empirical studies is that CSR has dynamic effects that are not accounted for. Both Hart and Ahuja (1996) and Ruf et al (2001) do take dynamic effects into account and find lagged effects on profits. Elsayed and Paton (2005), however, find no statistically effect of lagged environmental performance.

Fourth, financial performance may be measured by both accounting-based and market-based measures. However, if the various measures are not symmetrically linked, different measures could imply different results for the relationship between CSR and profits. In their meta-analysis Orlitzky et al (2003) find a stronger link between CSR and accounting-based measure of CFP than between CSR and market-based measures.

The most commonly-used market-based measure is Tobin's q that measures the firm's market value, as opposed to accounting value, relative to the replacement cost of its capital (i.e. an accounting value). If market perceptions deviate from book values, CSR might affect Tobon's q differently than accounting-based measures. The three most common accounting-based measures (return on assets (ROA), return on sales (ROS), return on equity (ROE)) are, however, symmetrically linked through the so-called DuPont identity:

ROE = ROS (net profit/sales) * Asset turnover (sales/assets) * Financial leverage (assets/equity)

(2)   ROA (net profit/assets) = ROS (net profit/sales) * Asset turnover (sales/assets)

(3)   ROE = ROA (net profit/assets) * Financial leverage assets/equity)

These identities show than a change in one of the three measures will, everything else being equal, immediately affect the other two in the exact same way.

The empirical literature shows that it is easier to find a positive statistically significant relationship between CSR and profits as measured by ROA, ROS and Tobin's q than when measured by ROE.

Hart and Ahuja (1996) study the lagged effects of emissions reductions and find these to affect both ROS and ROA one year before they have a measurable effect on ROE. Similarly, Waddock and Graves (1997) find statistically significant positive links between CSR and ROA and ROS, but not for ROE. Ruf et al (2001), on the other hand, find CSR to affect both ROS and ROE in a similar manner. A study of ethical funds (Collison et al., 2008) found the ethical funds' ROE to be roughly similar to general indices. Callan and Thomas (2009) find statistically significant links for ROA, ROS and Tobin's q, but not for ROE. Both Hart and Ahuja (1996) and Callan and Thomas (2009) argue that CSR's effect on ROE will be less immediate than the effects on ROA and ROS.

However, as the three measures are symmetrically linked, this argument is questionable. An alternative hypothesis is that the failure to find similar links between CSR and ROE as between CSR and ROA/ROS, simply indicates the existence of 'unobservable firm effects' (Elsayed and Paton, 2005), with some firm having high ROS/ROA *and* average ROE.

Fifth, neither CSR nor CSP are clearly defined concepts and the different studies have defined them in a numerous ways and thus opening for the possibility that some definitions are more likely to be related to CSR than others. Hillman and Keim (2001) divide CSR-activities into those assumed to be strategic and those assumed to be altruistic and find a positive effect on profits for what they see as *strategic* CSR and a negative for what they define as *altruistic* CSR[97]. For the US banking sector Simpson and Kohers (2002) find a positive relationship between CSR and both return on assets and loan losses. However, CSR is measured as banks' rating relative to requirements of the Community Reinvestment Act (CRA), a law designed to encourage commercial banks' lending to local and preferably poor communities[98]; in light of the current financial crisis and the on-going debate as to whether CRA requirements were partly to blame for the US mortgage crisis[99], these results should be treated with some caution.

Orlitzky et al (2003) found the strongest link between CSR and profits where CSR is defined as reputation ratings. In their meta-analysis of 167 studies, Margolis and Elfenbein (2008) find that the relationship between CSR and profits (positive or negative) is strongest when CSR is measured by factors liable to be influenced by the company like revealed misdeeds, self-reported social performance or charitable contributions; the relationship between CSR and profits (positive or negative) is weakest when CSR is measured as factors less liable to be influenced by the company like transparency, third-part audits and screened mutual funds.

The presentation above has shown some of the problems of the existing literature on CSR and profits and that no study yet has found the holy grail of a statistically

significant relationship between CSR and *all* financial measures. As a result of these difficulties, many researchers doubt the usefulness of much of the earliest research and then especially meta analyses of this body of work (Kolstad, 2007). This lack of conclusive results makes it difficult to pass a judgement on the validity of the business case of CSR.

As a way to reconcile the theoretical work on the business case for CSR, the critique that CSR will have no effect on profits in the long run due to diminishing returns and the seeming lack of correlation in empirical analyses, this paper suggests that a distinction may be made between effects in the short run and in the long run. If the business case for CSR only holds in the short run, the increases in profits would be isolated occurrences for given firms for given years that would not show up in statistical analyses of large samples of firms. The next part presents the design of a study that makes explicit the distinction between possible effects on profits in the short run and in the long run.

Research design and methodology

Research design

This paper will study the relationship between CSR and profits with a focus on both long-run and short run effects. Due to the many methodological challenges when studying CSR and profits in a quantitative way, the approach will be qualitative in the form of senior executives' *perceptions* on the link between CSR and profits. The approach follows in the vein of Murillo and Lozano (2006) that interviewed a number of executives on their perceptions about the link between CSR and profits with the major finding being that all executives argued for a positive relationship without being able to give evidence for it.

As the discussion above shows the importance of limiting the study of CSR and profits to one industry, the study will be conducted for the Scandinavian textile industry through a study of retailers present on the Norwegian market in 2007. The is an industry which, roughly, may be characterised by retailers in western countries procuring supplies from suppliers in non-western countries like India and China. To account for possible firm heterogeneity, the study will pay attention to possible differences between retailers and suppliers.

Data

In 2006 Norwegian national accounts showed retail textile sales of approximately 4.1 billion USD [100]. In addition to this comes sales of textiles in companies not registered as retail textile (i.e. sports stores and in supermarkets) which is assumed to account for an additional 10 percent (Gaarder, 2004). The majority of products are imported with the single most important supplier country being China with 39 percent of all imports and the second most important being Turkey with 7.5 percent (cf. www.ssb.no).

Table 1: The Norwegian textile industry

Company	Affiliation to Chain	Sales 2006 (mill USD)	Market Share
Varner		732	17.7 %
Hennes & Mauritz	H&M Scandinavian (Sweden)	559	13.5 %
Bestseller-gruppen	Bestseller (Denmark)	287	6.9 %
Voice/Gresvig		251	6.1 %
Texcon[101]		214	5.1 %
Lindex	Lindex (Sweden)	178	4.3 %
KappAhl	KappAhl (Sweden)	175	4.2 %
Spar Kjøp		145	3.5 %
Ellos	Redcats Nordic (France)	106	2.6 %
B-Young	Brandtex (Denmark)	92	2.2 %
Benetton	Benetton (Italy)	55	1.3 %
JC Jeans & Clothes	Retail and Brands (Sweden)	54	1.3 %
Other firms		6 900	31.3%
Total sales		**4 139**	**100%**
Firms not officially classified as retail textile		**Textile sales 06**	
Coop Norge AS	Department store	67	
Wenaas	Work wear	53[102]	
Helly Hansen AS	Sport wear wholesale	34[103]	
Europris AS	Discount store	28[104]	
Stormberg	Sport wear wholesale	15	
Skogstad Sport	Sport wear wholesale	12	
Agape bridal saloon	Textile wholesale	1	

Sources: The annual official ranking of the industry in the trade magazine *'Tekstilforum'* (Kvarud, 2007) plus the most well-known companies that deal in textiles but are absent from the *'Tekstilforum'* list.

The table shows that the market is dominated by a few firms with the Varner group and H&M together being responsible for 30 % of total sales; the table also shows that 8 of the 12 largest textile companies are Scandinavian companies based outside of Norway. As all companies procure their textiles from abroad and as a high number of companies are Scandinavian, the dataset may be seen as representative for the Scandinavian retail textile industry.

All the companies in table 2, except Benetton AS for which no contact information could be found, were approached for an interview with either the chief executive officer, the finance director or the procurement manager. Out of 25 companies contacted, we had 18 responses (for a list, see Appendix 1). Except for one interview in person and one company who just filled in the questionnaire, all responses were telephone interviews. For the four Scandinavian companies interviewed (Bestseller Group (Denmark), Lindex (Sweden), KappAhl (Sweden) and Ellos (Sweden), the interview was carried out with the procurement manager at the head office.

Methodology

The interviews were carried out using an open questionnaire.

To assess the effect of CSR on retailers' profits, the most important questions posed were: 1) CSR's effect on profit margin (ROS) measured in percentage points; 2) CSR's effect on costs of goods sold relative to sales and 3) CSR's effect on *total profits*.

All the executives interviewed represent retailers. As practically all suppliers are located in either China or India, it was impossible to interview them. As a proxy, the retail executives were also asked to assess possible effects of CSR on the profits of their suppliers: 1) The executives were asked to assess in percentage points how they assumed the costs of suppliers would change if they had to implement CSR policies; 2) The executives were asked whether any cost increase by suppliers were compensated by the company and 3) The executives were asked to assess the level of competition among the suppliers and how likely it was for suppliers to have high profits. The results on Chinese suppliers' profits are necessarily sketchy. Further research could combine with Chinese researchers to conduct a more substantial survey of possible effects on Chinese suppliers.

Results from interviews with 18 retail textile executives

The relationship between CSR and profits for retailers

All executives interviewed claimed that their company practiced CSR and the interviews gave no information that could help rank the companies according to the extensiveness of their CSR policies.

All executives were asked to assess the effect on CSR on their profit margin (ROS) and the results were: 1) Two executives claimed that CSR has reduced their profits, but only one claimed a significant reduction due to CSR. 2) Six executives claimed they never measure the effect of CSR on the profit margin: 'We have not measured this, [we] have not done any calculations.' 3) Nine executives claimed that CSR had no effect on their profit margin.

The one executive who claimed a significant reduction in profits due to CSR, explained this by recently having cleared up conditions at some of their suppliers; it was not specified what conditions this encompassed other than it had increased the costs of their goods by more than what could be passed on to their customers.

The six executives who claimed they never had measured the effects of CSR on profits, explained this by pointing out that for them CSR was an inseparable part of strategy: 'It is impossible to measure this [the effect of CSR on profit margins] as CSR is an integral part of our operations.'

Both the executives who answered that CSR had no effect on profits and those who said they never had measured the effect, saw CSR as essential for staying in the market ('Either you're ethical or your sales will be zero.') and argued more specifically for CSR's role concerning reputation and quality of supplies.

A total of six executives explicitly likened CSR to reputation management:

> *'It would be no problem to get cheaper products if one were cynical and only thought about the short term. Choosing the cheapest option might turn out more expensive in the long run.'*

One executive was frank ('we have to be honest…') and claimed that one of the main motivations of his company's CSR-policies was to avoid being caught 'with their pants down':

> *'If the press should make discoveries in our supply chain, we have to be able to present documentation that we have tried to deal with the matter.'*

In addition to being a way of handling reputation, it was also frequently mentioned that CSR was connected to a concern for quality:

> *'We could have moved our production to* [country in Asia] *and benefited from lower production costs. The reason we don't do this, is that we care about quality.'*

> *'Choosing the cheapest possible supplier could infringe on quality. CSR equals quality!'*

> *'I would not say that CSR is synonymous to quality, but there is a connection. Suppliers with acceptable working conditions often have the best quality'.*

As shown above, 16 out of 18 executives claimed that CSR either had no effect on their profits or that the effect of CSR could not be measured as CSR was an integral part of their strategy. That CSR is an important, but completely integrated aspect of running a business, is also found by Murillo and Lozano (2006). They interview four companies that all, 'with great conviction', defend the correlation between CSR and financial results, but without being able to quantify the effect. This may indicate that CSR may have become so embedded in management that it ceases to be a separate concept and simply becomes 'the way business is done in the 21st century' (Franklin, 2008). The results from this study and the work just cited seem to prove that CSR is on its way to becoming simply the ordinary way of conducting business.

The majority of the executives interviewed, both those reporting a neutral effect on profits and those claiming that measurement was impossible, saw CSR as an essential part of general risk management (risks of reputation and quality). CSR as risk management has some interesting implications for the directions of possible short run punctiliar effects of CSR on profits. As risk management is a means of avoiding negative states of affairs, the effect on profits of adopting it depends on whether the concerned risks had materialised in the preceding period or not. If the concerned risks had materialised and the negative state of affairs had reduced profits in the preceding period, the adoption of CSR could improve profits, while in the opposite situation CSR could actually reduce profits. The one interview where CSR was said to have had a significantly negative effect on profits, could be an example of a company who for a while made above-average profits by (knowingly or not) taking excessive risks from the viewpoint of CSR as risk management. However, if risks are assumed to be more or less

evenly distributed, it is likely that companies with good risk management will have average profits in the long run.

The relationship between CSR and profits for suppliers

Suppliers in the Scandinavian textile industry for a large part have to implement the CSR policies of their retailers. The demands of CSR policies may increase the costs of suppliers, but these effects are mitigated by the combined effects of retailers' willingness to pay a premium and possible beneficial effects on productivity and sales volume.

First, the executives explained that their CSR demands were not seen to imply increased costs for their suppliers ('The activities undertaken [CSR] are not that expensive.') except in very special cases:

> *'The cost of CSR depends on where you're starting from. If it is really bad, child labour and so on, the implementation of CSR could mean an increase in costs by twenty percent.'*

Second, the executives claimed that they in general accepted paying more textiles procured from suppliers with good working circumstances: 'We could easily have gotten cheaper products if we used suppliers with other working conditions.'

Third, the executives commented that CSR *could* have benign effects on the productivity of suppliers:

> *'Some CSR activities may improve the productivity of the suppliers, cf. improved lightening conditions.'*

> *'A big problem* [for companies in China] *is that migrant workers do not return after the celebrations of Chinese New Year. Having to train new workers is costly. Because of this the companies have improved working conditions and increased salaries as an investment to retain people.'*

It should, though, be said that none of the executives claimed these effects on productivity were very high.

Fourth, a large number of executives claimed that for many of the suppliers CSR was seen as an investment to become preferable supplier and thus achieve economies of scale: 'Higher volume may lead to reductions in their unit costs.' Six of 18 executives claimed explicitly that the suppliers may decide to cover the costs of CSR themselves as they see it as an investment in long and stable orders:

> *'Increased costs due to CSR may be offset by increased* production [utilization of economies of scale] *so that CSR may be seen as an investment in higher market shares.'*

The executives made clear that any increases in productivity and/or increased scale of production were subjected to renewed negotiations on price:

> *'We might cover some of the increased costs due to CSR but most often the companies cover it themselves with an implicit agreement that we then will continue working with them. They realise that it makes economic sense.'*

> *'We will normally compensate cost increases due to CSR-actions 100 %. However, if CSR means that we take higher volumes, we will sometimes negotiate on their profit margin.'*

When asked explicitly about the net-effect on profits for suppliers, the executives were unanimous in assuming that the high level of competition in the supplier market effectively suppressed the profit potential of the suppliers. The only possibility for abnormal profits was said to be suppliers who used child-labour and, on false pretences, charged as if the workers were above the working age. This, however, was seen as only hypothetical.

The interviews indicate that CSR may or may not increase costs, but that these effects may be mitigated by increased prices, improved productivity or, possibly most important, increased scale of production through attracting customers. These results are supported by a report of interviews with 200 Chinese factory administrators: '[A]lthough the cost is higher, the factories maintain a good relationship with the clients and get long-term stable orders. [..] At the same time, since the labor rights were protected, and skilled workers were retained, the factory's productivity increased and the rework rate was reduced. As a result the factory's comprehensive economic benefits were enhanced'.
However, the executives interviewed were unanimous in assuming that any short run increase in profits would in the long run be negotiated away due to the high level of competition in the supplier market.

Discussion and conclusion

The goal of this paper was to explore the relationship between CSR and profits for retailers and suppliers in the Scandinavian textile industry.

Out of 18 executives interviewed, 16 claimed that CSR either had no effect on their profits or that the effect of CSR could not be measured as CSR was an integral part of their strategy. The majority of these executives saw CSR as an essential part of general risk management (risks of reputation and quality). The one interview where CSR was said to have had a significantly negative effect on profits, was argued to be an example of a company who for a while made above-average profits by (knowingly or not) taking excessive risks from the viewpoint of CSR as risk management.

The interviews with the retail executives indicate that CSR may or may not increase the costs of their suppliers, but that these effects are mitigated by increased prices, improved productivity or, possibly most important, increased scale of production through attracting customers. However, the executives interviewed were unanimous in assuming that any short run increase in profits would in the long run be negotiated away due to the high level of competition in the supplier market.
The results above may be summarised as follows:

1) Introduction of CSR may affect profits in the *short run* either negatively, as in cases where CSR forces retailers to switch to more costly suppliers, or positively, as in cases where suppliers become preferential suppliers and thus achieve economies of scale. 2) For retailers, CSR is mostly seen as an essential part of general risk management (risks of reputation and quality); as risks are commonly thought to be evenly distributed over time, CSR is not seen to have any discernable effect on profits in the *long run*. 3) For suppliers, CSR is mostly seen as a means of attracting customers and thus achieve economies of scale, but these economic benefits are in the *long run* assumed to disappear due to strong competition.

The results of the study are important as they show a way to reconcile the literature on the business case for CSR with the lack of empirical proof and the criticism that any effects of CSR will eventually be subject to diminishing returns and. However, the results also indicate that if CSR is seen as risk management, its short run effects on profits may be both positive or negative, depending on whether the concerned risks had materialised in the preceding period or not.

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Appendix 1: Interviews (*indicates that the respondent sent in a completed questionnaire)

Company	Date	Name	Title
Bestseller-group	23.11.07	Tina Larsen*	Responsible Social and Environmental Compliance at head office in Denmark
Texcon	21.10.07	Paul Bukier and Frøydis A Jacobsen	General Managers Texcon and Tekstilkjeden
Lindex	29.10.07	Sara Carlsson*	Head of Information head office in Sweden
KappAhl	11.10.07	Ann Marie Heinonen	Head of Environmental Compliance head office in Sweden
Spar Kjøp	04.11.07	Harald Nøss	Head of marketing
Ellos	25.10.07	Kjell Claesson	Head of procurement head office in Sweden
Lene V (Conseptor)	12.10.07	Bjørn-Egil Hansen and Hans Jæger	General manager and Head of design
Reflex	30.10.07	Tor Olav Sunde	General Manager
PM Personlig Mote	22.11.07	Snorre Mørck	Chairman of the board
Bogerud tekstil	24.10.07	Oddmund Garden	Chairman of the board
Stormberg	08.10.07	Steinar Olsen	General Manager
Ling Ling Tekstil	25.10.07	Inger Turid Hagen	General Manager
Coop Norge AS	19.11.07	Geir Inge Stokke	Head of specialised trade
Wenaas	22.10.07	Nils Wenaas	General Manager
Helly Hansen AS	09.10.07	Richard Collier	Vice President Products
Europris AS	06.11.07	Pål Reholt	Head of textiles and clothing
Skogstad Sport	30.10.07	Oddbjørg Muri	General Manager
Agape bridal saloon	15.11.07	Tove Rudi Tobiassen	General Manager
A total of 18 interviews			

Study X:
What determinies a strong CSR Impact? Case: European Clothing Retail

Author: **Thomas Laudal, University of Stavanger, NORWAY**
Article submitted to Corporate Social Responsibility and Environmental Management, October 2009.

Earlier version presented at the CRR Conference at Vaasa, Finland, 8-9 September 2009.

ABSTRACT

This article distinguishes between 'CSR performance' and 'CSR impact'. CSR is understood as efforts to internalize externalities produced by business transactions, prompted by corporations' own business strategies, or government incentives. This understanding is labelled a 'market centric approach to CSR'. It is shown that the principles of social justice and the precautionary principle may be part of the ethical foundation of CSR. A CSR impact is identified at two levels: First order CSR impact concerns the quantity impact of business on its social and natural environment. Second order CSR impact concerns the systemic impact of business on living interdependent systems. Based on literature on corporate strategy and leadership, I present two expectations: A stronger CSR impact is expected (1) when the CSR performance is focused on core competencies and (2) when the CSR performance is perceived to be profitable by the corporate management. A case study of eight international clothing retail corporations show a pattern which is in line with these expectations: The corporations receiving the highest score on core competencies and perceived profitability received the highest scores on 'CSR impact'. This result not only supports certain expectations with regard to the empirical relationship between competencies, perceptions, and impact. It is also argued that it supports the use of a market centric approach to CSR.

Introduction

This paper concerns the determinants of CSR impact within international clothing retail. I propose a model based on a market centric approach to CSR where 'CSR performances' impacts the social and natural environment. This impact may be identified at two levels:

- First order CSR impact: The quantity impact of business on its social and natural environment.
- Second order CSR impact: The systemic impact of business on living interdependent systems.

I argue that most interpretations of "CSR impact" qualify as an example of "a corporation's contribution to sustainable development". Thus, ethical foundations for sustainable development may also be applicable to CSR. I find that the principles of social justice and the precautionary principle may be part of the ethical foundation of CSR.

I then present two expectations with regard to the determinants of a strong CSR impact: a strong CSR impact is expected when corporations base their CSR performance on their core competencies and perceive their CSR performance to be profitable in the long term. A case study of eight international clothing retail corporations, based on corporate reports, independent studies, and media articles, shows a pattern which is in line with these expectations: corporations that utilize their core competencies and perceive of CSR as profitable, have the strongest CSR impact.

What constitutes a CSR impact?

The title of this paper may seem ambiguous: "Determinants of a strong CSR impact" may denote what *constitutes* a strong CSR impact, but it may also denote which factors that may *cause* a strong CSR impact. The main aim of this paper is to answer the second question based on a theoretical perspective and on a case study of eight international clothing retail corporations. However, it seems prudent to address the first question before we turn our attention to the causes: That is; examine the dependent variable before we try to identify the factors explaining variations in the dependent variable. In a basic conceptual model we may see 'CSR impact' as the result of 'CSR performance', as illustrated in Figure 1.'
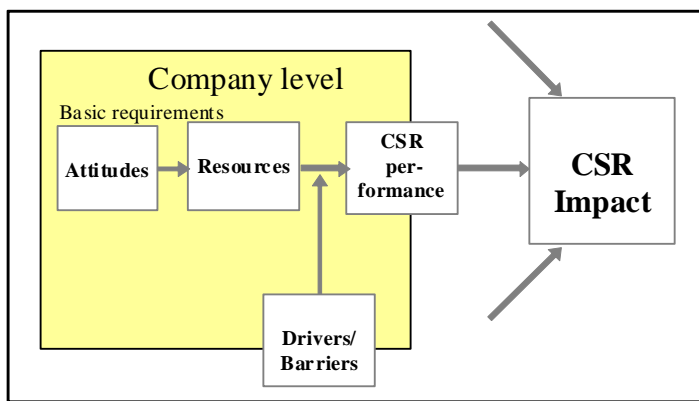

Figure 1. Conceptual model of CSR impact and determinants within a company

CSR performance is determined by basic corporate requirements which may be conceived of as "attitudes" and "resources". Drivers and barriers are variables that

influence the level of CSR performance within a given amount of resources and a given set of attitudes. CSR performance is of course not the *only* determinant of CSR impact. Other interfering factors may be the state of the local environment or the configuration of institutions influencing the effect of the CSR performance like governments, other companies, and NGOs. In this paper I focus on determinants of CSR impact within the company and compare eight corporations in the same business sector.

Many surveys and studies appear to assess possible CSR impact, but are really mapping the CSR *performance*. We find this in the criteria for CSR indices like FTSE4Good, Dow Jones Sustainability Index and Accountability Rating[1], as well as in research contributions like Bowman & Haire (1975) – measuring the number of lines in annual report devoted to CSR, Chapple & Moon (2005) – examining the websites of corporations in seven Asian countries, and Gjølberg (2008) – counting corporations who have adopted or qualified for global CSR standards or CSR ratings. One of the reasons for substituting CSR impact with CSR performance may be that it is more demanding to assess the CSR impact: CSR performance is an action with the intention to, directly or indirectly, have a positive impact on the social or natural environment, while CSR impact denotes a material change. Thus, to reveal a 'performance' we need only to collect written or oral statements, or other attributes expressing an intention on the part of the corporation. To document an impact we must identify a material change that has a direct beneficial effect on the social or natural environment *and* show that this change is due to corporate action. Examples of 'CSR impact' are reduced emissions of greenhouse gases, replacing non-renewable resources with renewable and low impact resources, ensuring that employees follow the proper health and safety procedures, and guaranteeing freedom of association and collective bargaining for all employees. Examples of 'CSR performance' are the approval of codes of conduct for CSR, and publishing CSR reports. Before I return to the question of what causes a CSR impact, I will present a more precise understanding of 'CSR' and 'CSR impact'.

A market centric approach to CSR

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1 The FTSE4Good Index fact sheet (2006 and 2008) states that companies, to be included, "need to demonstrate that they are working towards environmental management, countering bribery, and upholding human and labour rights". However, the majority of the criteria refer to internal performance measures – not impact indicators. Similarly, the website of Dow Jones Sustainability Indexes stated in July 2009 that included companies "display high levels of competence in addressing global and industry challenges". However, the majority of the general criteria refer to internal performance measures – not impact indicators (SAM Research 2009). The Accountability Raiting (2008) states that this is a tool for measuring "companies' actual impacts on the marketplace, society and environment". Still most "rating domains" concerns internal performance measures.

One of the most popular definitions of CSR is included in a green book published by the European Union:

> "We recognize CSR whenever companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (EU 2001).

In this definition "integration of social and environmental concerns" is required of corporations where competiveness and profitability is a prerequisite for survival. Thus, whenever they integrate these kinds of concerns they must remain competitive and profitable. This suggests that the CSR definition should be related to the market context of the corporation. Colin Crouch defines CSR by referring to a fundamental property of the market exchange; corporations' externality recognition: According to Crouch (2006:1535) "a case for CSR arises where producing positive externalities does cost something". Prakash Sethi has a similar understanding:

> "All market actions have some non-market or indirect consequences for the society. These second-order effects are generally termed externalities (e.g., pollution) and have traditionally been borne by society as a whole. … It is the business response to the non-market forces, commonly termed social responsibility, and social responsiveness of business, that is the focus of our inquiry" (Sethi 1979:64).

An 'externality' is a fundamental property of the market exchanges and of market economics. When a business transaction has an impact on a third party that is not directly involved in the transaction, this constitutes an externality[2]. Thus, when CSR is associated with externality recognition, it becomes a derivative of business transactions. The typical question in economics has been how to resolve unwanted externalities (negative or positive) to maximize efficiency. Since Arthur C. Pigou published books on welfare and Economics in 1912 and 1920 economists have argued that governments can internalize externalities. John R. Boatright emphasizes the role of market regulation if we want to maximize ethical outcomes: he argues that restricting market options are more important than working for more inclusive corporate decision making (Boatright 1999). Corporations may internalize externalities by incorporating costs or revenues received by third parties. Corporations' possible benefit from CSR according to Bowman (1973:6), depends on "their ability to internalize and institutionalize externalities". Firms may act as organizations, not only as market actors, to perceive a long-term interest that might conflict with immediate maximization of shareholder

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2 In economics there are several types of externalities. The two most common are 'technological externalities' (which do not work through the price system) and 'pecuniary' externalities (which *do* work through the price system). The most relevant type of externality for the discussion in this paper is technological externalities.

value, according to Crouch (2006:1547). This view, where CSR is understood as efforts to internalize externalities produced by business transactions, prompted by corporations' own business strategies or government incentives, is labelled "the market centric approach to CSR".

According to an optimistic view in line with the market centric approach, corporations will gradually reduce negative externalities and increase positive externalities due to market incentives and market trends. This web of influences is characterized as a 'neo-invisible hand', according to Bowman (1973:14). An example of a more pessimistic view is the statement of Joel Bakan. "The corporation's built-in compulsion to externalize its costs is at the root of many of the world's social and environmental ills" (Bakan 2004). However, it seems that the corporation's real compulsion is neither to internalize nor to externalize costs, but to ensure long term profitability and competitiveness. The main question is therefore how corporations can contribute to increased competitiveness and profitability by reducing negative externalities and increasing positive externalities. This, I argue, is the core issue in the marked centric approach to CSR. In this approach the business case for CSR is turned on its head: we may say that "the case for CSR is business".

The market centric approach may seem narrow when we consider acts of good will that appear to be unrelated to the main business of the corporation. Should e.g. philanthropy and sponsoring not be regarded as CSR? Should active corporate participation in projects run by non-governmental organizations not be regarded as CSR? The market centric approach to CSR does not exclude acts of this kind. However, it leaves open two interpretations: These kinds of 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 which leaves us with two options: either they are interpreted as business investments, or as acts of individual members of the corporation, but not as acts *by* the corporation. To illustrate this, let us consider two actions by a multinational clothing corporation: A well-publicized cash donation to an international relief organization in Darfur Sudan, and having corporate staff members participating in a human rights campaign organized by non-governmental organizations focusing on the clothing industry. In the first case the donation may improve corporate reputation which in turn is good for business. Such a donation has no direct relation to externalities produced by the business transactions of clothing corporations. The first case seems therefore not to qualify as CSR – it is probably best regarded as a business transaction. The second case concerns human rights violations in the clothing industry. Such violations are clearly an externality produced by business transactions, and contributing corporate resources to gain a better understanding of this problem would therefore qualify as CSR.

The question of whether corporate actions qualify as CSR or not, should not be left to corporate management to decide because CSR-related actions may be linked to a strategy to increase long term profits (by internalizing an externality). If this link is openly acknowledged by corporate management it may reduce the goodwill created by the CSR-related actions, and thereby undermine the expected long term economic effect. It may therefore be legitimate for management to downplay the connection between CSR and expected long term profits.

Market centric approach compared

The market centric approach contrasts with the influential work of Bauer (1978), Carroll (1979), Mintzberg (1983), Wood (1991), and others where CSR is not related to externalities of business transactions but are categorized as economic, legal, moral or discretionary acts in response to expectations at different levels and in different domains. Dunfee (1999) characterizes this understanding of CSR as a ¨pluralistic view of corporate objectives'. The approach is often operationalized under the rubric of corporate social responsiveness because it focuses on the ability of a corporation to respond to stakeholders, according to Dunfee. I will refer to common features among these contributions as 'the anticipative approach'. This is similar to the "societal approach" in the typology presented by Marrewijk (2003). However, I believe that the concept 'anticipative' better encapsulates their focus on expectations. The difference between the market centric approach and the anticipative approach lie not so much in what they see as manifestations of CSR, as in how CSR is seen to relate, or not relate, to business transactions: In the market centric approach the business transaction is an important element in the definition of CSR. It is thought that CSR, to be effective, should be aligned with the corporation's business strategy to ensure maximum long term profitability and competitiveness. Thus the rational for CSR is perceived business opportunities. In contrast, the anticipative approach sees the rational for CSR as the need to meet legitimate expectations of stakeholders, of the society as a hole, and of the political system. The stakeholder approach outlined by Freeman & Reed (1983) and Freeman (1984) is a special case of the anticipative approach based on the assumption that corporations cannot be successful in the long run if they fail to fulfil the expectations of its stakeholders.

Bowen (1953) and Wartick & Cochran (1985) represent a view that may be labelled 'the defensive approach' and is positioned between the market centric approach and the anticipative approach. Both claim that the rational for CSR goes *beyond* the fulfilment of legitimate expectations: additional motives are to prevent an increase in public control (Bowen 1953:51) and to minimize surprises (Wartick & Cochran 1985:767). In other words, to guard their autonomy. This argument was first presented in the beginning of the 20th century. We find an example of this in a book by Arthur Twining Hadley in 1908, then the president of Yale University, entitled "Standards of Public Morality":

> "I have gravely doubted the wisdom of some of the more recent measures passed by the national government. But I cannot shut my eyes for the fact that these things are what business men must expect unless business ethics is somewhat modified to meet existing conditions. .. If they can do it by their own voluntary development of the sense of trusteeship, that is the simplest and best solution" (Hadley 1908:96).

In the 'moral management model', described by Boatright (1999), the rational for CSR is the moral convictions of managers. The upbringing, education and professional training of managers should ensure a certain level of social and environmental awareness which is translated into CSR in the corporate environment. This, which we may label the moral approach to CSR, is typical for manager-focused CSR theory, se e.g. Clark (1916), Preston & Post (1974), McGuire (1978), and Frederick (1995).

It seems that the market centric approach and the moral approach are extremes on a two dimensional diagram where CSR is perceived more or less as an investment, and as more or less related to business transactions (Figure 2). The market centric approach holds that CSR is an investment, and is – by definition – closely related to business transactions. The moral approach does neither focus on CSR as an investment nor on the relationship between CSR and business transactions. The anticipative approach focuses on CSR as an investment, emphasizing both the economic return and the social advantages, but does not focus on the relation between CSR and business transactions. The defensive approach focuses on CSR as an investment, but in addition emphasizes the need to avoid trade restrictions and threats to their autonomy.
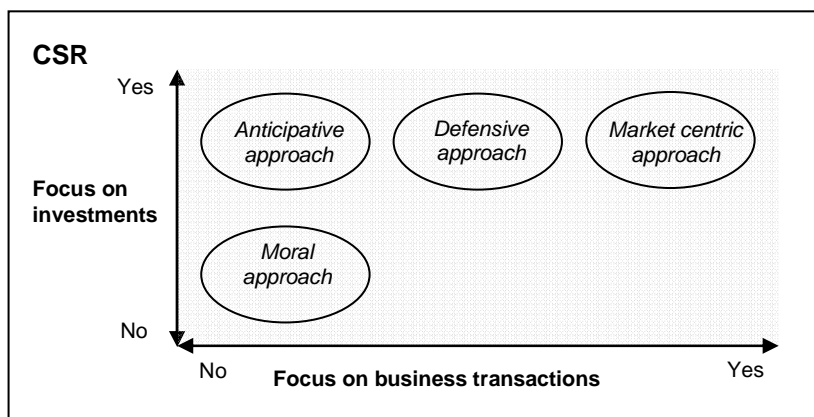
Figure 2: Diagram showing the position of four CSR approaches on two dimensions: The focus on investment and the focus on business transactions. (Adapted from Quazi & O'Brian 2000.)

The moral approach fits the label "ethical theories" in Garriga & Melé (2004). The anticipative approach and the defensive approach fit the label "integrative theories" and "political theories". However, the market centric approach does neither fit these labels nor the remaining label 'instrumental theories'. Instrumental theories see the corporation as an instrument for wealth creation, and CSR as merely a means to achieve this goal. The market centric approach does not view CSR *only* as a means for wealth creation. It presupposes that CSR is linked to business transactions, but this does not rule out CSR being a goal in its own right.

CSR impact

Let me now turn to the concept of 'CSR impact'. According to the market centric approach to CSR, as presented by Bowman (1973), Sethi (1979), Boatright (1999), and Crouch (2006), CSR must be related to the corporation's business transactions by internalizing externalities. CSR impacts may be classified as "first order" and "second order" CSR impacts with reference to the externalities produced by these business transactions. First order impacts are measured by the amount of material and energy contributing to the impact. Second order impacts are measured by the degree of distortion, or restoration, of a social or environmental system and are derived from first order impacts.

More detailed explanation:
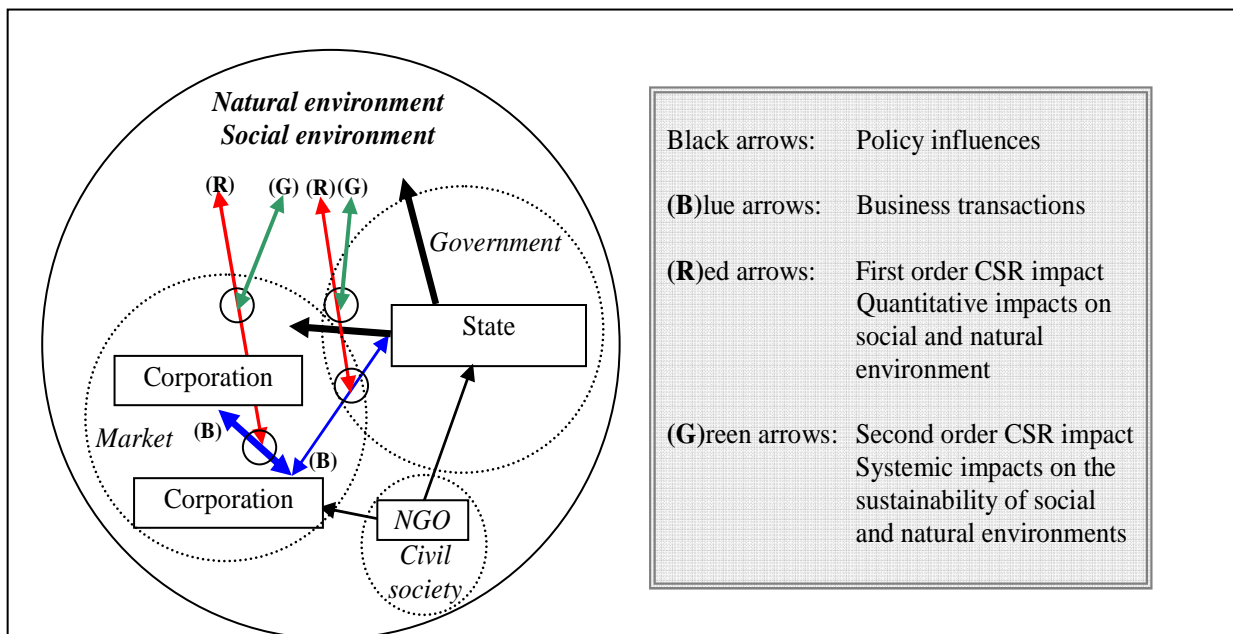
Black arrows: Policy influences with no direct link to business transactions. States have superior resources allocated to policies, and their policies are mostly directed towards the well functioning of markets, and the social and natural environment in general. The policies of NGOs are normally directed towards institutions and important decision-makers – governments and corporations.

Blue arrows: Business transactions – the exchange of goods and services – is measured by the money value involved in the exchange. Both corporations and states engage in business transactions. Corporations have superior resources allocated to business transactions compared to states. In manufacturing of goods governments only play a minor role – and their engagements are typically as portfolio investors.

Red arrows: First order CSR impact. The quantity impact of business on its social and natural environment. This is a first order externality derived from the exchange of goods and services (business transactions). It is measured by quantitative measures of the extraction of natural resources' and of the utilization of human resources (inward red arrows) and by by-products affecting both the natural environment, especially waste, and the social environment (outward red arrows).

Green arrows: Second order CSR impact. The impact of business on living interdependent systems. The utilization of human resources and the extraction of natural resources impact conditions for sustainable development. It consists of increasing entropy through the refinement and production (inward green arrows) and

influencing conditions for sustainable development (outward green arrow). This is measured by identifying how first order externality (outward red arrows) influences indicators of sustainable development.

Figure 3: First and second order CSR impacts: Interactions between corporations, states and NGOs.

It is possible to illustrate first order and second order CSR impact by showing how business transactions produce externalities in a universe consisting of markets, governments and civil society (see Figure 3). States and NGOs influence their environment by pursuing policies. Corporations, and states to a lesser degree, influence their environment by conducting business which generate first and second order CSR impacts.

An ethical foundation for CSR

The rationale for the market centric approach to CSR does not include an ethical foundation.[3] However, Figure 3 suggests that we may be able to extend the ethical foundations of sustainable development to the market centric approach to CSR since most interpretations of "CSR impact" qualify as a "contribution to sustainable development". Many scholars have pointed to the general association of corporate sustainability and CSR (see e.g. Andriof 2001 and Matten & Crane 2004). According to the World Commission on Environment and Development in 1987; "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED 1987)[4]. When read in conjunction with other key sections of the report, a large group of scholars agree on the following qualifications of this understanding: WCED (1987) has a bias towards what is known as *weak sustainable development,* as opposed to strong sustainable development (Neumayer 1999). This allows for a substitution of natural capital with man made capital. E.g. if the utilisation of a non-renewable resource, like oil, contributes to a vital part of the infrastructure, the net contribution may be considered positive. Second, WCED (1987) is based on an anthropocentric approach to sustainable development, as opposed to a biocentric approach (Langhelle 2000 and Robinson 2004). The definition of WCED refers to *human* needs, not to the needs of all living creatures, or of the

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3 In the utilitarian tradition the efficiency and stimulus for growth in a free market system may be interpreted as part of an ethical foundation of the free-market system, but this does not imply that it constitutes an ethical foundation of CSR.

4 This definition was not new in 1987. The definition of 'conservation' in the "World Conservation Strategy" in IUCN et al. (1980) is almost identical: "The management of human use of the biosphere so that it may yield the greatest sustainable benefit to present generations while maintaining its potential to meet the needs and aspirations of future generations."

biosphere in general. It emphasizes sustainability for human purposes, and the need for fundamental political change to achieve sustainable development. Finally, WCED (1987) holds that sustainable development must be framed within a socio-economic context (Adams 1990). The limits of sustainable development is not set by the environment itself, but by technology and social organization. I define sustainability in line with this interpretation of WCED (1987).

My contention is that a "CSR impact" normally implies a contribution to sustainable development' and therefore we may explore whether the ethical foundations applied to sustainable development also are valid for CSR. This does not imply, however, that it is in all companies' interests to contribute to sustainable environment. As Moon (2007) has pointed out; due to corporations' lack of long term perspective and less concern for reputation, the link between business interests and sustainability will not always hold. The point here is that whenever corporations *choose* to act in accordance with the principles of CSR, they normally also act in accordance with the principles of sustainability.

I find that the marked centric approach to CSR is well suited for two ethical foundations originally applied to sustainable development: Social justice and the precautionary principle:

Social justice: The fundamental goal of WCED (1987), according to Langhelle (2000), is to reconcile physical sustainability[5], need satisfaction, and equal opportunities within and between generations (intra- and inter-generational justice). WCED (1987) states that the needs of the world's poor should be given overriding priority. The reference to "future generations" is then to be understood as the constraint on that goal, according to Langhelle (2000). This understanding of sustainable development leads to the premise that intra-generational social justice is the first objective of sustainable development policies.

According to Langhelle (2000) the link between sustainable development and social justice is not an empirical question, but a defining feature of sustainable development. Sustainable development defines a development path in which social justice is taken care of. The link between CSR and social justice may be taken for granted using a similar reasoning because CSR refers to relative improvements which per definition are compatible with sustainable development which in turn requires social justice. Thus, social justice may not only serve as part of the ethical *foundation* of CSR, CSR may contribute to the *advancement* of social justice.

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5 This is defined as the minimal requirement for SD; development that does not endanger the natural systems that supports life.

'Reciprocal justice' and 'equal opportunities' are two important principles related to social justice. These are applicable to corporations, and in particular to the international trade system and market structure:

- 'Reciprocal justice' is the basic principle of most international trade agreements, including the trade agreements of WTO[6].
- 'Equal opportunities' are in the market context associated with the obligation equal before the law, a transparent and predictable business culture, and equal access to public services[7].

The principles of reciprocal justice and equal opportunities are aligned with the market centric approach to CSR because they ensure a fair and predictable business environment which companies rely on to obtain a competitive advantage through CSR-related activities.

The precautionary principle states that in face of uncertainty, caution should be the ruling principle. According to Stephen M. Gardiner (2006) this principle consists basically of a dual trigger and a response: 1) the uncertainty of the potential for harm, 2) the uncertainty of impact and causality, and 3) the precautionary response. In addition Gardiner claims that the chance for an impact must be perceived as realistic to convince people and corporations to refrain from planned actions (take caution). At the corporate level we may well envisage managers arguing that their CSR related actions are based on the precautionary principle: A clothing company may refrain from signing any purchasing orders with manufacturers from certain regions in India due to extensive use of child labour. Here the uncertainty related to the potential for harm of using child labour is small (dual trigger "1"), while the impact-causality – the beneficial effect of not signing any purchase order – is uncertain (dual trigger "2").

The precautionary principle seems to be relevant for CSR related decisions, in particular when corporations want to avoid uncertainties in an environment which is unpredictable. That is; when corporations experience a high "CSR potential" (Laudal[a] 2009, forthcoming). The precautionary principle is aligned with the market centric approach to CSR as it refers to an essential trait of any corporation considering CSR-related actions in a highly competitive market; proficient risk management.

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6 The principles of 'most favoured nation' and 'national treatment' inscribed in the trade agreements of the WTO are examples of reciprocal justice.

7 The requirement of public service obligations" in the European Union is an example of how the EU seeks to combine two aspects of equal opportunity: a policy for free movement of services and a policy for universal access to "services of general economic interest". See Article 16 of the Treaty Establishing the European Community and EC Green Paper COM(2003) 270 final.

Summing up CSR impact

I argue that the market centric approach to CSR is best adapted to the business context of the approaches presented above. When we analyze the effects of business transactions on the social and natural environment we may distinguish between two types of CSR impacts referring to externalities produced by business transactions: First order quantitative impacts and second order systemic impacts.

Based on the observation (visualized in Figure 3) that most interpretations of "CSR impact" qualify as a "contribution to sustainable development", I suggest that parts of the ethical foundation for CSR may be found by extending the arguments for social justice and the precautionary principle, originally applied to sustainable development, to CSR. Thus, we have a more precise understanding of 'CSR', 'CSR impact', and an ethical foundation consisting of social justice and the precautionary principle.

A strong CSR impact

We now turn our attention from "what constitutes a CSR impact" to "what causes a CSR impact". As we focus on corporate discretion (see Figure 1), the question to ask is; what kind of CSR performance produces the strongest impact? If we disregard resources that are proportional to the size of the corporation (like the available investment capital), there are two main assets available to corporate management:

- their know-how, or core competencies
- their attitude, or perceptions, linked to tasks involved in running the corporation

The next two paragraphs consider these assets in relation to CSR.

Know-how and core competencies

In business studies 'know-how' is often referred to as 'core competencies' (Roos & Roos 1997 and Javidan 1998). Prahalad & Hamel (1990) define core competencies as collective learning by coordinating diverse production skills and integrating multiple streams of technologies. Based on studies of corporations particularly in the automobile industry and the electronics industry, Prahalad & Hamel claims that the core competencies are the roots of competitive advantage. They identify three tests to identify core competencies. It should

- provide potential access to a wide variety of markets

- make a considerable contribution to the perceived customer benefits of the end product
- be difficult for competitors to imitate

In the short run competitiveness derives from the price/performance attributes. In the long run competitiveness derives from an ability to build at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products. Exploiting core competencies are most relevant for larger corporations with many management levels, according to Monsour Javidan. Javidan (1998) identifies a 'competencies hierarchy' where he distinguishes between

- 'a functional capability' result from cooperation among the individuals, or the "resources", in one function,
- 'competencies' result from integration and cooperation of functions in the same strategic business unit (SBU), and
- 'core competencies' result from integration and cooperation between SBUs.

The three criteria of core competencies (Prahalad & Hamel) and the requirement that core competencies should result from interactions of two or more units at the highest corporate level (Javidan), will here be applied to identify core competencies in international clothing corporations.

Hess et al. (2002) describes new modes of philanthropy in the United States that are linked to core competencies of corporations.[8] They argue that these modes of philanthropy become a "soft source" of competitive advantage, and through intense marketplace competition corporations develop knowledge bases and stocks of resources that exceed those of governments. The notion that CSR based on core competencies may increase competitiveness, is plausible based on the more general contention that all business activities contribute more to comparative advantages when they focus on core competencies (Prahalad & Hamel 1990). Thus, we would expect that CSR in general would contribute more to the competitive advantage when it focuses on core competencies. In the market centric approach this follows from the premises that all CSR performance is related to business transactions.

Attitudes and the perception of CSR

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8 The "new" modes of philanthropy described by Hess et al (2002), are not really new: Bloom (1974:17) underlines the same traits, and in particular that social goals "should be closely related to ongoing operations and to the expertise of the corporation". A list of ten criteria "to be given prime attention in social undertakings" in Bloom (1974:21) is similar to the three "tests" offered by Prahalad & Hamel (1990).

The attitudes, or perception, of corporate management, and especially convictions that inspire others, is an important aspect of leadership and is often associated with 'transformational leadership' in leadership theory (Yukl 2006). The perception of CSR varies considerably. There is disagreement among leaders and scholars of whether CSR contributes to long term profitability. Some argue that evidence points towards a positive relationship (see e.g. Preston & O'Bannon 1997, Zadek 2001, UNEP 2001, and Orlitzky et al. 2003). Scholars who study drivers of CSR without referring to a direct positive contribution to profitability, often refer to areas which are associated with profitability like reputation, health and safety, or using CSR to fend off regulations which is seen as a threat to business (see e.g. Rondinelli 2003, Crouch 2006, and Laudal[b] 2009 forthcoming). It follows from the market centric approach that a strong CSR impact is unattainable without the conviction that CSR can make a difference to the social and natural environment *and* to the competitiveness and profitability of the corporation in the long term. If the management team does not believe CSR is profitable in the long term, CSR related activities will be perceived as a net expenditure and the impact of CSR will likely be limited. The perception of CSR as profitable creates an incentive for corporate management to maximize their CSR impact under the presumption that more CSR will create more profits. In addition, if competitors perceive of CSR as profitable, a visible CSR impact from one corporation could trigger a chain reaction and CSR may become a self-enforcing phenomenon. I conclude that if the management team believes that CSR performance is profitable in the long run, this may contribute to a stronger CSR impact.

The relationship between CSR performance and CSR impact

We may now formulate expectations with regard to the relationship between CSR performance and CSR impact: Building on the market centric approach to CSR, and the understanding of CSR impact outlined above, we would expect a strong CSR impact from a corporation when their CSR performance

- is focused on their core competencies
- is perceived as profitable by the corporate management team

These two expectations are necessary conditions for a successful implementation of CSR according to Caleb Wall, but he does not attempt to validate them (Wall 2008). To validate these expectations we need to check the inverse relationship: When these conditions are *not* met we would expect a relatively weaker CSR impact, everything else equal. To minimize the effect of contextual variables I will consider similar international clothing corporations. I have selected eight multinational enterprises (MNEs) within the clothing retail business with the following eight common features:

1. They are relatively large (annual sales between 450 mill. and 10.5 bill. euro)
2. Their headquarters are located in Western Europe
3. They are listed on stock exchanges

4. Their main product is apparel, although a minor portion of their sales may include other product categories, e.g. accessories
5. They control the majority of their branded stores
6. They have retail stores in many countries (five countries or more)
7. They offer their own product brands, often in combination with imported brands
8. They do not own their manufacturing facilities (with minor exceptions)

The sample of international clothing retail corporations consists of H&M, Inditex, Next, Esprit, Etam, Mexx, Lindex, and KappAhl. I present these in the empirical section below. The empirical study will consider the first and second order CSR impact of these corporations, and will apply the following research design:
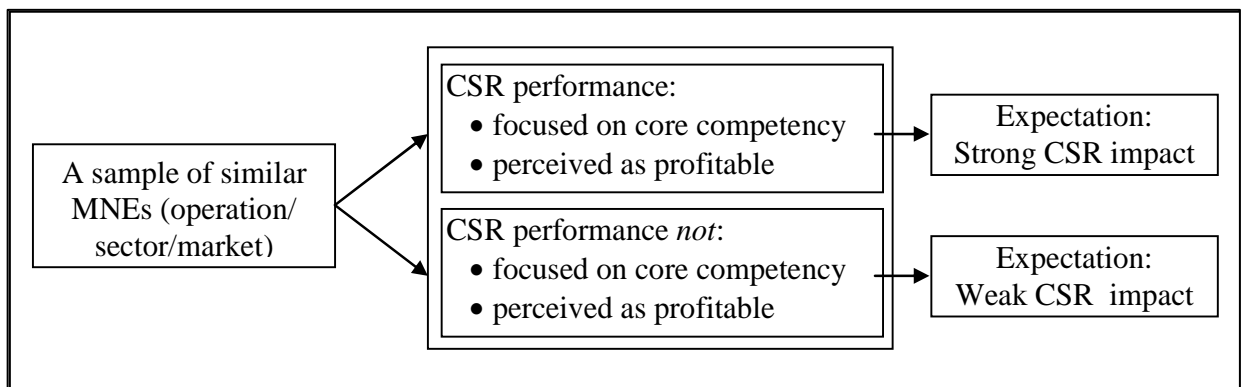
Figure 4: Expected relationships between CSR performance and CSR impact

The objective is to study how the perception of CSR, and corporation's utilization of core competency in this area, influence the impact of CSR. The two expectations are in line with the premises of the market centric approach to CSR: CSR is motivated by the requirement to ensure long term profitability and competitiveness. Thus, this study is both a test of certain expectations with regard to business practices, and a test of the usefulness of the market centric approach.

Operationalizing the main concepts

CSR performance

'CSR performance' is here understood as deliberate corporate actions with an intention of influencing the social or natural environment in a way which is consistent with the

aims of international CSR standards[9]. This definition is for most practical purposes very similar to 'explicit CSR' used by Dirk Matten and Jeremy Moon: "corporate policies that assume and articulate responsibility for some societal interests" (Matten & Moon 2008:409)[10]. However, I ad "environmental interests" to "societal interests". To identify CSR performance we need to find instances where corporate sources refer to "corporate social responsibility", or similar concepts[11] that clearly indicate that they seek to influence their environment in a way which is consistent with CSR-standards. In an empirical study this means that we determine CSR performance by studying annual reports, CSR reports, press releases, and other texts and statements made by corporate representatives. Two criteria for "importance" are used: The cost of the particular CSR performance, and to what degree CSR performance is publicized. A low cost and a large amount of publicity may be of importance because publicity translates to reputation which again influences competitiveness and profitability in the long term. A high cost and low publicity may be important because it indicates a serious intention to expend scarce resources on CSR issues. Both criteria may contribute to a high CSR impact by providing relevant resources and technology and by directing public attention to the causes they support. I distinguish between two aspects of CSR performance; focus on core competencies and perception of CSR profitability.

Core competencies

A stronger CSR impact is predicted when the CSR performance focuses on core competencies. The core competencies are determined after examining the specific activities and technologies of each corporation. I assume that core competencies in general are connected to the standard process stages of the industry. In the international clothing retail business analysts point to five initial stages before the manufacturing and packaging phase and four stages after the manufacturing phase. The twelve stages in the manufacturing and packaging phase are with few exceptions outsourced and in most cases they are handled in developing countries. The standard process stages of the international clothing retail business are listed in Table 2. In the empirical section I determine the core competencies of each of the eight clothing corporations. Then I consider to what degree the individual CSR performances are linked to their core competencies.

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9 "International CSR standards" refers to the maiin elements of international standards such as the SA 8000, UN Global Compact annd ISO 26000.

10 Matten & Moon contrast 'explicit CSR' with 'Implicit CSR'. Implicit CSR is conceived of as a reaction to, or reflection of, a corporation's institutional environment and normally consists of values, norms, and rules that result in requirements for corporations to address stakeholder issues and define proper obligations of corporate actors in collective rather than individual terms (Matten & Moon 2008:409-410).

11 Other concepts could be "corporate citizenship", "corporate sustainability", or "business ethics".

Perception of profitability

A stronger CSR impact is predicted when corporate managements believe their CSR performance will contribute to long term profitability. To determine the perceptions of members of the management teams of the eight international corporations demands individual access to a large group of managers. This was not attainable in this study. However, it is doubtful whether even full access to the management groups of the clothing corporations would provide a satisfactory level of content validity in this case: First, it is questionable whether manager's replies really reflected the line of actions of the corporation. This effect is termed the 'ecological fallacy'. Findings at the individual level need not be the same as those at an aggregate level (Bryman 1989:231). And in particular if the individual responses are associated with a large and complex organisation. Second, the content validity is questionable because managers would have to answer questions concerning an issue where they are aware of the public's expectations and mistrust. This effect is termed 'social desirability bias'. It refers to the propensity to reply in socially desirable ways when responding to research questions (Bryman 1989:66). In this study I therefore use a proxy for 'management's perception of profitability': If the management team of a listed corporation perceives their CSR performance to be profitable, we would expect them to treat CSR performance as an investment. Thus, when they comment their CSR performance in corporate reports, they would be expected to underline

- long term commitment
- the positive contribution to their main business strategy

I will record how the eight international clothing corporations characterize their CSR performance with reference to these two aspects, and treat this as a proxy for 'perception of CSR performance as profitable'.

CSR impact

A 'CSR impact' is understood as the impact caused by the CSR performance, that is; the impact caused by deliberate corporate actions affecting human resources or natural resources in a way that is consistent with international CSR standards. As mentioned above, CSR performance is not the only determinant of CSR impact, but it is – per definition – an important and necessary factor (see Figure 1). Contextual factors that interfere with the CSR impact is brought to a minimum by using a sample of similar companies in the international clothing retail business.

The ISO 26000 standard draft text (ISO 2009) contains lists of "expectations" which may be interpreted as indicators of a CSR impact[12]. I have selected measures based on these indicators which fulfil the following three criteria:

- They should be easy to confirm or contradict. This means that they should be sufficiently specific and measurable.
- They should be fitted for a comparative study of corporate practices. This means that they should allow us to compare the CSR impact of corporations.
- The indicator should refer to norms or actions where corporations have a certain degree of freedom.

On the basis of these criteria I selected 16 measures of CSR. The selected measures of CSR impact cover the same areas as the non-economic impacts specified by the Global Reporting Initiative (GRI). These measures are included in Table 5, and consist of two dimensions; first or second order CSR impacts, and the impact on social or natural environments.

The Sample of International Clothing Retail Corporations

All eight corporations selected for this study fulfil the eight features listed in the section above. There are several corporations fulfilling the common features which are not part of the sample[13]. The sample was established by selecting the eight largest corporations fulfilling the common features with an annual report in English. The reliability of this case study does not depend on the perfect representation or balance of the sample since the aim is to reveal and analyze differences *among* the selected corporations. However, the reliability *does* rely on a degree of similarity among these corporations. The common features of the eight corporations allow us to assert that differences with regard to their CSR impact are most likely due to differences in their CSR performances (see Figure 1). Differences in such areas as market structures and customer preferences are moderate and should therefore not influence the CSR impact significantly.

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12 I refer to the paragraphs entitled "Related actions and/or expectations" in each of the seven "core subjects" in chapter 6 of ISO 26000.

13 Example of large retailers which have the same features as those in the sample in this study: Cortefiel SA (Spain), Camaieu SA (France), Vivarte SA (France), and Metanel PLC (UK).

	Name	Annual sales (euro)*	Head-quarter	Sales in home country*	Employees*	Suppliers (factories)	No. of Stores*	No. of countries with stores
1.	Inditex S.A.	10.41 billion	Spain	36 percent	89,100	1,186*	4264	73*
2.	H&M AB	9.72 billion	Sweden	7 percent	53,400	700 (2500)**	1700	33*
3.	Next plc	3.97 billion	UK	92 percent**	59,088	not disclosed	680	30**
4.	Esprit Holding Limited	3.74 billion	Germany / Hong Kong	45 percent	10,500	200*	697	20*
5.	Etam Développement	0.97 billion	France	68 percent	17,700	not disclosed	879	8*
6.	Mexx	0.89 billion	Netherlands	not disclosed	6,000	300*	423	not disclosed
7.	AB Lindex	0.67 billion	Sweden	60 percent***	4,600	200 (350)**	350	7*
8.	KappAhl Holding AB	0.46 billion	Sweden	55 percent	4,160	200*	283	5*

Table 1. Sample of international clothing retail corporations

* Source: Annual report 2008. ** Source: CSR report 2008. *** Estimate.

H&M stands out by having only seven percent of sales in their home country. Next is the most home bound corporation with 92 percent of sales in the UK.

Results

The results of this case study are presented in the same order as the order of the operationalization of the main variables: First I present how the CSR performance of the sample corporations utilizes their core competencies. Then I present to what degree the sample corporations perceive CSR to be profitable. The dependent variable, the CSR impact, is then presented with scores related to each of the eight corporations. Finally, I consider how the focus on core competencies and perception of CSR is related to the CSR impact.

Utilizing core competencies

The eight clothing corporations have many similar features, but they do not have identical sets of core competencies, as shown in Table 2. The processes covered by the eight corporations in Table 2 are based on the presentations in Annex 1. Only Inditex (1) and Next (3) are involved in the manufacturing process. Inditex manufactures approximately 40 percent of its garments, except for the sewing stage. A subsidiary of Next manufactures approximately 20 percent of their garments. Esprit (4) and Mexx (6)

has outsourced major parts of their distribution and sourcing functions. Mexx is the only corporation which has outsourced its sourcing operations.

Standard process stages[14]	Main stages	Competencies of eight corporation*							
		1	2	3	4	5	6	7	8
1. Market research / development	*Research, Design, and planning*	1	2	3	4	5	6	7	8
2. Product Design		1	2	3	4	5	6	7	8
3. Prototype production		1	2	3	4	5		7	8
4. Fabric Selection and Inspection		1	2	3	4	5	6	7	8
5. Sourcing	*Sourcing*	1	2	3	4	5		7	8
6. Patternmaking	*Manufacturing and packaging*	1		3					
7. Grading		1		3					
8. Marking		1		3					
9. Spreading		1		3					
10. Cutting		1		3					
11. Bundling		1		3					
12. Sewing				3					
13. Pressing and folding		1		3					
14. Finishing and Detailing		1		3					
15. Dyeing and Washing		1		3					
16. Quality Control		1	2	3					
17. Ticketing, Bar-coding, packing		1		3					
18. Transport	*Logistics and marketing*	1	2	3		(5)		7	8
19. Retail Distribution		1	2	3	(4)	5	(6)	7	8
20. Marketing and branding		1	2	3	4	5	6	7	8
21. Retail sales (Incl. web-stores)		1	2	3	4	5	6	7	8

*Table 2. Core competencies of the eight clothing retail corporations. (Based on the presentations in Annex 1.) * The numbers in this table refers to the following corporations: Inditex (1), H&M (2), Next (3), Esprit (4), Etam (5), Mexx (6), Lindex (7), and KappAhl (8). Scores in brackets indicate that the corporation is only partly in charge of this stage.*

In the analysis of the core competencies I focus on the common denominators among the eight corporations: This is process stages 1, 2, 4, 19, 20, and 21. Applying the criteria proposed by Prahalad & Hamel (1990) and Javidan (1998) I find that stages 1, 2, 19, and 20 qualify as core competencies. Stage 4 ("fabric selection and inspection") does not seem to qualify because it is carried out in a quite similar manner throughout the industry and because it is doubtful whether it requires collaboration of different strategic business units within the corporation. Stage 21 ("retail sales"), defined as the tasks performed at the premises of the store, is not a process which requires collaboration of different strategic business units within the corporation. The remaining four common process stages seem all to fulfil the core competency criteria: they determine the potential access to a wide variety of markets, they make a considerable contribution to customer benefits, they are difficult for competitors to imitate, and they all involve integration and cooperation between strategic business units within the corporation. Market research and product design require that creative professions and commercial experts collaborate. Retail distribution and marketing requires that the logistics department, purchasing department, and marketing department collaborate.

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14 The standard process stages are based on a review of the following sources: LA RWPEDA (2002), Poulsen et al. (2001), Skillsmart retail (2006), Hassler (2003), Fernie & Sparks (2004), and OECD (2004).

The explicit CSR of the eight corporations reveal large differences with regard to their focus on core competencies. These are summarized in Table 3 (Annex 2 specifies the basis for the core competencies score):

HOW EXPLICIT CSR UTILIZES CORE COMPETENCIES

	Score	Market research and development	Product design	Retail distribution	Marketing and branding
Inditex	4.0	Significant degree =1	Significant degree =1	Significant degree =1	Significant degree =1
H&M	4.0	Significant degree =1	Significant degree =1	Significant degree =1	Significant degree =1
Lindex	4.0	Significant degree =1	Significant degree =1	Significant degree =1	Significant degree =1
Next	2.0	Limited degree = 0.5	No explicit CSR = 0*	Significant degree =1	Limited degree = 0.5
KappAhl	2.0	Limited degree = 1	No explicit CSR = 0*	Significant degree =1	No explicit CSR = 0*
Etam	2.0	No explicit CSR = 0*	Limited degree = 0.5	Limited degree = 0.5	Significant degree =1
Esprit	1.0	Limited degree = 0.5	No explicit CSR = 0*	No explicit CSR = 0*	Limited degree = 0.5
Mexx	0.0	No explicit CSR = 0*	No explicit CSR = 0*	No explicit CSR = 0*	No explicit CSR = 0*

*Table 3: Explicit CSR focusing on the core competencies of eight corporations. (Base on data included in Annex 2.) Source: The CSR report, or text covering CSR in annual report if no CSR report exists. * Receiving a score = 0 indicates that the text covering CSR in corporate publications (their "explicit CSR policy") does not cover this competency. This does not exclude the possibility that there still are CSR activities not mentioned in corporate reports that utilize this competency.*

Table 3 indicates that Inditex, H&M, and Lindex, more than the other corporations in the sample utilize core competencies as part of their CSR policies. Mexx, Esprit, and KappAhl focus much less on core competencies. Below we will see how this is related to their scores on CSR impact. But first we will consider how the eight corporations score on "perception of CSR as profitable".

Perception of CSR as profitable

The eight corporations describe their CSR performances with a varying degree of references to long term commitment and to the CSR performances' contribution to their business strategy – my two proxies for "perception of CSR as profitable" (see paragraph above). In Table 4 these to proxies are operationalized and scores are attributed to each corporation.

PERCEPTION OF CSR AS PROFITABLE

	Score	Long term commitment*	Contribution to business strategy**
H&M	5.0	Overall CSR plan = 1 Binding commitments to external partners = 1	"CSR is *also* profitable"-statements = 1 "CSR is integrated in main business process"-statements = 1 "CSR is in demand among our customers"-statements = 1
Inditex	4.5	Overall CSR plan = 1 Binding commitments to external partners = 1	"CSR is *also* profitable"-statements = 1 "CSR is integrated in main business process"-statements = 1 "CSR is in demand among our customers"-statements = 0.5
KappAhl	3.5	Overall CSR plan = 0.5 Binding commitments to external partners = 1	"CSR is *also* profitable"-statements = 0.5 "CSR is integrated in main business process"-statements = 1 "CSR is in demand among our customers"-statements = 0.5
Lindex	3.0	Overall CSR plan = 1 Binding commitments to external partners = 1	"CSR is *also* profitable"-statements = 0.5 "CSR is integrated in main business process"-statements = 0.5 "CSR is in demand among our customers"-statements = 0
Next	3.0	Overall CSR plan = 0.5 Binding commitments to external partners = 0.5	"CSR is *also* profitable"-statements = 1 "CSR is integrated in main business process"-statements = 0.5 "CSR is in demand among our customers"-statements = 0.5
Esprit	2.0	Overall CSR plan = 0 Binding commitments to external partners = 1	"CSR is *also* profitable"-statements = 0.5 "CSR is integrated in main business process"-statements = 0.5 "CSR is in demand among our customers"-statements = 0
Etam	1.5	Overall CSR plan = 0 Binding commitments to external partners = 0.5	"CSR is *also* profitable"-statements = 0 "CSR is integrated in main business process"-statements = 1 "CSR is in demand among our customers"-statements = 0
Mexx	0.0	Overall CSR plan = 0 Binding commitments to external partners = 0	"CSR is *also* profitable"-statements = 0 "CSR is integrated in main business process"-statements = 0 "CSR is in demand among our customers"-statements = 0

Table 4: Perception of CSR as profitable, measured by two proxies. (Based on data included in Annex 3.)
* No mentioning = 0. Weak indications = 0.5. Strong indications = 1.
** No mentioning = 0. Weak indications = 0.5. Strong indications = 1.
Receiving a score = 0 does not exclude the possibility that there still are long term commitments or a belief that CSR contributes to business strategy, but reference in corporate reports has been found.

Table 4 indicates that H&M and Inditex, more than the other corporations in the sample, perceive of CSR as profitable. The scores indicate that Mexx, Etam and Esprit do not regard CSR as profitable.

CSR impact

The CSR impact has been operationalized with reference to the ISO 26000 text, and with

reference to two main characteristics of sustainable development: First and second order impact, and the social and natural environment (see Figure 3). Table 5 shows the individual CSR impact of the eight international clothing retail corporations.

The evidence determining the scores in Table 5 was collected in a spread sheet totaling more than 20,000 words and includes references to original sources. Most information refers to events and plans in 2008. My main sources are corporate reports, press releases, mass media, and the following industry websites: apparelmag.com, just-style.com, drapersonline.com, fibre2fashion.com, wwd.com, and analytiqa.com. Three out of the eight corporations answered questions I submitted to them by email.

	S C O R E S : C S R I M P A C T *							
Sample corporations**	1	2	3	4	5	6	7	8

First order CSR impact on the social environment								
1. Employee representation on the board of directors (6.2.3.2)	0.0	1.0	1.0	0.0	0.0	0.5	1.0	1.0
2. Share of women on the board of directors and in senior management (6.2.3.2)	1.0	1.0	0.5	0.0	0.5	1,0	1.0	1.0
3. Donations to education projects (6.8.4.2)	1.0	1.0	1.0	1.0	0.0	0.0	1.0	1.0
4. Donations to health projects (6.8.8.2)	1.0	1.0	1.0	1.0	0.0	0.0	1.0	1.0
Second order: Impact on the social environment								
5. Freedom for employees to organize and a system for collective bargaining implemented (6.3.10.2)	1.0	1.0	1.0	0.0	0.5	0.5	1.0	1.0
6. Unannounced third party inspections controlling that suppliers abide by codes of conduct (6.4.3.2)	0.5	0.5	0.5	0.5	0.0	1.0	0.5	0.5
7. Comprehensive and regularly disclosure of work related HSE (6.4.6.2)	1.0	0.0	1.0	0.0	0.5	0.0	1.0	1.0
8. A comprehensive whistle-blower scheme is implemented and communicated among its employees (6.6.3.2)	0.0	1.0	1.0	0.0	0.0	1.0	0.0	0.5
9. Discloses lobbying, political contributions and other kinds of political involvement (6.6.4.2)	1.0	1.0	1.0	0.5	0.0	0.5	1.0	1.0
10. Online shop (website) displays clearly all costs and conditions (6.7.3.2)	0.5	0.0	0.5	0.0	1.0	1.0	1.0	–
11. Discloses considerations concerning entering / leaving a local community (6.8.5.2)	0.5	1.0	1.0	1.0	0.0	0.0	1.0	0.0
First order: Impact on the natural environment								
12. Evidence of corporate initiatives which significantly reduce waste (6.5.3.2)	1.0	0.5	0.5	0.0	0.5	0.0	0.5	0.5
13. Have disclosed the quantity of energy, water and other materials used in operations (6.5.4.2)	1.0	1.0	1.0	0.0	1.0	0.0	1.0	0.5
14. Evidence of reducing significant amounts of GHG emissions (6.5.5.2)	1.0	1.0	1.0	0.0	1.0	0.0	1.0	1.0
Second order: Impact on the natural environment								
15. Evidence of replacing significant amounts of non-renewable resources with renewable or low impact resources (6.5.4.2)	1.0	0.5	1.0	0.0	0.5	0.0	1.0	0.5
16. Provides washing instructions and information on possible allergic reactions (6.7.3.2)	1.0	0.5	0.0	0.0	1.0	0.0	1.0	1.0
TOTAL CSR IMPACT	**12.5**	**12.0**	**13.0**	**4.0**	**6.5**	**5.5**	**14.0**	**11.5**

Table 5: CSR impact of eight international clothing retail corporations based on indicators selected from the ISO 26000 standard. The four digit number in brackets refer to the relevant paragraph in the ISO 26000 standard.
* Scores: No mentioning of this have been found = 0. Unclear, or only partially = 0.5 Evidence of substantial amount = 1.
** The sample: Inditex (1), H&M (2), Next (3), Esprit (4), Etam (5), Mexx (6), Lindex (7), and KappAhl (8).

The sample corporations included in Table 5 form two groups: The "high impact group" consists of Inditex, H&M, Next, Lindex and KappAhl. The "low impact group" consists of Esprit, Etam, and Mexx. In the concluding paragraph I consider the relationship between CSR performance and CSR impact and possible theoretical implications.

Conclusion

The evidence summarized in tables 3, 4, and 5 shows a clear pattern: Corporations that are utilizing their core competencies and perceive of CSR as a potentially profitable investment, have the greatest CSR impact (see Table 6).

CSR utilizing core competencies	Score	Perceive CSR as profitable	Score	CSR Impact	Score
H&M	4.0	H&M	5.0	Lindex	14.0
Inditex	4.0	Inditex	4.5	Next	13.0
Lindex	4.0	KappAhl	3.5	Inditex	12.5
Next	2.0	Lindex	3.0	H&M	12.0
KappAhl	2.0	Next	3.0	KappAhl	11.5
Etam	2.0	Esprit	2.0	Etam	6.5
Esprit	1.0	Etam	1.5	Mexx	5.5
Mexx	0.0	Mexx	0.0	Esprit	4.0

Table 6: Index values of CSR performances and CSR impact based on tables 3, 4, and 5.

The corporations within the high impact group and the low impact group vary with regard to size, cultural origins, and corporate governance. This reduces the chances that the variation in CSR impact is due to spurious effects. The high impact group consists of both large (Inditex and H&M) and relatively small (KappAhl and Lindex) corporations (see Table 1). And there are no obvious common cultural denominators within the groups: Corporations in the high impact group have their headquarters in Sweden, Spain, and the United Kingdom. The headquarters of the low impact group are located in France, Germany/Hong Kong, and Netherlands. Regulation covering corporate governance also differs within each group: There are significant differences within each group with regard to national regulations concerning rights of employee representation at the board (ETUI 2009), differential voting rights – the portion of listed companies practicing "one share one vote" (Baufor 2006), and with regard to the importance of institutional investors (OECD 2008).

Given that all eight corporations in the sample have many features in common, it is likely that the differences in CSR impact is caused, at least partly, by differences related to their CSR performances (Figure 1), and in particular by differences in the two attributes that are shown to correlate with a strong CSR impact (Figure 4): The degree to which corporations utilize their core competencies, and the degree to which management perceives CSR to be a profitable undertaking in the long term.

This result not only supports certain expectations with regard to the empirical relationship between competencies, perceptions, and impact. It also supports the use of the market centric approach to CSR where CSR is understood as an internalization of externalities prompted by long term business strategies or government incentives. The rationale for CSR is perceived business opportunities, or expectations linked to long

term profitability. To acquire a comparative advantage, we expect corporations to utilize their core competencies.

In other words: this case study supports relationships which are at the core of the market centric understanding of CSR. But a limited case study of this kind is not sufficient to make any definitive claims. However, if the positive relationship between "CSR impact", "core competencies" and "pereception of CSR as profitable" is supported in repeated case studies of MNEs, it would question the emphasis given on non-economical contextual drivers for CSR such as "societal legitimacy" (e.g. "stakeholder expectations" in Wood 1991 or "license to operate" in Wall 2008) and "institutional embeddedness" (e.g. "implicit CSR" in Matten & Moon 2008 or "institutional stakeholder perspective" in Doh & Guay 2006).

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Study XI:
Is the CSR craze good for society?: A discussion of the welfare economic approach to CSR

Authors: **Atle Blomgren, International Research Institute of Stavanger (IRIS) / NORWAY**

ABSTRACT

Among the literature on Corporate Social Responsibility (CSR), a small but growing body of work discusses CSR's desirability from the vantage point of society's overall welfare as modelled by economic analysis. In the general CSR literature, CSR's desirability is most often studied in terms of appropriate firm behaviour in light of sociological, profit, ethical or political considerations. Such analyses, however, may be said to be partial in that they do not consider the effect of alternative means to achieve the same ends as the CSR policies. The welfare economic approach to CSR allows comparing CSR's contribution to society's welfare to other possible contributions (governments, non-profits). This paper a) develops typology of cases for CSR to be desirable is developed based on Besley and Ghatak (2007) and b) discusses the main assumptions of the welfare economic approach to CSR in light of the general CSR literature. For the two assumptions that are found to differ, it is argued as follows: The assumption of CSR as provision/curtailment of public goods/bads must hold for any CSR-policy assumed to affect some social good. The assumption of self-interest as sole economic motivation deviates from reality, but may be justified due to concerns for modelling simplicity and indications that self-interest tends to trump ethics. Finally it was argued by including the assumption of self-interest, the welfare economic approach to CSR may be seen as a cautionary tale: How is CSR likely to affect society if corporations and/or governments and/or non-profits are purely self-interested?

Introduction

The concept of Corporate Social Responsibility (CSR) is thought to date from the book 'Social Responsibilities of the Businessman' (Bowen, 1953), but it is in the last 10-15 years that the concept has seen a phenomenal rise in prominence. The concept of CSR is now an integral part of business, academic, political and everyday vocabulary. In 2005, 64 % of the world's 250 largest multinational corporations published CSR reports, either as part of their annual report or in separate sustainability reports . Five academic journals devoted to CSR research were formed in the 1990s or later (Crane et al., 2008) and CSR is now a major area of research in the social sciences. In 2001 the

European Union published a green paper to promote Corporate Social Responsibility (European Union, 2001) and many national governments have later published white papers on the topic (Royal Norwegian Ministry of Foreign Affairs, 2008). The search words Corporate social responsibility and CSR provide 23 and 17 million hits on Google[105]. Some pundits claim that CSR, due to its *sexy* name (Portney, 2008), now has become a mantra that almost defies objections: '[F]or most managers the only real questions about CSR is how to do it' (The Economist, 2008: 12).

Despite the prevalent use of the term CSR, there are still arguments as to what the term should encompass and whether the term's normative overtones are warranted: '[R]esearchers still [.] argue about what it means to be socially responsible, or whether firms should have social responsibilities in the first place' (Crane, et al. 2008: 4).

There is a plethora of definitions of CSR (Dahlsrud, 2008). Some scholars opt for an all-encompassing definition of the term CSR including everything from providing employment opportunities to pure corporate philanthropy (Carroll 1979; Donaldson and Prescott 1995) while others will opt for a more restrictive view that limits CSR to '..actions that appear to further some social good, beyond the interests of the firm and that which is required by law' (McWilliams and Siegel, 2001: 117).

Normative analyses of CSR, i.e. justifying why it should be carried out (Kurucz et al., 2008), are in the general CSR literature most often done by establishing appropriate firm behaviour in light of either economic/profit, ethical, political or sociological considerations/logics (Garriga and Melé, 2004; Kurucz et al., 2008; Melé, 2008). The various logics will see CSR as appropriate firm behaviour if a) CSR implies improving the economic situation of the firm (Friedman, 1970); b) CSR implies taking ethical responsibilities for stakeholders like suppliers, customers, local communities, trade associations (Donaldson and Prescott, 1995); c) CSR implies using the company's role as a political actor in a responsible way (Davis, 1960) and d) CSR implies integrating social demands in the operation of the firm to achieve benefits for both company and society (Carroll, 1979).

At times the four logics yield the same prescriptions as to appropriate firm behaviour. Porter and Kramer (2006) argue that CSR may enhance competitive advantage and thus create benefits for society that are also valuable for business; Orlitzky et al. (2003) find a positive relationship between financial and social performance and conclude that '[c]orporate virtue [.] is rewarding in more ways than one' (2003: 427); van Oosterhout and Heugens (2008) argue that actions that from a political perspective are seen as appropriate firm behaviour may also be justified from an economic perspective focusing on reputational risk management. At other times the four logics may be mutually exclusive with the most obvious case being companies placing relatively more emphasis on profit considerations than on ethical considerations.

The four kinds of normative analyses of CSR outlined above are, however, partial in two ways. First of all, there is no logic for deliberations between the different logics (Rommetvedt, 2006). Kurucz et al (2008) sketch a logic called synergistic value creation that, in a pragmatic way, sees business as both an economic, political, social and ethical actor, but they fail to specify the exact deliberations between competing logics. Secondly, the focus on appropriate firm behaviour does not allow for comparing

the effect of CSR to alternative means of achieving the same ends. The gist of much criticism of CSR is just that the ends could have been achieved in a better way by other means: 'CSR is a completely inadequate response to the sometimes devastating impact that multinational companies can have in an ever-more globalised world. [.] We are advocating a move beyond [CSR] to corporate social accountability - meaning that companies in the future will have a legal obligation to uphold international standards' (Christian Aid, 2004: 2-3). The Economist, in a similar way, argues that even though there might be a weak positive link between CSR and profits, it is not altogether obvious that CSR is the *optimal* way of solving societal challenges (Franklin, 2008). The fundamental question that is often dodged is: '[I]s the CSR craze a good thing for business and for society as a whole?' (The Economist, 2008: 13).

Among the vast CSR literature there is now a small but growing literature that models CSR using concepts from economic analysis (Keim, 1978; Baron, 2001; Bagnoli and Watts, 2003; Kotchen, 2006; Besley and Ghatak, 2007; Kotchen, 2009a). By using models from welfare economics and, more specifically, the literature on private provision of public goods (Bergstrom et al., 1986), this literature allows for going beyond partial analyses of CSR's desirability to comparisons of different strategies (governmental efforts, non-profit activities) for effecting society's overall welfare. Within the framework of welfare economics CSR will be said to be *desirable* ('a good thing for […] society as a whole') if it implies economically *feasible* actions ('a good thing for business […]') that increases the welfare of the economy's actors.

One of the benefits of this literature is that it allows for establishing criteria for CSR to be desirable and, conversely, criteria for CSR not to be desirable. However, as will be shown in this paper, this literature's modelling of CSR depends on two strict assumptions (Besley and Ghatak, 2007): First of all it is assumed that companies are profit-maximizing entities, i.e. it uses exclusively an economic logic for establishing appropriate firm behaviour. Second, CSR is defined as provision of a public good or curtailment of a public bad, i.e. provision/curtailment of goods/bads whose consumption may benefit/harm more than one individual at a time.

The goal of this paper is twofold: 1) To develop typology of cases for CSR to be desirable is developed based on Besley and Ghatak (2007). 2) To discuss the main assumptions of the welfare economic approach to CSR in light of the general CSR literature.

The first part presents the welfare economic approach to CSR in general with a particular focus on the model from Besley and Ghatak (2007). A typology of six potential cases for CSR to be desirable is developed by combining Besley and Ghatak's (2007) three cases for CSR to be desirable with their contention that CSR may or may not be linked to private goods provision. The next part presents and discusses five major assumptions of the welfare economic approach to CSR in light of the general CSR literature. The final part provides conclusions as to the usefulness of the welfare economic approach to CSR.

The welfare economic approach to CSR

One of the forerunners to what here will be called the welfare economic approach to CSR is Milton Friedman (1970) who famously argued that companies should not worry about social implications from their activities, but not because there could not be any negative social implications, but because he saw such concerns best served by the government. Keim (1978) was possibly the first to prepare formal modelling of the welfare effects by CSR by defining CSR as provision of public or partially public goods and then applying the literature on private provision of public goods (Atkinson and Stiglitz, 1989). Before showing the implications of this approach for the study of CSR, the following three points merit comment:

First, while a private good is defined by exclusivity and congestion in consumption, i.e. one individual's consumption completely detracts another's consumption like in the case of eating a hamburger, the consumption of a pure public good is characterised by non-exclusivity and non-congestion, i.e. one individual's consumption will never not reduce any other individual's consumption like in the classic example of a light house. A partially public good falls somewhere in between these two extremes and yields both private and public benefits (Keim, 1978). An example could be a firm reducing its air pollution and thus contributing to increased productivity among its workers (a private good for the owners of the company) and cleaner air in its environs (a public good for the inhabitants in the environs). The opposite of a public good is a public bad, i.e. a goo whose consumption hurts more than one individual at a time like air pollution. Miller (2006) argues that the two may be treated symmetrically as it in very many cases is possible to redefine a public bad into a public good; the promotion of fuel-efficient vehicles could be seen as a public good that tackles the public bad of pollution.

An economic term similar to public characteristics is externalities, i.e. positive or negative impacts of market transactions on parties that are not parts of the transaction so that prices or costs do not reflect the full benefits or costs of the transaction. Even though public goods are not strictly identical to externalities, the two tend to overlap as both refer to goods with non-private aspects (Miller, 2006).

In lieu of the term *partially* public good, Bagnoli and Watts (2003) refer to the same combination of private and public characteristics as a public good being *bundled* to the provision of a private good. Kotchen (2006), on his side, uses the term *impure* public good for a public good bundled with a private good even though this term is mostly used for public goods that may eventually be subject to congestion like for instance a bridge (Boadway and Wildasin, 1984).

Second, the provision of a public good (or, in the case of a public bad, the level curtailed) does not necessarily imply production but a decision about the level to be produced (Atkinson and Stiglitz 1989). The government may provide health services through a combination of production in government–run hospitals and contracted production from private or non-profit hospitals; companies providing public goods may contract the actual production from non-profits.

Third, that consumers may derive utility from increased provision of the public good is different from both strict altruism and warm glow altruism. Strict altruism would

require that consumers internalize in their decision making *any* changes in the utility of others; the assumption of utility from increased provision of the public good only applies to changes in the level of public goods provided. Warm glow altruism (Andreoni, 1989) on the other hand, implies that customers derive utility only when they themselves make a contribution to an increase in the level of public goods provided. A consumer displaying warm glow altruism will only gain utility from an increase in food for the homeless if this increase is due to his or her donations.

The literature on private provision of public goods compares the equilibrium provision of the public good resulting from private donations with governmental provision of the public good. It is assumed that consumers have concave preferences, i.e. they have marginally decreasing preferences for the public good, but they are not altruistic, i.e. they do not internalize *any* change in the utility of others when deciding how much to donate. Keim (1978) shows how the Lindahl-Samuelson result holds that private donations like CSR will result in lower provision of the public good than with provision by a perfect government, i.e. an altruistic central planner, who would provide public goods until the sum of the marginal utilities of all caring customers equalled the cost of providing the good (cf. Atinson and Stiglitz 1989). It may be noted that another result from the literature is that increased governmental provision of public goods will exactly crowd out private provisions except in cases of warm glow altruism where the crowding out will be incomplete (Andreoni, 1989).

Bagnoli and Watts (2003) take the CSR as public goods model further by providing a model that sees CSR as a public good bundled with the provision of a private good as in cause-related marketing where a company makes donations to worthy causes in proportion to its sales. Bagnoli and Watts use their model to show that the provision of the public good will be higher in less competitive markets. Kotchen (2006) also models CSR as public goods provision bundled with private goods provision and has two major findings: First, when provision of the public good is unrelated to provision of the private good (like when companies donate a fraction of their revenues to charities), the resulting provision of the public good will be the same as with standard voluntary contributions. Second, when the public good is a substitute for the private good, the resulting provision of the public good will be lower than when the public good is a complement for the private good.

Besley and Ghatak (2007) provide a model along the lines of Bagnoli and Watts (2003) and Kotchen (2006). The model has two groups of consumers with concave preferences of which only one group, *the caring*, value provision of the public good (or curtailment of the public bad) enough to be willing to pay a premium. The caring customers are not altruistic and do not display warm glow altruism. (Besley and Ghatak venture to show that including this will leave the resulting equilibrium *essentially* unchanged.) Companies maximise profits and have constant returns to scale technology. They have the choice to provide private goods alone or bundled with provision/curtailment of a public good/bad in direct proportion to the sales of the ordinary good. The model of Besley and Ghatak (2007) differs from Bagnoli and Watts (2003) and Kotchen (2006) in five ways.

First they opt for a more complete representation of goods by arguing that the case of public bad curtailment, say curbing pollution, is symmetrical to the case of public goods provision. This is in line with Miller (2006) who argues that in very many cases it is possible to redefine a public bad into a public good; the promotion of fuel-efficient vehicles could be seen as a public good that tackles the public bad of pollution, see also Kotchen (2009a). However, their presentation is chiefly done in terms of public goods provision.

Second, their model compares levels of public goods provision (or public bads curtailment) through CSR with provision/curtailment through, respectively, government and non-profit organizations.

Third, they redevelop Kotchen's (2006) dichotomy of the provision of the public good (or the curtailment of the public bad) being linked or not linked to the provision of the private good. The government may either provide the public good directly or, if the public good or bad is bundled with the firm's production process, regulate the desired level. For regulation not to effectively make production zero, both the caring and the non-caring customers' propensity to pay for the good are assumed to be above the price of the ordinary good including the costs of regulation. In the case where direct governmental provision is impossible, the costs of governmental regulation are understood as possible misallocations due to the government not having sufficient knowledge to specify the correct level of regulation (for more see Appendix 1).

Fourth, it is assumed that companies, government and non-profits may act opportunistically by not providing the promised level of public goods. The model assumes the existence of monitoring mechanisms that detect opportunistic behaviour by a certain probability. Companies, governments or non-profits that are found cheating on their promises to provide, will incur a future financial punishment. The possibilities of opportunistic behaviour implies that firms providing the bundled version of the good must make a profit large enough so that the expected profit from providing the bundled good is larger than the expected profit from cheating. To ensure equilibrium, it is assumed that to be able to provide the bundled version of the good companies must incur advertising costs identical to the expected profits from CSR. This implies that over the long term companies providing the bundled version of the good do not make a higher profit than companies providing only the private good. It may also be noted that this implies some barriers to entry so that all companies on the market make ex ante profits.

Fifth, in addition to the possibilities of opportunistic behaviour, the government's provision of public goods may be imperfect in that provision is purely based on the needs of only the majority.

CSR vs. governmental provision of public goods/bads

Besley and Ghatak start by looking at the situation with perfect government, i.e. the government has the same costs of provision as companies, does not act opportunistically and does not discriminate. In this case the Lindahl-Samuelson result holds: As the marginal benefit of public good consumption for the caring customers is decreasing and

the caring customers are not altruistic, the level of public goods provided under CSR will be less than with perfect government. Besley and Ghatak then discuss three potential cases of relative government failure that would imply departures from this general result:

A) Relatively more opportunistic behaviour by government than by firms. If the monitoring mechanisms for companies are superior to those for the government, the government will be liable to act relatively more opportunistically and CSR will be desirable. *B) Costs of provision higher for government than for firms.* If the costs of provision for public goods are higher for the government than for private companies, CSR will be desirable. *C) Discrimination in governmental provision of the public good.* If the government acts exclusively in the interests of the majority, there will be excessive provision of the public good where the caring customers are the majority and no provision of the public good where the non-caring customers are the majority.

Furthermore, Besley and Ghatak argue that case B is most likely to hold when the provision of the public good (or curtailment of the public bad) is 'intrinsically bundled with the firm's production process' (Besley and Ghatak, 2007: 1654), i.e. when companies have unique access to some production technology. As an example they mention that companies may have the most direct means to deal with the public bad of child labour in its own value chain.

Before presenting the results of Besley and Ghatak in a typology of cases, there are four issues that merit consideration. First, the possibility of relative opportunism and relative costs working in opposite directions. Second, the possibility of free-riding in the provision of public goods because of CSR. Third, questions about the kind of public good/bad involved. Fourth, the somewhat extreme assumption of the government acting exclusively in the interests of the majority.

A) Relative opportunism and relative costs working in opposite directions. The cases above, notably relative opportunism and relative costs, may work in opposite directions; higher costs of governmental provision increases the chances of CSR being desirable while lower governmental opportunism reduces it (See Appendix 1 for a formal presentation.) Besley and Ghatak do not concern themselves with this issue and, in effect, present the cases by holding one factor (say, relative opportunism) constant while showing the effects of changing the other (say, relative costs). In the presentation in this paper, it will simply be assumed that the factor in question (say, relative opportunism) will trump any differences in other factors (say, relative costs).

B) Possible free-riding in provision of public goods because of CSR. A frequent charge made against CSR is that over time it will crowd out governmental provision as governments try to free-ride on corporate provision of the public goods demanded by their voters (Doane, 2005). Besley and Ghatak simply do not assume any free-riding. Calveras, et al. (2007) develop a similar model to Besley and Ghatak where both *conscious* and *non-conscious* customers care about the environment, but only the former are willing to pay to curb pollution; the result is more pollution than desirable as non-conscious consumers free-ride on conscious consumers. This implies that if the Besley and Ghatak model were to take free-riding into account, it would be harder to make the case for CSR.

C) The kind of public good/bad involved in CSR. While Besley and Ghatak make no assumptions about the kind of public good/bad involved, Bagnoli and Watts (2003) argue that CSR as bundled public good provision will work best with goods with high participation value, i.e. where consumers have a preference for participating in the provision/regulation. Kotchen (2009b) argues that carbon offsets is an example of public goods/bads with high participation value as this is an activity concerned with guilt alleviation. This line of reasoning implies that CSR as bundling of private and public goods may not be effective for all kinds of public goods/bads. Whether CSR is desirable for a given public good/bad is, however, not static and may depend on how the potential benefits to the customers are presented. Keim (1978) claims that the charities most successful at soliciting contributions are those that best manage to provide private benefits for contributors like, say, officially publishing the names of their biggest donors.

D) The government acting exclusively in the interests of the majority. This assumption may come across as somewhat extreme, but it should merely be seen as an approximation to a situation where governmental provision is, for some reason, less than what is seen as optimal by some groups of individuals.

A typology of six cases for CSR to be desirable based on Besley and Ghatak (2007)

The results of Besley and Ghatak will here be presented in a typology of different cases for CSR to be desirable for society. To each of the three cases of potential government failure is added the possibility that provision/curtailment of public goods/bads may or may not be linked to private goods provision. The typology then has six potential cases for CSR to be desirable:

Table 1: A typology of potential cases for the desirability of CSR when compared to governmental provision/curtailment of public goods/bads

Government:	Majority:	Relationship between provision/curtailment of public good/bad and corporate provision of private good:	
		Linked	**Unlinked**
Perfect government	All cases	**0) Government provision gives first-best solution and CSR is never desirable**	
Imperfect government	Caring majority	**1) CSR is desirable if government is liable to opportunistic behaviour** Case: Distrust of governmental aid programs	
		1a) Linked provision/curtailment Ex: Fair trade-coffee whose proceeds are used to improve working conditions.	**1b) Unlinked provision/curtailment** Ex: Cause-related marketing whose proceeds are used to pay for general development activities.
		2) CSR is desirable if government has higher costs of provision Case: Energy efficiency in air transport	
		2a) Linked provision/curtailment Ex: Airlines increasing fuel-efficiency.	**2b) Unlinked provision/curtailment** Ex: Airlines selling carbon offsets whose proceeds are used for general carbon offsetting activities.
	Non-caring majority	**3) CSR is desirable if governmental provision will be zero with a non-caring majority** Case: The government cares naught for the issue of child labour while caring citizens do	
		3a) Linked provision/curtailment Ex: Caring citizens choose to pay a premium for products produced according to a code of conduct with the premium used to hire more expensive adult workers.	**3b) Unlinked provision/curtailment** Ex: Caring citizens pay a premium for products produced according to a code of conduct with the proceeds used to fund an NGO fighting child labour.

In cases 1a and 1b, CSR is desirable if the government is liable to opportunistic behaviour or, if some nuance is allowed, that the government is relatively more opportunistic than companies and that this difference outweighs any differences in costs of provision between government and companies. Provision of the public good may be either linked or unlinked to provision of the private good. In the case of linked provision (case 1a), the proceeds of fair-trade coffee are used to deal with an issue that is specifically linked to the provision of the private good like for instance improving working conditions. In the case of unlinked provision (case 1b), the proceeds of cause-related marketing (e.g. Procter & Gamble donating a given amount to UNICEF's vaccination program for each package of Baby Wipes sold[106]) are used to pay for general development activities, i.e. activities where the company has no particular technological advantage compared to government or non-profits. The lack of particular technological advantages of CSR compared to governmental provision in the case of unlinked provision (1b) makes it improbable that in this case the costs of CSR will be lower than the costs of governmental provision; however, higher costs of CSR relative to governmental provision have no effect on desirability as it is assumed that differences in opportunism trump any differences in costs.

In cases 2a and 2b, CSR is desirable if the government has higher costs of provision than companies or, if some nuance is allowed for, that differences in costs of provision outweigh any differences in opportunism between government and companies. In the case of improving energy efficiency in transport, a case of linked provision (2a) could be an airline working to increase fuel efficiency while a case of unlinked provision (2b) could be an airline selling carbon offsets whose proceeds are used to pay for general carbon emissions reducing activities like tree planting. However, the lack of particular technological advantages of CSR compared to governmental provision in the case of unlinked provision (case 2b) makes it highly improbable that CSR in this case will imply lower costs than governmental provision.

In cases 3a and 3b, CSR is desirable if the government discriminates in favour of the majority of citizens or, if some nuance is allowed for, that the negative effects of discrimination outweighs any other advantages (costs or opportunism) of governmental provision. An example may be the case of a government not dealing with the public bad of child labourbecause the majority of citizens do not care about this issue. In the case of linked provision (case 3a), companies applying a strict code of conduct charge a premium and use the proceeds to be able to hire more expensive adult workers. In the case of unlinked provision (case 3b), the premium is just to fund an NGO campaigning against child labour. The lack of particular technological advantages of CSR compared to governmental provision in the case of unlinked provision (3b) makes it probable that in this case the costs of CSR will be identical or even higher than the costs of governmental provision; however, higher costs of CSR relative to governmental provision have no effect on desirability as it is assumed that differences in discrimination trump any differences in costs.

CSR vs. charitable provision/curtailment of public goods/bads through non-profits

Baron (2007) asks why an altruistic investor would want to conduct philanthropy by investing in a CSR firm instead of making direct donations to a non-profit organization? It may similarly be asked why a caring customer would want to support coffee farmers indirectly through fair-trade coffee and not just directly through donations to a non-profit organization working in the environment? Besley and Ghatak show that the desirability of CSR compared to non-profit provision will depend on relative differences in opportunism and relative differences in costs of provision: If non-profit organizations are more opportunistic than companies, CSR may be desirable and all cases of table 1 will hold. If, on the other hand, the level of opportunism between companies and non-profits is identical, relative desirability will depend on differences in costs.

Baron (2007) mentions two possible reasons for an altruistic actor to invest in a CSR firm rather than donating to a non-profit. First, there might be tax-induced reasons as companies, unlike individuals, may spend unlimited amounts of before-tax income on philanthropy (CSR). Second, companies may be seen as having economies of scale in identifying good ways of conducting philanthropy. Similarly, Besley and Ghatak make it clear that CSR may have an advantage in cases of public bads curtailment where the company simply is 'the perpetrator of the bad' (Besley and Ghatak, 2007: 1659). This implies that in the cases of similar opportunism, the cases where CSR is most likely to trump non-profit provision is the cases where provision/curtailment of public goods/bads is linked with provision of private good, i.e. cases 1a, 2a and 3a of table 1.

Discussion

Besley and Ghatak show that in their model the standard Lindahl-Samuelson result applies, i.e. that CSR will provide a lower level of public goods than a perfect government. This is an old argument within economics and may be traced back to Adam Smith's talk of merchants' *affectations*, i.e. behaviour, speech, or writing that is artificial and designed to impress: 'I have never known much good done by those [merchants] who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it' (Smith, 1776: 352). Levitt (1958) mentions the dangers of the corporation 'investing itself with all-embracing duties, obligations and finally powers' and in the process 'molding [man] and society in the image of the corporation's narrow ambitions and essentially unsocial needs' (Levitt, 1958: 44). A version of this argument was famously put forward by Friedman (1970) and has later been restated in a number of ways: 'The notion that firms should by themselves pursue the objectives of society is, in fact, a rather frightening proposition' (Baumol, 1975: 46). Fougère and Solitander (2009) argue that viewing CSR as self-regulation by companies implies an unhealthy amount of political power for businesses and that the self-regulation paradigm should be seen as part of the problem rather than the solution.

Three potential cases of government failure were identified: governmental opportunism, differences in costs of provision and governmental discrimination in favour of the majority. In addition it was included that CSR may or may not be linked to private goods provision, i.e. companies may or may not have relative technological advantages in provision of public goods. A typology of six potential cases for CSR was developed.

When CSR was compared to governmental provision, it was found improbable that CSR would have a *cost advantage* in the case of unlinked provision (case 2b), i.e. where companies have no technological advantages vis-à-vis governments like a bank providing health services (i.e. case 2b is improbable). When CSR was compared to non-profit provision and when non-profit organizations were assumed to show the same level of opportunism as companies, it was found that CSR was most probable to be the desirable option in the three cases of linked provision (cases 1a, 2a and 3a), i.e. where companies have technological advantages vis-à-vis non-profits like companies knowing best how to reduce their own pollution. These results may be used in both a positive and a negative way. The thrust of Besley and Ghatak (2007) is a positive search for cases for CSR to be desirable and the paper concludes: 'Our analysis emphasizes that there is a niche for CSR once we drop the most straightforward dichotomy describing the responsibilities of the state and markets' (Besley and Ghatak, 2007: 1660). However, as shown above, the model may also be used with a negative approach emphasizing the strictness of the conditions for CSR to be desirable.

As has been shown earlier, the model of Besley and Ghatak (2007) is very much in line with other models of the welfare economic approach to CSR and thus depends on the same assumptions. In the next chapter the five most important assumptions will be discussed in light of the general CSR literature.

A discussion of the assumption of the welfare economic approach to CSR

In the Besley and Ghatak (2007) model, the following is assumed: 1) The ubiquity of self-interest among companies, governments and non-profits; 2) CSR is a voluntary activity; 3) CSR is a public good/bad; 4) The economic rationale for CSR lies in bundling the provision of private goods with provision/curtailment of public goods/bads with an underlying threat of financial punishment if underprovision should be detected and 5) CSR is more likely to be desirable when provision/curtailment is linked to provision of private goods.

First, in line with most economic models, Besley and Ghatak assume that companies are exclusively driven by *self-interest* in the form of profit considerations and their model opens for the possibility that governments and non-profits also are driven by self-interest. That companies are driven by maximization of shareholder value (Tirole, 2006) is in stark contrast to the so-called stakeholder-view of CSR (Donaldson and Prescott, 1995) that claims companies have a moral imperative to pay attention to society even though this may hurt shareholders. Tirole (2006), however, argues that championing shareholder value does not necessarily imply objections to wider societal goals, but merely that one sees these better served through the contractual and legal apparatus (see also Friedman (1970). Tirole concedes that a sole focus on shareholder value is ethically untenable if the regulatory framework is deficient like when bribing dictators is not explicitly sanctioned in the firm's home country (see also Kolstad (2007)).

In economics it is widely recognised that man, in addition to self-interest, is also motivated by sympathy for others, commitment to various causes, and commitment to

behavioural rules (Sen, 1987). Sen argues that it is uncontroversial to establish an economic model where agents are motivated by both self-interest and ethics, but that such a model may involve trade-offs that are hard to model. If one given course of action is valued positively by self-interest and negatively by altruism or vice versa, the rational alternative to an impasse would then be to pick one of the two conflicting actions at random (Sen 1987). The trade-off dilemma can also be presented thus: '[Y]ou cannot abandon emphasis on the view that business corporations exist for the sole purpose of making profits for their stockholders until such time as you are prepared to offer a clear and reasonably enforceable scheme of responsibilities to someone else' (Berle and Means (1932) cited in (Tirole, 2006: 61).

As economic modelling of ethical behaviour is difficult, it may be asked whether leaving out ethical behaviour in an economic model represents an important deviation from reality:

1) There are arguments that for most practical purposes profit considerations will trump any ethical considerations. Jones (1996), in a Marxist-institutionalist critique of CSR, argues that ethical constructions of CSR are only viable in the absence of an understanding of a capitalist economy and therefore, in his wording, miss the forest for the trees. Reich (2007) argues that competition has become so intense that businesses have very little leeway to sacrifice the benefits of consumers and investors for the common good. A number of anecdotes can be found to support these views. When the Coca Cola Company released its first CSR report, it became known that it was contaminating water supplies in India (Edwards, 2008). In the summer of 2009 it became known that Norway's major oil company StatoilHydro, known for its CSR policies, threatened to leave Lithuania if the Lithuanian government did not repeal its ban on petrol stations selling liquor at night.

2) It may be difficult to distinguish ethically informed behaviour from essentially self-interested behaviour. van Oosterhout and Heugens (2008) argue that corporations may simply use ethics as symbolic features to signal their dedication to the myths of the systems in which they operate. 3) Corporate law might provide impediments to ethically informed behaviour. Rose (2007) notes that a company's management or directors could be sued for taking social responsibilities contrary to the mandate of the owners. Similarly, the Norwegian government's ownership policy makes clear that the implementation of CSR principles may be restricted by legal concerns of minority shareholders (Royal Norwegian Ministry of Industry and Trade, 2008).

It may be concluded that presenting an economic model that leaves out ethical behaviour represents a deviation from reality, but that this simplification may be justified due to concerns for modelling simplicity and indications that self-interest may in general tend to trump ethics.

Second, Besley and Ghatak see CSR as a voluntary activity, an assumption that stands in contrast to Carroll (1979) who famously defined CSR as consisting of four responsibilities: to be profitable and provide employment (economic responsibility); to follow the law (legal responsibility); to follow ethical customs (ethical responsibility); and philanthropy (discretionary responsibility). Besley and Ghatak's restriction of CSR

to voluntary activities is in line with more recent work on CSR (McWilliams and Siegel (2001); Crouch (2006); Portney (2008)). Matten and Moon (2008), however, argue for a middle ground where compliance with mandatory and customary requirements is termed implicit CSR and voluntary efforts are termed explicit. This distinction allows for comparisons of CSR between countries where corporate laws make different demands on companies: while employee representation on boards of directors would be considered CSR in the US, it would merely be compliance with corporate law in continental Europe. CSR as defined by Besley and Ghatak would only be applicable for analyses of voluntary or explicit CSR.

Third, the assumption of CSR as provision/curtailment of public goods/bads is an assumption that is for the most part confined to CSR scholars working within the field of economics (Keim, 1978; Bagnoli and Watts, 2003; Kotchen, 2006; Besley and Ghatak, 2007). Some CSR define CSR in terms of externalities (Bowman, 1973; Sethi, 1978; Crouch, 2006), but as has been discussed earlier, the concepts of public goods and externalities generally tend to overlap (Keim, 1978; Miller, 2006). CSR scholars who explicitly refer to CSR as provision of *goods* (notably Porter and Kramer 2006), do not explicitly restrict CSR to public goods/bads or externalities and would therefore, in principle, allow for CSR to comprise provision of exclusively private goods. It may be argued that in very many real-world examples CSR consists of nothing more than strictly private goods like, say, employee benefits. In the context of economic modelling however, CSR as provision of strictly private goods can not be rationalized by consumers paying a premium as consumers in this case, due to the lack of public characteristics, do not value the *CSR* provided and will hence not be willing to pay a premium. The only possible rationale for CSR as provision of strictly private goods by a profit-maximizing firm is that it is seen as an investment in company level benefits such as productivity or reputation.

A CSR policy like for instance employee benefits, that only affects the utility of the concerned employees and, through functioning like an investment in productivity, their employers, has no effects on other actors in the economy. Such a kind of CSR can hardly be said to be a case of furthering some *social good* (McWilliams and Siegel, 2001) with social good understood as effects on actors different from the direct recipients and the company's owners. As Kanbur (2006) makes clear in the case of development aid, provisions to enhance social goods must be understood in the terms of non-private characteristics of the provisions: '[T]he wellbeing of the recipient enters the utility function of the donor. Such consumption externalities violate the basic assumptions of the standard model, but they are well recognized in economics' (Kanbur, 2006: 1569). This paper therefore argues that any CSR-policy that is assumed to affect some social good, i.e. affecting the utility of actors different from direct recipients and the company's owners, *must* have some public (non-private) characteristics.

Fourth, in the Besley and Ghatak model, the economic rationale for CSR lies in bundling the provision of private goods with provision/curtailment of public goods/bads with an underlying threat of financial punishment if underprovision should be detected. The economic rationale for CSR has been framed in various ways in the CSR literature. Some focus on potential short term effects on higher prices or lower costs through,

respectively, price-differentiation strategies (McWilliams and Siegel, 2001) or productivity increases by attracting the most motivated workers (Waddock and Graves, 1997; Orlitzky, 2008). Other scholars focus on the long term and argue that what may seem irrational in the short term is simply a investment in future benefits: Crouch (2006) sees CSR as an investment in changing tastes and thus in future market opportunities; van Oosterhout and Heugens (2008) argue that corporate ethics programs may be one way of reducing the risk of fraud. The economic rationale for CSR in the Besley and Ghatak model combines the concerns for the short- and the long term by requiring that CSR firms make an initial investment that make them able to charge premiums for CSR-goods while at the same time having to consider the chance of future financial punishment if the firm is found cheating.

It should, however, here be noted that bundling as envisaged by Besley and Ghatak, excludes from consideration cases where public goods provisions (or public bads curtailment) are directly remunerated like when a government office contracts projects of development aid or research and development. This is similar to Crouch (2006) who argues strongly that for CSR not to be a redundant concept, it must refer to value added beyond a firm's ordinary business; a computer firm producing the best possible software may thus not claim to be doing CSR as long as customers pay directly for its products.

Fifth, Besley and Ghatak (2007), building on Kotchen (2006), argue that CSR is more likely to be desirable if its provision is linked to provision of the company's private goods. It should be noted that the essence of Besley and Ghatak's assumption is that companies may have unique access to a specific production technology for provision/curtailment of public goods/bads. Some argue for CSR's desirability by showing that governments increasingly solicit CSR efforts as a way of tapping into expertise otherwise unavailable (Moon and Vogel, 2008). However, for such soliciting of expertise to be an example of linked provision in the sense of Besley and Ghatak, i.e. as access to a specific technology, it must concern expertise that can only be accessed when the personnel are employed by the corporation. Here it will be shown that support for this assumption can be found in empirical studies of the efficacy of CSR and in the parts of the CSR literature focusing on, respectively, *core competencies/competitive advantage* and *self-regulation/partnered governance*.

Frynas (2005) evaluates multinational oil companies' CSR efforts in the form of local community development projects in developing countries and argues that they tend to fail because the oil companies simply do not have the necessary competence for the task

The notion of core competencies of the corporation refers to the defining skills and knowledge of a corporation that gives them a competitive edge (Prahalad and Hamel, 1990; Javidan, 1998). Dunfee (2008) argues that companies' CSR policies will have the largest impact for both companies and society if based on company core competencies. Similarly, Porter and Kramer (2006) claim that companies should focus their CSR on social issues that intersect with their ordinary business *and* may be used to strengthen their competitive advantage: an example of CSR that enhances competitiveness would be efforts by Africa based producers to deal with HIV/AIDS among its workers; an example of CSR that does not necessarily enhance competitiveness would be supporting

public schools unrelated to the company. It follows that the concepts of core competencies and competitive advantage resemble the argument of CSR as more likely to have an impact if provision of public goods is linked to private goods provision.

Baumol (1975) argues that the proper role of CSR is cooperation between companies and governments in designing business regulation where the issues are so complex that company cooperation is needed to avoid unnecessary burdens on companies, in other words: companies have unique access to technologies unavailable to government. Note that this kind of self-regulation is referred to as semi-voluntaristic as the regulations themselves are not voluntary. Ruggie (2007) and Midttun (2008) argue that globalization and the rise of transnational corporations have further impeded the nation state's possibilities of regulating businesses effectively and argue that CSR has a role as company self-regulation in complex areas. As the actual CSR policies are most often designed in cooperation with both governments and non-profits, Midttun (2008) refers to CSR as partnered governance. Examples of CSR as self-regulation/partnered governance are the UN's code of conduct The Global Compact and The Extractive Industries' Transparency Initiative for transparency in financial dealings with governments.

Conclusions and discussion

By combining Besley and Ghatak's (2007) three cases for CSR (governmental opportunism, differences in costs of provision and governmental discrimination in favour of the majority) with the possibility that CSR may or may not be linked to private goods provision, a typology of six potential cases for CSR was developed. When CSR was compared to governmental provision, it was found improbable that CSR would have a cost advantage if provision was unlinked, i.e. where companies have no technological advantages vis-à-vis governments (i.e. case 2b is improbable). When CSR was compared to non-profit provision and when non-profit organizations were assumed to show the same level of opportunism as companies, it was found that CSR was most probable to be the desirable option in the three cases of linked provision, i.e. where companies have technological advantages vis-à-vis non-profits (cases 1a, 2a and 3a).

Five major assumptions of the Besley and Ghatak model were discussed: 1) The ubiquity of self-interest among companies, governments and non-profits; 2) CSR is a voluntary activity; 3) CSR is a public good/bad; 4) The economic rationale for CSR lies in bundling the provision of private goods with provision/curtailment of public goods/bads with an underlying threat of financial punishment if underprovision should be detected and 5) CSR is more likely to be desirable when provision/curtailment is linked to provision of private goods. Assumptions 2, 4 and 5 were found to be roughly in line with the general CSR literature. It was argued that assumption 1, CSR as provision/curtailment of public goods/bads, *must* hold for any CSR-policy that is assumed to affect some social good. It was further argued that presenting an economic model that leaves out ethical behaviour represents a deviation from reality, but that this simplification may be justified due to concerns for modelling simplicity and indications that self-interest may in general tend to trump ethics.

By assuming companies to be strict profit-maximizing entities, the welfare economic approach to CSR may be said to be biased *against* the desirability of CSR. If, on the other hand, the assumption of profit-maximization were to be slacked and society could assume that companies would, at least to some extent, abide by ethical standards, the model's results would, everything else being equal, be more biased *towards* the desirability of CSR. The assumptions of corporate behaviour are particularly pertinent when discussing governmental policies towards CSR. Blowfield and Frynas (2005) argue that CSR may be a perfectly rational choice to fill in governance gaps left by globalization, but that it is not necessarily the best long-term solution when compared to improved national and/or international law. The welfare economic approach to CSR may in such deliberations be used as a cautionary tale: How is CSR likely to affect society *if* corporations and/or governments and/or non-profits are purely self-interested?

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Appendix 1: Costs of provision with differences in opportunism and production costs

Opportunistic behaviour among companies

In each period the firm may provide a promised contribution of the public good Θ or cheat by setting $\Theta = 0$. If caught cheating, the company makes zero profits for an indefinite period. A cheating firm is caught with probability q and it discounts the future with $\beta < 1$. The price of the private good bundled with CSR is p_c, its production cost is c and α is the cost of the CSR-characteristic. The value function of a firm who does not cheat, is:

a. $\Pi = (p_c - c - \alpha \, \Theta_c) + \beta \, \Pi$

Which may be written as:

b. $\Pi = (p_c - c - \alpha \, \Theta_c)/(1-\beta)$

A firm that cheats for one period will get a high profit in the first case, but will then lose its reputation with probability q:

(3) $\Pi_{cheat} = p_c - c + (1-q) \, \beta \, \Pi$

Honesty is sustainable if $\Pi > \Pi_{cheat}$, i.e. if:

d. $p_c \geq c + \Phi(q, \beta) \alpha \, \Theta_c$ where $\Phi(q, \beta) = ((1 - \beta + q \, \beta)/q \, \beta) > 1$

$\Phi(q, \beta)$ is a measure of the firm's costs expected costs if caught cheating and is increasing in q, i.e. the probability of being caught.

If the production function for the public good is f(.), the level of public good provision by the company will be decided by:

e. $f'(n \, \Theta_c) = \Phi(q, \beta) \alpha$

This implies that the level of provision of the public good is dependant on both costs of provision (α) and opportunism ($\Phi(q, \beta)$) so that an increase in one could be offset by a decrease in the other.

Opportunistic behaviour in government

Opportunistic governments are thought to pick a level of public goods (G) that pleases the group of consumers who are in the majority. Besley and Ghatak focus on the case where the caring customers (N) form the majority. The government makes a wage of w, but may, similar to companies, cheat on its promises to provide public goods and consume the entire tax revenue (αG) for itself. It may, however, be detected with probability q_g, and will then make zero rewards for an indefinite period.

An honest government will make:

f. $w/(1-\beta)$

A cheating government will make:

g. $w + \alpha G + (1-q_g)w(\beta/(1-\beta))$

Honesty will be sustainable if:

h. $w \geq \alpha G (1-\beta)/(\beta q_g)$

This implies that the total cost of providing public goods G is:

i. $w + \alpha G = \Phi(q, \beta)\alpha G$

where $\Phi(q, \beta)$ is the government's expected costs if caught cheating and is increasing in q, i.e. the probability of being caught.

The opportunistic government will pick a level of public goods (G) that maximizes a representative caring consumers' utility:

j.   max G given $f(G) - ((\Phi(q, \beta) \alpha G)/N$

Equilibrium provision will be where:

k. $f'(G) = (\Phi(q, \beta)\alpha G)/N$

It follows that, similar to companies, the level of provision of the public good is dependant on both costs of provision (α) and opportunism ($\Phi(q, \beta)$) so that an increase in one could be offset by a decrease in the other.

Appendix 2: Specification of governmental regulation

A distinction may be made between the government's assumed costs of achieving a given curtailment in the level of the public bad (α_g) and the real costs (α_c) for achieving this curtailment that is known only by the company. The government will then demand that the companies curtail their pollution by level Θ characterised by:

l. $nf'(N^* \Theta_g) = \alpha_g$

where f(.) is the production function that is increasing in Θ; n is the number of caring customers and N the total number of customers/citizens. It is assumed that the government does not act opportunistically. There are now two possibilities:

If the government's assumed costs (α_g) > the real costs (α_c), the resulting level of Θ will be too low compared to the first best level. In other words: The government assumes that the costs are higher than in reality and proposes a too soft regulation. *If $\alpha_g < \alpha_c$, the resulting level of Θ will be too high compared to the first best level.* In other words: The government assumes that the costs are lower than in reality and proposes a too harsh regulation. Incorrect regulations imply unnecessary costs for the company and thus for society.

If, on the other hand, the company could regulate itself via CSR, a company would pick the level of Θ (i.e. the level of curtailment) that would satisfy:

m. $f'(n \Theta_c) = \Phi(q, \beta)\alpha$ (identical to equation (5) above))

For CSR to be desirable relative to governmental regulation, the following two effects must be compared: a) The possible misallocation of resources from the government choosing a subdesirable level of curtailment due to poor information (i.e. the effects of differences between α_g and α_c) and b) The relative increase in provision resulting from the government choosing a level of provision that maximizes the *sum* of all caring customers' utilities (nf'(.)=costs) while the company chooses a level of provision that maximizes *marginal* utility (f'(.)=costs). As f(.) is increasing in Θ and concave, $N \geq 1$ and $\varphi \geq 1$, this will only be the case where Θ_g is set much too high so that the sum of the marginal utilities become extremely small.

Study XII:
Towards a political conceptualization of corporate social responsibility

Bjørn-Tore Blindheim

This paper draws heavily on Blindheim (2008) "Corporate social responsibility: the economic and institutional responsibility of business in society", in Mikkelsen and Langhelle (Eds. 2008) *Arctic Oil and Gas – Sustainability at Risk?* **New York: Routledge.**

Introduction

Since the 1950s, the role of business in, and the responsibility of companies towards, society has increasingly been addressed through the concept of corporate social responsibility (CSR). The idea of social responsibility has its modern roots in the work of Berle and Means (1932). They documented a separation of ownership from control in large United States (US) corporations, thus resulting in a:

> small (managerial) group, sitting at the head of enormous organizations, with the power to build, and destroy, communities, to generate great productivity and wealth, but also to control the distribution of that wealth, without regard for those who elected them (the stockholders) or those who depended of on them (the larger public).

(Mizruchi, 2004)

In line with Berle and Means' concern that increased corporate and managerial power could harm public interests, early definitions of CSR were tied more to society's interests than to those of the firm. As such, CSR built upon moral ideas about the primacy of human interests over corporate ones and the desire to modify many of the negative consequences of corporate power -- environmental degradation and poisoning, unhealthy products, inhumane workplaces, and more (Logsdon and Wood, 2002). In 1953, Bowen defined CSR as the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action that are desirable in terms of the objectives and values of society. Later, Davis (1973) defined CSR as the firm's consideration of, and response to, issues beyond its narrow economic, technical, and legal requirements to accomplish social benefits, along with the traditional economic gains that the firm seeks. Crane and Matten (2004) argue that probably the most established and accepted conceptualization of CSR is the 'four-part model of corporate social responsibility' initially proposed by Carroll (1979), who suggested CSR as a multi-layered concept that can be differentiated into the four interrelated aspects of

economic, legal, ethical and philanthropic responsibilities. Carroll and Buckholtz (2000) define CSR as 'the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time'. The concept later evolved into different approaches, covering other related terms such as social responsiveness (Frederick, 1987), corporate social performance (Wood, 1991), the stakeholder approach (Freeman, 1984), corporate citizenship (Crane and Matten, 2004), the 'triple bottom line' approach (Elkington, 1994, 1997) and corporate sustainability (Marrewijk, 2003). In other words, CSR may be understood as an umbrella term covering economic, social and environmental issues (Welford, 2003), wherein the relationship between business and society is studied.

Today, the idea that CSR may promote complex societal challenges and the common good seems well established (Pogutz, 2007). Internationally influential organizations, particularly the United Nations (UN), the European Union and the World Bank, depict a positive relationship between CSR and sustainable development, and point towards how CSR may promote a sustainable development path. For example, the Brundtland Report (1987) stated that: 'Industry's response to pollution and resource degradation has not been and should not be limited to compliance with regulations. It should accept a broad sense of social responsibility and ensure an awareness of environmental considerations at all levels' (World Commission on Environment and Development; WCED, 1987: 222). In a similar vein, the 2002 Report of the World Summit on Sustainable Development (WSSD) held in Johannesburg, South Africa, stated that the business sector -- pursuing its legitimate activities -- has a duty to contribute to the evolution of equitable and sustainable communities and societies. On this background, the report calls for enhanced CSR and accountability. In summary, at both the international and national levels, CSR policy is developed in the context of an acceptance of CSR as an important contributor to the wider goal of sustainable development (Buckland, Albareda, Lozano et al., 2006).

As I will argue, the contemporary discourse and conceptualization of CSR lies largely within what may be called the 'social activist' (Brummer, 1991) or ethical (Garriga and Melè, 2004) approach to CSR, implying an expanded and radical role of business in society, compared to the more classical economic or functionalist conceptualization of the role of business in society. Our argument is that such an approach to CSR -- postulating a positive impact on broader societal interests and sustainable development, based upon companies' and managers' voluntary efforts to address social misery -- may in fact contribute to the opposite, which is to undermine a sustainable development path. As such, this chapter offers a critical look at CSR and its ability to further societal interests, and we agree with Blowfield (2005) about the limits to what can be expected of business and its contribution to the common good. On this background, we suggest a conceptualization of CSR that both takes seriously the basic aim of every business organization (making profit), and acknowledge the need for 'a political order where economic rationality is circumscribed by democratic institutions and procedures' (Scherer and Palazzos, 2007: 1097) in order to promote corporate responsible behaviour.

Towards a 'radicalized' role for business in society?

Since the time of Berle and Means (1932), Bowen (1953), and Davis (1973), the field of CSR has grown significantly and today contains a great proliferation of approaches. Several typologies and classifications have been suggested to bring some order into the business in society literature (e.g. Frederick, 1987, 1998; Carroll, 1999; Garriga and Melè, 2004). In order to discuss the contemporary discourse and agenda of CSR, and in order to frame our own conceptualization of CSR, we chose to build on the work of Brummer (1991). He suggested that the spectrum of approaches to CSR could be ordered in the classical, stakeholder, social demanding and social activist approaches to CSR.

Corporate social responsibility – from 'business as usual' to managers as social and moral leaders

The classical approach to CSR, which can also be framed as arguments against CSR, comes in two different variants. Building on classical Parsonian pluralism (Parsons, 1951), it could be argued that other institutions in society -- like political institutions and civil society institutions -- exist to perform the types of functions required by social responsibility (Jones, 1999). The functional theory argument largely defines CSR along the same economic dimension as identified by Friedman and Friedman (1962). His property rights argument against CSR above what is profitable has its roots in classical capitalism. This perspective maintains that managers have no right to act other than to enhance shareholder value. To do otherwise constitutes a violation of the management's legal, moral and fiduciary responsibilities. In sum, the social obligations of business are confined to satisfying legal and economic criteria.

Contrary to the classical perspective, the stakeholder perspective suggests that responsibilities of a business extend beyond shareholders to include the company's stakeholders. In general, stakeholder theory is focused on those interests and actors who affect, or in turn are affected by, the corporation (Freeman, 1984). Stakeholders can be defined as persons or groups with legitimate interests in procedural or substantive aspects of corporate activity (Donaldson and Preston, 1995: 67). It is their interests in the corporation that identify the stakeholders, whether or not the corporation has any corresponding functional interest in them. Freeman's stakeholder theory asserts that managers must satisfy a variety of different individuals or groups in or outside the corporation. This could be a 'primary' stakeholder like the providers of capital, customers, employees and suppliers, but also more 'secondary' stakeholders like governments, local community organizations, indigenous people and non-governmental organizations (NGOs). Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that stakeholders define as important. Otherwise, stakeholders might withdraw their support from the firm.

The social demanding approach holds that corporations are responsible to carry out those activities that society (not just stakeholders) demands and expects of them. A foundational idea is that, since business depends on society for its existence and growth, business should integrate social demands and expectations into its activities so that they operate in accordance with the prevailing social values. As such, the approach is inherently relativistic: It does not state any specific action that corporations and their managers are always responsible to perform. The actual content of CSR is dependent both upon time and place, that is, what society currently defines as their societal responsibility.

In contrast to the social demanding approach to CSR, the social activist approach to CSR holds that universal standards or values should determine corporate and managerial decision-making and action, independent of the view of shifting coalitions of stakeholders or expectations from society at large. Brummer (1991: 190) summarizes the social activist approach to CSR in the following way:

> It (the social activist approach to CSR) holds that executives are responsible for pursuing social or moral goals from voluntary motives, even when doing so compromises the firm's profit performance (at least in the short term). Corporations or their members are required to perform acts that benefit shareholders, stakeholders, and the general public, both in the primary areas of their business decision making (where the direct effects of their actions are more likely to be noticed) and in secondary and tertiary areas as well (where the indirect effects become more prominent). Last, in considering the interests and welfare of others, corporate executives are to respond to the formers' ideal or rational interests rather than merely their expressed or current interests."

The degrees of responsibility assigned to businesses and companies in the different approaches to CSR are summarized in Figure 4.1:

Figure 4.1: The degrees of responsibility assigned to business in different approaches to CSR
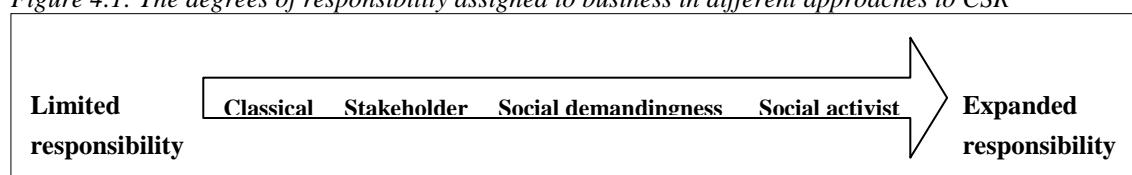
The arrow pointing towards the right indicates increasing degrees of responsibility towards society, from limited to expanded responsibility. The classical approach to CSR falls closest to the left end of the arrow ('the only responsibility of business is to make profit'), while we find the social activist approach at the other end of the spectrum ('corporate managers as moral and social leaders'). As we will argue below, much of the contemporary discourse, agenda and conceptualization of CSR seems to fall within the social activist approach to CSR, depicting not only an expanded role for business in society, but also an alternative model of societal governance that may have the potential to undermine the institutional conditions for sustainable development

The contemporary discourse and agenda of CSR: towards a radicalized role of business in society and an alternative model of societal governance?

A common feature between the classical, stakeholder and social demanding approaches to CSR is that the limit of business' responsibility towards society is largely set with the companies' primary, and to some degree, secondary sphere of influence or area of decision-making. Today, there is clear evidence that the CSR agenda is widening to also encompass business responsibility for the more indirect effects of their operations, or to their tertiary sphere of influence, more in line with the social activist approach to CSR. While early definitions of the concept emphasized that social responsibility was about minimizing the negative impact of corporate activities on society (Blowfield, 2005), several organizations today see CSR as a positive contribution to development and a possible answer to complex societal challenges. The scope of CSR has been broadened to include not only aspects of corporate conduct that impinge on social, environmental and human rights issues, but also the role of business in relation to poverty reduction in the developing world and to questions of development, in general (Prieto-Carròn, Lund-Thomsen, Chan et al., 2006). This development agenda is, for example, a very important part of the best known and largest CSR initiative, the 'United Nations Global Compact' (Global Compact, 2005: 8), which explicitly points towards business responsibility beyond business' direct sphere of influence:

> By developing and implementing policies in the four areas of the Global Compact -- human rights, labour, the environment and anti-corruption -- companies are, by definition, contributing to the process of sustainable development. In addition, by forging partnerships with other stakeholders, businesses have the opportunity to scale up action within and even beyond their direct sphere of influence. The full integration of the ten principles, particularly in low-income countries … can make companies a driving force for development.

Similarly, the World Bank defines CSR as the 'commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for development' (Ward, 2004). Clearly, working with employee's families, local community and the society at large goes beyond how the relationship between business and society has been depicted in the past, and what has been considered as the primary responsibility and function of business. The role of the manager is not only to be a business leader, but -- as emphasized by the social activist approach to CSR -- to assume the role of social and moral leader. As stated in a report about the role of business in society from the World Business Council for Sustainable Development (WBCSD, 2006: 11): 'the challenges for business are to understand the roots and nature of poverty…'. The expanded CSR agenda is not only a reality in words and definitions, but also in corporate practice. For example, oil companies now help to build schools and hospitals, launch micro-credit schemes for local people and assist youth employment programmes in developing countries (Frynas, 2005). 'Social investments' constitute part of the total activity plan for social responsibility activities for the Norwegian oil and gas company Statoil, although they define development projects and social investments as outside the company's area of responsibility (Statoil,

2005). According to the company's sustainable development report (Statoil, 2005: 61), the projects supported by Statoil aim to build local capacity, promote human rights and transparency, and improve local conditions relating to health, safety and the environment. In 2005, Statoil's social investments totalled about US $ 8 million and included projects in 11 countries. One of the projects that received support in 2005 was the Akassa development project in the Niger Delta. Initiated in 1997, this project covers activities in the areas of abolition of poverty, local capacity building, environment, infrastructure and institutional capacity development. Under these headings, Statoil has contributed to establishing -- among other things -- micro-credit loans, health stations and pharmacies, nursery schools, educational units, and the building of bridges and schools.

In a survey of global leaders in business, civil society and the media, Nelson, Hodges, Deri et al. (2005) found evidence that development issues today are firmly on the CSR agenda, both in the minds of business leaders and in company practice. All of the business leaders in the study reported that their companies are actively involved in supporting the local communities in which they invest and market their products and services. On the question of what kinds of development project were seen as most promising or important for business to perform, the respondents from the private sector identified the companies' capacity to create jobs and build local businesses as the essential foundation for long-term development, and the area where business could contribute the most or make the most impact. Issues like ensuring environmental sustainability, training the country's local workforce, tackling bribery and corruption, investing in infrastructure, promoting gender equality and empowering women, were also considered as important areas where business should play a role. Further down the list, but also recognized as important areas where business could and should make a contribution, came issues like combating human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and other diseases, investing in higher education and new technology, and fostering universal primary education. Interestingly, all respondents reported heightened expectations from society in general of the role that business can and should play in development challenges.

Although there were concerns that the expectations placed upon business often put too much faith in the ability of business to solve development challenges, respondents from all groups agreed that development issues will and should play an increasingly important role in corporate strategy in the future. Nelson, Hodges, Deri et al. (2005: 21) note that: 'As globalization continues, the private sector will continue to expand into emerging markets around the world, and corporations will consequently assume greater responsibility for the well-being of those to whom they market their products and services'.

Together, the development from understanding CSR as being about minimizing the negative impact of corporate activities on society, to understanding it as a positive contribution to societal development where corporate managers take on the role as social and moral leaders, not only fits the social activist approach to CSR, but also indicates that a new and alternative model of societal governance is emerging. Buckland, Albareda, Lozano et al. (2006: 7) argue that the rise of CSR must be

understood in the context of the new globalized economy and a crisis in the welfare state. This has led people and governments to look for 'new ways of developing and funding collective action to deal with social demands that cannot be met by the state alone such as poverty, unemployment, lack of economic development and social exclusion of key groups'. An important point is that the expanded CSR agenda is seen not only as the 'solution' to development challenges in the developing world, but also as a framework within which new ways of collaboration and partnership between business, governments and civil society are used as a mechanism for developing new models of governance to address the major social problems faced by post-industrial societies (Buckland, Albareda, Lozano et al., 2006). In a similar vein, Salin-Andersson (2006) argues that CSR must be understood as a mobilization of corporate actors to assist the development aid to states. This trend, she argues, is one in which corporations are seen as complementing and sometimes replacing states as the primary structures and shapers of the world, implying a more active role for business in society than before. Matten and Crane (2003) argue that companies today are involved in the administration of citizen's civil, social and political rights, an area and responsibility normally considered to lie within the sphere of politics and government. Moon, Crane and Matten (2005) have suggested two ways in which companies share in governing: first by contributing to societal governance issues outside the firm, often in partnerships with governmental or non-governmental organizations; and, second, by administering rights within the normal operations of the companies.

While the new global 'soft-law' regulatory regime of CSR may be understood as a criticism of corporations, the trend of corporations as 'development agencies' does not reflect such criticism, but rather builds on the view of corporations as strong and legitimate players in building a 'global welfare state' (Salin-Andersson, 2006). For example, Dunfee and Hess (2000) argue that 'private firms are uniquely positioned to provide significant relief to the misery that pervades the developing world' and that private firms have a 'competitive advantage' over nation-states and NGOs in the provision of aid. Then the question becomes: what is the potential outcome of such a 'radicalized' role of business in society? Our argument -- outlined in the next section -- is that it may contribute to undermining and not promoting societal interest and sustainable development. It may do so by undermining what can be called the institutional conditions for sustainable development.

The potential impact of CSR on sustainable development

The question we address in this section is how CSR may impact on society in general and on sustainable development in particular. An analysis of the relationship between CSR and sustainable development is, however, full of complications. Although sustainable development has regional and local implications (see Chapter 2), it is first and foremost a macro-level concept and its challenges are global in character. CSR, on the other hand, operates at the micro-level and, as argued by Zadek (2001: 122), has to do 'with keeping an organization going and at best doing some good in the process and not too much harm'. Further, we do not know enough about the system to understand

the critical aspects of the relationship between the decisions and activities of a business organization and its impact on the whole (Zadek, 2001). Understanding what decisions and actions really make a contribution to sustainable development in the long run is -- on this background-- not easy. Still, our argument is that the very foundational ideas and the expanded agenda of CSR may undermine what can be called the institutional condition for sustainable development.

The institutional condition for sustainable development

This paper mainly build on the interpretation of sustainable development as suggested by the Brundtland Report (1987) which identified economic prosperity, social equity and environmental integrity as the three principles that ground the concept. The direction towards sustainability is, however, not easily identified. Being the result of an optimization process for independent but interacting targets (i.e. economic development and environmental protection), it necessarily does not have a single, clear-cut solution, but includes a range of options to choose from (Spangenberg, 2002). However, building on the Agenda 21 (1992), Spangenberg (2002) suggests that sustainable development not only has economic, social and environmental dimensions, but also an institutional dimension, important in its own right, that also functions as a *condition* to address the challenges within the other dimensions of sustainable development.

In general, the institutional dimension of sustainable development (in economics referred to as 'social capital') covers the systems of rules governing the interaction of members of society (Czada, 1995). As a condition for sustainable development, the institutional dimension provides the means for societal decision-making, determining the form of economic and social activity, thus also influencing the impact of social and economic activity on the physical environment.

Building on the Brundtland Report (1987), and with respect to the institutional requirements for sustainable development, public policy and the design of laws may be characterized as perhaps the most important mechanism for obtaining a sustainable development path. The Brundtland Report is very clear about the need for increased state responsibility and legal means to address the challenges of sustainable development (WCED, 1987: 330):

> legal regimes are being rapidly outdistanced by the accelerating pace and expanding scale of impacts on the environmental base of development. Human laws must be reformulated to keep human activities in harmony with the unchanging and universal laws of nature.

Corporate social responsibility: undermining the institutional condition for sustainable development

Sustainable development rest on an institutional condition (Spangenberg, 2002): the power and capability of the states and political institutions to shape and implement national and international policy, laws, and regulations for more sustainable forms of

development. CSR has the potential to undermine this condition. The central reason is that CSR may imply increased power to business in society at the possible expense of political and civil society power. At the same time, the foundational features of capitalism may work against using this power to integrate broader social and environmental considerations voluntarily in business decision-making and activity.

Corporate social responsibility: a defence against governmental regulation and public criticism

Originally, and although early definitions of CSR were tied more to society's interests than to those of the firm, the concept never intended to serve broader societal interests and the common good. Rather, the concept was intended to protect business from criticism from civil society and against mandatory state regulations. The origins of business and societal thinking and the concept of CSR had two interconnected causes (Frederick, 1987). First of all, the late nineteenth and early twentieth centuries were a time of intense concern and fear about the economic and social consequences of the power of the giant corporations being formed in that period in the US. One result of this fear was liberal and radical criticism directed against business in general, and especially against the large corporations. Second, and as a response to increased corporate power, new, mandatory regulations were imposed on business in the form of antitrust laws, banking regulations, food and drug regulations, and public utility guidelines to a wide range of corporations. It was:

> in this climate of increasing public alarm about business power and of expanding government control [that] we find business executives beginning to speak of their social responsibilities. Their ideas laid the foundation of what we now recognize as the … theory of corporate social responsibility.
>
> (Frederick, 1987: 143)

In this way, CSR was first and foremost a possible defence against social criticism and governmental power in order to secure the continued pursuit of profit:

> Corporate social responsibility offered a welcome alternative to government interventions in private affairs, as well as shelter from the charge that a heartless, profit-minded business system cared so little for the general public that it deserved to be abolished or severely curbed. All that was needed to counter such criticism, according to the CSR doctrine, was for business to accept its social responsibilities
>
> (Fredrick, 1987: 145)

The driving force behind the new 'CSR wave' during the 1990s was exactly the same as when the concept was first formulated Henderson (2001). On this background, there are reasons to be highly sceptical about the ability of CSR to promote societal interest and sustainable development.

Corporate social responsibility: a new governance model implying increased corporate power?

Originally, CSR rested on two foundational principles, charity and stewardship, and six fundamental precepts (Frederick, 1987):

1. Power begets responsibility.

2. A voluntary assumption of responsibility is preferable to government intervention and regulation.

3. Voluntary social responsibility requires business leaders to acknowledge and accept the legitimate claims, rights, and needs of other groups in society.

4. CSR requires a respect for law and for the rules of the game that govern marketplace relations.

5. An attitude of 'enlightened self-interest' leads socially-responsible business firms to take a long-run view of profits.

6. Greater economic, social, and political stability -- and therefore a lower level of social criticism directed toward the private enterprise system -- will result if all business adopts a socially responsible posture.

Waddock (2004) argues that the general precepts or foundational ideas behind CSR are pretty much the same today. As argued by Jones (1996), it is exactly the paternalistic stewardship principle behind social responsibility that in its full context serves to legitimate the hierarchical domination of business in society rather than to encourage democratic pluralism. In slightly other words, in these foundational ideas and precepts lies the foundation for potential increased power to business in society, a power that today manifests itself in a new model of societal governance, where business and companies stand out as legitimate interpreters of the common good and providers of societal welfare. Business today takes part in the provision and administration of citizenship rights (Matten and Crane, 2005), both in the Western world and developing countries. As such, CSR has changed the roles and responsibilities of governments, business and civil society in delivering public welfare, and in promoting social and environmental practice (Matten and Moon, 2005; Midttun, 2005; Roome, 2005). This implies that the role of business is not only to conduct its activity within the economic sphere of society, but also to address and be part of the solution to broader societal challenges and sustainable development. Furthermore, corporate managers not only have a role to play as business leaders, but also must take on a role of moral, social and political leaders. In fact, as shown by Jenkins (2005), policy-makers are now advocating CSR as an alternative route to the traditional public delivery of development. However, there is a serious 'pitfall' to this new governance model::

> Within this framework there are no forces to limit the size and power of corporations and this trend may lead to a shifting of boundaries among states, society and corporations. Just as the trend builds on the strength and power of corporations, it may reinforce this power and add to a transfer of responsibilities and resources from states and civil society to corporations.

(Salin-Anderson, 2006)

A possible transfer of power, responsibilities and resources from states to business may imply that the political systems' ability to address broader societal goals and the challenges of sustainable development is reduced. Frynas (2005) argues that, in developing countries -- and in regions or local communities with a weak institutional framework -- this may take place in the following way: government failure to deliver basic services like schools, health and education may lead to demands and expectations for a role of CSR in development, that is, in delivering such services. In spite of the fact that CSR normally will not be capable of playing such a development role, this nevertheless will ease the pressure on the government to take the responsibility for welfare services and securing the basic rights of its citizens.

The development of a 'CSR governance model' means that the distinction between the roles and responsibilities of the specialized institutions in society -- heavily emphasized within the functional theory version of the classical approach to CSR -- is blurred. Expressed in a slightly different way, CSR challenges the view that social welfare is best enhanced when the specialized institutions of society stick to their respective core objectives and activities. Levitt (1958: 44) very strongly argued against such a development on the basis of functional theory. He feared that companies -- assuming an ever-widening social responsibility and power -- would reshape not only the economic, but also the 'institutional, social, cultural, and political topography of society'. And here is the danger as expressed by Levitt, that while the corporation will transform itself in the process, at bottom its outlook will remain narrowly economic and materialistic:

> What we have, then, is the frightening spectacle of a powerful economic functional group whose future and perception are shaped in a high materialistic context of money and things but which imposes its narrow ideas about a broad spectrum of unrelated noneconomic subjects on the mass of man and society.

(Levitt, 1958: 45)

As argued by Jones (1996: 22), an empirical examination of the 'contemporary institutional landscape … reveal(s) an increasing dominance of institutions associated with economic rationality, and the progressing colonization of noneconomic institutions by economic ones'.

Corporate social responsibility: mystifying the essential capitalist forces driving business activity

The voluntary nature of CSR may be interpreted as part of a wider revisiting of the role of government, underpinned by the assumption that companies are capable of policing themselves in the absence of binding international and national laws to regulate corporate behaviour (Blowfield and Frynas, 2005). As argued by Jones (1996), the whole concept of CSR and the discourse around it mystifies the essential forces driving business. There is very little reason to believe that business on a voluntary basis will integrate broader social and environmental considerations in decision-making and

action. The concept of CSR -- and especially the ethical approach to it -- largely ignores how the foundational features of capitalism and the basic purpose of the firm itself within the capitalist system, structure and determine the pursuit of profit above all other considerations. Jones (1996) describes capitalism as an economic system based upon private property, production for profit, wage labour and use of the market mechanism for allocating society's productive resources efficiently: 'Capitalism is all about seeking profits by avoiding or eliminating competition, maximizing organizational productivity, and socializing the costs of production'. Within this capitalist system, the basic purpose of the firm is to increase its profit:

> Any capitalist firm essentially represents a package of human, physical, (and) capital resources that have been organized for a single overriding purpose: the pursuit of profit for its owners. These organizations do not exist to solve society's problems, or to provide enriching jobs for their members (unless there is a positive linkage between job satisfaction and labour productivity), or to satisfy customers' needs. Employees are a resource to be utilized, a means to an end; society provides critical resources (e.g., customers, legitimacy) that the organization must obtain for survival and growth, as well as a site for externalizing the costs of production; customers' needs are to be met (as well as created) not as an end in itself, but a means to secure profits.

> (Jones, 1996: 15)

Although capitalism comes in various forms (Hall and Soskice, 2001), and there are many nuances to the picture depicted above, the point is that capitalism imposes great limitations on the voluntary integration of broader societal considerations in decision-making and activity. One would simply not expect capitalist organizations voluntarily to adopt behaviour that 'flies directly in the face of their basic institutional rationality' (Jones, 1996: 25). As also pointed out by Herman (1981) and Mintzberg (1983), ethic-based arguments in support of social responsibility are not sustainable in light of an understanding of the dynamics of capitalist-bureaucratic organizations. Several empirical studies support this point. Herman (1981), Schwartz (1987) and Zeitlin (1989) all found that managers very much act in accordance with the profit-maximizing tenets of classical capitalism, and not with the more multi-dimensional CSR model of the firm, suggesting that companies and managers on a voluntary basis will not adopt broader societal interests.

On the background of the original aim of CSR -- that of being a line of defence against state regulation and public criticism -- and the structural features of capitalism, it is no wonder that there seems to be a big gap between the 'talk' and 'realities' of CSR (Campbell, 2007), and that CSR is struggling with the objective of promoting development. Having studied the CSR initiatives of oil companies in the Niger Delta, Frynas (2005) found that most CSR initiatives did not go beyond narrowly philanthropic gestures, as, for example, donating objects such as schoolbooks, mosquito nets or lifejackets to local communities. Frynas (2005) also found that the oil and gas companies failed to involve the intended beneficiaries of CSR, the local communities, the companies did not have the proper human resources to address complicated societal

challenges, and the companies failed to integrate their CSR efforts into larger development plans, making the efforts highly inefficient from a societal point of view. In addition, one company's CSR efforts – whether a local community project or codes of conduct imposed on suppliers – are seldom coordinated with other companies' CSR efforts and initiatives. In this way, the potentially positive effects and outcome of CSR are reduced compared to what might have been.

Corporate social responsibility: effectively closing the door for regulative efforts to address the challenges of sustainable development

It may also be argued that the concept of CSR, and the new governance model rising around it, co-opt and diffuse potentially countervailing forces. As argued by Jones (1996), if one were to believe business is socially responsible, what plausible reason could there be to support government regulations or any other measures that impinge on the activities of benevolent, enlightened professional management? In this way, the social activist approach to CSR suggests a 'kinder, gentler' capitalism that does not require the vigilance of countervailing forces to keep it honest because it is essentially benign, or at least can be made so through existing and voluntary organizational and managerial procedural mechanisms.

In summary, it may be a mistake to view CSR only as a 'toolbox' for managing social issues, as suggested within the social responsiveness approach to CSR. Instead, CSR must be understood within the larger context of governance. From such a perspective, it becomes clear how CSR may exceed the limits of the economic sphere of society into the domains of public policy and civil society, at the possible expense of the power and resources of public policy and civil society to address complex societal and sustainable development challenges.

The economic and institutional responsibility of business

A conceptualization of CSR must take seriously the foundational institutional rationality to which any business firm is subject, that of capital accumulation (Jones, 1996) and, the *raison d'être* of any business firm, that of enhancing profit to shareholders and owners. As argued by Blowfield (2005), the strength of CSR lies not in presenting an alternative model of business, but in capturing and presenting the moral dimensions of capitalism in ways that resonate with investors and consumers, and are actionable by managers. On this background, we suggest a conceptualization of CSR that limits the developmental, moral and political aspirations of companies in the societal arena. Instead, focus should first of all be directed to the economic responsibility of business towards society. Further, focus should be directed to the responsibility of business to adapt its economic activity to the institutional framework and systems of governance defining -- both through mandatory laws and voluntary guidelines -- legitimate wealth generation in society. The possible strength of such a conceptualization is that it confines the power of business in society, and opens the door for government regulations and other measures to impinge on corporate activity that might harm societal

interest and sustainable development, by not taking for granted that, owing to the grounding features of capitalism, business will voluntarily do well for society.

The economic and institutional responsibility of business

Our conceptualization of CSR builds on the classical approach to CSR (Brummer, 1991) and on functional theory (Parsons, 1991) and builds on the following basic assumptions:

> Society may be understood as consisting of different but interacting spheres of activity: business, political and civil society (Waddell and Brown, 1997; Waddell, 2000), all framed by the natural environment (Waddock, 2002) constituting the external limit of the total system (Daly, 1992). For the purpose of the functioning of the total system, the basic purpose of the different spheres of society differ; hence, the institutions belonging to the different spheres of society have different basic aims, roles, tasks, and responsibility.

The basic aim of business – working within the economic sphere of society and within a system of democratic capitalism – is to make profit. Companies thus primarily have an *economic responsibility* towards society. Other institutions -- political and civil society institutions -- are better suited to perform tasks (e.g. the provision and administration of basic citizenship rights) that are outside the domain of wealth generation.

The activity of companies – within the economic sphere of society – is framed by the larger society, including both political and civil society institutions (hence the notion of business *in* – and not *and* – society). The basic purpose of political institutions and governments may be characterized as, based upon democratic elections and processes of public policy, defining and establishing the 'common good'. For the purpose of establishing that common good, business and companies thus have a responsibility not to undermine the capacity of political and civil society institutions to perform the task originating from their foundational role in society, an *institutional responsibility*.

The economic responsibility of business

Jones (1996) argues that any concept of CSR must be positioned with respect to an understanding of capitalist political economy. Taking this seriously, and building on functional theory, business has first and foremost an economic responsibility towards society. According to Carroll (1979, 1991), all subsequent responsibilities of corporations are based on the economic responsibility of CSR. Companies have shareholders who demand a reasonable return on their investments, they have employees who want safe and fairly paid jobs, and they have customers who demand good-quality products at a fair price. By definition, this is the reason why businesses are set up in society, and their first responsibility is to function properly as an economic unit and to stay in business. The actual content of the economic responsibility of business will tend to vary from society to society (Matten and Moon, 2005). Within an American context, this responsibility is closely related to the company as a profit-seeking unit

intended to serve the economic interests of the shareholders. As noted by Hunt (2000), the economic responsibility within a European context may also include not only a responsibility towards the owners, but also to the employees and local community.

The economic responsibilities of business reach beyond the organization as a purely profit-seeking unit and also encompass ethical considerations. At the most fundamental level, the ethical responsibilities of business embody those standards, norms or expectations that reflect a concern for what society regards as fair and just, and for avoiding or minimizing the potential negative impact of business decision-making and activities on stakeholders and society in general (Carroll, 1979, 1991). The ethical or moral responsibility of business has always been a part of the economic life (and responsibility) of companies. As stated by Milton Friedman (1970) -- perhaps the strongest defender of the company as a profit-seeking instrument -- the responsibility of business and managers is 'to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical custom'. In sum, our conceptualization of the economic responsibility of business is not very far from the conclusion reached by Levitt (1958: 49) that the responsibility of business is to seek material gain (profit) and, at the same time, obey the 'elementary canons of everyday face-to-face civility (honesty, good faith, and so on)'.

The institutional responsibility of business

The basic idea of the institutional responsibility of business is to recognize a need for what Scherer and Palazzo (2007: 1097) call 'a political order where economic rationality is circumscribed by democratic institutions and procedures', and for businesses' role in contributing to sustaining or building this order. As such, there are two aspects or categories of the institutional responsibility of business: First, and most fundamentally, companies have a responsibility to take into account the frameworks and norms set up by national and international political institutions to regulate the activities of business. This responsibility may be termed their public responsibility (Preston and Post, 1975). Second, companies have a responsibility to contribute to enhancing the capacity for political and civil society institutions to perform their foundational tasks in society, including the capacity of political institutions to circumscribe economic rationality -- corporate decision-making and activities -- by democratic institutions and procedures. This responsibility may be termed institutional capacity-building. These two categories of businesses institutional responsibility are further outlined below.

Most fundamentally, companies' responsibility for taking seriously the national and international policy and frameworks that regulate the activities of business in society have to do with respecting the formal laws and the rules of the game that govern marketplace relations and companies' activities in society (Frederick, 1987). Laws may be understood as the codification of society's moral views; therefore, abiding by these standards is a necessary prerequisite for any further reasoning about social responsibility (Crane and Matten, 2004). Carroll (1991) suggests that the satisfaction of legal responsibilities is required of all corporations seeking to be socially responsible.

Public responsibility also implies that companies are responsible for acting in accordance with the intention and spirit of the law, and generally to act in accordance -- within their legitimate sphere of influence -- with the content of public policy (Preston and Post, 1975). As such, the public responsibility of business goes further than 'just' to follow the law; it also includes taking into account any voluntary normative guidelines that have been legitimized through political processes at the national and international levels and the political interpretation of the foundational values constituting the content of such guidelines. The public responsibility of business also implies that business should not improperly interfere in political processes and decision-making, a demand established, for example, in the Organisation for Economic Co-operation and Development (OECD)'s 'Guidelines for Multinational Corporations' (2000).

Then the question becomes: what principles are businesses today expected to take into consideration as part of their economic functioning in society? Although it may be argued that the concept of CSR is a fairly new one and that its different meanings are only starting to percolate internationally (Boxenbaum, 2004), signs of some generally agreed upon principles in the area of CSR are appearing that constitute the beginning of an 'ethical custom' on the global level, legitimized through political processes and decisions. These generally agreed upon principles are expressed in the increasing number of initiatives, standards and guidelines aimed at creating increased corporate accountability. Such initiatives include, for example, the 'UN Global Compact', the 'International Labour Organization (ILO) Conventions' and the 'OECD Guidelines for Multinational Enterprises'. As argued by Fredrick (1991), such normative guidelines comprise a framework for identifying the essential behaviour expected of corporations. Having analysed six different intergovernmental compacts (including, e.g. the 'OECD Guidelines for Multinational Enterprises', the 'Helsinki Final Act', and the 'ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy'), Frederick (1991) found that these guidelines expressed general principles and attempts to influence corporate practice in the areas of employment relations, consumer protection, environmental pollution, political participation and basic human rights. Waddock (2004) argues that generally agreed upon principles seem to exist in the areas of human rights, labour standards, environment and anti-corruption initiatives. What is important about these generally agreed upon principles is that they have gained legitimacy through political processes and government decisions. Together, these principles may constitute what Campbell (2007: 951) calls a 'minimum behavioural standard, below which corporate behaviour becomes socially irresponsible', or what Waddock (2004) calls foundational values, defining the 'floor' of responsible corporate action. The minimum behavioural standard originating from such values and principles is not to suggest an alternative model of business, drawing it away from its core economic purpose in society, but to recognize a need for a political framing of the activity of business in order to make it responsible.

Within the system of democratic capitalism, there has never been such a thing as a 'free enterprise system' and the political system has many legitimate roles to play in economic life (Novak, 1982). However, while business may have a legitimate role to play in the political and civil society sphere of society, it also has a responsibility not to

undermine the power and resources of political and civil society institutions. That brings us to the second category of companies' institutional responsibility: institutional capacity building.

In this chapter, we have argued that CSR -- through 'mystifying' the essential driving force of capitalism, and through effectively closing the door for public policy and mandatory regulations -- may contribute to undermining the institutional conditions for a sustainable development and for addressing complex societal challenges. On this background, from a societal, and not a corporate-centred perspective, CSR might better be conceptualized in a more 'minimalist fashion' than that envisaged within the social activist approach to CSR, by postulating that managers, in addition to being corporate leaders, should also take on the role of social, moral and political leaders to grapple with, for example, 'understanding the roots of poverty'. However, in some regions of the world, political institutions do not have the power, resources and ability to provide citizens with basic welfare services or, more generally, to secure basic citizenship rights. In slightly different words, many institutions have an obvious lack of capacity to perform their basic tasks properly (Webb, 2007). On this background, there is a need to define a role for business that takes seriously the inadequate capacity of political institutions to perform their role and mission in society, and the fact that business is already deeply engaged in developmental activities, while at the same time ensuring that role does not undermine the state and public institutions' prime responsibility for securing the common good. From a functionalist viewpoint, it is within a framework of government leadership that the private sector can most effectively play a constructive role in enhancing sustainable development. We suggest that business, through institutional capacity building, might play a limited role in strengthening both this leadership, and the political and civil society institutions' capacity to conduct their foundational roles in society.

The term 'capacity building' is increasingly used by NGOs, governments and business (Webb, 2007), and its definitions and approaches are divergent and wide-ranging (Backer, 2000). The United Nations Development Program (UNDP), the 'official' capacity development agency within the UN system, defines capacity building as 'the creation of an enabling environment with appropriate policy and legal frameworks, institutional development, including community participation, human resources and strengthening of managerial systems'. Milen (2001) defines capacity building as 'an ability of individuals, organizations, or systems to perform appropriate functions effectively, efficiently, and sustainably'. This involves 'the continuing process of strengthening the abilities to perform core functions, solve problems, define and achieve objectives and understand and deal with development needs'. Within such an understanding, capacity building may include human resource development, organizational development, and institutional and legal framework development. More generally, capacity building may also include working with governments to improve infrastructure; sharing international business practices and standards in such areas as health, safety and the environment, ethical and corporate governance, human rights and labour; and supporting local business development, transferring technology. The special case of institutional capacity building aims at improving the legal and regulatory

business environment through such initiatives as, for example, building up the capacity of local authorities and institutional structures, promoting enhanced dialogue and consciousness raising on justice and human rights, and encouraging cooperation to build appropriate policy frameworks and new institutional structures to address environmental and sustainability issues on a sector (Sørensen and Pettersen, 2006).

So far, the role of business in institutional capacity building is a vastly underexplored area (Webb, 2007), and is also largely ignored by the CSR literature (Frynas, 2005). However, theorists are beginning to suggest that businesses may a play a limited but constructive role in contributing to better governance by strengthening the ability of political institutions to perform the tasks given them through their foundational roles in society. Business responsibility for institutional capacity building was also acknowledged by the Brundtland Report (1987). Although the report indicates that voluntary business initiatives are promising, it stated that what is really needed is for business to work more closely together with governments 'in helping to shape and implement policy, laws, and regulations for more sustainable forms of development' (WCED, 1987: 329).

A central idea in capacity building is that the receiving institutions themselves should be in the 'driver's seat', setting the agenda, defining the important problems (Milen, 2001), and deciding if business participation in capacity building projects is desirable and, eventually, how and on what terms. The advantage of institutional capacity building, at least in theory, is that businesses, rather than assuming a direct responsibility for providing and administering welfare services, such as housing, education, and health, might instead, where appropriate, play a limited role in strengthening the ability of political institutions to 'perform core functions, solve problems, define and achieve objectives and understand and deal with development needs'. As such, capacity building -- as an aspect of CSR -- may contribute to strengthening the institutional framework that constitutes a condition for long-term societal development, rather than to undermining it. As such, suggesting capacity building (and institutional responsibility) as an aspect of CSR answers the current call for a more politically enlarged conceptualization of CSR (Margolis and Walsh, 2003; Dubbink, 2004; Matten and Crane, 2005), where companies' efforts in the societal arena are circumscribed by political processes and institutions (Scherer and Palazzo, 2007).

Some aspects of Statoil's CSR activities in Venezuela may be termed an example of institutional capacity building. Through funding, Statoil is supporting the efforts of the Venezuelan society to modernize its legal structures, particularly in those areas related to implementing human rights (Sørensen and Pettersen, 2006: 43). Some aspects of the Akassa development project in the Niger Delta may also be termed institutional capacity building.

Although institutional capacity building may work to strengthen rather than to undermine the political and governance framework necessary to both regulate business and address complex societal challenges, it also has several potential 'downsides'. Institutional capacity building may imply an increased influence of business in political discourses and agenda setting and a weakening of representative democracy (Martens,

2007), just to mentioning two important challenges. The dilemma, of course, is that the capacity of those political institutions setting the agenda and defining the terms and conditions for capacity-building projects may be the lowest precisely where the need for capacity building is strongest. As such, it is possibly easier to defend business entering the political and societal arena in societies that already have powerful political institutions capable of defining the terms for increased business participation in that arena.

Towards a political conceptualization of corporate social responsibility

In sum then, the social responsibility of business may be summarized as follows (Table 4.1). Business has first of all an economic responsibility towards society, that is, to making profit and enhancing value for shareholders, employees, the local community and the society at large, while at the same time obeying what Levitt (1958) called 'the canons of everyday life' (honesty, good faith and so on). This responsibility derives from the basic aim of business in society within the system of democratic capitalism. Second, business has an institutional responsibility towards society, implying both a responsibility to confirm to the institutional frameworks of society (both mandatory laws and voluntary agreements legitimized through political processes and decisions) and to play a limited role in strengthening the very same institutional frameworks.

Table 4.1. The social responsibility of business

Institutional responsibility	Capacity building	Supporting a strengthened institutional framework
	Public responsibility	Compliance with politically sanctioned standards and guidelines
		Compliance with national and international laws and regulations
Economic responsibility	Making profit	Obeying the 'the canons of everyday life'
		Enhancing value for shareholders, employees, the local community and the society at large

Suggesting a functional approach to CSR -- arguing that other institutions exist in society to perform the tasks envisaged as a corporate responsibility within the social activist approach to CSR -- is not to suggest very strict boundaries between the different spheres of society. Business, governments and civil society institutions constantly interact and influence each other. Companies' historically grown institutional frameworks (Matten and Moon, 2005) -- national history, culture, business systems, systems of societal governance -- are likely to heavily influence managers' perceptions of CSR, of legitimate values and of considerations in business and managerial decision-making, thereby constituting different agendas of CSR from society to society. At the same time, from a neo-institutional viewpoint (DiMaggio and Powell, 1991), new

international standards and CSR guidelines -- often developed through multilateralism involving governments, the business sector and civil society institutions -- diffuse and may make managerial understanding of CSR and corporate practice more similar across societies. The point is that the different spheres of society are interconnected in many ways and are likely to influence each other, resulting, for example, in companies and managers taking a broader view of profit than is suggested within a strictly neoclassical view of economics. However, what is important from a functional viewpoint is that political power and resources are necessary to address many contemporary, complex, societal challenges such as poverty, environmental degradation, social inequity and lack of sustainable development in general. A steadily evolving CSR agenda may undermine the capacity of political institutions to perform their foundational tasks in society and the possibility to achieve sustainable political solutions to societal challenges.

On this background, our conceptualization of CSR is based on a primacy of politics and democracy to philosophy (Habermas, 1996; Rorty, 1991). It does not start with philosophical principles, but with a recognition of a changing interplay between governments, civil society actors and business, and the consequences of that dynamic (Sherer and Palazzo, 2007). Such a conceptualization of CSR is different from a social activist approach in several important respects. Most importantly, the social activist approach holds that universal standards exist for determining responsible corporate decisions and actions independent of the view of other, including political, interests. These standards typically have an ethical, religious or metaphysical basis (Brummer, 1991). This implies that, in considering the welfare of others, companies are to respond to their constituencies' ideals rather than to expressed or current interests. Consequently, a CSR policy based on social activism is decoupled not only from the positions and interests of its current stakeholders, but also from processes of public policy. As such, the ideal CSR agenda -- from a social activism position -- is given based upon philosophical principles and moral reasoning outside the framework of public policy. This means that CSR, rather than being complementary to political solutions, constitutes itself as an alternative and competing framework for solving social ills and challenges of sustainable development. Because corporate managers, in the role of moral leaders, voluntarily will address societal challenges because that is the right thing to do, there is no need for broader political solutions (implying increased risks for mandatory regulations).

Concluding remarks

From a corporate perspective, CSR may be highly important. Corporations may sustain their own legitimacy through integrating the demands and interests of society in general, and stakeholders in particular, in corporate decision-making and activity. However, from a societal and sustainable development perspective, CSR may be counterproductive to, or may undermine, the institutional conditions required for a sustainable development path. It does this by legitimizing increased corporate power in society at the possible expense of the civil and political sphere of society, and by applying voluntary solutions rather than mandatory decisions to the challenges of

sustainable development. On this background, we suggest a conceptualization of CSR within the structural features of capitalism and the aims of every business organization, 'stripping' business of ambitions on the broader societal arena and thus confining -- and not expanding -- the power of business in society.

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Study XIII:
A Reinterpretation of the Principles of CSR: A Pragmatic Approach

Authors: **Bjørn-Tore Blindheim, University of Stavanger and Oluf Langhelle, University of Stavanger / NORWAY**

Introduction

The theory of Corporate Social Performance (CSP) represents one of the most influential approaches within the business and society literature (Melè, 2008). This theory, which holds that business and society are interwoven entities and that business, on this background, has a responsibility to society in some way or the other, is perhaps best represented by Wood's (1991) CSP model.

The CSP model is a synthesis that includes a) principles of corporate social responsibility (CSR), b) processes of corporate social responsiveness, and c) outcomes of corporate behaviour. The CSP model thus encompasses a *normative* foundation or principles of CSR expressing what companies ought to do, a *descriptive* element focusing on what companies in fact do in response to the principles of CSR, and an *instrumental* element that draws attention to the actual outcomes of CSR. Finally, the CSP model demonstrates the interrelationship among these three topics. An important strength of the CSP model is its comprehensiveness and its logical synthesis of the conceptual CSR literature up to the beginning of the 1990s, and CSP now serves for many as an overarching framework for the Business and Society field (Whetten, Rands, and Godfrey, 2002).

Theories of CSP and the model of Wood (1991) have however also met criticism. First of all, it has been criticized for only being a classificatory device because of an unclear relationship between the models principles, processes, and outcomes, and thus providing few possibilities for generating explanations and predictions (Mitnick, 1993; Husted, 2000,; Whetten et al., 2002). It has also been criticised for lacking a clear normative theory of business in society (Swanson, 1995, 1999; Whetten et al., 2002; Scherer and Palazzo, 2007; Van Oosterhout and Heugens, 2008) capable of prescribing what is, and what not appropriate business behaviour is. It is this second critique that constitutes the point of departure for our inquiry in this paper.

In brief, this paper argues for a pragmatic approach to the role and responsibility of business in society (Wicks and Freeman, 1998) in which the normative deficiencies of CSP theory can be strengthened trough democratic iterations (Benhabib, 2006, 2008) of some or the other ethical treatise, and thus provide a justified foundation for companies efforts on the societal arena, and for judging about those efforts. We illustrate our approach to a normative theory of business in society by reinterpreting the principles of CSR from the ethical concept of sustainable development (SD) (WCED, 1987). Since the publication of *Our Common Future* in 1987, the concept of SD has achieved relatively broad acceptance in the political, civil, and business spheres of society. In addition, the UN increasingly subscribes a role for business in addressing the challenges of sustainable development, a role that has been warranted through international political processes (Langhelle, Blindheim, and Øygarden, 2008). We further argue that such a reinterpretation has important implications, both for the action counterpart (Wood, 1991) to the principles of CSR and for evaluating the outcomes of companies' CSR efforts.

This paper proceeds as follows: First, we present the principles of CSR and the CSP model. Then we discuss the limitations of the CSR principles as a normative foundation for companies' CSR efforts and for evaluating the outcome of those efforts. After introducing the concept of SD, we present the concept of jurisgenerative politics and democratic iterations in order to reconcile the somewhat contrasting approaches to the role and responsibility of business in society suggested by the relativistic principles of CSR and the more universal norms of SD. This discussion paves the way for reinterpreting the CSR principles. Finally, we briefly discuss some implications of the reinterpreted principles of CSR for companies CSR efforts, and for judging about those efforts.

The Model of Corporate Social Performance

Bowen's *Social Responsibilities of the Businessman* (1953) is generally recognised as the book that marks the beginning of the modern literature on CSR. His point of departure for writing about the social responsibility of business was that the largest corporations at that time were vital centres of power and their actions affected citizens in many ways (Carroll, 2008). Bowen defined social responsibility as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action that are desirable in terms of the objectives and values of our society".

Writers after Bowen, including Davis (1960; 1967; 1973), Preston and Post (1975; 1981) and Carroll (1979), continued to search for an appropriate definition of the meaning and content of CSR. In 1960, Davis suggested that corporate responsibility involves decisions and actions that transcend the firm's direct economic interests. Davis later (1973) defined CSR as "the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm (to) accomplish social benefits along with the traditional economic gains which the firm

seeks." Preston and Post introduced the notion of public responsibility in 1975. At the core of this notion lies the idea that business and society are mutually dependent systems, and firms should be socially responsible by adhering to the standards of performance both in law and in the public policy process because they exist and operate in a shared environment. In what stands as probably the most established and accepted conceptualization of CSR (Crane and Matten, 2004), Carroll (1979) suggested CSR as a multi-layered concept that can be differentiated into the four interrelated aspects of economic, legal, ethical and philanthropic responsibilities.

In a seminal paper that built on Wartick and Cochran's work (1985), Wood (1991) organised the insights of Davis (1967), Preston and Post (1975) and Carroll (1979) into principles of CSR that have come to constitute the normative foundation for a complete model of Corporate Social Performance (CSP). The processes of social responsiveness and the outcomes of corporate CSR efforts are the other two components of Wood's model.

Principles of CSR – Legitimacy, Public Responsibility and Managerial Discretion

Wood (1991, p. 695) defined a principle as something fundamental that people believe is true or a basic value that motivates people to act, and identified three different principles of CSR: legitimacy, public responsibility, and managerial discretion.

Legitimacy – satisfying the demands and expectations of society and stakeholders

At the institutional level, the principle of CSR refers to legitimacy: Society has some general expectations about what constitutes the social responsibility of business (understood as a social and economic institution). The principle of legitimacy builds on the "Iron Law of Responsibility" (Davis, 1967) and states that society grants legitimacy and power to business, and that, in the long run, those who do not use power in a manner that society considers responsible will tend to lose it (Davis, 1973).

Public responsibility – expressing the company's "legitimate scope of responsibility"

At the organisational level, the principle of CSR refers to public responsibility (Preston and Post, 1975). In Wood's (1991) interpretation, the principle expresses the responsibility of businesses for outcomes related to their primary and secondary areas of involvement with society (Preston and Post, 1975); meaning that business organisations are not responsible for solving all social and environmental problems. Instead, they are – according to the principle – responsible for solving problems they have caused and for helping to solve problems and issues related to their business operations and interests. Together, the primary and secondary responsibilities define what Preston and Post (1975, p. 57) call the "legitimate scope of corporate responsibility".

Managerial discretion – doing "what is right"

At the individual level, the model suggests managerial discretion (Carroll, 1979) as the CSR principle. The principle implies that managers are understood as moral actors who should exercise, in every circumstance, such discretion as is available to them towards

socially responsible outcomes (Wood, 1990). Managers thus have a responsibility to exercise good judgement and do "what is right" (Carroll, 1979).

The Processes of CSR – Corporate and Managerial Decision-making and action

Processes of corporate social responsiveness are the action counterpart to the principles of CSR (Wood, 1991). More precisely, social responsiveness refers to the capacity of a corporation to respond to social pressure (Frederick, 1987) and involves such actions as environmental and social assessment, stakeholder management and issue management.

The Outcome of Corporate and Managerial Behaviour

Three types of outcome are associated with the outcome portion of the CSP model (Wood, 1991): the social impact of corporate behaviour, the programmes companies use to implement responsibility and/or responsiveness, and the policies developed by companies to handle stakeholder interests. Wood and Jones (1995) later redefined the outcome portion of the model as "internal stakeholder effects, external stakeholder effects, and external institutional effects". In this redefined model, the main point is that it is stakeholders who – in addition to being the source of expectations about what constitutes appropriate behaviour, and the ones that experience the effects of corporate action – evaluate the degree of success of a corporate response to a social issue.

The Principles of CSR: an Insufficient Foundation for Informing Corporate Efforts Supporting the Objectives and Values of Society?

The CSP model has met different types of criticisms. Perhaps most importantly, the model has been criticised for containing an undeveloped normative orientation (e.g. Melè, 2008) incapable of – as argued by Scherer and Palazzo (2007, p. 1100): …prescribing how management practice can reasonable move from "what is" to "what should be" (Donaldson, 2003; Donaldson and Preston, 1995). This normative deficiency not only reduce the value of CSP to practicing managers, but also inhibit a coherent theory of business and society (Swanson, 1999), where normative and descriptive perspectives can be more directly and consciously interconnected or moves towards integration.

The claim that can be put forward is that the principles of CSR provide an insufficient foundation for supporting what Bowen (1953) suggested as the basic aim of CSR, that of pursuing the objectives and values of our society. The principles of CSR state that corporations are responsible to carry out those activities that society in general and specific stakeholders demand and expect of them. As such, the CSR principles are inherently relativistic: They do not state any specific action that corporations and their managers are always responsible to perform. The actual content of CSR is dependent upon both time and place, that is, what society currently defines as their societal responsibility (Blindheim, 2008). Theories of CPS then stipulate that these societal

expectations will align the processes of strategy formulation and implementation with the social aspects of management, thus resulting in "socially tolerable consequences" (Scherer and Palazzo, 2007, p. 1099).

The potential problem with these CSP assumptions is that they do not open for a *justification or critical questioning* of the norms for appropriate behaviour defined by corporate constituencies (e.g. Scherer and Palazzo, 2007). As argued by van Oosterhout and Heugens (2008, p. 202), societal and stakeholder expectations cannot constitute the meaning and content of corporate responsibility unless these expectations are justified, and businesses, on this background, ought to contribute to their realization:

"In general: your expectations toward A will only lead to A's responsibility to meet them if they are justified. Without justification your expectations are just that. They would have no logical connection to any responsibility that A has".

Van Oosterhout and Heugens (2008) further argue that CSR can only have desirable meaning if it holds up against some normative principles that state a) what is desirable, and b) that business has a responsibility to contribute to addressing what is desirable.

The lack of a critical judgement of stakeholder claims and their embedded moral becomes especially problematic since the claims of responsibility may be defined by vested and ethically questionable interests (Swanson, 1995). According to Scherer and Palazzo (2007, p. 1099), the idea that the different claims of stakeholders upon the corporation would be legitimate "seems to be an illusory idea, considering that modern societies exhibit a plurality of particular and conflicting moralities". In the case of conflicting interests and claims, Scherer and Palazzo (2007) suggest that power and urgency, as well as legitimacy (Mitchell, Agle, and Wood, 1997) will explain and determine corporate response and behaviour in reaction to multitude and conflicting claims put forward by corporate stakeholders and constituencies. The alignment of stakeholder claims with business activity has thus the potential to being counterproductive to notions of the common good (e.g. Dahl, 1985) or the values of our society (e.g. Bowen, 1953).

If we assumes that this critique is valid, the questions then becomes how the normative basis of the CSP model can be strengthened so as to constitute a justified and legitimate ground for companies efforts on the societal arena, where moral claims of the role and responsibility of business in society is subject to processes of critical questioning and judgement.

A Pragmatic Answer to the Normative Deficiencies of the Principles of CSR

In this paper, we suggest what can be called a pragmatic approach to the question of how the normative deficiencies of the CPS model can be addressed and strengthened. Most basically, pragmatism can be outlined as an adequate epistemology constituting an alternative to the study of organizations than what offered by positivist or anti-positivist approaches (Wicks and Freeman, 1998). For the purpose of this paper, we will however outline pragmatism as ideas about the need for ethics in organizational studies and

organizational life, and about the need for political justification of diverse moral claims and action.

In contrast to positivism and anti-positivism, a pragmatic approach insists on a viable place for *ethics* in the study of organizations. The ultimate goal of organizational studies are understood as develop research that is focused on serving human purposes, such as knowledge being useful to organizations and the societies in which they operate. The key question for pragmatists is whether or not information – such as scientific data or a treatise of ethics – is useful in the sense of offering a viable alternative to organizational practice and life (Wicks and Freeman, 1998). A pragmatist approach would however not insist on the primacy of a specific treatise of ethics to the other. The issue is rather one of acknowledging the place for ethics in organizational life, and one of "pragmatic experimentation" (Wicks and Freeman (1998, p. 124) and a search for novel approaches that may help organizations serve a human purpose. As such, a pragmatic approach opens the door for justification or critical judgement of moral claim upon some or the other treatise of ethic. At the same time, from a pragmatic point of view, the ultimate justification of diverse moral claim rests not on some universal ethical principle, but on the idea of the primacy of politics and democracy over philosophy (Crick, 1962; Habermas, 1996; Rorty, 1991). Pragmatism thus suggests political "conversations about ethics" (Wicks and Freeman, 1998, p. 131) as the central guiding principle for the critical inquiry of moral claims of corporate responsibility.

Building on this argument, we suggest that one possible contribution to discussions addressing the normative deficiencies of the CPS model should take the ethical concept of sustainable development as this is interpreted within public policy and processes of public will formation as its point of departure. The norms of sustainable development – transferred and related to the level of the firm – state both what is desirable and that business has a responsibility to contribute to address challenges of sustainable development (SD). At the same time, from a pragmatic point of view (Wicks and Freeman, 1998), the ultimate and necessary justification of business responsibility for addressing SD issues does not solely rests on the norms of sustainable development, but, more importantly, on the constant interpretations of these principles within the framework of public policy where the state, civil society institutions, and business are key actors. In order to clear the ground for a reinterpretation of the principles of CSR, in the following sections we discuss a) the origins and meaning of SD, b) an initial justification for the responsibility of business to participate in addressing the challenges of SD, and c) the framework of jurisgenerative politics and the notion of democratic iterations.

Sustainable Development – Origins and Meaning

There are different opinions about the origin of the SD concept (O'Riordan, 1993; Worster, 1993; Jacob, 1996; McManus, 1996). Some early expressions have been traced to work in the 1970s within the World Council of Churches (Langhelle 2000, Dresner 2002). It was *Our Common Future*, however, the report from the World Commission on Environment and Development (also referred to as the Brundtland Report), that put SD

firmly on the international political agenda (Elkington, 1997; Lafferty and Langhelle 1999; Lafferty and Meadowcroft, 2000).

What the Brundtland Report accomplished was to cast SD in a form that could appeal to a wide range of political actors, while at the same time deriving legitimacy from the UN-sponsored process through which it had been formulated. As such, the report drew together diverse strands of the international discourse on environment and development (Lafferty and Meadowcroft, 2000).

Our Common Future (1987) defined SD as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". This definition, according to the report, embodies two key concepts:

- The concept of 'needs', in particular the essential needs of the world's poor to which overriding priority should be given; and

- The idea of limitations imposed by the state of technology and social organisation on the environment's ability to meet present and future needs (WCED, 1987:43).

Sustainable development should be seen as an ethical concept that aims at amalgamating a number of potentially contradictory goals into one coherent development path for the world – that of sustainable development. One of the main concerns of the Commission was global poverty and the growing inequality between the developed and developing world. This is reflected in the first key concept above, which gives an overriding priority to meeting the essential needs of the world's poor, and it is framed as a matter of global, or intragenerational, justice. Another main concern within the Commission was the growing awareness of a new type of environmental problems – *global* environmental problems: Climate change and loss of biodiversity especially, but also traditional pollution, deforestation and more, were seen as *inherent* to traditional development. Eradicating global poverty through "traditional" economic growth and development could therefore threaten the very existence of future generations and their ability to cover basic needs – thus violating intergenerational justice.

The main contradiction that the SD concept addresses, therefore, is the question of how to merge developmental with environmental concerns on a global scale. How do you go about eradicating global poverty without compromising the ability of future generations to meet their needs? How is this to be done without compromising the needs and opportunities of present and future generations when it comes to climate change and biological diversity? How is the conflict between intra- and intergenerational justice to be solved?

The Role of Business in addressing Sustainable Development Challenges

The Brundtland Report (1987) only briefly mentioned what its authors saw as the proper role of business in relation to the SD concept. There was, however, a clear conviction

among the Commission's members that they should produce a report that could influence the large and influential organisations like the World Bank, IMF and business organisations.

In the follow-up to *Our Common Future*, business played a central role in the preparations for the 1992 World Summit in Rio de Janeiro. The World Business Council for Sustainable Development was formed on the eve of the Rio Summit to give business a stronger voice. Since 1993 – with the publication of *Agenda 21* – the UN has increasingly discussed the role of business in contributing to SD. The report stated that business and industry must play a crucial role in the social and economic development of a country. On this ground, "business and industry, including transnational corporations, and their representative organisations should be full participants in the implementation and evaluation of activities related to Agenda 21" (*Agenda 21*, 1993, paragraphs 30.1).

The *Report of the World Summit on Sustainable Development in Johannesburg 2002* stated that the business sector – while pursuing its legitimate activities – has a duty to contribute to the evolution of equitable and sustainable communities and societies. In addition, the report called for enhanced corporate social (including environmental) responsibility and accountability."

Evidently, the UN increasingly subscribes a role for business in addressing the challenges of sustainable development, a role that has been warranted through international political processes (Langhelle, Blindheim, and Øygarden, 2008). Herein lays an initial justification for a role and responsibility for business in addressing SD challenges. At the same time, from a pragmatic point of view, the ultimate justification for the role and responsibility of business in addressing SD challenges lies within the continued democratic iterations and interpretations of the concept of SD and the continued political conversations about the role of business in addressing SD challenges.

Jurisgenerative Politics and Democratic Iterations

Democratic iterations refer to "complex processes of public argument, deliberation, and exchange – through which universalist claims are contested and contextualised, invoked and revoked, posited and positioned – throughout legal and political institutions as well as civil society" (Benhabib, 2008, p. 98). In contrast to natural rights doctrine and legal positivism, iterations offer a space of democratic interpretation and intervention between universal principles – like the norms of sustainable development – and the context-dependent will of democratic majorities within different polities (Benhabib, 2008, p. 99):

"On the one hand, the (…) claims that frame democratic politics must be viewed as transcending the specific enactments of democratic majorities in specific polities; on the other hand, such democratic

majorities re-iterate these principles and incorporate them into the democratic will-formation process of the people through contestation, revision, and rejection."

Rather than being concerned with the question of which norms are valid for human beings across different societies and for all times, democratic iterations aim at democratic justice through asking questions about what decisions can be reached that would be conceived as both just and legitimate within specific polities (Dahl, 1989).

As such, democratic iterations mediate and reconcile the opinion- and will-formation of members of democratic communities – that is, not only all those who are formal citizens and residents of a jurisdictional system, but also those who are more fluid and unstructured civil society communities and groups – and context-transcending universal norms. A pragmatic approach, in which the justification of diverse moral claims rests upon political conversations about the ethics of sustainable development, has important implications for the principles of legitimacy, public responsibility and managerial discretion. Below, we sketch some initial possibilities.

A Reinterpretation of the CSR Principles

Legitimacy

Legitimacy is a key concept in the debate over CSR (Palazzo and Sherer, 2006). The principle of legitimacy – as defined by Davis (1967, 1973) and interpreted by Wood (1991) – builds on the relativistic idea that the social institution of business should adapt to society's shifting ideas about responsible use of power. The principle does however not – as argued above – open for critical questioning and justification of the morality embedded in diverse societal claims confronting the societal institution of business.

 A pragmatic approach (Wicks and Freeman, 1998) opens for such a justification, through insisting on a role for ethics – and not just for moral custom (e.g. Friedman, 1962) – in the study and practice of organizations. Questions about the role and responsibility of business in society are subject to discussions about what this role and responsibility should be according to some ethical values. This kind of moral legitimacy (Suchman, 1995) rests not on – as in theories of CSP – constituencies' evaluation of the consequences of some action for them, but, rather on whether the activity "is the right thing to do".

In her reorientation of the CPS model and the institutional level CSR principle, Swanson (1995) suggested economizing and ecologizing (Frederick, 1995) as possible basic values in which the legitimacy of the role and responsibility of business in society rests. The principle of economizing and ecologizing resemble ideas associated with sustainable development as we have presented above. While *economizing* refers to "the ability of organisations efficiently to convert inputs to outputs through competitive behaviour", *ecologizing* refers to "symbiotic, integrative linkages between organisations and their environments that function adaptively to sustain life" (Swanson, 1995, p. 56). For Swanson, legitimacy thus rests on the companies ability to enhance the social good by producing goods and services on a scale that would otherwise be unattainable

(Donaldson, 1989), and on their ability to adapt production to life-sustaining social needs (Sethi, 1979).

From a pragmatic point of view, the ultimate justification of the role and responsibility of business in society, rests however not solely on ethical values, but, rather, on the political conversations (Wicks and Freeman, 1998) and democratic iterations (Benhabib, 2006, 2008) over ethical values. So, although the ethical values embedded in the notion of sustainable development – e.g. ecologizing and economizing – provides a possible source of initial justification and legitimacy of some role for business in society, the ultimate justification and source of legitimacy rests upon how the values are interpreted within processes of public will formation in different polities, and are made relevant for business. From a pragmatic point of view, the question becomes one of (Benhabib, 2008, p. 99): "…in view of our moral, political, and constitutional commitments as a people, and our international obligations to human right treaties and documents, what decisions can we reach that would be deemed both just and legitimate?"

Public Responsibility

Based upon the reinterpreted institutional level principle of legitimacy, it follows that the corporate entity has responsibilities to act on political conversations and democratic iterations over ethical values. From an SD perspective, corporations have a responsibility to integrate social and environmental as well as economic considerations into their decisions and actions (e.g. Elkington, 1994, 1997; Marrewijk, 2003) as these are politically interpreted and defined in different polities.

According to Preston and Post, it is first of all political institutions and public policy that should inform companies' efforts in the societal arena within their legitimate scope of responsibility. For Preston and Post (1975, p. 57) "public policy includes not only the literal text of the law and regulations, but also the broad pattern of social direction reflected in public opinion, emerging issues, formal legal requirements, and enforcements or implementation practices". For Benhabib (2006, 2008), systems of democratic self-government with free public spaces is a basic condition for legitimate processes of democratic iterations. Within this framework, the process of public opinion- and will-formation takes place among all those who are formal citizens and residents of this system, but also among what she refers to as "other more fluid and unstructured communities" (Benhabib, 2008, p. 99) Such communities may include – and although the state is viewed as the principal public actor – international and transnational human rights organisations, various UN representatives and monitoring groups, global activist groups, compliance-monitoring NGOs, women's groups, church groups, advocacy associations, but also businesses or business associations.

A pragmatic approach thus open for a magnitude of different roles companies may assume pursuing a sustainable development path. At the same time, is exactly processes of interpretation and reinterpretation – within systems of democratic self-government with a free space for a wide range of civil society institutions to participate – that secure

the continued legitimacy of ethical norms (Benhabib, 2006, 2008) informing the role and responsibility of companies in society.

Managerial Discretion

The principle of managerial discretion states that managers are moral actors. Within the limits of economic, legal, and ethical constraints (Carroll, 1979), they are obliged to exercise such discretion as is available to them towards socially responsible outcomes (Wood, 1991). From a pragmatic point of view, the *ethical constraints* framing managerial discretion and judgement, is not – as in CPS models – defined trough possible vested and unjustified stakeholders claim, but rather through ethical values justified trough processes of public will formation, in which the corporate entity itself is a legitimate actor.

The principle of managerial discretion is thus placed within a framework in which managers and the corporate entity assumes a role in continues processes of democratic iterations (e.g. Nèron and Norman, 2008; Scherer and Palazzo, 2007) necessary for the justification of the very principles framing the activity of business in the first place.

From a pragmatic point of view, the principle of managerial discretion gains additional importance. As explained by Benhabib (2006, p. 49):

"(…) jurisgenerative politics is a model that permits us to think of creative interventions that mediate between universal norms and the will of democratic majorities. (…) Because they are dependent on contingent processes of democratic will-formation, not all jurisgenerative politics yields positive results".

The principle of managerial discretion may thus motivate corporate managers to act in spite of the fact that politics and policies can be immoral, plain wrong or sending mixed and conflicting messages. This ambiguity in terms of the relationship between ethical principles and political conversations, and its implications for business, is perhaps the very essence of a pragmatic approach to the role and responsibility of business in society.

Some Possible Implications of the Reinterpreted Principles of CSR

Our suggested pragmatic approach to the principles of CSR has important implications for companies efforts on the societal arena and for judging about such those efforts. Concerning the action counterpart to the principles of CSR, a pragmatic approach most basically turns the attention from questions of the capacity of a corporation to respond to constituencies' diverse moral claims and social pressure, to discussions about corporate action promoting societal welfare. For example, there is a fast-growing and huge body of literature that attempts to translate SD principles into corporate actions (Elkington 1997; Welford 1997, 2000; Klaver and Jonker, 2000; Oskarsson and Malmborg, 2005; Porrit 2005; Epstein 2008, just to mention a few). Integrating sustainability into product decisions will "cut to the core of the business, raising

questions such as, what product to make, how to design it, how and where to manufacture and market it for what uses, and how to recycle/re-use/dispose of it" (Waage, et al. 2005:1160).

Concerning the question of how to judge and evaluate the outcome of companies efforts on the societal arena, a pragmatic approach turns attention from power-dependence relations (e.g. Pfeffer and Salancik, 1978) between key constituencies and the corporate entity, to discussion about whether corporate actions contributes to the common good as interpreted within processes of public policy. Given the importance of sustainable development challenges – e.g. climate change – and the significance these challenges is assigned in political conversations about SD, there are good reason to believe that companies increasingly will be judged upon whether they contribute to address SD challenges through their core business operations.

Conclusion

This paper relates to three somewhat different strands of research. Most importantly, it relates and contributes to the discussion about the normative foundation of theories of CSP. Our pragmatic approach (Wicks and Freeman, 1998) illustrates how the ethical concept of SD (WCED, 1987) and the notion of democratic iterations (Benhabib, 2006, 2008) offer some guidance for companies and managers that wish to pursue a sustainable development path. Through building on the notion of democratic iterations (Benhabib, 2006, 2008), this paper also relates and contributes to a growing body of literature that explicitly acknowledges the political nature of CSR and asks for more politically-rooted conceptualizations of CSR and analysis of the firm (e.g., Matten and Moon, 2008; Vogel, 2005; Scherer and Palazzo, 2007; Nèron and Norman, 2008). By focusing on the contributions of business to sustainable development, this paper also relates to some of the corporate sustainability literature (e.g., Marrewijk, 2003). A potential weakness with this body of literature is that it translates SD to corporate action without addressing how such a concept give rise to what Benhabib (2008) refers to as a "public language of rights articulation and claims-making for citizens and civil society groups", and hence a variety of legitimate interpretations of how SD relates to the corporate entity.

Our suggested framework does not solve all ethical and practical dilemmas and trade-offs that companies will endure. From a pragmatic point of view, this is neither possible nor desirable. It is precisely ethical and practical dilemmas and trade-offs that constitute the very foundation for continued political conversations over ethical values, and thus for the legitimacy of some or the other ethical treatise constituting the foundation for discussions about the role and responsibility of business in society.

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CONCLUSIONS AND WAYS FORWARD

This concluding chapter has no ambitions to summarise or synthesise all the studies included in this report. We will, however, briefly summarize and highlight one issue which several of the chapters address in various ways: that of SMEs and CSR. The rest of this concluding chapter draws together and reflects further on themes discussed in the introduction and addressed in some of the studies. These themes are two overriding issues which we see as cross-cutting in relation to the two main approaches to CSR identified in this report, "the society and business approach" and "the market centric approach". These two overriding issues are:

1) The political nature of corporate social responsibility (CSR), and

2) The normative dimensions of CSR.

We end this concluding chapter by pointing at some areas which we believe would be fruitful for future research.

CSR in SMEs and in medium sized companies

SMEs and CSR constitute an important part of this report. The clothing sector in Norway primarily consists of SMEs, with only 0.15 percent with more than 100 employees. At the same time, we have argued that the clothing sector is well suited for CSR studies being a global business with closely coordinated production and distribution lines spread out in regions with great variations in government regulation, employment and environmental protection, wage levels and so on.

Many of the studies included in this report have addressed the conditions under which SMEs operate and obstacles and barriers of adapting CSR. Study V, VII, and VIII find that SMEs' lack of cognitive and financial resources represent a barrier for CSR implementation. But even SMEs can be driven to invest in CSR if they are exposed to public scrutiny, as shown in Study VI. Study VIII and IX finds that CSR may be regarded as essentially risk management for medium sized companies. This finding highlights the role of a critical civil society. NGO's have played such a role. Not only have they played a leading role in mobilising companies to prioritize social responsibility, but they are also sources of information and guidance. This is also acknowledged in the Report to Parliament from the Ministry of Foreign Affairs:

> Non-governmental organisations (NGOs) play a key role in the promotion of socially responsible behaviour in companies. They act as drivers and watch-dogs in relation to various issues and sectors. They are engaged in the prevention of human rights violations in companies' work and production, protecting the environment, ensuring better management of natural resources, and preventing and exposing corruption. They are often important partners for companies in

connection with projects and training in developing countries (Ministry of foreign Affairs, 2009:101).

Study V, however, shows a clear gap between attitudes and practice based on the CSR survey of Norwegian clothing companies. Managers tend to express positive attitudes towards CSR, while their own CSR practices fall short of these high standards. A possible explanation for this gap is the absence of four preconditions for translating attitudes for CSR into CSR practices: commitment, capacity, consensus and consciousness. This is evident in the sample of companies in this survey. Small firms have limited financial capacity, little knowledge, and little support in their environment for issues associated with CSR. To get SMEs involved in CSR practices, therefore, will require increased efforts from Government, branch organisations and business and NGOs.

Study VIII identified two barriers which affect SMEs; the lack of influence over their supply chain preventing them from intervene effectively in this area, and the lack of financial capacity preventing them from diverting resources to CSR. In addition, the study found that medium sized firms may perceive "geographical spread" as a driver for CSR, as they expand their geographical presence and thereby increases the risk of violating CSR standards. Study IX refers to similar results for a sample of 18 firms: a majority of the medium sized retailers regarded CSR as essentially risk management – managing the risk of bad reputation and bad quality. For MNEs, Study VIII found that the perception of the general public, which they can both adapt to and shape, represents an important driver for CSR. Thus, the options for CSR may be restricted in SMEs, a predominantly defensive measure in medium sized firms, and both a defensive and an offensive measure in MNEs.

The draft ISO 26000 standard (ISO/TMB/WG SR N 172, 2009:8) includes the following paragraph on how the standard "covers operations of small and medium sized organizations (SMOs)":

Box 3 – ISO 26000 and small and medium-sized organizations (SMOs)

Small and medium-sized organizations are organizations whose number of employees, or size of financial activities fall below certain limits. The size thresholds vary from country to country. For the purpose of this International Standard, SMOs include those very small organizations referred to as "micro" organizations.

Integrating social responsibility throughout an SMO can be undertaken through practical, simple and cost efficient actions, and does not need to be complex or expensive. Owing to their small size, and their potential for being more flexible and innovative, SMOs may in fact provide particularly good opportunities for social responsibility. They are generally more flexible in terms of organizational management, often have close contact with local communities, and their top management usually has a more immediate influence on the organization's activities.

Social responsibility involves the adoption of an integrated approach to managing an organization's activities and impacts. An organization should address and monitor the impacts of its decisions and activities on society and the environment in a way that takes account of both the size of the organization and its impacts. It may not be possible for an organization to remedy immediately all negative consequences of its decisions and activities. It might be necessary to make choices and to set priorities.

The following considerations may be of assistance. SMOs should:

- take into account that internal man 534 agement procedures, reporting to stakeholders and other processes may be more flexible and informal for SMOs than for their larger counterparts, provided that appropriate levels of transparency are preserved;

- be aware that when reviewing all seven core subjects and identifying the relevant issues, the organization's own context, conditions, resources and stakeholder interests should be taken into account, recognizing that all core subjects, but not all issues will be relevant for every organization;

- focus at the outset on the issues and impacts that are of greatest significance to sustainable development. An SMO should also have a plan to address remaining issues and impacts in a timely manner;

- seek assistance from relevant government agencies, collective organizations (such as sector associations and umbrella or peer organizations) and perhaps national standards bodies in developing practical guides and programmes for using this International Standard. Such guides and programmes should be tailored to the specific nature and needs of SMOs and their stakeholders; and

- where appropriate, act collectively with peer and sector organizations rather than individually, to save resources and enhance capacity for action. For instance, for organizations operating in the same context and sector, identification of and engagement with stakeholders can sometimes be more effective if done collectively.

Being socially responsible is likely to benefit SMOs for the reasons mentioned elsewhere in this International Standard. SMOs may find that other organizations with which they have relationships consider that providing support for SMO endeavours is part of their own social responsibility.

Organizations with greater capacity and experience in social responsibility might consider providing support to SMOs, including assisting them in raising awareness on issues of social responsibility and good practice (ISO/TMB/WG SR N 172, 2009:8).

Even though most studies point to the limitations of CSR in SMEs, certain SMEs still invest heavily in CSR, and some studies in this report also supports the conclusion that SMEs may in fact provide particularly good opportunities for social responsibility. Study VI shows that external pressures and expectations from stakeholders contribute to

this: Findings in this case study show that SMEs with a low level of local embeddedness, may still be exposed to public scrutiny and therefore driven to invest in CSR. Study VII shows that SMEs engaged in CSR have a range of opportunities which they can pursue. CSR thus opens up a space for concrete actions. Company differences in economic, social and cultural structures, however, influence the implementation of CSR in SMEs. CSR can be implemented in more or less formalised ways. In study VII, one company has a formalized procedure with reporting routines, planning documents and follow-ups to help suppliers meet the CSR requirements, partly as a result of its membership in ETI-N (Ethical Trade Initiative- Norway), while the other relies more on trust and personal relationships and will terminate relationships with suppliers who are found to be in violation with important requirements. In some ways, the difference between a formalised and less formalised implementation of CSR in MNEs reflects the notions of implicit and explicit CSR.

It seems, clear though, that membership in ETI-N and a formalised implementation of CSR makes companies CSR efforts more systematic, transparent and accessible for third parties.

The key component and explanation for these SMEs CSR engagement, however, is no doubt managers' commitment and dedication. This gives then a knowledge capacity – influencing both values and capacity for implementation, which are critical for implementing CSR. Our study therefore suggests two main conclusions: 1) the critical factor for CSR in SMEs are managers' awareness, commitment and dedication. Awareness building is therefore crucial. 2) Further, CSR must be seen as *relevant* for the SMEs. Very few managers in our survey of SMEs in the clothing sector believe that the firm's business practices abroad are exposed to risks in their activities abroad. The majority of the managers seem to think that they have taken adequate measures to avoid connections to child labour and to a certain degree also poor labour standards, while they are less sure about wage conditions. I addition to these results, the survey also shows that no more than 17.3 per cent think that the firm's ethical conduct could be a major threat to the firm's reputation. Only 3.9 per cent rate the firm's business practices abroad as such a threat. The foundation for these believes, however, seem poorly grounded.

Behind these critical factors, however, lies the deeper challenges of CSR addressed in the introduction relating to the contested nature of CSR. What does CSR actually consist in? How should it be defined? How should it be understood? What are its defining characteristics? Together with the legal – voluntary fault line, the contested nature of CSR constitutes a major and an important part of the CSR context which individual companies operate within. This context, however, is political and normative in nature. Moreover, both the political dimensions of CSR and its normative components are frequently disregarded in the academic literature on CSR.

Towards a new research agenda: The political and normative nature of corporate social responsibility

The political nature of corporate social responsibility (CSR) relates to the contested nature of CSR and the fact that there are widely different political perceptions of CSR. The two main perspectives of CSR identified and used as point of departures for the different studies included in this report can in itself be seen as a reflection of this. There are different perceptions of what the core features of CSR are and should be. This is to some extent also visible in the Norwegian Parliament (*Stortinget*). Although the Committee on Foreign Affair in Parliament agreed on many things in their comments to the CSR report from the Ministry of Foreign Affairs, there are also clear fault lines, were some follow the traditional left-right cleavage in Norwegian politics.

On the one hand, this cleavage is present in terms of the more general views on how the (global) market functions. Both the Progress Party and the Conservative Party underlines the positive sides of globalisation and market expansion in developing countries, economic growth and poverty reduction. The Progress Party in its remarks seems to be arguing for a classical view of CSR, in line with Friedman's position: "CSR often builds on the misconception that companies do not show CSR if they only seek profit" (Committee on Foreign Affair, 2009: 4). In a remark together with the Conservative Party, both parties argue that measures which could be costly or affect the competetitiveness of Norwegian companies should be avoided. The Progress Party is the party which most explicitly argue against regulation, while both the Conservative Party and the Progress Party argue that there are clear limitations on whether or not Government can or should regulate ethical values and conditions abroad (Committee on Foreign Affair, 2009: 4).

Except for the Progress Party, however, all parties agree that Norway should continue to support the work by the *Special Representative on the issue of Human Rights, Transnational Corporations and Other Business Enterprises.* Moreover, it seems that the same parties in the Committee envision a global binding framework for CSR: "The goal in view must be to get a binding global framework for CSR. The majority supports the Governments ambitions to be a significant force the get this work in place" (Committee on Foreign Affair, 2009: 4). In the mean time, however, as discussed in the introductory chapter, the Norwegian Government does not seem to be wiling to further the options which Ruggie have already opened up for. Thus, Government argued that one should be cautious about prosecuting acts committed abroad in Norway and did not consider it expedient to propose unilateral Norwegian penal provisions concerning companies' social responsibility with regard to their operations abroad (Ministry of Foreign Affairs, 2009:88).

As such, the legal – voluntary fault-line to some degree resembles the traditional left-right cleavage in Norwegian politics, but only to some degree. It is more in the ends of the continuum you find the clear positions (Socialist Left Party and the Progress Party). In the middle, it is more mixed. As we saw in the introduction, the social partners both support the Governments positions, and while the labour organization puts a time limit on their position, "*LO does not … currently see the need for binding national*

guidelines"), the The Confederation of Norwegian Enterprise (NHO), wants international agreements and guidelines for the private sector adapted to national legislation, in order to secure international competitiveness.

It is possible to argue, however, that the legal – voluntary fault-line goes beyond the mandate which Ruggie (2007) operates within. It can and should be understood not only as an overall framework for business and human rights, but also as a subset of the *general* discussion about CSR and strategies to promote responsible business conduct (e.g. Buchman, 2008; Howitt; 2008). In other words, it relates to a number of other issues than human rights like pollution, and relates to the primary preferred way (ideologically) to make sure that the outputs and processes of the economic system are in accordance with the values of the cultural and political system.

On the political and normative level, the studies in this report evidently differ in their theoretical points of departure and understanding of the notion of Corporate Social Responsibility (CSR). Study X and XI advocate what can be labelled a market centric approach to CSR. This approach in general holds that since business at all times must fulfil the economic demands of a competitive market economy CSR must be related to the core economic activity of the company: to generate profits. This does not imply that profits is the only objective of CSR, but profits is a necessary requirement. Study XII and XIII advocates what can be labelled a business and society approach to CSR. This approach in general holds that business does not only play an economic, but also social, and even political role in society. Therefore, it takes a somewhat broader view on what constitutes responsible behaviour – and the appropriate mechanisms to advocate responsible business – than the market centric approach. A business and society approach[107] is primarily concerned with the tension that arise from the interaction between the economic and the cultural, and political sphere of society, and the mechanisms to cope with this tension. As such, the social control of business – defined as the means by which society directs business activity to useful ends – constitutes the very essence of what the business and society approach to CSR is all about, hence, the importance of the voluntary – legal fault line. Two questions are central from a business and society perspective: 1) How compatible are the outputs and processes of the economic system with the values of the cultural and political system (How compatible are existing social control mechanisms?, and 2) How can the outputs and processes of the economic system be made more compatible with the values of the cultural and political systems? (How can social control mechanisms be improved?)

In spite of their differences in terms of level of analysis and consequently the adequate mechanisms for advocating responsible business conduct, the market centric and business and society approach reach somewhat similar conclusions about the appropriate role of business in society, holding that business should play a limited, rather than expansionist role in society. From a market centric perspective, the key corporate responsibility is to internalize externalities produced by business transactions. From a business and society perspective, the key corporate responsibility is economic and institutional in nature. Companies should produce goods and services that society wants, comply with existing regulatory and institutional frameworks, and avoid activities undermining the institutional and political order framing and regulating the

activity of business in society. As such, both approaches question the legitimacy of business in expounding the needs of society, and in developing corporate level mechanisms to address those needs.

Taken together, the approaches to CSR presented in this reports holds the possibility for very different responsibility mechanisms for modifying the many negative consequences of increased managerial and corporate power in society. These can be subsumed under the headings of "expansionist" and "contractive" notions of CSR. As Bjørn-Tore Blindheim argue in study III, these can be described the following way:

Explicit Expansionist CSR. Responsibility mechanisms in which the corporate entity – with the authority managers are granted within the framework of a formal organization – assumes a responsibility for a broad range of issues beyond the core economic operation or mission of the firm. Examples can include companies' charitable giving and voluntary support for society and local community development, the building of recreation facilities for employees and their families, support for schools and hospitals, and sponsoring of art events and sport arrangements.

Implicit Contractive CSR. Responsibility mechanisms initiated by collective level actors, and where the collective level actor function as the prime responsibility bearer, but where corporate entities affiliated with the responsibility program, gets involved in the administration of a narrow more than broad range of issues close to the core economic functioning of the corporate entity. Examples may include corporate internal administration of issues of health and safety, working conditions, emission reduction, etc.

Implicit Expansionist CSR. Responsibility mechanisms initiated by the state or other collective level actors, and where the collective level actor function as the prime responsibility bearer, but where corporate entities affiliated with the responsibility program or project, gets involved in the administration of a broad range of social issues. Examples may include the field of voluntary standard setting – like the Forest Stewardship Council – in which industry associations, companies, and nongovernmental organizations assume responsibility for policy-making and enactment for a broad range of issues within a specific field (Gulbrandsen, 2008).

Explicit Contractive CSR. Responsibility mechanisms initiated by the corporate actor and with the authority managers are granted within the framework of a formal organization – in which the corporate entity assumes a responsibility for a narrow more than broad range of social issues, that is, for some issues close to the core economic functioning of the organisation. Examples may include philanthropic activities close to the company's mission, e.g. when a telecommunications company is teaching computer

networks administration to students of the local community, or different bottom-of-the-pyramid strategies.

Future research

The institutional models of explicit and implicit CSR raise a number of intriguing questions. A first set of questions that arises is the actual balance of explicit and implicit strategies of CSR within industries and companies, what responsibility strategies companies use, how they address various social issues, and the actual outcome of different responsibility strategies.

A second set of questions that arises is the external institutional effects (Wood and Jones, 1995) of explicit CSR strategies. How does the eventually increased use of explicit CSR strategies impact on national business systems, on the nature of the firm, the nature of the market organisation, and on internal coordination and control? How do explicit CSR strategies impact on established and collective arrangements that address issues of work life and environmental protection? How do corporations work to influence their institutional framework? Does business participation in public policy stabilise political inequalities? Does business participation in public policy distort the public agenda? Does business participation in public policy alienate final control[108]? These questions are of utmost importance to address within the business and society study field. As Vogel (2005, 171) explained:

> "…the most critical dimension of corporate responsibility may well be a company's impact on public policy. A company's political activities typically have far broader consequences than its own practices. Yet relatively few demands raised by activists or social investors have addressed business-government relations. Too many discussions of CSR, especially in the business community, ignore the importance of government".

A third set of questions relates to political conceptions of CSR and how these conceptions are influenced and guided by broader ideological belief systems, in which the left-right cleavage constitutes only one. How political parties perceive CSR will affect government polices in different Government coalitions and is therefore of utmost importance for future CSR policies.

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Endnotes

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[1] In addition to Blowfield and Murray's (2008) classification, there are a number of other (academic) categorisations of different perceptions of CSR. Among them are Brummer's (1991) classification of classic, integrative and ethical approaches to CSR, Garriga and Melé's (2004) categorisation of instrumental-, political-, integrative- and ethical theories of CSR. Some of these are used in the following studies.

[2] See: http://www.reports-and-materials.org/Mark-Taylor-commentary.pdf. (Accessed 15 September 2009).

[3] Or as it is formulated by the *UN Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises*: "One of the toughest dilemmas companies face is where national law significantly contradicts and does not offer the same level of protection as international human rights standards" (UN, 2009:17).

[4] See: http://www.reports-and-materials.org/Mark-Taylor-commentary.pdf. (Accessed 15 September 2009).

[5] Borrgaard built a rayon-wool factory at Notodden in 1940-41.

[6] These were directed towards production costs, investment costs and modernization. In 1977 the Norwegian government provided capital to support the modernization of two large clothing industries. (Søilen 2002:176). The total state aid was limited compared to the extractive industries or metal industry. It was calculated to 80-120 million NOK annually in 1985. (Søilen 2002:179)

[7] In 1972 Norion Inc. was established. This was the largest textile merger in the 1970's with a state ownership of 40 percent. State ownership had no precedent in this type of manufacturing in Norway and has not been attempted since.

[8] Source: These number represent the number of businesses operating in SIC 52 "Retail trade" from Statistics Norway and UK National Statistics.

[9] Western Europe and the United States were the most common destinations.

[10] In this article 'clothing business' denotes the design, production, distribution, marketing and sale of garments or apparel, and does not cover the production of fabrics or cloth referred to as the 'textile industry'.

[11] This definition corresponds more or less to the definition in the European Union green paper (2001), but without a reference to 'the interaction with their stakeholders on a voluntary basis'. Se also similar CSR definitions by scholars like Zadek (2001), Rondinelli (2003), Waddock (2004), and Crouch (2006).

[12] Basic determinants of 'human well-being' may be defined in terms of five interrelated elements: security, adequate supply of basic materials, personal freedoms, good social relations, and physical health (WHO 2005:14-15).

[13] See websites like www.sweatshopwatch.org. www.cleanclothes.org, www.behindthelabel.org, and www.corpwatch.org.

[14] An example of such a study is Baden (2002). In the European retail market, sourcing patterns are characterised by greater geographical dispersal, smaller and more direct orders, and often longer-term buying relations than in the US.

[15] Source: Xinhuanet 21 September 2005.

[16] The Gini index shows the degree of overall income (in)equality. Perfect equality = '0' and perfect inequality (one person receiving all income) = '100'. Sources for the Gini index values in this paragraph: China: Shi & Sato (2006), UNDP (2005) and World Bank (World Development Indicators). Turkey: UNDP Human Development Reports and OECD Factbook 2006.

[17] The National Bureau of Statistics in China reported in February 2006 that rural households increased their disposable income from 2,300 yuan in 2001 to 3,200 yuan in 2005.

[18] Ruggie is the UN Special Representative of the Security General on the issue of Human Rights and Transnational Corporations.

[19] This distinction draws on the discussion by Ahrne and Brunsson (2004) about the nature of voluntary standards.

[20] Source: United Nations Global Compact 2009.

[21] Focus groups may also be used, however, to analyse individual level data as a supplement to group level data (Guldvik, 2002).

[22] Oljeindustriens Landsforening [The Norwegian Oil Industry Association]. OLF, The Norwegian Oil Industry Association, is a professional body and employer's association for oil and supplier companies engaged in the field of exploration and production of oil and gas on the Norwegian Continental Shelf. OLF is a member of the Confederation of Norwegian Business and Industry [NHO].

[23] The terms "CSR issues" and "social issues" are used interchangeably. The terms refer to the concrete topical areas of CSR (Carroll, 1979).

[24] The regulatory framework of CSR consists of a broad range of actors, including state/government, market/economic, and civil society (including multistakeholder) institutions and organizations (Waddock, 2008). Some of the most prominent standards and guidelines promoted by these actors include the OECD Guidelines for Multinational Enterprises, the UN Global Compact Principles, the UN Millennium Goals, the Equator Principles, the Caux Roundtable Principles for Business, Social Accountability 8000, the Global Sullivan Principles, and ISO 26,000 (the latter not yet formally adopted). The regulative framework of CSR draws its normative inspiration from politically sanctioned international declarations and treaties as the Universal Declaration of Human Rights, The ILO Conventions, the ILO Declaration on

Fundamental Principles and Rights at Work, the ILO Tripartite Declaration, the principles of the Rio Declaration, and the UN Convention Against Corruption.

[25] This argument is quoted from Campbell (2007).

[26] Although this study builds on theoretical assumptions about relations between managers' worldview/attitudes towards the issues of CSR and how these issues are ultimately acted upon at the organizational level, we do not assume that this will always be the case. As such, we stand in a tradition where, "although we see organizational participants as problem-solvers and decision-makers, we assume that individuals find themselves in more complex, less stable, and less understood world than described by conventional theories of organization" (March & Olsen, 1979, p. 21), where there is no certain relationship between attitudes, individuals, and ultimately organizational level decision-making and action.

[27] The regulatory framework of CSR (Sahlin-Andersson, 2006) resembles what Waddock (2008) recently has referred to as the institutional infrastructure around corporate responsibility.

[28] Note that the "politically rooted conceptualization of CSR" by no means constitutes a coherent body of literature. Rather, the approaches are as diverse as the approaches to "the political" itself.

[29] See Crane, Matten, & Moon (2008) for a comprehensive discussion of the different ways in which the corporate entity, the notion of citizenship, and business social responsibility are attached.

[30] We use the term "corporate citizenship" as a metaphor: "Alluding to corporations in terms of citizenship does not literally mean that corporations *are* citizens or *have* citizenship, but that their substance of action can be understood as being in some meaningful way similar to that of citizens or citizenship" (Moon, Crane, & Matten, 2005).

[31] This section is based on Stokes (2002, pp. 23-51).

[32] The content of these issue components is described in the Appendix.

[33] Information gathered at the website of the International Organization for Standardization (ISO): http://isotc.iso.org/livelink/livelink/fetch/2000/2122/830949/3934883/3935096/home.html

[34] These issues were ranked as the three top priorities for the apparel industry in 2008 by the industry itself. Source: http://en.maquilasolidarity.org/en/node/752.

[35] RMSEA is related to the amount of errors in the model.

[36] See March & Olsen (1979) for a discussion on the limitations of the general theory of "the Complete Cycle of Choice".

[37] The Clean Clothes Campaign (CCC) is an international campaign, focused on improving working conditions in the global garment and sportswear industries. There is a CCC in 12 European countries, and the campaign networks are made up of coalitions of consumer organisations, trade unions, researchers, solidarity groups, world shops and other organisations. Rene Klær, the Norwegian CCC, was co-founded by the NGOs Fremtiden i Våre Hender and Changemaker, and Handel og Kontor, a part of the labour union LO in 2007.

[38] Articles 20 and 23 of the Universal Declaration of Human Rights (the UDHR), Article 8 of the International Covenant on Economic, Social and Cultural Rights (the ICESCR).

[39] Article 2 of the UDHR, Article 2(2) of the ICESCR, Articles 2(1) and 3 of the International Covenant on Civil and Political Rights (the ICCPR).

[40] Child labour is prohibited (or at least limited) by Article 32 of the UN Convention on the Rights of the Child (the UNCRC). A child is defined as a person under the age of 18 in this convention.

[41] Article 4 of the ILO Home Work Convention of 1996 (No.177).

[42] Article 4,5 and 6 of the ILO Termination of Employment Convention of 1982 (No.158)

[43] Article 8 of the ICCPR

[44] Article 2 of the ILO Hours of Work (Industry) Convention of 1919 (No.1).

[45] Articles 23 and 24 of the UDHR and Articles 6 and 7 of the ICESCR.

[46] Article 1 of the ILO Minimum Wage Fixing Convention of 1970 (No.131) obliges all states to establish a system of minimum wages for all groups of wage earners.

[47] Another possibility would have been to base the discussion of content on for example Garriga and Melé (2004).

[48] This response rate is comparable to similar surveys of the management level and senior executives (Ghoshal and Noria 1989).

[49] The response rate on some of the questions regarding CSR practices was considerably lower than for the attitudinal questions (the question regarding codes of conduct is the exception). This should be kept in mind when reading the presentation of results.

[50] Only 147 respondents answered the question of whether their firm audits their suppliers on their performance related to working conditions.

[51] For the managers in the surveyed firms that have less than four employees, these processes will perhaps mainly be processes of actively committing and educating themselves.

[52] Southwell (2004) provides a more extensive discussion of different terms.

[53] In 2006 these Fairtrade-marked foodstuffs had the folowing market shares: coffee 1,34%, bananas 1,5%, juice 0,6%. Source: Fairtrade Norge, Bjørn Tore Heyerdahl (email, 2007)

[54] Source: Brønnøysundregistrene (Norwegian Government statistics)

[55] A company is seen as the sum of the actions of its members. When we write that a company holds knowledge or a point of view, it is on the understanding that there is agreement on this point within the company.

[56] After the completion of the study on which this article was based, Lene-V has introduced new codes of conduct. We do not know in what way these have affected the implementation of CSR.

[57] The company's attitudes and practices are here placed within the theoretical framework that is relevant to the article. The informants themselves do not necessarily operate with these terms.

[58] This case study is limited to exmining what the companies *claim* to be doing. It has not been an amition to attempt to verify the claims.

[59] In the author's opinion. It is based on a general experience of how Norwegian opinion is expressed through the media in cases regarding child labour, boycott of companies trading with Burma, etc.

[60] In relation to the implementation of environmental measures within their own company, such as cleansing of emissions.

[61] We do not have information regarding the cost implications of this.

[62] Of the sources used in this case study.

[63] These two cover more than hundred CSR studies from the beginning of the 1950's to 1995 (Carroll 1999), and from the 1950's to 2003 (Kakabadse et al. 2005).

[64] This is clearly demonstrated in review articles by Swanson (1999), Gariga & Melé (2004), and Waddock (2004).

[65] The most cited genuine global standard is the SA8000, launched by the SAI in the US in 1997. This is a third party verification standard based on the ISO auditing model and referring to ILO and UN human rights conventions. In addition, the international standard organisation is in the process of developing a new CSR standard (ISO 26000) due for release in 2009-2010. There are also many international codes of conduct specifying elements of CSR. Examples are the Global Reporting Initiative (GRI), Business Social Compliance Initiative (BSCI), the OECD guidelines for multinational enterprises, and the Global Compact (the UN).

[66] The concept 'human well-being' is presented in a report published by the World Health Organization in 2005 entitled 'Ecosystems and Well-being'. 'Human well-being' is here linked to five main aspects: Health, basic materials for a good life, good social relations, security, and freedom of choice and actions.

[67] However, I do not view *complying with the law* as an element of CSR (see below). Matten & Moon (2008:410) is not clear on this point: 'Implicit CSR', they write, 'is not conceived of as a voluntary and deliberate corporate decision but, rather, as a reaction to, or reflection of, a corporation's institutional environment'.

[68] This theme may be regarded as the counterpart of the 'business case', where the main question is; is CSR profitable? The question here is; why do profit-maximizing firms invest in CSR? There are many contributions discussing this question utilizing economic theory, see e.g. Husted & Salazar (2006), Besley and Ghatak (2007), and Calveras et al. (2007).

[69] E.g. firms may adapt to employees and potential applicants favouring companies with a good CSR reputation, or to general sentiments of corporate mistrust in society by implementing codes of conduct, third party monitoring, or reporting procedures.

[70] The regulatory regime may influence CSR in this way by publishing favourable or unfavourable information on firms' performance, demanding corporate publication of favourable or unfavourable

information, taxing undesirable actions or outcomes, creating a market for tradable goods/services, or by stimulating favourable actions/outcomes by subsidizing related goods/services.

[71] E.g. firms may influence market trends by stimulating the preference for 'ethical products' among their potential customers in advertising campaigns.

[72] These publications are collected through studies of related CSR problems at the University of Stavanger and at the University of Nottingham Business School and are published by acclaimed Journals and/or book publishers.

[73] Chapple & Moon do not explain this further. However, there are quite obvious reasons why exposure to international competition may have a positive relationship to CSR: If you are exposed to international competition, chances are that you also are exposed to different norms and ideas on workplace conditions and environmental protection. The firm has to consider these norms and ideas when they choose their own strategy, and this constitutes the starting point of CSR related activities.

[74] This is termed 'the pressure of changing social expectation' in Scherer & Palazzo (2008), and is here associated with a growing CSR engagement.

[75] This study (Hutchinson & Chaston 1994) is presented in Spence (1999:166). 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).

[76] Abernathy et al.(1999) documents how the range of products has increased among retailers in the west.

[77] The 'risk' of 'geographical spread' concerns the risk for an increase in 'CSR potential'. The 'CSR potential' of the clothing business is analyzed in an article by the author to be published in <xxx>.

[78] 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 in May – July 2007. 330 firms responded to the web-based survey of the Norwegian clothing business. However, only 182 respondents completed all instruments in the survey.

[79] 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.

[80] R2a = 0.335 and R2ax = 0.043.   R2b = 0.156 and R2bx = 0.157.

[81] The bivariate correlation between driver 2 and CSR was 0.542.

[82] Bivariate correlations were 0.28 (number 4), -0.21 (number 6), and - 0.23 (number 7).

[83] In Norway a 'SME' normally is a firm with fewer than 50 or 100 employees. In Eurostat a SME is normally a firm with between 10 and 249 employees.

[84] An almost identical survey was recently finalized in China by Beijing Institute of Clothing Technology in collaboration with the University of Stavanger.

[85] Crouch (2006) use the slightly more narrow concept "consumer taste".

[86] Reich (2007) describes these conglomerates as the dominating businesses in the 50's and into the 70's ('the not quite golden age').

[87] See World Bank (2002) for a further explanation of the 'race to the bottom' phenomenon.

[88] The labour intensive production in the clothing industry is due to a combination of fashion requirements for unique products (small series) and challenges with regard to automation. (OECD 2004).

[89] OECD (2004) supports this thesis: The textile industry, which is less labour-intensive than the clothing industry, did not migrated as fast as the clothing industry to developing countries during the decades of MFA-related quotas (1974-1994).

[90] Crouch (2004) refers to political marketing as a symptom of 'post-democracy' where the global firm is the 'key institution'.

[91] Examples of fixed CSR costs are hiring a CSR responsible staff person, authoring the codes of conduct and publishing annual social/environmental reports.

[92] Two examples of such councils are the 'World Business Council for Sustainable Development' and 'World Economic Forum'.

[93] Bouwen (2002) shows that 'large individual firms' have the highest degree of access to the European Commission. An example is BIAC – the representatives of the OECD business committee – has only representatives of major MNEs as members of their 32 standing committees and task forces.

[94] The focus on CSR in China has grown lately. In 2005 China National Textile and Apparel Council (CNTAC) established a code of conduct for its members, China Social Compliance for Textile and Apparel Industry (CSC9000T).

[95] 'It appears, accordingly, from the experiences of all ages and nations, I believe, that the work done by freemen comes cheaper in the end than that performed by slaves. It is found to do so even at Boston, Philadelphia and New York, where the wages of common labour are so very high.'(Smith, 1776: 85)

[96] http://www.vicefund.com/vicefund/abt.aspx

[97] Note that the dimensions of the altruistic strategies consist of self-assessments…

[98] http://en.wikipedia.org/wiki/Community_Reinvestment_Act (03.06.2009)

[99] http://www.federalreserve.gov/newsevents/speech/kroszner20081203a.htm (03.06.2009)

[100] 24,6 billion NOK; the conversion to USD is made using an estimated rate of 6 NOK to 1 USD.

[101] In 2006 Herrcon and Tekstilkjeden merged into Texcon. This is the combined sales of the two in 2006.

[102] Wenaas estimates that textiles represent 50 % of total sales in 2006.

[103] Helly Hansen AS estimates that textiles represent 90 % of sales.

[104] Europris AS estimates that textiles represent 10 % of sales.

[105] Search executed for the paper 02.06.2009.

[106] Campaign fall 2008.

[107] The description of the business and society approach draws heavily on Jones (1983).

[108] The three latter questions are based on Dahl (1982).