Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters

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Abstract:

Based on the findings of a qualitative empirical study of corporate social responsibility (CSR) in Swiss MNCs and SMEs, we suggest that smaller firms are not necessarily less advanced in organizing CSR than large firms. Results according to theoretically derived assessment frameworks illustrate the actual implementation status of CSR in organizational practices. We propose that small firms possess several organizational characteristics that are favourable for promoting the internal *implementation* of CSR-related practices in core business functions, but constrain external *communication and reporting* about CSR. In contrast, large firms possess several characteristics that are favourable for promoting external communication and reporting about CSR, but at the same time constrain internal implementation. We sketch a theoretical explanation of these differences in organizing CSR in MNCs and SMEs based on the relationship between firm size and relative organizational costs.

Keywords:

Corporate Social Responsibility (CSR); Firm Size; Multinational Corporations (MNC); Organizational Cost; Small- and Medium-Sized Enterprises (SME)

The spotlight of the Corporate Social Responsibility (CSR) debate has primarily been focused on large multinational corporations (MNCs) (Jamali et al. 2009, Spence 2007). In this study, we understand CSR as an umbrella term for the debate about the relationship and interactions between business and society and "any concept concerning how managers should handle public policy, social [and environmental] issues" (Windsor 2006, p. 93, our addition). We particularly focus on the increasingly global dimension of CSR, which calls businesses to engage with civil society in explicit efforts of self-regulation of environmental and social concerns, in cases where governments have difficulties to do so (Matten and Crane 2005, Scherer et al. 2006, Scherer and Palazzo 2007).

Often, MNCs are implicitly considered capable of assuming responsibility by implementing CSR-related organizational practices and structures that allow them to effectively interact with civil society. Many MNCs have been developing solutions for issues of global public concern, such as codes of conduct or corporate policies on human rights, labour standards, or climate change (Rasche and Kell 2010). Consequently, practical CSR initiatives are designed primarily for large firms that have the human and financial resources to implement the required procedures into their business operations. The following examples are illustrative: the UN Global Compact[1] as a platform for interaction between business and society; the World Business Council for Sustainable Development[2] as an industry-driven global association of MNCs, or the Global Reporting Initiative[3] that provides companies with an internationally recognised reporting standard. Many MNCs extensively report on their CSR-related activities including their account of civil society interactions. Accordingly, MNCs appear to be "omnipresent" in the media as well as in scholarly research on CSR (Blombäck and Wigren 2009).

[1] see http://www.unglobalcompact.org
[2] see http://www.wbcsd.org
[3] see http://www.gri.org

Comparatively little, however, is known about CSR in small and medium sized enterprises (SMEs)[4], despite the fact that in both developed and developing countries SMEs provide more than half of employment and thus contribute a significant share to overall economic value creation (Jamali et al. 2009, Murillo and Lozano 2006). Knowledge for instance about CSR in SMEs that are embedded in global supply chains is particularly scarce (Pedersen 2009), as is SME-MNC comparative research (exceptions include Graafland et al. 2003, Russo and Perrini 2009). The resulting general impression is that MNCs are more advanced at implementing CSR when compared to SMEs (see e.g., Campbell 2007, McWilliams and Siegel 2001). Moreover, scholars focusing on CSR in SMEs have not reached a consensus on whether SMEs are better or worse equipped to organize CSR than MNCs (see Lepoutre and Heene 2006).

In this paper we critically analyse these perceptions about CSR in MNCs and SMEs by assessing the actual implementation of CSR in organizational practices, routines and procedures. We explore how MNCs and SMEs organize CSR and seek to explain the differences. We do this by applying a conceptual framework that allows a comparative assessment of the key dimensions of organizing CSR in MNCs and SMEs, along subsequent stages. The concrete assessment indicators of this framework are developed to adequately address the organizational differences between MNCs and SMEs, most importantly the formal nature of MNCs that contrasts with the informal approach in SMEs (Russo and Tencati, 2009). At the same time, the content of the framework is sufficiently similar to allow a reasonable comparison between MNCs and SMEs. We address this by outlining the results of an empirical study conducted among Swiss MNCs and SMEs between 2007 and 2010. While the results of these studies have been reported separately for MNCs and SMEs (Baumann 2009, Baumann-Pauly and Scherer 2012, Wickert 2011b), in the present paper we go beyond

[4] We follow the broad EU definition of an SME having fewer than 250 employees (EC, 2003).

the previous analyses and emphasize the comparative perspective. In particular, we provide an original explanation for the differences in CSR implementation patterns between large and small firms.

The study contributes to our understanding of how CSR is organized in multiple ways. *First*, we provide in-depth empirical evidence of the actual implementation status of CSR in both MNCs and SMEs, based on the assessment framework we have developed (Baumann-Pauly and Scherer 2012, Wickert 2011a). Our results show that there is little congruence between the public perception of CSR and its implementation in MNCs and SMEs. Results suggest that SMEs are not necessarily less advanced in implementing CSR practices than MNCs. This finding counters existing and mostly survey-based evaluations of CSR implementation (see for instance Graafland et al. 2003, Hamman et al. 2009, Lindgreen et al. 2009) that base their analysis on public or media perceptions about CSR commitment or on the existence of codes of conduct or other policy documents but fail to go beyond a potentially unsubstantiated CSR-façade. Moreover, SMEs run by informal management approaches lack sophisticated PR-apparatus and are, as a result, systematically disadvantaged in light of increasingly complex reporting expectations of stakeholders (Ram et al. 2001).

Second, the comparative study reveals distinctive implementation patterns of CSR. Evidence suggests that MNCs are particularly advanced in making extensive public commitments to CSR and publishing comprehensive reports. In contrast, SMEs are particularly advanced at implementing CSR-related practices in organizational processes and procedures, including engaging employees. We explain these differences by introducing an as yet underemphasized theoretical account in CSR research that rests on the relationship between firm size (seen as the number of employees) and organizational costs.

Third, the assessment framework and the theoretical explanation illustrated above represent a promising starting point for future studies on CSR, in particular in firm-size related comparative terms. We conclude that while company size generally matters for the implementation approach, the formal and informal characteristics of organizations as well as resulting cost implications need to be explored in future studies in order to determine the actual implementation status of CSR.

This paper proceeds as follows: Next, we describe the assessment framework and theoretically develop its dimensions and stages. Then we outline our research design and present the results of our empirical study. Based on our empirical findings, we develop a theoretical explanation for the differences of CSR implementation between MNCs and SMEs. In the final section, we highlight the limitations of our study and suggest directions for further research.

CSR Assessment Framework for MNCs and SMEs

To distinguish between how a company's CSR programme is perceived and how it is executed requires an assessment framework that is able to capture the actual implementation status of CSR, taking into account the specific and distinct characteristics of small and large firms. Critically speaking, MNCs, on the one hand, have often been accused of building up a CSR façade that remains largely detached from actual business practice (Banerjee 2007, Wagner et al. 2009). On the other hand, it is commonly assumed that SMEs do not engage in CSR due to their paucity of formal management systems and financial and human resources (Jenkins 2004, McWilliams and Siegel 2001). Therefore, assessing the organizational integration of CSR in daily business practices and routines is critical for distinguishing between CSR "talk" and CSR "walk". Existing assessment frameworks, however, have typically been based on survey data and results are therefore often biased towards that which is considered socially desirable (Fernandez and Randall 1992). Given this desirability to be perceived as a socially responsible company by stakeholders such as employees, consumers or civil society (Campbell 2007), and a lack of survey-based research on what is actually "happening" on the company's shop floor, we suggest that surveys are a limited method for producing convincing data about the actual implementation of CSR (Rasche 2009). Therefore, the framework we develop in this study requires qualitative analysis of large and small firms, for instance by means of case studies that include interviews and archival or third-party documents.

In the following section we will first describe the dimensions of the assessment framework and the set of indicators that take into account organizational differences between MNCs and SMEs respectively. Second, arguing that the organizational integration of CSR can best be measured along subsequent stages, we introduce five stages of CSR (see table 1 below for an upfront summary).

Dimensions of CSR

The three dimensions of the framework were derived from the concept of corporate citizenship (Matten and Crane 2005) to develop concrete assessment indicators for MNCs, while for SMEs, the indicators are conceptually based on the normative-philosophical notion of social connection, i.e. the structural connection of actors to some form of systemic injustice or harm (Young 2004, Young 2006). In a nutshell, Young proposes to develop "task responsibilities" that begin with SMEs' awareness of CSR issues on a global scale, that these tasks should be addressed in collaboration with other involved actors, and that organizational processes need to be internally adapted (see also Wickert 2011a). Starting from a different line of reasoning, Baumann-Pauly and Scherer (2012) build upon Matten and Crane's (2005) corporate citizenship framework and conclude that awareness of CSR in MNCs should manifest in concrete commitments to relevant issue areas, that interaction with stakeholders plays a key role in addressing the legitimacy question, and that adapting internal structures and procedures is necessary to ensure the internal embeddedness of CSR. Pulling these two perspectives together, we suggest that both frame similar and also comparable fields of action, which we label as follows: *Commitment to CSR; Internal Structures & Procedures*; and *External Collaboration* (see Baumann 2009, Wickert 2011a). Notwithstanding this, it remains critical to give due account to the formal organizational characteristics of MNCs that are in contrast to the informal nature of SMEs. To provide an assessment framework that allows direct comparison between MNCs and SMEs, we sought to strike a balance between comparing sufficiently similar dimensions of CSR for each group of organizations, while taking into account different organizational characteristics that would not systematically disadvantage SMEs to MNCs. Thus, while the same dimensions of CSR apply both for MNCs and SMEs, the specific subset of assessment indicators that determine at what development stage of CSR a company can be located has to be defined differently, as we will illustrate in more detail below. More precisely, while the framework's dimensions capture the same issue areas of CSR both for MNCs and SMEs, their specific assessment indicators emphasize on the one hand the more formal and explicit way of organizing CSR in MNCs, and on the other the largely informal and implicit way of organizing CSR in SMEs. The framework thus accounts for the specific characteristics of MNCs and SMEs and does not merely adapt something that was originally developed for MNCs and then scaled-down (if at all) to SMEs. Given these differences at the indicator level, our comparative analysis of MNCs and SMEs refers to the aggregated results at the level of the dimensions. For an upfront summary, see table 1 below.

For MNCs the dimension of commitment to CSR includes indicators that grasp the strategic integration of CSR commitments into policy documents such as codes of conduct or human rights policies as well as explicit leadership support by the CEO and the board. Also, it captures the existence of CSR coordination by specialized job functions and departments that are responsible for dealing with CSR (Baumann 2009). In SMEs, the commitment dimension includes indicators that capture the way SMEs - most of all their owner-managers - are aware of the set of issues that the CSR agenda brings about. In the framework, we suggest that the ten principles of the UN Global Compact provide a useful frame of reference namely human rights, labour norms, environmental responsibility, and anti-corruption. Furthermore, for SMEs this dimension captures how a commitment to CSR is informally reflected in the attitude of the owner-manager to be socially connected and thus responsible for addressing the set of issues reflected above. Notably, while a commitment to CSR alone says little, it is a necessary precondition and starting point that guides subsequent integration in organizational practices and engagement with external parties (Wickert 2011a).

The second dimension, labelled *internal structures & procedures* includes indicators that refer to the organizational integration of CSR in concrete practices and procedures. For MNCs, this refers to formalized incentive systems and training measures to promote CSR awareness among employees, complaints channels and performance evaluation, as well as reporting schemes (Baumann 2009). For SMEs, this dimension is reflected in the typically implicit organizational culture of SMEs and daily practices and processes that tend to be informally organized. Employee involvement is also normally encouraged through informal measures, while transparency of activities towards third parties is more likely to be disclosed by SMEs only on demand (Wickert 2011a).

The third dimension, *external collaboration*, captures the external engagement and interaction with actors of civil society that are critical for CSR agenda setting. In MNCs, this refers to the proactive participation and "activity level" by which they contribute to collaborative CSR initiatives such as the UN Global Compact, as well as the quality of relationships with external stakeholders such as NGOs (Baumann 2009). For SMEs, this dimension captures the scope of collective involvement with other SMEs or suppliers to jointly address issues related to CSR, as well as involvement of SMEs in CSR-related networks, such as industry associations (Wickert 2011a).

Stages of CSR

To capture the various degrees of CSR implementation in each dimension for MNCs as well as for SMEs, we follow the approach of existing studies on the integration of social and environmental issues into core business practices (Mirvis and Googins 2006, Van Marrewijk and Werre 2003, Zadek 2004). These studies suggest that the implementation process is best described through successive stages (for an overview, see Maon et al. 2010). The general idea of describing a development process in stages is that there are distinct patterns of activity at different stages of development. These stage-based models for CSR stem from the observation that the reaction of corporations to external and internal stakeholder pressures changes over time and these shifts suggest that a new stage of development has been reached (Maon et al. 2010, Mirvis and Googins 2006).

Our framework for assessing CSR in MNCs and SMEs is based on Zadek's (2004) organizational learning model that identified five stages through which businesses typically go prior to full CSR implementation. This model is particularly amenable to be used in a comparative perspective, while remaining consistent with more theoretically conceptualized stage models, such as recently summarized by Maon et al. (2010). Zadek's five stages - *denial, compliance, managerial, strategic* and *civil* - describe how a business progressively advances the implementation of CSR, namely the organizational integration of CSR principles into daily business routines (see also Maon et al. 2010). In the assessment framework, we define the stages, both for MNCs and SMEs, as follows (see Baumann 2009, Wickert 2011a): In the *denial stage*, companies refuse to accept responsibility for the social and environmental impact of their business operations. In the *compliance stage*, companies focus on complying with legal rules. The *managerial stage* marks the beginning of an understanding for corporate social or environmental responsibility beyond legal requirements in a number of management processes. In the *strategic stage*, companies start realizing that that engagement in CSR could give them a competitive edge and begin looking at a broader range of issues related to CSR in a strategic manner, for instance considering human rights in their supply chain, workplace safety, labour norms, environmental standards, as well as measures against corruption. In the *civil stage*, companies are genuinely concerned about the issues and they are looking for support to achieve CSR objectives. They initiate industry collaborations or collaborations with civil society organizations. In short, they become proactive drivers of the CSR agenda. Table 1 summarizes the CSR assessment framework for MNCs and SMEs, including the dimensions as well as stages of CSR.

INSERT TABLE 1 ABOUT HERE

Research Design and Methods

The research design was rigorously based on commonly acknowledged quality criteria for case study research (Eisenhardt 1989, Yin 2009). For the empirical study presented in this paper, both MNCs and SMEs from Switzerland were theoretically sampled based on their likelihood to present data-rich cases on CSR implementation (see Glaser and Strauss 1967). Five Swiss MNCs (ABB, Credit Suisse, Nestlé, Novartis, UBS) were selected that joined the UN Global Compact (UNGC) initiative at its launch in 2000 and in so doing were among the first MNCs worldwide that publicly and formally committed to implementing a particular set of CSR principles (www.unglobalcompact.org; Rasche and Kell 2010). The seven Swiss SMEs that were selected for this study are all in the textile industry (CPT, Mammut Sports Wear, Remei, Stuco, Sherpa Outdoor, Switcher, Vestergaard Frandsen). This sector was selected because of its long CSR history, being considered a model industry for implementing CSR (Preuss and Perschke 2010). The focus on companies with their home base in only one legislative, political and cultural context (Switzerland) increased the inter-case comparability of our results.

We conducted a series of semi-structured interviews between 2007 and 2010 (Baumann 2009, Baumann-Pauly and Scherer 2012, Wickert 2011b). To ensure data reliability, we triangulated the interview statements with publicly available as well as internal company documents (e.g., training manuals, grievance procedures etc.) and external stakeholder perspectives (through NGO websites and several studies conducted by graduate students at the University of Zurich). For the MNCs, we designed a two-stage interview process. In stage one, we contacted the person in charge of the UNGC and asked about the company's activities in the context of the UNGC. Based on the information we received in these initial interviews, we then contacted the people in charge of the actual implementation of the company's commitments in this context. This way, we took account of the fact that there is no blueprint for the CSR implementation process. In total, we conducted 15 interviews with the selected MNCs.

For the SMEs, we followed a similar approach by first screening secondary data (NGO reports, websites) to obtain a first impression of existing CSR engagement of potential candidates for further study. In a second step, we deliberately approached the SMEs and interviewed the owner-manager and, if applicable, additional persons who were in charge of handling the company's CSR engagement. Note that unlike the MNCs most of the SMEs did not have an explicit job-description of a "CSR manager", but job tasks were more informally described, for instance referring to overseeing social issues in the supply chain. To be able to triangulate data, we sought to interview more than one person per company. In total, we conducted 14 interviews at the SMEs. The data resulting from this interview process was then coded and categorized into the dimensions of the assessment framework as illustrated above. The results of these studies have been reported separately for MNCs and SMEs (Baumann 2009, Baumann-Pauly and Scherer 2012, Wickert 2011b). In the following we go considerably beyond the earlier analyses, combine the data and develop a comparative perspective with an emphasis on differences in CSR implementation patterns due to variations in firm size.

Findings: CSR Implementation in MNCs and SMEs

The comparison of the results of our empirical studies revealed interesting differences between the implementation patterns of CSR in MNCs and SMEs. In brief, we found that firm size says little about the advancement of CSR implementation along the stages we introduced above. Notwithstanding this, according to our findings, firm size seems to trigger a specific implementation pattern of CSR, where SMEs tend to be strong in actually implementing organizational CSR-related practices in core business operations, while MNCs tend to effectively communicate their commitments to CSR, but often lack sophisticated implementation programmes. In the following, we compare the results for the MNCs and SMEs in our study along the three dimensions of the assessment framework. We first present the MNC and then the SME perspective in each dimension along with illustrative evidence. Table 2 below summarizes the key findings.

CSR Commitment Dimension

To assess the commitment to CSR among MNCs, in addition to interviews with corporate representatives, we also analysed speeches of the CEOs, the mission and vision statements of the sampled corporations, and looked at their public commitments to CSR. For ABB, sustainability has been about balancing economic success, environmental stewardship and social progress to benefit all of their stakeholders. This statement indicated that for each business decision, economic, social, and environmental aspects must be taken into account and all stakeholders must be involved in the decision-making process. Thus, the company committed to integrating CSR into their business strategy (*strategic* stage). Others, for example Credit Suisse, also linked their commitment to CSR with the long-term success of the company, but did so without outlining how stakeholders feature in this process and whether CSR principles would be respected irrespective of the economic success of the company (*managerial* stage). Most of the companies had separate vision statements for CSR and hence, CSR was not really part of the company's vision as a whole (e.g. UBS). Hence, none of the companies was considered to be at the *civil* stage.

Among the SME sample, results suggested a high awareness of global CSR issues and members of interviewed companies demonstrated a high level of perceived connectedness to raised problems in their supply chains. We conclude from the results that initial awareness and commitment to engage in CSR does not depend on size or resource configuration, but rather on the industry, personal motivation of SME owner-managers, and the integration in global supply chains. One company that was located at the *strategic* stage, Remei, emphasized that: "we want to be environmentally and socially responsible from the growing of the plant to the final product we sell." Due to this SME's small size (fewer than 25 employees) and limited hierarchy, Remei did not face much difficulty integrating new issues into day-to-day business. The representative stressed that the overall vision of the company was to a significant extent driven by its owner-managers and then trickled down to the mind-sets of the employees. A representative of another company, Mammut, demonstrated an integrated, i.e. *strategic* commitment to CSR, rather than being selective about specific issues:

"We use a framework that allows us to take an integrated look at the CSR landscape, i.e. we do not want to say a product is environmentally friendly without answering how socially responsible it is."

Internal Structures & Procedures Dimension

The consistent handling of CSR in MNCs requires the drafting of formal CSR policies and procedures. However, embedding CSR policies and procedures globally and in all daily operations is an enormous task for MNCs. Hence, rolling out a CSR policy takes time and resources: Managers must be trained, incentive systems must be aligned, grievance procedures must be drafted and CSR activities must be evaluated. For all companies in the sample this process has been a work-in-progress, with only one very advanced case. At Novartis, almost all employees completed CSR e-learning tools and follow-up training manuals on CSR were being developed at the time of the assessment, standardized incentives systems for bonus payments and promotions were reviewed, and an ombudsperson who was in charge of the grievance process had been appointed. A Novartis representative for instance argued:

"As long as integrity standards are not part of the incentive schemes for employees, they are not lived in daily business routines."

The other MNCs were clearly lagging behind in this process, often still struggling to set up internal mechanisms that ensured effective CSR communication within the company. External communication, in contrast, was already quite strongly developed at the studied MNCs. ABB and Novartis reported according to the GRI criteria, while the other companies argued that the GRI reporting standards served as an important guideline for drafting their reports. ABB, Novartis and Nestlé submitted so-called "notable" "Communications of Progress" to the UN Global Compact office and all companies have started building comprehensive websites around CSR issues. The quality of these websites however differs. Some effectively increase transparency over operations; others focused more on selected, PR-effective projects or narratives. Nevertheless, all corporate representatives argued that responding to the public call for greater corporate transparency is of growing importance. In conclusion, while all MNCs attribute great significance to the external reporting function, the alignment of internal structures, such as human resource management or procurement (training, incentive systems, etc.) was at most MNCs, with the exception of Novartis, in a preliminary stage of development.

The results for SMEs suggest that responsibility in general and engagement in CSR in particular was strongly integrated into the company culture, often implicitly in habits and routines rather than explicitly in job descriptions or formalized procedures. While the SMEs showed a high integration of CSR practices in their daily business operations, the majority of the SMEs demonstrated a very strong involvement with their employees in shaping their respective agendas. Furthermore, the SME cases illustrated that even small businesses can be innovators for their entire industry in terms of disclosure and transparency. In general, limited financial or human resources were not mentioned as a significant constraint to implement CSR practices in daily operations. As such, the interviewed SMEs had a wide array of practices in place, which were either self-developed, such as requirement sheets for suppliers or their own audit checklists that complemented the informal corporate culture with embedded CSR decision-making guidelines. For instance, as the owner-manager of Remei stated:

> *"The advantage for SMEs is that they can act much quicker. We have shorter pathways and are closer to the issue, and we can act out of conviction, rather than just due to profitability reasons."*

Furthermore, SMEs showed a high level of employee awareness of CSR issues, in particular those that emerged due to their integration in global supply chains, i.e. human rights problems, child labour, and weak state regulation of the latter. Due to their limited size, flat hierarchies and organizational complexity, spreading of CSR awareness to employees' mindset was reported to be relatively unproblematic. One company, Mammut, for example demonstrated a particularly innovative way to "get the CSR-message across", as the company had installed so-called CSR-agents in each of its divisions that were expected to wear the "green hat of CSR" in meetings. Regarding the transparent disclosure of their business conduct, Remei for instance even considered transparency to be a competitive advantage. The owner-manager emphasized:

> *"Organic alone is not a unique-selling-proposition anymore. But to ensure and disclose social and environmental sustainability along our entire value chain, 'traceable, fair-traded, and independently audited' is a product promise which only few others can hold."*

In terms of their official CSR reporting, however, SMEs showed a very distinctive perspective. A manager of CPT summarized their position, which in similar ways was also expressed by other SME representatives:

> *"Issuing a CSR report makes no sense for us. It is expensive and it does not change anything. However, we do these things anyway, even though we don´t talk about it so much."*

Overall, the results showed that engagement in CSR does not seem to be exclusive to MNCs. Provided that SMEs are committed to CSR our results suggest that they are potentially better at actually implementing CSR-related activities in internal practices and procedures. As such, most SMEs where either located at the *strategic* or even *civil* stage (see Table 2 below). In conclusion, results suggest that MNCs are more inclined to focus on the reporting function which, however, often appear to be decoupled from operational processes. In contrast, while SMEs put little emphasis on communicating their CSR activities to external observers, they make a considerable effort to adjust internal structures and procedures that are closely connected to their value creation processes.

External Collaboration Dimension

Interactions between external stakeholders and the examined MNCs existed, yet they were not managed or coordinated in a systematic way. Stakeholders had been involved on a superficial level (e.g. Annual Stakeholder Meetings at Novartis and Nestlé) or on an ad hoc basis in situations of crisis (e.g. at UBS). At ABB, the importance of regular stakeholder involvement was recognized – "the company seeks to earn a licence to operate and it therefore needs to listen to as many voices as possible" – but there was not yet a system in place that would document and coordinate this process. Consequently, ABB's actual stakeholder engagement did not yet correspond to its strong commitment to engage stakeholders (see commitment dimension). In fact, none of the examined companies had begun designing their stakeholder dialogue in a proactive way and thus none of the companies had moved beyond the *managerial* stage of development. The same can be said about involvement in CSR initiatives, with the exception of ABB that was strongly involved in developing human rights standards for corporations operating in repressive regimes.[5] While the other MNCs are also officially participating in various CSR projects (captured in the commitment dimension), their actual activity level in these initiatives is rather low. For most MNCs, we could not find convincing evidence that they proactively contributed to the further development of these initiatives. For instance, the Credit Suisse representative admitted:

[5] Nestlé's engagement in the UN Global Compact Water Mandate was just starting in 2007 and therefore it did not feature in this analysis. Today however, the interactive aspects of Nestlé's CSR engagement could be placed in the strategic stage.

"We observe the developments and wait (to see) what other companies and our industry peers do in terms of CSR."

In contrast, SMEs in the sample were strongly engaged in external collaborations in the form of collective action either with other SMEs or with civil society to jointly approach and solve CSR challenges. None of the companies used its small size and resources as a reason for rejecting its responsibility. Rather, the companies stressed that due to their limited individual impact, the need to work together was even stronger. As such, most of the companies showed a strong engagement in networks, both at the industry level (e.g. industry associations such as the Business Social Compliance Initiative) and beyond, for instance by interacting with civil society and participating in multi-stakeholder initiatives like the UNGC or the Fair Wear Foundation. These networks were seen as an important platform to spread awareness about CSR and to engage in collective action, such as setting industry standards.

When asked how companies in their sector worked together, Mammut for instance stressed that:

"We understand CSR as a global team sport and that due to our small individual impact, alone we cannot solve all these topics. Thus we need to work together."

Table 2 summarizes the findings of our empirical study on CSR implementation in MNCs and SMEs. The low/mixed/high notation indicates the aggregated results and stage of each dimension at which the MNC or SME are located.

INSERT TABLE 2 ABOUT HERE

Overall, the implementation of CSR in MNCs varied considerably across the sample of the five examined companies. Some companies had just begun with the implementation of CSR (*managerial* stage) while others were already quite advanced (*strategic* stage). The status of CSR implementation also varied across the three assessment dimensions. All MNCs of the sample were fairly strongly committed to CSR (Commitment Dimension). However, this commitment has not in all cases been translated into organizational policies and procedures. The internal integration of CSR in MNCs was inconsistent; CSR principles were not yet systematically integrated into all areas of the organization. Among the particularly weak elements were the conduct of impact assessments of CSR activities and the installation of grievance procedures within the organization. Notably, the reporting function was the only aspect strongly developed in all MNCs. Weakly developed throughout the sample was the interactive dimension, for instance the fact that MNCs seemed to integrate external stakeholders only on an ad hoc basis (Baumann-Pauly and Scherer 2012).

The imbalanced approach of the sampled MNCs across the three examined dimensions represents a risk for the credibility and effectiveness of MNCs' implementation efforts: (1) By not systematically implementing CSR in structures and procedures, MNCs are particularly vulnerable to crisis cases that often expose several implementation gaps or inconsistencies between CSR talk and CSR practice. (2) By not interacting with critical stakeholders, MNCs can easily misjudge the materiality of different CSR issues and, as a result, fail to set priorities for their CSR engagement that are consistent with societal expectations. Furthermore, MNCs' strong public commitment to CSR raises expectations that are difficult to fulfil given the MNCs' lack of interaction with stakeholders and an unsystematic or superficial implementation of CSR in structures and procedures.

The SME sample, in contrast, shows a consistently stronger internal implementation of CSR-related practices. SMEs have little routine in reporting CSR and "talking-the-CSR-talk" but, provided an SME is committed to CSR, our evidence suggests that they are "walking-the-CSR-walk" by aligning managerial functions comprehensively with CSR, often through informal or implicit principles (Murillo and Lozano 2006). SME engagement and interaction with external stakeholders was also strongly developed. SMEs regularly drew on the expertise of external stakeholders and systematically integrated them in corporate decision-making processes (Wickert 2011b, see also Spence et al. 2003).

Explaining Differences in CSR Implementation

Our comparative perspective suggests that although MNCs are usually in the spotlight of the CSR debate, compared to SMEs they are not necessarily leading the way in terms of CSR implementation. Moreover, MNCs and SMEs showed specific implementation patterns that require further elaboration. In a nutshell, while MNCs appeared to be strong communicators of CSR, often without substantial implementation in organizational practices, many SMEs appeared to poorly communicate their CSR efforts, while at the same time they showed advanced implementation of CSR-related practices. We propose an explanation of these empirical findings that has yet been underemphasized in research on CSR. We suggest that relative organizational costs for implementing versus communicating CSR, understood as the relative share in total firm costs, can explain the differing approaches to CSR in MNCs and SMEs respectively. Below, we provide an overview of the underlying theoretical underpinnings and assumptions of our explanation, most importantly the literatures on organizational cost and firm size.

Theoretical Background: Organizational Costs and Firm Size

While not taking the CSR context into explicit account, the link between firm size and relative organizational cost has long been discussed in the extant literature (e.g., Blau 1970, Camacho 1991, Williamson 1967). Downs has introduced his Law of Diminishing Control: "The larger any organization becomes, the weaker is the control over its actions exercised by those at the top" (Downs 1966, p. 109). Blau (1970) shows that large size leads to differentiation and indirectly increases administrative overhead and hence the costs of coordination. Due to economies of scale in administration, administrative overhead decreases with organizational size but increases with complexity and organizational differentiation (Blau 1970). In a similar vein, Williamson (1967) argues that due to the bounded rationality of managers at the top of organizations, increasing size of the firm will inevitably lead to a “loss of control” that needs to be compensated by costly control devices such as leadership, or overlapping areas of responsibility (Williamson 1967, p. 127). Camacho (1991) focuses on adaptation and coordination costs that vary depending on the respective size of the firm. He concludes that the greater the variability of the firm’s environment, the more relevant are coordination costs. Due to the indivisibility of coordination cost, smaller firms have advantages over large firms with relatively higher coordination cost. Becker and Murphy (1992) elaborate further on the role of coordination cost and argue that the degree of specialization increases the costs of coordinating specialized workers, as well as the extent and amount of knowledge that is necessary for the production process (Becker and Murphy 1992). Likewise, Malone (1987) analyses alternative structures of economic organization and argues that the cost of coordination increases with structure size.

Furthermore, Kogut and Zander (1996) highlight that coordination and communication cost for firms are lower if the firm represents an identity creating entity. They argue that a sense of community facilitates coordination and learning and may also render the often higher coordination cost of large organizations - or organizations with greater degrees of specialization - relevant. Identity implies an adherence to an often unconscious and symbolic coding of values and rules, which ensures the consistent handling of daily business processes (op cit). In smaller firms, the sense of identity is likely to be stronger than for MNCs given the frequency of personal interactions between senior- and middle management as well as line-employees. In addition, smaller firms are by definition less diverse than large corporations with subsidiaries and offices in multiple countries. The typically informal communication style and fewer hierarchical levels in SMEs are also likely to keep the coordination costs for implementing CSR at a minimum. Larger firms, in contrast, must make greater efforts to foster a sense of identity that could alleviate high costs of coordinating a CSR programme.

Explaining the small firm reporting gap and the large firm implementation gap of CSR

Transferring these insights to our research topic, we suggest that the relative costs of organizing CSR vary significantly depending on firm size and may therefore critically impact how the implementation of CSR is approached. Evidence from our empirical study supports our arguments. For instance, the SME Switcher stated:

> *"We need to make sure that NGOs have access to all the information they need about our corporation. However, our CSR budget is small and we do not want to use it for expensive publications. We prefer to just talk to the NGOs regularly."*

In a similar way, the SME CPT stated:

> *"All these labels are very expensive, that is too much for us. However, this does not mean it (CSR) is not important for us. We do it anyway, but we cannot afford to participate in all of these initiatives."*

For MNCs, representatives commonly emphasized that strengthening their reporting function is a major priority for them. Consistent with empirical results showing that voluntary CSR reporting decreases the cost of equity capital for listed firms (Dhaliwal et al. 2011, Reverte 2012), MNCs seem to be more inclined to focus on image building projects and dedicate large parts of their CSR budgets to external communication. The UNGC Office provides additional empirical data supporting our argument. In 2008 the UNGC started delisting all companies that failed to submit the required Communication on Progress (COP), in which a participant must explain what it has done to improve its performance in the areas of human rights, labour rights, environment and anti-corruption. As of July 2012, more than 3,670 firms have been delisted, of which nearly 70% were SMEs (UNGC Office 2012). Similarly, the GRI website states that CSR reporting by small firms "remains fairly low compared to large companies" (see www.globalreporting.org). In this sense, Knudsen (2011) concludes that SMEs in general do not have the economic resources to ensure proper documentation of their CSR activities. Small firms probably strive to strengthen the relationships with their most important stakeholders and thereby focus their CSR communication on selected parties such as industry networks, rather than the general public.

Juxtaposing the theoretical insights sketched above with our empirical observations, we draw the following conclusions to interpret our empirical findings: For a large firm, embedding CSR in all operational functions is particularly time and resource-intensive. Formulating policies and procedures, providing specific CSR training to several thousand employees, and ensuring the consistent application of CSR standards at all organizational levels and divisions are costly tasks. Our study on MNCs demonstrated that for the examined firms these internal organizational issues are work-in-progress, although the improvement of the CSR reporting function has become a priority for many MNCs (Baumann-Pauly and Scherer 2012). In contrast, for smaller firms, reporting their CSR engagement publicly is relatively costly while integrating organizational CSR practices is, relative to MNCs, inexpensive and facilitated through a typically strong identity-building role of the firm, as illustrated in Figure 1. Given the small number of employees and flat hierarchies, information can readily be shared and discussed in informal settings across the company. Leadership is probably still more significant in SMEs than MNCs because of close moral proximity, meaning that employees can directly interact with CSR role models (Courrent and Gundolf 2009). SME owner-managers may implement responsible business practices out of conviction and at their own discretion (von Weltzien Hoivik and Melé 2009). Owner-managed SMEs tend to face lower pressure from investors to maximize their returns, giving them more resources and legitimacy to devote resources to socially responsible business practices (Quinn 1997). Assuming such an intrinsic motivation to engage in CSR, we suggest that a mismatch between CSR activity and stated intent is much less likely than for MNCs.

Unlike MNCs, SMEs tend to have informal reporting mechanisms, done on the basis of face-to-face interaction with stakeholders rather than formal written accounts such as annual corporate responsibility reports (Spence 2004). Thus, meeting the increasingly demanding formal reporting requirements for CSR, is difficult for small firms (see UNGC 2011). Due to their low visibility and the absence of media attention, it is unlikely SMEs would see a significant benefit in a publicity-driven approach to CSR, as many MNCs do. The motivation to place resources in costly reporting that is largely unnoticed is therefore comparably low. Extensively reporting on CSR is therefore not a probable early step in the CSR engagement of small firms, making it also less likely that SMEs would construct an unsubstantiated CSR façade. More generally, it has been shown that formalized CSR reporting is negatively correlated with firm size (Gamerschlag et al. 2011).

However, engaging with external stakeholders and including them in decision-making processes on CSR issues by working in partnership represents a life-saving measure for smaller firms. In general, SMEs tend not to have the resources to continuously generate knowledge about the increasingly complex issue of CSR and therefore need input and guidance of external stakeholders to manage such processes (Spence et al. 2003, Russo and Perrini 2009). SMEs, given their low visibility, tend to suffer less from non-governmental organization criticism and accordingly the CSR implementation strategy of SMEs is typically a cooperative one.

We summarize our theoretical explanation of the contrasting observed CSR implementation patterns of MNCs and SMEs in Figure 1. We conclude that different organizational costs of external communication and integration of CSR practices in organizational structures lead to an SME *PR & reporting gap* of CSR, and an MNC *implementation gap* of CSR.

INSERT FIGURE 1 ABOUT HERE

Limitations and Opportunities for Future Research

As our theoretical account is based on literature reviews and empirical evidence from a few in-depth cases, we must acknowledge several limitations. We are aware that a potential critique of our explanation for the differences between small and large firms is the existence of deviant cases, which counter our argument that relative organizational cost in relation to firm size influences typical implementation patterns of CSR. There are, of course, MNCs that not only issue comprehensive CSR reports but that, at least over time, have also substantially implemented CSR in their organizational structures and procedures (see Zadek 2004). Likewise, some SMEs have not only implemented respective procedures, but are also reporting widely about their engagement (Wickert 2011a). At the same time, many other SMEs have not yet considered how to integrate CSR in daily business routines despite their favourable organizational conditions, or deny any sort of social responsibility due to their small firm size or lacking motivation of the owner-manager.

While exceptions certainly exist, we claim that we have identified typical initial implementation patterns for CSR that have high explanatory power in particular when comparing small and large firms. While our evidence is only based on 12 in-depth cases, results are nevertheless consistent with other studies that suggest a comprehensive implementation of CSR practices among SMEs (see for instance Jamali et al. 2009, Jorgensen and Knudsen 2006, Pedersen 2009), and MNCs' approach to CSR that is more likely an unsubstantiated façade strong in commitments and reporting, but detached from core business operations (Banerjee 2007, Haack et al. 2012). Furthermore, provided that a company is committed to CSR, we suggest that even seemingly deviant cases are likely to confirm our predictions when analysing more closely the process of embedding respective organizational structures and procedures. For instance, a study of the German sportswear manufacturer Puma (an MNC) illustrated its advanced stage of implementing CSR (Baumann-Pauly et al. 2012). The analysis revealed that organizational aspects commonly found in SMEs (e.g., charismatic leadership, informal communication channels, flat hierarchies, and proactive engagement with stakeholders) were also the critical success factors for embedding CSR at Puma. The longitudinal case analysis from 2003 to 2011 however showed that it took the company over 8 years to develop and benefit from these organizational characteristics (Baumann-Pauly et al. 2012).

Due to the theoretical sampling method and the intention to study "data-rich cases", our results are biased towards CSR champions. The examined companies were selected because they are likely to provide rich empirical data and also serve as best-in-class examples; thus the companies under review are relatively advanced in organizing CSR. We acknowledge that deeper and more quantitative research would be needed to access these practices with greater reliability and generalizability than the methods which we have applied. Further studies are needed to demonstrate that our assessment results are representative for MNCs and SMEs in a more general sense, as well as in different industries or cultural contexts. For example, a comparative study of MNCs and SMEs from emerging markets such as Brazil, Russia, China or India, based on the assessment framework proposed here, might show different results that could also provide directions for further refinement of the framework. Nevertheless, we argue that our research findings have wider application because they are coherent with previous research findings (e.g., Jamali et al. 2009, Knudsen 2011). We go beyond the extant literature in our argument that relative organizational costs to implement CSR explain typical CSR approaches of small and large firms. This is a novel insight that we derived directly from the comparison in our empirical study.

Conclusion

In sum, our research has shown that public perceptions do not accurately capture the status of CSR in large and small firms. Most importantly, the implementation of CSR is not directly a function of company size. While firm size does not by definition determine the CSR implementation approach, size implies a range of organizational characteristics, some of which are more, others less advantageous for implementing CSR. Further research is necessary to identify the organizational aspects that facilitate or hinder the organizational implementation of CSR-practices that are a critical antecedent of an effective interaction between private companies and civil society. Knowledge about these aspects could inform and guide the CSR implementation process in both large and small firms.

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Appendix

Table 1: Stages and Dimensions of CSR

	Defensive	Compliance	Managerial	Strategic	Civil
Commitment	Denial of social or environmental responsibility; “no idea” about CSR	Commitment to comply with existing laws and regulations	Commitment to implement CSR practices	Commitment to use CSR for creating competitive advantage	Commitment to contribute to public goods and shape CSR agenda, irrespective of strategic value
Internal Structures & Procedures	No internal implementation of CSR structures and procedures	Internal structures and procedures are designed to ensure legal compliance	CSR structures and procedures provide orientation in daily business practices and address selected issue areas related to CSR	Integrated implementation of CSR related structures and procedures that address a broad range of issue areas	CSR policies are fully integrated in all aspects of the business operations and best-practices are shared with industry peers
External Collaboration	No external collaboration or refusal to interact with stakeholders	Interaction with external stakeholders only takes place if legal issues are concerned	External stakeholders are integrated in some organizational processes; selected CSR-related issues are approached with stakeholders	External stakeholders are comprehensively integrated when addressing CSR-related issues; focus on “joint problem solving”	External stakeholders are integrated irrespective of their strategic value to the firm; they are equal partners in decision-making processes

Table 2: Overview of empirical results showing degree of activity along each dimension of CSR engagement. Sources: Baumann-Pauly and Scherer 2012, Wickert 2011b.

Dimensions	**MNCs**	**SMEs**
Commitment	*high*	*high*
Internal Structures & Procedures	*mixed*	*high*
External Collaboration	*low*	*high*

Figure 1: Relative Organizational Cost of Engagement in CSR (as relative share in total firm cost). Black: Relative cost of external communication (façade building by way of reporting and PR); Dotted: Relative organizational cost of embedding CSR (implementing CSR policies in organizational structures and procedures).