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IOU Working Paper No. 121

**Small- and Medium-Sized Enterprises as Political Actors in  
Global Governance – Evidence from the Textile Industry**

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December, 2010

I acknowledge the support of this research by the Swiss Network for International Studies (SNIS), Geneva, Switzerland and the United Nations Global Compact Office, New York, USA. Furthermore, I gratefully thank the representatives of the participating companies for their support of my research. I benefited from the helpful comments by Dorothée Baumann, Dominik Breitinger, Michael Gibbert, Guido Palazzo, Andreas Scherer and other colleagues of my research group on earlier drafts of this paper.

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# Small- and Medium-Sized Enterprises as Political Actors in Global Governance – Evidence from the Textile Industry

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## **Abstract:**

I conducted a multiple case study to assess the role of small- and medium-sized enterprises (SMEs) in global governance – the collective rule-making and rule-implementation among public and private actors on a global scale. Results of a sample of ‘best-practice’ SMEs in the textile industry suggest that companies, which are embedded in global supply chains and thus exposed to operating in zones of weak social and environmental regulation, are accepting ‘political’ responsibilities. They engage for instance in defining and enforcing labour standards for factory workers, a task once regarded as a genuine government responsibility. The SMEs of the sample show high awareness for global governance challenges; they stress the need to engage in collective action to counter their small individual impact, and have implemented a range of organizational procedures to engage in political CSR. In sum, findings suggest that global governance is not something just for larger companies. In fact, the analyzed SMEs are even more advanced in engaging in global governance than many MNEs. From the empirical findings, I deduct several propositions to be tested in further quantitative studies.

**Keywords:** case study, global governance, multinational enterprises (MNEs), political CSR, small- and medium-sized enterprises (SMEs), textile industry

## **Small- and Medium-Sized Enterprises as Political Actors in Global Governance – Evidence from the Textile Industry**

The protection of human rights, socially acceptable working conditions and environmental sustainability in many developing countries and emerging markets are at stake. In many locations around the world, respective rules and regulation are often absent, weak or not enforced by legislative authorities (Scherer et al., 2006). It has been discussed on a theoretical level how the responsibility to approach such issues could be shared between public (governments) and private (business firms) actors (Matten and Crane, 2005; Scherer and Palazzo, 2007; Scherer and Palazzo, 2011). Several authors have shown that business firms are already actively engaging in so-called ‘political’ corporate social responsibility (CSR), which includes tasks once regarded as the sole responsibility of governments (Baumann and Scherer, 2010; Scherer et al., 2006; see Margolis and Walsh, 2003). Thereby, companies are accepting an active ‘political’ role, in addition to their apparent economic role in global governance - referring to the collective rule-making and rule-implementation on a global scale that combines the efforts of public actors and private actors (Scherer et al., 2006; Walsh et al., 2003). These companies are no more just addressees of regulation, but also authors of rules with public impact, while being embedded in democratic processes of defining these rules and tackling global political challenges (Scherer & Palazzo, 2007, p. 1098). In this study, I refer to the notion of CSR as an umbrella term for the debate about the relationship between business and society. The terms ‘political CSR’ and global governance are used to make an explicit reference to the additional global dimension of corporate responsibility which occurs along a company’s globally embedded supply chain<sup>1</sup>.

In practice, business firms actively participate in the United Nations Global Compact (UNGC), the largest (political) CSR initiative in the world with more than 5.000 participants,

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<sup>1</sup> The term CSR does not imply that only *incorporated* firms have responsibilities to society. In this article it is refrained from promoting a new, probably more SME-specific term, as this would only add complexity to the myriad of terms already in use. Moreover, there are examples of articles that have applied CSR to SMEs without any loss of clarity (e.g. Jenkins, 2004, 2006; see Preuss & Perschke, 2010).

which seeks to engage companies along 10 universal principles of human rights, labour standards, environmental responsibility and anti-corruption. Other firms chose for instance to participate in more specific multistakeholder-initiatives (MSI), such as the Fair Wear Foundation (FWF) to promote fair working standards in the textile industry or the Forest Stewardship Council (FSC) to promote sustainable forestry. Also, many business firms decide to participate in working groups at the industry level, e.g. to establish a standardized approach to environmental protection.

As much as multinational enterprises (MNEs), which in most of the prevalent literature are the implicit or explicit object of study, a significant number of small- and medium-sized enterprises (SME) - in this study referred to as a company with less than 250 employees (EC, 2003) - is embedded in global value- and production chains and therefore operating in zones of potentially weak or absent regulation (Schwab, 2008). Either as suppliers to other MNEs, or with own activities in countries with weak governance. Such SMEs are, independent of their size, multinational companies (though often having another legal status than 'corporation') as well and are exposed to the same issues as large MNEs, for instance human rights abuses, worker rights violations, environmental pollution or corrupt authorities. Also, half of the UNGC participants are SMEs, and the majority of the members of the FWF are medium-sized enterprises ([www.unglobalcompact.org](http://www.unglobalcompact.org); [www.fairwear.org](http://www.fairwear.org)).

However, little empirical research has been conducted that explores and discusses the role of SMEs as private actors in global governance and how they embed the necessary mechanisms at an operational level (Spence, 2007). Most studies do not differentiate between MNEs and SMEs. MNEs are usually considered when looking at 'best practice' examples and it has even been suggested that larger firm size implies a higher provision of CSR attributes (McWilliams and Siegel, 2001). Though, SMEs approach (political) CSR differently than MNEs with a not necessarily inferior impact on society and there is no evidence that they are less able to deal with challenges of global governance or less effective in implementing

practices of political responsibility (Scherer, 2006; Wickert, 2010). SMEs have different organizational structures than MNEs, such as a usually less formal and more personal way of doing business, a different ownership-structure as a potential driver for engaging in global governance, and different triggers and obstacles they might face, for instance due to limited company size and impact, or financial and human resources (see e.g. Jorgensen and Knudsen, 2006; von Weltzien Hoivik and Melè, 2009; see also Wickert, 2010). Hence, the already ambiguous concept of political CSR remains even more unclear when differentiating after firm size. Theoretical concepts and recommendations for practice remain abstract and have not yet engaged sufficiently in analyzing the organizational structures in place and necessary to cope with such responsibilities at the firm level.

Several scholars have thus called for qualitative, case-based research rather than further quantitative studies in this highly unexplored field of private actors in global governance in general, and for a more explicit analysis of SMEs in particular (Spence, 2007; Rasche, 2009; Baumann and Scherer, 2010). Such qualitative case study approaches involve the exploration of a topic or issue in depth, with emphasis on seeking information from actors who are experiencing or are involved in the issue (see Eisenhardt, 1989; Eisenhardt and Graebner, 2007; Yin, 2003).

The purpose of this study is to fill these voids as outlined above. Therefore, the key research objective is to explore with systematically collected empirical evidence of primary interview-based data whether some SMEs have already been actively accepting a role in global governance, why and how they understand and embed political CSR at the organizational level and what the triggers and obstacles for their engagement are. For this reason, I am not focussing on identifying a gap between commitment and actual practices, which have often been the focus of studies about MNEs (see e.g. Baumann and Scherer, 2010); rather, I attempt to 'showcase' whether a so-called political role of SMEs actually exists in the first place. Therefore, in this early attempt to explore SME practices in political

CSR, it renders useful to consider companies which seem likely to be best-practices in the first place. This explorative study is a necessary first step to establish a theoretical, but empirically supported basis for generating propositions about SMEs role in political CSR. Subsequently, I develop several propositions to be analyzed in quantitative, e.g. survey-based studies, which would then allow generalization of results in a more rigorous way.

The analysis builds on a theoretically embedded conceptual framework of global governance developed by Wickert (2010). This framework is based on a theoretical discussion about the role of SMEs in global governance and builds on the concept of social justice theory and ‘social connection’ (Young, 2004; 2006). I outline along three dimensions of *connection*, *power*, and *skills & capacities* how SMEs can on the one hand theoretically systematize political CSR and on the other hand provide a tool for assessing and thus comparing the engagement of different SMEs. These dimensions grasp how SMEs are generally aware of issues of global governance, framed along the 10 UNGC principles and how they feel connected to them; how SMEs are engaging in collective action and formal or informal networks with other stakeholders; and how they are approaching political CSR in their company culture, daily practices, involving employees and how transparently they are disclosing or willing to disclose their activities, respectively.

For the case study, I have selected seven SMEs with international operations and a homebase in Switzerland. All companies of the sample are in the textile industry. Thus, the initial exposure to issues of global governance (e.g. human rights problems in the supply chain) was high and allowed exploring ‘rich’ cases. The same cultural, legal as well as sectoral context furthermore allowed a better comparison between the companies.

Findings suggest that these SMEs all demonstrate a high awareness of issues along the UNGC principles; rather than neglecting the acceptance of an active role in global governance due to their limited size and influence, all companies have strongly emphasized the need to collectively address such issues, e.g. by participating in industry associations or MSIs like the

UNGC or the FWF. Moreover, they have pointed out that their small size makes it relatively easier to spread awareness among employees and influence daily practices at the company level. I found evidence that the exposure to global governance issues in the supply chain, caused by the type of industry and business model, as well as the ownership structure of a company are important factors that trigger engagement, in addition to mere size. Another finding, which I propose to further validate in quantitative studies, is that once SMEs have given a commitment and are aware of a specific issue, in the case at hand to actively engage in political CSR, they are more likely to show a relatively small discrepancy between what they say to do and what they actually do. Interestingly, this argument is often objected when considering the commitment and engagement of MNEs (Banerjee, 2008; Laufer, 2003; Weaver et al., 1999).

I will elaborate this study in four sections. The next section develops the theoretical background by building the context from the extant literature, in which this study is embedded. I then illustrate the conceptual model which has guided the empirical analysis, before I describe the research methodology. In the subsequent section, I present and analyse the findings of the case study. Next, I move to a discussion section where general results and several propositions as a suggestion for further study are developed. The concluding section points to limitations of this study and suggests avenues for further research.

## **Global Governance and an Ideal Conceptualization of Political CSR**

The research context of this study is framed around the emerging political role being attributed to transnationally operating business firms (Scherer et al., 2006). As I have argued, both MNEs and many SMEs are operating globally and are thus exposed to global governance issues. In such cases, businesses are - deliberately or not - able to exploit regulatory gaps and take advantage of low or non-existing social and environmental standards when moving



supply chain activities to offshore locations or countries with low levels of respective regulation (Scherer and Smid, 2000).

Consequently, those companies whose business conduct (i.e. their sourcing, production or their sales) goes beyond the reach of national regulation in general, and those who do business in zones of conflict or of weak governance in particular, are increasingly confronted with new demands of civil society to accept ‘political’ responsibilities. Political CSR implies an active involvement of “[...] corporate decision making processes to civil society discourses, and shifting corporate attention and money to societal challenges beyond immediate stakeholder pressure” (Scherer and Palazzo, 2007, p. 1115). Thus, corporate actors administer citizenship rights (Matten and Crane, 2005) and are not only addressees of (self)regulation, but also authors of rules with public impact. Furthermore, they have to submit their activities to public scrutiny and democratic control in order to achieve legitimacy for their political actions (Palazzo and Scherer, 2006). Such a political role of private businesses is based on the normative ‘social connection model’ of political responsibility, in which agents who contribute by their actions to the structural processes that produce injustice have responsibilities to work to remedy these injustices (Young, 2004; 2006). Hence, a ‘political responsibility’ refers to activities “in which people organize collectively to regulate or transform some aspects of their shared social conditions, along with the communicative activities in which they try to persuade one another to join such collective actions or decide what direction they wish to take“ (Young, 2004, p. 377). Not the direct connection, but the structural connection of an agent creates responsibility; that is, “the scope of an agents moral obligation extends to all those whom the agent assumes in conducting his or her activity” (Young, 2004, p. 371).

Wickert (2010) has discussed the role of SMEs in global governance on a theoretical level and developed a conceptual framework with ideal levels of political CSR which allows systematically structuring and assessing global governance engagement of SMEs. Following

Yin's (1994; 2003) argument that explorative case studies should be based on a theoretical foundation, I first introduce and then apply this conceptual framework as a guiding concept to conduct the empirical study and to define priorities to be explored. In the analysis, I then compared the collected data with the framework as a reference point.

The conceptual framework comprises of a two-dimensional matrix: a vertical 'axis' which illustrates different stages of political CSR, i.e. the more or less comprehensive extent to which an SME is engaged in global governance; and a horizontal 'axis' which illustrates the different *dimensions* where global governance is exercised (see appendix 1).

### **The stage-axis**

The different stages of engagement in political CSR are structured into five ideal-type levels, namely *denial*, *compliance*, *managerial*, *strategic* and *civil* (see Zadek, 2004; Maon et al., 2010). While later stages illustrate a more advanced approach than earlier ones, they are subsequent, i.e. later stages include the elements of earlier ones. However, a company may show activities which fit into the last stage (e.g. engaging in MSIs to advance self-regulation), but may not have implemented all UNGC principles in a strategic way, i.e. the stage might be distinct in for different dimensions (Wickert, 2010).

Notably, this framework seeks to structure the global (political) dimension of CSR, rather than corporate responsibility in general. Therefore, it does not capture activities of responsible business practice or philanthropy at a local level, as they are unrelated to the global context and the respective concept of political CSR.

On the left end of the spectrum, the *defensive* stage describes companies that are refusing any political responsibility in the respective arena of their operations. SMEs are likely to justify this by the argument that their small size and limited resources prohibit any form of engagement and that it should be left to MNEs. There is neither rule-implementation nor rule-making concerning the issues addressed by the UNGC.

The second *compliance* stage describes a legalistic view of CSR. For SMEs, compliance can signify an implicit culture of ‘we act according to the law’. There is no rule-making and rather law-implementation (legal compliance) than voluntary rule-implementation. A compliance approach might be appropriate for SMEs (and other businesses alike) if they operate in zones where national regulation is in place and well enforced (e.g., in their European home country). However, in the global arena, this is not always the case; therefore, political CSR is considered to ‘start’ in the following stage.

In the *managerial* stage, SMEs begin to consider specific issues of political CSR in their daily business. They may e.g. start buying raw materials, which are certified by common fair trade labels or sustainability standards. This way, SMEs aim to make sure that labour standards or environmental responsibility are respected by their suppliers. In other words, some elements of rule implementation are applied in specific parts of the value creation.

In the *strategic* stage, a company integrates political CSR in its core business strategies. In addition to for instance having an anti-child labour policy, the company also has integrated all other UNGC principles into their business processes and supply chain in a strategic way. SMEs might have developed a business model, which builds on a sustainable product, or they have e.g. integrated only purchasing certified materials into their entire business operations. Strategic then refers to integrated, rather than selective rule-implementation, but not yet rule-making, i.e. participating in dialogue with stakeholders proactively, and encouraging others to do so as well.

The definition of the final stage - *civil* - corresponds with an ideal understanding of political CSR. Thus, it includes both ideal-level rule-making and ideal-level rule-implementation, whereas earlier stages only refer to rule-implementation. The *civil* stage is characteristic for companies who promote broad industry participation for engaging in political CSR. In this stage, the communicative dimension of political CSR is fully integrated into the business model, i.e. not only caring for specific issues along one’s supply chain, but

also promoting others to do so and legitimizing one's actions by entering into multistakeholder dialogues.

### **The dimensions-axis**

The dimensions-axis is developed by first providing a theoretical argument why SMEs are connected to global governance in general and how and where this requires systematic engagement in political CSR.

A central requirement for the development of such a conceptual framework is to counter the fear that political responsibility makes everyone responsible for everything. Different actors have different kinds of responsibilities in relation to particular issues of injustice, and some arguably have a greater degree of responsibility than others, depending on the social connection to a specific type of injustice, e.g. workers rights violations (Young, 2006, p. 126). Also, in particular when considering SMEs and MNEs, actors have different amounts of resources, and they might face different levels of constraints (Young, 2006). To define the limits of political responsibility, actors must understand it as a 'task' responsibility which arises along a company's core business operations and supply chain (Young, 2004, p. 384). Derived from the argumentation of the social connection logic, Young proposes to systematize political responsibility of specific actors along different dimensions of reasoning that guide behaviour (2004; 2006). Tasks are divided according to the dimensions of *connection*, *power* and *skills & capacities*. These three dimensions constitute the conceptual framework, for which observable indicators are subsequently developed (see appendix 1). As informality in processes is a key feature of the organizational structure of SMEs (see e.g. Jenkins, 2004; Moore and Spence, 2006; Russo and Perrini, 2009), the definitions of the sub-dimensions must be based on criteria which allow an informal handling and implementation of (political) CSR practices.

1) *Connection* captures the general awareness of global governance related issues. I argue that the 10 principles of the UNGC (see annex) comprehensively define those issues

which are relevant in terms of global governance and are thus used as a reference point. Also, this dimension captures the awareness of a company regarding its social connection to such issues along its supply chain. The influence of SME owner-managers in particular regarding awareness of global governance issues and social connection is considered crucial for this dimension. Accordingly, *connection* consists of the sub-dimensions *issue awareness* and *social connection*

2) *Power* captures the willingness of actors to engage collectively and enter into joint efforts of problem solving with external actors such as peer companies and other stakeholders in MSIs or similar network structures. The need for collective action and engagement in networks due to low individual visibility is considered crucial in this dimension. Accordingly, *power* consists of the sub-dimensions *collective action* in general and *network involvement* in particular.

3) *Skills & capacities* captures the internal embeddedness of political CSR in the mindset of the organization's members (*company culture*), in its specific *daily practices and processes* such as procurement, production, marketing, etc. and the *involvement of employees* in these processes as well as the way how this information is *transparently disclosed* and communicated to an external public. The predominantly informal nature of SME's internal organization, regarding culture and involvement of employees and a pragmatic, less standardized approach to disclosing information is considered a key characteristic of this dimension (see Wickert, 2010).

## **Research Design and Methods**

The present research design might best be described as theory elaboration (see Lee et al., 1999) in that it seeks to elaborate theoretical links not previously addressed in the respective literature. For example, previous studies on the role of private actors in global governance have not distinguished between firm size (or have only analysed large firms) and structural

influences, such as agency relations between principal (e.g. owner of a firm) and agent (e.g. manager of a firm) that is significantly different relative to firm size and ownership (see e.g. Baumann and Scherer, 2010; Preuss and Perschke, 2010; Russo and Perrini, 2008). Thus, I attempt to ‘clarify and redirect’ theory on the specific role of SMEs in global governance in a way that seeks to find out particular attributes of engagement which are caused or influenced by the specific characteristics of a SME.

The case study approach is defined as ‘an empirical inquiry that investigates particular instances of a contemporary phenomenon within its real-life context, which might possibly change over time; and including multiple sources of evidence as well as rich empirical data’ (Yin, 1994; 2003). It represents a useful method when relatively little is known of an area of research or if a ‘fresh perspective’ is needed (Eisenhardt, 1989). Accordingly, this approach ensures ‘methodological fit’ (Edmondson and McManus, 2007: 1161). I use a multi-case approach, which on the one hand allows drawing more robust conclusions from the case findings than a single case study and on the other hand provides a stronger basis for theory elaboration (Eisenhardt, 1989; Yin, 2003). The purpose of this research was thus to gain a deeper understanding of the respective processes and their meaning within SMEs. Therefore, a qualitative approach was taken, keeping the sample size small in order to attain information richness.

#### *Case Selection*

I applied ‘theoretical’, rather than ‘random’ sampling (Glaser and Strauss, 1967) for the selection of cases and sought to choose rather ‘extreme’ cases in terms of visible and existing global governance engagement in order to allow studying data-rich cases, as recommended by Eisenhardt (1989; see also Siggelkow, 2007). I used publicly available secondary data, such as company websites, media- and third-party information (e.g. published by NGOs) to select companies that represented a ‘degree of responsibility’ which appeared considerably above average, and I considered them as innovators, rather than laggards in terms of political CSR.

Given the limited number of available cases which could be studied to answer my research questions it made sense to choose cases in which the issues of interest are most transparently observable, i.e. to select cases which already seem to be active in political CSR to a certain extent.

Singling out one industry and one common cultural and legislative context, namely the textile industry and Switzerland, allowed controlling for extraneous variation. This industry and the apparent connection to production sites in countries of weak governance provided data-rich and interesting cases. The textile industry was one of the first industries to take on a global dimension, and moreover, due to relatively little technological rationalisation, it retained a low capital and comparably high labour intensity, with production being transferred to low-wage economies (see Preuss and Perschke, 2010).

On the other hand, I added variation to the sample by choosing companies of different sizes within the SMEs range of less than 250 employees in order to detect possible intra-group differences. As such, I have selected 4 companies that have only about 25 employees, one with about 100 employees, and three with 180 and more employees. In order to grasp the influence of collective action, I choose companies that participated in different industry associations or multistakeholder initiatives (e.g. the UNGC, the FWF or the Business Social Compliance Initiative, BSCI). The company names are anonymized for confidentiality reasons, which however has no effect on the analysis of results.

The selected companies are illustrated in the following table 1:

<b>Company Name</b>	<b>Number of Employees</b>	<b>Key Product</b>	<b>Persons interviewed</b>	<b>Archival documents</b>
Company A	20	promotion articles	1	COP, website
Company B	220	outdoor clothing	1	website
Company C	22	organic cotton	4	CSR report
Company D	100	outdoor clothing	2	website, audit sheet
Company E	14 (+106)	safety clothing	2	website
Company F	180	fashion	2	CSR report
Company G	160	disease-control textiles	1	CSR report

Table 1: Interviewed companies. Source: own research, company websites.  
 Note: Number of employees at the time of the first interview.

### *Data collection and case analysis method*

A total of 17 semi-structured interviews has been conducted, thereof 13 with company representatives. 4 additional interviews with external experts from government authorities and civil society organizations allowed further validation of results and data reliability. Interviews were conducted on-site and face-to-face at the companies' headquarters in Switzerland between January and May 2010. The length of interviews varied between 30 minutes to 3 hours, with an average of 90 minutes. The tape-recorded interviews were then transcribed into a case study analysis protocol, coded according to the dimensions of the conceptual framework and stored in a case-study database. I conducted a content analysis of interview transcripts by referencing within and across cases, sub-cases (if there were multiple interviews with one company), and with secondary data (see Yin, 2003). Data has also been coded by a second person to ensure inter-coder reliability. This parallel process of data collection, coding and analysis was conducted until I have been able to extract interesting and plausible findings from the data. For instance, I have identified a certain number of codes for one company which I attributed to the sub-dimension issue awareness. Then, I sorted these codes into the different stage-dimensions, e.g. in the civil or strategic stage. Within one dimension, it was not possible to sort all coded data of one company into the same stage-dimension, as some answers e.g. demonstrated an awareness of issues which corresponded with the civil stage, and others rather with the strategic stage. Thus, for the purpose of this study, I considered it reasonable to take the highest average number of codes for one stage-dimension to determine a company's overall position in each respective dimensions.

In order to increase reliability of data, I sought to interview more than one person per company, if applicable, and each having different job descriptions. I suggest that the authenticity of the responses is relatively high among SMEs, as I attempted not to interview PR-experts from the communications department, but interviewees which were either the owner-managers or managing directors of a company or not detached from the daily



operations (this argument is supported by a high consistency of primary data with secondary data obtained from third-parties such as NGOs). All interviewees had other operational tasks apart from being responsible for a company's CSR activities.

In order to enhance the construct validity of the case study, I triangulated data, using multiple sources of evidence (see Miles and Huberman, 1984). I mainly referred to primary data (interviews) but used secondary data (archival company and third-party documents) to increase analytical rigor (see Gibbert et al., 2008). As such, I either cross-checked the statements of the interviewee by asking to provide written evidence for their statement, asking another interviewee in the same company the same questions, or double-checking the statements with external experts (e.g. if a company mentioned it was actively participating in a MSI, I approached that MSI for confirmation of the claim). For instance, I analyzed a survey about social responsibility among Swiss SMEs in the textile industry conducted by the Swiss NGO 'Berne Declaration' (see [www.evb.ch](http://www.evb.ch)) as well as multistakeholder-assessments conducted by the FWF. Where applicable, I analysed secondary data before actually conducting the interview to allow a refinement of questions for each individual company. All interview transcripts were also sent to the interviewees for review and to allow possible corrections.

In keeping with the exploratory nature of this research, the precise content of the interview design was continually adjusted in an iterative process in order to explore emerging topics from previous interviews both of the same and of other companies. Whereas interviewees have been deliberately approached with an understanding that the focus of the study was social responsibility, it was emphasized that there were no 'yes-or-no' or 'right-or-wrong' answers. Instead, interviewees were encouraged to enter a narrative mode of telling their story of how they interpret social responsibility in their company. In all cases, interviewees for instance came up with the 'global dimension' of their responsibility by themselves. Accordingly, the conceptual framework and the definitions of global governance

and political CSR mentioned earlier in this paper were not provided to the interviewees. This characteristic of qualitative research allowed minimizing ‘social desirability response effects’ that often occur and distort results in survey-based ethics research (Fernandez and Randall, 1992; see also Crane, 1999). Individuals tend to deny socially undesirable traits and behaviours and purport socially responsible ones, especially when asked to do so in large-scale surveys. While quantitative researchers must be very careful in wording instruments and analyzing results to diminish this effect, qualitative interviews to control this bias directly and rectify it during the course of the data collection. Rasche (2009) has therefore argued that in order to make evidence about the understanding and organizational implementation of political CSR more reliable, the existing quantitative survey-based data should be supplemented with detailed qualitative interview-based data.

## **Results and Data Analysis**

Results of the case analysis, i.e. a company’s stage-position in a respective dimension suggest a relatively high consistency among the sample in the connection dimension (the majority of companies is in the civil stage) and a lower consistency in the power and skills & capacities dimensions (the majority of the companies is in the strategic stage). In the following, results are presented subsequently for each of the three dimensions connection, power and skills & capacities and their respective sub-categories to show in which of the stage-dimensions each of the 7 case-companies is situated. Results will be presented in an aggregated form; I reference quotations to highlight particular approaches of individual SMEs that illustrate the current stage of embeddedness of political CSR in a particular dimension.

One company, namely Company E, scored considerably lower than the remaining companies. This company had the least ‘exposure’ to and thus materiality of global governance issues, as it e.g. only produced in European countries. Accordingly, Company E did not engage as much in political CSR activities as the other companies, but rather focuses

on the local level, which is not captured in the framework. Nevertheless, for clarity Company E is still included in the illustration of results.

**Connection**

Results suggest that the companies are most advanced in the two sub-dimensions of the connection dimension. For issue-awareness, three companies demonstrated an awareness which can be attributed to the civil stage, three companies are attributed to the strategic, and only one company can be clearly situated in the managerial stage. The awareness of social connection along a company’s supply chain was distinctive in most cases, the majority being in the civil stage: All companies expressed that they are in principle to a smaller or larger degree connected to issues such as working conditions which occurred along their supply chains. Arrows indicate that a company is moving from one stage towards another one.

Results of the connection dimension:

<i>Connection</i>	<b>Denial</b>	<b>Compliance</b>	<b>Managerial</b>	<b>Strategic</b>	<b>Civil</b>
<i>Issue Awareness</i>	-	-	Company E→	Company D Company A→ Company B	Company C Company F Company G
<i>Social Connection</i>	-	-	Company E	Company A Company B Company D	Company C Company F Company G

Table 2: Results of the commitment dimension. Source: own research

Issue awareness:

Company C, Company G and Company F showed an awareness of issues that goes beyond application of existing rules and regulation, and expressed an active engagement in rule-making and problem solving beyond the immediate company boundaries: A Company G representative exemplarily stated in this regard that ‘the first thing we take into consideration when we are developing new products is to look at the Millenium Development Goals. So, we identify a problem and then try to solve the problem with a product’, whereas a representative of Company F emphasized that ‘the market for PET-recycling is still in its infancy. So we have to develop it’. For Company F, it has always been the objective to be a leader in

environmental and social topics, i.e. to apply the highest possible production standard, and seek to spread it to the industry over time.

Company C emphasized that it ‘wants to be environmentally and socially responsible from the growing of the plant to the final product we sell’. Due to its small size (less than 25 employees) and without much hierarchy, it did not face much difficulty to integrate new issues ‘on the corporate radar’. Nevertheless, the representative stressed that the overall vision of the company was to a significant extent driven by the owner-managers and then trickled down to the mindsets of the employees.

A representative of Company B explained that the company uses ‘a framework that allows to take an integrated look at the CSR landscape, i.e. they do not want to say a product is environmentally friendly without answering how socially responsible it is’. This view clearly demonstrates an integrated, i.e. strategic understanding of issues, rather than being selective about a specific set of aspects. Company B further divided its ‘CSR landscape’ into issues relevant to their core business processes and treated these as a key priority, next to establishing transparent management and disclosure. Philanthropic activities, which according to the Company B representative ‘are where it all started’ still were seen as important, but with inferior priority compared to core business processes.

Company A, who has formally committed itself to adhere to the 10 UNGC principles, stressed that for them it is also important to carry the message across, to their suppliers and to their customers, both for moral and for business reasons. For Company D, sustainable values are at the core of the company and its brand. One of the owner-managers illustrated Company D’s pragmatic approach: ‘Working conditions such as child labour are our first priority, then we look at environmental issues, which includes e.g. considering PET-recycling material for our products. Corruption is a total no-go. If we don’t take care here, we could just quit our business’.

### Social connection:

The majority of companies showed a proactive (strategic to civil) awareness of their social connection to global governance issues along their supply chains. None of the companies denied that it had any connection, i.e. responsibility, to issues that could occur along their (1<sup>st</sup> tier and beyond) supply chains.

According to Company F, such an attitude was often intrinsically motivated and evolved over time: ‘At the beginning it was about selling T-Shirts, but then we became aware of the bad situation of the workers in India, thinking “this can’t be like that” and that we should do something’. Hence, Company F saw it as their role to motivate its suppliers and most importantly to give them advice how to approach a certain issue, e.g. more socially responsible production. Overall, the company wanted to be ‘responsible’ beginning with the social and environmental conditions at the cotton production sites (an upstream responsibility), for their employees and those of their suppliers, and for their customers to provide them with fairly produced products (a downstream responsibility). Similarly, Company C stressed that even smaller companies can have a high exposure and thus social connection to the living conditions of their suppliers’ workers. ‘We are a SME with some 20 employees, but if you include all the suppliers’ employees and their families, then we are talking about several thousand farmers. Hence, the responsibility is also apparent for a SME like us. Of course, we do not have the influence that a large company would have, but we have the benefit to be able to act quickly and directly’.

A representative of Company A mentioned that ‘We know what’s going wrong and that we are connected to it, since we procure in these countries. So, we try to do what we can to improve the situation together with our peers’. For that reason, the company has developed a ‘requirement sheet’ along the UNGC principles for its suppliers. Likewise, Company D, which also has developed its own ‘audit sheet’, reacted to a case where one of its suppliers

was found out to also produce for the Burmese military by quitting business relationships with that supplier.

Company B mentioned that within the range of issues to which the company is socially connected due to its supply chain, ‘the social issues are most pressing for us to take action, and there we also has the highest impact’. Company E mentioned in this regard that even though it was well aware of the issues which might appear in emerging markets, they were not considered as material for them, as all their production was based in ‘well-regulated’ European countries.

**Power**

Results show that the interviewed SMEs are strongly engaged in collective action to jointly approach and solve global governance challenges. None of the companies used its small size and resources ‘as an excuse’ for not accepting a political 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, BSCI) and beyond, e.g. by participating in MSIs like the UNGC or the FWF. These networks are an important platform to spread awareness about rule-implementation and to also engage in collective rule-making, e.g. by setting industry standards.

Results of the power dimension:

<i>Power</i>	<b>Denial</b>	<b>Compliance</b>	<b>Managerial</b>	<b>Strategic</b>	<b>Civil</b>
<i>Collective Action</i>	-	-	Company E	Company A Company B Company D Company G	Company C Company F
<i>Network Involvement</i>	-	-	Company D Company E	Company A Company B Company G	Company C Company F

Table 3: Results of the power dimension. Source: own research

### Collective action:

According to Company C, the way companies and civil society have been cooperating has significantly changed over the last 20 years. The level of mutual trust is considerably higher and nowadays, Company C is much more able to talk about even controversial issues with some (local) NGOs. In India, they are for instance working on a project to educate farmers. One of the owner-managers emphasized that for the initial development of their organic cotton production, it was essential to work collectively and directly with several partners. This included the farmers in the production countries, which had to be trained about the advantages and disadvantages of organic cotton, their own employees, which needed a strong commitment, and also their large-scale buyer COOP.

Company F showed an example that even went beyond direct business interests by engaging in a project with the Swiss government to promote Labour Rights in China. Also, the company makes strong efforts to inform its suppliers about the implications of the FWF membership, e.g. by organizing meetings for social compliance officers. Company F is furthermore engaged with local stakeholders in production countries to improve social dialogue on the factory level. Together with the FWF, Company F is offering worker training at one of its suppliers. For instance, Company F explained that it required a strong commitment and cooperation also towards their suppliers to ensure fair working conditions. In this sense, they ensured the supplier to stay even if it became more costly due to paying higher wages and for obtaining an SA8000 certification.

Company D emphasized that the mere number of SMEs 'out there' can make a difference. 'Of course we (as an SME) can have an influence – voting-by-feet.' This means that if a SME would have objections e.g. against the poor working conditions of one of its suppliers, it could simply quit relationships with that supplier. If all buyers of a supplier would do so, the representative of Company D stressed, it would most likely consider the buyer's demands and improve working conditions.

When asked how companies in their industry worked together, Company B stressed that they understood ‘CSR as a global team sport and that due to small individual impact, they alone cannot solve all these topics.’ However, and similar to the responses of some of the other SMEs in this study, the representative of Company B did not take that as an excuse for not engaging, but highlighted that ‘it is why we cooperate within our industry’. Often, it simply needed economies of scale and commitment by several players to make a ‘sustainable activity profitable and thus attractive, e.g. for recycling of used garments. As such, ‘CSR needs to be understood as a business dimension of cooperation’. More specifically, Company A explained that they ‘work with our industry association, which is also a member of the UNGC. That way, we have much more power and can e.g. demand higher ethical standards among suppliers. It means rather small steps, but it works’.

#### Network involvement:

Company F considered it important to meet and exchange ideas in several industry working groups with the large companies. The representative even highlighted that ‘some of the big players were quite jealous about the way we disclose our supply chain in the Internet. Company F also participated actively in the FWF, as for them, this MSI incorporated the highest level regarding social and environmental standards, as e.g. compared to the business-driven BSCI.

For Company C, it was important to focus on a network that fit the requirements of the company’s business and objectives. ‘There are many initiatives, BSCI, SAI, FWF, etc. We need to screen them and see what makes sense. One should not be in too many’. Similarly, Company A stressed that they are too small to pay for membership in all the initiatives out there’ even though participating might make good sense. They decided for the UNGC, because it is large and offers networking with others. However, during the course of this research, Company A decided to additionally join the FWF.



On top, Company A showed that it was an active player in its industry association IPPAG, which is also a member of the UNGC. As such, Company A aimed to consolidate the aggregated influence of the many small players which were involved in that network. It allowed them to approach topics at a much higher level than alone.

Company B stated that ‘they participate in the FWF because it is a multistakeholder-initiative. BSCI is too business-driven and more for the big companies’. Moreover, Company B demonstrated to be an active member in the outdoor-industry working-group by explaining several documents, such as meeting minutes or draft reporting, e.g. on the definition of industry standards. Company E for instance explained that it joined the industry-driven BSCI because ‘our large customer recommended us to join, so we did’.

### ***Skills & Capacities***

The dimension skills & capacities comprises the four sub-dimensions *company culture*, *daily practices*, *employee involvement* and *transparency*. The results showed that responsibility in general and engagement in global governance was particularly strongly embedded in the company culture of the interviewed SMEs, often rather implicitly than explicitly. While the SMEs showed a good embeddedness of global governance practices in their daily business, the majority of the SMEs demonstrated a very strong involvement of their employees in shaping their respective agendas. Also, the SME cases illustrated that even small companies can be innovators for their entire industry in terms of disclosure and transparency.

Results of the skills & capacities dimension:

<i>Skills &amp; Capacities</i>	<b>Denial</b>	<b>Compliance</b>	<b>Managerial</b>	<b>Strategic</b>	<b>Civil</b>
<i>Company Culture</i>	-	-	Company E	Company A Company B Company D	Company C Company F Company G
<i>Daily Practice &amp; Processes</i>	-	-	Company E→	Company A Company B Company D Company G	Company C Company F
<i>Employee Involvement</i>	-	-	Company E	Company A Company D	Company B Company C Company F Company G
<i>Transparency</i>	-	-	Company E	Company A Company B Company D Company G	Company C Company F

Table 4: Results of the skills & capacities dimension. Source: own research

Company Culture:

The results of this study suggest that SMEs have two distinct underlying motivations (see Ryan and Deci, 2000; Benabou and Tirole, 2003) that drives their behaviour. One represents an *intrinsic* motivation to engage in (political) responsibility, out of a strong conviction for ethical values and responsibility mainly driven by the owner-manager or founder (Spence and Lozano, 2000), and the other one being a more instrumentally driven *extrinsic* motivation, where CSR was seen as a management tool to create competitive advantage, i.e. the business case for CSR (see Jenkins, 2004). Notably, most of the SMEs in the sample did not see these motivations as mutually exclusive, but rather expressed that their engagement in (political) CSR was initially caused by one or the other kind of motivation, but then influenced by the respective other one. For instance, an SME in the sample would ‘start’ caring for working conditions along its supply chain out of conviction, and then seek to establish a business case over time to stay profitable, but it would not take the business case as a precondition to engage in one way or another.

Furthermore, this study revealed that SMEs tend to have an advantage to adopt practices of political CSR due to their largely informal internal organization, which is more flexible to adapt to changing demands than that of MNEs.

*Intrinsic motivation:*

All the companies in the *civil* stage, Company C, Company F and Company G, emphasized that they aim to ‘optimize, not maximize’ their profits. There was a clear conviction that profitability is necessary to survive in competitive markets, but it was considered difficult to reach social and environmental objectives when maximizing profits and thus taking only into account shareholder or equally narrow objectives. Company F pointed this out by stating that ‘we act out of conviction, not out of pure business logic. All this we could not do if we were maximizing profits’, while Company C added that ‘there should be a balance of what everyone gets from our sales: the farmers, the employees, the company. Furthermore, Company C made clear that ‘we would not do conventional cotton anymore, even though it might be more profitable’. These three SMEs suggested that for such an approach, it was necessary not to be subject to pressures of shareholders and capital markets, as exemplified by Company C: ‘It is part of sustainability to be profitable at some point in time. But as a private company, we can do something if we believe it’s the right thing. We don’t have to listen to shareholders’.

Company G stressed that ‘of course, we want to make a profit. But, if you are working with big donors, or the UN and NGOs, profit is not everything, as they have limited funds to spend, and there are millions of needy people in the world. This is how we look at the equation, how can we save the most lives with the smallest amount of money. As such, we believe that profit should be purpose-driven’. Company G’s CEO highlighted in this way that ‘profit is a key tool but not the ultimate goal. We are business-people, but this is not capitalism in its purest form. The profit is for a purpose!’

Along with this ownership dimension came the importance of the founders and owners of the respective SMEs to shape their stance towards responsibility and their corresponding company culture. For Company F, it was ‘a huge difference whether a company is owner-managed or publicly listed on the stock market. There, the distance between the board and the vision can be huge. At Company F, our founder brought in the vision and lived it every day. Other decisions are possible, e.g. that we accept a smaller margin, but still decide to do a PET-recycled product or to use organic cotton, even though it might be less profitable’. Similarly, Company D stressed that ‘many SMEs are owner-managed. For us, this is a central aspect that sustainability issues are taken seriously, i.e. if you have an owner-manager who believes in it’.

*Extrinsic motivation:*

On the other hand, some SMEs such as Company B or Company A, showed an approach which was predominantly business driven. As such, the underlying motivation came rather out of business logic than out of mere conviction. Company B highlighted: ‘We are not a philanthropic company, as we have expectations on turnover and profit. Thus we see CSR as a management-tool’ because ‘without margin, there is no mission, but without mission there is no margin. We need to balance this’. The Company B representative outlined that for them as a profit-oriented company, it is difficult to ‘reach all the points on the CSR scale’. Company B can ‘absolutely reach an 80% level. However, reaching 100% does not work well if one has to maximize profits, as the last 20% would rather be nuances than strategy’. Thus, he considered that ‘profit-optimizing’ organizations, such as cooperatives, have a clear ‘advantage’ in this regard. Company A confirmed that ‘Yes, we do have a business logic. We offer an additional service that our products are ethical. But we are also proud that as a small company, we can change something’.

### *Internal organization:*

The majority of the interviewed SMEs emphasized the significant differences in terms of their rather informal internal organization and its influence on their stance towards (political) responsibility.

At Company C, ‘many things are informally organized. The personal relationship and communication are very important. In particular in India, we seek to have long-term supplier relationships for 10-20 years, in order to build trust. This has advantages and disadvantages, but we accept that’. According to the owner-manager of Company C, many decisions are taken intuitively. But as we grow and become deeper involved into different issues, we need to formalize our processes. This has significantly changed over the last 10 years’.

Company G highlighted that ‘SMEs tend to be more flexible and there is not such a big bureaucratic structure in place. Many SMEs might not be involved in some great initiatives, or they don’t have a glossy report with 50 pages to show afterwards. But there are small steps they can take; it’s just as important for an SME to take a small step as it is for a MNE to take a big step.’ For instance, Company D mentioned that ‘One should not focus just on having nice policies and not living them, which is often the case in big companies. This is easier for SMEs. Better have no policy and good employees with high values, than a bombastic code that no-one knows’. Company E added in this sense that ‘Large companies often have very nice brochures. SMEs tend to write less, but they are more authentic in what they do’.

### Daily Practices & Processes:

In their daily practices and processes, most of the companies are situated in the strategic stage or even beyond, and demonstrated an array of both formal and informal approaches to integrate their commitment to political CSR into their organizational procedures.

According to Company C, in general ‘the advantage for SMEs is that they can act much quicker. We have shorter ways and are closer to the issue, and we can act out of

conviction, rather than just due to profitability reasons. Also, we are much closer to reality than a large company'. Company C stressed that 'going green' is a challenge but still much easier for small companies than for large ones. While it took them already 10 years to become entirely organic in their cotton production, their flexibility as a small company has been critical. As Company C's owner-manager highlighted, 'if a large MNE would want to become entirely organic, they would most likely collapse. In addition, the market for organic cotton simply is not so large'. For Company C, it was crucial to have only as few suppliers as possible to maintain control about their social and environmental requirements. Nevertheless, they said that 'as an SME, we aim to evoke the small changes, which become large over time'. Company C seeks to certify all its suppliers with the relatively comprehensive SA8000 standard. However, they would face serious difficulties if they required all suppliers to be certifiable right from the beginning. Thus, they 'begin with the intermediate stage BSCI, which certainly is a lower standard. But, we need this to initiate a learning process that ultimately leads to SA8000'.

Company F has a clear objective to always apply the highest possible standard and to further its development over time. Next to social (e.g. SA8000) or environmental standards (e.g. ökotex), the company found that they needed to improve on water management. With their recently launched water standard, they will for instance measure the individual water-footprint for their products and disclose them to consumers, which according to the Company F representative is still unique in their industry.

With regards to the environment, Company A stated that they respond to customer demands by offering both 'a recycling-line and regular products'. However, the company representative emphasized that in their general sourcing activities, they had 'the UNGC principles as a basis of our requirement sheet.' This sheet also included e.g. CE, ISO and SA standards (both voluntary and legally required standards).

While Company B stated that in their business conduct, the company ‘looks at price and quality in the same way as they look at environmental and social issues’ they had the goal to increase the percentage of FWF-certified supplier factories from 77% to 100% in the near future. Also, the company wants to increase the bluesign (an environmental standard) approved materials, which was at 44% at the time of the interview. Notwithstanding, the company stressed that this is a process which cannot be achieved over night, but required continuous engagement with the suppliers. For instance, the willingness to increase working standards is most likely higher among European retailers than among Chinese suppliers. Moreover, Company B seeks to conduct a life-cycle assessment for its products along the entire value-chain, including consumers. They analyse where the product has the highest impact, e.g. in terms of carbon-footprint, and then select their largest lever to improve a specific part of the life-cycle. Within the industry-working group where Company B is participating, the company is responsible for ‘end-of-life’ issues, i.e. recycling of used garments, which can later be reused to produce new garments.

#### Employee Involvement:

Company B demonstrated a particularly innovative way to ‘get the CSR-message across’, as the company had installed so-called CSR-agents in every of its divisions. These employees were ‘always supposed to wear the green hat of CSR, ask critical questions and bring the message to everyone’s mindset’. According to Company B, this strategy has been working very well and an understanding for CSR in general and issues related to the global level (i.e. supply chain relations and global governance) are strongly represented among employees. As such, at Company B ‘ideas evolve top-down as well as bottom-up. Everyone, the CEO and the employees, has a high affinity to the environment. If glaciers are melting, so does our core business’. In a similar vein, Company F emphasized that ‘it needs personal involvement of every employee. They need to know why it’s important what they are doing every day so they can carry the message’.

Company G also had quite an intense way of ‘getting the message’ to its employees. As the company stated, they ‘send all their employees to the field to actually do work there, so they have an impression of what’s going on in Africa. We consider this very important for our employees’ motivation’. Similarly, Company C encouraged its employees to do field visits at their cotton production sites in Africa.

Company A stated that as a very small company, it was not so difficult to spread awareness among employees. Their requirement-sheet, which was an internal document based on the UNGC principles and used when checking suppliers was for most processes circulated among almost every employee (i.e. from initial salesperson to logistics, marketing, procurement, management, etc.), as the representative stated: ‘All employees know that (sheet), and we are so small that most people are involved in almost every process anyway’. A Company D representative confirmed this by adding that ‘in terms of employee motivation and identification with the job, I think SMEs have an advantage, as everyone is in closer contact to each other and to the issues the company is dealing with’. However, as Company F mentioned, SMEs need to become more formalized as they grow: ‘Take employee training, which we have about CSR for new employees. If we do that well, it’s no problem, but as we grow, we need to do this more carefully’.

#### Transparency:

While some companies applied and promoted an approach to transparency which was clearly beyond common industry standards (see the companies in the civil stage), others referred to their status as a private company which did not have legal requirements for disclosing information. Nevertheless, those two SMEs (Company C, Company F) which showed the highest level of transparency said they initially did so out of conviction, but clearly communicated this to their consumers for strategic reasons.

Company C for instance considered transparency a competitive advantage. The owner-manager emphasized that ‘organic alone is not a unique-selling-proposition anymore. But to



ensure and disclose social and environmental sustainability along the entire value chain, traceable, fair traded, and independently audited is a product promise which only few other can hold'. Company C has a traceability number for all their products which allows precise online-tracking of the production chain. The owner-manager stressed that 'if you are transparent, you always decide for the benefit of society. If I am able to transparently disclose all my information, I had to make sure it was the best solution. If I have a bad solution, I need to reduce transparency, otherwise others will criticise'.

Company F approached transparency in a proactive and pragmatic way. One representative noted that 'we are looking for NGO input when we talk about transparency. We see it as a strategic move to disclose everything what we do. We invite everyone to see what we do'. For Company F, it was the objective to 'be transparent in a way that everyone can trace our products from the cotton plant to the store hanger'. The requirements for transparency and the respective underlying social and environmental demands were firmly embedded in the company's activities, which was confirmed by several studies of independent NGOs, such as FWF or EvB. Company F stressed that 'for example, my colleague from production wants to produce a jacket, but there is only one factory in the world which can do that. It might be that we say no, if it's not clear under which conditions this jacket can be produced, or if it is not transparent enough regarding our social and environmental demands'.

Company B demonstrated that the topic of transparency in their supply chain was of increasing importance for the company, also due to consumer demands and industry standards. Hence, the company committed to report according to the GRI framework from 2010 on. Company B also joined the FWF in 2008 and agreed to do an annual social report about working conditions in its supply chain. As the Company B representative stressed the high expectation of this MSI and the respective auditing by stating that 'the FWF people are

extreme. We sort of bought the Rolls-Royce of the auditors. If we stand their audits, we are really good!’

Company G approached the issue of transparency quite differently from Company C or Company F: A company representative stated that ‘we don’t have product DNA or such a thing directly, as we don’t have so much contact with the everyday-customer. 90% of the people that use our products don’t know how to read or have a computer. However, our NGO partners, the UN, etc. all have very high standards for what they buy. They are able to audit our partner-factories at any time. We do have regular visits to our factories by certain donors or certain government officials’. Very similar to the other companies, Company G highlighted that ‘in the optimal situation, you have very few suppliers, and you have very good working relations with them, you monitor them closely, etc. But for VF, we don’t have a lot anyway, since we don’t make a lot of different products’.

Company D showed an approach to transparency which was quite differently from mainstream practice, but provided credible arguments why this was not necessarily inferior. The company wants to do the audits by themselves and has therefore developed its own audit-sheet, which was inspired by own hands-on experiences and used for the audits of their supplier’s factories. It includes straightforward issues like hygiene, temperatures in the factory, but also wages. To make sure it is being followed, Company D’s founder said that ‘I just go to the workers and talk to them. A third-party can do it as well, but we only have certainty if we go into the factories by ourselves.’ That’s why Company D, similar to the other SMEs, is trying to keep the number of suppliers low and thus under better control. Hence, it ‘reduced the suppliers to three factories. Thus, we have better control, and we personally know the people in the factories, and also can just walk in whenever we want and check the situation. Furthermore, we have stopped producing in another factory where we did not have the full control’.

In sum, findings suggest that political CSR is not something just for large companies and that some SMEs are even 'more advanced' in global governance than MNEs (see Baumann & Scherer, 2010) (see appendix 2 for aggregated results table).

1. Within the sample, there is no evidence that SMEs feel overburdened by the global governance agenda. Rather, the interviewed SMEs seemed to be very flexible to adapt to dynamic challenges and they provided innovative approaches.
2. None of the SMEs in the sample stated that their inferior financial or human resources were a reason for not actively engaging in global governance. As such, it should not be assumed that political CSR and global governance is only 'something for the big companies'.
3. Given the practices of the SMEs, in particular those in the civil and strategic stage, it seems wrong to predominantly consider MNEs for best-practices and as the innovators in the CSR debate. Rather, MNEs should pay more attention for SME best practices, for instance regarding employee involvement or transparency.
4. Given the high willingness of SMEs to engage collectively, it seems inappropriate to assume that to have an impact, one should only approach MNEs. At an aggregated level, SMEs might as well have a considerable impact, e.g. on supplier behaviour.

## **Discussion**

Results as illustrated above provide systematic empirical evidence that in principle, a political role in global governance exists for SMEs, as much as has been empirically shown for MNEs (Baumann & Scherer, 2010; see also Scherer & Palazzo, 2010). Several SMEs are proactively engaging in issues along their supply chain activities in zones of weak governance or social and environmental regulation. These SMEs engage in specific (managerial stage) and integrated (strategic stage) rule-implementation and even in joint rule-making (civil stage) on a global scale.

I develop several propositions from the analysis of the results. Even though these propositions are not to be generalized to ‘the SME’ as such, they are relevant for SMEs which are embedded in global supply chains (most of all in the textile industry). Furthermore, I suggest that these propositions guide future research and form the basis of subsequent quantitative scrutiny.

Overall, the interviewed SMEs have demonstrated high awareness for the existence of global governance issues and a high level of perceived social connection to the raised problems in their supply chains. I conclude from the results that initial awareness and (formal or informal) commitment to engage in global governance does not depend on size or resource configuration, but rather on the industry and the resulting exposure to the global governance thematic itself (see also Spence, 1999). The results support this claim as the company which had the least exposure to global governance issues and its supply chain largely based in Europe, namely Company E, scored lowest in all categories; although, Company E had a similar size and resource configuration than the other companies in the sample.

In the sample, lacking financial or human resources was not considered a significant constraint to implement practices of political CSR in the daily operations. Rather, the interviewed SMEs had a wide array of practices in place, which were either semi-formal and self-developed (requirement sheets for suppliers or own audit checklists) or relied on established formal certification schemes like SA8000, ISO14001 or a FWF management system audit. Results furthermore showed that there is a relatively high consistency between the issues a company demonstrated to be aware of and considered to be socially connected to and the actual practices which were in place at that company. I deduct the following proposition from this discussion:

- *Proposition 1: Size and resource configuration are not the dominating factors to determine more or less advanced (political) CSR engagement; rather do industry and embeddedness in global supply chains.*

Regarding the motivation of SMEs in the sample to engage in global governance and political CSR, instrumental reasons, such as the search for a business case, appeared to be less important than ethical reasons that are largely influenced by the founders and owner-managers of a firm (see also Jenkins, 2004). The motivation of SMEs, manifested in the company culture, was predominantly driven by intrinsic reasons, i.e. engaging out of conviction, and less because of strategic or business reasons. All of the SMEs in the sample nevertheless sought to establish a business case for their engagement and considered strategic reasons for their activities, but this was only for a minority of the companies dominating over conviction and individual ethical beliefs. The most advanced companies in this sample demonstrated a view on the role of business in society which is different from mainstream economic theories and instrumental approaches to CSR which seek to establish a relationship between CSR and financial performance as a precondition to engage in some sort of social activities (Margolis and Walsh, 2003; Scherer and Palazzo, 2007). Accordingly, some of the SMEs did not agree or even thought it is ‘the wrong way’ to always aim to maximize profits for a limited number of individuals. While everyone agreed on the obvious need to be profitable to stay in business, it was emphasized that this could be achieved with an ‘optimization’ and equal distribution of profits among those who contributed to their creation. I deduct the following proposition from this discussion:

- *Proposition 2: Owner-managed SMEs are more likely to engage in political CSR out of conviction and do not see the business case for CSR as a precondition to act responsibly.*

Ownership structure appeared to be an important determinant for how far a company is willing to go in its political CSR engagement (see also Berrone et al., 2010), as exemplified by Company B and Company C. Companies which are subject to maximization of profits tend to see (political) CSR as a strategic management tool and would thus invest in an ‘optimal

level' of CSR (see Baron, 2001; McWilliams and Siegel, 2001; Husted and Salazar, 2006) as long as it maximizes to their profitability. Companies which are not subject to maximization, but rather optimization of profits, as Company C or Company F, are for instance able to spend comparably more on fair wages (i.e., above minimum wage to ensure a decent standard of living) or environmentally friendly materials (e.g., organic or PET-recycled), because their conviction tells them to do so. They can 'afford' to be in the civil stage, even though the strategic stage might be more advantageous for their profitability. Contrary to commonly raised claims about the need for CSR activities to increase a firm's financial performance (see Campbell, 2007; McWilliams et al., 2006), such firms seem to give priority to increase societal benefits before they increase their own economic performance. An 'optimal level' of CSR would thus be interpreted as optimal for solving societal problems, rather than optimal for solving a firm's profit maximization problems.

Supported by the results, I argue that an instrumental orientation for CSR is not as dominating among many owner-managed SMEs in particular, as compared to the majority of MNEs (see also Jenkins, 2006; Spence and Rutherford, 2003). This constitutes an advantageous precondition for SMEs to engage in political CSR. While many forms of 'business-centric' strategic CSR concepts (McWilliams et al., 2006; Porter & Kramer, 2006) are aimed to increase a company's long-term competitive advantage, it remains unclear how an ideal type of the rather 'society-centric' political CSR does so. Instrumental motives to engage in political CSR have not yet been thoroughly developed in the literature, however, instrumental benefits remain expected to justify a company's CSR engagement towards influential stakeholders such as shareholders. While it has been argued that MNEs which engage in political CSR can reduce the probability for instance of boycotts or NGO criticism that e.g. harms their reputation (see Scherer and Palazzo, 2007), actual knowledge about the effects on company performance remain humble (Margolis & Walsh, 2003). For SMEs that are subject to significantly less media attention and public visibility, this argument would be

even weaker (see Tilley, 2000). Hence, while it remains difficult to encourage MNEs to engage in political CSR for mere instrumental or strategic reasons, I suggest that this is not even necessary for SMEs. Conviction and ethical values play a major role in guiding SME's activities and benefits to society can have a comparably larger influence on a SME's conviction than the unclear business benefits. I deduct the following proposition from this discussion:

- *Proposition 3: Companies which are not subject to shareholder pressure or profit maximization are likely to be more advanced in political CSR.*

Results suggest that smaller companies with little hierarchy and organizational complexity seem to have an advantage compared to MNEs to spread awareness and involve employees in their global governance engagement (see also Dean et al., 1998), as a) it is more likely that individual employees are dealing with one or another respective issue in their daily business (see Jenkins, 2004); b) it is easy for the owner-manager to spread the message and his conviction, for instance just via simple 'management-by-walking-around' (see Waldman and Yammarino, 1999); and c) employees are likely to feel more personally connected to what the company is doing (see e.g. Perrini et al., 2007; Spence and Lozano, 2000). In addition, small company size and a corresponding flexibility in organizational structures seems to be an advantage to detect and spread issues within the company, both top-down from management to employees and bottom-up from employees to management (see also Russo and Tencati, 2009; Spence and Lozano, 2000). I deduct the following proposition from this discussion:

- *Proposition 4: Small companies committed to engage in global governance have higher employee awareness of respective issues than large companies.*

The willingness to engage in collective action, both with peer companies and civil society actors is highly represented among the sample. Most of the SMEs in the sample are actively involved in MSIs, such as the UNGC or the FWF, or industry associations like BSCI or specific industry working groups. The argument of being small and having limited resources and thus impact has not been used as an excuse for ‘not doing anything’. Rather, small size is considered a reason why combining individual limited impact with other actors and engage in collective action is a necessary condition to have an impact. Also, there has been no evidence raised by the argumentation of the sample SMEs that in collective efforts ‘where everybody is responsible, no one really feels responsible’ (Bandura, 2002, p. 107). Interviewees have acknowledged their connection to issues and have also stated that larger companies tend to have more responsibility, not due to stronger connection but due to stronger power. However, limited power, resources and knowledge have been used as an argument why it is necessary for SMEs to engage and share their approaches with others, such as partners along the supply chain. I deduct the following proposition from this discussion:

- *Proposition 5: Smaller size and low individual impact imply higher willingness to engage in collective action and to share experiences and best-practices with others.*

### **Limitations and Avenues for Future Research**

There are several limitations which accompany this study. Due to the explorative character and the case study nature of a very small sample size, the findings are not directly generalizable to the wider SME sector. Rather, they were aimed to provide an in-depth understanding of SMEs motivations, triggers and characteristics of their global governance engagement. However, the findings allow a much more comprehensive generation of propositions which qualify for upcoming quantitative study, e.g. by conducting a large scale survey among SMEs of different sectors or cultural contexts.



Furthermore, due to the theoretical sampling and the intention to study ‘rich cases’, results might be biased in a way that they provide evidence from best-in-class companies, which are already far ahead of the mainstream approaches of peer companies. Also, I analyzed an industry with a high initial exposure and also high customer sensitivity to global governance issues, namely the textile industry and for instance the apparent concern about working condition or high environmental sensitivity among customers of outdoor-brands. As such, political CSR was already a relatively well established concept among those companies and all had collected experience over several years. Some of the SMEs can be considered as having a ‘responsible product’ by definition, e.g. when producing mosquito-nets or organic fair trade cotton; however, as the results suggest, there is no tendency that companies with ‘normal’ products would score significantly lower. Also, all SMEs are from Switzerland, which might also have had an influence on their behaviour, as e.g. compared to SMEs from an emerging market context. While results suggested that the participation in a MSI is beneficial for SME’s engagement in political CSR, in particular regarding their collective efforts, I have not been able to deduct from the results whether specific MSIs like the FWF or more broad MSIs like the UNGC are considered more or less beneficial.

I therefore propose that future research based on the propositions which have been developed should focus on gathering data from a more representative and larger sample, to find generalizable support for the role of SMEs in global governance. Findings could then be translated into more robust policy and management recommendations. Also, the framework and the propositions could be applied in different industries (e.g. cocoa or coffee, travel, or an industry with low global governance exposure) and in different cultural backgrounds (e.g. comparing a European to a US to an emerging market approach), which have been argued to influence CSR behaviour (see e.g. Matten and Moon, 2008; Palazzo, 2002).

## **Conclusion**

In this paper, I have conducted a case study among a sample of 7 Swiss SMEs in the textile industry in order to illustrate with systematically derived empirical evidence that a political role in global governance exists for SMEs as much as being proposed for MNEs (see Baumann and Scherer, 2010).

A two-dimensional conceptual framework formed the underlying theoretical background for the analysis. Results suggest that the SMEs in the sample are well aware of global governance issues along their supply chains and express a high willingness to engage in collective action in order to increase their small individual impact. Small company size has also been considered an advantage to spread awareness about global governance issues among employees. I have highlighted several factors that facilitate rather than hinder SMEs to engage in political CSR. Compared to MNEs, in particular owner-managed SMEs tend to act out of conviction (intrinsic motivation), they are more flexibility in adapting to new issues, and they share best practices with peers.

This study contributes to the existing literature by adding insights about the role of SMEs in global governance, a still largely unexplored field. I have sought to use this explorative study to establish theoretical propositions which I suggest to be studied in further quantitative survey-based analyses.

## Appendix

### Appendix 1: Global Governance Assessment Tool for SMEs

<b>Stages/ Dimensions</b>	<b>Denial</b> no political responsibility	<b>Compliance</b> no political responsibility	<b>Managerial</b> selective rule-implementation	<b>Strategic</b> integrated rule-implementation	<b>Civil</b> rule-making and rule-implementation
<b>Connection</b>					
<b>Issue-Awareness</b>	- not aware of issues related to global governance	- know national laws and regulation and respect them	- aware of global governance challenges and own impact on <u>specific</u> issues/processes within value chain	- aware of global governance challenges and own impact on <u>all</u> issues/processes	- awareness of internal and external, societal problems at large - proactive raising of awareness of other actors, e.g., suppliers, sector peers
<b>Social-Connection</b>	- don't feel connected - liability logic	- accept direct connection, if established by law - liability logic	- focus on social connection that has impact on specific processes - selective approach along supply chain	- aware that social connection exists along entire supply chain - integrated approach along entire supply chain	- aware of indirect connection along entire supply chain - accept impact on direct and indirect stakeholders - promote awareness of impact among peers
<b>Power</b>					
<b>Collective Action</b>	- no collective action	- reactive engagement - not self-motivated	- join, if it makes business sense, on specific processes and issues	- join for strategic reasons, covers entire business; strategic/long-term partnerships - focus on rule-implementation	- rule-making and rule-implementation - promote awareness and joint efforts with suppliers, buyers and peers - joint/collective action AND decision making with involved actors
<b>Network Involvement</b>	- no network involvement - no priority	- occasional involvement/ad-hoc - passive - low priority	- participate in network, but as follower - medium priority - engage in selected projects	- emphasize business/strategic benefits from participation - high priority	- active, leadership role, continuous involvement - want to be best practice example - encourage others to join
<b>Skills &amp; Capacities</b>					
<b>Company Culture</b>	- not part of culture	- compliance culture (know and respect the law) - philanthropy	- consider specific processes, e.g., via certificates - CSR seen as investment, but ad-hoc decision	- competitive advantage with sustainable products - integrated institutionalization	- contribute to a better society at large - achieve leadership role - culture of open communication and joint decision, open feedback
<b>Daily Practice &amp; Processes</b>	- not part of daily business practice - try to escape existing rules	- minimum - implement rules where obliged to by law	- only for specific processes - focus on (voluntary) rule-implementation	- use of (formal) management systems, labels, certification - embedded in entire business strategy and processes	- promote in all parts of value creation - promotion in supplier practices - willing to transfer own best-practice to others
<b>Employee Involvement</b>	- not in employee mindset	- passive, know laws	- selective, e.g., procurement officer	- all employees (management) are involved and responsible for rule-implementation	- political responsibility part of employee mindset - active involvement of employees in rule- and decision making - management <u>and</u> employee driven
<b>Transparency</b>	- no transparency, no information is disclosed	- transparency is kept at minimum level, if disclosed only on request or if legally required	- good practice is disclosed - use of label/certification for specific products	- all operations/entire value chain is disclosed - all products have labels or are certified	- transparency is actively promoted - stakeholder feedback is integrated in decisions

Appendix 2: Aggregated results table:

<b>Connection</b>	<b>Denial</b>	<b>Compliance</b>	<b>Managerial</b>	<b>Strategic</b>	<b>Civil</b>
<i>Issue Awareness</i>	-	-	Company E→	Company D Company A→ Company B	Company C Company F Company G
<i>Social Connection</i>	-	-	Company E	Company A Company B Company D	Company C Company F Company G
<b>Power</b>	<b>Denial</b>	<b>Compliance</b>	<b>Managerial</b>	<b>Strategic</b>	<b>Civil</b>
<i>Collective Action</i>	-	-	Company E	Company A Company B Company D Company G	Company C Company F
<i>Network Involvement</i>	-	-	Company D Company E	Company A Company B Company G	Company C Company F
<b>Skills &amp; Capacities</b>	<b>Denial</b>	<b>Compliance</b>	<b>Managerial</b>	<b>Strategic</b>	<b>Civil</b>
<i>Company Culture</i>	-	-	Company E	Company A Company B Company D	Company C Company F Company G
<i>Daily Practice &amp; Processes</i>	-	-	Company E→	Company A Company B Company D Company G	Company C Company F
<i>Employee Involvement</i>	-	-	Company E	Company A Company D	Company B Company C Company F Company G
<i>Transparency</i>	-	-	Company E	Company A Company B Company D Company G	Company C Company F

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