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# Motivation behind CSR activities of German Small and Medium-sized Enterprises

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# **D e c l a r a t i o n   o f   A u t h e n t i c i t y**

I hereby declare that the Master's Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree programme.

Prague, August 25, 2015                                                                 Signature

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**Title of the Master´s Thesis:**

Motivation behind CSR activities of German Small and Medium-Sized Enterprises

**Abstract:**

This thesis aims to provide a better understanding of the motivation behind CSR activities of small and medium-sized enterprises in Germany. Relevant knowledge of the three main elements of the research question (CSR, SMEs, and motivation) is introduced in the theoretical part by means of an unsystematic literature review. In the empirical part the topic was approached inductively from a practical perspective. Three case studies were presented based on interviews with owner-managers of German SMEs. The final conclusions were derived from a comparison of the case studies, existing quantitative studies and motivation theories. The owner-managers were the main drivers of CSR in their enterprises and ethically motivated. Hypotheses for further research were suggested and recommendations for public policy were developed.

Key words:     Corporate Social Responsibility, SME, Germany, motivation, case study

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## List of abbreviations

| | |
|---|---|
| B2B | Business-to-business |
| CFP | Corporate Financial Performance |
| CSP | Corporate Social Performance |
| CSR | Corporate Social Responsibility |
| DIN | Deutsches Institut für Normung (German Institute for Standardization) |
| EU | European Union |
| IfM | Institut für Mittelstandsforschung |
| NGO | Non-governmental organisation |
| SME | Small and medium sized enterprise |
| SE | Social Entrepreneurship |
| U.S. | United States |

## 1. Introduction

### 1.1. Background

Corporate Social Responsibility (CSR) currently receives a lot of attention in business as well as in the academic world (Fifka, 2015, p. xix). It would be wrong to just label CSR a trendy term, which looks good on websites and brochures. The world of today is characterised by pressing issues, such as the urgency of environmental stakes (Stern, 2007) in form of e.g. pollution and global warming, globalisation, global financial and economic crises, resource scarcity, rising income inequality and growing world population (e.g. Fifka, 2015; Harribey, 2011). These issues make real corporate socially responsible behaviour, which goes beyond 'greenwashing' marketing purposes, ever more important.

As Shrivastava (1994) notes many of these social and ecological crises are also "rooted in corporate activities, government policies and individual behaviour. As the main engines of economic growth, corporations bear special responsibility for these ecological problems and hold special promise for their resolution" (Shrivastava, 1994, p. 224). This is more than relevant for today's economy, where the last financial crisis has been mainly caused by companies' unethical behaviour (Lewis et al., 2010; European Commission, 2011) and where the limits of growth become visible and are more and more acknowledged by institutions and corporations.

Moreover, the world of today is characterised by change and upheavals in all areas. According to Schmidpeter and Schneider (2015) in times like these companies also have a business interest in supporting their social environment. „A look at the history confirms that during times of transition companies always had a big interest in a stable, functioning social environment. Business' investments into the region and sustainable products and services were thus not only due to ethical but also always business interests" (Schmidpeter & Schneider, 2015, p.IX, own translation). This link between economic and social development is also emphasised by Schaltegger (2015): "Companies cannot not exert influence on the sustainability of economic and social development. […] For securing supplies, labour and financing interactions with human beings are necessary. Also the acceptance of the entrepreneurial actions is a result of the interaction with society. Since no interaction goes without reciprocal influences, companies impact, intentionally or unintentionally, via multiple linkages on society" (Schaltegger, 2015, p. 199). He condemns passive behaviour as supporting the current environment and unsustainable conditions and an avoidance of the responsibility of ones' actions.

The role of the government is changing as well. Van Marrewijk (2003) states fallacies of market and control mechanisms to organise societal behaviour and structural change. Thus, business and government become interdependent with increasing complexity. At the same time the importance of the civil society, which feels not fully satisfied with government and business actions, increases and calls for new roles and relationships. The resulting gradual change in the political and legal framework shapes the corporate environment and also that of other actors (Harribey, 2011).

Today's popularity of CSR is also driven by increasing pressure from different groups. The influence of activist groups is rising (de Bakker & de Hond, 2008), as well as the media coverage of business' responsibilities (Hogan, 2007; Tench et al., 2007) and the sympathy for ethical and ecological consumerism (Harrison et al., 2006). Moreover agencies that report on CSR activities are emerging (Schäfer et al., 2006), initiatives to change global business into a more sustainable

system are set up (Maon et al., 2009) and perhaps most importantly the pressure from civil society is rising (Harribey, 2011).

Today, beyond the increasing importance of the CSR topic and the outside pressure for it, interest in CSR from both the academic and the practitioner's side is rising as well. The CSR discussion in the literature and in practice originally focused only on large corporations. Thus many researchers, e.g. Russo & Perrini (2010), Fassin et al. (2010), Inyang (2013), ascertained a lack of research of CSR in small and medium sized enterprises (SMEs) in the past. However, SMEs are not to be neglected when talking about CSR. In Germany they account for 99.6% of all companies (IfM Bonn, 2013). This number indicates the high importance of SMEs for the economy. Together, SMEs have a huge impact on society and environment; for example workplace activities at SMEs can shape the social environment given the fact that they provide employment to more than half of Germany's working population (IfM Bonn, 2013). SMEs' impact is also not to be neglected in terms of resource consumption and emissions. SMEs are already by nature often supporting economic growth by for example using more labour-intensive production processes and thus providing employment and nurturing entrepreneurship (Luetkenhorst, 2004). Another factor is their focus on local communities, which is especially characteristic for German SMEs (Wieland, 2012).

Lately the importance of CSR in and for SMEs has been increasingly acknowledged and the interest in this topic has risen. The special issues on CSR in SMEs of academic journals (Business Ethics: A European Review, 18(1), 2009; Journal of Business Ethics, 67(3), 2006; International Business Research, 5(7), 2012) and an increase in research papers document this trend. However, the "output still falls short of the large volume of literature on CSR which traditionally focused on larger firms" (Inyang, 2013, p. 127). Thus, there are still knowledge gaps that are to be explored by further research, since SMEs often differ in their prerequisites and practices from larger companies. Del Baldo notes that "the discovery of SME specific patterns constitutes a critical gap in the research which needs to be filled, since SMEs play a critical role in industrialised and developing economies" (del Baldo M. , 2012, pp. 120-121).

## 1.2.  Purpose and research question

With this thesis I aim to explore one of the knowledge gaps of SMEs' CSR. When it comes to the implementation of CSR, difficulties do still persist and they do particularly in SMEs (Gherib & Berger-Douce, 2012). These difficulties, which have been identified in the literature, are often connected to the motivation for CSR and barriers to it. "Understanding [the motives for corporate ecological responsiveness] could expose the mechanisms that foster ecologically sustainable organisations, allowing researchers, managers and policy makers to determine the relative efficacy of command and control mechanisms, market measures and voluntary measures" (Bansal & Roth, 2000, p. 717). I assume that a similar argumentation is also valid for studying the motives of CSR, which encompasses also ecological responsiveness and which is closely related to sustainable ideas. Therefore, understanding owner-managers motivations as well as barriers could help (1) managers to better understand CSR and to overcome potential barriers, (2) institutions to develop suitable incentives and regulations that will stimulate the motivation for and implementation of CSR in SMEs and (3) researchers in closing knowledge gaps and building frameworks of SMEs' CSR behaviour. Another aim is to provide research from a different focus and background. Academic literature is mainly from the United States (U.S.), which has a different system and background than Germany and thus might provide different results in terms of CSR motivations.

In this research I focus on these issues and aim to contribute to a better understanding of owner-manager motivation by exploring the research question, "what are the motivations behind the CSR engagement of German SMEs?"

This central research question is accompanied by a set of sub questions to introduce, structure and guide the theoretical and empirical research:

    (1) Which viewpoints regarding CSR are present in the current literature?
    (2) In which framework are German SMEs operating in terms of CSR?
    (3) Which theories can be used as a framework to analyse the motivation of German SMEs for CSR engagement?
    (4) How are German SMEs engaging in CSR?
    (5) What benefits of the CSR engagement do practitioners perceive?
    (6) Why are German SMEs engaging in CSR?
    (7) What challenges are to be overcome by German SMEs?

I aim to derive a broad picture of the motivations for CSR of German SMEs.

## 1.3. Methodology

### 1.3.1. Research philosophy and approach

I chose an interpretivist research philosophy for this thesis out of the following considerations. The object of research is motivation, which is a psychological process that is individual for a person. Thus, there is no truth or absolute reality that could be discovered. Insights into the complex social world of business would be lost "if such complexity is reduced entirely to a series of law-like generalisations" (Saunders et al., 2009, p. 116). Since the motivation is dependent on different human beings, differences between them have to be understood. This can be reached from an interpretivist approach, which allows to focus on subjective meanings, social phenomena, situational details and multiple underlying realities (Saunders et al., 2009). In order to achieve this "the researcher has to adopt an empathetic stance. The challenge here is to enter the social world of our research subjects and understand their world from their point of view" (Saunders et al., 2009, p. 116).

The research approach is inductive, because of

    - the lack of suitability of existing theories which is underlined by the conceptual confusion regarding CSR and motivation,[1]
    - and the lack of recent empirical evidence of German SMEs' CSR motivation.[2]

With an inductive approach, I can build theory based on small samples and specific situations and thus I hope to reveal the underlying motivation for CSR in SMEs.

### 1.3.2. Literature review

The theoretical part of this chapter is constituted from insights of an unsystematic review of relevant literature. The objective of the literature review is to provide an understanding of terminology, an overview of the current state of art of existing research on the subject and setting

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[1] For a discussion of CSR concepts and definition refer to chapters 2.1.2, 2.1.4 and 2.2. For a discussion of motivation in CSR refer to chapter 4.3.

[2] There are no newer empirical and representative studies on the research question than from 2009.

the stage for the empirical part of this study. Moreover it "facilitates in-depth and contextual analysis of issues under study" (Inyang, 2013). Since the chosen research approach is inductive the literature review aims not at providing theories that are subsequently tested empirically. The literature review will help establishing competent knowledge of the research topic prior to the empirical research and serve as a point of reference when exploring the empirical data. Theories emerging from the empirical data will be related to the literature (Saunders et al., 2009).

I identified first key studies and relevant research lines in the following way:

1. I defined the research question to attend as 'Motivation for CSR in SMEs'. Deliberately, I omitted a restriction to the German case in order to gain a broader perspective and generate more literature results.
2. To ensure high quality I confined the results to scholarly journals.
3. Since the terminology for motivation varies, I used different variants (motivation, driver, factor, why, reason) in combination with CSR and SME as key words in English and German language for the search in title and abstracts of articles on EBSCOHost, the electronic library catalogue of VSE and the library catalogue of a German university (Hochschule Worms). I constricted results to availability of full text and English and German language.

To obtain further literature I browsed the references of key studies for relevant studies, which could partly be obtained.

### 1.3.3. Empirical research

The empirical research is undertaken from an inductive research approach. In compliance with this approach I chose a qualitative research method. In a case study analysis of three different enterprises I will explore multiple realities of enterprises engaged in CSR. "Case studies are rich, empirical descriptions of particular instances of a phenomenon that are typically based on a variety of data sources" (Eisenhardt & Graebner, 2007). I aim to establish an understanding not only of the motivation for the CSR engagement but also of how the CSR engagement has been developed and which obstacles had to be overcome. By exploring three very diverse cases, differences between companies can also become apparent. Some of these situational differences might influence the motives behind CSR activities and broaden the understanding of the motivation. Research in the form of case studies is highly relevant because it is based on rich empirical data and therefore "likely to produce theory that is accurate, interesting and testable" (Eisenhardt & Graebner, 2007, p. 26).

The cases are based on qualitative interviews with owner-managers or CSR professionals and publicly available information such as websites, newspaper articles, etc. The interview type applied is in-depth, semi-structured with some predefined interview themes and an interview guide. This interview type has the advantage of being flexible and thus allowing to reach a deeper understanding on the individual cases by being able to ask clarifying questions on issues that emerge during the interview. Thus opinions and behaviour can be better identified. Due to the spread of interviewees across Germany, the interviews were conducted via phone or skype.

I developed the interview guide based on first insights from the literature and similar studies. In order to establish a basic level of trust with the interviewee, I commenced the interviews by a personal introduction and a short introduction of my study and its goals. Moreover I thanked participants for their cooperation and time and I ensure confidential treatment and anonymisation

of the data collected. Upon approval by the interviewees, the interviews were voice recorded. Thus, I was able to focus fully on the interview and I was not required to take notes during the interview. After each interview the recordings were transcribed and prepared for later qualitative analysis. The interview themes were the following:

-          Understanding of CSR
-          CSR engagement and activities
-          CSR motivation and decision process
-          Implementation of CSR (barriers, feedback, effects)

The selection of interview partners can be classified as purposive. I contacted the managers or CSR professionals of 130 companies via email. I identified these companies in databases of various CSR initiatives and awards (e.g. CSR-award of the German federal government, CSR regio net, ESF-Programme "Gesellschaftliche Verantwortung im Mittelstand"). Moreover, I posted calls upon support of this thesis in relevant groups on the professional networks LinkedIn and Xing. The direct emails to managers and CSR professionals of companies generated 32 replies which equals a response rate of 25%. Out of these companies I selected the three most diverse and promising (in terms of richness, depth and insights) companies.

### 1.3.4.  Limitations

As I will elaborate in the theoretical part, CSR is a vast field and includes many different definitions and concepts. This causes conceptual differences in the understanding not only of the academic literature but also at practitioners and in SMEs. In this research problems could arise from a different understanding of the interview partners and me as the researcher.

SMEs are a challenging research topic because it is difficult to identify relevant SMEs and to gain their support subsequently. Reasons are lack of up-to-date directories, limited time of the owner-manager and scepticism towards relevance of academic research (Curran & Blackburn, 2001). I limited the selection of interview partners of this research to those engaged in CSR programmes or award-winners. This provides on the one hand a limitation, on the other hand it also ensure high quality and increases the likelihood for support. This is underlined by the relatively good response rate of 25% to the emailed call for support. Due to the case study approach undertaken it is also not problematic that only those interested in CSR were likely to answer. The case studies as well as the research question aimed at answering why companies engage in CSR and not why they are not engaged. Therefore it is necessary to collect answers from committed enterprises.

Limitations arise from the heavy reliance on interviews. This research method is subject to various biases which compromise the reliability of the results. One bias is the observer error, the interviewer influences the respondent with the framing of the question or poses the same question differently to different interviewees. I try to avoid this bias by establishing and following an interview guide. A second bias is the participant bias, e.g. in the form of a social desirability bias where the respondent tries to answer in a socially desirable way. I lessen this bias by triangulation through multiple data sources. A third bias is the observer bias, where the researcher falsely interprets the answers. I reduce this bias by letting the interviewees check and approve the notes and conclusions (Saunders et al., 2009).

The case study approach provides limited generalisability and has a small scope. However, it should be noted, that generalisability also is not the aim of the research. Anyways, generalisability might be difficult to achieve when analysing the individual concept of motivation (Saunders et al., 2009).

As above mentioned I limited the literature search to English and German results due my language knowledge. However, I am confident that this limitation is no major restriction since most high quality research is published in English and the thesis especially focusses on the German case. Another limitation of the chosen approach for the literature review is the dependence on publicly available sources either online or via the catalogues of University of Economics Prague and Hochschule Worms.

## 1.4. Outline

The thesis mainly follows the sub research questions. It starts with the theoretical part, which is divided into a literature review in three parts to provide a better understanding of the three main elements of the research question: CSR, SMEs and motivation.

In chapter 2 the focus is put on insights on CSR from the literature. This chapter sets about by an introduction into the concept of CSR. In a second part it touches the academic debate of CSR. In the third and last part of the chapter the situation in Germany in terms of CSR is presented.

Chapter 3 focusses on SMEs. It encompasses a definition, a presentation of the German SME landscape and a discussion of general SME characteristics and their implication for SMEs' CSR engagement.

Chapter 4 concentrates on the concept of motivation. After a definition of the term relevant motivation theories for CSR are elaborated on and the chapter concludes by a presentation of motivations for CSR mentioned in the literature.

In chapter 5 the focus shifts from theory to practice. A case study research of engaged German SMEs on their motivation and CSR practices is presented. After an introduction to the three cases they are analysed and compared in terms of their CSR understanding, motivation, activities and strategy, challenges and benefits and effects.

In chapter 6 the findings are discussed from three perspectives. First the conclusions of the case study are presented. Second the case study findings are compared to existing quantitative studies and third the results are applied to theoretical frameworks of motivation. The chapter concludes with an interpretation of the results from the three discussion parts.

Chapter 7 closes the thesis by answering the research questions, giving recommendations for SME managers and public policy and providing an overview of limitations and implications for future research.

Figure 1 visualises the outline of the thesis.
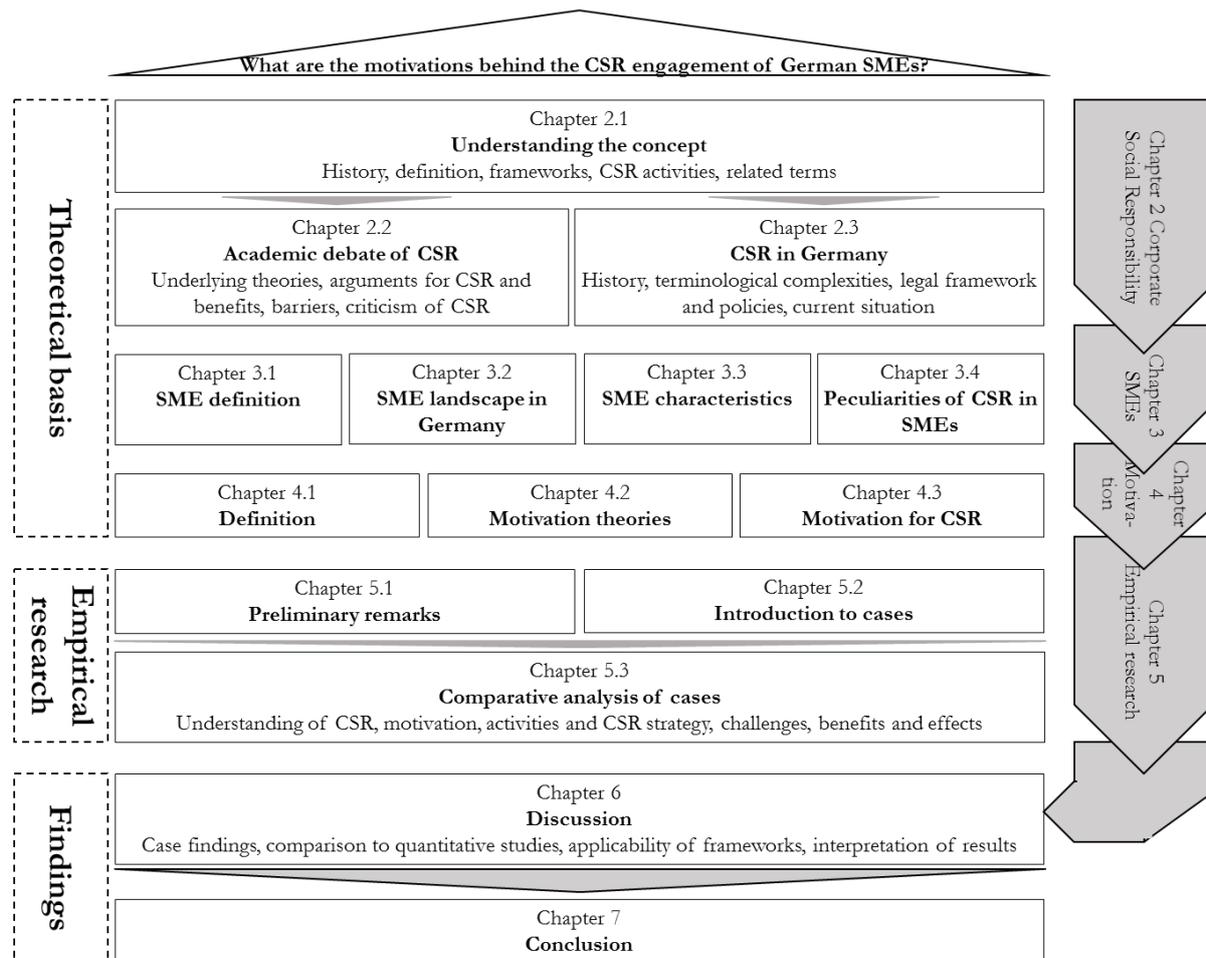
**Figure 1: Outline of the thesis (Source: own visualisation)**

## 2. Corporate Social Responsibility

In this chapter CSR is approached from various viewpoints. Firstly, the concept of CSR is explained and delimited in section 2.1, which includes a history of CSR, definition of CSR, CSR activities and a discussion of related terms and concepts. Secondly, a selection of the differing views of CSR is presented in section 2.2, which includes major underlying theories, arguments for CSR and its benefits, barriers to CSR and a discussion of general criticism of CSR. Thirdly, in section 2.3 the situation of CSR in Germany is elaborated including a history of CSR in Germany, terminological problems in German, the legal framework and policies and the current state of the art.

### 2.1. Understanding the concept

#### 2.1.1. History of CSR

This chapter will provide a short overview of the historical development of CSR in general.[3] Most literature ascribes the origin of CSR to the U.S. and often begins with a book from Bowen (1953). Indeed the early body of CSR literature is U.S.-based (Carroll, 1999). Only at the end of the last century the CSR literature and research started to be influenced by European perspectives and

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[3] For a detailed account of the evolution of the CSR concept please refer to Carroll, A. B., 1999, Corporate Social Responsibility: Evolution of a Definitional Construct, *Business and Society, 38*(3), pp.268-295.

specifics (Schneider, 2015). However, in section 2.3.1 that focuses on the history of CSR in Germany I will show that the concept of CSR has its origins far beyond Bowen's book from 1953.

The first articles about social responsibility appeared in the 1930s and 1940s. However, more relevant concepts of CSR were developed after 1950 (Carroll, 1999). The first milestone of modern CSR research was a book from Bowen called "Social Responsibilities of the Businessman" (1953), although the term 'CSR' was not used yet and instead most research referred to 'social responsibility'. In this book Bowen reasons that large businesses are centres of power and decision making. Therefore they affect the lives of many citizens at many points and thus are expected to assume responsibilities for the consequences of their actions that go a little beyond profit and loss. Objectives and values of society should be taken as guidance to select desirable actions of responsibility. Other literature from the 1950s followed this perspective (Heald, 1970). That decade's literature focused on three core ideas – the manager as public trustee, the balancing of competing claims to corporate resources and corporate philanthropy (Frederick, 2006).

In the 1960s corporate philanthropy continued to be a key mode and actions were focused on local communities (e.g. Frederick, 1960; Heald, 1970). Corporate philanthropy was understood and performed in a broad sense that was not strategically integrated and thus almost not linked at all to shareholder interest (Vogel, 2005). Thus, Vogel (2005) describes this as first phase CSR with the purpose "doing good to do good".

Murphy (1978) frames this period as "awareness and issue era" because of the social movements in the U.S. and other countries such as those of civil rights, women's rights, consumers' rights and the environmental movements, which were contributing towards the gaining popularity of CSR concepts. These movements also constructed the overall social environment which was not perceived before (Carroll & Shabana, 2010). Researchers began to examine this environment closer. In continuation of Bowen (1953), who had already mentioned the relationship between society and companies, first theories of a stakeholder approach, which considers the needs and interests of those who might be affected by an enterprise's actions, emerged, e.g. Davis & Blomstrom (1966), Walton (1967). The Committee for Economic Development advanced the stakeholder approach in 1971 from a practitioner view. It notes that "business functions by public consent and its basic purpose is to serve constructively the needs of society" (Committee for Economic Development, 1971, p. 11). Thus, the legitimation of a business' operations is tied to the fulfilment of a social contract between business and society. The stakeholder theory which was significantly developed and influenced by Freeman (1984) is based on that.[4]

In the 1960s and 1970s first critical views of CSR and the stakeholder approach were developed. In his famous article "The Social Responsibility of Business is to Increase its Profits" Friedman (1970) approaches CSR from a shareholder view and points out agency problems, which result from CSR engagement of managers, which is seen as costly and thus conflicting with the dictum of shareholder wealth maximisation. He published these ideas already in 1962 in a book with a smaller audience (Friedman, 1962) where he condemned CSR as something negative which undermines the foundation of a free society.[5]

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[4] The stakeholder theory will be further discussed in section 2.2.1.2.
[5] Friedman's argumentation is also part of the discussion of CSR criticism in section 2.2.4.

One of the early key contributors to the CSR literature, Keith Davis, was ahead of the times by stating already in 1960 a potential economic benefit of CSR actions in the long term (Davis, 1960). This idea was commonly accepted in the 1970s and 1980s when also 'corporate social performance' (CSP) and the financial link of CSR actions were emphasised, e.g. Sethi (1975), Carroll (1979), Wartick & Cochran (1985), Wood (1991).

While during the 1960s and 1970s many authors attempted to formalise the CSR concept (e.g. Carroll, 1979 & 1983; Wartick & Cochran, 1985) and the term 'CSR' emerged and replaced the prevailing term 'social responsibility' (e.g. Carroll, 1977; Frederick, 1978), the 1980s saw fewer new definitions and a shift towards empirical research as well as the emergence of related concepts and variations of CSR such as 'corporate public policy' and 'business ethics' (Carroll & Shabana, 2010; Frederick, 2008). This development of variants of CSR was already characteristically for earlier decades, where terms such as 'corporate citizenship' (McGuire, 1963) and 'corporate social responsiveness' (Frederick, 1978) emerged. As will be discussed also in sections 2.1.2 and 2.1.4 there was never a pure CSR body of literature. It would be more accurate to speak of a CSR tree of related branches that joined and parted again over time.

During the 1980s the CSR approach shifted from the philanthropic perspective (first phase of CSR, "doing good to do good") to a strategic approach (second phase of CSR, "doing good to do well") (Vogel, 2005). This shift responded to the criticism of the first phase of CSR of being static and lacking integration (Preuss, 2011). In the wake of research linking CSR and Corporate Financial Performance (CFP) (e.g. Drucker, 1984; Cochran & Wood, 1984; Aupperle et al., 1985), the business case for CSR started to be investigated (Carroll & Shabana, 2010). Porter (1985) suggested that by integrating CSR with the business strategy a competitive advantage can be created.

Stakeholder theory emerged during the 1980s and awareness of "those groups who can affect or are affected by the achievement of an organisation's purpose" (Freeman, 1984, p. 49) increased. Some authors focussed on the managerial implications and integration of CSR into decision-making and produced theories such as the 'instrumental and managerial stakeholder theory' (e.g. Clarkson, 1995; Donaldson & Preston, 1995; McWilliams & Siegel, 2001), the 'social contract theory' and the 'ISCT – integrative social contract theory' (Donaldson & Dunfee, 1994; Perrini, 2006).

Recent CSR literature from the 1990s until today focused on business ethics and the CSR business case as well as sustainability and sustainable development (Carroll & Shabana, 2010). Moreover some authors adopted a more global perspective away from the prevailing focus on local communities, which was among others expressed in the emergence of the term 'global corporate citizenship' (Frederick, 2008).

### 2.1.2. CSR defined

As one might have already sensed from above short synopsis of the history of CSR, the conceptual interweavings call for a closer look at the terminology including a conceptual clarification and delimitation. Votaw (1973) depicts the definitional complexities: "The term is a brilliant one; it means something, but not always the same thing to everybody. To some it conveys the idea of legal responsibility or liability; to others it means socially responsible behaviour in an ethical sense; to still others, the meaning transmitted is that of 'responsible for', is a casual mode; many simply equate it with a charitable contribution" (Votaw, 1973, p. 11). Matten & Moon (2008) amplify why

CSR is so difficult to define. "First, this is because CSR is an 'essentially contested concept,' being 'appraisive' (or considered as valued), 'internally complex,' and having relatively open rules of application (Moon et al., 2005, pp. 433-434). Second, CSR is an umbrella term overlapping with some and being synonymous with other conceptions of business-society relations (Matten & Crane, 2005). Third, it has clearly been a dynamic phenomenon (Carroll, 1999)" (Matten & Moon, 2008, p. 405). In addition, CSR is taken on by various management disciplines such as human resources, quality management, marketing, communication, finance, reporting, business strategy (van Marrewijk, 2003) and also has touchpoints to other disciplines outside of business management such as for example macroeconomics, sociology, ethics (Schmidpeter, 2015). Moreover today's understanding of CSR is based on two parallel developments – initiatives and definitions of policy makers and organisations to spread CSR and academic theory and research (Perrini, 2006).

### 2.1.2.1.  CSR definitions
In the literature four major approaches to define and classify CSR emerge:

(1) Definition along the motives for CSR and the element of voluntary action e.g. Carroll's dimensions (1979, 1983, 1991)
(2) Definition along action fields e.g. Hay et al. (1976)
(3) Definition according to stakeholders (stakeholder approach, e.g. Freeman (1984))
(4) Differentiation between static (responsibility) and active (responsiveness) CSR e.g. Sethi (1975)[6]

Dahlsrud (2006) attempted to solve the confusion around the definition of CSR and analysed existing definitions in terms of five dimensions (stakeholder dimension, social dimension, economic dimension, voluntariness dimension and environmental dimension). Via Google he identified 37 definitions. It can be assumed that this reflects only a small part as there are many academic articles and literature reviews, which have tried to define CSR e.g. Carroll (1979, 1999), Wood (199), van Marrewijk (2003) (found in Inyang, 2013). Dahlsrud's (2006) three most important findings are that (1) in terms of the definitional dimensions all dimensions are necessary to understand how CSR is defined with the majority of definitions considering at least three dimensions and using the environmental dimension the least frequently, (2) the definitions are merely descriptive and lack practical implications on the management of CSR and (3) recently the most often found definitions via Google are set by organisations such as the European Commission. He concludes that "the confusion is not so much about how CSR is defined, as about how CSR is socially constructed in a specific context" (Dahlsrud, 2006, p. 1).

In current attempts to define CSR Fraj-Andrés et al. (2012) identified two trends: (1) the fact that companies have to sensitise themselves to society and (2) the revelation of the versatile nature of CSR. They also spotted consensus in the academic literature about the voluntariness of CSR activities that go beyond legal requirements, the focus on the symbiotic relationship between business and society, long-term orientation, the legitimation of business through society and the integration of responsible actions into the long-term economic operations and the creation of value.

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[6] Some of these concepts are discussed in the following section 2.1.2.2.

However, the necessary integration of the voluntariness dimension is debatable. Some definitions and perceptions of CSR see the responsibility "as not only including but also moving beyond economic and legal considerations e.g. Frederick (1960), McGuire (1963), Davis (1973), others see it as involving only pure voluntary acts e.g. Manne & Wallich (1972)" (Carroll, 1979, p. 498). Steiner (1975) describes CSR as a continuum ranging from "traditional economic production" via "government dictated" and "voluntary area" to "expectations beyond reality" (Steiner, 1975, p. 169).

Table 1 gives a short overview of different CSR definitions.

| CSR Definitions | | |
|---|---|---|
| *Academic Definitions* | | Dimensions |
| Bowen, H. R. (1953) | ""It refers to the obligations of businessmen to adopt policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6) | Stakeholder Social |
| Frederick, W. C. (1960) | "[Social responsibilities] mean that businessmen should oversee the operation of an economic system that fulfils the expectation of the public. And this means in turn that the economy's means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare. Social responsibility in the final analysis implies a public posture towards society's economic and human resources and willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms." (p. 60) | Stakeholder Social Economic |
| McGuire, J. W. (1963) | "The idea of social responsibility supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations." (p. 144) | Voluntariness Stakeholder Social Economic |
| Walton, C. C. (1967) | "In short, the new concept of social responsibility recognises the intimacy of the relationships between the corporation and society and realises that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals." (p. 18) | Stakeholder Social |
| Manne, H. & Wallich, H. C. (1972) | "Another aspect of any workable definition of corporate social responsibility is that the behaviour of the firms must be voluntary." (p. 5) | Voluntariness |
| Davis, K. (1973) | "the firm's considerations of and response to, issues beyond the narrow economic, technical and legal requirements of the firm to accomplish social [and environmental] benefits along with the traditional economic gains which the firm seeks" (p. 312) | Stakeholder Social Economic Environmental |
| Davis, K. & Blomstrom, R. (1975) | "obligations of decision makers to take actions which protect and improve the welfare of society as a whole along with their own interest" (p. 39) | Stakeholder Social Economic |

| | | |
|---|---|---|
| Carroll, A. B. (1991) | "[CSR] should be framed in such a way that the entire range of business responsibilities is embraced. It is suggested here that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories might be depicted as a pyramid." (p. 40) | Voluntariness Stakeholder Social Economic |
| Freisleben, G. (2011) | "CSR is about the company having an ethos or set of values – sometimes expressed in the vision, mission and goals of the organisation and many business practices to produce an overall positive impact on society." (p. 53) | Social |
| *Practical Level* | | Dimensions |
| World Business Council for Sustainable Development (1998) | "CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." (p. 3) | Voluntariness Stakeholder Social Economic |
| EU Commission (2011) | "responsibility of enterprises for their impacts on society" "process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close interaction with their stakeholders, with the aim of:<br>• maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;<br>• identifying, preventing and mitigating their possible adverse impacts." (p. 6) | Voluntariness Stakeholder Social Economic Environmental |

**Table 1: Definitions of CSR (Source: adapted and extended from Dahlsrud, 2006)**

The common idea in these definitions is that companies and managers should consider their influence on society and environment in the way how business is conducted in order to satisfy the needs of society.

For the purpose of this research CSR is defined according to the definition of the European Commission (2011, see Table 1) out of the following considerations:

- It is the most used CSR definition and well known (Dahlsrud, 2006),
- It is consistent with the majority of most recent academic understandings (Perrini, 2006),
- It encompasses all five CSR dimensions of Dahlsrud (2006),
- It also acknowledges the specifics of SMEs by proposing to them an informal and intuitive CSR process (European Commission, 2011),
- It is targeted to the specifics of the European and thus also the German political and societal framework,
- As part of the European Union's (EU) CSR diffusion strategy, the definition is from a practical view, intends to be easy to understand and applicable to the reality in companies,
- The German CSR initiatives and CSR understanding is based upon the European Commission's definition (Trautner, 2015).

However, when analysing CSR in the SME context it is also important not only to understand how CSR is defined in the literature but also by "managing directors, especially since the majority of the latter claim to subscribe to CSR" (Kechiche & Soparnot, 2012). I will account for this later in the empirical research by asking the interviewees about their CSR understanding (see chapter 5).

Still, a terminal definition of CSR has its compromises and problems: Due to differences in development, awareness and ambition levels of companies single definitions are often too broad to be applicable for specific situations (van Marrewijk, 2003). Existing definitions tend to be biased towards specific interests of e.g. non-governmental organisations (NGO), employer associations, management disciplines (van Marrewijk, 2003). This results naturally in diverging biases of competing definitions which hinders productive CSR engagements (Dahlsrud, 2006). Unbiased definitions are said to be impossible to develop due to three reasons; (1) there is no methodology that verifies the bias, (2) an ideal unbiased definition would have to be applied as well and substitute all existing definitions (Dahlsrud, 2006), (3) CSR is a social construction (Berger & Luckmann, 1966). Different understanding and paradigms exist in the U.S. and Europe due to differences in political and social systems (Matten & Moon, 2008).

Thus, researchers are debating about the right balance between having on the one hand diversity in definitions, which holds back research, framework development and implementation and on the other hand attempts of defining one universal definition, which often is too broad and lacks applicability. Van Marrewijk (2003) suggests a set of definitions that are applicable to different situations as a solution to this debate.

In conclusion, it can be said that this research follows the understanding of CSR as formulated by the European Commission (2011) but at the same time the researcher is aware that CSR is a "moving issue" and an ongoing improvement process, which also has to be seen in context to current legal requirements, which are developing over time as well. This conflicts with a terminal definition of the concept (Schneider, 2015; Dahlsrud, 2006).

### 2.1.2.2.  Conceptualising frameworks

Beyond the vast number of definitions, several frameworks emerge in the literature that aim to conceptualise definitions of CSR or classify them. Some of them will be presented in the following.

A useful categorisation for defining CSR are **Carroll's four categories**. In 1979 the influential CSR academician Archie B. Carroll identified four types of responsibility that need to be present in order for a business to be socially responsible. These are economic, legal, ethical and discretionary responsibilities (Carroll, 1979). In 1983 Carroll adjusted the categories and substituted the discretionary responsibility for a voluntary or philanthropic responsibility (Carroll, 1983). In 1991 the model was again adjusted to economic, legal, ethical and philanthropic responsibilities to account for an increasing importance of philanthropy and it was visualised in form of a pyramid (Carroll, 1999). These four categories have been used in research for more than 25 years and are useful because they provide a framework for separating action types. They are not to be understood as mutually exclusive, rather an action can be categorised as primarily one of those four types (Carroll, 1979). Moreover, they also encompass the five dimensions which have been identified by Dahlsrud (Carroll & Shabana, 2010).

Various authors argued that it should be distinguished between 'responsibility' (static view), which emphasises motivation rather than performance (Ackermann & Bauer, 1976) and **'social responsiveness'** (active view). Also Sethi (1975) differentiates between 'social obligation' (compliant with market forces and legal requirements), 'social responsibility' (compliant with expectations) and 'social responsiveness' (anticipation of long-run role in society) as visualised in Figure 2.
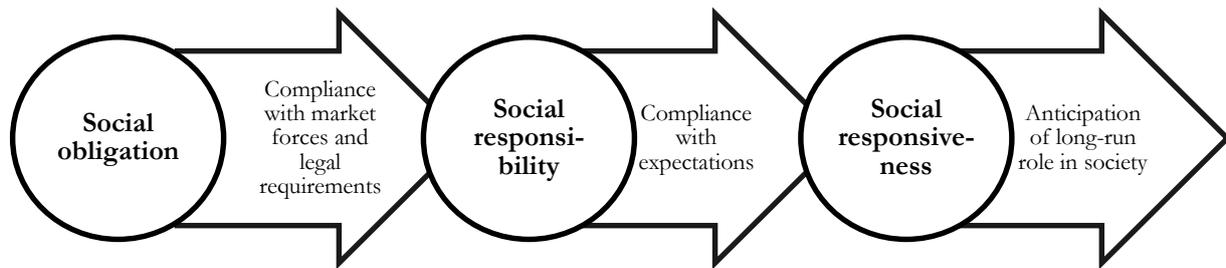
**Figure 2: Three stages of corporate social performance (Source: Sethi, 1975)**

A second model developed by Carroll is the **corporate social performance model** (Carroll, 1979). This three-dimensional model (see Figure 3) combines the four social responsibility categories from the previous paragraph with the social issues involved and the philosophy of social responsiveness. Carroll included four types of social responsiveness ranging from reaction via defence and accommodation to proaction. The model is intended for managers to think through their CSR engagement and for academics to understand the definitional differences.
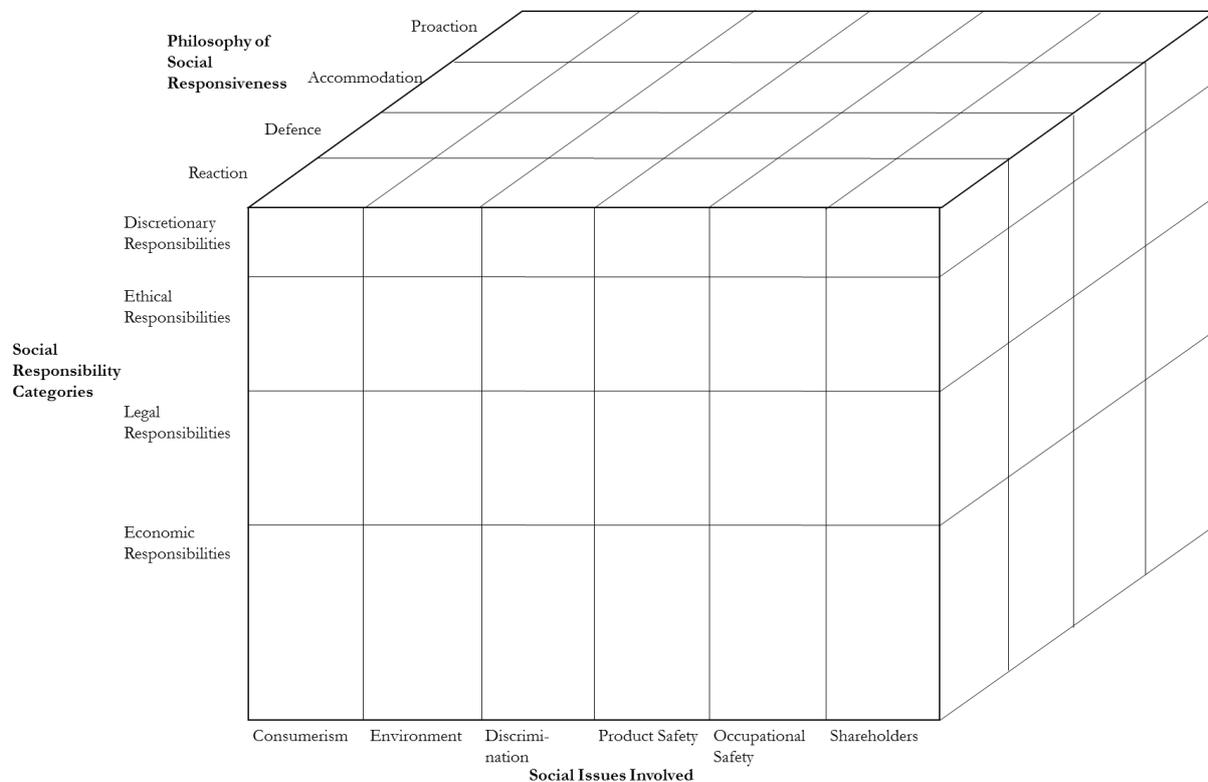


**Figure 3: Three-dimensional corporate social performance model (Source: Carroll, 1979)**

Carroll's model was picked up by Wartick and Cochran in 1985. They were substituting social responsibilities by „principles", social responsiveness by „processes" and social issues by „policies" (Wartick & Cochran, 1985). Donna J. Wood (1991) based her **corporate social performance model** (see Figure 4) on Carroll's model and the modification of Wartick and Cochran. Firstly, the model includes principles of CSR on three levels (institutional, organisational and individual) which signify what motivates CSR. Secondly, the process of responsiveness includes environmental assessment, stakeholder management and issues management. Thirdly, three outcomes of corporate behaviour are listed – social impacts, social programs and social policies (Wood, 1991).

| Principles of CSR | Process of Social Responsiveness | Outcomes of Corporate Behavior |
|---|---|---|
| • Institutional principle: legitimacy<br>• Organisational principle: pubic responsibility<br>• Individual principle: managerial discretion | • Environmental assessment<br>• Stakeholder management<br>• Issues management | • Social impacts<br>• Social programs<br>• Social policies |
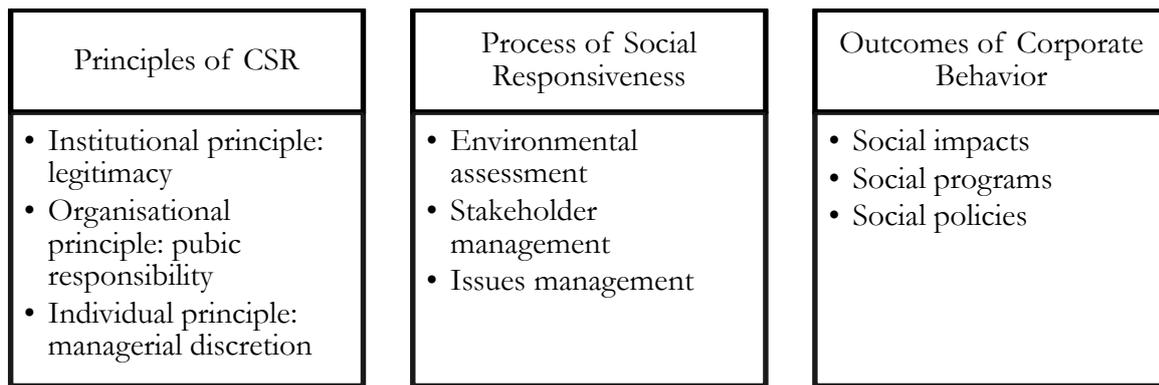
**Figure 4: Corporate social performance model (Source: Wood, 1991)**

Similar to Maslow's need hierarchy[7] Tuzzolino and Armandi (1981) developed an **organisational need hierarchy of CSR** (see Figure 5). The consecutive need levels are physiological, safety, affiliative, esteem and self-actualisation needs. By satisfying physiological and safety needs an enterprise answers also the demands of its shareholders. With the satisfaction of affiliative needs peers are addressed. A social responsible organisation is categorised in this model as a self-actualising organisation. On this level all stakeholders are addressed.



Physiological
•profitability (classical model)

Safety
•dividend policy
•payout ratio
•integration (vertical, horizontal)
•conglomeration
•competitive position
•closure
•organisational slack

Affiliative
•trade association
•industry publications
•lobby group
•bargaining
•huddling
•cooptation

Esteem
•market position
•product leadership
•financial rations and margins
•market share
•image creation
•price leadership

Self-actualisation
•internal
  •employee relations
•external
  •community and government relations

**Figure 5: Organisational need hierarchy (Source: Tuzzolino & Armandi, 1981)**

The **degree of maturity pyramid** is an advancement of Carroll's pyramid. Starting from 'CSR 0.0' – a situation of community engagement resulting of economic and legal responsibilities, companies can develop more mature stages of CSR. These are 'CSR 1.0', which includes philanthropy and other unsystematic CSR activities, 'CSR 2.0', which includes an integrated CSR engagement that creates value for the company and society and 'CSR 3.0', where the company proactively shapes the political environment. With increasing maturity the potential benefits for community,

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[7] For a discussion of Maslow's need hierarchy see section 4.2.1.1.

environment and the company are increasing as well. The pyramid is open-ended (Schneider, 2015) as visualised in Figure 6.
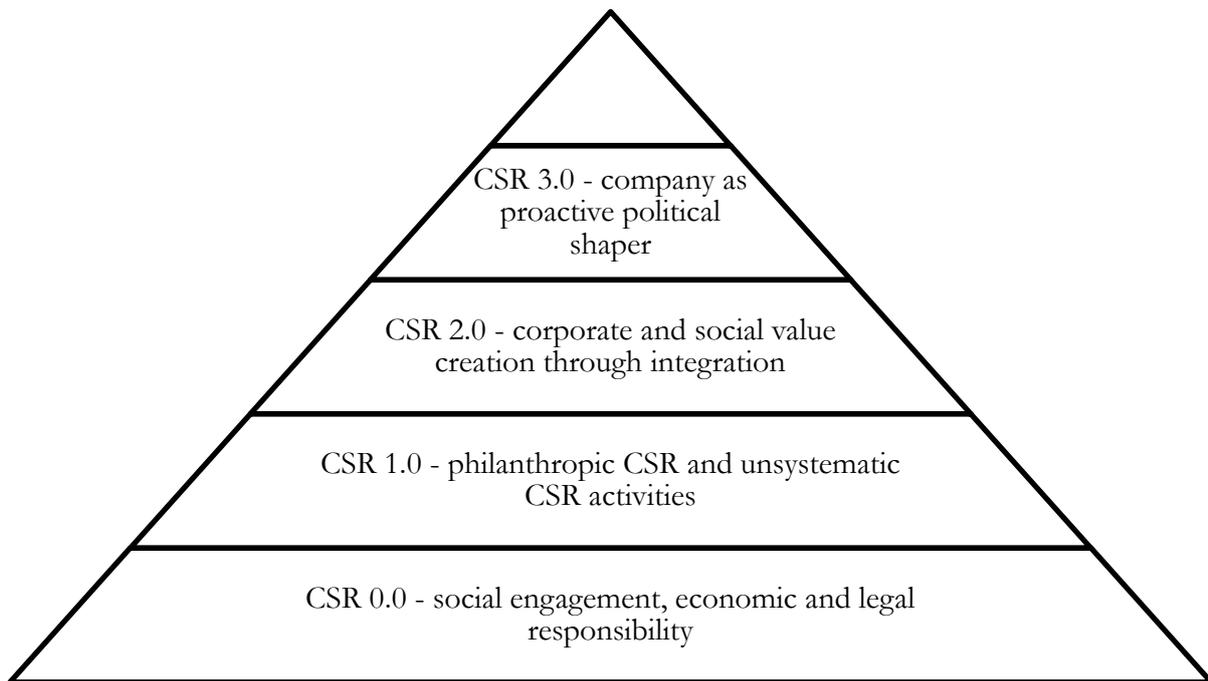


**Figure 6: CSR degree of maturity pyramid (Source: Schneider, 2015)**

### 2.1.3.  CSR activities

The definitional complexities described in the previous section have already illustrated that CSR is a wide area. This also true for the activities that can be part of a CSR engagement. The selection of CSR activities is related to the question which social issues to address. The selection of activities often accommodates for stakeholder expectations on business. Difficulties can arise because these social issues are moving and industry-specific (Carroll, 1979). Globalisation has increased the speed of these changes (Dahlsrud, 2006). Moreover it is often distinguished between mere legal compliance and assuming responsibility beyond the law. Thus, the classification of specific activities as being CSR or not, always depends on the specific context and legal framework (Matten & Moon, 2008). For example many workplace related CSR activities in the U.S. are mere compliance with the law in Germany.

Researchers have observed specific patterns in the expectations on SMEs and resulting CSR engagement. Jenkins (2006) notices that the sector influences the benefactor of activities and that activity areas of greatest impact are selected. Murillo and Lozano (2006) identified a "certain degree of specialisation by each of these companies in one particular area of CSR".

There are different approaches to categorise and shape CSR activities (Münstermann, 2007):

- Aim of engagement e.g. reputation, risk management etc.
- Stakeholders
- Intensity and scope
- Degree of focus e.g. broad vs narrow
- Strategic fit/business fit
- Level of individualisation and positioning e.g. unique position, mainstream

- Content e.g. employee health, environmental protection etc.
- Type of engagement e.g. own project, support of organisation etc.
- Intensity of communication
- Evaluation and control
- Integration into organisation

Most commonly CSR activities are categorised along their target e.g. Ashridge (2005) as listed in Table 2 below.

| Category | Content |
| --- | --- |
| Leadership, vision and values | This is about setting a clear direction and leading by putting CSR at the centre of the enterprise. It is related to the other main groups of CSR activities. |
| Marketplace activities | This relates to issues of relevance to the markets in which the enterprise operates. |
| Workforce activities | This is about fair treatment of employees by the enterprise and is often related to attraction and retention of employees. |
| Supply chain activities | This relates to the enterprise's suppliers, whose social and environmental performance can be reflected in the enterprise's end products or services by virtue of the supply chain. |
| Stakeholder engagement | Stakeholders include people and organisations that can be affected by or can influence the activities of the enterprise. They are typically owners, employees, customers, suppliers, local communities, authorities, etc. |
| Community activities | This is about promoting social solidarity in the broadest sense in the local communities in which the enterprise operates. |
| Environmental activities | This is about policies, operational management and reporting in relation to environmental impacts from all the enterprise's activities. |

**Table 2: Categorisation of CSR activities along their target (Source: Ashridge, 2005)**

### 2.1.4. Related terms and concepts

As section 2.1.1 has shown CSR evolved in close connection with other terms. Often these other terms such as 'corporate citizenship', 'sustainability', 'business ethics' etc. are used as synonyms for CSR. To avoid confusion Table 3 lists the most common related terms and concepts based on Münstermann (2007), Silberhorn & Warren (2007), van Marrewijk (2003), Schneider (2015).

| Term | Content |
| --- | --- |
| Social Responsibility | Superordinate concept of social responsible behaviour that is valid for all types of organisations and not only companies (corporate) (Schneider, 2015). |
| Corporate Citizenship | Role of a company and behaving like a "good citizen" by managing the company's wider influences on society (Marsden & Androf, 1998; Münstermann, 2007). |
| Corporate Social Performance (CSP) | CSP refers to the outcome of socially responsible behaviour (Wartick & Cochran, 1985) and is closely related to the measurement of CSR and corporate social reporting (Wood, 2001). |

| | |
|---|---|
| Business Ethics | Business ethics is the "degree of moral obligation that may be ascribed to corporations beyond simple obedience to the laws of the state" (Kilcullen & Ohles Kooistra, 1999, p. 158). |
| Sustainability (Sustainable Development) | Sustainability is to "meet needs of present without compromising ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987). |
| Triple-Bottom-Line | = 'People, Planet, Profit' and refers to a situation where companies harmonise their efforts in order to be economically viable, environmentally sound and socially responsible (Elkington, 1997). |
| Social Entrepreneurship (SE) | There are two forms of SE: (1) Public entrepreneurship that provides public goods and services, (2) Social enterprise that offers new solutions to problems in the social economy (Hemingway, 2005). |
| Social Responsiveness | Social responsiveness is the anticipation of a company's long-run role in society and should be distinguished from "social obligation" (compliant with market forces and legal requirements) and "social responsibility" (compliant with expectations) (Sethi, 1975). |

**Table 3: Related terms and concepts (Source: own compilation)**

Other terms such as 'cause-related marketing', 'corporate philanthropy', and 'diversity management' fall under the CSR umbrella and are potential areas of actions or activities.

## 2.2. Academic debate of CSR

### 2.2.1. Underlying theories

CSR researchers have observed several debates along which theory the CSR knowledge should be developed "and in particular the relationship between CSR and small and medium-sized enterprises" (Perrini, 2006, p. 305). When talking about underlying theories, the "philosophy, mode, or strategy behind business (managerial) response to social responsibility and social issues" (Carroll, 1979, p. 501) is referred to. Two major areas of discord can be identified: (1) debate of the nature of the firm and (2) debate of stakeholder theory vs social capital theory. These will be discussed in sections 2.2.1.1, 2.2.1.2 and 2.2.1.3. There are many more theories such as the institutional theory, social contract theory, etc. Garriga and Melé (2004) clarified the situation of "controversial, complex and unclear" (p. 51) approaches and theories of CSR in their "Four dimensions of CSR" (see section 2.2.1.4).

### 2.2.1.1. Nature of the firm

The nature of the firm is related to a company's extent of pursuing profits (Carroll & Shabana, 2010). This ranges from profit maximisation (Friedman, 1962 & 1970) to a level of "acceptable profits" (Carroll, 1991).

An empirical research among SME owner-managers of these two profit extremes paired with their level of social activity (either active or inactive) revealed that under some conditions profit-maximisation and CSR are not contradictory. This is the case where profit maximisation is combined with social activity under the principle of enlightened self-interest (Spence & Rutherfoord, 2000). Garriga and Melé (2004) pick this up in their discussion of instrumental

theories (see section 2.2.1.4). In their study most interviewees exhibited more than one pair. Most often mentioned were subsistence priority (profit satisficing and social inactivity) and social priority (profit satisficing and social activity). Thus, Spence and Rutherfoord concluded that profit satisficing is more relevant for SMEs. This finding also provides an evidence-based counterargument to the most famous criticism of CSR by Friedman (1970) (see section 2.2.4).

Barnetts (2007) argues also in favour of a profit satisficing business maxim. According to him excessive financial performance leads to decreasing the ability of the company to influence its stakeholders: "Excessive CSP indicates that a firm is extracting more from society than it is returning and can suggest that profits have risen because the firm has exploited some of its stakeholders in order to favour shareholders and upper management. This can indicate untrustworthiness to stakeholders looking to establish or maintain relations with the firm" (Barnett M. L., 2007, p. 808).

Nevertheless, the underlying principle of both views is to maximise shareholder wealth in the long-run. Profit satisficing accounts for negative effects of business operations that also effect the shareholder wealth in the long-run – as Carroll and Shabana (2010) coin it "classical economic view fails to appreciate the long-term negative effects of the application of the maximisation principle in the short term" (Carroll & Shabana, 2010, p. 91).

### 2.2.1.2. Stakeholder theory

The originator of the stakeholder theory, Freeman (1984), defines a stakeholder as "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Freeman, 1984, p. 46). This means there is a two-way influence of the company on the stakeholder and of the stakeholder on the company. Stakeholders can also be defined by having an interest in a company that changes value depending on the firm's actions (Becker-Olsen & Moynihan, 2013). They can also be seen as voluntary or involuntary contributors to the wealth-creation of a business and thus are potential beneficiaries or risk bearers (Post et al., 2002). Along Freeman's (1984) definition stakeholder groups are constituted by government, suppliers, environmentalists, special interest groups, employees, media, competitors, customers, consumer advocates, owners, local community and the organisation. The primary stakeholders, which find most consideration in literature and practice are, employees, suppliers, customers, communities and shareholders (McIntosh et al., 1998; Freeman, 1997). Secondary stakeholders, as opposed to primary stakeholders, are not performing any transaction with the company nor are they vital for survival of the company. Examples of secondary stakeholders are local community citizens, media, interest groups, NGOs. But they are not to be underestimated because they can also influence public opinion (Clarkson, 1995). As studies (Kusyk & Lozano, 2007; Wang & Gao, 2013) confirmed, stakeholders matter in terms of CSR because their interests are CSR drivers and by accounting for these interests social and ethical issues can be resolved (Harrison & Freeman, 1999).

Stakeholder theory comprises three approaches as follows:

(1) Descriptive approach – whether stakeholder interests are taken into account
(2) Instrumental approach – impact that stakeholders may have in terms of corporate effectiveness
(3) Normative approach – reasons why companies should consider stakeholder needs even when benefits are not apparent (Donaldson & Preston, 1995).

SMEs gradually perceive stakeholder relationships as a differentiator (Jamali et al., 2009). Stakeholder needs are relevant to companies because consumers do not behave only according to the model of the homo oeconomicus, but they also consider a firms societal performance in their decision-making and actions. Therefore, to maximise total value, companies need to address the stakeholder interests (Amalric & Hauser, 2005; Jensen, 2011).

The stakeholder theory is a vantage point for some measures of the intensity of CSR engagement. For example the maturity of a company's approach towards its stakeholders can be assessed on a rational level (identification of stakeholders and their interests), process level (strategic integration of interests) and transactional level (setup of exchange with stakeholders) (Freeman, 1984). Another application is the stakeholder classification and prioritisation in terms of power, legitimacy of relationship and urgency (Mitchell et al., 1997) (see Figure 7), followed by a selection of activities in response to the prioritised stakeholder groups (Moir, 2001). This approach is promoted by the moral branch of stakeholder theory, whereas advocates of the ethical branch encourage activities "for the benefit of all stakeholders' regardless of stakeholder power" (Deegan, 2007).
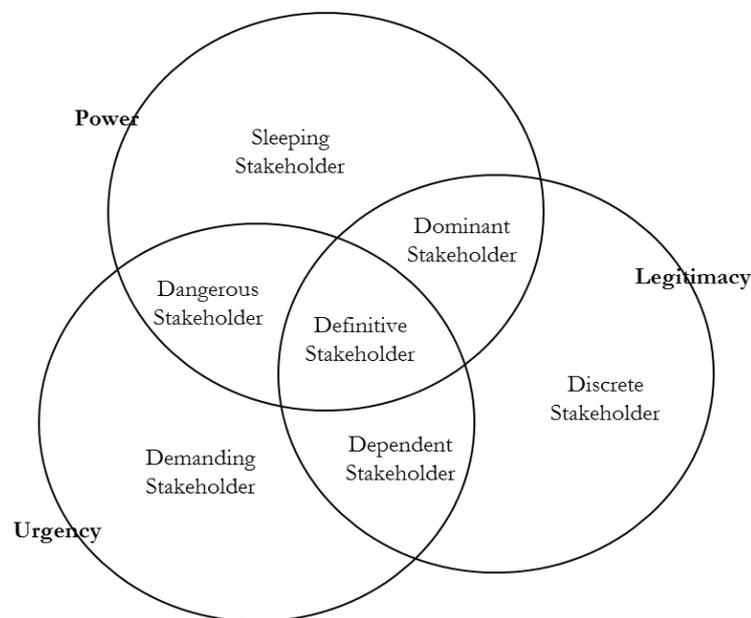


**Figure 7: Stakeholder salience model (Mitchell et al., 1997)**

Stakeholder theory in general is very important for CSR (Carroll, 1991) and there are many sources on the relation of the two concepts (Völker, 2014). Its importance is also underlined by being the most mentioned dimension in Dahlsrud's study (2006) of CSR definitions (see chapter 2.1.2).

### 2.2.1.3.  Social capital theory

There exist many definitions of social capital. But the main elements are the following: (1) social capital are intangible elements of organisations such as "trust, norms and networks" (Putnam, 1993, p. 167), (2) social capital facilitates actions and thus increases the efficiency of society (Putnam, 1993), (3) social capital is created in personal interactions and relationships (e.g. McGrath & Sparks, 2005; McBain, 2005; Bourdieu, 1986 & 1993). Thus having a large network enhances social capital (de Paiva Duarte, 2013). Social capital is built upon concepts such as reciprocity and trustworthiness. Social capital "tends to be self-reinforcing and cumulative. Virtuous circles result in social equilibria with high levels of co-operation, trust, reciprocity, civic engagement and

collective well-being. These traits define the civic community. Conversely, the absence of these traits in the uncivic community is also self-reinforcing" (Putnam, 1993, p. 177).

Social capital is seen as a beneficial resource, which is linked variously to the development of human capital (Coleman, 1988) and to the economic performance of firms (Baker, 1990). Political studies have demonstrated, that the more social capital there is in a region, the more it prospers in terms of economy and democratic self-regulation (Putnam, 1993; World Bank, 1999). Particular benefits are:

- Better knowledge sharing, due to established trust relationships, common frames of reference and shared goals (Cohen & Prusak, 2001). Thanks to informal networks necessary information can not only be gained, but also insider information on trends. It provides a source of reflection how other people do business (Spence & Schmidpeter, 2003).
- High level of trust also facilitates word of mouth marketing which is the main mechanism for most SMEs to gain new business (Spence & Schmidpeter, 2003).
- Lower transaction costs as a result of the trust and cooperative spirit both inside the organisation and in transaction beyond the organisation.
- Turnover rates can be lowered and thus hiring and training expenses be reduced and valuable knowledge be maintained in the organisation.
- Greater coherence of action due to organisational stability and shared understanding (all Cohen & Prusak, 2001).

For understanding of SME behaviour, social capital theory is especially useful (Worthington et al., 2006; Vázquez-Carrasco & López-Pérez, 2013; Russo & Perrini, 2010; Perrini, 2006). SMEs are embedded in local networks and communities that can be expected to provide forms of and opportunities for creating social capital in the organisational environment (Werner & Spence, 2004). Also, they benefit from being recognised as an embedded part of the community in which they do business and therefore they have to work to improve their reputation, trust, legitimacy and consensus within and among citizens (Vyakarnam et al., 1997). Engagement and civic issues in economic local development have been found to be an important issue linking social capital and SMEs (Joseph, 2000). In addition most SMEs pursue close relationships with suppliers, customers and employees, that are characterised by informality, personal knowledge, familial ties and thus trust and reciprocity – all elements of social capital (Worthington et al., 2006; Perrini, 2006). Due to their limited access to resources SMEs are dependent on networks (Spence & Schmidpeter, 2003). The correspondence of ownership and control in the owner-manager figure merges individual and organisational relationships and thus enhance the social capital (Worthington et al., 2006).

Social capital is also applicable to CSR (Worthington et al., 2006), because e.g. a firm's CSR engagement not only contributes to the "common good", but it can also help to build social capital for individuals, for the enterprise (Moon, 2001; Spence & Schmidpeter, 2003) and for the community as a whole (Habisch, 2004). Spence and Schmidpeter (2003) go beyond the advantages of social capital for the entrepreneur, to point out that the entire concept overlaps heavily with the thinking behind CSR, "including issues such as transparency, honesty, cooperation, trust, community investment, organisational citizenship and goodwill" (Spence & Schmidpeter, 2003, p. 18). Social capital complements CSR that "represents an organisation-level approach to addressing

social and environmental externalities of economic activity, while social capital focusses on the level of the individual with their ties to a multitude of other individuals within and beyond the organisation" (Preuss & Perschke, 2010, p. 536).

In conclusion both stakeholder theory and social capital are relevant to CSR research. However, many researchers of CSR in the SME area argue that "research on large firms should be based on stakeholder theory, while research on CSR among SMEs should be based on the concept of social capital" (Perrini, 2006, p. 305; same opinion: Vázquez-Carrasco & López-Pérez, 2013; Worthington et al., 2006). Ultimately the two concepts should be seen as alternatives and not complementary (Russo & Perrini, 2010).

### 2.2.1.4.   Four dimensions of CSR

Within the various strings of theories the concept of Garriga and Melé (2004) has been described as one of the most clarifying (Fraj-Andrés et al., 2012). They have classified the most prominent theories in four dimensions.

(1) Instrumental theories understand the company as an instrument to generate wealth and accordingly understand social activities as a means to achieve profits.
(2) Political theories concern a company's responsible use of power in society.
(3) Integrative theories are concerned with the satisfaction of social demands.
(4) Ethical theories address a company's ethical responsibilities towards society.

In the following each set of theories will be shortly discussed.

**Instrumental theories** comprise three main theories. Firstly, they contain the maximisation of shareholder value.[8] Secondly, strategies for competitive advantage are dealt with. These can be social investments in a competitive context (Porter & Kramer, 2002), strategies based on the natural resource view of the firm and the dynamic capabilities of the firm, where competitive advantage becomes a function of how well firms develop the resources and capabilities to deal with the changing natural environment (Hart, 1995) and strategies for the bottom of the economic pyramid (Prahalad & Hammond, 2002), (Hart & Christensen, 2002). Especially the resource-based capabilities are relevant for SMEs, as they often possess or provide special resources (Preuss & Perschke, 2010). It is also very relevant for CSR, because first of all CSR engagement often addresses intangible resources e.g. social capital, reputation (Völker, 2014). And second, there are three CSR-relevant strategies for the development and deployment of tacit, rare, ambiguous and dynamic capabilities. These are pollution prevention, product stewardship and sustainable development (Preuss, 2011). The third instrumental theory is cause-related marketing, which encompasses altruistic activities that are used as an instrument of marketing e.g. Varadajaran & Menon (1988).

**Political theories** encompass three theories as follows. Corporate constitutionalism concerns the social responsibilities of business that arise from the amount of power they have, which is also known as Davis' (1960) 'Iron Law of Responsibility'. The integrative social contract theory assumes that a social contract between business and society exists and that business is legitimated by

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[8] The goal of a firm has already been discussed in section 2.2.1.1.

fulfilling its social contract with the society (Donaldson & Dunfee, 1994). The third concept is corporate (or business) citizenship.[9]

**Integrative theories** include among others issues management. Issues management are corporate processes of response to those social and political issues which may impact significantly upon it e.g. Sethi (1975), Wartick & Mahon (1994). Stakeholder management and corporate social performance also count to the integrative theories.[10]

**Ethical theories** encompass four major theories as follows. The stakeholder normative theory considers fiduciary duties towards stakeholders of the firm. Its application requires reference to some moral theory (e.g. Kantian, Utilitarianism, theories of justice, etc.) e.g. Freeman (1984), Donaldson & Preston (1995). The universal rights theory is based on human rights, labour rights and respect for the environment e.g. (United Nations, 1999). The concept of sustainable development also falls under ethical theories.[11] The idea of the common good is oriented towards the common good of society e.g. (Alford & Naughton, 2002).

All these four dimensions (instrumental, political, integrative, ethical) are important and the relationship between business and society should include all four (Garriga & Melé, 2004). They should not be understood as interchangeable because they are difficult to delimit (Blombäck & Wigren, 2009).

For research purposes approaches combining different theories are rarer (Oliver, 1991 & 1997), but also used e.g. Spence et al. (2007).

### 2.2.2.  Arguments for CSR and benefits

The anticipated and realised benefits can be closely related to the reasons for a CSR engagement. Beyond the lists of general benefits there are three major theories in favour of CSR, the business case of CSR, the competitive advantage theory and the research of a financial link. These will be discussed in sections 2.2.2.1, 2.2.2.2 and 2.2.2.3.

In the following I would like to present shortly the most prominent benefits for an engaged business that are mentioned from CSR theorists, researchers and practitioners. The British initiative Business in the community (2011) identified 60 business benefits in recent literature, which they clustered into the following 7 key benefits (in the order of frequency of citation):

1. Brand value and reputation
2. Employees and future workforce
3. Operational effectiveness
4. Risk reduction and management
5. Direct financial impact
6. Organisational growth

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[9] For a definition of corporate citzenship refer to section 2.1.4.

[10] For a dicussion of stakeholder theory refer to section 2.2.1.2 and for a definition of corporate social performance refer to section 2.1.4.

[11] For a definition of sustainability refer to section 2.1.4.

7.  Business opportunity.

They also identified two more recent benefits, responsible leadership and macro-level sustainable development, that are expected to be future trends and that are already apparent in more advanced responsible companies. 'Employees and the future workforce' was identified to be the key business benefit for SMEs, while 'Operational effectiveness' is a key benefit for corporations (Business in the Community, Doughty Centre for Corporate Responsibility, 2011).

**Brand value and reputation**

A global study (Edelman, 2015) identified integrity and engagement issues including CSR as the most important driver of public trust in companies in Western Europe. Engaged firms can gain a better market position and a more prominent profile (Jenkins, 2006), because the public often supports the engagement.

**Employees and future workforce**

Socially responsible companies often benefit from a more committed and motivated workforce (Ipsos MORI, 2008; Jenkins, 2006), as well as increased attractiveness to potential recruits (Jenkins, 2006).

**Operational effectiveness**

Improved stakeholder relations and resulting enhancements in knowledge sharing, innovation, Supply Chain Management and secured resource bases are the main cause of advances in operational effectiveness. Another cause is eco-efficiency which brings about material substitution, proactive and more efficient compliance with regulations and improved relations with environmental regulators (Business in the Community, Doughty Centre for Corporate Responsibility, 2011). The effectiveness gains ultimately result in cost savings (Jenkins, 2006; Okpara & Idowu, 2013).

**Risk reduction and management**

Risk can be reduced on various levels. Upcoming stakeholder demands can threaten the organisation. By anticipating and responding to their demands on a threshold level of social responsible activities the threat can be mitigated (Kurucz et al., 2008). Also future government regulation can be anticipated (Carroll & Shabana, 2010) and competitive advantage can be gained by setting industry standards (Amalric & Hauser, 2005).

**Direct financial impact**

Examples of cost savings are reduced recruitment costs, increased productivity, reduction of operational costs and reduced legislation-related costs because changes in regulation are anticipated (Business in the Community, Doughty Centre for Corporate Responsibility, 2011).

**Organisational growth**

Thanks to a better reputation and increased awareness, as well as a result of the public's reward for the engagement, responsible companies can generate more business (Jenkins, 2006).

**Business opportunity**

When realizing business opportunities as a result of CSR, stakeholder demands are seen as opportunities and not as constraints (Carroll & Shabana, 2010) and competitive advantages are built (Okpara & Idowu, 2013).

### 2.2.2.1. *Business case*

Advocates of the business case for CSR argue that "CSR is evolving into a core business function which is central to the firm's overall strategy and vital to its success" (Carroll & Shabana, 2010, p. 93) and they are looking for tangible benefits of CSR engagement for companies. There are four types of a business case (Kurucz et al., 2008):

(1) Cost and risk reduction
(2) Gaining competitive advantage
(3) Developing reputation and legitimacy
(4) Seek win-win outcomes through synergistic value creation

Moreover two views of the business case can be distinguished – the narrow view and the broad view. The narrow view justifies CSR where there is a clear and direct link to firm performance. In the broad view mediating variables and situational contingencies are accounted for and CSR is justified where there are direct and indirect links to firm performance (Carroll & Shabana, 2010).

However, the business case of CSR also has its limitations such as the limited power of the consumer in the marketplace and the resulting lack of reward of CSR engagement (Valor, 2008), the implied assumption of a permanent relation between CSR and financial performance (Carroll & Shabana, 2010), the disregard of the broader business case by SMEs (Williamson et al., 2006) and the variance in impact between companies due to company-specific factors (Barnett, 2007).

To realise the business case one should "understand the circumstances of the different CSR activities and pursue those activities that demonstrate a convergence between the firm's economic objectives and the social objectives of society" (Carroll & Shabana, 2010, p. 102), otherwise the activities might not always have a positive effect on firm performance.

### 2.2.2.2. *Competitive advantage*

CSR activities can be a means to achieving a competitive advantage. The competitive advantage arises from a firm's activities in all areas of the value chain and supporting functions that contribute to its relative cost position and differentiate the firm from competition (Porter, 1985). There are three views of competitiveness, where a firm can differentiate itself from its competitors. In the market-based view CSR can be used to raise entry barriers. In the resource-based view a firm can accomplish a more efficient use of resources with CSR. In the relational view CSR is used for the creation of inter-organisational networks (Martinuzzi et al., 2010).

The characteristics of SMEs present advantages in terms of a CSR competitive advantage as follows. By being flexible and adaptable they can realise output flexibility. SMEs tend to be creative and innovative. The owner-manager is close to the organisation and can facilitate championing. Communication is open and fast. Lean and less hierarchical structures enable employee involvement. Benefits are felt more immediately. And owner-manager involvement closes the gap between rhetoric and implementation (Jenkins, 2009).

In order to realise a CSR competitive advantage, companies should understand CSR topics as opportunities and realise Corporate Social Opportunities (Jenkins, 2009) by identifying key stakeholders and prioritizing key areas where the company can really make a difference (Grayson & Hodges, 2004; Porter & Kramer, 2006). Literature suggests that education of SMEs about the CSR competitive advantage can motivate them to engage themselves in CSR (Jenkins, 2009). There exist various models how to turn CSR into a competitive advantage e.g. Jenkins (2009), Porter and Kramer (2006), Calabrese et al. (2013).

### 2.2.2.3. Financial link

For many years researchers have investigated the existence of a link between CSR and Corporate Financial Performance (CFP) with ambiguous results (Bundesministerium für Arbeit und Soziales, 2012). Some studies found a negative or neutral relation between CSR and CFP; these were especially researchers of economics, e.g. Jensen (2011), Friedman (1970). Researchers from a business ethics or sustainability background mostly found a positive link, e.g. Orlitzky (2011), Godfrey (2005). These ambiguities in the results are mostly attributed from CSR researchers to methodological differences, different basic assumptions interpretation biases, mediating variables and situational contingencies (Carroll & Shabana, 2010; Bundesministerium für Arbeit und Soziales, 2012). "The unique and dynamic characteristics of firms and their environments preclude stability in financial returns to CSR across firms and time, so we should not expect to empirically discern a consistent financial benefit – essentially, a universal rate of return – to a generic corporation for some given unit of social investment. […] Even within the same firm, identical levels of CSR investment over different time periods are likely to lead to different financial returns […]" (Barnett, 2007, p. 795). Schreck (2011) concludes that instead of trying to prove a generic link, single links between individual issues of CSR and CFP can be verified. This view is also supported by Peterson (2004): "attempts to demonstrate a connection between the variables may be more successful when there is a theoretical reason to expect a relationship between a measure of social performance and a measure of the resulting outcome for a given group of stakeholders" (Peterson, 2004, p. 297). Amalric and Hauser (2005) suggest that firms should not ask, 'does it pay, but when does it pay'.

There are also different perspectives regarding the causality of CSR: is a firm successful because of CSR or does it engage in CSR because it is successful (Bundesministerium für Arbeit und Soziales, 2012)?

### 2.2.3. Barriers

A global literature review conducted by Kusyk and Lozano (2007) revealed the most mentioned barriers for SMEs in terms of CSR. The main internal barriers were "lack of justification of allocation of limited money" and "limited time". The main external barrier was "supply chain top-down cost-cutting pressure". They also showed that some barriers can also be drivers such as the owner-managers or the external market conditions. Table 4 lists all barriers that were found in their research.

| Category | Barrier |
|---|---|
| *Internal stakeholders* | |
| Owner/governance | Governance/management style<br>- Time constraint<br>- Inflexible<br>- No transparent governance<br>- No support |
| | Attitude<br>- Not interested<br>- Not considered<br>- Not relevant<br>- Not motivated<br>- Short-term profit-oriented<br>- Difficult to regulate<br>- "Chore"<br>- Risk-averse<br>- Perceived financial risk<br>- Lifestyle company<br>- Difficult to implement |
| Employees | - Not motivated<br>- Understaffed<br>- Nepotism<br>- Low-skilled labour |
| Resources/management systems | Resources<br>- SME fragmented identity<br>- Justification of additional resource<br>- (time and money) allocation<br>- Capacity<br>- Technology<br>- Survival strategy<br>- Skills: planning and measurement<br>- Short-term projects-oriented<br>- Measurement of intangible benefits<br>- Risk management<br>- Ad hoc management style |
| | Information and understanding<br>- No SR<br>- Low awareness<br>- Inappropriate guidelines<br>- Unclear business case<br>- No information<br>- Inappropriate CSR-SME support<br>- Mixed message<br>- Confusion between monetary and non-monetary initiatives<br>- Confusion between internal and external initiatives<br>- Fragmented approach<br>- Non-applicable indicators |
| *External stakeholders* | |

| | |
|---|---|
| Customer | General<br>- Cost-conscious customers<br>- No customer demand<br>- Limited response to end-consumer pressure<br>- Southern SMEs lack direct relationships with northern consumers |
| | Supply chain<br>- Cost-cutting top-down pressure from supply chain |
| Community | Community in general<br>- Non-responsive to institutional pressure<br>- Inadequate communication channels<br>- Local focus creates resistance to international trends<br>- Missing equal commitment from all sides of an CSR project<br>- "Fortress enterprise", detached from local communities<br>- Volatile economic environment<br>- Lack of sector-specific guidance<br>- Lack of global industry-wide standards |
| | Public infrastructure<br>- Operate in informal sector<br>- Inadequate commercial legal structures<br>- Lack of tax incentives for SMEs<br>- Poor funding of support services<br>- Profitable companies are discriminated against by funding drives<br>- Uneven distribution of support services across regions, issues and industries<br>- Lack of federal and local government support |
| Competitive environment | - Cost-cutting-based competition<br>- Illegal SME competition<br>- Difficulty to diversify risk<br>- CSR initiatives are driven by LEs and not applicable<br>- Irrelevance of agenda for SMEs<br>- Large enterprises' top-down pressure for cost-cutting<br>- Large enterprises' top-down pressure to implement CSR only towards first-level supplier<br>- Investor community<br>- Marketing difficulties<br>- Lack of consumer demand<br>- Perceived as protectionist larger agenda<br>- Culturally inappropriate<br>- Industry characteristics have CSR resistors based on issues, structure and product<br>- Restrictive relationship between different parts in the value chain<br>- Driven by large enterprises and their concerns<br>- CSR standards undermine SMEs in developing countries |
| *Theory and practice* | |
| Business case | - Lack of financial measures of business case<br>- No business case benefit<br>- Excessive focus on business case |

| | |
|---|---|
| Definition | - Theory aimed at large enterprises<br>- SMEs are alienated<br>- The term is too general for some SMEs<br>- Issues with large enterprise theory drivers and barriers<br>- Lack of alignment of CSR on a global scale<br>- Unclear boundary between voluntary and mandatory standards |

**Table 4: Barriers for CSR in SMEs (Source: Kusyk and Lozano, 2007)**

The listed barriers were identified in SMEs, however many of them are also barriers to larger companies. Nevertheless, since many empirical studies show that SMEs are less active in CSR than larger enterprises, it can be expected that SMEs have more barriers to overcome when it comes to CSR (Laudal, 2011).

### 2.2.4. Criticism of CSR

Besides the current buzz about CSR that becomes visible in the concern of policy makers to promote CSR, the increased engagement of companies, the focus of media on green issues and the growing body of literature on the topic, there are also opposing and more critical views of the matter. But these are few (Fassin, 2008). A recent criticism based on a 20 year old statement was voiced by Visser (2014): "20 years ago, Paul Hawken (1994) stated in The Ecology of Commerce that 'If every company on the planet were to adopt the best environmental practice of the "leading" companies, the world would still be moving toward sure degradation and collapse.' Unfortunately, I am convinced that this is still true today" (Visser, 2014, p. 2). In the following the prevailing criticism will be presented.

The first criticism was probably pronounced by Friedman in 1962 and 1970. He is mostly quoted for the following statement: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970). Most references to Friedman just allude to afore mentioned statement but during his whole article the argument is put into perspective and weakened. His argument is based on the shareholder theory of value maximisation for shareholders as well as the agency theory. He argues that when a manager is "spending someone else's money for a general social interest" he does "reduce returns of stockholders, he is spending their money", when a manager "raises price to customers, he is spending the customer's money" and when he does "lower wages of employees, he is spending their money" (Friedman, 1970). However this argument neglects externalities and their costs that may in the end also effect the mentioned groups by e.g. tax raises, pollution effects etc. When applying his arguments to the case of SME, it should be considered that many SMEs are owner-managed and CSR often falls into their resort. In this case Friedman argues that spending money on CSR is the right of the owner-manager since he/she is spending his own money.

A further criticism is that business managers lack expertise and skills in social and environmental problems (Davis, 1973) and thus are not qualified to handle social issues.

Moreover, criticists advance the view that CSR is expensive and constrains business activity and operations (Henderson, 2005).

In addition CSR dilutes business' primary purpose and business already has a lot of power and would increase even more by relying on business to solve social problems (Davis, 1973).

Furthermore the effectiveness of CSR on social issues is questioned. "Despite hopes to the contrary there is little if any logical or empirical evidence that more social activities on the part of corporations are likely to be socially enhancing and that in fact they can be socially harmful" (Devinney, 2009, p. 45). "CSR, like most aspects of life, has very few, if any, win/win outcomes", as a result of unavoidable trade-offs (Devinney, 2009, p. 46). Nevertheless, following economic theory Devinney (2009) considers markets to be the most efficient means to determine social needs. In free and functioning markets stakeholder groups (customers, employees, owners) can vote with their feet and support and reward responsible companies. The market has more knowledge than individuals and governments about social needs and a better understanding of trends and technologies. The market also leaves space for experimentation and trial. However, these arguments are based on assumptions which are not always true in reality. Another problem he also gives thought to, is that companies tend to solve problems with economic rents. To achieve these returns societal standards might be skewed to own needs and the most valuable constituencies are supported out of the own interest. The social issues that are then pursued are not representative of society, especially the lower class. Moreover, pressure for economic returns makes experiments in socially confronting issues unlikely and creates more conservative social engagement. And with companies taking over social responsibility, the government might abandon some of its social responsibility. Almost 40 years earlier Friedman argued similarly by comparing CSR expenses to taxes and claiming that "political mechanisms […] are appropriate way to determine the allocation of scarce resources to alternative uses" (Friedman, 1970).

Another criticism considers conceptual problems. When answering social issues companies face the issue that there is more than one society in the context of a business to which they could respond. Moreover, there are conflicting views on the moral sanctioning. In the current conceptions of CSR a firm's stakeholders sanction the actions of a company. However, it remains unclear who sanctions the sanctioner (Devinney, 2009).

Recent criticism focuses especially on the CSR communications (Fassin, 2008) and the issue of 'greenwashing'.

Counterarguments to the presented critique are that business possesses the necessary resources (Carroll & Shabana, 2010) and that one could "let business try" (Carroll & Shabana, 2010, p. 89) since many others failed before (Davis, 1973).

## 2.3.   CSR in Germany

### 2.3.1.   History
The history of CSR in Germany is closely related to the European CSR history. Since the ancient world entrepreneurial integrity and decency were demanded across Europe. The profit motive and economic performance criteria were accepted by the ancient society but were also always linked to decent manners and behaviour (Schwalbach & Klink, 2015).

In the middle age the term *Ehrbarer Kaufmann* (Honourable Merchant) was coined and first mentioned around 1340 in an Italian guidebook for merchants.[12] "What every true and honest merchant must have within himself; integrity always suits him, long foresight keeps him well and

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[12] Francesco Balducci Pegolotti, around 1340, in: Gian-Francesco Pagnini (Editor), Pratica della Mercatura

what he promises does not come lacking" (translation extracted from Dotson (2002)). The Honourable Merchant is related to the field of CSR in terms of similar core terms such as responsibility, sustainability, long-term perspective. However it differs from CSR in focusing on a single person and not an enterprise (Schwalbach & Klink, 2015). The focus on a person makes this term even more applicable to the owner-managed SME situation where social engagement often depends on the entrepreneur as a person. The concept was and is also known in Germany, where it is closely related to the rise of the Hanseatic League. In 1517 the still existing *Versammlung Eines Ehrbaren Kaufmanns zu Hamburg e.V.* (Assembly of an Honourable Merchant in Hamburg) was founded (Klink, 2008). Being an Honourable Merchant is more than just having a title and encompasses a philosophy of life where success in business is not contrary to morally behaviour. The honourable merchant acts on two levels: (1) honourable treatment of business partners in the daily business operations and (2) societal engagement which justifies his/her entrepreneurial and social responsibility and which requires a certain resistance to the pressure for return (Schwalbach, 2012). The term *Ehre* (Honour), on which the Honourable Merchant is based, has two dimensions; the inner dimension is the self-perceived sense of honour and the exterior dimension is the external evaluation of a person's sense of honour. Thus the inner honour is closely related to personal self-esteem and the exterior honour to society's expectations on a businessman and to business reputation (Schwalbach & Klink, 2015). These two dimensions and related values are also important for CSR.

The positive impact of merchants on innovation, common welfare and prosperity of states was already perceived as early as in the 15th century by Benedetto from Ragusa. According to him the merchants work was targeted at the wellbeing of humanity (Le Goff, 1993).

In the early modern age the tradition of the honourable merchant was continued. Business people were acting according to the moral of contract fulfilment which meant reliability, punctuality, simplicity, truthfulness, loyalty and honesty (Sombart, 1920). In an autobiographic description of daily business manners Bauer (1906) also uses terms such as long-term thinking, sustainability, stakeholder relations and relations to society.

Entrepreneurs such as Friedrich Wilhelm Raiffeisen, Herman Schultze-Delitzsch and Adolf Kolping were undertaking forms of social entrepreneurship already in the 19th century (Scheuerle et al., 2013).

After World War II the ethical base of business studies was interrupted in Germany and was only resumed at the end of the 20th century by the research fields of business ethics and CSR. Schwalbach and Klink (2015) moan both these research areas failed to analyse the historical development of ethics and responsible behaviour in business. Thus, CSR research was understood as something new – which, as is evident from above excursus, it is not. This is also the reason why in the literature CSR is mostly perceived as an U.S.-American concept and discussions of the historical development of the term start with Bowen in 1953 as described in section 2.1.1.

Today the honourable merchant is mostly related to owner-managed companies and family businesses which constitute a big proportion of SMEs (Schwalbach, 2012). The term was revitalised after a presentation of Horst Albach in 2003 (Schwalbach & Klink, 2015).

Another basis for CSR in Germany is its economic system *Soziale Marktwirtscahaft* (social market economy or social capitalism), which has been created after World War II. Sometimes also the term

Rhine capitalism is used, especially when comparing this economic system to the Anglo-Saxon system of capitalism. The *Soziale Marktwirtschaft* is based on the combination of a free, capitalist market on the one hand and redistributive state interventions on the other hand to soften social inequalities. Some of these regulative measures such as social insurance are also funded partly by the employers. Some employers also launched their own pension insurance etc. in addition to the state measures (Bundesministerium für Wirtschaft und Energie, 2015). In this economy form all business actors are viewed as part of society. Thus, stakeholders and shareholders also go beyond growth targets and orientate themselves at ecological, social and ethical targets (Münstermann, 2007).

### 2.3.2. Terminological complexities

Due to the Anglo-American and Anglo-Saxon tradition of the term CSR, there is additional complexity in the German terminology. The 'Social' of Corporate Social Responsibility is often wrongly translated to German as '*sozial*' instead of '*gesellschaftlich*', because 'social' can mean both terms in German (Schmidpeter, 2015). Such linguistic subtleties should be considered more by academics (Fassin et al., 2010). In general, in Germany both the English term 'CSR' and its German translations are used.

In the understanding of the German Federal Ministry of Labour and Social Affairs (Bundesministerium für Arbeit und Soziales, 2014) CSR includes social, ecologic and economic responsibility of companies in all proprietary activities. In the practical application four areas of action are to be considered: market, workplace, environment, community. "Principal points of CSR are thus (i) rooted in core business, (ii) voluntariness, (iii) integrated corporate concept and (iv) mutual factor of success, i.e. both for the enterprise and society" (own translation of Bundesministerium für Arbeit und Soziales (2012) p. 8). This is also in line with the EU definition of CSR.

Nevertheless, it seems that many practitioners are still not aware of the term CSR even though they are engaged in CSR activities. A study found a discrepancy between a relatively high level of CSR engagement and a low level of awareness of the term (GILDE GmbH, 2007).

### 2.3.3. Legal framework and policies

Before discussing the legal framework and existing policies for CSR in Germany, it should be mentioned that the legislation topic is not without controversy regarding its effectiveness. There are both supporters of regulation who distrust that a free market can support CSR activities and opponents of regulation who support voluntary actions (Carroll & Shabana, 2010).

Trautner (2015) provides an overview of the political CSR framework in Germany, as shortly outlined below and visualised in Figure 8.
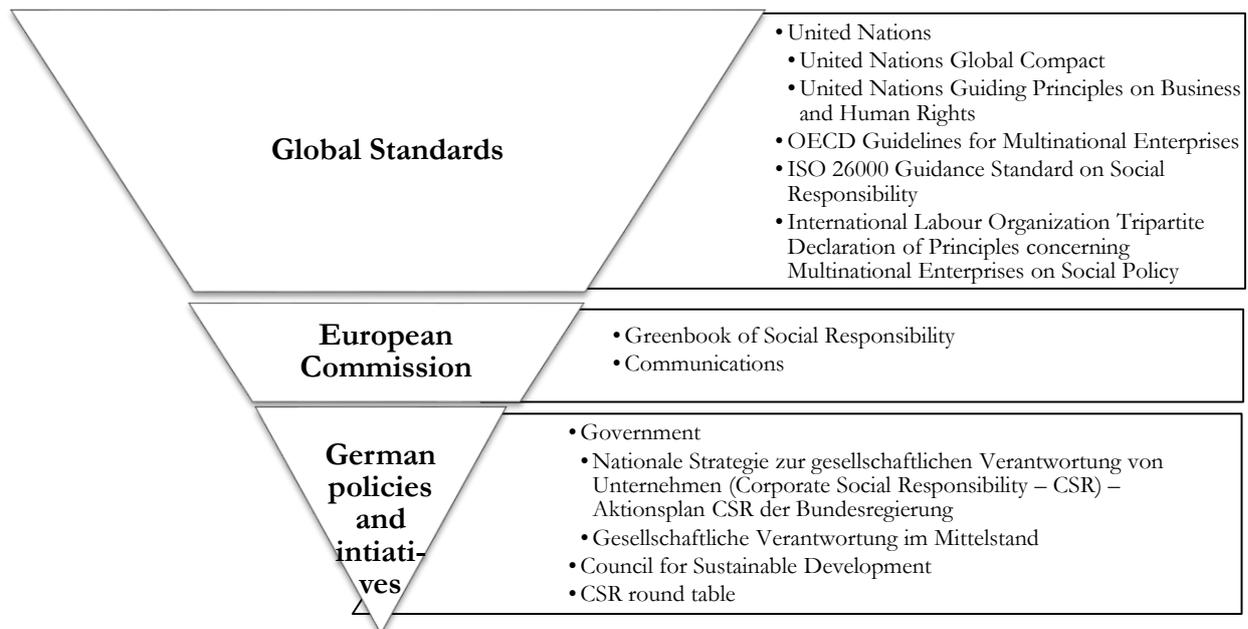
**Figure 8: Legal framework and policies (Source: own compilation)**

The EU Commission accentuated the discussion in Germany with several publications such as the Greenbook of Social Responsibility in 2001 and its communications regarding CSR in 2002, 2006 and 2011. The EU positions CSR as a contributor "to the European Union's treaty objectives of sustainable development and a highly competitive social market economy. CSR underpins the objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth, including the 75% employment target" (European Commission, 2011, p. 3). Nevertheless, CSR is not understood as a remedy for the EU's social challenges and as a substitute for public policy, but as a substantial contribution (European Commission, 2006). Currently the European Commission implements the agenda as shown in Figure 9.

- Enhancing the visibility of CSR and disseminating good practices
- Improving and tracking levels of trust in business
- Improving self- and co-regulation processes
- Enhancing market reward for CSR
- Improving company disclosure of social and environmental information
- Further integrating CSR into education, training and research
- Emphasising the importance of national and sub-national CSR policies
- Better aligning European and global approaches to CSR.

**Figure 9: EU Commission's CSR agenda (Source: European Commission, 2011)**

In terms of SMEs the European Commission recognises the need to identify a different approach compared to that taken with large firms (European Commission, 2006). In the past, CSR was promoted to SMEs as a means to create competitive advantage and resolve real problems. This focus can be problematic as it does not comply with previous research results that SMEs' owner-managers are ethically motivated (Spence, 2007). The most recent communication from 2011 is

however more focused on best practice dissemination and network creation as well as an industry approach (European Commission, 2011).

The European Commission's strategy is based on the global guidelines United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, ISO 26000 Guidance Standard on Social Responsibility, International Labour Organization Tripartite Declaration of Principles concerning Multinational Enterprises on Social Policy, OECD Guidelines for Multinational Enterprises (European Commission, 2014). These guidelines are less relevant for CSR in SMEs since they mainly focus on the characteristics of larger enterprises.

In 2006 then the *Rat für Nachhaltige Entwicklung* (Council for Sustainable Development) recommended the German government to develop a national CSR strategy. Following this recommendation the German government then started several initiatives, among other things it commissioned a research study „CSR zwischen Markt und Politik" that presented in 2008 a basis for a national CSR strategy and also encouraged the establishment of a national CSR round table in 2009 and 2010 to guarantee a multi stakeholder approach. The final strategy „Nationale Strategie zur gesellschaftlichen Verantwortung von Unternehmen (Corporate Social Responsibility – CSR) – Aktionsplan CSR der Bundesregierung" was based on the CSR forum's counsel and published in 2010. This CSR action plan contains fifty activities that are mainly implemented by using existing infrastructure. The target is (i) to increase visibility and credibility of CSR, (ii) integration of CSR in education, qualification, science and research, (iii) promotion of CSR in international and development aid policy relations, (iv) to solve social challenges and (v) to create a CSR supportive environment (Bundesministerium für Arbeit und Soziales, 2010). It also includes a special focus on SMEs e.g. special consulting and coaching programmes. In 2011 the Federal Ministry of Labour and Social Affairs launched the program "Gesellschaftliche Verantwortung im Mittelstand" (Social responsibility in SMEs) with finances of the European Social Fund, a custom-fit qualification and training programme for SME owner-managers and employees. Because of the great interest in the programme the initial funds of 21 Mio € were raised to 35.6 Mio € and 75 projects, which encompassed more than 2,000 SMEs, could be supported between 2011 and 2014 (Bundesministerium für Arbeit und Soziales, 2012). The Ministry's policy how to promote CSR is a direct one, which approaches companies locally. It is based on existing structures and regional multiplicators that support the companies in their regions with the right instruments (Bundesministerium für Arbeit und Soziales, 2014). "This function is handled by an increasing number of chambers, communal posts, business networks and organisations in the realm of civil society [...], that want to promote CSR locally, because it presents potential for their region but also for their own development as multiplicator at the interface of economic, social and ecological issues in their region" (own translation of Bundesministerium für Arbeit und Soziales (2014) p. 6). They are supported from the ministry with communication material and potential instruments.

The already mentioned social market economy presents a peculiarity in Germany in terms of CSR, because it is heavily institutionalised and cooperatively managed. "Employers, employees, associations and unions shape on firm level and social level, ideally in consensus, the working and living environment in the social market economy via legally binding agreements" (own translation of Wieland (2012) p. 15). This market form has been strained in the globalised competition and current crises but with reformation it is still working (Wieland, 2012).

### 2.3.4. Current situation

CSR as a moving issue is also subject to current trends. One is the emergence of new actors in the form of NGOs, another are new challenges for internationally active German companies such as human work conditions, social standards, human rights, water consumption (Wieland, 2012). On the German market there is increased demand in sectors such as child care, elderly care and sustainable consumerism (Scheuerle et al., 2013). Education in CSR and social entrepreneurship is growing in both formal education as well as education initiatives from institutions and government. Moreover, as presented earlier, CSR also receives now attention from the government and also increasing support from NGOs and other associations and initiatives. Examples are econsense/Forum Nachhaltige Entwicklung der Deutschen Wirtschaft e.V.[13] – an association of leading companies and organisations, CSR Germany – an initiative of the four leading employer associations[14], UPJ – a national network of engaged companies and local non-profit intermediaries[15] and CSR Regio.Net – regional support initiatives for CSR in SMEs.[16] In the social sector there is a tendency to focus on economics and also increasingly on innovation (Scheuerle et al., 2013).

Unfortunately there is no current and representative data on the dissemination of CSR in Germany. According to a representative survey from 2007 94.3% of German SMEs and 98.6% of large enterprises exercise at least one CSR activity (Wallau et al., 2007).[17] Another study from this time produces much lower numbers. However, the definition of SMEs is also different.[18] In this study 58% of SMEs have only been engaged in CSR between 2006 and 2008, with bigger enterprises in terms of employees being more active. However, the proportion of CSR expenditure and annual sales was relatively higher for the smaller enterprises and smaller enterprises with less than 5% constitute the majority of SMEs (KfW Bankengruppe, 2011). In a more recent survey of experts 23% believed that CSR is exercised in many SMEs, 45% believed that CSR is exercised in some SMEs and 32% believed it is exercised in few SMEs (CSR Preis der Bundesregierung, 2012).[19] Although the representativeness of these numbers is questionable, the low numbers of this study in contrast to the first study imply that the CSR engagement of SMEs is not perceived by the public and experts.

## 3.  Small and Medium Sized Enterprises

This chapter focuses on SMEs in all areas important for this thesis. Firstly, the term is defined in section 3.1. Secondly, the landscape of SMEs in Germany is presented in section 3.2. Thirdly, selected characteristics of SMEs are discussed in section 3.3. Finally, these characteristics are applied to SMEs CSR engagement in section 3.4.

### 3.1.  SME definition

In Germany SMEs are defined differently by different institutions (see Table 5).

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[13] http://www.econsense.de/

[14] http://www.csrgermany.de/www/csr_cms_relaunch.nsf/id/home-de

[15] http://www.upj.de/

[16] http://www.csrregio.net/

[17] The Institut für Mittelstandforschung (IfM) Bonn defines enterprises with up to 500 employees as SMEs.

[18] In the KfW-study all enterprises of all employee numbers that have annual sales of up to 500 Mio € are defined as SMEs.

[19] There is no information on the underlying definition of SME.

| Institution | Enterprise size | Employees | and Turnover | or Balance sheet total |
|---|---|---|---|---|
| IfM Bonn (also used by government) (IfM Bonn, 2002) | small | <10 | <1,000,000 | - |
| | medium | <500 | <50,000,000 | - |
| KfW Bankengruppe (Bundesverband Wirtschaft und Mittelstand Deutschland e.V., 2009) | small and medium | - | <500,000,000 | - |
| European Commission (European Commission, 2003) | micro | <10 | ≤2,000,000 | ≤2,000,000 |
| | small | <50 | ≤10,000,000 | ≤10,000,000 |
| | medium | <250 | ≤50,000,000 | ≤43,000,000 |

**Table 5: SME definitions (Source: own compilation)**

This poses problems when comparing studies from different authors that are based on different definitions. Since the majority of the European literature on CSR in SMEs uses the European Commission's definition and there is not much German literature available, in this study SME is defined according to the European Commission. However, I am aware of conceptual problematics of this definition. The criteria 'turnover' and 'balance sheet total' may conceal the real size of the enterprise due to accounting practices and other conceptual issues. And the criterion 'employees' also poses problems because it is influenced by the degree of labour intensity (Curran & Blackburn, 2001). Moreover, turnover and balance sheet total are sensitive data and often treated very confidential in SMEs because normally these enterprises do not have to publish their financials. Thus I expect that the majority of SMEs would not share these numbers in an empirical research. Therefore, I disregard the second part of the EU definition. In conclusion, for the purpose of the following empirical research SMEs are defined as enterprises with less than 250 employees.

## 3.2. SME landscape in Germany

According to the IfM Bonn 99.6% of all German companies are SMEs, which are 3.7 Mio firms. Together they generated a revenue of 2,128.2 billion € in 2011, which is 35.9% of the revenue generated by all German companies. They provide employment to more than half of all Germany's working population (59.4%, 15.71 Mio people) and are the main provider of apprenticeships in Germany (82.4%, 1.29 Mio apprentices (*Auszubildende*)) (IfM Bonn, 2013). These impressive numbers underline that SMEs are an important contributor to the German economy and society. It also shows that together they can have a huge impact, even though single CSR activities and investments might be small.[20]

## 3.3. SME characteristics

SMEs "are not little big firms" (Tilley, 2000, p. 33), but they have a set of idiosyncrasies and differ in some features from larger firms. However there are also considerable differences between SMEs. It is a "far from homogeneous sector operating in numerous economic spheres, in a dispersed supply chain, with differing managerial styles and ownership structures. Thus, the assumption of

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[20] The IfM Bonn defines enterprises with up to 500 employees as SMEs.

one SME 'type' is false and any CSR initiative aimed at the sector must consider its diversity" (Jenkins, 2004, p. 39).

A collection of typical peculiarities of SMEs from literature is given in the following. It is structured according to a classification of Preuss and Perschke (2010).

Probably one of the most important differences lies in the **ownership and the role of capital markets**. SMEs are often owner-managed (Russo & Perrini, 2010) which means there is no separation of ownership and control (Preuss & Perschke, 2010). Therefore agency problems are limited and agency costs are lower. Moreover, the owner can make personal choices about resource allocation (Spence & Rutherfoord, 2000). The central position of the owner-manager also puts pressure on him/her to deal with multiple tasks (Spence & Rutherfoord, 2000). SMEs are more independent (Russo & Perrini, 2010). SMEs often have a high level of equity financing from the business operations and the owner (Russo & Perrini, 2010). Thus they are less dependent on the capital market. However, this also brings about limitations in cash (Russo & Perrini, 2010). In general, due to different financing financial management practices in SMEs are different (Preuss & Perschke, 2010).

The **role of external stakeholders** for SMEs depends also on the industry, but nevertheless some general observations are possible. In general the number of stakeholders seems to be lower and they are often dealt with personally (Preuss & Perschke, 2010). In terms of public relations SMEs are less visible to media and NGOs (Russo & Perrini, 2010; Jenkins, 2004). However, I think this might be less applicable for smaller city and rural enterprises and their visibility in local media. Since most SMEs operate in the business-to-business (B2B) sector they are less disposed to consumers and often also do not have a brand or image, which requires protection (Jenkins, 2004). SMEs are reluctant to adopt regulation because they distrust bureaucracy (Tilley, 2000).

Owner-managers of SMEs often rely on general expertise instead of formal **managerial expertise** (Preuss & Perschke, 2010).

**Organisational complexity** in SMEs seems to be limited, due to characteristics such as multitasking and a flexible management style (Russo & Perrini, 2010), which is also facilitated by short communication lines and a culture of open communication both inside and outside the enterprise (Jenkins, 2006). Structures are lean and less hierarchical (Jenkins, 2006). This allows SMEs to be very adaptable and responsive as well as creative and innovative (Jenkins, 2006). The management style is relational and personal (Russo & Perrini, 2010). SME company culture is based on values such as trust and openness (Russo & Perrini, 2010). However, operations are often informal instead of strategic (Russo & Perrini, 2010). Planning has a short-term time horizon (Preuss & Perschke, 2010).

In terms of **business operations and market type**, SMEs operate often local instead of global (Russo & Perrini, 2010). This reduces international pressure. Many SMEs operate in niche markets (Preuss & Perschke, 2010). They focus on survival and operational necessity and pursue not only financial gain but also self-realisation and autonomy (Preuss & Perschke, 2010).

### 3.4. Peculiarities of CSR in SMEs

The distinctive idiosyncrasies of SMEs as presented in section 3.3 also result in peculiarities in terms of CSR operations of SMEs. In the following I will relate – where possible – the peculiarities

mentioned in the literature to the general characteristics of SMEs along the previously used categories.

In terms of **ownership and the role of capital markets** the central role of the owner-manager figure can present both a barrier and advantage for the implementation of CSR. Due to his/her important role the psychological characteristics, which vary greatly with a person, should be taken into account (Jenkins, 2004). These can be beneficial or detrimental for CSR. An advantage is the closeness of the owner-manager to the organisation, which provides potential for internal championing (Jenkins, 2006). The unification of ownership and control in a single person also steals the thunder of the most famous CSR criticism by Friedman (1970) as discussed in section 2.2.4. Limited cash funds can pose resource constraints.

The **role of external stakeholders** affects SMEs' CSR activities in terms of publicity and CSR communication. SMEs tend not to talk about their engagement, because they also do not perceive CSR as an influencer to brand image or reputation (Jenkins, 2004). Since SMEs have fewer stakeholders, which are mostly known personally, their needs in terms of CSR are more visible to SMEs.

Because the **managerial expertise** of owner-managers is often based on their general expertise and because of their strong role in the enterprise, CSR engagement is often influenced by the know-how and preferences of the owner-manager and he/she is also the sole or dominant decision maker (Preuss & Perschke, 2010). In most cases there is no dedicated CSR personnel (Jenkins, 2004).

The level of **organisational complexity** which was characterised by informal structure and direct communication allows for a more immediate perception of the CSR engagement, especially in terms of personal satisfaction and motivation (Jenkins, 2006). Due to the importance of personal relations employees are key stakeholders (Jenkins, 2004) and in general "issues closer to home are far more likely to hold their attention" (Jenkins, 2009, p. 23). The direct and personal interaction also calls for acting with honesty and integrity (Spence, 2004). The informal management is also applied to the CSR management and thus the CSR lacks codification in form of e.g. CSR agreements, organisation membership, standards, code of conduct, or vision statements (Jenkins, 2004). There is no CSR strategy (Jenkins, 2004), the engagement is ad hoc (Preuss & Perschke, 2010) and often not recognised as CSR (Jenkins, 2004).

In continuation of the localised **business operations and markets** SMEs focus in their CSR engagement on the local community. These are often also driven by the owner-manager, especially in small towns, where he/she is "subject to the same pressure to conform to local norms as are other residents" (Miller & Besser, 2000, p. 70) and an "active members of a territorial community to which they are intimately linked and in which they reinvest part of the socio-economic wealth they generated and their energies" (del Baldo, 2014, p. 27). CSR activities are mostly small scale (Jenkins, 2004). The physical proximity may translate to moral proximity (Spence, 2004). As SMEs are often operating in B2B markets, they might also feel pressure from larger firms in the supply chain to exercise CSR (Jenkins, 2004).

Researchers observed that SMEs often have different motivational pressures for SMEs than large companies (Jenkins, 2009). This is also the focus of this research. A better understanding of SMEs'

motivation, especially when they are distrusting regulative efforts, is necessary for policy makers to ensure wider dispersion of CSR and for the academic to develop a suitable framework of CSR and provide tools.

In summary, SMEs' CSR engagement is characterised by ad hoc activities, smaller scale, more local focus and intangible benefits (Jenkins, 2004). Please refer to Table 6 for an overview of the peculiarities of SMEs and their CSR engagement.

| Category | SME characteristic | CSR characteristic |
|---|---|---|
| Ownership and the role of capital markets | owner-managed (unification of ownership and control) | owner-manager as sponsor, influenced by psychological characteristics |
| | | no basis for Friedman's (1970) criticism |
| | independent | |
| | high level of equity financing | |
| | limited cash | resource constraints |
| | different financial management practices | |
| Role of external stakeholders | lower number of stakeholders, handled on one-to-one basis | stakeholder needs are more visible |
| | less visible in media and to NGOS | |
| | less disposed to consumers | |
| | no brands or image | unlikely to see CSR in terms of risk to brand image or reputation |
| | reluctant to implement regulation, distrust bureaucracy | |
| Managerial expertise | general expertise of owner-manager | know-how and preferences of owner-manager |
| | | owner-manager is sole or dominant decision maker |
| | | no dedicated CSR personnel |
| Organisational complexity | flexible, multitasking | |
| | short communication lines, open communication | immediate perception of benefits, especially personal satisfaction and motivation, focus on workplace issues |
| | importance of personal relations | need to act with honesty and integrity |
| | lean, less hierarchical | |
| | adaptable, responsive | |
| | creative, innovative | |
| | values e.g. trust, openness | |

| | informal | lack of codification, adhoc/informal, often not recognised as CSR |
|---|---|---|
| | short-term planning | no CSR strategy |
| | local | "issues close to home" e.g. focus on local community, workplace issues<br>moral proximity to local community |
| Business operations and market type | niche markets | |
| | focus on survival and operational necessity | |
| | financial gain but also self-realisation and autonomy | |
| | B2B | supply chain pressure |

**Table 6: Peculiarities of SMEs and their CSR engagement (Source: own compilation based on Preuss & Perschke, 2010)**

The specific CSR engagement of SMEs is mainly in the social area. 95.1% of German SMEs target CSR activities at their employees and 88% are engaged in the general society. Environmental issues are of lesser importance. 64.3% of the German SMEs are active in this area. The area where German SMEs are less engaged are supplier and customer relations (55.6%) (Wallau et al., 2007).[21] Popular employee CSR activities are education, working hours, inclusion of disabled and foreigners, health and security and work-life balance. Socially SMEs support primarily social institutions, education programmes, sports clubs, cultural initiatives and labour market programmes. Prominent activities in the environmental field encompass reduction of energy consumption, reduction resource consumption, waste and recycling management, environmentally friendly products, ecological evaluation of investments and environmentally friendly production (GILDE GmbH, 2007).[22]

## 4. Motivation

This chapter explains the last element of the research question. Firstly, the term is defined in section 4.1. Secondly, motivation theories that are relevant for CSR are elaborated on in section 4.2. Thirdly, section 4.3 sets about motivation for CSR mentioned in the literature.

## 4.1. Definition

Motivation is defined linguistically as "a reason […] for acting or behaving in a particular way" and as the "desire or willingness to do something" (Oxford University Press, 2015). More technically, motivation is defined as "those psychological processes that cause the arousal, direction and persistence of voluntary actions that are goal directed" (Mitchell, 1982, p. 81). This definition

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[21] The IfM Bonn defines enterprises with up to 500 employees as SMEs. This differs from the EU definition applied in this thesis. However, smaller enterprises account for a considerably bigger proportion in the basic population. Thus, any effect of definitional discrepancies is negligible.

[22] The study of the GILDE GmbH defines as SMEs as enterprises with up to 500 employees. This differs from the EU definition applied in this thesis. However, the enterprises between 250 and 499 employees accounted for only 6% of the study. Thus, any effect of definitional discrepancies is negligible.

covers the two multifaceted characteristics of motivation – activation (production of behaviour) and direction (of the behaviour) (Petri & Govern, 2013). Academics perceive motivation as an individual phenomenon that depends on the uniqueness of each person. Also motivation is seen as intentional, which means it is under the control of a person (Mitchell, 1982).

In the organisational context there are two types of motivation – intrinsic motivation and extrinsic motivation. Intrinsic motivation factors are self-assertive. Each individual decides the personal importance of these factors. Examples are the pursuit of responsibility, decision-making competencies and development opportunities. Extrinsic motivation are external factors outside an individual's control. Examples are rewards or the threat of punishments. Intrinsic motivation is more long-lasting but behavioural affects are slower and smaller. Extrinsic motivation works stronger, but on a short-term (Recklies, 2001). This distinction provides a first potential classification of motivation for the following empirical research.

## 4.2. Motivation theories

There are various theories of motivation. In the following, important theories that are relevant regarding CSR will be shortly outlined. It can be distinguished between content theories and process theories (Zan, n.d.).

### 4.2.1. Content theories

Content theories focus on the needs and motives of individuals. They attempt to explain what motivates a person (Zan, n.d.).

#### 4.2.1.1. Maslow's hierarchy of needs

In Maslow's (1943)[23] model a person's needs are hierarchically ordered as visualised in Figure 10. He assumes that people are motivated by satisfying a higher need. Once this need is satisfied, the next higher need is the new motivator. Needs have to be satisfied in the order of the pyramid. Despite the lack of empirical proof of this theory, it is widely used in the organisational context and can well illustrate differences between CSR motivators of SMEs.
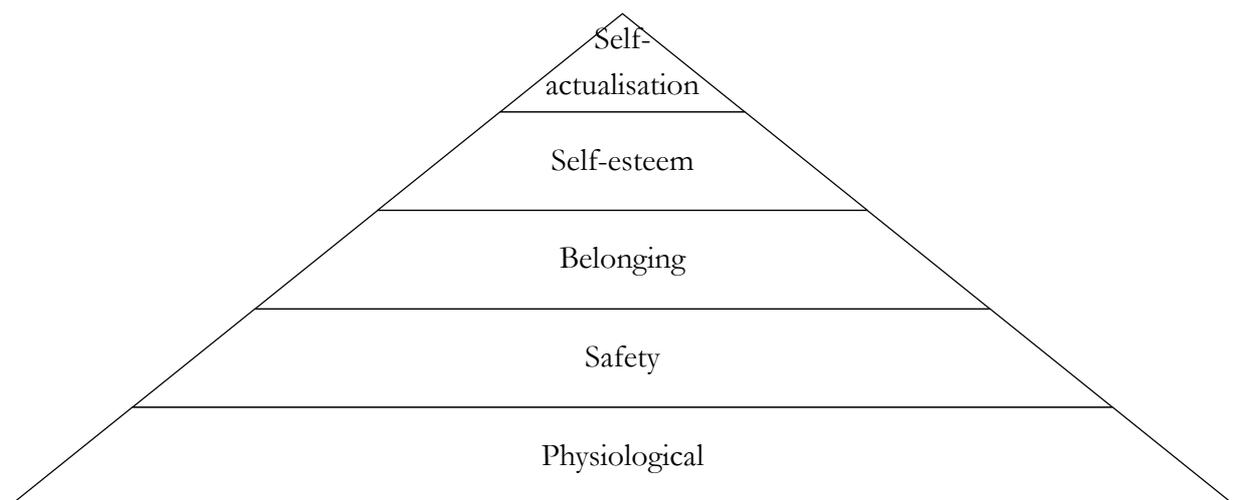


**Figure 10: Maslow's hierarchy of needs (Source: interpretation of Maslow, 1943)**

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[23] The model has been refined in later publications (Maslow, A. H., 1954, Motivation and Personality, New York: Harper. Maslow, A. H., 1971, Farther Reaches of Human Nature, New York: Viking Press)

This model could be applied to CSR on the owner-manager level and/or on the firm level. Depending on what need CSR can satisfy for the owner-manager or the enterprise it will have a higher or lower priority. For example, a SME operating in the recycling industry is working in an area close to CSR. For such an enterprise CSR could fulfil a physiological or safety need. For other owner-managers and in other industries further away from CSR, responsible engagement might satisfy self-actualisation needs. For an application to CSR see also the discussion of Tuzzolino and Armandi's (1981) need hierarchy model in chapter 2.1.2.2.

### 4.2.1.2. Herzberg's two-factor theory

Herzberg (1966) developed the two-factor theory to explain job satisfaction. He distinguishes between two sets of factors that influence job satisfaction – motivators and hygiene factors. Motivators cause satisfaction and can lead to higher motivation levels. They are based on intrinsic factors such as recognition, achievement and personal growth. Hygiene factors cause dissatisfaction if they are absent, but if they are fulfilled they have no effect on satisfaction or motivation. They are based on extrinsic factors such as salary, policies and work conditions (Recklies, 2001).

For the purpose of this thesis this theory could be applied to the person who drives CSR inside the SME. This would suggest that motivation is mainly based on intrinsic factors of this person and influenced by the presence of mediating factors such as regulation etc.

### 4.2.1.3. McClelland's manifest needs theory

Based on studies of manager's McClelland (1961) identified three important needs for people. These are (1) need for achievement, (2) need for affiliation and (3) need for power. Different people develop a different importance of the three needs.

A certain combination of these three needs might be characteristic for CSR-motivated owner-managers.

### 4.2.2. Process theories

Process theories focus on psychological processes' influence on motivation (Recklies, 2001). They attempt to explain how a person is motivated (Zan, n.d.).

### 4.2.2.1. Vroom's expectancy theory

Vroom (1964) defines motivation as a process where an individual chooses from different behaviours depending on how well the behaviour will lead to the desired outcome. The motivation has three elements. Firstly, valence is the personal valuation of the reward which can be extrinsic or intrinsic. Secondly, expectancy is the belief that the effort will lead to a desired performance goal. Thirdly, instrumentality is the belief that the reward will be received after meeting the performance goal (Value Based Management, 2014).

In terms of CSR motivation this theory could be combined with the business case theory, e.g. a SME performs a CSR activity if it enables a certain performance, if rewards for this performance can be expected and if the SME values these rewards.

### 4.2.2.2. Adams' equity theory

Adams (1963) based the equity theory on the assumption that people expect equal rewards as their peers for the same job. The relation of inputs to outputs should be similar. The evaluation of the

peer's rewards is based on subjective perception. If a person feels treated fair in relation to its peers, the person is more motivated (Recklies, 2001).

In terms of CSR SMEs might compare their own CSR engagement and perceived outcomes to their peers' CSR engagement as well as their perceived effects. If they perceive that their peers are benefitting more from CSR, their own motivation might be reduced.

## 4.3. Motivation for CSR

The following provides an overview of SMEs' motivations for CSR mentioned in the literature. Literature on this topic is limited out of three reasons. Firstly, CSR literature is oriented towards large business despite their important role e.g. in the German economy. Secondly, SMEs' ability to address social issues adequately is questioned. Thirdly, SMEs are encouraged to apply a reactive approach to CSR of avoiding irresponsible behaviour (Thompson & Smith, 1991; also validated by other researchers such as Jenkins (2004)).

When analysing the reasons behind CSR engagement of firms it should be differentiated between motivations, drivers such as contextual factors and benefits. Various researchers have argued that ethics in managerial decision-making "are situationally specific" (Barnett & Karson, 1989).

### 4.3.1.1. Theories

In literature many frameworks that attempt to explain managerial decision-making, ethical decision making, CSR drivers, etc. exist. The following should be regarded as an excerpt of these models.

**Theories on the role of the manager in CSR commitment**

Managerial ethics are perceived as a prerequisite to CSR (Rozuel & Kakabadse, 2011). In SMEs where the owner-managers function as champions for CSR this might be truer than ever. "CSR can be the result of championing by a few managers, due to their personal values and beliefs, despite the risks (in terms of commercial and subsequent personal outcomes" (Hemingway & Maclagan, 2004, p. 36), but on the other hand it can also enable unethical managers to influence events adversely. "Entrepreneurs are associated with responsible ethical behaviour when compared to other groups" (del Baldo, 2014, p. 29). Personal values are an important part of personal ethics and often referred to (van Marrewijk, 2003). For example top management values are essential in explaining behaviour and performance of a business (Bamberger, 1983). Nevertheless, their influence is still not completely known: "Values motivate behaviour, but the relation between values and behaviours is partly obscured by norms" (Bardi & Schwartz, 2003, p. 1207). There is also a debate "whether the values, motives and actions leading to CSR initiatives are essentially attributable to specific individuals or […] understood as corporate" (Hemingway & Maclagan, 2004, p. 41).

There exist various attempts to explain the development and effect of managerial motivation on a firm's commitment. According to a model of Gherib and Berger-Douce (2012) of managerial profile and environmental commitment, the managerial ethics are influenced by the three factors history, aptitude and needs. When transferring and applying this model to CSR commitment it can be assumed that the commitment varies with the owner-manager motivation. Public policies are another influence on the environmental commitment. This could be extended to further external influences. The model is visualised in Figure 11.
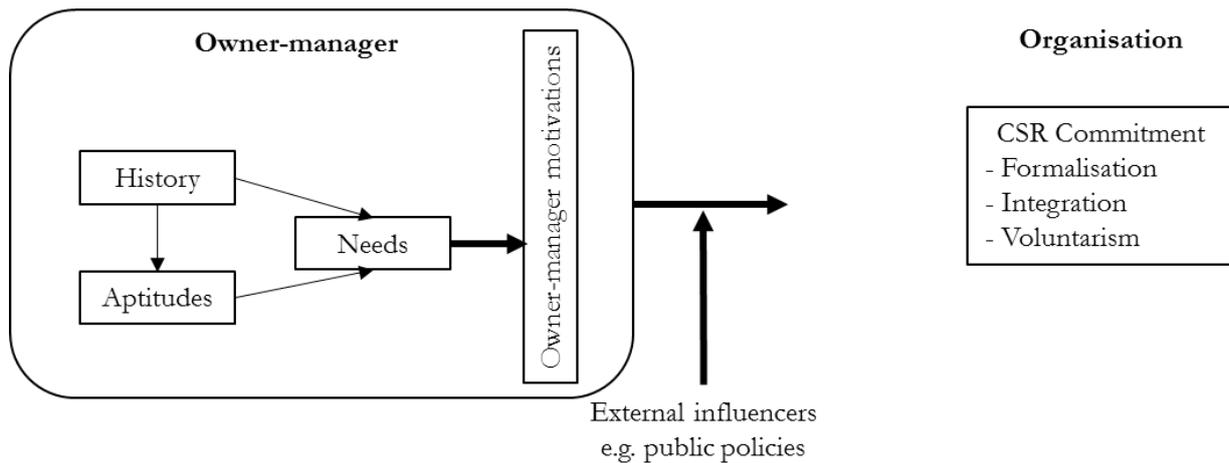
**Figure 11: Managerial profile and CSR commitment (Source: adapted from Gherib & Berger-Douce, 2012)**

The owner-manager's importance for CSR can also be analysed with general decision-making theories. The general steps in decision making are (1) appraising the challenge, (2) surveying alternatives, (3) weighing alternatives, (4) deliberating about commitment and (5) adhering despite negative feedback (Janis & Mann, 1977). Other researchers argue that instead of comparing options decisions are often based on experience and focus on something being familiar (Klein, 1998). Thus, the decision-makers past experience with CSR can impact future decisions (Gustavson, 2009). In support of above presented model (see Figure 11) the image theory claims that decisions are based on principles and attempt to do right (Beach, 1990). The effect of personal values on decisions are another support. The likelihood of a firm to contribute, is higher, if the decision-maker is socially conscious (Gustavson, 2009).

Quinn (1997) modelled an ethical decision-making process based on Kohlberg's model of cognitive moral development. This model attempts to explain the initial judgement of what is right and wrong on the personal ethics stage. Situational moderators influence both the personal ethics and the realisation of personal ethics in behaviour. These are for example factors in the immediate job context, of the organisational culture and characteristics of the work. For SME owner-managers he expects that these situational moderators are less important. Thus he expects a closer relationship between their moral judgment and moral action. A second set of moderators are individually based factors such as the strength of the ego, field dependence and locus of control. These individual moderators appear to be more pronounced for SME owner-manages than corporate managers. To account for differences of personal ethics outside the business context and business ethics, the model contains a distinct business ethics stage. Between these stages, there are also moderators as visualised in Figure 12.
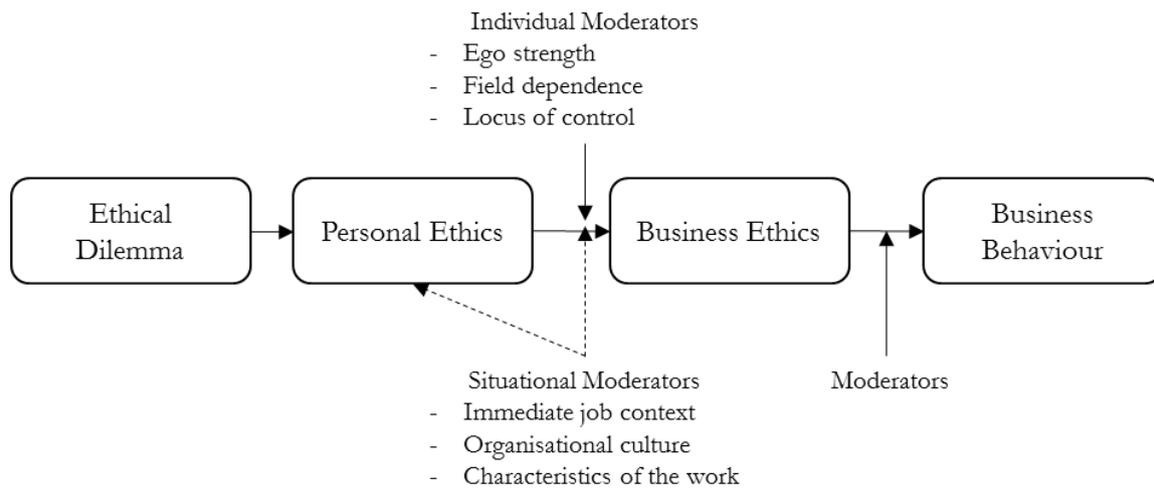
**Figure 12: Ethical decision-making model (Source: adapted from Quinn, 1997)**

**Driver models**

Silberhorn and Warren (2007) suggest that CSR contributions develop in interaction between corporate values and external influences on three levels. Firstly, on the individual level manager's personal values as already mentioned earlier influence CSR policies. Secondly, on the organisational level influences of functions and financial resources and performance occur. Thirdly, on the institutional level industry sector influences. Based on earlier discussions of SME characteristics (see section 3.3) such as the central position of the owner-manager, I believe that the strongest level in SMEs is the individual level. Influences at the institutional level can be neglected in most cases because most SMEs are operating in local communities and are not organised in a bigger sector.

What these influences are specifically, is summarised in an integrated model of key social issue drivers and barriers of SME social performance by Kusyk and Lozano (2007). This model accounts for various normative determinants of CSR engagement such as the international and national political environment, the SME's market position and the competitive environment. It also considers the internal decision-making autonomy on CSR issues and the external market pressure and opportunity for competitive advantage which are all influenced by the normative determinants. In combination of the internal and external influencers four types of social issue management arise, that lead to different levels of CSR performance and benefits as well as costs. According to their typology only high external pressure of a market competitive advantage can create high CSR performance in combination with any internal decision-making autonomy level. The model is visualised in Figure 13.
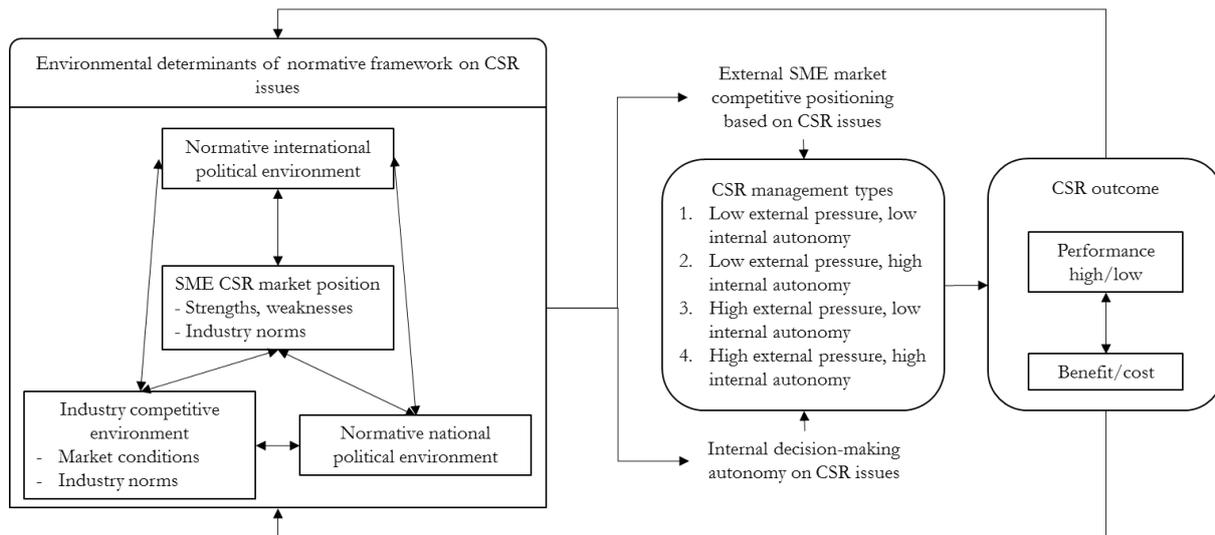
**Figure 13: Integrated model of key social issue drivers and barriers of SME CSR performance (Source: adapted from Kusyk & Lozano, 2007)**

A third attempt to provide a model of drivers, motivation and outcome is the "advanced model of corporate ecological responsiveness" of Bansal and Roth (2000). They identified three basic motivations: (1) competitiveness, (2) legitimation, (3) social responsibility. These three motivations serve different means, focus on different stakeholders and are based on different decision rules. Each motivation has a unique set of initiatives and anticipated benefits. The motivations are positively or negatively influenced by three sets of context (ecological context in terms of issue salience, organisational field context in terms of field cohesion, individual context in terms of individual concern). Originally the model only focuses on environmental responsibility, however, I think it is also suitable for CSR. When applying this to CSR the ecological context should be substituted by social context. In Figure 14 the adapted model is depicted.
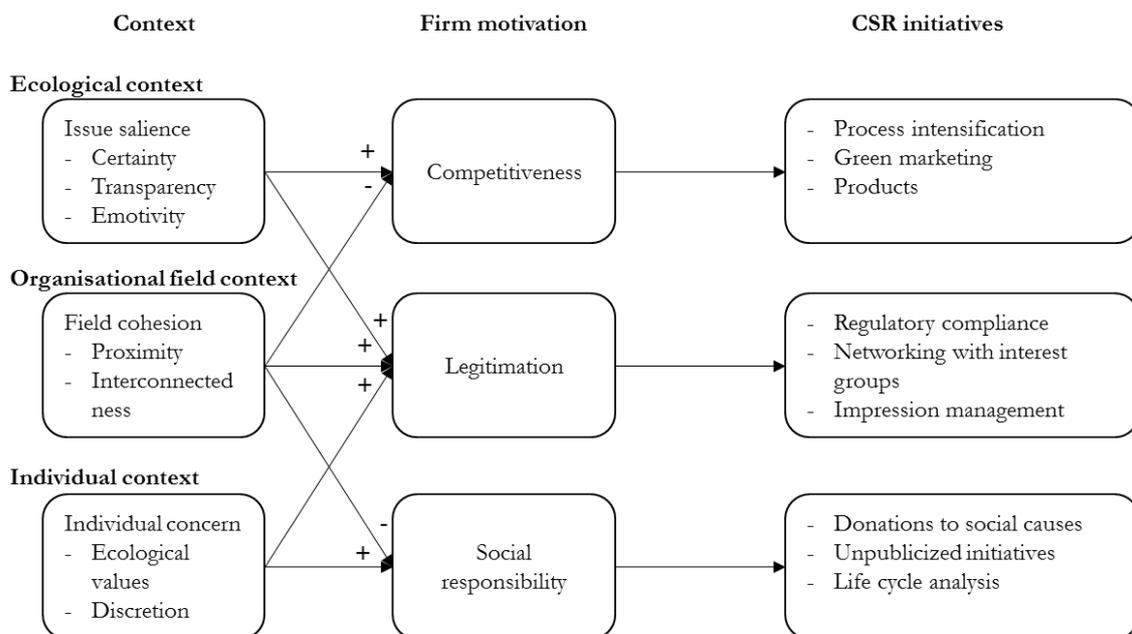


**Figure 14: Advanced model of corporate social responsiveness (Source: adapted from Bansal & Roth, 2000)**

**Other theories**

Many of the theories that have been discussed in section 2.2.1 and section 2.2.2 can also be used for explaining motivation for CSR as long as they provide a rationale for CSR or a benefit. Additional theories are for example the "it-pays-theory", that sees a financial payoff due to cost savings from reducing material, energy consumption and waste and according to the "slack resources hypothesis" good financial performance allows for sustainable activities (Arbeitskreis Nachhaltige Unternehmensführung der Schmalenbach-Gesellschaft für Betriebswirtschaft e.V., 2015).

**Motivational classification**

Behringer and Meyer (2011) provide a model of CSR motivations which is more based on the motivation theories presented in section 4.2. Different types of motivations with corresponding examples are presented along a continuum. This continuum reaches from amotivational, where there is no CSR and respective laws and regulation are ignored, to intrinsic motivation, where autonomy is high in the sense that CSR engagement is not controlled from the outside in form of agreements etc. The complete continuum is visualised in Figure 15.

Control ↑

| | General examples | Concrete examples |
|---|---|---|
| Amotivational | - ignorance of regulations<br>- ignorance of social trends and developments | - foreign corruption after OECD convention 1999<br>- intensive mass animal farming, pesticides, child labour |
| External | - laws | - Sarbanes-Oxley-Act<br>- REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) |
| Introjected | - voluntary commitment | - German Corporate Governance Codex<br>- UN Global Compact<br>- voluntary industry commitments |
| Identified | - moral-ethical or economic impetus | - carbon footprint<br>- code of conduct<br>- voluntary commitment e.g. only use ecological cotton<br>- whistleblowing |
| Integrated | - impetus led by personal interest | - sponsoring, corporate philanthropy of initiatives with, whom the firm identifies, but without any economic expectations |
| Intrinsic | - impetus led by personal interest regardless of social environment | - firm that only exists and works for the social commitment |

Autonomy ↓

**Figure 15: Continuum of CSR motivations (Source: Behringer & Meyer, 2011)**

### 4.3.1.2. *Landscape of motivations*

In Table 7 below, the insights on CSR motivation and benefits, which were gained in the theoretical part of this thesis, are condensed and summarised. It makes no claim to be complete and provides simply an overview of specific intrinsic and extrinsic motivation for CSR that is mentioned in literature.

| Driver | Motivation | Benefit |
|---|---|---|
| *Intrinsic motivation* | | |
| - management<br>- employees | Some kind of self-interest/instrumental (Moon, 2001; Garriga & Melé, 2004)<br>e.g.<br>- cost reduction<br>- employee motivation<br>- risk management<br>- attractiveness | The respective self-interest |
| - owner-manager<br>  - values<br>  - character<br>  - history, need, aptitudes<br>  - capabilities<br>- employees | Ethical (Garriga & Melé, 2004) | - self-realisation<br>- satisfaction<br>- improved employee attitudes<br>- improved corporate culture<br>- trust |
| Financial success | Slack resources (Waddock & Graves, 1997) | General benefits |
| *Extrinsic motivation* | | |
| Depending on the self-interest, e.g.<br>- industry<br>- competition<br>- customers<br>- regulation | Some kind of self-interest/instrumental (Moon, 2001; Garriga & Melé, 2004)<br>e.g.<br>- competitiveness<br>- image & reputation<br>- risk management | Depending on the respective self-interest, e.g.<br>- competitive advantage, customer loyalty, differentiation<br>- improved reputation, improved visibility<br>- avoid costs of regulation<br>- new business, … |
| Society | Legitimacy (Garriga & Melé, 2004; Bansal & Roth, 2000) | - survival<br>- license to operate<br>- reduce risk |

**Table 7: Landscape of motivations (Source: own compilation)**


## 5.  Empirical research: case study

This chapter presents the results from the case study. The chapter opens with preliminary remarks in section 5.1. Then the three selected enterprises are shortly presented in section 5.2. The chapter is concluded with a comparative analysis of the cases in section 5.3.

## 5.1. Preliminary remarks

The empirical research is based on three cases of enterprises that are engaged in CSR. The case studies are mainly based on interviews with the owner-managers or as in Case 3 on interviews with the PR manager of the enterprises. Additional resources for information are the enterprises' websites and other online resources on the enterprises. The cases were selected deliberately in order to showcase different sizes, contexts, industries and engagement.

Because the interview partners wished to remain anonymous all personal details are treated confidential and the enterprise descriptions have been generalised as much as needed in order to eliminate inferences.

The interviews were conducted in German in order to reduce misunderstandings due to language. The quotes were translated by myself as close to the original as possible. An English translation of the interview guide is attached in the appendix.

The enterprises are compared and analysed in terms of their understanding of CSR, their motivation for CSR, activities undertaken and overarching CSR strategy, challenges and benefits and effects. In all areas the focus will also be on the implication on the motivation for the CSR engagement.

## 5.2. Introduction to cases

### 5.2.1. Case 1

Enterprise 1 is a marketing agency that was founded more than 10 years ago in a regional metropolis in Northern Germany. From its inception the enterprise has been owner-managed by its two founders. With 15 employees the enterprise just exceeds the limit of micro enterprises and ranks among small enterprises. The clientele ranges from local small enterprises in the service sector and tourism via regional banks and universities to big industrial companies in various industries such as FMCG and automotive. The enterprise is an expert in corporate branding. It provides services in the areas of corporate identity, corporate design, corporate communications and digital media.

The location of the marketing agency is in a strong economic centre with many industrial companies as well as financial service providers and insurances. The retail industry is also very strong and supplies the surrounding rural areas. This is also reflected in the enterprise's customer structure. The enterprise is operating in a competitive context. There are approximately 50 similar agencies in the same metropolis. Nevertheless, the enterprise is successful and operates profitable. Its success is partly based on a loyal client base and its strong network. Through its memberships in various marketing associations and local networks the enterprise possesses a strong professional network as well as strong ties to the local community. It is also the initiator of a local CSR network and a local pioneer in terms of CSR. The experiences with CSR are willingly and proudly shared with other enterprises.

Since approximately eight years the enterprise engages mainly in the area of corporate volunteering. This means that all employees dedicate part of their working hours to social projects. The supported projects encompass the areas education, trade representation, sports, culture and, above all, social affairs. Selected institutions in these areas are supported with the enterprises' core competencies – marketing consulting, advertising consulting and also the implementation of the proposed actions. The social partners are long-term partners and supported regularly. The

commitment to these projects is limited to 15% of working hours and is also tracked in the internal controlling. The CSR activities of the enterprise have been decorated with a prize.

### 5.2.2. Case 2

Enterprise 2 is a waste management enterprise that focuses on exploitation of electronic devices and disassembly of industrial sites. The enterprise was founded in the early nineties and is still owned and managed by the founder. Its operations are based in a regional metropolis in Northern Germany and focus on the city and surrounding areas. 70 employees are serving both individuals and industrial companies. Besides the separation and disposal of electronic devices, the enterprise also offers logistic services regarding the collection and transport of electronic scrap, dismounting of machines and plants and mechanical processing of composites.

Despite its location in a strong economic centre with many industrial companies and thus lots of potential customers the enterprise is experiencing economic difficulties and barely generating profits. The reasons for the enterprise's financial difficulties are twofold. Firstly, due to the general macroeconomic slowdown there is also less waste to be recycled from industrial companies. Secondly, the enterprise experiences competition from unethical and ecologically detrimental recycling firms. Those can offer lower prices than the case enterprise by separating and disposing the electronic scrap in Africa, often involving child labour. The case enterprise on the other hand is fully operating in Germany, follows high standards and is also certified in terms of environmental management and quality management according to DIN (*Deutsches Institut für Normierung*, German Institute for Standardization) standards. Thus it can't compete with the prices of such enterprises. The enterprise is member of various German disposal and recycling networks and has formed partnerships with local related enterprises. Moreover it cooperates with local environmental initiatives.

The CSR commitment of the enterprise focusses on two areas – employees and environment. Moreover the enterprise's principles take CSR-related values and concepts on – for example fair treatment of business partners. In addition, the enterprise provides educative measures by offering company visits and supports from time to time local events and projects. Since the enterprise is momentarily financially constrained in terms of CSR engagement, only projects without financial expenditure are supported. In better financial situations the enterprise was able to engage more and was also sponsoring cultural events etc.

### 5.2.3. Case 3

Enterprise 3 is a medium-sized wood processing workshop. Since more than 25 years the enterprise builds wooden equipment for children's playgrounds. The enterprise is a medium-sized company and employs approximately 225 employees. It provides the full process of planning, design, production and installation of the equipment for children's playgrounds. The clientele is mainly German, but also international customers are served. The customers are not only in the public sector such as public kindergartens, primary schools, towns and cities but also private customers such as companies, restaurants, hotels, and amusement parks.

The enterprise is based in a small village in a rural and economically underdeveloped area. Rural depopulation especially of young people is an issue not only for the area but also for the enterprise. Recruitment of young talents is a serious issue for the enterprise. The enterprise is successful and possesses a unique positioning in the market thanks to its focus on sustainability and high quality

in its products and operations. With social engagement and by being one of the biggest employers in its area the enterprise has formed strong ties with the local community. Moreover it is active in many professional and local networks.

The enterprise engages in many areas. These encompass the workplace, education, social projects, environment and sustainability, children's rights and research on children's play. All these points are also part of the enterprise's philosophy. In general all the activities undertaken focus on creating a better world for children in some way. Sustainability is a guiding principle for all operations. The enterprise mostly donates time and/or in kind.

## 5.3. Comparative analysis of cases

In the following the cases are compared along the interview areas and sub-research questions. The focus is mainly on a description. Based on this description also first interpretations on the underlying motivation are being made. In chapter 6 these interpretations are taken on and amplified in order to derive propositions.

### 5.3.1. Understanding of CSR

Surprisingly, all three enterprises had a similar understanding of CSR, but yet provided a different scope. On this note the owner-manager of the disposal enterprise (Case 2) defined CSR very broad and simple as "responsible enterprise management". The PR manager of the wood carver (Case 3) defined CSR according to its translation and more narrowly: "Well, when I simply break down the term – 'Corporate Social Responsibility' – well, social responsibility vis-à-vis the society. Thus, good corporate governance, transparency, etc." (Case3). Thus, he only focused on the society aspect of CSR. Nevertheless, when comparing this definition to the enterprise's CSR engagement it becomes evident that the actions also encompass other areas such as workplace and environment. However, serving these two areas can also be ultimately understood as serving the society because firstly employees are part of society and second a functioning society depends on a healthy and sustainable environment. The owner-manager of the marketing agency (Case 1) expressed difficulties to define the term due to the conceptual debate and different attempts to define the term officially. Similar to Case 3 he understood CSR as mainly a responsibility towards society: "Well, Corporate Social Responsibility, for us, is in fact the dedication and the common welfare or rather the understanding as an enterprise to also be part of this society and that we are responsible towards this society" (Case 1). However, his understanding of responsibility was not reduced to only the social area: "And naturally this responsibility is not only social – that's why CSR per se is in fact just part of a superior strategy – but also in the ecological, in the sustainable area" (Case 1). In all three cases CSR is perceived as not only an altruistic activity for the benefit of others, but also something instrumental. They are united in the belief that these two philosophies are not mutually exclusive.

### 5.3.2. Motivation

In all three cases the motivation to become active in the area of CSR came from the founder and owner-manager. The rationale and the description of motivation varied greatly though. In two cases the interviewees had difficulties to mention single factors, while in Case 2 the interview partner directly referred to an intrinsic motivation based on his personal values: "That is a good question. I do, what I believe is right. Simply out of inner beliefs. I have enjoyed a good education and I simply do it out of conviction" (Case2). The internal drive was also strongly pronounced in Case 3. This became apparent by the usage of words such as "living philosophy", "passion",

"*Gründergeist*" (entrepreneurial spirit). Different specific values and convictions are the foundation in this case for the different activities. Their local school partnership is for example based on the comprehension that they are operating locally from a very small village and thus that also the local children have to be supported. A big and ongoing project since many years, where the enterprise's apprentices build together with local adolescents in less developed countries children's play equipment, was based on an idea of the local church community. The owner-managers were privately engaged in this church and thought that their enterprise could be an ideal cooperating partner for the church project. So this project was a result of the personal engagement of the owner-managers as private persons. It was interesting, that the interviewee justified the overarching motivation as „the intention, why we do it, really is to do something good" (Case 3), while the interviewee claimed initially that CSR is both something altruistic and instrumental. This might suggest that instrumental effects were discovered only later as a side effect of the commitment.

Moral and ethical arguments were used by all three interviewees as a justification for their CSR engagement. However, while in Case 2 and Case 3 it was the initial and main motivation, Case 1 was initially motivated by an external impulse, "the abundance of enquiries". But these enquiries came upon a positive tenor regarding social engagement. Based on the further descriptions and the request to prioritise the motivational factors it seems that the enquiries were arousing a latent intrinsic motivation: "Well, I believe that it [the main motivation] is probably not the external enquiries. If we were to let external factors impose on us something compulsive in this area, the strategy wouldn't be lived internally this strongly. This wouldn't work. Thus it [the motivation] has to emerge from us. Of course were the external enquiries and our work the trigger to think collectively about it [CSR]" (Case 1).

While the initial motivation was based on the owner-managers in all three cases the marketing agency (Case 1) suggested that continuance of the motivation depended also on the intrinsic motivation of the employees. They were seen as a significant success factor for the CSR implementation. "In this area we are also depended on what our employees are saying and are also asking for their feedback. I think it would have been presumptuous, if we had said in this area [CSR] 'we have to engage there, dear employees, if you want or not'. So, for god's sake, the engagement shall be accomplished by everyone and everyone shall back it up" (Case 1). The interviewee's responses also seem to imply that the motivation of the employees and the owner-manager are reinforcing each other. In Case 3 the importance of the employee's support was also stressed.

Another noteworthy observation is that, while all cases were reporting at least some benefits of CSR for their enterprise, these were not always used as a justification. Even though all three cases claimed to be ethically motivated their expectation on the CSR commitment and potential effects differed. In Case 2 the potential benefits for the enterprise seemed to be more important than in Case 1 or Case 3. In Case 2 CSR was also undertaken to generate deliberately external awareness and publicity of the enterprise, as well as to motivate employees internally. The other two enterprises also had these expectations and used CSR as a means for recruiting, as well. However, the marketing agency (Case 1) clearly stated that the commitment was not used for greenwashing purposes or to generate new business: "It is very important, that the strategy is not meant to be generating new business. Thus, I do not go outside and say 'dear new customer XY, we are the best agency, because we are committed' or something like that. Certainly not" (Case 1). Also the

wood carver (Case 3) put the expectation on the business benefit into perspective: "We do it not only because we want to earn money with it, but also because we want to create better worlds for children" (Case 3). The reputational effect seemed to be understood in this case as a means to better serve children with a superior and sustainable product and to generate the means to further research children's needs. In Case 2, in contrast, the effects seemed to be primarily understood for the own business's benefit and thus it seems that despite the owner-manager's claim to be ethically motivated, the motivation was rather instrumental out of some kind of self-interest.

### 5.3.3.  Activities and CSR strategy

A theme that emerged in two cases is to help others with the own core competencies. This approach was deliberately favoured in Case 1 and Case 3. "The intention, why we do it, really is to do something good. This is difficult to measure quantitatively. Thus, we have the passion, instead of giving money, to participate and really produce a difference. This fits well an enterprise, which operates constructively and creatively and is focused on implementation." "We like to give donations in kind or to engage personally. The physical cooperation is very important for us" (both Case 3). For this enterprise the rationale behind this type of engagement seemed to be that more good can be achieved. In Case 1 I also perceived a similar reasoning. In addition, the owner-manager was also aware that an active involvement also benefits the enterprise more than just donating money and that it can help to motivate the employees personally for CSR. "And thus this engagement is also lived, because we receive again and again feedback. Also from our employees; after every project we are talking with each other and say, how was it for you?, what did you gain from it?, do we want to continue in this area?, what was your experience? This is always very, very valuable to hear also everybody say, 'let's continue, let's continue' " (Case 1).

Even though the disposal enterprise (Case 2) was not very active in social projects, it supported nevertheless such projects that were fitting in their philosophy with its core business – environmental protection. "Whenever it is about a responsible lifestyle, which is also targeted at the protection of the environment, then we are simply a good fit" (Case 2). Being in the environmental business, the owner-manager perceived that the enterprise itself was already doing something for environmental protection: "We have 70 environmental protection officers here in our enterprise. Here, everyone is working for the environmental protection" (Case 2).

From a general point of view the selected areas of activity differed in the three cases to some extent and were partly based on different rationales, but in the end they always fit with the core business of the individual enterprise. The marketing agency (Case 1) supported with its core competencies in five selected areas (education, trade representation, sports, culture, social affairs). The disposal enterprise's (Case 2) core business area was itself already part of CSR. The enterprise supported projects that were aligned with environmental protection as well as internal employee issues where necessary and doable. The wood carver (Case 3) aligned its social activities with its products and targeted them at their end consumer – children – while operating at the same time very sustainable and also promoting new internal talent.

While the enterprise in Case 2 did not have a CSR strategy, Case 1 and Case 3 had both a specific CSR strategy which was also aligned with the overall enterprise strategy and philosophy. The strategy of Case 3 was the following: "The CSR engagement has to conform to our mission statement. We thoroughly mind, with whom [we cooperate] and what are the values of the counterpart" (Case 3). Case 1 pursued the strategy to "get involved in the frame of our core

competencies, to perceive us as a part of this society, as a contact point for different target groups, to become simply aware of the fact, that there are also generations after us on the planet and that we in fact want to obtain with our engagement, that something is improving in this world" (Case 1).

### 5.3.4. Challenges

The perception of challenges differed greatly in the cases. While in Case 2 the owner-manager directly justified his small CSR engagement with the lack of financial resources, the other two interviewees only mentioned challenges when specifically asked for them or did not even perceive some of them as challenges per se. For example, when asked for challenges, the owner-manager of enterprise 1 answered that "well, when I reminisce [about our CSR engagement] there is no incidence where I could say, 'that did not work' or that there was in some way a barrier. No, barriers anyway not" (Case 1). Nevertheless, the interviewee was still aware that his CSR engagement was limited for example in terms of time and financial resources. But he just did not perceive this as a barrier, but rather as something that needs to be managed. This implies a different attitude which could also be related to the strength or specification of the motivation for CSR.

The challenges of time and financial resources were also influencing the other two cases. Other challenges that were appearing in the discussions were the quality and effect of the engagement for the beneficiary, the context of the SME and the establishment of structures and some nuisances on project level.

Time was the main restriction in Case 1. The enterprise's controlling detected, that due to an abundance of external enquiries and the hesitation to say no "we use at times up to 30% of our time for engagement-projects. Thus, pro-bono projects where we indeed felt good and accomplished great things, but where we also did not have monetary proceeds" (Case 1). In this case time was strongly related to financial constraints. In Case 3 time was also a restricting factor, however there it was not related to financial constraints but to quality considerations. This was also the only case that referred to quality as a challenge: "Time, one has always only limited resources. Hence to accommodate this all and to implement it properly. Because when quality is dear to one's heart, then this is the balance; what needs time, needs space. Hence, to figure out the balance, otherwise the quality is suffering" (Case 3). In both cases time was deliberately managed. Case 1 limited its engagement to 15% of working time and kept track of it. Case 3 selected "rather few activities, but we prefer to do those really good, before we take on more. We want to antagonise a flattening" (Case 3).

Financial constraints were challenging in two cases. In enterprise 2 these were a recurring theme and used as a justification for a low engagement for other enterprises or social projects: "We do not do much for other enterprises or social projects. This we definitely do not do. Exactly on this account: An enterprise that is having a difficult time, cannot, in my view, accomplish this convincingly. We have plenty to do here in our enterprise. For the time being we have to look after ourselves" (Case 2). As already said earlier, in Case 1 financial resources were perceived in connection to time as a resource. Financial resources were ostensibly no primary limitation for this enterprise, but they can only be dedicated up to a certain point: "But naturally this always only works to a certain extent. Because the initial mission of this enterprise here, it is a commercial enterprise and a commercial enterprise has the mission to realise profits, namely via sales" (Case 1).

The organisational structures available and the impact of the general SME context were perceived conflictingly in Case 1 and Case 3. In Case 3 the responses suggested, that, creating a sound CSR engagement and communicating it, was more difficult to achieve for small enterprises due to different structures in contrast to bigger enterprises. In Case 1 the owner-manager was aware of the fact that the enterprise needed external help to manage its CSR commitment. However, the owner-manager did not believe that SMEs are in a disadvantage compared to bigger companies in this situation: "Well, when I need help, it is always a bit tricky, SMEs like to complain in this matter. On the other side I say, that the information is available. There are sufficient facilities, networks and supporter" (Case 1). Moreover, based on his experience with SMEs as business partners he believed that "every company can become involved, every company can set up a CSR strategy. […] Especially in SMEs we find this commitment already in place. But no one has ever said, that this is a strategy or that it has to be drafted somehow under the buzz word CSR. I believe that the engagement is already present especially in owner-managed enterprises for years if not decades" (Case 1). He attributed this challenge to the SMEs' attitude towards CSR and saw it as a welcome alibi for some: "Who nowadays somehow comes along with the excuse that 'there is no support' or 'I do not know how it works, nobody helps me', is using in my opinion an excuse for not having dealt with it in the right way or not being interested enough in it" (Case 1). Thus, the attitude towards the potentially limiting context of SMEs and the attitude towards support can differ and might also impact the actual CSR engagement. Differences in this attitude might be attributable to the motivation for CSR.

Despite the many challenges mentioned, none of the enterprises had developed doubts in its CSR engagement per se. This might probably be related to them being all intrinsically motivated. However, the assigned importance and the perception of the challenges differs between the enterprises. In Case 1 and Case 3 they were not really affecting the CSR engagement and just served for setting the right scope. But in Case 2, the extent of the CSR engagement was seriously affected by financial constraints. An explanation might be that in the other two cases the motivation of the CSR champions as well as the motivation and support of the employees was stronger.

### 5.3.5. Benefits and effects

As already mentioned in section 5.3.2 in all three cases the CSR engagement was expected to bring about effects on reputation and employee motivation as well as employer attractiveness. The interviewees reported that these effects could also be observed and also described more effects on the enterprise as well as on the beneficiaries.

The CSR engagement resulted in positive effects for the enterprises both internally and externally.

Internally, the enterprises benefitted from motivated, proud and integrated employees. In Case 3 it was reported that "everybody is very proud of it [the CSR engagement]" (Case 3). In Case 2 the employees were so comfortable "that they do not leave somewhere else when first difficulties arise, but that people say 'I know what the deal is here and thus I will also put up with some difficult phase' " (Case 2). This was very important to the owner-manager at this difficult time. The marketing agency (Case 1) reported "effects inside the enterprise […], which I also personally experienced, […], that are very valuable". He continued: "Because this encounter of the business world with the social world is just tremendous, tremendously valuable for every one of us" (Case 1). He explained that the projects were "eye-opening" for himself and his employees, because they were getting in touch with people with a complete different set of problems and outside their

comfort zone. This helped them to put their own life and personal problems into perspective. Thus, it seems that thanks to such projects employees were also growing personally. Professional development was also suggested by the respondents in those cases where employees were volunteering and donating their time to work in their core competencies as in the case of the marketing agency (Case 1) and wood carver (Case 3).

Externally, mainly reputational and marketing affects were reported. The reputation had mainly three target groups – "Publicity both at customers and at potential employees, but what's more also especially to gain awareness locally" (Case 3).

In terms of recruiting all three enterprises described positive effects on employer attractiveness. Having a CSR strategy seemed to be one of the decisive factors for employees when selecting an employer, as enterprise 1 reported: "And in recruiting in fact we could find employees in the last years, who at the end of the day were choosing us, because of our CSR strategy. Well because we simply hat a CSR strategy at all and because we also could promise and in hindsight also prove that their engagement is in good hands here" (Case 1).

In terms of reputation in general the CSR engagement was recognised by competitors and also the general public as well as customers in Case 1 and Case 3. The disposal enterprise only reported slight effects. In Case 3 the public reaction was very positive and this increased reputation was perceived by the enterprise as "well this certainly is a nice peripheral phenomenon, when one is doing something good, one is being kept in mind" (Case 3). In terms of communication the marketing agency (Case 1) claimed that it was not aggressively communicated except for a special section on the website, "but we do not write it below every single email, or we are not running somehow around and say, 'we are getting involved socially very well and we are the best agency, this did not happen" (Case 1). The disposal enterprise (Case 2) on the other hand deliberately stated that "we use it as an advertising effect for our enterprise" (Case 2). This seemed to imply greenwashing. However, when looking at their website, there was no specific CSR or sustainability section. Thus, this statement differs from reality.

The marketing agency (Case 1) and the wood carver (Case 3) had been awarded prizes for their CSR engagement. The respondents seemed to be very proud when talking about these. Their responses and attitudes gave the impression that these prizes were an important achievement and an affirmation, that what they had been doing had been right: "Prizes, […] this appreciation within the circles [of CSR professionals] is worth more to us than the awareness level. (Case 3).

The same two enterprises also described how the beneficiaries gained from their involvement. It seemed that by engaging with core competencies, success could be ensured: "This is perfectly clear, when a social institution is practicing public relations and marketing with professional support, then this is naturally something else, than an institution that does not possess this professional support. This is in all areas like that" (Case 1). The wood processing enterprise (Case 3) perceived that local involvement generated positive effects for the local community, "because we are part of the system, of the community. And we are doing business, then so everyone in the region is benefitting. This is not only financially on the employee side, but also for everyone in terms of quality of life and living spaces, that we are creating" (Case 3).

Overall, all three cases were experiencing some benefits and effects of their CSR involvement. The owner-manager of enterprise 1 summed up, "it helps us all over the place" (Case 1). All three also

seemed to evaluate their engagement, as exemplarily evidenced by the disposal enterprise (Case 2): "Well, I definitely wouldn't do it, if I couldn't see a benefit at all. I am this self-critical that I also now and again personally scrutinise it and ask, 'is this right, what I did?', 'would I do it again?'. Hence, I evaluate this myself regularly" (Case 2). However, the wood carver (Case 3) perceived that it was difficult to evaluate the CSR engagement: "This is the question; how one should evaluate social engagement. I could commission a university with a study, how known we are. But this [CSR] is always an investment with an open question mark, what at the end of the day will be the result. The only thing that you can be certain of, is that you have experience and sparkling eyes of children" (Case 3). He once more ascertained that these intangible results made it all worth: "And I would say, that when you have done no matter what activity and in the end only two children have a sparkle in their eyes, then it is already worth it. The management also sees it that way" (Case 3).

## 6.  Discussion

In this chapter the results from the case study are discussed and advanced in order to derive propositions for the theory of CSR motivation in SMEs. In section 6.1 the case findings and implications are summarised. In section 6.2 findings are compared to existing quantitative studies in order to derive further implications. Then the motivational frameworks are applied to the cases where possible in section 6.3. The chapter concludes with an interpretation of the results in section 6.4.

### 6.1.  Case findings

In the following the most important results and judgments of the cases are presented:

All case enterprises were intrinsically motivated. Enterprise size or industry did not seem to be important for the motivation. However, when looking deeper into how this motivation was implemented it became evident that it is important not to equate intrinsic motivation with ethical motives. As was shown in Table 7 in section 4.3.1.2 ethical motives are just one type of intrinsic motivation.

Despite all three enterprises' claim to be ethically motivated, it appeared that only the marketing agency and the wood carving enterprise were primarily ethically motivated, because benefits for the enterprise were not part of the initial aim of first CSR activities but discovered later on as a side effect. In the case of the disposal enterprise it seemed to be that the instrumental understanding of CSR was more important to the owner-manager then the altruistic understanding and that thus the enterprise was acting in some kind of self-interest.

As was reported by the marketing agency, the general motivation was intrinsic and mainly ethical, but the original CSR commitment was triggered by external enquiries. Thus, I conclude that ethical motivation can be triggered by external demands, but that in order to work the ethical motivation has to be already latent. Whether this applies for all types of intrinsic motivation or only ethical motivation cannot be ascertained with the data at hand.

Two cases seemed to underline that employees' motivation is part of the intrinsic ethical motivation. They were seen as a significant success factor for the CSR implementation, which seems to imply that the continuance of the motivation also depends on the intrinsic ethical

motivation of the employees. The interviewee's responses also seemed to imply that the motivation of the employees and the owner-manager are reinforcing each other.

Because the owner-managers and CSR professionals were referring to obtained prizes with great pride and because they were assigning high importance to them, I conclude that such awards can be more than just an achievement but also an affirmation of the engagement and hence stimulate or reinforce the motivation.

While all cases were reporting at least some benefits of CSR for their enterprise, these were not always used as a justification. The two ethically motivated enterprise did not refer to them to justify their engagement.

The rationale behind the engagement with their core competencies as well as the reported effects by these two enterprises, seem to suggest that by engaging in this way useful effects are ensured for both parts. Since these two enterprises are also primarily ethically motivated and focus on attaining benefits for the stakeholder and not primarily for the enterprise, it could be concluded that this type of engagement is typical for such a motivation.

It was surprising to see that in all three cases – no matter how different they were in their profile, in their motivation, their type of engagement and their strategy – in the end the selected CSR activities always fit with the core business and needs of the individual enterprise.

Regardless of what the individual barriers were, it appeared that challenges were perceived differently. This ranged from perceiving them as barriers, which limit the engagement, to managing them actively and reducing their effect on the engagement. This implies a different attitude which could also be related to the strength or specification of the motivation for CSR. It could be concluded that ethical motivation entails a different attitude towards challenges, which treats them rather as opportunities, while others use such challenges as a welcome excuse for not trying harder.

Despite great struggles in some of the cases none of the enterprises had developed doubts in its CSR engagement per se. This might probably be related to them being all intrinsically motivated. However, as already mentioned the attitude towards challenges differs.

## 6.2.  Comparison to existing quantitative studies

Unfortunately, existing quantitative studies of CSR in Germans SMEs that also discuss the SMEs' motivation for CSR are few and tend to be outdated. The two studies used as a reference point for comparison with the empirical results are based on data from 2006 and 2007. Further limitations arise in terms of representativeness, because only one of the studies is representative.[24] In addition, the underlying definitions of SMEs differ from the one used in this study.[25]

Quantitative results support the empirical findings that CSR is understood both as something altruistic and something instrumental and the observation that the case enterprises were primarily ethically motivated but also realizing business benefits. For 72% of enterprises responsibility towards the society is very important or important, while additional economic advantages are only very important or important for 43% (Wallau et al., 2007; see Figure 16). This confirms that the

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[24] The study from the GILDE GmbH is not representative.
[25] The IfM Bonn and the GILDE GmbH define enterprises with up to 500 employees as SMEs.

majority of enterprises is primarily ethically motivated. It also shows that acting ethically and responsibly does not necessarily contradict the realisation of economic benefits.
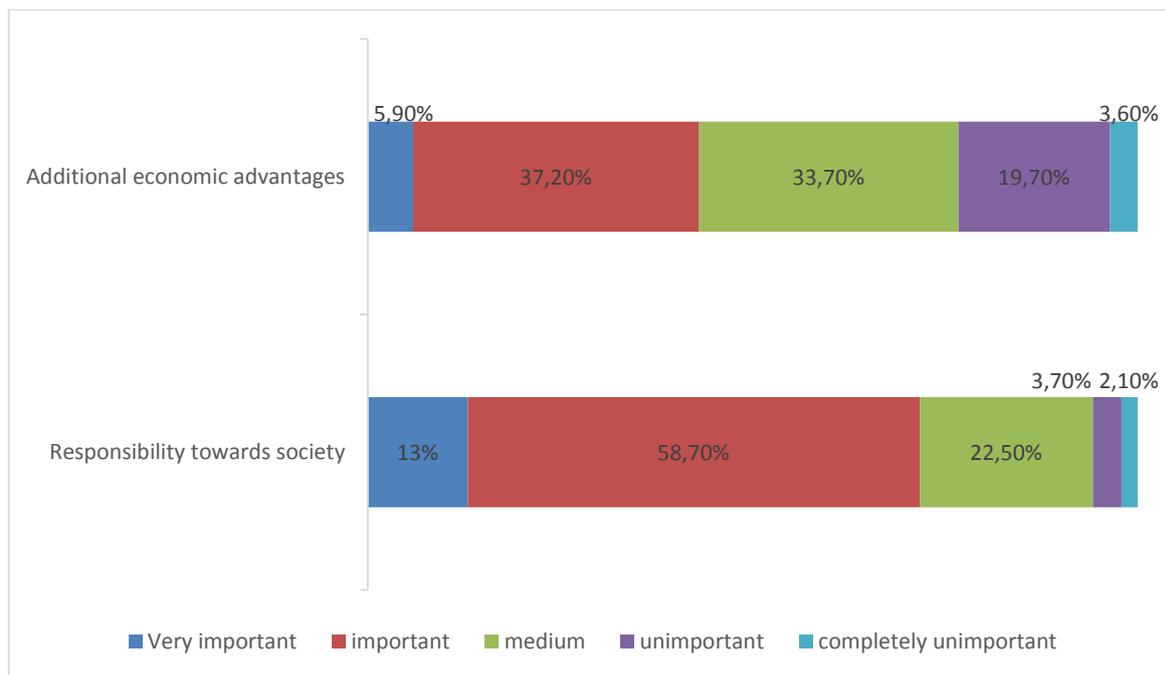


**Figure 16: Importance of different motives for the CSR engagement (Source: Wallau et al., 2007)**

The same study also found that for 79% of all enterprises voluntary social commitment is a business task. Successful enterprises support this statement more (90%) than unsuccessful enterprises (55%) (Wallau et al., 2007; see Figure 17). The empirical results suggest a similar picture. The two more successful enterprises were more engaged.
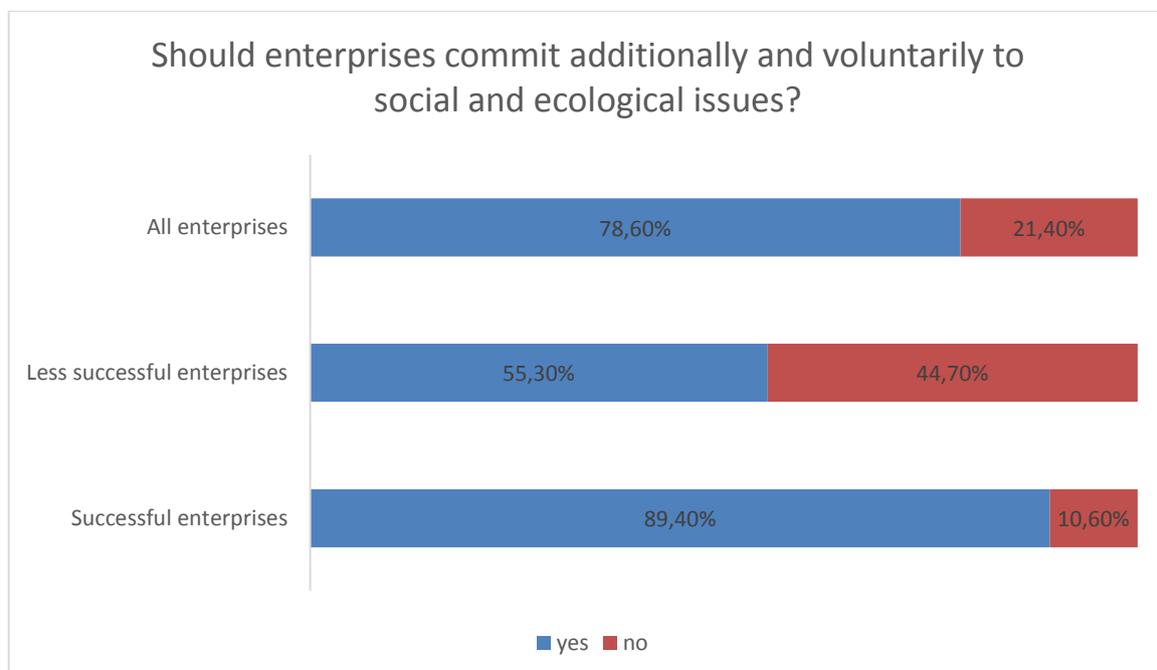


**Figure 17: Voluntary engagement and business success (Source: Wallau et al., 2007)**

When comparing the case studies to the quantitative studies, it was striking to see that in the quantitative study of Wallau et al. (2007) the realisation of business advantages was more important for successful enterprises than for unsuccessful enterprises. For 49% of successful enterprises additional benefits were very important or important compared to 33% of unsuccessful enterprises (Wallau et al., 2007; see Figure 18). The authors of the quantitative study concluded that successful enterprises also engage to secure their success. This issues touches upon the problem of causality – is an enterprise successful because of its CSR commitment, or is it able to commit to CSR because it is successful? The responses in the empirical case study were supporting both views. The unsuccessful enterprise said it couldn't do more CSR because it was not successful. At the same time, the other two enterprises' responses suggest that the successful enterprises also based part of their success on the benefits from CSR.
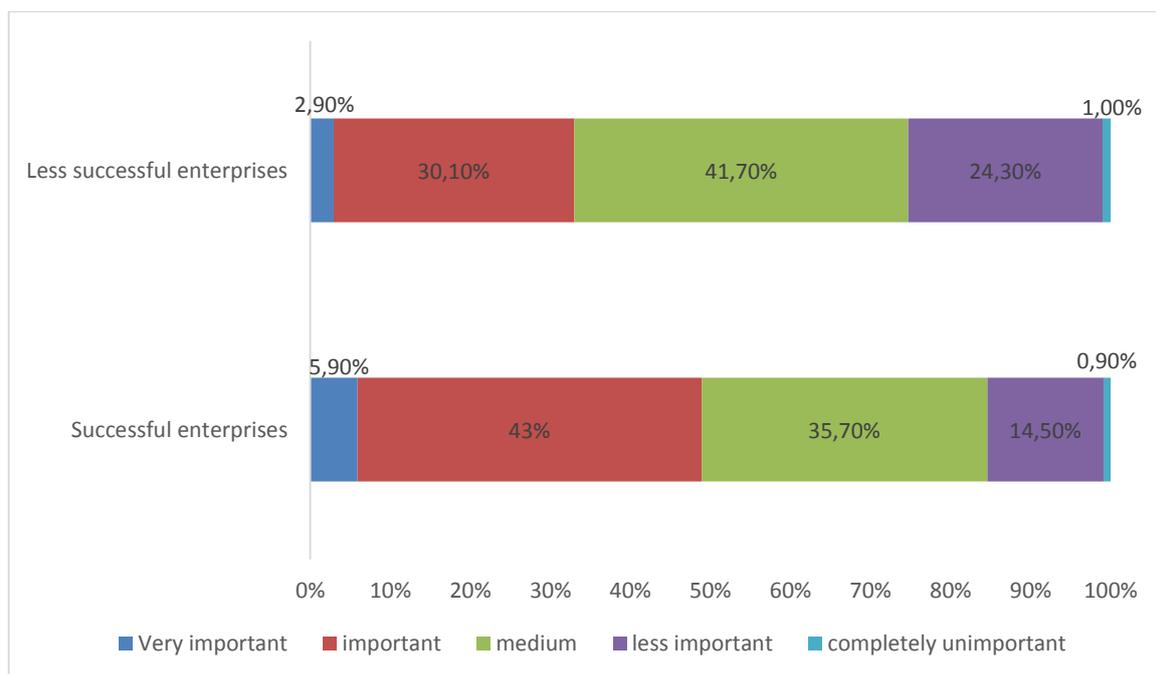


**Figure 18: Importance of additional economic benefits and business success (Source: Wallau et al., 2007)**

In terms of challenges a quantitative study of the GILDE GmbH (2007) identified similar challenges as mentioned in the cases. The three most mentioned challenges were in rank of order lack of personal resources, lack of knowledge how to implement CSR professionally and lack of financial resources. In the case study lack of personal resources and lack of financial resources were found to be the most hindering issues. Lack of knowledge and support was seen described ambivalently by the different cases.

Regarding the concrete business benefits the two quantitative studies presented slightly different results, but overall supported the findings of the empirical study. According to Wallau et al. (2007) the most important benefits are (1) long-term success and continuing a tradition, (2) improvement of enterprise image, (3) improvement of employee motivation and retention. The factors image and employees were also mentioned by all the enterprises in the case study. Long-term success and consciousness of tradition was not explicitly mentioned by the case study subjects and it remains unclear what this point specifically refers to. However, this study is lacking one of the important benefits for the case enterprises – employer attractiveness and recruiting. The results of the GILDE GmbH (2007) were very close to the case study findings. The most important benefits were (1)

improvement of enterprise image, (2) employee motivation, (3) recruiting. These were also the most important benefits for the case enterprises.

In general the data collected in the quantitative studies does not provide room and content for many interpretations and conclusions regarding the motivation behind the CSR engagement. It only allows for general conclusions of the primary motivation, but does not give more insights how this motivation develops, how it is influenced etc. So for theory building the chosen approach of qualitative interviews and case studies provided more suitable.

## 6.3. Applicability of theoretical frameworks

In the following the case will be applied to some of the motivational theories of chapter 4 where possible.

When applying the two different financial situations of the case enterprises to **Maslow's need hierarchy** (1943) it becomes evident that the enterprise with financial difficulties (Case 2) is struggling to fulfil its physiological and safety needs: "We have enough to do here inside our enterprise and tasks to complete. At this moment we have to put us first" (Case 2). Since these basic needs are not fulfilled the enterprise is not engaging very much in CSR which is classified under self-actualisation needs (Tuzzolino & Armandi, 1981). Enterprise 1 also realises that economic goals have to be fulfilled first before engaging in CSR ("The initial mission of this enterprise here, it is a commercial enterprise and a commercial enterprise has the mission to realise profits, namely via sales." (Case 1)). These insights seems to confirm the need hierarchy, its applicability to CSR and Tuzzolino and Armandi's (1981) categorisation of CSR as a self-actualisation need. In the case of enterprise 3 the situation is however slightly different. The answers seem to imply that CSR is part of the initial company concept. This would mean that CSR activities would fulfil a physiological need. In conclusion, the findings suggest that in general enterprises also act according to Maslow's need pyramid and hierarchically fulfil higher needs with their actions. However, it seems that depending on the enterprise's situation CSR can be satisfying different needs and not only the self-actualisation need.

The application of **Herzberg's two factor theory** (1966) to the CSR champion as suggested in section 4.2.1.2 seems to be suitable for the cases and a model to explain the differences in CSR engagement in a situation where all three CSR champions were intrinsically motivated. The findings suggest that motivation is mainly based on intrinsic factors, which are the motivators in Herzberg's model. All three enterprises were very similarly motivated. However, in their implementation they differed a lot. These differences could be explained by situational differences as conceptualised in Herzberg's hygiene factors. One hygiene factor seems to be the financial success, which was lacking in one case and caused a lower CSR engagement despite a similar motivation.

Based on the interviews it would be very difficult to characterise the owner-managers in terms of **McClelland's manifest needs** (1961). Nevertheless, they were also asked to describe their personal values. Independently from each other, all three were mainly describing values regarding togetherness and community. This seems to imply that all three interview partners have cultivated a strong need for affiliation. This need might be characteristic for motivated CSR champions.

The discussion of the expected benefits showed that they are no primary driver for 2 of the 3 enterprises. Thus, it seems that **Vroom's expectancy theory** (1964)is not a strong explanatory

framework for CSR motivation itself. Nevertheless, the answers suggest that the enterprises follow Vroom's process when deciding for specific CSR activities.

None of the enterprises in the case studies compared themselves to any kind of peers. This seems to suggest that **Adam's equity theory** (1963) is less relevant for CSR motivation.

The impact of the **managerial profile and the CSR commitment** model of Gherib and Berger-Douce (2012) seems to be partly supported. The owner-manager was the CSR champion of the analysed. However, based on the data no conclusion on specific character traits, experience or skills can be drawn, because all owners were very different from one another and had completely different backgrounds.

Not all the motivation types of the model of **corporate social responsiveness** (based on Bansal & Roth, 2000) were found in the case study. The main motivation in all cases was social responsibility and it was mainly driven by the individual context.

The other models that were presented in section 4.3.1.1 mostly assign a higher importance to external drivers and influences, than what was revealed in the case study. They seem too complex and rather to provide an overarching model of everything that could affect motivation. The reality in the case studies seemed to be less sophisticated and the motivation seemed to be mainly explained by personal factors.

The collection of drivers, motivations and benefits in Table 7 also seems to be a suitable classification of motivations for the case study.

## 6.4. Interpretation of results

In the following the main results from the three parts of the discussion (cases, quantitative data, and frameworks) will be recapped and hypotheses will be phrased. The hypotheses are based on the empirical findings and literature and can be subject for future research in this area.

Hypothesis 1:

Ethical motivation can be triggered by external demands from stakeholders if the ethical motivation is already latent. This hypothesis is based on the findings of case 1, were the initial engagement was due to external demands, but the continuation was highly ethically motivated and also matched with the personal values of the owner-manager.

Hypothesis 2:

Financial success is positively related to CSR commitment. It is a hygiene factor. The hypothesis was derived from the contrasting commitment and financial situation of the case enterprises. The successful enterprises were more active than the unsuccessful enterprise. It was also supported by the quantitative data.

Hypothesis 3:

The intrinsic motivation of employees as well as their support of the enterprise's CSR commitment is a hygiene factor for the continuation of the CSR engagement. All case enterprises were emphasizing the importance of their employees for the CSR engagement, but that the initial engagement was initiated by the owner-managers.

Hypothesis 4:

External recognition e.g. in form of awards is positively influencing and stimulating the motivation. The hypothesis is based on the interviews with two proud award winners.

Hypothesis 5:

Ethical motivation is positively related to an effect-based CSR engagement with the core competencies. The hypothesis is derived from the rationale behind the concrete CSR activities of cases 1 and 3 as well as their initial motivation.

Hypothesis 6:

In ethically motivated enterprises challenges are rather treated as opportunities. This hypothesis was derived from the discussion of challenges in the case studies and the different attitudes towards challenges that could be observed.

Hypothesis 7:

The conceptualisation of an enterprise and its situation determine what enterprise needs CSR can satisfy. The hypothesis is based on an application of the case observations to Maslow's need hierarchy.

Hypothesis 8:

Need for affiliation is characteristic for motivated CSR champions. The hypothesis is derived from an application of the case observations to McClelland's manifest needs.

Hypothesis 9:

A comparison with peers is not affecting the CSR motivation. The hypothesis is based on an application of the case observations to Adams' equity theory.


## 7.  Conclusion

The final chapter begins with a summary of the research along the research question and aims in section 7.1. Then sections 7.2. and 7.3. provide recommendations for SME managers and public policy. Section 7.4 draws upon limitations of the research from hindsight and section 7.5 concludes the thesis with implications for future research.

### 7.1.  Answering the research questions

The thesis was designed to analyse motivations behind CSR activities in small and medium-sized enterprises in Germany and the research question was phrased accordingly:

*What are the motivations behind the CSR engagement of German SMEs?*

The relevance of this thesis is demonstrated by the increasing importance of CSR, the increase in CSR literature for SMEs and the importance of SMEs for the German economy. Answering the research question aimed at providing implications for SME managers, CSR public policy and researchers. The research question was accompanied by the following set of sub questions to structure the theoretical and empirical research:

(1) Which viewpoints regarding CSR are present in the current literature?
(2) In which framework are German SMEs operating in terms of CSR?
(3) Which theories can be used as a framework to analyse the motivation of German SMEs for CSR engagement?
(4) How are German SMEs engaging in CSR?
(5) What benefits of the CSR engagement do practitioners perceive?
(6) Why are German SMEs engaging in CSR?
(7) What challenges are to be overcome by German SMEs?

These questions will be answered throughout this chapter and serve as a guidance for a recap of this thesis.

Tracing the origins of CSR, conceptualizing it and critically reviewing it has provided a fundamental understanding for the empirical research. Answering the first sub question (Which viewpoints regarding CSR are present in the current literature?) provided more difficult than expected. It became evident that there exist countless viewpoints, definitions, frameworks and theories. This multiplicity was caused by factors such as CSR being a dynamic concept (Carroll, 1999), CSR being taken on by various disciplines (Schmidpeter, 2015) and CSR being an umbrella term (Matten & Crane, 2005). A selection of the most common definitions, attempts to conceptualise CSR, underlying theories and arguments for CSR were shortly presented with regard to the research question of motivation behind CSR. In hindsight, the most useful viewpoints for the research question are the following. In order to facilitate the understanding of SME characteristics the theory of the nature of the firm and the contrast of the stakeholder theory and the social capital provided useful. In order to understand better the arguments for CSR that also go beyond motivation itself the discussion of the business case of CSR, competitive advantage considerations and financial link investigations were useful. Probably most clarifying in the conceptual jungle of CSR was the framework of Garriga and Melé (2004). Their framework classified the most prominent CSR theories in four dimensions (instrumental, political, integrative, and ethical) and provided an overview of arguments for CSR and potential motivation from a theoretical perspective.

In order to answer the second sub question (In which framework are German SMEs operating in terms of CSR?) the origin of CSR, trends and the legal framework in Germany was elaborated on. The literature study has revealed that social engagement of enterprises has a long tradition in Germany and is anchored in its economic system (social market economy). Based on publications of the European Commission and a national CSR round table the German government developed a national CSR strategy in 2010. In the wake of this strategy a special programme targeted at SMEs was launched in order to qualify and train them in terms of CSR. Education in CSR and Social Entrepreneurship is growing in general. CSR receives a lot of attention from the government, NGOs and other associations and initiatives. All these actors try to support enterprises with programs and material. Current trends encompass the increased demand for child care, elderly care and sustainable consumerism (Scheuerle et al., 2013). It is surprising that these trends were not very visible in the case interviews. Only enterprise 3 was mentioning the importance of sustainable products and presenting their focus on sustainability in both operations and products as a competitive advantage. A potential explanation could be that the owner-managers/PR managers, which I interviewed, were not aware of the needs of their employees in terms of support with child care and elderly care, because they were not in close touch with them. Another interpretation is

that they didn't mention these trends because of impression management. By focusing on internal drivers they might have attempted to appear more ethical in the interviews.

The third sub question (Which theories can be used as a framework to analyse the motivation of German SMEs for CSR engagement?) was likewise difficult to answer. The challenge persisted in the existence of general motivation theories in the psychology field on the one hand and CSR motivation models developed by CSR researchers on the other hand. The motivation theories were often based on insights from employee motivation, whereas the CSR motivation theories were varying from simple observations and hypotheses, to complex models on different levels of motivation and not always reflecting the SME characteristics. These models were often based on qualitative research. In chapter 4 selected theories of both fields were presented. The selection was based on my personal assessment of their applicability to the empirical research. This applicability was tested in chapter 6. Most useful provided the general motivation frameworks such as Maslow's need hierarchy and Herzberg's two-factor theory. The findings suggest that enterprises hierarchically fulfil different needs with their actions along Maslow's need hierarchy. Which need CSR commitment can satisfy depends on the enterprise's situation and ranges from physiological to safety needs. Herzberg's two-factor theory seems to be applicable not only to job satisfaction and employee motivation but also to CSR motivation. The presence of the hygiene factors financial success and employee support was a prerequisite for the motivators to work. Motivators that could be observed were mainly the owner-manager ethical values and partly expected benefits. The other motivational frameworks didn't seem to be applicable or strong conclusions could be derived from the empirical data. The CSR motivation models seem to be too complex for the reality of the cases. They included many more factors than were mentioned in the empirical research. My own collection of drivers, motivations and benefits that I encountered in the literature also seems to be applicable. It is organized in such a way that it differentiates between intrinsic and extrinsic motivation and that it contrasts motivation with its drivers such as owner-manager, employees and also with expected benefits.

In order to answer the fourth sub question (How are German SMEs engaging in CSR?) I was searching for studies on the CSR engagement for SMEs. The search revealed that there are no more recent studies than from 2009. The case study examples provided a more recent insights into their engagement. However, this data lacks representativeness. 94.3% of all German SMEs were engaged in CSR in 2007 by undertaking at least one activity (Wallau et al., 2007). Successful enterprises have a more positive attitude towards CSR than unsuccessful enterprises (Wallau et al., 2007). The case study showed that enterprises were engaging in way that fit their business. Two of the three cases were committing to social projects with their own core competencies. The activities itself vary greatly from educating people to building children's playgrounds to doing marketing for social institutions. However, all enterprises were also having at least one activity for their employees.

Many researchers have studied the benefits of CSR from a theoretical but also from an empirical perspective and provide already many indications to the fifth sub question (What benefits of the CSR engagement do practitioners perceive?). The mentioned benefits are manifold but can be clustered into seven major benefits. These are brand value and reputation, employees and future workforce, operational effectiveness, risk reduction and management, direct financial impact, organisational growth and business opportunity (Business in the Community, Doughty Centre for Corporate Responsibility, 2011). The findings from the empirical study are very similar. The mentioned benefits were improvement of the company image, employee motivation and recruiting.

These findings can be assumed to be representative because they match with the results from an empirical, representative study (GILDE GmbH, 2007).

The sixth sub question (Why are German SMEs engaging in CSR?) which is also the key question of this research was investigated empirically and the results were then compared to existing quantitative studies. The case enterprises were primarily ethically motivated, but also realizing business benefits. This was also confirmed by a quantitative study (Wallau et al., 2007). All three enterprises' initial motivation was based on the owner-managers. However, in one case the motivation was triggered by external demands from stakeholders, but the ethical values were already latent. The accounts of one case suggested that continuance of the motivation depended also on the intrinsic motivation of the employees. The importance of realizing benefits differed between the cases. The findings implied that additional benefits are more important for unsuccessful enterprises than for successful enterprises. However, a quantitative study showed a different picture where these additional benefits were more important for successful enterprises (Wallau et al., 2007). But overall the motivation was ethical and driven by the owner-managers. Benefits were more a welcome side-effect.

Researchers have investigated challenges for CSR engagement of SMEs in theory and practice. Kusyk and Lozano (2007) compiled these in a long list that served as a vantage point for answering the seventh sub question (What challenges are to be overcome by German SMEs?). Challenges can originate from employees, owner-managers, resources, customers, community, competitive environment, business case and definition. The challenges mentioned in the case study were mainly arising from resources. The case enterprises were lacking time and financial resources. Some of them were also viewing the organisational structures and the SME context as problematic and were bemoaning lack of knowledge. But this was perceived conflicting. A quantitative study of SMEs in Germany was revealing similar challenges. The attitude towards challenges differed in the case study. The successful enterprises were treating the challenges as opportunities, while the case of an unsuccessful enterprise was seeing these challenges as limitations and partly as an excuse not to do more.

## 7.2.  Recommendations for SME managers

Since motivation is a partly unconscious phenomenon and the CSR motivation of SME managers seems to be mainly ethical, I will not provide recommendations for SME managers in terms of motivation. Their motivation needs to come from inside. Nevertheless, the cases provided some recommendations for SME managers in terms of CSR in general. These are as follows:

An enterprise's CSR activities should be aligned with the business and the strategy to ensure success and reduce potential conflicts of interest. Engaging with core competencies seems to provide not only strategic and business alignment but also visible effects for the beneficiaries of the CSR engagement.

The extent of the CSR engagement should be aligned with the company's size and resources. A clear limitation or budget and its monitoring should be established in order to manage the extent of the CSR engagement. This prevents firstly a dilution of the core business by engaging in too many CSR projects in relation to the resources. Secondly, it also ensure that the most efficient CSR activities are selected and tangible benefits can be realised for the stakeholders of the activities.

Also, an authentic and credible CSR engagement can help also SMEs with recruitment and retention of employees.

## 7.3.  Recommendations for public policy

Policy makers and CSR initiatives are heavily trying to spread CSR among SMEs and other companies further. In order to achieve their commitment to CSR, knowing how to motivate them is vital. The 'right' benefits and motivators should be emphasised in their communication to SMEs. Policy makers and CSR initiatives should take note from this research that financial benefits of CSR are not a primary motivator for SME owner-managers. These are only of secondary importance behind the owner-managers personal ethical motivation. However, at the moment most materials that were developed to promote CSR among SMEs centre on financial benefits. The knowledge about the importance of personal ethical motivation should be used by policy makers and other CSR interest groups to design their initiatives and policies.

In addition future communication materials should also provide examples of the effects of CSR on different stakeholders. The cases suggested that ethically motivated individuals will be interested in how they can make a difference not only for themselves but also and probably more importantly for others. Engagement with core competencies could serve as a best practice example, because this seems to provide positive effects for both the enterprise and the beneficiary of the initiative.

As already mentioned business benefits should be communicated under a secondary importance. However, when communicating the effects on the own business, the focus should lie on awareness and reputation effects and recruiting effects. In times where more and more people prefer university studies over apprenticeships in companies, especially SMEs, who are not as known as large companies, are struggling to recruit junior staff and apprentices. CSR commitment can be a means to increase awareness and employer attractiveness and thus facilitate the recruitment. The case companies have reported these effects and the analysed quantitative studies confirmed these insights.

Since the ethical motivation is this important, policy makers should support ethical education of owner-managers and employees but also of future generations who will be the workforce of tomorrow. Ethical motivation is intrinsic and can't be triggered by communication materials. However, it seems that ethical motivation is a result of education and personal experiences. Thus, a good ethical education will be key to further promote CSR. The long-term orientation of this approach might be a limitation for its implementation because effects might not be visible right away.

By following these recommendations policy makers and NGOs can better target their initiatives.

## 7.4.  Limitations of the research process in hindsight

In the following I will present some limitations of the research process from a hindsight perspective.

Since the chosen research approach was interpretivist and required an empathetic understanding of the interview partners, the interview setup via telephone might not have been the most suitable one. In some cases it was difficult to establish a basic connection with the interview partners. There the answers were short and further explanations had to be encouraged with additional questions. In others the interviewees were very open and unhesitatingly shared their feelings, motivations and

thoughts with me. In personal face-to-face interviews I might have been able to develop a deeper relation to the interviewees, which could have encouraged more profound answers and a more thorough understanding. However, this might have also increased the chance for interviewer bias and was not feasible because of the geographic spread of the interviewees. A focus group could have been another alternative. Although the geographic dispersion of the interested SMEs would have exacerbated the execution of a focus group.

The comparability of the empirical findings to existing quantitative studies was constricted due to a different focus of the quantitative studies, different definitional base of SMEs and the time difference between the studies.

Despite these two limitations I am still confident that the selected research process was suitable for answering this research question. The research process allowed me to explore the topic from a theoretical and a practical perspective, as well as to develop a focus for further research.

## 7.5.  Implications for future research

This research was an initial introduction to an understanding of SME's motivation for CSR. In light of its findings and its limitations following implications for future research can be made.

Since this paper revealed the importance of ethical motivation, further research should first of all study in-depth ethical motivation. Further studies can focus on how the ethical motivation is developed and thus contribute to the current academic knowledge of the CSR motivation. To uncover the drivers and determinants of ethical motivation will be valuable knowledge for all those who want to promote CSR in SMEs further e.g. government, NGOs, CSR initiatives.

Due to this research's explorative nature, a couple of first hypotheses could be formulated in section 6.4. These can serve as a point of origin for further explorative studies in this field or be tested in quantitative studies.

Furthermore it could provide useful to analyse SME's motivation for CSR in different contexts such as cross-country studies or studies of both SMEs and larger corporations.

Since this study was explorative and inductive, further quantitative and deductive studies might be able to illuminate the CSR motivation from another direction and help in developing an understanding of the entire range of CSR motivation. This study was only a small piece in the research required to achieve this broad understanding.

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# Appendix

## Interview guide (English translation)

The questionnaire was structures along the main areas CSR understanding, implementation, motivation and implementation. The questions in the second column were used to encourage further answers to the question in the corresponding left column.

| | *CSR understanding* | |
|---|---|---|
| 1 | Do you know the term CSR? | |
| 2 | How do you characterise CSR? | How do you define it? Which activities does CSR encompass? |
| 3 | Do you understand CSR as something altruistic or as something instrumental? | |
| | *CSR Engagement* | |
| 4 | Is your enterprise committed to CSR? | |
| 5 | How do you describe your CSR engagement? | What activities do you support/undertake? Who are the beneficiaries? What goals do you want to accomplish? |
| 6 | How do you select the CSR activities? | Who is the champion? Where do you get the ideas from? Which criteria guide your choice and why? Who is involved in the process? |
| | *Motivation* | |
| 7 | Why are you committed to CSR? | Was there a trigger? What is most important factor? |
| 8 | Can you describe the decision process? | Who decided? Who else was involved in the process? How did you reach the decision? |
| 9 | Why is CSR important for your enterprise? | Which benefits did you expect? |
| 10 | Are you reflecting on your engagement and your motivation? | Are you aware of your motivation? |
| | *Implementation* | |
| 11 | How did you integrate CSR into your business? | Did you use or implement special structures, trainings, or strategies? |
| 12 | What was the reaction on your CSR engagement? | Internally? Externally? (Customers, suppliers, competitors, public/local community, ...) How did you communicate it? Was there some resistance and if yes, why and how did you overcome it? |
| 13 | What challenges did you have to overcome? | How did you overcome them? Did you ever doubt your commitment? |
| 14 | Which effects and results did your commitment have (positive and negative)? | Internally? For the different stakeholders? How do you evaluate your commitment? Did it pay? |

**Table 8: Questionnaire for empirical research (Source: own compilation)**