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How International Entrepreneurs Can Thrive on Social Responsibility

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Introduction

In an attempt to identify the economic factors and business management practices that could help prevent major crises due to opportunism and risk-prone behavior, it makes sense to review a wide range of businesses, industrial sectors, and systems of governance. Corporate social responsibility (CSR) could be considered the only approach to integrate business ethics within a corporate strategy. Therefore, it is relevant to investigate the best practices that integrate a CSR dimension within a corporate strategy. To pursue the central theme of this book – the interrelationship between CSR, entrepreneurship, and the common good – we scrutinize the relationship between CSR and entrepreneurship in SMEs, particularly the internationally successful subclass of SMEs known as Hidden Champions. The objective is to develop benchmarking for CSR best practice that would be useful in preventing crises and promoting the common good. In this chapter the findings on Hidden Champions, CSR (Simon, Spence, 2007; Jenkins, 2006; Perrine et al., 2007; Preuss and Perschke, 2010), and SME-specific entrepreneurship are brought together for the first time to develop some propositions on SMEs' special strengths with regard to CSR.

The research philosophy applied in this chapter is based on humanistic interpretivism (hermeneutics), that is, a commitment to the principle that economic and management research should attempt to understand the meaning of specific social phenomena with a view to constructing a conceptual toolkit (mostly by processing extant theories, paradigms, and cases) that can optimize troubleshooting, deal with problem solving, and help humans flourish.

Institutional CSR is central to the conceptualization of CSR for this research. We define institutional CSR as CSR seen through the lens of institutional theory (Campbell 2007, Matten and Moon 2008). In this chapter we expand on this institutional perspective of CSR to include international entrepreneurship in SMEs. This exploratory research is also based on established sociological and socio-economic theory, theories of corporate governance, and micro and macroeconomic theory of SMEs. We will present some propositions on SMEs' special strengths with regard to CSR as well as a future research agenda to test them. In order to arrive at these propositions use is made of the, so-called, inference to the best explanation method; facts gleaned from cases are tentatively explained by configurations of hypotheses, that recommend themselves to further testing because of their plausibility based on quality underpinning, and scientific as well as practical relevance. We describe the preparatory steps to this hypotheses testing, and refer to several research areas, including economic SME theory, CSR, corporate governance, stakeholder theory, and institutional theory in general.

We discuss the relationship between governance systems and SMEs by exploring the relationship between CSR and a specific group of middle-sized companies, the Hidden Champions. Recently, Preuss and Perschke (2010) identified middle-sized companies as a relevant area of research on CSR in SMEs. We argue that Hidden Champions are the result of institutional characteristics and can be seen as proponents of institutional CSR, which we define as CSR drivers embedded in the institutional environment of the company. We further explore this avenue by discussing the implications for research and by developing propositions. We follow Wood (1991) in describing CSR as an interaction between principles, processes of responsiveness, policies, and performance of a company. Wood (1991) describes three levels of influence, common in management science: an institutional level, an organizational level and an individual level. It is our aim to contribute further to the understanding CSR at an institutional level. The role of institutions has been emerging in CSR research (Margolis and Walsh, 2003, Campbell 2007). These authors propose that research should focus on how an institutional environment is related to CSR policies, assuming that CSR is a (by)-product of institutional conditions (Rowley and Berman, 2000; Campbell, 2007). We try to sharpen the focus on this institutional element of CSR, the (pre)conditions within the institutional environment that enable a CSR orientation (Matten and Moon, 2008), which we abbreviate as institutional CSR.

Within CSR and business ethics research, there is an emphasis on large companies. SMEs are now slowly being taken into account (Graafland et. al., 2003; Moore and Spence, 2006; LePoutre and Heene, 2006; Mandl and Dorr, 2007). By focusing on CSR we assume that institutional conditions have even more of an influence on SMEs than on big companies. Whereas multinationals have the chance to choose their countries, SMEs are rooted in their country of origin. As research on CSR in SMEs has demonstrated, the role of the entrepreneur is critical (Preuss and Perschke, 2010).

This study will focus on the relationship between CSR and those successful medium-sized companies that entrepreneurs have transformed into world leaders in a specific niche-market. These companies are characterized both by their strong relationship with local communities, often in rural areas, and by a successful international strategy (Simon, 1996, 2007). Studying these companies will enable us to link findings in current CSR research on multinationals with research on SMEs.

We will argue that Hidden Champions can be seen as role models for CSR, although the concept of CSR is not mentioned in the literature on these companies. We do this by relating CSR to corporate governance. There is growing evidence that CSR is a product of governance systems and is specified by each company in its governance structure (De Graaf and Herkströter, 2007; Matten and Moon, 2007, De Graaf and Stoelhorst, 2009). We will relate the characteristics of Hidden Champions to the characteristics of CSR (Jenkins, 2006; Perrine et. al., 2007; Spence, 2007).

By exploring the relationship between CSR and internationally successful medium-sized companies, a new avenue for CSR research is developed. The question arises whether, and how, CSR can lead to a competitive advantage in a global market through local awareness. The work of Arndt Sorge (2005), on how organizations deal with a global economy, is viewed from a micro-economic perspective, a perspective of growing relevance in research on CSR in SMEs (Preuss and Perschke, 2010). Also, strategies are developed for how practices in social market economies can survive in a global economy that often leads to a race to the bottom. Based on this, we develop propositions on institutional CSR in SMEs.

In the first section of this chapter, we offer an overview of current research on CSR in SMEs. In Section 2, we describe CSR in its institutional context by focusing on the role of governance systems in CSR policies. In Section 3, we relate Hidden Champions to governance systems: network versus market-oriented systems. Research suggests that network-oriented systems offer more opportunities for Hidden Champions, however, this statement has not been empirically stated yet. We challenge this statement by showing that Hidden Champions also occur in market-oriented systems. Section 4 focuses on the relationship between Hidden Champions and current CSR research on SMEs. We analyze how the behavior of Hidden Champion can add to this stream of literature. We argue that Hidden Champions offer a more economically sound approach to the concept of CSR. We conclude by describing some new avenues for CSR research on SMEs and by developing some propositions on the relationship between CSR and the characteristics of Hidden Champions.

1 CSR and governance systems

A governance system may be defined as the legal, and more generally institutional, framework within which the relationship between stakeholders and a company is developed.[1] Governance systems can be seen as a critical determinant of institutional CSR (Matten and Moon, 2007; De Graaf Herkstróter, 2007; De Graaf and Stoelhorst, 2009). The debate on CSR is increasingly related to governance systems (De Graaf and Herkstróter, 2007; Matten and Moon, 2008; De Graaf and Stoelhorst, 2009). In economics and management sciences, there is an extensive literature on corporate governance systems. Authors often define two ideal types: an Anglo-American or market-based model; and a network-based model found in Europe, Japan, and some emerging economies such as Brazil, China and India (Hall and AQ1 Soskice, 2007; La Porta et al., 2008). Weimer and Paape (1999) distinguish four systems: the Anglo-American model (dispersed ownership); the Rhineland model (state and employee involvement within the governance structure of businesses); a Southern European model (large family-controlled holdings plus state involvement); and a Japanese system (state influence and many cross holdings).

Notwithstanding the significant degree of internal institutional diversity pertaining to the European and the Japanese systems of governance, for the purposes of this investigation it is suggested that conceptually subsuming them under the heading of networked-based model systems is appropriate. In fact, a multiple stakeholder approach, which may be considered a feature of crucial relevance for our present discussion, is shared by the two European models (Southern and Rhineland) and the Japanese one. A multiple stakeholder approach closely represents the standard set of widely accepted CSR and common good objectives as spelt out by environmental, economic and societal sustainability aims.

A crucial societal aspect of this is linked to revisiting the concept of free markets, in such a way that markets are construed as comprising supply, demand, and an exchange of ideas governed by democratic rules. In Table 9.1, the predominant characteristics of the two types of governance systems are displayed. In recent economic thinking market-based thinking has dominated. When North American and European economies faced fierce competition from the east in the 1970s, and became aware of the growing inflexibility of many industries, economists rediscovered the benefits of market systems. Drawing on the ideas of Milton Friedman (1970), politicians such as Ronald Reagan and Margaret Thatcher were able to revitalize their respective economies. With the fall of the Berlin Wall, market thinking became unquestionably overblown. In Europe, the economic union got an important boost based on the idea of a free internal market, while social welfare, taxes and other governmental policies were still organized nationally.

The current financial and economic crisis sheds new light on the weaknesses of market thinking. Market systems are very flexible, but seem to lack stability and are not the optimal way to ensure long-term sustainable growth (De Graaf and Williams, 2009). Recently, proponents of market thinking have publicly questioned the fundamentals of the systems. Posner

(2009), who has had a big influence on neoliberal market thinking in the US, recently suggested studying European governance systems when developing plans to reform the US governance system.

Another weakness of market systems is their inability to foster incremental innovation. Nooteboom (1999, 2000, 2004) points out that market systems have a strong track record in radical innovation, but lack long-term incremental innovation. This can be illustrated by the economic development of the United States in the last decades. The US has led new technologies, especially within ICT but in aged industries, such as automotive and steel, makers were not able to compete in the global markets. German and Japanese carmakers were much better at constantly improving their production processes and delivering state-of-the-art technology.

Governance systems significantly determine the place of stakeholders, and their interests in corporate principles and policies. Thereby, they influence the role of a company within society. From the institutional perspective,

Table 9.1 The characteristics of governance systems

Governance system	**Market-based**	**Network-based**
General characteristics	Market orientation Short-term relations Competition	Internal orientation Long-term relations Cooperation
Governance structure	Capitalist form Focus on financial markets, shareholders	Collective form Focus on a group of stakeholders
Forms of corporate control	Exit-based, when dissatisfied stakeholders leave	Voice-based, when dissatisfied stakeholders complain inside the network
Governance mechanism	Contract	Trust
Governance evaluation	Third parties	Networks
Theory	Agency theory	Stewardship theory/normative stakeholder theory
Research orientation	Agency problems between the management and shareholders	Balancing stakeholder interests
Countries	United States and Great Britain	Continental Europe and Japan
Stakeholder influence strategies	Emphasis on indirect influence strategies (law)	Emphasis on direct influence strategies (co-decision)
Characteristics of stakeholder influence-pathways	Regulation	Consultation

Source: De Graaf and Herkströter, 2007.

CSR is related to discussions on governance systems and business models. Below we attempt to specify this perspective further by assessing the relationship between CSR and Hidden Champions.

2 CSR and SMEs

We are relying on the definition of SME by the Commission of the European Union, that it is an entity engaged in an economic activity, regardless of its legal form, which employs fewer than 250 persons and which has an annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million. For the purposes of this research some companies that did not meet these requirements were included as long as they had a high level of SME-like entrepreneurial culture and corporate governance (Simon, 1996, 2007).

In this section we explore current research on CSR in SMEs. We will first discuss Spence's "case for considering SMEs separately" (Spence 2007: 536). We will then focus on the role of entrepreneurs in successful international ventures and highlight the institutional (national) characteristics that have influenced their success. We will conclude by developing new propositions on CSR.

2.1 Lack of CSR codification in SMEs

A first characteristic in SMEs is the lack of codification of CSR (Graafland, 2003; LePoutre and Heene, 2006; Spence, 2007). Whenever a more formalized approach to CSR practices is taken, as described by Spence (2007) – involving codes of conduct or charters of ethics, CSR or sustainability reports, membership of organizations like Global Compact, interaction with NGOs, positions like Ethics Officer or CRO (Corporate Responsibility Officer) – it may be expected that the priority ranking decreases from left to right for such projects. In most companies this usually results in a widespread presence of codes of conduct or charters of ethics, and a lack of positions like Ethics Officer or CRO. This regularity seems to hold across the board from SMEs to large companies, albeit to a lesser degree in the latter.

It seems to reflect the tendency of both SMEs and large firms to start with what is considered fundamental, and leave items deemed less important for later, or even outsource them altogether by hiring the services of external consultants as needed (Stormer, 2003). In large companies this indicates a certain lack of seriousness about their CSR strategies and policies, whereas for SMEs it can be justified by their financial constraints, which leave fewer options to expand their human resources into CSR (Perrini, 2006).

When we relate this to an institutional perspective, CSR seems to represent specific institutional constraints and opportunities (Matten and Moon, 2008). Matten and Moon (2008) relate CSR to institutional practices, and propose that in some countries there is a need for explicit CSR, while in other countries implicit CSR practices should prevail – practices that can be seen as inherent to the institutional framework a company works in.

2.2 Relationship between CSR and entrepreneurs

The second characteristic, according to Spence (2007), is the role of the entrepreneur in CSR (Preuss and Perschke, 2010). His, or her, motivation seems to be critical, albeit hard to detect because it is not codified. Whereas in large companies managers are the first ones to decide, and shareholders are at a distance, within SMEs the owner is often also the manager. Spence (2007)'s statement on SMEs is that personal motivation (of mostly owner–managers) is the driver for companies to engage in CSR much more frequently than marketing or PR motives. This leads to two of the main topics in this chapter: (1) governance structure of SMEs (Hollenstein, 2006), and (2) the characteristics of Hidden Champions.

AQ2

If the owner–manager were to be a critical determinant of CSR in SMEs, this would raise some doubt on assumptions made about CSR. Donaldson (1990) claimed that CSR theory and stakeholder theory are largely built on a socio-economic view of the firm. Within this perspective, institutional differences are critical, as suggested by authors that claim an institutional view of CSR (Campbell 2007, Matten and Moon 2008). An owner perspective on CSR would relate more to the principal–agent dilemma, in which the principal is serving his/her own needs by treating stakeholders as well as possible, or as well as necessary.

2.3 Principal–agent characteristics of SMEs

The third characteristic is related to the principal–agent characteristics of SMEs. Spence (2007) mentioned consequences of the principal–agent identity in the typical owner–manager of SMEs who may indulge in taking expenses as he/she sees fit, in contrast to a large company's managing director, who is automatically answerable to shareholders to maximize profit. Looking at it from the perspective of economic theory one may argue that the terms used in both Friedman's (1970) "the business of business is business" quip, and in mainstream economics' talk of profit maximizing (Jensen and Meckling, 1976), suffer from ambiguity and alack of clarity so that their usefulness may be seriously questioned; but space constraints have us refrain from elaborating on them. Assuming, for the sake of argument, that an acceptable characterization of maximizing profit can be provided, and that from an institutional perspective "large companies are automatically answerable to shareholders to maximize profits" (Jensen and Meckling, 1976), then in an institutional environment oriented more towards stakeholders (Aguilera and Jackson, 2003, De Graaf and Herkströter, 2007) even large companies would be less automatically answerable to profit maximizing pressure exerted by shareholders.

The fact that the expense preference behavior of managers in large companies has been found not to be profit maximizing (Furobotn and Richter, 2000), does not eliminate the fact that they are under profit maximizing pressure of a different order of magnitude to that on the managers or owner/managers of SMEs. On the contrary, the very fact that in a significant number of cases executives in large companies do indeed display a type of divergent expense behavior[2] or, for that matter, more generally, an approach to strategy making that is clearly a far cry from the mainstream profit maximizing concept, seems to provide grist to this chapter's mill. AQ3

These financial and strategic management deviations in large companies call for the implementation of an economically sane approach to management as exemplified by important SMEs (Hidden Champions) interacting and possibly transacting with the large companies in question.

2.4 Embedded in local communities

The fourth characteristic Spence (2007) detects is that SMEs are part of a local community. This embedment seems to be related to both the social control under which SMEs operate, and the fewer chances SMEs have to escape their institutional environment. Multinationals have more freedom and experience to transfer operations to other countries. Physical proximity seems to translate to moral proximity, though the phenomenon can be a double-edged sword, since the very same structural conditions that promote moral proximity can enhance both good as well as bad business ethics, depending on what moral norms and behavioral patterns are already in place (path dependence).

2.5 Competition-related features

As a fifth characteristic, Spence evokes the competition-related feature of SMEs. SMEs do not tend to engage in price wars because they cannot, like large companies, reach the same level of economies of scale and/or scope. This characteristic led economists like Schumpeter (1934) to ring the death knell for SMEs in the 20th century. Following renewed interest in the analysis of the viability conditions for certain types of SMEs (Hidden Champions and Small Giants) by economists like Audretsch (2000), Simon (1995, 2007) and Burlingham (2007), we agree with Spence (2007) that SMEs can harbor the potential to be role models in CSR. SMEs tend to rely more on collaborative business relationships rather than hypercompetitive ones. As argued by Spence (2007), a collaborative behavior is more conducive to a better CSR performance as "the maintenance of personal relationships externally… [is] tied to a need to act with honesty and integrity" (Spence, 2007: 15). Later on we will sketch out how and why a causal relationship may be surmised between a situation of constrained competitive strategies like the one that holds for SMEs, business collaboration, a relationship of trust, and the meeting of ethical requirements. This discussion will be placed within the context of exploring ways of linking New Institution Economics, CSR, and business ethics.

2.6 The role of employees

The role of employees is seen to be the sixth characteristic that makes SMEs different. Employees can be seen as people to take care of, they can also be seen as key-assets or co-workers since SMEs have fewer employees than larger companies, and are therefore more vulnerable when employees leave the company. Here again, institutional differences are critical. Thinking of some SMEs, that are links in global supply chains, mostly located in so-called low wage countries, one is instantly reminded of the fact that their way of responding to the importance of their employees is very much the AQ4 opposite of the above-mentioned one.

We suggest that SMEs, especially Hidden Champions, harbor a considerable potential for being CSR role models. This statement needs to be qualified with reference to the types of institutional environments, and foundational approaches to ethics, that can be employed as methods for conducting CSR quality assurance. This qualification does not take anything away from the significance of SMEs as CSR role models, but rather represents more of a safeguard against easy, but hardly useful, objections.

The last point raised by Spence (2007), is about the sector dependence of SMEs' CSR related properties. This is grist to our mill to the extent that this confirms our conjecture on the culture dependence of SMEs' CSR performance proclivities.

In conclusion, SMEs also have the following characteristics that play a critical role in their CSR practices: (1) governance characteristics (Hollenstein, 2006; Spence, 2007); (2) the role of the owner in the development of SMEs; (3) the institutional embedment, including the role of employees in SMEs. We will explore these characteristics further by reviewing current literature on corporate governance. Thereafter, we will try to specify this governance perspective on a micro level by relating CSR to Hidden Champions.

3 Network models in practice: Hidden Champions

As mentioned in the previous section, network-based governance systems have a track record in combining long-term economic growth with excellent social and environmental conditions. Jeffrey Sachs (2008) recently defended European models, stating that Northern European economies are best at combining economic equality measures, low poverty rates and high R&D. The downside of the system is the threat of lethargy when stakeholders only attempt to maintain existing positions and do not try to tackle external challenges.

The German *Wirtschaftswunder* and the social market systems of the Netherlands and Scandinavia can be seen as examples of these systems. Recently, detailed microeconomic material has been published that describes the strengths of these systems at the company level. In 1995, the German author Herman Simon published a book in which he describes the success of medium-sized companies on the global market. In a later study in 2007, he found that those companies were not only to be found in Germany, where relatively more Hidden Champions were identified than in other countries. Some notable and well-known examples are Haribo, with a market leadership in Gummi Bears, Hauni, a supplier of tobacco processing systems, and Stihl, a power saw manufacturer with by far the highest market share worldwide.

The 2007 study also revealed that globalization between 1995 and 2005 did not hinder the growth of the companies in the study; on the contrary, the companies flourished even more on the world market. Simon (1996) listed a number of critical characteristics of Hidden Champions (see Table 9.2), including a global orientation, a strong focus on a specific niche, great innovative power, averseness to outsourcing and strategic alliances, and strong local ties. As he suggests, these seem to be rather more frequent in a network economy, pointing to Germany as a country with a higher than average number of Hidden Champions. AQ5

For this research it is relevant to sketch out an explanation. Assuming this could be done using logical transitivity of the explaining relation, we would then have established, by the same token, a causal chain type link between the institutional characteristics of the genesis and growth of network economies, the relative frequency of Hidden Champions and the presence of an above average CSR culture. AQ6

Let's first ask why a network economy would be expected to be more prone to promote the spread and growth of Hidden Champions.

Taking the first item from Table 9.2, we will investigate the global orientation component and look for the explanatory potential of the network economy for the latter. In order to establish a close link we will resort to AQ7

Table 9.2 Characteristics of Hidden Champions AQ8

Number one or two position in their respective world markets
Small or medium in size (allowing for a few exceptions)
Strong ties with local communities
Low public visibility
Great innovators
Narrow product focus
Averseness to outsourcing, and strategic alliances
Closeness to customers
Their executives blend authoritarian and participative leadership styles
Low CEO and employee turnover

the causal foundation of the multi-stakeholder network economy itself as opposed to the shareholder-focused economy (Anglo-Saxon model). The fertile soil that provides favorable growth conditions for a network economy has the property, amongst others of recognizing the full range of legitimate claims to participation in societal (and, *ipso facto*, economic) activities, which, these days, implies a global nondiscriminatory, inclusive interactional and transactional orientation.

However, it should be noted that there is at least one kind of risk that is very likely to require hedging, which is the temptation to opportunistically benefit from some race to the bottom side effects seen in some parts of the world. Even if the network economies' institutional environment is a favorable environment for the constitution and growth of a global orientation in line with some fundamental CSR guidelines (namely the obligation to be inclusive and nondiscriminatory).

The second item, the strong focus on a specific niche, may be plausibly surmised to arise a. o. from a thorough need and demand recognition attitude, complemented by a willingness to commitment in such a way as to ensure high quality and reliability (both of them obviously facilitated by a multi-stakeholder culture), as it will not be possible to offset defaulting on these in one area by honoring them in another. The gain in seriousness this implies is obviously something to benefit from for strategic CSR.

The next item, great innovative potential, does not seem to be specifically causally related to the network economy, whereas this seems to hold all the more so for the last two of them, averseness to outsourcing and strategic alliances, and strong local ties. The two are interlinked inasmuch as averseness to outsourcing and strategic alliances are prone to foster strong local ties, and vice versa, one would expect strong local ties to increase averseness to outsourcing and strategic alliances. These two properties seem to derive from institutional arrangements found in network economies rather than shareholder dominated ones. In fact it can be expected that stakeholder groups, like employee representatives, local and regional governments, and informal networks of family and friends are the origin of these properties. Later in this paper we will discuss the dialectics of how these properties may play out in favor of a high level of CSR, provided some *ceteris paribus* conditions hold.

Simon (1996, 2007) suggests a positive relationship between the values of a network-based market system and companies' financial performance in the world markets. Other researchers have also shown a positive relationship between social values and economic success (Collins and Porras, 1997;
AQ9 De Geus, 1997; Burlingham, 2007; Kalff, 2006). Within this perspective, there is an emphasis on the critical importance of the institutional context of companies and the dynamics of learning and change in a turbulent environment (Nooteboom, 2002). We will take this line of thinking further by connecting the characteristics of Hidden Champions to CSR literature.

4 CSR models and Hidden Champions

For this section our discussion will take into consideration the threefold distinction made between corporate social responsibility, corporate social responsiveness, and corporate social performance, all including governance issues, stakeholder management, and sustainability (Carroll 1979, Frederick, 1987, Windsor 2006, Schwartz and Carroll 2008). In this context corporate social responsibility is defined as the explicitly or implicitly assumed concept that an organization employs as a point of reference for their CSR related decisions and activities. The meaning of corporate social responsiveness may be understood as the level of CSR related passiveness/proactiveness possessed by an organization, and that of corporate social performance may be defined as the track record that an organization has built up for their CSR related activities.

AQ10 Also, the features of Hidden Champions, as listed in Table 9.2 (theoretical), will be related to the various approaches to CSR.

4.1 Leading position in the world market

Critical in the work of Simon (1996, 2007) is that medium-sized companies can become world leaders because they specialize in a market niche. Their local awareness and conservative financial policies lead to a high level of independence and corporate stability. This seems to be related to Spence's (2006) assumption that SMEs, by their very nature, may be expected to do better on governance issues of business ethics (see also Preuss and Perschke 2010). Grounds for this can be found in the development of Hidden Champions and their governance characteristics. Sicne they are led by strong entrepreneurs these companies get a good start, and they are able to keep their leading positions in further stages of development. Top-ranking seems to be related to strong cultures (Collins and Porras 1997, Burlingham 2007). However, various authors question the role of a strong culture (Pfeffer and Sutton 2006). Regardless of company size, a similar case is made for companies' CSR performance by Campbell (2007), who draws attention to supporting research "that firms whose financial performance is weak are less likely to engage in socially responsible corporate behavior, conventionally defined, than firms whose financial performance is strong" (Campbell, 2007: 952).

4.2 Medium in size

Strong culture in relation to worldwide success also seems to be related to size. A lower number of staff, and the resulting reduced degree of complexity, may be expected to have some positive effects on an organization's business ethics on the grounds of close relationships between owners, managers and employees, which limits agency problems. It is important to the CSR debate that size makes it possible to create intimate ties with the local community without taking over the community. Size as determinant also opens another perspective on CSR research in which the critical differences between very small- and medium-sized companies should be determined.

4.3 Low public visibility

Low public visibility could be expected to diminish the CSR quality of a company because of a lower degree of social control (media and NGO attention). However, this may not be the case. Let's assume that a given company enjoys a high level of public visibility entailing the evaluation of their decisions and actions by those observing them, including the media and the business world. In that case, the company may well be warier of scandals exposed by the media or NGOs, but this healthy effect is also likelier to be offset by the company's proclivity to follow fads and habits considered by the public to be at economic benchmark level.

4.4 Great innovators

This dimension seems to be almost entirely irrelevant to SMEs' CSR qualities, unless one assumes a positive correlation between product and process innovation and CSR related innovation, which may still be a somewhat speculative proposition.

4.5 Narrow product focus

This seems likely to facilitate compliance with product and/or service quality requirements, thus enhancing CSR performance in that area.

4.6 Averseness to outsourcing and strategic alliances

This aspect touches the normative core of CSR (Donaldson 1990). Two of the most sensitive topics in the public CSR debate on the downsides of outsourcing, are about national interests taking precedence, and special moral obligations in so-called low wage countries. Strategic alliances, especially when including mergers and acquisitions, open even more of a Pandora's Box of problems (among which are issues of HR loyalty, quality, competition, and fair and adequate valuation of property). This brings up the question of whether CSR would be easier if companies operated in only one institutional context?

4.7 Closeness to customers

Together with their employee policies, closeness to customers suggests good stakeholder relations. Assuming again that customers' wishes and demands do not depart too much from the acceptable (space forbids us to discuss ways of reducing the vagueness of acceptable), this characteristic of SMEs will then allow us to predict or explain a better performance in the area of moral obligations towards customers. There is another dimension of closeness to customers to do with the fact that the closer you are to your customers not only will you be able to get better information about what they wish and demand, but also you will be more knowledgeable about what they really need.

4.8 Their executives blend authoritarian and participative leadership styles

Blending authoritarian and participative leadership styles is highly ambiguous with regard to CSR performance or responsiveness. However, this characteristic may bring to mind the roles of CEOs like Howard Schultz of Starbucks, or Ian Anderson of Interface. These companies are widely regarded as CSR benchmarks, and part of the explanation of their success may well be provided by their leadership styles boasting a blend of authoritarian and participative leadership. That being said, it should be noted that a sufficiently comprehensive theory of CSR may rather be expected to yield a norm encouraging participative leadership, possibly derivable from some social sustainability axioms.

4.9 Low CEO and employee turnover

Although employee retention and loyalty norms have not yet become anything close to a CSR mainstay, they constitute, however, an integral part of any comprehensive theory of CSR. This is because of the normative power of the social sustainability norm, and the overriding ethical norms of fairness and humaneness, both of which are assumed to figure prominently in such a theory. This topic is closely linked to the concept of relational contract, which is underestimated in agency theory with its exclusive focus on formal contracts (De Graaf and Williams 2009). At this point the potential of Hidden Champions as role models comes into play, in view of rewriting extant relational contracts, and more generally the Social Contract (construing relational contracts as components of the Social Contract).

Considering the characteristics of Hidden Champions, we argue that their CSR components are the result of institutional characteristics, and it seems that the majority of Hidden Champions have never used CSR as part of their strategy to achieve competitive advantage, although some remarkable exceptions to that rule should also be mentioned. The well-known and thriving companies of Ben and Jerry's and The Body Shop – that were successful SMEs for several years before reaching their later ,large company status – built their success upon the effective implementation of CSR programs. The family-owned Dutch brewing company Gulpener Bier, the British company Shields Environmental (mobile phone recycling), and the Spanish flour producer Harineras Villamayor are further role models in practical HR and production oriented CSR.

Notwithstanding the fact that most Hidden Champions have not intentionally incorporated CSR into their strategies, the characteristics that have made them what they are can still be related to CSR features that are currently prominent in the debate. Local embedment, long-term employer–employee relationships, and low CEO-turnover are all related to CSR features. It is interesting that this is related to world market leadership, which suggests a relationship between CSR and competitive advantage. Therefore Hidden Champions can be seen as proponents of institutional CSR, which we define as implicit CSR embedded in the institutional environment of the company.

5 CSR role models, SMEs and the institutional context

In summarizing current CSR research on SMEs we attempt to relate this line of research to more developed research questions. The more general research questions relate firstly to governance characteristics (Hollenstein 2006, Spence 2007), specifically, the role of the owner in the development of SMEs; and secondly, as institutional embedment becomes prominent, especially to the role of employees in SMEs.

In this section we try to investigate further the implications of an institutional perspective on CSR in SMEs, and what we can learn from Hidden Champions. We think the work of Simon (1996) adds an economic perspective on CSR research. CSR is no longer an add-on, but something that could be embedded in the structure and institutional context of a firm.

We assume that the characteristics of Hidden Champions, in terms of CSR, could be adopted by successful SMEs that are not Hidden Champions. More precisely, we assume that the institutional characteristics, that have led ordinary SMEs to become Champions, have been operative and instrumental throughout the organization's path to Hidden Champion status. An empirical investigation would be useful in determining to what extent the lack of success of some SMEs at any stage of their trajectories would be attributable to a lack of CSR related characteristics. Consequently, we argue that, to the extent that the attributes of SMEs discussed above with reference to Spence (2007) are promoting CSR related qualities, Hidden Champions are likely to possess them to a higher degree than non-Champion SMEs, which, if true, would then provide an opportunity to further explain the ascent of Hidden Champions to their status. Furthermore, it would allow us to draw the conclusion that aspiring SMEs would actually be well advised to emulate the CSR related performance parameters of Hidden Champions.

In the following, six propositions will be put forward and argued for, based on the preceding discussions of key institution-dependent parameters of SME business models and culture.

5.1 Codification

Codification of CSR is defined as a formalized presentation of CSR principles (codes of conduct, charters of values, and the reporting of CSR inspired decisions and actions) in conformance with a standardized set of guidelines like the ones developed and disseminated by the Global Reporting

Initiative (GRI). This practice is the exception rather than the rule among SMEs (Spence 2007). When we relate this to the institutional context, there should be differences in institutionalization (Matten and Moon 2008), which leads to proposition 1.

> Proposition 1: The codification of CSR in SMEs is determined by the institutional context.

This proposition touches on a critical discussion in corporate governance theory (Bindseil and Richter, 1995). Relational contracts with some influential stakeholders (like unions, NGOs, or customers), containing some clauses requiring codified CSR, will result in codification done accordingly. Some variants of principal-agent relationships will be equally relevant. Assuming, for instance, that company A is powerful enough to act as a principal of company B (where A is the agent and B an SME supplier), B will be motivated to codify its CSR to the level demanded. This situation is becoming more common as large manufacturers worry about their reputation being damaged by scandals in their supply chains.

5.2 Ownership, governance and the institutional context

Within an institutional perspective of CSR, the institutional context is important in deciding if and when stakeholders have influence (De Graaf and Herkströter, 2007, Matten and Moon 2008). This is also demonstrated by the legal frameworks in which companies operate. For example, in many Northern European countries a works council is obligatory. Stakeholder influences are therefore expected to differ according to the institutional context and, for SMEs, according to the values of the owners. This leads to proposition 2.

> Proposition 2: The owner plays a critical role regarding stakeholder influence on the policies of SMEs.

This proposition is in line with the outcomes of Preuss and Perschke (2010). It relates to the role of governance, defined as the system of values, norms, and habits that explain and predict how companies balance stakeholder rights and demands. For example, employees benefit from legal environments that are rather more protective of employees' rights, most notably in European network-based systems. Also, it is suggested that these legal circumstances have important consequences for cooperation within companies, generating specific principal–agent relationships. It suggests a responsive owner is as critical determinant in CSR, overcoming the academic discussion between stakeholder theory and agency theory. This leads to proposition 3:

> Proposition 3: CSR in SMEs involves a responsive owner.

If owners do not treat their employees and business partners with due respect, they may risk going out of business. The networks that SMEs are usually part of have some distinctive features with regard to the closeness of relationships, number of members, stability and duration of involvement, that create strong incentives to a good governance record defined by exemplary responsibility in stakeholder relationship management.

If we further assume that awareness of the ethically mandatory and economically advantageous nature of network-based governance will steadily increase, we may expect SMEs to serve as role models in that area of CSR thinking and activities across the full range of company sizes.

5.3 The institutional environment and competing on price

Simons (2007) suggests a critical role of the institutional environment in his study of Hidden Champions. He finds that most Champions are located in Germany as a result of the German culture of continuous improvement. Hidden Champions are forced to be the best, because of their inability to compete on price in the long-term. He concluded that the environment can make a critical difference for SMEs. Simons (2007) also relates the success stories to the local embedment of the companies, which creates an interesting paradox between global success and local ties. These remarks lead to propositions 4 and 5.

> Proposition 4: The institutional context influences the role of CSR in the competitive advantage of SMEs.
>
> Proposition 5: The implementation of CSR practices in SMEs depends on the institutional environment.

The implementation of CSR practices depends on a number of specific informational service items that result from specific sectors of the business environment, namely training centers, management journals and magazines, schools of business management, the consulting industry, and specialized organizations and initiatives like GRI and the Global Compact. The GRI and Global Compact determine to what extent implementation of CSR in SMEs will be affordable, and how it could, or should, be carried out first at the project management level, and later during day-to-day business activities.

5.4 Stakeholder protection in SMEs

In their argument for implicit and explicit CSR, Moon and Matten (2008) emphasize the critical role of employee protection as a determinant for various forms of CSR. Also, Campbell (2007) suggests a critical role of CSR policies in the legal structure that organizes manager–employee relationships. Therefore, current research has to question when and how laws influence

CSR policies. Labor laws could be an important starting point in this respect, which leads to proposition 6.

> Proposition 6: Employee rights protection determines CSR practices within an SME.

The definition of employees' rights varies from one country to another, from one institutional context to another, notably between the Anglo-Saxon and the Western European societies (Nooteboom, 2000). We define employees' rights in broader terms as ethically grounded entitlements (Nooteboom, 2000: 245).

The protection of such rights will be a determinant of CSR practices because it is an ethical issue (conceptual analysis yields this result). In respect of SMEs the criticality of employee rights protection is of a special nature. SMEs tend to have closer personal ties with their employees than large companies. In addition SME's record in this area of CSR tends to reflect the company's overall CSR performance, since it is likely to be one of the few CSR areas the company will (have to) be active in, unlike in large companies where a somewhat poorer employee rights protection record may be more easily offset by efforts in other fields, like environmental protection, or philanthropy (see Table 9.3). AQ11

Conclusion

In this paper we have argued that international entrepreneurship in SMEs, and more specifically, entrepreneurship in Hidden Champions have some characteristics that make them likely to be instrumental in creating CSR role models provided that some situational and institutional prerequisites are fulfilled. This paper contributes to the research on CSR in mid-sized companies, who are critical in economic development because of their role as intermediary between micro companies and large corporations (Preuss and Perschke 2010).

Based on prior research, special emphasis has been given to the role of governance in CSR, and its dependence on the institutional environment of companies. We argue that the CSR components of Hidden Champions are the result of institutional characteristics. Hidden Champions have rarely ever used CSR as a competitive strategy. However, their characteristics can be related to CSR features: local embedment, long-term employee relationships, low CEO-turnover. Interestingly, this is related to world market leadership, which suggests a relationship between CSR and competitive advantage. Therefore Hidden Champions can be seen as proponents of institutional CSR, which we define as implicit CSR embedded in the institutional environment of the company.

Table 9.3 Propositions on institutional CSR in SMEs

Current insights in CSR areas on SMEs	Emerging questions in CSR research	Propositions made within an institutional perspective on CSR
Uncodified practices	How do companies respond to the emergence of the civil society and does this change the codification?	The codification of CSR in SMEs is determined by the institutional context
Ownership as critical	Why should they invest in CSR. Is it dependent on the person or on stakeholders?	The owner is a critical determinant in the stakeholder influence on the policies of SMEs
Objective of the firm (owner can have mixed interests)	Manager and owner are the same. Is maximizing profit the only goal of an SME?	CSR in SMEs involves a responsive owner
Inability to compete on price	Can medium-sized companies beat big companies, given the fact that many seemed recently to compete with big companies in niche markets?	The institutional context influences the role of CSR in relation to the competitive advantage of SMEs
Local embedment	Does embedment mean that SMEs tend to be good corporate citizens?	The implementation of CSR practices in SMEs is dependent on the institutional environment
Sector dependency	How does the ability to be a responsible company depend on the sector a company is working in?	
Employees as important stakeholders	Does a manager have to take care of employees, or are they co-workers, more colleagues than employees?	Employee rights protection determines CSR practices within an SME

Furthermore, we have followed up on research on how the characteristics of Hidden Champions are related to characteristics of CSR, including a more in-depth analysis of Spence (2007) in view of possible add-ons, or suggestions for revisions instigated by recent developments in the field. Relating Hidden Champions to SME research also suggests that SMEs should not be seen as a monolithic area in CSR research, but probably need to be split up in two groups, small- and medium-sized companies.

Based on a brief sketch of our views on some extensions and modifications of extant economic theory, putting our trust in the potential we suspect New Institutional Economics and some of its variants to hold, we present six propositions based on some notable CSR related features of SMEs. Our perspective defines CSR within SMEs as the result of being responsive in an institutional context. In this response the role of the owner is critical. This perspective is positioned in current institutional thinking in which governance systems are seen as a critical determinant for CSR. From this perspective, the theoretical debate about the nature of the firm, and whether it should be assessed from an agency or a stakeholder perspective, seem to converge on a responsive owner. Furthermore, the review suggests that local self-assurance and a strong product focus enable a company to develop a strong CSR track record combined with a strong position in international markets. This could mean that globalization does not have to lead to a race to the bottom. On the contrary, to be successful in the long run, CSR awareness amongst SMEs is critical.

In view of recent developments in the area of beginning economic trends, especially the spread of business models inspired by, and incorporating, the idea of social entrepreneurship, it appears from our investigation that interesting connections and cross-fertilization between successful SMEs, specifically Hidden Champions, and social entrepreneurship are coming to the fore. To some extent we seem to have reason to believe, that CSR orientation and implementation (regardless of whether this is the result of an intentional and codified approach, or an emergent and informal development) will spread across the global economy through routes of entry other than the predominant fear of corporate scandal (as may be the case for most large companies, who are exposed to the watchful eyes of the public and the relevant NGOs).

Be it through mediation of the visible hand of social entrepreneurship or the hidden hand of institutional CSR in SMEs or both of them in conjunction, the result may be such that hope is fostered for the, albeit incremental, advancement of a new paradigm of economic activity and social system building that will be more in line with the pursuit of the overarching aim of a diversity respecting common good orientation.

Notes

1. This system goes beyond the governmental laws on corporate governance. It also relates to legislation in the field of supervision and other regulations protecting the stakeholders, for example by legislation which organizes consumers' rights. Another Dutch example is that of the supervision of various economic sectors in The Netherlands as it is organized in commodity boards. These independent bodies operate within the legal framework prescribed by the government and are managed by employers' and employees' representatives.
2. This is perhaps most dramatically testified by those cases in which executives were taken to court by the organization's shareholders on charges of neglecting their profit maximizing duties.

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