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Corporate Social Responsibility (CSR): A Participatory Approach to Implementing CSR in a Cluster

by

Heidi von Weltzien Høivik and Deepthi Shankar

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A local cluster going international: Balancing local and non-local networking?

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Executive Summary

This report is focused on why and how a **participatory approach** to implement Corporate Social Responsibility (CSR) in a cluster would be beneficial for Small and Medium-sized Enterprises (SMEs) in the Norwegian Center of Expertise (NCE) Subsea cluster in Bergen, Norway. The report is part of the research project: "A local cluster going international: Balancing local and non-local networking?" financed by the Research Council of Norway, NCE Subsea and NCE Maritime and led by Inger Beate Pettersen.

The political and strategic reasons, as well as internal motivation, for SMEs to incorporate CSR into their business strategies are discussed with support from relevant literature.

We discuss the cluster approach (Campi, 2008) towards the development of CSR activities. Here we look at benefits of collaboration and also identify further research questions. Furthermore, we discuss the characteristics of different approaches to incorporating CSR as part of a business strategy and provide examples from the European and Norwegian context.

In conclusion, an action plan is outlined on how a participatory cluster approach can be implemented with the help of ISO 260000. We suggest that the first step would be to do a pilot study with one or two leading firms using ISO 26000. Their experiences can then form the basis for implementing a cluster approach to CSR.

A case study of Aker Solutions, which has established operations in emerging countries like India, Angola and Nigeria, is included for illustration. We focus on the establishment of operations in India. This study helps to illustrate the benefits of knowledge transfer and collaboration.

1. Introduction

Corporate Social Responsibility (CSR) has been a widely discussed topic though primarily from the view point of Multinational Companies (MNCs). CSR in SMEs is a relatively new topic in research. CSR in SMEs has received limited consideration (Spence, 1999). However, there are a rising number of publications highlighting how CSR is emerging as a strategy for SMEs (Morsing and Perrini, January 2009). Before discussing what CSR means for SMEs and why it is important, we will look at the definitions of CSR and SMEs.

There are multitudes of definitions for CSR. For the purposes of this report, we first look at some of the most relevant ones.

The ISO 26000 definition of social responsibility is as followsⁱ:

Responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that:

- contribute to sustainable development, health and the welfare of society;
- take into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behavior;
- and
- is integrated throughout the organization and practiced in its relationships.

Activities include products, services and processes; Relationships refer to an organization's activities within its sphere of influence.

The European Commission defines CSR (Commission of the European Communities, 2001) (Commission of the European Communities, March 2006) as: "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

The Norwegian Government's position is that CSR involves companies integrating social and environmental concerns in their day-to-day operations, as well as in their dealing with stakeholders. CSR means what companies do on a voluntary basis beyond complying with existing legislation and rules in the country in which they are operating (Ministry of Foreign Affairs, Norway, 2008–2009).

With regard to the definition of SMEs in Europe, the European Union (EU) has modified its definition for SMEs in May 2003, applicable from 2005. This definition is as follows:

“The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.” Extract of Article 2 of the Annex of Recommendation 2003/361/EC (European Commission: Enterprise and Industry, Small Medium Sized Enterprises, 2005)

Enterprise Category	Headcount	Turnover	Balance Sheet Total
Medium-sized	< 250	≤ € 50 million	≤ € 43 million
Small	<50	≤ € 10 million	≤ € 10 million
Micro	< 10	≤ € 2 million	≤ € 2 million

Table 1: Classification of SME

The generally accepted definition in Norway for Small Medium-sized Enterprises is therefore the same as that of EU.

2. Why should CSR be taken up by SMEs?

Traditionally, the Norwegian economy has had a predominance of small and medium enterprises. Even today, Norwegian firms with less than 100 employees make up more than 99% of companies, and approximately 72% of employment in all Norwegian industry (Isaksen and Smith 1997). Similarly, in the European Union SMEs account for 99.9% of companies and more than half the employment and turnover (European Expert Group on CSR and SMEs March 2007). Given their contribution to the Norwegian economy, as well as to other economies, their achievements have a major impact worldwide (Jenkins, 2009). Or in other words there is a need to emphasize the ‘collective grandness of the actions’ of SMEs (Morsing and Perrini, January 2009).

Also CSR issues and concerns are of a global nature. A growing number of enterprises, including SMEs, are developing their business worldwide, as they take advantage of market liberalization, trade integration, and sourcing opportunities from subsidiaries and suppliers in developing countries.

Another important reason why CSR should be taken into account by SMEs is their entrepreneurial nature. SMEs can use CSR in different ways to drive innovation and this can have a major strategic impact on businesses including those of large MNCs.

CSR imposes itself on SMEs through both external and internal factors. External factors include pressure from direct supply chain relationships, as well as the development of legislation, and international standardization and certification of Corporate Social Responsibility. However, there are also strong internal reasons which motivate companies to pursue CSR as part of their strategy and these are mostly linked to the ethical values and principles of the management, or owners, in the case of SMEs. The adoption of CSR provides increased strategic advantages in

addition to risk mitigation. Drawing parallels with technology (Anderson 2009), CSR can be seen to both impose and inspire the development of a company's strategy as depicted in Figure 1.

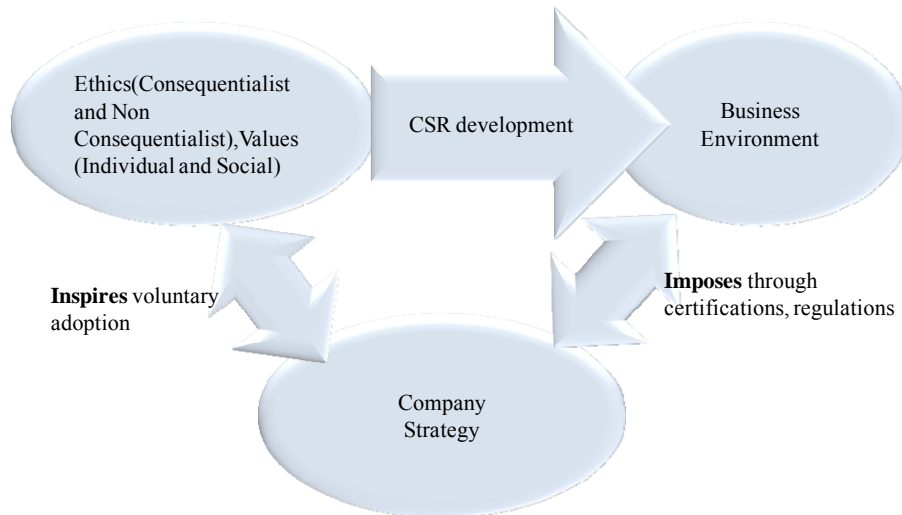


Figure 1: How CSR influences strategy

(Adapted from Espen Andersen's article - What is technology strategy?)

Again drawing parallels with technology (Rosenbloom and Burgelman 1989), a detailed representation in Figure 2 shows how the company's strategy is set by the internal environment and external environment. The internal environment, the strategic process and organizational culture/context is driven by business ethics, as well as the internal routines implemented by the management/owners, while the external environment is driven by legislation, certification demands as well as expectations of society.ⁱⁱ

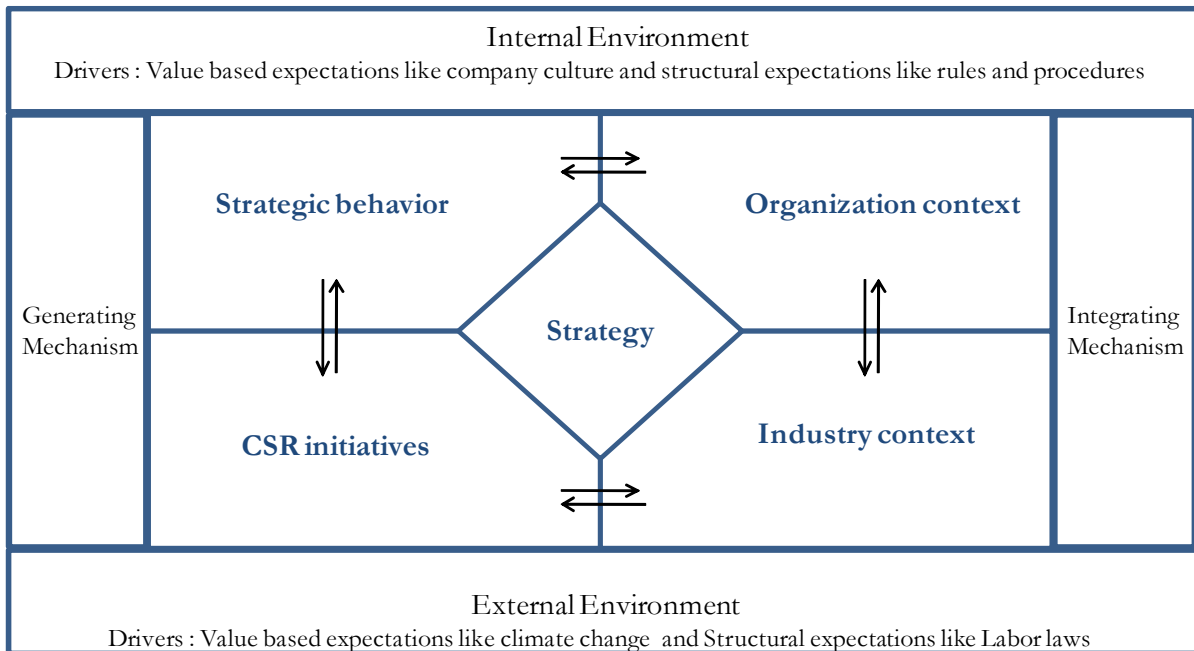


Figure 2: CSR and company strategy

(Adapted from R. S. Rosenbloom and R. A. Burgelman, Technology Strategy: A Evolutionary Process Perspective)

The business rationale for companies to learn more about CSR and incorporate CSR into their core business activity is discussed in detail in the section below.

2.1 Political reasons

“The triumph of neoliberal globalization is also the imposition of a new mode of governance of institutions and individuals, to which the idea of responsibility is central” Graham Thompson (G. Thompson 2007).

Neoliberal globalization has propelled CSR as a means of achieving goals that were once the forte of governments. Businesses and corporations, with their global value chains, can exert influence in geographic areas where governments do not have a political mandate. Moreover, businesses exert considerable local influence, creating jobs and forming an important part of the society in which they operate. With de-regulation they provide many essential services which were once exclusively government-owned/provided services. Thus the change in institutional

power under neoliberal global economy encapsulates the dichotomy of voluntary action and regulation. CSR becomes a legitimate and important business activity in this respect and businesses have to work in tandem with governmental bodies and members of civil society through an *and-also* logic (Kriger, 2005) where both *voluntary action and regulation (mandatory action)* are necessary and essential to reinforce each other and to ensure the common good.

In the European context and, in particular, the Scandinavian context, there are both laws and institutional agents that regulate most of the environmental and social practices. Being coordinated economies, firms tend to rely on nonmarket, e.g. government, institutions to allocate scarce resources (Drezner, 2007). In Norway, Report No. 10 to Storting (the Norwegian Parliament) which is explained further in section 2.1.1, details how the government expects Norwegian companies to behave when they are operating outside Norway. The report has now been submitted to the government and will influence the nature of future political decisions. There is growing pressure in Norway from NGOs like Norwegian People's Aidⁱⁱⁱ, to have more concrete regulations in this area. If this were to happen, this can have a serious impact on Norwegian companies operating, or planning to operate, abroad. However, regulation can be taken positively if it is flexible and can create first-mover advantages. An example of this is Tomra Systems^{iv} (Wall, 2008).

CSR has become an important concept globally and there are various international frameworks and initiatives actively encouraging the use of CSR. Some are initiated by the United Nations (UN), the European Union, or members of industry, NGOs and public universities. Examples are: UN Global Compact; Organization for Economic Cooperation and Development (OECD) Guidelines for Multi-National Enterprises (MNE); Global Reporting

Initiative etc. These are explained in detail in the Appendix. Most of these agents work in collaboration with each other and new initiatives are built upon existing ones.

In the next section the most important initiatives, relevant within the Norwegian context, are described.

2.1.1 Report 10 to Storting

The report on Corporate Social responsibility to the Storting is a white paper to raise awareness for CSR in the private and public sector. It contains the recommendation from the Ministry of Foreign Affairs intended to strengthen the commitment from Norwegian companies and authorities with regard to CSR activities. Report 10 to Storting clarifies the Government's expectations, and also discusses the roles and responsibility of both the private and the public sector. Furthermore, the Norwegian Government expects to play an active role in the international processes that are aimed at developing the CSR standard (Ministry of Foreign Affairs, Norway, 2008–2009). Thus the key issues in the white paper are:

1. Exercising social responsibility for Government's own action;
2. Conveying society's expectations to the Norwegian companies; and
3. Developing and influencing the framework for CSR both nationally and internationally.

The concept of CSR, as defined by the Norwegian government, is based on the UN Global Compact principles and covers the following aspects: Human rights; core labor standards; decent working conditions; environmental issues; corruption and transparency.

2.1.1.1 Government expectation of the private sector

The Government expects that Norwegian companies should be among the best at practicing CSR, thus helping to strengthen the above-mentioned aspects in all parts of the world.

- **Follow the guidelines for social responsibility.** Norway is a member of the OECD and hence the Government expects that the companies follow the OECD guidelines for MNEs.
- **Transfer good corporate practices from Norway in their operations abroad.** The Government considers it important to involve trade union movements in their CSR effort, i.e. employee representatives in other companies. It is also expected that companies provide systematic CSR efforts like whistle-blowing support, freedom of expression, notification of unacceptable conditions and maximum possible transparency in connection with financial affairs.
- **Transparency and Disclosure.** Companies should demonstrate transparency about the social and environmental impact of their operations. They are supposed to report on their social and environmental effects either in a separate report or as part of their annual report. The Government encourages the use of the Global Reporting Initiative (GRI) reporting framework and they suggest that SMEs can use relevant parts of the framework flexibly.
- **Vigilance and knowledge sharing.** The companies should be vigilant about social conditions and trends in the area where they are operating, particularly when operating in vulnerable areas. They should actively gather information, participate in networks or seek other ways of benefiting from transfer of knowledge and expertise.
- **Innovation and social responsibility.** Innovative business models, new products or services can help to meet the challenges faced by society. The Government encourages the private sector to seek innovation and further develop the knowledge intensive industry in Norway.

2.1.1.2 The role and the responsibility of the private sector

- Corporate responsibility to respect Human Rights, covering children, women and indigenous people.
- Corporate responsibility to provide decent work. Corporations should ensure that the workers' rights and working standards are, at the very minimum, in line with International Labor Organization (ILO) core conventions. They also need to establish guidelines which demand respect of these standards by their suppliers and subcontractors in their direct sphere of influence through clauses in the contract and necessary follow-up procedures.
- Corporate Environment responsibility. Companies should take a proactive approach to reduce the environmental impacts of their operations beyond what is stipulated by the law and the private sector should work towards integrating the environmental perspective more fully into their operations.
- Corporate responsibility to combat corruption. Norwegian law states that all forms of corruption, including facilitation payments, are prohibited by Norwegian companies at home and abroad. Companies should actively try to combat corruption through whistle-blowing schemes and internal guidelines. Cooperation with companies in the region (networks/clusters) is encouraged to enforce common practices.
- Corporate responsibility implies also showing the maximum possible transparency in connection with financial flows.

There is obviously a natural link between Report 10 to Storting and the newly released version of ISO26000. ISO26000 is appropriate for the following reasons: It is a guidance

standard, which provides flexibility as it lets companies analyze their social responsibility with respect to the relevant context, and permits step-by-step implementation according to need.

2.1.2 ISO 26000

ISO 26000 is designed as the future International Standard giving guidance on Social Responsibility (SR). The idea to create a worldwide ISO standard on CSR started in 2002.

However, initially, it was met with strong opposition from industry.

ISO 26000 being a universal standard is intended for use in both public and private sectors, in developed as well as developing countries. The final version of the standardization guideline is scheduled to be released by November 30, 2010. One important aspect is that ISO 26000 only contains guidelines, not requirements and, therefore, will not be used as a certification standard (unlike ISO 9001:2000 and ISO 14001:2004). ISO 26000 is meant to add value to the existing Social Responsibility work by:

- Developing an international consensus on what Social Responsibility means and the SR issues that organizations need to address;
- Providing guidelines on translating principles into effective actions; and
- Distilling the best practice that has already evolved and disseminating it worldwide for the good of the international community.

2.1.2.1 Core issues covered in ISO 26000

Core subjects and issues covered in the ISO 26000 are as follows:

- Organizational governance;
- Human Rights: due diligence; human rights risk situations; avoidance of complicity; resolution of grievances; discrimination and vulnerable groups; civil and political rights; economic, social and cultural rights; fundamental rights at work.

- Labor Practices: employment and employment relationships; conditions of work and social protection; social dialogue; health and safety at work; human development and training in the workplace.
- Environment: prevention of pollution; sustainable resource use; climate change mitigations and adaptation; protection and restoration of the natural environment.
- Fair Operating Practices: anti-corruption; responsible political environment; fair competition; promoting social responsibility in the sphere of influence; respect for property rights.
- Consumer Issues: fair marketing, information and contractual practices; protecting consumer's health and safety; sustainable consumption; customer service, support and dispute resolution; consumer data protection and privacy; access to essential services; education and awareness.
- Community Involvement and Development: community involvement; education and culture; employment creation and skills development; technology development; wealth and income creation; health; social involvement.

In addition to these, there is an increased pressure from the media and NGOs. From the political reasons at macro level, we now move on to the strategic advantages conferred by a well-embedded CSR policy.

2.2 Strategic reasons

Instead of maintaining CSR as a reactive-defensive strategy (Clarkson, January 1995) and as a pure support function to reduce risks and costs for shareholders (Midttun, 2009), CSR must be taken to the next level as a fundamental value creation driver. Thus CSR needs to be considered more in terms of the opportunities it provides to the business than as costs to the company.

Therefore, transferring CSR from a mere bolted-on activity to a built-in activity (Grayson and Hodges, 2004), and embedding it firmly as part of the strategy, enables companies to generate profits.

The advantages of moving from *doing* CSR to *being* socially responsible are many and those relevant to SMEs are listed below.

2.2.1 Increased access to talent and better employer-employee relationship

Companies can expect to have increased access to talent when they are integrating CSR into their business practices. Young graduates, as well as industry professionals, would like to be associated with those companies that have a good reputation. Moreover, people like to join companies that provide good benefits to their employees, including opportunities for skill enhancement. In developing parts of the world this is also an advantage, not only from a moral perspective, but also because many employees are keen to work for international companies that provide a better learning environment, better incentives etc. Similarly, employee turnover is reduced when the company engages in responsible behavior and provides motivation for employees in terms of worker benefits or skill enhancement. CSR and reputational effects on workforce stability have been emphasized in research articles (Morsing and Perrini, January 2009)

2.2.2 Increasing innovation and seizing opportunities

According to Heledd Jenkins, there are three dimensions to Corporate Social Opportunities (CSO): innovation in products or services; serving un-served markets; and building new business models (Jenkins, 2009). CSO, or actions developed to improve sustainability, drive a lot of today's innovation. For instance, providing care for the elderly and tapping into markets which are not covered by the government health-care system, greener (consuming less electricity) base

stations and phones in the telecom industry, better GPS systems, and dynamic positioning systems in the shipping, oil and gas and mining industries that increase the safety of the operation and reduce the cost of finding resources. SMEs are better placed to exploit CSOs owing to their smaller size and flexibility (Jenkins, 2009). Increased ability to influence markets and the competitive environment is achieved through hard linkages and collaborations with stakeholders, including peers and competitors. Collaboration in itself is a business model innovation, it provides learning opportunities which drive further innovation and also serve as a CSO (Jenkins, 2009).

2.2.3 Buyer–relationship and access to markets

There is increasing pressure on large corporations to focus on sustainability issues and this, in turn, translates into increasing demand for the same on the value chain. This means that suppliers to big companies, operating in multiple international value chains, need to be aware of not only their social and environmental impact but also their subsidiaries', subcontractors' and suppliers' social and environmental impact. For this reason alone, the companies must increasingly be aware of their own CSR agenda and its role in business strategy. Sharpened requirements from the large MNCs, such as 'Achilles'^v contract criteria or satisfying standards like ISO 26000, are essential for participation in the tendering process. These are becoming more and more common, not just in MNCs but also in public procurement, and meeting these criteria is necessary to secure market access, as well as to develop better buyer-supplier relationships. In many Business to Business (B2B) segments, clients tend to purchase or continue their contracts with existing suppliers depending on the trust factor, especially when reputation and brand equity are at stake. In the Business to Customer (B2C) segment, sustainability issues are gaining considerable importance and people are willing to switch brands or even pay a premium if they feel that the

new choice represents a sustainable choice. ‘Lifestyles of Health and Sustainability’ (LOHAS)^{vi} is an example of such a demographic.

2.2.4 Increased brand equity

Being a good corporate citizen and integrating environmental and social requirements into the business increases reputational capital and brand equity and is well recognized both in B2B and B2C markets. It reduces the risk of negative publicity and increases the positive association with the company, including increased interest in forming a joint venture (Capgemini, 2008)

2.2.5 Long-term cost savings

Reducing employee turnover and reducing energy consumption are the two most identifiable means of cost savings when a company decides to incorporate social and environmental responsibility in its agenda and links them to its business strategy.

Employees like to continue working for the company when they feel that the company is sincere in its approach to CSR. Also increased attention to employees, protecting workers’ rights and engaging in skill enhancement serve to retain talent in the company. Thus, increasing company productivity, reducing the costs associated with a high employee turnover rate and reducing the cost of training new employees are some of the resulting benefits. This is particularly true when operating in certain parts of the world like China and India^{vii}. In addition, in developing countries, training local talent will be more attractive than bringing in expensive expatriate staff. In the long run, local staff will bring greater benefits because they will stay for longer periods than expatriate staff and will have a greater understanding of the market and the culture.

Similarly, cost-efficient strategies are: switching to renewable sources like solar power in warmer regions of the world; reducing energy consumption by simple steps like switching off

desktops when leaving the office for the day; adopting video-conferencing instead of travelling; adopting energy-efficient means or electrical appliances etc. All these activities help in reducing costs associated with running the business, especially in the case of SMEs, while also reducing the carbon footprint. For instance, Guidance Solutions Inc., an e-commerce developer, managed to keep its desktop energy consumption roughly the same despite increasing the work force to 50 from 30 employees since 2008, because it switched to more efficient machines (Carlton 2009).

At a more operational level, companies can obtain substantial cost savings by investing in sustainable practices. For instance, applying such criteria in choosing local partners and suppliers can considerably reduce the cost base in the long-term.

2.2.6 Sustainable leadership

Being an early adopter of sustainable practices not only provides first-mover advantages, but also helps to set the rules and norms for the industry. Companies could also partner with government agencies or NGOs to push for new regulations, and there would be an increased demand for their expertise. This also ensures that they are not forced into compliance but rather are ahead of the game, thus reducing the possibility of a *sudden discontinuous change* (Wit and Meyer, 2004). Discontinuous change, depending on how it is planned and handled, may or may not be good for an organization. It forces the organization to adopt a comprehensive and dramatic magnitude of change, resulting in a sudden break with the status quo. Such a change requires massive change efforts over a short period of time, concentrating all organizational resources in the change process.

2.2.7 Differentiation

CSR in SMEs provides a source for differentiation and visibility in increasingly complex and dynamic markets (Morsing and Perrini, January 2009). The services provided by the subsea

companies can be classified as being in a niche market. There are two different strategies when operating in a niche market: 'Focused low cost' and 'focused differentiation' (Thompson, Strickland and Gamble 2008). Adopting CSR serves to reduce costs, but primarily it provides a means of differentiation, thus helping to develop a focused differentiation strategy.

2.3 Internally driven reasons

Previous research has clearly shown that owner/managers engage in CSR activities due to their personal conviction or personal value patterns. Internally driven reasons like self-direction, universalism etc. are vital for integrating and driving CSR activities in the organization (Sas and Liedekerke, 2009). While, externally driven CSR give us reasons to adopt CSR in a more systematic manner, it is the values of the owners and top management that form the ground for the organizational values and ethos. Most SMEs, with their personalized style of management and flat organizational structure,^{viii} integrate CSR due to the values and internal motivation of the owner/managers. Empirical data supports this notion. (Jenkins, 2009). Thus a company's business strategy needs to be aligned with the internal values of the organization, taking CSR from mere rhetoric or bolted-on activity (Grayson and Hodges, 2004) into a built-in core activity.

When internalizing, the same internally driven reasons can provide motivation for SMEs to be an 'Agent of Change', also in countries with lower standards in socio-economic development. For instance, subsea companies operating in those parts of the world with low health and safety standards can be pioneers in enforcing them. SN Powers's investment in the Khimti power plant, providing electricity to a rural area in Nepal, or Nidar's involvement in improving the conditions in the cocoa farms are such examples (Ministry of Foreign Affairs, Norway, 2008–2009). This, of course, has the added benefit of long-term savings for the company due to better supply chain, reduced employee absence, new investment opportunities

(bottom of the pyramid) etc. Similarly, the Nordic commitment to the environment and concern for customers can be used as a basis for brand distinction in international supply chains (see Scandic and Omtanke^{ix}, in Wall, 2008, p. 101) However, such changes might require positive externalities depending on the country operating in and depend on the magnitude and type of change and desire for change among the local population. Positive externalities can be in form of local institutional support or at least through support from Norwegian public organizations, like Innovation Norway. It can also be in the form of industry commitment or commitment from similar organizations. for example, Extractive Industries Transparency Initiative (EITI)^x.

Furthermore, there is relatively less pressure from the market on SMEs to focus on short-term results which provide the owner/manager with greater flexibility to implement CSR compared to MNCs, which are often driven by shareholder expectations. Also the decision-making process is much better since the manager is not the agent^{xi} but the principal (owner) in most cases. This will be illustrated later when describing the case of Stormberg (Hoivik, 2009).

2.4 Cost Benefit Analysis: Risk management

Adopting CSR is also a means of managing risk and minimizing the impact of certain risks when they materialize. However, there are also certain limitations and risks associated with pursuing the CSR agenda by SMEs on their own.

2.4.1 Risks associated with not pursuing CSR

Recent research has shown that irresponsible behavior is indeed very risky behavior.^{xii} Pursuing corporate social responsibility minimizes these risks.

2.4.1.1 Risks associated with international expansion (Strategic risk)

In the Norwegian context, many of the CSR activities are implicit (Dirk Matten, 2008) and mandated by law, e.g. health and safety for workers, mandatory training for skilled jobs, hours of work etc. When companies go international especially into emerging economies, these are no longer implicit, but the companies need to realize these through explicit CSR policies. Hence it is essential that CSR activities, which are relevant for the company, are wholly embedded in their strategy. This risk is a strategic risk and can have serious financial implications.

The other risk that is seen with respect to international expansion is the possibility of restricted access to international markets, especially in the extractive industries as there is a view that companies must share their profits to benefit the community in the form of Corporate Social Innovation (CSI) (Hess et al., 2008), as well as in the form of open commitment to sustainable operations. Thus CSR is an investment in securing a continued license to operate. It reduces the risks of shutdown and sustains industrial and future growth of the company (Wall, 2008).

2.4.1.2 Restricted market access (Strategic risk)

As noted in section 2.2.3, not following CSR practices could restrict market access. Many international and foreign buyers stipulate their own codes of corporate ethics. (Morsing and Perrini, January 2009). Many buyers use the Achilles Joint Qualification System to shortlist suppliers and satisfy requirements in the contract. Achilles covers areas like financial performance, products and services, health and safety, environment, CSR and legal. ISO 26000 is also expected to be mandated by several companies. Thus the likelihood that there is increasing demand for following the code of corporate ethics stipulated by the big multinationals is quite high, and hence the risk of restricted market access is also likely to be high. Moreover,

this can potentially have a ripple effect, as the likelihood of getting a new contract, especially in public procurement, is high when you already have a contract with an established buyer.

2.4.1.3 Negative publicity and reputational affects (Reputational risk)

The media plays a very big role in today's society, especially in the uptake of CSR by MNCs. The possibility that SMEs will be targeted by the media when there is an unwanted incident is low. However, the reputational damage, if it happens, can have a severe negative impact on the trust of the stakeholders, the ability to attract and retain talented workforce, as well as relationship with financial institutions, suppliers and partners (Morsing and Perrini, January 2009)

2.4.1.4 Reduced ability to leverage on opportunities arising from CSR (CSO)

Corporate Social Opportunity (CSO) occurs through commercially viable activities which also advance environmental and social sustainability (Grayson and Hodges, 2004) (Morsing and Perrini, January 2009). There is gradually emerging trend of new Nordic SMEs capitalizing on CSR as an opportunity to create a new platform for growth (Hockerts et al., 2007). Hence SMEs constantly have to evaluate their need to innovate their business offering based on CSR. Otherwise they may lose a significant market opportunity.

2.4.1.5 Discontinuous organizational change as a result of forced requirements due to regulations and legislative actions (Operational and compliance risk)

Public regulations are mostly reactive in nature, as responses to demands by society and other civil actors. By foreseeing the need to invest in sustainable operations and community involvement, the risk of sudden organizational changes in adapting to regulations, when they are enforced, is reduced. The key is to be proactive and to stay ahead of regulation.

2.4.1.6 Credit risk

If there are large amounts of upfront cash-outlay, then this can pose a significant risk if the project comes to an abrupt stop due to ethical or CSR issues. This was the case when Norsk Hydro invested in building a bauxite mining facility in Orissa, India, but was forced to give up the project, losing the investment. The reasons given were based on an increased awareness of not wanting to harm indigenous people or damage the environment. Such action was no longer in line with the company’s strong CSR profile (Hoivik, The Orissa Case, 2004).

The risk response matrix in Figure 3 identifies the risk level when CSR policies are not integrated into business strategy.

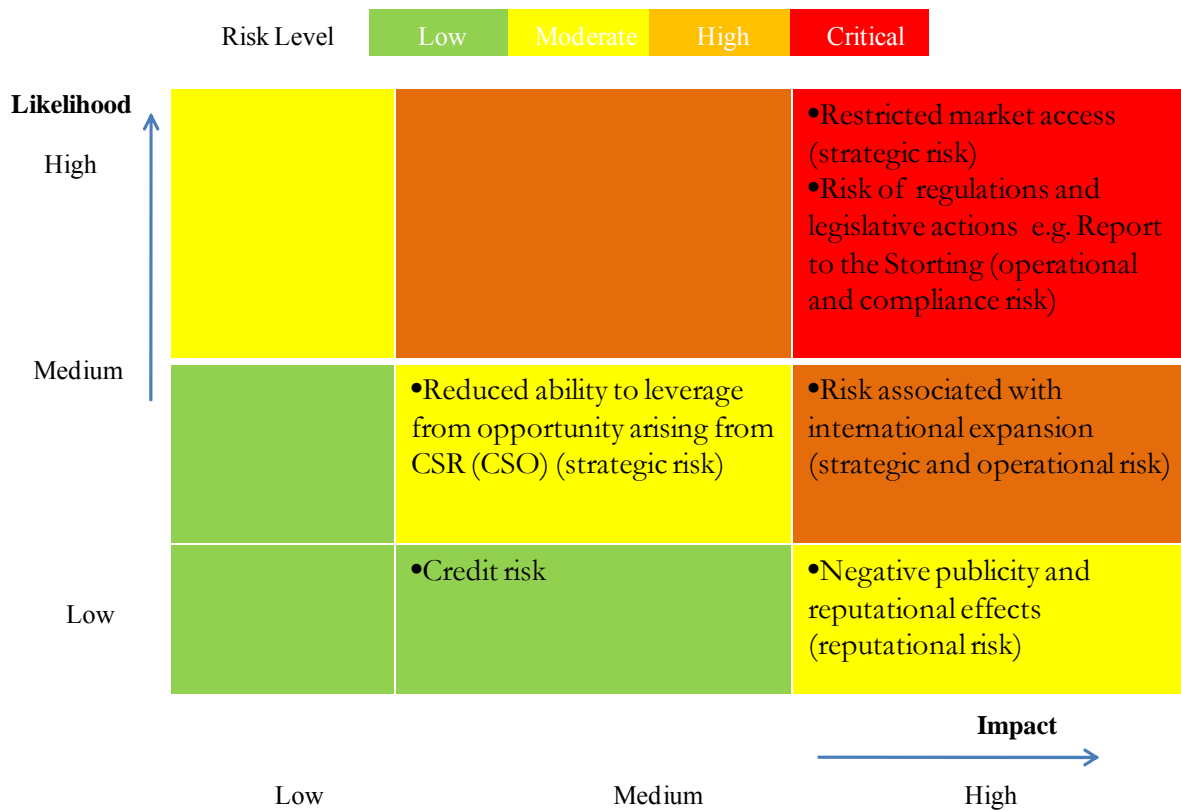


Figure 3: Risk level when CSR is not implemented

2.4.2 Limitations (Risks associated) when pursuing CSR by SMEs

There are several limitations that SMEs face when trying to implement a CSR agenda. Many SMEs do not implement CSR as they don't see the market demand or perceive it to be too high a cost to implement. European SMEs share the general perception that CSR is a burden and a financial cost (Morsing and Perrini, January 2009).

2.4.2.1 Capabilities (human and financial) of SMEs

Many papers cite the major reason why SMEs do not engage in CSR activities as their lack of both human and financial capabilities. Time and managerial resource constraints limit SMEs from taking on the CSR agenda. SMEs are known to be focused on completing their tasks at hand and do not have the time or discretionary slack that allows bigger corporations to plan ahead and spend time on aspects which do not have an immediate pay-off (Lepoure and Heene, 2006). The study carried out by the International Institute of Sustainable Development (IISD) (Perera, September 2008) cites that 45% of the SMEs they interviewed cited a lack of time as a major obstacle in improving social responsibility performance.

SMEs have limited financial slack as they have a lower ability to build large financial reserves (Lepoure and Heene, 2006). A lack of financial resources also limits the social responsibility of SMEs, beyond those which yield immediate returns. Thus long-term strategic investments in CSR, for SMEs that require systemic improvements, are challenged by the resource constraints.

2.4.2.2 Awareness of CSR issues and accountability (also legally)

One additional important barrier for SMEs to engage in CSR activities is the lack of cognitive processes or the ability to recognize such issues (Lepoure and Heene, 2006). SMEs tend to lack the specialized leadership and management expertise to carry out a social responsibility agenda.

SME managers face constraints with regard to time spent on evaluating how social responsibility impacts or benefits their organization. SMEs owners/managers are often shown to have a lack of knowledge. This could be because typically the leadership role in an SME is generally taken on by the owner/manager, who has the responsibility for many other tasks in the companies. The study finding by IISD (Perera, September 2008) also cites that over and above the time constraints, the SMEs appear to lack the sophisticated expertise to understand social responsibility and to prioritize and address it within their business.

Moreover, SMEs lack the legal expertise that is so common in multinational firms. This could result in a challenge to understand the legal intricacies of country/countries when going abroad or being part of international supply chains.

2.4.2.3 Lack of understanding local situations abroad (i.e. Telenor in Bangladesh)

Many of the aspects of social responsibility, which are part of the legal framework in Europe, are different in other parts of the world. It is very difficult for an individual company to have a comprehensive understanding of the different situations. This is especially relevant in the case of an acquisition, a contract with a supplier or even a joint venture. Due diligence processes are complicated by socio-cultural and legal differences.

2.4.2.4 Financial limitation (investor confidence)

Implementing social responsibility requires considerable investment. SMEs' lack of access to credit is a major limiting factor from moving beyond the understanding of social responsibility to actual implementation.

2.4.2.5 Bargaining power in establishing standards especially in international areas

Smaller size firms often have a lower negotiating power to modify environmental forces in the market, or in the supply chain or politics (Porter, Competitive Strategy: Techniques for

Analyzing Industries and Competitors, 1980). A small firm might find it difficult to challenge or go against the accepted norms in the industry (Lepoure and Heene, 2006). This would be amplified even more when they are outside their home country, without the normal institutional/political support and as part of a large international supply chain. Small businesses generally depend on the governments to set the rules of the game and level the playing field, especially while tackling boundary spanning problems. Being in a country where there are no such guidelines, this bargaining power becomes even more important in setting public policies (Lepoure and Heene, 2006). SMEs alone do not have this power.

2.4.2.6 Tools to implement (mostly designed for MNC)

In SMEs, CSR is generally implemented with an internal understanding; it is mostly informal and often in the form of community involvement. Most SMEs generally do not express their CSR practices with formal tools, management systems or certifications and reports. Certifications and Reports can be costly and too complex for SMEs.

The CSR tools used can be classified into different types:^{xiii}

- Principles, guidelines, codes of conduct (OECD guidelines);
- Management systems (ISO 14000: Environmental standards);
- Measuring, reporting and benchmarking (e.g.: GRI report);
- Other (e.g. training and education).

Many of the tools that are designed to implement and report about CSR are designed for multinational companies, e.g. OECD Guidelines for Multinational Enterprises, the GRI reporting framework etc. However some of these standards and guidelines can be tailored to suit the specific requirements of an SME, like ISO 26000. Reporting might be difficult for small and micro-enterprises to do individually. Instead a cluster approach is the most feasible alternative.

For instance, the Global Reporting Initiative is exploring to engage SMEs in sustainability reporting by working with clusters.^{xiv}

A risk response matrix has been made in to identify the implications of the limitations of the SMEs when implementing CSR activities in their organization. It is evident that the SMEs face a lot of risks when they try to implement CSR activities individually.

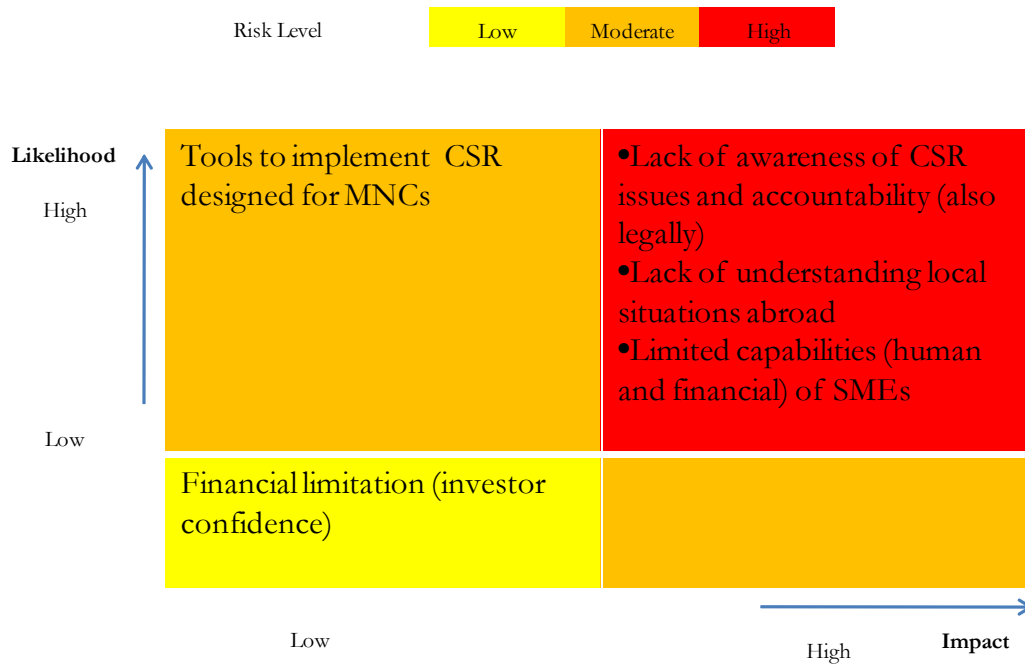


Figure 4: Risk level when CSR is implemented by individual SMEs

3. Why CSR should be taken up by the cluster

We propose a means to undertake CSR as part of the cluster through a **network model** to address the limitations faced by the SMEs when they try to implement CSR individually. This method is also referred to as the ‘Cluster Approach’ (Campi, 2008). Our hypothesis is as follows: *A network model (cluster approach) to CSR will motivate the uptake of CSR among SMEs when the network (cluster) is characterized by close geographical proximity and operates in the same sector. The uptake of CSR as part of the network (cluster) agenda will also lead to innovation through cooperation and competition. The challenges faced by the SMEs in implementing CSR can be also be minimized by being part of a network (cluster).*

A cluster approach to CSR fosters collaboration between companies operating in the same geographical location and facing similar challenges. Such collaboration gives an opportunity to bring together the core competencies of different businesses to achieve a common goal. However, this collaboration needs to be built on common values and should be based on the long-term interests of each member of the multi-stakeholder group (Wall, 2008).

According to Porter if, as a strategy, the firms in a cluster choose to upgrade and invest continuously they will remain competitive. In addition, when firms compete within the cluster they tend to innovate to differentiate themselves from their rivals. Applying this to CSR practices within the cluster, we can say that when clusters undertake CSR explicitly as part of their strategy, it is not only beneficial to the development of the cluster but also leads to innovation through cooperation and competition among the firms. Results of the European funding program ‘Mainstreaming CSR among SMEs’ show that the single most important influence on SMEs comes from their peers; other similar SMEs. Thus the uptake of CSR among peers in the same sector and in the same geographical location will prove to be a positive influence on each one of

the SMEs. Positive feedback effects contribute to the continuous growth of the cluster (Cortright, March 2006). According to Michael Porter, even though they compete, firms as part of a sector or industry can cooperate to improve the factor conditions like human resources, knowledge resources, capital and infrastructure (1990). This improvement of factor conditions confers a national advantage. Cooperation also helps in the **capacity building of the individual SMEs** (European Expert Group on CSR and SMEs, March 2007). Moreover, clusters promote the **institutional approach to corporate learning**, which is more sustainable than individual approaches (Sehic and Sabanovic, 2008)

Thus implementing CSR as a network-based approach helps in the following ways, It:

1. enables SMEs to overcome the limitations faced when they are implementing CSR individually;
2. motivates SMEs that are not aware or interested to take on CSR activities due to peer encouragement/pressure;
3. acts a innovation driver;
4. legitimizes pro-active CSR engagement instead of treating it as a cost/burden;
5. sustains the cluster's growth

In the following, we will further expand on Sara Campi's research (Campi, 2008), where the advantages of pursuing CSR in a cluster of SME's are discussed from three different perspectives: macro, mezo and micro. Macro level is the outer level looking at the cluster as a whole and its interaction with the society and the nation it operates in. The mezo perspective represents the interaction between the members of the cluster and the shared advantages and disadvantages and, finally, the micro perspective depicts how it helps the individual companies in their internal operations. To some extent there is an overlap between the mezo and micro

perspectives. Here we propose additional points which are relevant when SMEs become international.

3.1 Macro perspective

Developing an organizational identity and vision becomes paramount for the development of CSR in the cluster. The organizational identity should be based on the hyper-norms (Donaldson and Dunfee, 1994), the principles or values that matter to the firms, while the practices can be left to the individual firms that are operating in different countries. The principles, i.e. the hyper-norms, should be developed through a participatory approach (Huemer, 2009).

Institutionalizing CSR as a cluster helps in differentiating the value-proposition of the cluster and developing a common brand image. Moreover, certifications and associations can be communicated for the cluster as a whole, instead of for individual companies. For example, 'NCE Subsea Cluster, ISO 26000 compatible'. Acting as a single unit, the cluster has more negotiating power, especially in international situations. A cluster approach can also help in establishing national policies. A large organization which displays a coherent culture of shared goals, norms, beliefs and values, tends to have considerable power in the political institutions that formulate law and establish the legal requirements of the society (Hosmer, 2008). Applying this to national or regional policies, we can say that the cluster approach can have considerable power in political institutions that formulate national policies.

The cluster as a single entity can establish initiatives to help the community in which they are operating. For instance, one way to implement this would be to pool common resources to support an independent body, which addresses the concern of the community and acts as a platform where the community and the companies in the cluster can interact. If there is any grievance to be addressed by a particular company, it can be brought to this body which, in turn,

can also communicate it to the community, thus encouraging a process of dialogue between the members of the community and the company (see AMAC and Montana Exploradora in Guatemala^{xv}; Wall, 2008). Engagements with the local community help to some extent in dealing with the moral dilemma of operating in an area where the resources are not evenly distributed. Gaining the trust of the local community gives not only a license to operate but also helps in the vigilance process, especially in areas where there are political and security concerns.

This single entity model also can improve investor confidence.

3.2 Mezo perspective

A shared vision, mission, values and goals for the cluster can drive the activities of the multi-stakeholder network. A feeling of shared responsibility motivates small firms to take up activities, especially those where the *Probable Magnitude of Consequence* of action is perceived to be negligible, for instance, the environment (Lepoure and Heene, 2006). A cluster approach to CSR increases the *Social Consensus* (Lepoure and Heene, 2006) for responsible action. This acts as a strong internal driver, influencing the personal values of the owner/manager and increasing the desire to implement CSR activities within their organization.

A cluster approach also enables the possibility to have common management systems, certifications and audits. It also helps in capacity building at a group level rather individual level. The Asset Based Community Development (ABCD) framework (Fisher et al., January 2009) is one such approach at building capacity within the local network and utilizes all possible resources within the local network before using external help. Furthermore, it facilitates the possibility of shared accountability; encouraging ethics of care, focusing on helping other companies and preventing them from making inadvertent mistakes. Synergies are obtained by developing Corporate Social Innovation (CSI) where individual firms can contribute in those

areas which aid their long-term strategy and are part of their core competencies. It also contributes to the scale effect (Campi, 2008) and in minimizing duplication, as the companies in the cluster can cooperate. For instance, if the companies need to set up a waste management plant they can build one together instead of investing in separate facilities. Similarly, it creates positive externalities (Campi, 2008). For instance, while hiring third party contractors, employing certain common negotiating terms, like the proper treatment of workers, ensures that there is no competition based on such parameters.

The most important aspect of the shared feature of the cluster is that it acts as an innovation driver, smaller firms have much more ability to innovate especially operating in the emerging economies.

The effect of one company's action on its peers in the cluster also needs to be taken into account, as each member of the cluster also becomes a stakeholder of the others, and vice versa. Hence the degree of interdependence needs to be decided. Furthermore, some investigation is needed to understand how any negative action of one company can, and will, affect the credibility of other companies in the cluster and how this should be handled.

The small business owner/manager can be characterized either as an opportunistic entrepreneur or as a craftsman entrepreneur (Lepoure and Heene, 2006) and, in practical terms, most of them lie in between. It is important to keep the cluster approach flexible and not establish a rigid set of requirements as it could possibly have the undesired affect of minimizing the efforts of the forerunners.

3.3 Micro perspective

A small firm faces many challenges like discretionary slack available to managers, lack of functional specialization for managers, which reduce the absorptive capacity of the firm and

impose financial constraints (Lepoure and Heene, 2006). More networked firms experience fewer problems, especially with time and knowledge (Business in the Community (BITC), 2002). Hence being part of the cluster approach to CSR increases their likelihood of SMEs recognizing social responsibility issues and their ability to act on them; organizations achieve increased ethical awareness. As part of a cluster of individual companies, those that are faced with resource challenges can improve their organizational capabilities, such as specialized staff, leadership and management capabilities. Through knowledge-sharing, both explicit and tacit, the human capabilities of the firm can be improved. Financial capabilities can be increased if there are common funding programs. Also, more due diligence and vigilance is possible due to the combined effort of all.

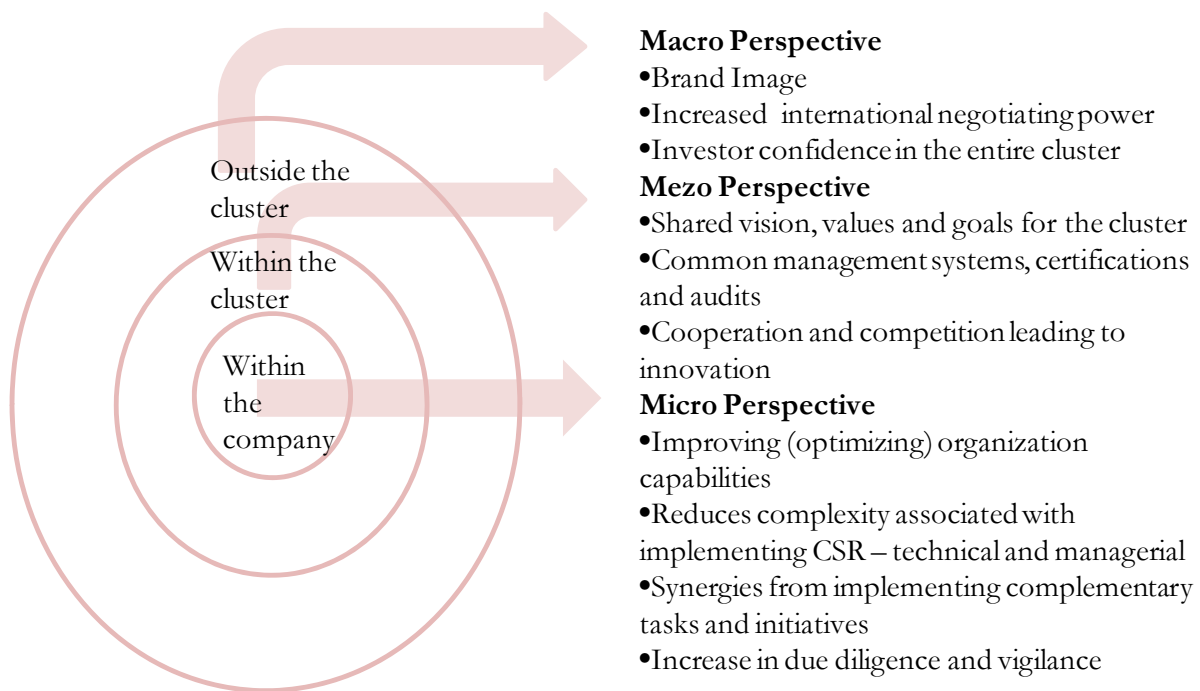


Figure 5: Cluster approach to CSR (Campi, 2008)

Providing value is the cornerstone of Business to Business (B2B) marketing. Value in business markets is the value, in monetary terms, of the economic, technical, service and social

benefits (net benefits) that a customer receives, in exchange for the price one pays for a market offering (Andersen and Narus, 1998). The cluster approach helps in bringing the relative resource costs below parity through common organizational processes and resource sharing, and helps to increase the relative resource-produced value, by increasing the technical, social and service benefits, thus delivering a competitive advantage (Hunt and Morgan, April 1995). This is illustrated ideally by cell 3 in Figure 6, but more likely to be cell 6 in this case.

		Relative Resource-Produced Value		
		Lower	Parity	Higher
Relative Resource Costs	Lower	1 ?	2 Competitive Advantage	3 Competitive Advantage
	Parity	4 Competitive Disadvantage	5 Parity Position	6 Competitive Advantage
	Higher	7 Competitive Disadvantage	8 Competitive Disadvantage	9 ?

Figure 6: Competitive Position Matrix

Thus, if we look at the strategic advantages of a cluster approach to CSR, we see that it helps in what is called the Strategic Process and Direction Setting (Kriger, 2005) of the cluster and the individual firm. It helps in building the exploration process and the long-term cycles through organizational direction setting, vision formulation and development, leading to a transformation of organizational culture. It also strengthens the organization’s resources and capabilities, building intangible and tangible resources. Incorporating CSR through a cluster approach helps in goal-setting and planning by introducing processes and control systems that monitor the organizational goals effectively.

4. Different approaches to implement CSR

There can be different approaches to implementing CSR in an organization. One can be driven by the management's recognition of CSR as an important issue, and can drive it down into the organization through defined strategies and processes. Here, most of the decision-making process is one-sided and there is limited feedback from the employees during the decision-making process. Another method is to create an organizational identity organically in which the employees themselves define the scope of CSR for the company. A third approach is to have a mix of both, where a visionary leader inculcates his values as part of the organizational identity and involves the employees in a consensus-building, participatory process. Another variation of the top-down approach is the differentiated top-down approach where the underlying principles are the same but there is flexibility in the way it is implemented.

Characteristics of different approaches are identified with relevant examples from different papers and publications.

Wilh. Wilhelmsen (Hargett and Williams, 2009): In Norway, a prominent example of a company that has fostered a CSR tradition is Wilh. Wilhelmsen. Wilhelmsen Allmennaksjeselskap (WW ASA) is a global industry group operating in the maritime sector, providing shipping, logistics solutions and maritime services through a worldwide network consisting of 14,000 employees and over 330 offices in roughly 72 countries. The WW group has an annual turnover of USD 2.6 billion (2007) and is listed on the Oslo Stock Exchange. It was founded in Tonsberg in 1861, and now has its head office at Lysaker, Oslo. Today, Wilh. Wilhelmsen is one of the leading Norwegian centres for international maritime expertise. Wilh. Wilhelmsen endorses these ethical values: openness, honesty, loyalty, cooperation and responsibility (Wilh. Wilhelmsen n.d.).

The CSR practice in the company was initiated by the Wilhelmsen family and is carried on today by the majority owner Mr William Wilhelmsen. Wilh.Wilhelmsen is committed to sustainable development and has a corporate policy encouraging the triple bottom line approach (Hargett and Williams, 2009). It is evident that their CSR agenda is pursued actively by the leaders of the company and implemented effectively with the help of management tools and systems, such as Balanced Scorecard. The case study by Tonya R. Hargett and Marcia F. Williams (2009) shows quite clearly that there is an active will by top management to pursue and integrate the different aspects of sustainability and CSR into the daily activities of the company, and to increase awareness among employees. Though the terms CSR, sustainability and Triple Bottom Line (3BL) are not widely known within the organization, the employees identify easily with the practices in the company and also identify this as being part of the Scandinavian culture of caring for others and the environment. These practices, including care for employees and the environment, have been practiced implicitly over the years, starting with the founder, while the current CEO seems to have taken a broader scope for the organization's CSR activities. Wilh.Wilhelmsen is thus an example of a company that follows a top-down approach, inspired by the values of its leaders.

Stormberg A/S (Hoivik and Mele, Can a SME Become a Global Corporate Citizen? Evidence from a Case study, 2009): Stormberg is a Norwegian Clothing company producing outdoor and sports clothing. It was established in 1998 and now employs around 80 people and has an annual turnover of approximately USD 30 million.^{xvi} It manufactures these clothes in 14 factories in China, in Shanghai and Ningbo, while the designs of the collections are carried out in Norway.

Though in some sense Stormberg's approach to CSR is led by its visionary founder Mr Olsen, he has been able to pass on his motivation to the employees by creating an organizational

value-based identity. He has been able to transfer and embed his motivation into the company and the employees by caring for employees and adopting a participatory decision-making processes, thus sharing responsibility with the employees. Thus the company has both top-down and bottom-up approaches to CSR, with a focus on a consensus-driven participatory approach.

Marc Catala Network (Murillo and Lozano, 2009): The Marc Catala is a network initiative led by Escuela Superior de Administración y Dirección de Empresas (ESADE) to promote sustainability in the region primarily through CSR among the SMEs. It is a multi-stakeholder project with the following key features: inclusion, representation, legitimacy and collaborative working. The degree of involvement by different members is based on their personal motivation.

Asker municipality (Hoivik, 2002): The Asker municipality in Norway has implemented a bottom-up approach to building its value-focused organization identity as a municipality by first defining a joint vision and accessing existing values within the organization. Asker is a municipality just outside Oslo with close to 54,000 inhabitants. The realization that the employees faced ethical challenges as part of their daily work made the management recognize the importance of defining the vision and values of the municipality. The management also recognized that, for the values to be seriously acted on and be part of the long-term process, it was essential that the employees were involved in their definition. Moreover, the respect for employees as human beings, who have their own ethical values which may or may not match organizational values, led to a mostly bottom-up approach to the development of the municipality's vision and value statement.

The process followed was an iterative process using dialogue involving the leadership group, respective managers from all sectors/departments and the administrative director of the municipality. Reference groups were formed with representatives from all sectors of the

municipality. They participated jointly in identifying the vision and values and discussed their importance. This bottom-up process is an example of a method to internalize values through a dialogue process (Hoivik, Accessing, managing and sustaining moral values in organisations, a case study, 2002)

Fjord Seafood A/S (Huemer, 2009): Fjord was another company that followed a participatory approach in improving their CSR policy in Chile. Fjord was a Norwegian company founded in 1996, operating in the salmon industry and had significant presence in Chile before it merged with Marine Harvest and Pan Fish A/S in 2006.^{xvii} Fjord had a value wheel which encompassed the values it stood for as a company. In Chile, they followed a process taking in the employees' opinion through a survey to identify the concerns among its employees and creating a social action committee to address those issues.

PIONEER (Campi, 2008): PIONEER was a project carried out in the Lucca paper-producing cluster in Tuscany Italy. PIONEER (Paper Industry Operating in Network) is an experiment for Eco Management and Audit Scheme (EMAS). 'Revision' was a project testing the viability of a cluster approach to environmental management and also to diffuse the EMAS scheme within the cluster. The advantage of following this cluster approach, as part of the EMAS scheme, was that it helped those local players to adopt the scheme, like SMEs, who were service providers, who had not adopted the EMAS scheme earlier. The success of the cluster approach to EMAS diffusion came through a top-down, yet participatory, implementation process, by the setting up of a promotion committee, consisting of members from both public and private organizations in the cluster, who managed the environmental issues in the cluster by defining strategic guidelines and providing/managing common resources. The promotion committee, after reviewing the environmental issues of the cluster, defined an environmental policy for the cluster which could

be adopted by each player individually. Collective and cooperative programs were developed to realize this policy. This approach enabled the individual players to take on the policy and adopt their own EMAS programs to contribute to the cluster program.

The advantage of such a program was that it enabled the optimal use of resources through common processes like a common environmental review, territorial audit teams, and enhanced coordination by facilitating the flow of information through common websites. This was accomplished because the strategic guidelines and management were top-down, defined by the promotion committee. The promotion committee itself was a participatory organization helping to bring inputs from different players. Also the EMAS program was tailored individually by each organization, allowing for differences and value additions to the entire cluster program.

COOPERATE (Campi, 2008): COrporations OPerating in a Responsible and Transparent Environment was initiated to promote and diffuse CSR concepts, practices and tools among SMEs operating in Tuscany, Italy. The introduction of this project was proposed first in three clusters or industrial districts in Tuscany: the Empoli Clothing's industrial district, Lucca's paper industry cluster, and Santa Croce's tanning industrial district. This project, similar to PIONEER, intends to use a working group comprising players from different intermediary organizations in each cluster, who will focus on conducting and coordinating common activities for the cluster. The working group will focus on identifying the issues, perceived by the enterprises in the cluster, as the most relevant ones, and the tools necessary to implement projects to tackle these issues. Later, they will produce a common sustainability report and draft a cluster policy for social responsibility. Most of the activities of the working group are participatory, in the sense that the working group will take the feedback on the current status and

issues and also involve employees and other representatives in the diffusion and implementation of CSR.

Approaches	Characteristics	Individual Company	Group of Companies	Cluster
Top-down	<ul style="list-style-type: none"> •Initiated, defined and implemented by the management •Employees play limited role in the definition and implementation of these activities 		Wilhelmsen, Aker	
Bottom-up	<ul style="list-style-type: none"> •Employees play an active role in the definition and implementation of the activities (principles and practice) 	Asker Municipality		
Participatory	<ul style="list-style-type: none"> •A strong motivation in the form of vision and values (principles) are set and integrated by the management often in the form of an organizational identity •Employees play a definite role in the implementation of these values, in realization of the goals and in the continuous improvement of the processes (practices) 	Fjord A/S (now part of Marine Harvest), Stormberg		Marc Catala in Spain, COOPERATE, PIONEER

Figure 7: Different approaches to the implement CSR

5. Action plan to implement CSR in the Cluster

An action plan to integrate CSR in the cluster is proposed below. It is based on the article ‘Leading Change’ by Kotter (1995). The action plan follows a participatory approach and can be implemented for the whole cluster, or for a selected network involving those companies which are active in the subsea industry (excluding service providers like banks or consultancy firms if needed). ISO 26000^{xviii} can be used for the implementation of CSR.

Communicate the sense of urgency

- Report to the Storting, political/supplier push, market opportunities;
- Have awareness raising sessions—strategic and internal ethical reasons—creating the feeling of responsibility (use examples).

Form a steering committee

- Assemble people from different companies that are willing to be lead participants;
- The steering committee should be credible, in terms of knowledge, but more importantly in terms of the ability to communicate.

Create an organizational identity/framework for the cluster

- Identify the CSR issues faced by the companies by sending in surveys to the selected representatives from each company. Acquire detailed feedback from companies that already have operations abroad. Identify the already existing CSR initiatives among the companies. Ask all the representatives if they agree with the minimum standard of the UN global compact (as the UN Global compact is the basis for the Report 10 to Storting). This, in fact, forms part (identifying the social responsibility context) of the first step in the implementation process of ISO 26000. Being in a territorial cluster, operating in the same industry, many of the issues are common. Hence the relevant principles of ISO 26000 (general, substantive, operational and core responsibility issues) can be taken for the entire cluster.
- Use a participatory process to identify the principles and values that guide the organizational identity, e.g. use a survey among the employees of the companies to identify what the employees feel, and identify common values and goals. Then the steering committee can brainstorm on these and invite other representatives from all the

companies in the cluster to discuss these values in the form of focus groups. This process is bottom-up and participatory, ensuring commitment from the different players. However, the challenge here is that the cluster is a group of different companies operating in different areas; the organizational identity is influenced by the community relationships (Huemer, 2009). This complexity has to be kept in mind and care should be taken to define only the principles and values, not any specific practices. Moreover, an open mind is needed as the ways of realizing these values will differ in different cultures and different contexts, e.g. Wilhelmsen: (Hargett and Williams 2009, 80). (This is the second step in the implementation of ISO26000).

- Integrate ‘responsibility’ and ‘sustainability’ to the existing vision statement of the Cluster; NCE Subsea’s vision “To establish an environment for developing a world-leading cluster in subsea technology.”
- Create a common platform for communicating the organizational identity and vision.
- Communicate the identity and vision extensively through publications, websites etc.

Empower companies to act on the vision

- Draw out a common but flexible strategy guideline for implementing the ISO 26000 which can be used by individual SMEs. Each company can develop their own Strategy Map based on principles and visions identified, as well as the strategy guidelines, and then use a balanced score card to realize these strategies and report on the areas they choose to focus on. This strategy map can also be used to identify the Corporate Social Opportunities (CSO) company sees in the future.

- Conduct common competence training for management, overcome challenges: understand how to implement CSR; motivate employees; and develop organizational capabilities that foster ethical actions and responsibility.
- During the implementation phase, share examples from the companies who are the first movers in the clusters through meetings, discussions and setting up a common platform, for example, on the website where information can be shared, concerns and queries can be addressed.
- Create a timeline for different companies to start implementing the strategy guideline based on criteria like product/service impact, supplier impact (are they supplying to major multinationals or MNCs?), countries operating in, complexity of operations etc.

Create short term wins, measure and report

- Provide consultants at the cluster level who can assist in implementing ISO 26000 and verify CSR practices.
- Report on visible improvements at the cluster level. Make a common annual report describing the progress made and plans for improvement. Identify goals for the upcoming years.

Institutionalize new approach

- Again communicate the importance of doing well, create the feeling of responsibility.
- Describe and communicate successful stories with strategic and financial improvements arising out of the cluster approach to CSR. Challenge is in measuring the impact of CSR. This is where the use of Balanced score cards comes in handy as it is a means of turning good intentions into workable and profitable activities e.g: Wilhelmsen (Hargett and

Williams 2009, Pg 78). Printed publications (for the cluster) and articles on the website, in addition to forums, are a good way to reach all the employees in the cluster.

- Use the media to communicate positively about the activities at the cluster level and give examples of pioneers in the cluster.
- Identify, compare and communicate the improvement in regional/territorial competitiveness before and after the implementation of the cluster approach to CSR. (Brand image of the NCE subsea cluster, productivity, new innovations, international contracts, new international operations by SMEs, new companies etc.).

The steering committee can also engage the public authorities in facilitating dialogue between different stakeholders—national and international; public and private—,adopting appropriate policies and funding of activities. Another goal is to facilitate interaction between other regional clusters in Norway and abroad for knowledge sharing.

Before implementing this action plan on a full scale a pilot can be done with a few companies which are keen on implementing ISO26000, or already have started implementing ISO26000. This selection of companies can be done through a survey if needed. Criteria that can be considered for the selection process are the impact of the product or service, countries they are operating in. Are they operating in any country with significant human rights violation or are they operating in any undemocratic country?

As proposed earlier, a working group (steering committee) can be formed which can look into the CSR issues faced by the group of companies and identify the most important challenges. Based on the issues uncovered, the relevant topics from ISO 26000 can be implemented. ISO26000 is not certifiable, however, an internal audit mechanism can be defined to verify how the companies are implementing their CSR strategies and a common report can be published on

their CSR activities, and the visible improvements made at cluster level by the end of 2010. This report can be submitted to the Norwegian Mirror Committee on ISO 26000, chaired by Mr Einar Flydal. The pilot study should also focus on the benefit of the cluster approach vis-à-vis an individual implementation of the ISO26000. A qualitative understanding of this can be obtained by asking the concerned company representatives, either through a face-to-face interview or through a survey. Another way could be to quantify the resources spent on implementing ISO26000 for a single company, and comparing it to that spent in the pilot study. The advantage of such a pilot study is that, in addition to serving as a testing mechanism, if successful, it can also serve as a powerful example for the inclusion, representativity and legitimacy (Murillo and Lozano, 2009) of the cluster approach, and of a proactive strategy, motivating other SMEs to join in.

6. Case study: Aker Solutions setting operations in India

Aker Solutions ASA is a daughter company of Aker ASA, one of the largest industrial holding groups in Norway.^{xix} Aker Solution's operations in India come under the Energy and Services division: Aker Powergas Ltd, Mumbai and Pune, drilling services: Aker MH India Ltd, Mumbai, and the subsea division: Aker Subsea Ltd, India. Aker Powergas Ltd was the first Aker company in India and has been operating for the last 50 years.^{xx} In 2006, Aker Solution's contract with Reliance Industries Ltd in India for the KGD6^{xxi} led to the setting up of a service base in Kakinada, a port in the southern state of Andhra Pradesh.

Kakinada is a Tier2^{xxii} city in India and has a population of about 696,329, according to the 2007 census. Discovery of oil and gas in the Krishna-Godavari basin ^{xxiii} is driving the growth of the Kakinada area, with major Indian oil companies like Oil and Natural Gas

Corporation (ONGC) and Reliance operating in the region. Kakinada is also used as a transit point by international oil companies. Schlumberger and Baker Hughes are some of the international companies working in oil fields in the area. Reliance has built a 1,440 km pipeline from Kakinada to Baruch district in Gujarat to transport gas from the Krishna-Godavari basin fields owned by Reliance. Other major industries in the Kakinada area are fertilizer, biofuels and edible oil. Due to the presence of several industrial groups, especially after the discovery of oil and gas in the Krishna-Godavari basin, Kakinada has been recently (2006) accorded a Special Economic Zone (SEZ)^{xxiv}, and as a result a deep water port is being expanded, and work is now being done on infrastructure improvement. Even though the Kakinada Special Economic Zone (KSEZ) has received approval from the Government of India for setting up the 'port-based special economic zone', its development is still mired in political controversies, protests from farmers, fishermen etc.

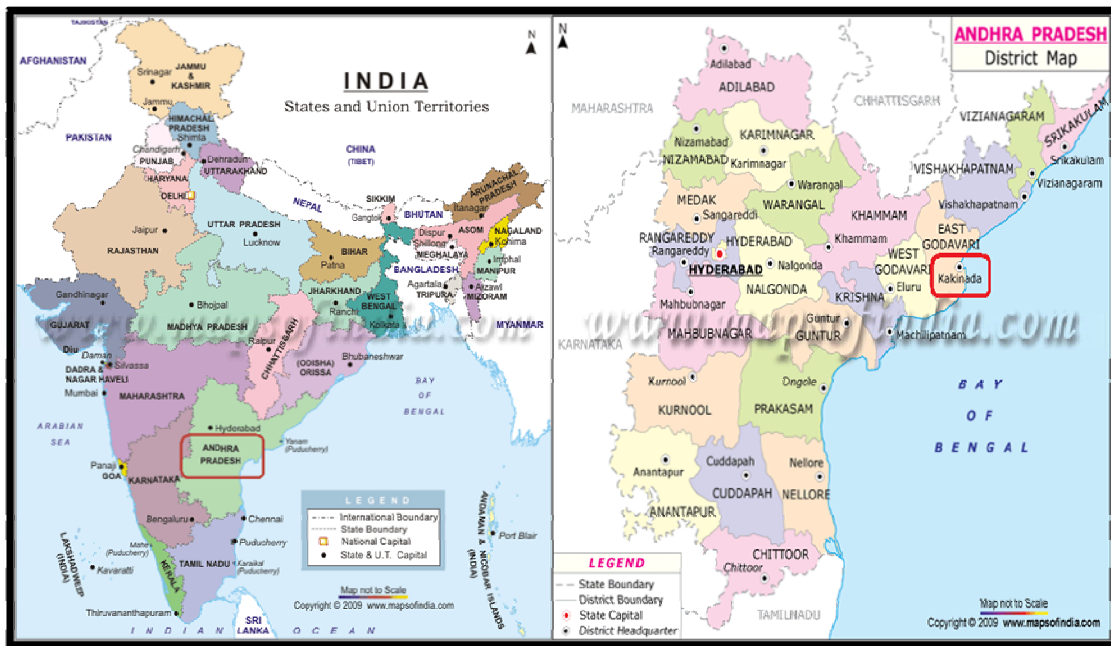


Figure 8: Location of Kakinada in India

(From www.mapsofindia.com)

The Reliance KGD6 project (which has the so-called MA oil field) is one of the largest gas projects in India and is the first deep-sea oil and gas production facility. This was also the first subsea project of Aker Solutions in India; a USD 400 million Engineering Procurement Constructions (EPC) contract for 18 wells. The scope of the work includes: subsea trees including Xmas Tree, manifolds, umbilicals, power cables, control systems and tie-in and connection system. Aker Solutions also delivered the Monoethylene Glycol (MEG) system (Carlsen, 2008). A service base with 30 people was built in Kakinada, on the Reliance site, to service both KGD6 gas fields and MA D6 oil fields. Mr Kurt Samuroy was heading the operations in Kakinada. He was interviewed on December 1, 2009^{xxv} to understand his

experiences while setting up the service base in Kakinada. The following paragraph is based on the interview.

Aker tries to have the same practices in all its offices. Aker companies worldwide share six common values which include a Health, Safety, Environment (HSE) mindset, delivering results, customer drive, people and teams, hands-on management and open and direct dialogue.^{xxvi} According to Hofstede's work on cultural dimensions, India has a high power distance index (PDI) and especially so when compared to Norway^{xxvii} and other Scandinavian countries.^{xxviii} This presented challenges in setting up Aker's open organizational culture in India, as local managers are used to being 'the boss'. This was solved by talking to the concerned persons and showing them the Aker way of doing things. Such consistent focus on an organization's values re-enforces legitimacy (Suchman, 1995). Challenges with regard to the environmental problems were particularly high. The feeling was that the general awareness about environmental problems was low and local companies were not so committed to the cause. For instance, washing trucks and letting the water seep into agricultural land is a common sight. One way of bringing in the Aker way of doing things is through training programs and employee rotations, especially of engineers. Engineers from India are transferred to Norway to learn the practices in the Aker headquarters. Adapting and hiring locally is also an ongoing practice at Aker. With regard to working conditions, salaries are benchmarked against other companies', both local and international, and they are on the higher side and include overtime and, in certain instances, even accommodation. Corruption was treated as a 'no go' and instances when faced with corruption directly were clearly dealt with. However, most of Aker subsea base contracts for setting up the facility were handled by the local company. Similarly, when selecting vendors,

the service base in Kakinada depended on the vendors approved by Aker PowergasLtd in Mumbai, who follow detailed internal processes, which take into consideration factors like the financial health of the company, technical capabilities, vendor's commitment to HSE etc. There is a lot of cooperation with other international companies operating in the same region in the form of knowledge sharing, like supplier information and also when dealing with security issues. This is especially true in Aker's experience while setting up bases in Angola and Nigeria, where there are lot of security issues and a wider gap between the local communities and the international companies. When personnel move from Norway to India or other international countries, they learn about the culture beforehand which eases the setting up of operations and aids in understanding the local situations better. According to Mr Samuroy, patience is very important when setting up operations abroad. It takes time to understand the local processes, the cost base, the culture etc. Collaboration between local partners, as well as international companies, helps in making things smoother.

Aker, due to its operational practices and working conditions, has been able to attract talented employees and faces less employee turnover in the local markets. Aker is also well respected by its customers and has been awarded new contracts. The Reliance KGD6 gas project was completed in the record time of 6 years compared to an average time of 9 years. The Reliance MA D6 project is also on a fast-track schedule and Aker's contribution has been crucial to the performance of this project (Carlsen, 2008).

7. Topics for further research

During the process of writing this report a number of questions have arisen. Some of the important questions that lend themselves for further research are described here. Can SMEs and

SME networks influence MNC practices, reverse pressure on the supply chain through innovative practices, reputational effects? What is the two-way learning that occurs when a large MNC stipulates the contract conditions for a SME supplier? How can managers improve their ability to network? What managerial characteristics in SME owner/managers increase the ability to capitalize on networking? What are the negative effects on an individual company when it is a part of a cluster? What are the implications of the positive feedback effects of umbrella branding? Will there be free-riding in the cluster and, if so, what are the reasons and how can that be minimized/improved? How can the increase in social capital 'trust', due to cluster approach to CSR, be measured?

Appendix

Initiatives across the world

1. UN-led initiatives

The United Nations has been actively encouraging CSR activities around the world. UN Global Compact is the largest such initiative.

1.1. Report of the World Commission on Environment and Development

The UN Report of the World Commission on Environment and Development, known as the ‘Brundtland Report’, named after the Norwegian prime minister and the chairman of the commission at the time, was issued in 1987. It has the subtitle ‘Our Common Future’ and adopts a threefold approach, embedding the originally envisaged environmental perspective into an economical and social sustainability context. This threefold perspective of sustainability, was adopted for the first time in the Brundtland Report, and was named the ‘triple bottom line’ by John Elkington in 1994, and is also called ‘people, planet, and profit’.

1.2. UN Global Compact

The UN Global compact is a United Nations initiative to encourage business to work towards sustainability by adopting the framework with ten principles, covering the areas of Human Rights, Labor, Environment and Anti-Corruption, and it brings together businesses with other stakeholders like UN agencies, labor groups and civil society. It was first announced in 1999 by the then UN Secretary-General, Kofi Annan, and launched officially in 2000.

The UN Global compact, the largest corporate social responsibility initiative in the world, has a membership of 5,200 corporations and stakeholders from 130 countries. The UN Global

Compact Board is appointed and chaired by the United Nations Secretary-General. The UN Global Compact has two main objectives:

- 1) To mainstream the ten principles in business activities around the world;
- 2) To catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs).

The Global Compact incorporates a transparency and accountability policy known as the Communication on Progress (COP).

The UN Global Compact is based on ten universally accepted principles derived from: The Universal Declaration of Human Rights 1947; The International Labor Organization's Declaration on Fundamental Principles and Rights at Work; The Rio Declaration on Environment and Development; and The United Nations Convention against Corruption.

- 1) Human Rights
 - a. Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.
 - b. Principle 2: Make sure that they are not complicit in human rights abuses.
- 2) Labor Standards
 - a. Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
 - b. Principle 4: the elimination of all forms of forced and compulsory labor.
 - c. Principle 5: the effective abolition of child labor.
 - d. Principle 6: the elimination of discrimination in respect of employment and occupation.

3) Environment

- a. Principle 7: Businesses should support a precautionary approach to environmental challenges.
- b. Principle 8: undertake initiatives to promote greater environmental responsibility.
- c. Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

4) Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

1.3. Global Reporting Initiative

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework called the GRI reporting framework. The GRI was started by the Ceres and the Tellus Institute in US partnership with the UN Environment Program (UNEP) in 1997 and it was established as a permanent institution with the secretariat in Amsterdam in 2000. The GRI works in collaboration with UNEP and UN Global Compact and has affiliated UN status. The GRI multi-stakeholder network consists of about 30,000 members, with experts spread across different countries of the world.

The G3 Reporting Framework provides guidance on how organizations can disclose their sustainability performance. This Framework is applicable to organizations of any size, constituency or location. This Framework facilitates transparency and accountability by organizations. The Framework has been developed through the process of systematic, consensus-seeking dialogue with a large network of individuals from over 60 countries, representing the stakeholders group and is continuously improved and expanded. The Reporting Framework

effectiveness can be measured on a set of Key Performance Indicators (KPI) divided into three broad categories: economic; environmental and social.

2. OECD

The Organization for Economic Cooperation and Development (OECD) started out as the Organization for European Economic Cooperation for reconstructing Europe as part of the Marshall Plan. Headquartered in Paris, its sphere of influence has now extended beyond Europe. Around 30 countries are its members; most of them developed countries who believe in representative democracy and a free-market economy. Norway is also one of the 30 member countries of OECD, which now works for a stronger, cleaner, fairer world economy.

2.1 OECD guidelines for multinational enterprises

The OECD has a mandate to cover economic, environmental and social issues and provides a platform for member countries to solve common problems and coordinate international policies. The OECD involves the government and members of civil society, such as businesses, trade unions and NGOs, in seeking solutions to common problems, thus improving the standard of living in member countries, as well contributing to the development of the world economy.

The OECD guidelines for Multinational Enterprises is an annex to the OECD declaration for international investment and multinational enterprises, and are legally non-binding recommendations which state voluntary principles and standards for responsible business conduct for multinational corporations operating in, or from, countries adhered to the Declaration.

3. ISO Standards

3.1. ISO 14000

ISO 14000 set of standards addresses environment management issues. It can be applied to any business irrespective of its size, revenue or location. This means how the organization can minimize harmful effects on the environment caused by its activities, and achieve continual improvement of its environmental performance.

3.2. ISO 26000

ISO 26000 is a guidance standard on social responsibility and is expected to be released in 2010. It is a voluntary standard and does not require any certification. It is a widely targeted document, intended for use by both public and private organizations across developing and developed countries. This standard is presented in more detail in Section 2.1.2. It is presented as a separate section since it is the latest in standard development related to social responsibility and could have a major impact on suppliers, particularly in developing countries.

3.3. SA 8000

SA 8000 is a global social accountability standard which ensures decent working conditions. It is developed by Social Accountability International, a nonprofit organization earlier known as the Council on Economic Priorities Accreditation Agency, and was founded in 1997 in the USA.

SA 8000 is a voluntary standard based on the UN declaration of Human Rights, Convention of the Child rights and ILO core conventions. This standard, designed by a multi-stakeholder advisory board comprised of members from corporations, government bodies, trade unions and NGOs, cover the following broad areas: child labor, forced labor, workplace safety and health, freedom of association, discrimination, working hours, remuneration, discipline and management systems. It is an auditable standard and there are two routes to adopt the standard:

membership or certification. Membership is generally designed for retail companies whereas certification is meant for manufacturers and suppliers. Member companies are required to produce annual reports stating their social accountability goals and their progress.

4. European Union (EU)

The EU is very keen on making CSR a priority within the European region. The EU commission on CSR has published a number of reports and made communications regarding the promotion of CSR with the EU region. The EU commission's definition of CSR is as follows "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

SMEs account for a major part of businesses in Europe and most of the enterprises are small or medium-sized. There are 23 million SMEs in the European Union, providing around 75 million jobs and accounting for 99% of all enterprises (European Expert Group on CSR and SMEs, March 2007). According to the European Commission website, in order to reap the full benefits of CSR, SMEs should be fully engaged with CSR activities, and the support and encouragement of CSR amongst SMEs is one of the priority areas for EU commission's policy on CSR.

4.1. European Union Directives

EU directives for CSR activities started in 1995 with the manifesto from the EU Commission president Jacques Delors called the 'Manifesto of Enterprises against Social Exclusion'. In 2000, with the Lisbon Council, CSR gained more prominence. In March 2007, the EU parliament adopted a non-legislative resolution on CSR which addresses social, environmental, accountability and transparency issues. This resolution is in line with the EU Commission's communication of CSR, in March 2006, which addresses CSR as a voluntary concept.

4.2. Euro Cities

Founded in 1986, Euro Cities is a network of major European cities that provides a platform to solve common problems, exchange ideas and find innovative solutions through a wide range of forums, like working groups, project activities and events. The network is made up of local governments of 130 cities in 30 European countries. The network works in the policy areas of economic development, social affairs, culture education, environment, transport, provision of public sources and provides the cities of Europe with a voice to engage in dialogue with EU institutions on different aspects of EU legislation and policies.

'Cities as Responsible Purchasers in Europe' (CARPE) is a guide to responsible procurement published by the Euro cities in November 2005. There are 12 member cities and they explore opportunities to pursue social and environmental criteria in their procurement practices.

These cannot only act as a valuable resource guide but also give us an idea of why it is essential for companies, who provide services, to start thinking about CSR in a more cohesive way.

5. Ethical Trade Initiative

The Ethical Trade Initiative (ETI) was set up in 1998 in the UK, with the primary intention of implementing corporate codes of practice, covering supply chain working conditions. It is an alliance of companies, non-governmental organizations and trade union organizations working together and bringing about a diverse knowledge base, to use towards constituting a common set of good practices and promoting proper labor conditions

The ETI works continuously towards identification and improvement of the ethical code implementation, redefining what constitutes 'good practice' in code implementation. In addition,

it also promotes other companies to join ETI and so make a public commitment to adopt the ETI base code and implement it in its supply chain.

ETI distinguishes Ethical Trade from Fair Trade, such that Ethical Trade involves the buying company taking responsibility for the working conditions (especially in the case of large multinational companies that outsource majority of their production) while Fair Trade is an approach aimed to support small producers in developing countries, where such producers are often marginalized and suffer from major fluctuations in world prices for their products (products such as coffee, cocoa, sugar).

6. Key steps of CSR in the European Union (European Trade Union Confederation 2007)

- 1995 European Commission President Jacques Delors and a group of European companies launch the *Manifesto of Enterprises against Social Exclusion*.
- March 2000 Lisbon European summit sets new strategic goal of making Europe the most competitive and dynamic knowledge-based economy in the world by 2010. For the first time, the European Council makes a special appeal to “companies’ corporate sense of social responsibility regarding best practice on lifelong learning, work organization, equal opportunities, social inclusion and sustainable development.”
- June 2000 EU adopts Social Policy Agenda, stressing the importance of CSR in adapting working conditions to the new economy.
- March 2001 European Council in Stockholm welcomes business initiatives to promote CSR and calls for a wide exchange of views around the forthcoming Green Paper.
- July 2001 European Commission publishes the Green Paper on promoting a European framework for CSR (COM/2001/366).
- July 2001 European Commission Communication on promoting core labor standards.
- October 2001 European Trade Union Confederation (ETUC) Executive Committee adopts a wide-ranging policy on CSR.
- July 2002 European Commission Communication on *Corporate Social Responsibility: A business contribution to sustainable development* (COM/2002/347).
- October European Commission sets up European Multi-Stakeholder Forum on CSR (CSR

- 2002 EMS Forum) to exchange good practices and assess common guidelines.
- June ETUC Executive Committee adopts resolution laying down a series of priorities for
2004 the development of CSR in Europe.
- 29 June
2004 CSR EMS Forum presents its report to the European Commission.
- 14 June
2005 European Commission conference on CSR in SMEs
- European Commission issues a new Communication: *Implementing the Partnership
for Growth and Jobs: Making Europe a pole of excellence on CSR*, and launches a
22 March
2006 ‘European Alliance for CSR’. The ETUC, together with a range of NGOs including
the Social Platform, accuses the Commission of adopting an unbalanced, unilateral
approach that gives undue weight to the interests of industry and business.
- The ETUC welcomed the European Parliament’s report on CSR, which it found
March brought the debate back onto the right track, recovering elements such as
2007 multilateralism, accountability and transparency, which had been lost in the recent
work of the Multi-stakeholder Forum.

Abbreviation list

Some of the commonly used abbreviations in the report are listed here

ABCD	Asset Based Community Development
ASA	Allmennaksjeselskap
C.A.T	Case Analysis Template
CSI	Corporate Social Innovation
CSO	Corporate Social Opportunity
CSR	Corporate Social Responsibility
EC	European Commission
EMAS	Eco Management and Audit Scheme
EITI	Extractive Industries Transparency Initiative
ESADE	Escuela Superior de Administración y Dirección de Empresas
ETI	Ethical Trade Initiative
ETUC	European Trade Union Confederation
EU	European Union
GRI	Global Reporting Initiative
GPS	Global Positioning System
HSE	Health, Safety, Environment
IISD	International Institute of Sustainable Development
ILO	International Labor Organization
SO	International Standards Organization
KPI	Key Performance Index
LOHAS	Lifestyles of Health and Sustainability
MDG	Millennium Development Goals
NGO	Non-Governmental Organization
OECD	Organization for Economic cooperation and Development
SA	Social Accountability
SME	Small Medium-sized Enterprises

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ⁱ http://inni.pacinst.org/inni/corporate_social_responsibility/ISO26000Working%20Draft2.pdf

ⁱⁱ Communicating CR is about expectation management, Sigurd Grytten, Burson and Marsteller, Corporate Responsibility (CR), 8. September 2009, presentation to the Master of Science students at BI Norwegian School of Management, Oslo.

ⁱⁱⁱ Norwegian People's Aid (NPA) is the humanitarian organization of the Norwegian trade union movement and one of the largest NGOs in Norway. See <http://www.npaid.org/> for further information.

^{iv} Tomra Systems, headquartered in Asker, Norway is a global provider of advanced systems which enables recovery and recycling of materials. See <http://www.tomra.com/> for further information.

^v Achilles is a company created in Norway in 1990 that identifies, qualifies, evaluates and monitors suppliers for major organizations worldwide. Achilles builds and supports buyer-supplier communities creating global networks and providing sustainable procurement services to help businesses. Achilles has developed a Joint Qualification System for buyers and suppliers. Using this Joint Qualification System, buyers obtain access to industry-wide suppliers and select suppliers based on specified criteria, like financial information, quality and HSE standards, certifications etc. Refer <http://www.achilles.no/services/fko/index.html> for more information.

^{vi} <http://www.lohas.com.au/what-lohas>

^{vii} http://www.businessweek.com/magazine/content/05_34/b3948515.htm

^{viii} Small Firms: Report of the committee of Inquiry on small firms, JE Bolton 1971, London: HMSO

^{ix} Scandic, a Scandinavian hotel chain headquartered in Sweden, is known for reinventing itself by pursuing environmental sustainability as a core business after it nearly went bankrupt in the early 1990s. To have a sustainable brand it placed *Omtanke* at the core of its business model. *Omtanke* is Swedish for thoughtfulness, care and consideration.

^x EITI sets a global standard for companies operating in the mining and oil and gas sectors. EITI is a coalition of governments, civil institutions and multi-national companies. Its aim is to make natural resources benefit all.

^{xi} Agency Theory

^{xii} http://www.innovations-report.com/html/reports/economy_finances/report-103037.html#

^{xiii} http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/h_rs00040.html

^{xiv} <http://www.globalreporting.org/LearningAndSupport/SupportForSMEs/SmallerEnterprises.htm>, accessed on 13/12/2009

^{xv} The Marlin goldmine in Western Guatemala, operated by Montana, faced threats to operation due to lack of community consent. The community feared that the operation of the mine caused the pollution of local water supply. Montana set up an independent community-based environmental monitoring committee called AMAC. AMAC operates independently and the environmental monitoring is conducted by the local communities. AMAC is independent from the company and is funded by Montana in an indirect way, guaranteeing AMAC's independence. Montana also provided AMAC with the initial training and capacity building.

^{xvi} <https://www.stormberg.no/no/Om-Stormberg/>

^{xvii} <http://www.marineharvest.com/en/About-Marine-Harvest/History/>

^{xviii} ISO26000 being a guidance standard provides an excellent means of awareness-raising. It covers all the issues related to social responsibility and can be adopted flexibly

^{xix} <http://www.akerasa.com/section.cfm?path=377>

^{xx} <http://www.akersolutions.com/Internet/AboutUs/AkerKvaernerGroup/GroupStructure/EDS/India.htm>

^{xxi} KG stands for Krishna Godavari Basin, D6 refers to a particular block of natural gas resources in this basin.

^{xxii} http://en.wikipedia.org/wiki/Status_of_Indian_cities

^{xxiii} Krishna and Godavari are two east-flowing rivers, flowing into the Bay of Bengal through the state of Andhra Pradesh. The Krishna-Godavari river basin is spread over an area of 50,000 sq km and is known for some of the largest gas discoveries in India in recent years. Reliance Industries Limited owns D-6 block in this region which was the largest gas discovery in 2002 (14 trillion cu feet). Subsequently, others companies like Gujarat State Petroleum Corporation and ONGC discovered significant gas reserves in 2005 (20 trillion cu feet) and June 2009 respectively (10trillion cu feet). Meanwhile RIL also discovered additional gas in the region in May2009 (20 trillion cu feet- D3 and D9 blocks).

^{xxiv} Special Economic Zone is an area of the country where there are incentives to do business. Duties and tariffs are reduced or eliminated, and bureaucratic requirements are lowered so that more companies are attracted to the area. In India, the policy for setting up an SEZ was introduced on April 1, 2000, with a view to providing a competitive

environment for exports. The Indian policy for setting up a SEZ was launched in the year 2000 with the aim of improving exports and SEZ can operate in the public, private, joint sector.

^{xxv} At Bergen, Ms Inger Beatte Petterson, project manager was also present

^{xxvi} <http://www.akersolutions.com/Internet/CR/Values/Ourvalues.htm>

^{xxvii} PDI in India is 71, PDI world average is 56.5, PDI in Norway/Scandinavia is 25

^{xxviii} http://www.geert-hofstede.com/hofstede_india.shtml