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# MEETING IN THE MIDDLE

Using Stakeholder Theory to Create Shared Value as a  
Way of Increasing CSR Implementation Amongst SMEs

*-An Icelandic Perspective*

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## ABSTRACT

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TITLE:	Meeting in the Middle: Using Stakeholder Theory to Create Shared Value as a Way of Increasing CSR Implementation in SMEs – An Icelandic Perspective
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THESIS PURPOSE:	The purpose of this thesis is to explore SMEs' relations to stakeholders when implementing corporate social responsibility. Furthermore, it examines what role the size of the SMEs play in implementing CSR and in managing stakeholders. The thesis explores whether the competitive landscape of the market creates tension where SMEs' decision makers feel pressured to choose between doing well financially and socially. Additionally, the thesis aims to find a solution that will engage SMEs to partake in CSR to a greater extent by utilizing stakeholder theory and the notion of creating shared value.
METHODOLOGY:	A quantitative research method was used.
THEORETICAL PERSPECTIVE:	The thesis is mainly based on two theories, stakeholder theory and the notion of creating shared value.
EMPIRICAL DATA:	The empirical data was gathered from the 582 survey responses received from Icelandic SMEs.
CONCLUSION:	This thesis helps bridge the gap of low CSR implementation rate in SMEs and finds that increasing awareness of impact is a key aspect of increasing implementation along with addressing the most important motivation for CSR implementation, the altruistic motivation. Furthermore, this thesis suggests that CSR implementation in SMEs could be improved by combining stakeholder theory with the notion of creating shared value. Our findings identify four key networking tools that could assist in doing so through the implementation of the framework we have created based on these findings, the SME Network System.

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# 1 INTRODUCTION

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## 1.1 THE STORY OF TOMS

*In 2006, an American tourist backpacking through Argentina met an American volunteer at a café as she was working on a shoe drive. She told the tourist that even in a country like Argentina, children and impoverished people have limited access to proper shoes. Those long walks to and from school, the collecting of clean water and performing other daily activities increase the risk of getting blisters and sores that then become infected to the point of becoming a deadly threat. This American tourist was Blake Mycoskie who started the shoe manufacturing company Toms a year after this encounter with the volunteer in Argentina. His idea was to manufacture the typical Argentinian style shoe, altered for the American market, with the help of local manufacturers in Argentina. He then marketed them in the United States with the visionary concept of bettering the world one shoe pair at a time, donating one pair of shoes to people in need for each pair sold.*

*Up until now Toms has helped millions of people around the world starting out with shoes and later in other ways as well. Although best recognized for their shoe project, Toms has taken on more visionary bettering measures relating to each one of their products. Selling glasses to sponsor the project of improving sight for impoverished people, funding better access of clean water through the purchase of their coffee products, supporting safe births in impoverished countries sponsored through the purchasing of Toms bags and their latest project being a local one in the United States, targeting bullying sponsored by the sales of Toms backpacks.*

*Toms is a great example on how vision and altruistic measures can focus on meeting unmet needs in the society and still be profitable. (Toms, 2017; Mycoskie, 2011)*

## 1.2 THE CORPORATE MACRO ENVIRONMENT

Today's society is calling for measures of improvements. Societal ills such as environmental problems, poverty, inequality and health care concerns are fractions of the problems today's communities face on a global scale (Moyo, 2016; Hart & Milstein, 2003; Margolis and Walsh, 2003). The global society is calling and the key players of society, government and corporations (Margolis and Walsh, 2003) need to respond. The earlier example of Toms represents an ideal measure of how a firm can juxtapose meeting all stakeholders needs and take on part of the responsibility for improvements to better the global situation at hand. However, not every company can take this particular route and no single company can take it upon itself to save the world. The

collective effort of corporations is a way of raising awareness of the possible tools firms can implement to improve the overall situation. Firms are pressured to give back and are held accountable for making profit by using up natural resources, and only when they have maximized their utility, the firms decide it is time to give back and support the society (Moyo, 2015; Hart & Milstein, 2003; Margolis and Walsh, 2003). Furthermore, firms are under greater pressure to behave responsibly in today's internet era where the media and self-appointed judges of the internet are quick to punish a firm that strays from their declared values (Fournier & Avery, 2011). Therefore, it is vital to look more long term and to invest now in the future rather than focusing only on short term profits or short term fixes. As stated previously, firms currently reside in turbulent times. Thus, managers must look to the external context in which they operate in, local and global.

The stalled economic growth rate in the world, shortcomings of capitalism, political instability, financial instability, aging population and devouring of natural resources are some of the global problems that the companies operating around the world are facing (Kapferer, 2012, p. 124). The society and corporations need to realize that every little act has a modest impact on the world and consider the billions of modest impacts occurring worldwide (Kapferer, 2012, p. 124). Consequently, it can also be interpreted in a positive way, every modest positive impact counts. Therefore, firms should be held accountable to make an effort of solving societal and environmental problems. The challenge seems to be finding a rational approach for firms, to reduce short term profits for a long term oriented solution of improving societal issues (Frigant, 2015).

Over the last two decades, there have been considerable strides in engaging corporations to own up to part of the responsibility. According to KPMG, 95% of the 250 largest companies issued a sustainability report (KPMG, 2011). NGOs and political unions have set standards for the industry in reaching certain goals globally and industry leaders are now attempting to lead by example. Nonetheless, many small and medium size companies seem to be more aware of the issues, yet are not engaged in formally implementing changes to their business in attempting to improve the current situation (Revell and Blackburn, 2007). Despite seeming more aware of the impact companies have on the society, the small and medium sized companies are still lacking behind in these matters and do not feel that they should bear as much of the responsibility as larger corporations (Cassells & Lewis, 2011; Lee, Herold, Yu, 2016). Even though the individual impact of the small and medium sized corporations is perhaps not an altering impact of such, their collective negative impact is considerable as small and medium size companies collectively make up the 95% of global companies (Kerr, 2006). A suitable quote from a noted Polish philosopher, Stanislaw Jerzy Lec— *No snowflake ever feels responsible for an avalanche*, sums up the situation at hand in a more poetic manner.

The implementation of corporate social responsibility programs, or CSR, have become a standard for large corporations globally attempting to address these problems and answering societal pressure. CSR involves firms complying with the laws of each country and integrating social,

environmental, ethical, consumer, and human rights concerns into their business strategy and operations. (European Commission, 2017). However, these standards have mainly focused on larger corporations, leaving the small and medium sized companies free to choose how they approach the matter. Research has demonstrated that many small and medium size enterprises, or SMEs, are in fact participating in some sort of CSR activities but they are often fragmented and informal (Russo & Tencati, 2009). Those fragmented activities are striven, although not very efficient and non-strategic (Castka, Balzarova, Bamber & Sharp, 2004). This thesis argues that the fragmented use of resources by SMEs is of concern since it neither provides a measurable outcome of CSR to firms' stakeholders nor is being used to enhance companies' intangible assets such as reputation, trust, legitimacy and brand value. Thus, the sustainable value that potentially could be created is lost. Therefore, it is important that the lack of formality within SMEs' CSR be brought to light.

### 1.3 PURPOSE

The purpose of this thesis is to explore SMEs' relations to stakeholders when implementing corporate social responsibility. Furthermore, it examines what role the size of the SMEs play in implementing CSR and in managing stakeholders. The thesis explores whether the competitive landscape of the market creates tension where SMEs' decision makers feel pressured to choose between doing well financially and socially. Additionally, the thesis aims to find a solution that will engage SMEs to partake in CSR to a greater extent by utilizing stakeholder theory and the notion of creating shared value.

### 1.4 RESEARCH QUESTION

How can SMEs attend to various stakeholders while increasing CSR implementation rate?

### 1.5 STRUCTURE

The structure of this thesis will be as follows: The literature review covers the challenges that companies are facing in today's world before providing a definition of SMEs and CSR. The thesis then covers CSR implementation of SMEs through stakeholder theory covering main motivations for addressing each stakeholder. The thesis then covers the challenges SMEs face when implementing CSR tools before exploring the notion of creating shared value and how key networking tools can be beneficial in overcoming implementation barriers. Thereafter, the method and design of the study is outlined leading into presentation of the results. This is followed by discussion and a conclusion presenting a potential solution to the problem at hand.

## 2 LITERATURE REVIEW

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### 2.1 THE WORLD OF 21ST CENTURY COMPANIES

As mentioned earlier, companies in today's interconnected world must be aware of the immediate reputational threat they face. With increased technology, the introduction of internet 2.0 led to advancements of the online community, granting everyone that has an opinion a platform to express it (Fournier & Avery, 2011; Roper & Fill, 2012). With the increased pressure from external forces for companies to implement corporate social responsibility and follow through, the internet has provided a platform where stakeholders can keep track of firms' CSR processes. Enabling civil societies to stand watch on their interests and defend them publicly. Firms and individuals are under constant threat of receiving criticism or becoming a viral parody from the smallest of errors (Fournier & Avery, 2011). Therefore, intangibles assets such as reputation, brand value, and goodwill have become a part of attributes that can differentiate a firm (Kapferer, 2012).

Firms must tend to and guard these intangible assets against attacks from online critics and media (Fournier & Avery, 2011). For service firms these measures are even more crucial since they do not have tangible products to rely on (Roper & Fill, 2012). Jenkins (2004) brings contrasting arguments by stating that SMEs are not as affected by reputational damage since they are often mainly dealing with other businesses and not consumers. Thus, SMEs are less visible to the public eye. Jenkins (2004) continues and states that SMEs commonly do not have a brand or image that they must care for. However, there are 13 years since Jenkins published her article and today's internet 2.0 and social media era has changed drastically. Rating systems and rating sites have become the new norm and trusted source of opinions. A study by Luca (2011) found that on the rating website Yelp, a one star increase can lead to a 5 – 9 percent extra revenue and that Yelp has been a contributor to large chain restaurant losing market share. Glassdoor is another recent rating site that allows employees to write their sentiments of the firm they are employed at or were previously employed at (Glassdoor, 2017). The information that Glassdoor provides include salaries, working culture, organizational structure, views of management and interview process. This platform can cause trouble for companies who do not have their affairs in order and tend to their employees (Maurer, 2017). Another rating website that has been studied in previous literature is TripAdvisor. TripAdvisor allows users to rate everything from restaurants, sights, tourist attractions and accommodation options. A study by Jeacle and Carter (2011) found that TripAdvisor is increasingly used and trusted by travelers when planning a holiday. Therefore, small retailers and service companies are often dependent on such sources to maintain their reputation (Roper and Fill, 2012).

Fournier and Avery (2011), also argue that the online environment and internet 2.0 brings great potential for increasing value of firms' intangible assets as brand communities and collective action has helped brands and firms differentiate. However, just as the benefits of online marketing via various platforms can be abundant, the drawbacks of entering the spotlight of online social

collective groups are potentially as devastating if it then turns against the firm. These social collectives are self-interest entity whose activities are not necessarily aligned with the best interests of a brand or firm. (Fournier & Avery, 2011, p 5). Therefore, it is important for firms to ensure they act responsibly in order to protect those intangible assets.

Even though the emphasis of companies acting responsibly has been gaining momentum in the private industry over the last two decades (Johnson & Schaltegger, 2016), the society is in general more cynical regarding the objectives and motives of businesses (Roper & Fill, 2012). These current times present a critical trial as the active watch over civil society ensures that firms are behaving responsibly. Advocates of alleviating societal problems, such as environmental activists are quick to cause trouble for those firms that misbehave on various platforms. These troubles do not only affect the firm responsible, the firms that are connected to them can be affected as well. The example of Lego attracting negative publicity from Greenpeace because of the Shell logo being on their toys since beginning of 1960s shows the impact that such pressure can cause. Eventually Lego resigned from their partnership due to the external pressure (Vaughan, 2014). This demonstrates how all stakeholders that the firm has relations to can potentially be conflicting and damaging to the firm's reputation, indirectly or directly. Since SMEs are often suppliers for larger firms (Russo & Perrini, 2010), and therefore reliant on them for income, there is an increase pressure not only from society but from larger firms as well to act socially responsibly as to manage the risk of reputational damage to the larger firms. If SMEs do not follow up, it can end up having negative effect on their desirability to be employed by larger firms. (Fresner & Engelhardt 2004)

## 2.2 WHAT ARE SMES?

The Organization for Economic Co-operation and Development defines SMEs in the following way;

*Small and medium-sized enterprises (SMEs) are non-subsiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees. (OECD, 2005)*

As stated in the definition, there is not a global consent regarding the definition as it differs among countries. In the United States companies employing less than 500 are considered SMEs (OECD, 2005). Collins, Lawrence, Pavlovich and Ryan (2007) argued that in a small market such as New Zealand, companies that had over 100 employees were considered large and companies employing 100 or less were therefore considered SMEs. However, for the purposes of this thesis, the European Union definition of SMEs will apply. SMEs represent 99% of all European companies, accounting for over 66% of employment (European Commission, 2015). SMEs therefore play an important role within the modern global economy (Moore & Manring, 2009) especially when looking at the statistics of employment. As Kapferer (2012) argued that every impact matters, in a positive and a negative way, Kerr (2006) further states that 95% of total global firms are SMEs and therefore

there is a growing pressure on SMEs to implement practices in order to create sustainable enterprises to decelerate the negative impacts on society and environment. Therefore, this thesis argues that SMEs should be held accountable to the same extent as large corporations.

## 2.3 WHAT IS CSR?

### 2.3.1 DEFINITION

As mentioned earlier, there is high pressure and expectations of companies to do good and implement corporate social responsibility, or CSR. Therefore, CSR has become an increasingly popular research subject over the past couple of decades (Johnson & Schaltegger, 2016). CSR has been defined in different ways but this thesis will be using the most recent European Commission's description of CSR provided on their website.

The European Commission describes CSR as the companies' own act of being responsible for their impact on society. The actions should be integrated into the businesses' operations, by following the set government regulations as well as the non-regulated social, environmental and ethical concerns. Although government can and should in some cases provide support and regulation, CSR should mainly be led by the company itself. The European Commission also mentions the importance of CSR in regards to various stakeholders such as consumers, society and the general EU economy (European Commission, 2017).

This brief definition covers a broad range of areas that need to be taken into consideration by companies. Such as, who should be responsible, what regulations should be followed, and the importance of considering stakeholders in CSR decision making. However, the definition does not make a distinction between the difference of CSR in a small family run business and a multinational company. This has become an important topic in the recent research done on CSR. Although at first, the literature mainly focused on large corporations, there has been a rise in investigations of CSR within SMEs (Johnson & Schaltegger, 2016).

### 2.3.2 LARGE VS SMALL

The majority of CSR research has been performed within large companies and implementation tools made accordingly. In recent times, researchers have attempted to close the knowledge gap that exists regarding the lack of research done of CSR implementation for SMEs. Both qualitative and quantitative studies within specific regions or countries have addressed the difference between CSR within SMEs and larger companies, pointing out the problems of comparing SMEs to the larger companies (Jansson, Nilsson, Modig & Hed Vall, 2017; Johnson, 2015; Lee, Herold & Yu, 2016; Russo & Tencati, 2009; Williams & Schaefer, 2013). This has shed a light on the problem of whether SMEs should be expected to utilize the large corporations' CSR implementation tools and their agenda. Thus, being unfairly benchmarked against large firms. Even the term itself, "corporate social responsibility" can reinforce the belief that a CSR agenda is only meant for large corporations and MNCs (Castka et al., 2004). Generally, SMEs and micro sized firms have been

found to lack tools, time, and financial resources necessary to implement CSR strategies to the same extent that the larger firms do and should therefore not be put under the same hat but rather be approached differently (Russo & Tencati, 2009). Small and medium sized firms also tend to see their size as a factor allowing them to be more flexible in their contribution within CSR and not share the same degree of responsibility as larger firms (Lee, Herold, Yu, 2016)

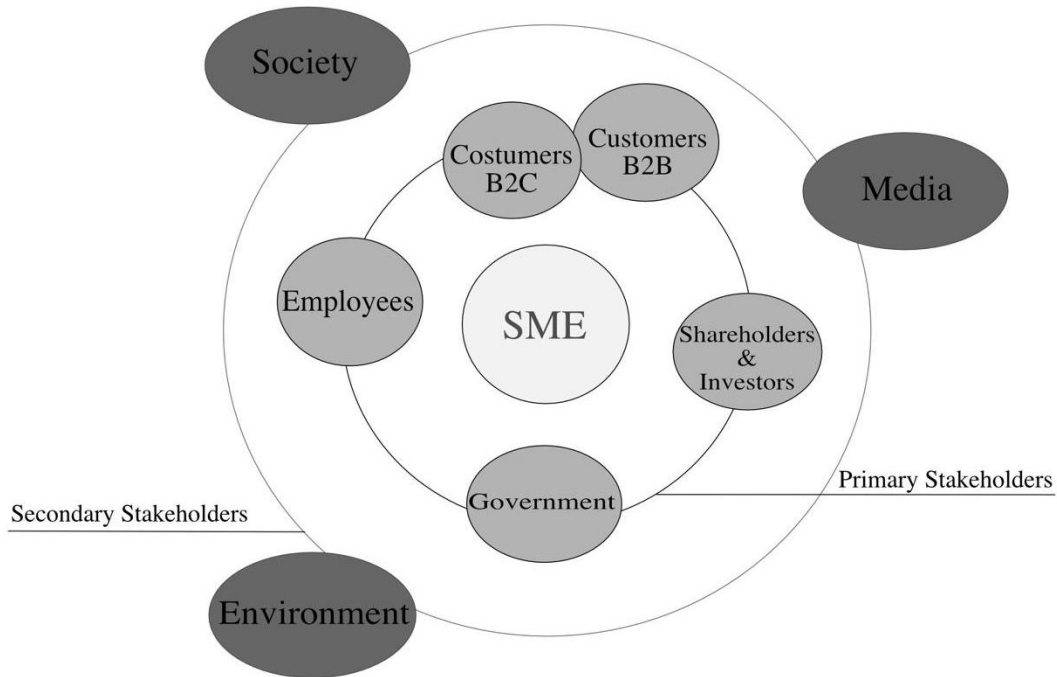
Therefore, the problem remains, to what extent should small and medium size companies be held responsible considering that they tend to lack many of the vital inputs needed to implement CSR agenda. Furthermore, even if they did implement a CSR agenda, who or what stakeholders should they emphasize on when dealing with scarce resources? The rest of the literature review will cover two main ideas and how they apply to CSR within SMEs; stakeholder theory and the notion of creating shared value.

## 2.4 STAKEHOLDER THEORY

Donaldson and Preston (1995) emphasize the importance of being able to identify the companies' stakeholders along with their roles and expectations to construct a CSR agenda. Freeman (2010) identified stakeholders as all those individuals or groups that either influence or are influenced by an organization's acts and decisions, managerial decisions such as what CSR approach to take should therefore be made with the relevant stakeholders in mind. As mentioned earlier, the European Commission (2017) considers addressing stakeholders' needs an important part of CSR. Russo and Perrini (2010) furthermore state the importance of stakeholders by claiming that companies can no longer solely look at profit as their measure of success. Maintaining a good relationship with stakeholders and sacrificing short-term profit for long-term value adding activities by addressing stakeholders' interest is beneficial for the company's long-term success.

### 2.4.1 PRIMARY AND SECONDARY STAKEHOLDERS

A pivotal aspect of stakeholder theory is being able to balance the interests of all stakeholders (Freeman, 2010). According to Jenkins (2004), companies' relationships with their stakeholders depends on the size of the company. Whereas larger companies will have a formal and defined relationship with their stakeholders, SMEs interact with their stakeholders on a more personal level, often characterized by trust and informality. Clarkson (1995) grouped stakeholders into primary and secondary stakeholders. Primary stakeholders are those groups or individuals that are fundamental for the survival of the company whereas secondary stakeholders are the stakeholders that influence or are influenced by the company but do not make or break it on their own. Based on this definition, this thesis identifies the seven most important stakeholders for SMEs, four primary ones, and three secondary ones. Furthermore, it will address why SMEs implement and follow a CSR agenda as a way of pleasing the stakeholders. Figure 1 below shows the identified primary and secondary stakeholders:



*Figure 1: SME's Stakeholders*

The following section will further define all seven stakeholders and look into why the SMEs might be motivated to please each one of them by implementing CSR. Bansal and Roth (2000) identified three types of environmental motives which have later been adapted by other researchers (Williams & Schaefer, 2013; Gadenne, Kennedy & McKeiver, 2009) and will be used in this thesis in a more general sense to identify the motivations behind implementing CSR based on each stakeholder. These motivations include the business case, that is the possibility of profiting from implementing CSR, external pressure of implementing CSR, and managers' internal motivation of "doing the right thing".

#### 2.4.2 PRIMARY STAKEHOLDERS

##### *CUSTOMERS*

Customers are one of the most important stakeholders for companies to be successful, this section covers the different ways in which SMEs can implement CSR to satisfy their customers, covering both the individual customers (B2C) and the corporate customers (B2B) as the two have different characteristics and should therefore be treated separately.



## INDIVIDUALS (B2C)

The individual customers have the power to boycott companies as a way of protesting their lack of social and environmental practices, hurting the company's image and performance (Mishra & Suar, 2010). To prevent such incidences, companies need to behave and come across as socially responsible firms. Chernev and Blair (2015) found that one way in which companies can do that is through their product packaging. Companies that state their socially responsible practices on product packaging can create a so-called halo effect around their brand and thereby increase their financial performance through increasing brand reputation. The halo effect has customers choose to purchase one product over another one because of CSR statements on a product's packaging (Chernev & Blair, 2015).

## LARGE CORPORATIONS (B2B)

However, Jenkins (2004) points out that SMEs seldom experience the same type of pressure from customers nor have the same responsibility of protecting a brand as the larger companies do. This can be due to the fact that many SMEs do not directly deal with individuals as their main customers are often larger companies. However, with today's increasing pressure put on large corporations to implement CSR, they have begun to emphasize a responsible supply chain. Industry giants like Unilever, Nestle, Coca Cola, Starbucks and British American Tobacco all have a public policy regarding the standards their suppliers must meet (British American Tobacco, 2017; Coca Cola, 2017; Nestle, 2017; Starbucks, 2017; Starbucks, 2017). Thus, SMEs that primarily do business with large companies can then succumb to pressure to uphold the same CSR standards as the large company does to respond to the customers' demand of a transparent supply chain. Choosing not to do so would lead to the SMEs potentially losing one of their main stakeholder, the large company, thereby risking their whole business (Jenkins, 2004).

Therefore, SMEs are motivated to please their customers by implementing CSR in two ways. Firstly, by the business case, that is, the possibility of making profit from their CSR activities, and secondly because of the external pressure from the customers themselves.

## *EMPLOYEES*

Other stakeholders worth satisfying by having implemented a good CSR agenda are the employees. It has been shown that socially responsible companies with a good reputation attract more applicants and therefore have a better chance of hiring highly qualified employees than companies that do not have the evidence of being as socially responsible (Greening & Turban, 2000). Jenkins (2004) also points out that by investing in employees, the company can benefit financially and increase employees' loyalty and productivity.

However, Hemingway and Maclagan (2004) argue that not all socially responsible behavior is driven by such economic motives. Decision making in smaller companies, such as the hiring process, is often up to the manager or a single employee within the company and therefore, one

person's values and beliefs can strongly influence the decision. Managers' moral and even religious views can have a big say in their companies view on CSR towards employment and employees' benefits. Therefore, personal beliefs and the want to "do the right thing" can be a motivation when it comes to taking care of and considering employees as a part of the implementation of CSR in SMEs (Lee, Herold & Yu, 2016; Williams & Schaefer, 2013).

Therefore, employees can motivate SMEs to implement CSR either by the business case (possible profits gained) of attracting good employees and treating them well or by addressing employees/managers' internal want of "doing good".

#### *SHAREHOLDERS AND INVESTORS*

Due to the heterogeneity of SMEs in terms of size and structure (Hillary, 2004), considering shareholders and investors as important stakeholders in CSR implementation is not always applicable. While shareholders and investors are mentioned as the main stakeholders in CSR literature for large companies, some SMEs have no or very few shareholders or investors (Jenkins, 2004). However, this thesis will discuss shareholders and investors as primary stakeholders when applicable as entrepreneurial companies and tech startups in particular rely greatly on outside funding from investors to get their business started (Zider, 1998).

It has been shown that investing in socially responsible activities can improve a company's financial performance (Hammann, Habisch & Pechlaner, 2009), benefitting the owner and other shareholders (if present). In line with these findings, investors are nowadays becoming more concerned with CSR as it can directly reflect the overall performance of a company (The SME Key organization, 2003 cited by Jenkins, 2004).

It can therefore be suggested that the business case is the main motivation for SMEs to implement CSR from the shareholders and investors' perspective.

#### *GOVERNMENT*

Basic requirements of CSR are regulated by governments (Torugsa, O'Donohue & Hecker, 2013) and work as strong incentives for companies to implement CSR as they will often face consequences in the form of fines and penalties by not doing so (Bansal & Roth, 2000). Government can therefore be a powerful stakeholder. However, SMEs do often not have to follow the same governmental regulations as the larger companies (Ammenberg, Börjesson, and Hjelm, 1999 cited by Perez-Sanchez, Barton & Bower, 2003) it has therefore been suggested that they should instead consider networking through a local community as a proactive solution of implementing CSR (Perez-Sanchez, Barton & Bower, 2003). Sen and Cowley (2013), discussed how SMEs can gain increased power and be heard better by governments by being a part of such a network system. Government support at a local level then becomes important in supporting such a system as the local government is a key player in influencing a more sustainable way of doing business since it shares many of the similar qualities that SMEs have (Russo & Tencati, 2009).

SMEs are therefore motivated by external governmental pressure as regulations and laws need to be followed. Hence, SMEs are motivated by the business case of not losing money due to governmental fines and penalties. Such negative motivations of CSR implementation are concerning as it can lead to greenwashing from external governmental pressure, that is, firms claiming to have environmental standards that they do not have (Delmas & Burbano, 2011).

### 2.4.3 SECONDARY STAKEHOLDERS

#### *MEDIA*

As mentioned earlier, SMEs are not affected by the media to the same extent as large companies are as they are generally under less pressure (Lee, Herold & Yu, 2016). However, media coverage of CSR has increased dramatically over the past couple of decades and the media is increasingly keeping companies accountable for conducting ethical behaviors and following through on CSR promises (Kang, Germann & Grewal, 2015; Middlemiss, 2003). The increased coverage is by and large a result of heightened social media usage (Fournier & Avery, 2011; González-Rodríguez, Díaz-Fernández & Simonetti, 2015).

The media is powerful in shaping people's thoughts and opinions (Williams & Schaefer, 2013). Therefore, companies need to be consistent and follow through with their CSR statements to avoid bad publicity as unethical and bad behaviour can harm the brand image and negatively affect financial performance (González-Rodríguez, Díaz-Fernández & Simonetti, 2015).

SMEs can therefore to a certain extent be influenced and motivated by the media to implement CSR to respond to the external pressure from the media and avoid the financial downfalls that come with negative publicity.

#### *SOCIETY*

As SMEs are such a large part of communities and collectively providers of employment for a large portion of society (European Commission, 2015), the society is a secondary stakeholder for SMEs as well. Companies want to maintain and build up their legitimacy to the outside world by addressing the local communities' request of taking an action within society (Bansal & Roth, 2000). Without presenting legitimacy to the society and surrounding community, the business will not receive approval to run their business (Lee, Herold & Yu, 2016).

SMEs can therefore be motivated to implement CSR to live up to the external pressure from society. As with other stakeholders such as media and government, the motivation of the business case also applies to the society as negative or positive reaction from society can affect the company's financial performance.

## *THE ENVIRONMENT*

Businesses receive important input such as natural resources and raw material from the environment and should therefore be held responsible to give back to the environment and treat it with respect (Agarwal, 2008). Lately, environmental pressure has become as important as financial or managerial pressure, and managers are expected to be environmentally conscious and rethink the whole production process with the environment in mind (Montabon, Melnyk, Sroufe & Calantone, 2000). Therefore, consistent with Williams and Schaefer (2013) findings, this thesis will consider the environment as a stakeholder for SMEs.

## ENVIRONMENTAL ORGANIZATIONS

The environmental NGOs speak on behalf of the environment. Environmental activists have found it more effective to target the companies themselves rather than trying to affect regulations by putting the companies under pressure to solve their environmental problems (Spar & La Mure, 2003). SMEs seldom get put under such intense pressure as the larger companies do, even though as mentioned above, SMEs have a significant collective impact on the environment. Therefore, the environment itself should be considered as an important secondary stakeholder. Furthermore, Gadenne, Kennedy and McKeiver (2009) found that three factors influence the environmental outcomes of SMEs; legislation, suppliers' pressure, and environmental attitudes.

It can therefore be concluded that SMEs could have several different motivations for considering the environment as a stakeholder with external pressure being the most apparent one.

### 2.4.4 TYING TOGETHER THE STAKEHOLDERS

By looking at the different stakeholders, it becomes apparent that the heterogeneity of SMEs makes it difficult to generalize which stakeholders are the most important to address and how a CSR agenda can be constructed based on that. However, stakeholder theory is still important to consider (Jenkins, 2006) since the pressure of "doing good" seems to be increasing from all stakeholders as Jónsdóttir and Steinþórsson (2009) showed in their study of CSR in Iceland. Of their respondents, 83% stated that the pressure on companies to implement CSR would increase over the next two years, suggesting that the SMEs are increasingly expected to implement CSR whether they choose to do so themselves or because of stakeholders' pressure.

As mentioned earlier, SMEs have a difficult time implementing a formal CSR agenda even with the numerous SME specific CSR tools that been created. SMEs need a solution that is more customizable than the available tools and addresses each company's needs and responds to stakeholders' needs with a mutually supportive framework (Donaldson & Preston, 1995). To explore the impact and pressure that each stakeholder puts on SMEs, their decision making towards CSR implementation, and whether the size of the SMEs play a role in the equation, the following hypotheses are proposed to see whether SMEs experience pressure from the abovementioned stakeholders and whether the stakeholders are providing assistance in the implementation of CSR:

H1A: The larger the SMEs, the more pressure they experience from customers to implement CSR.

H1B: The larger the SMEs, the more pressure they experience from employees to implement CSR.

H1C: The larger the SMEs, the more pressure they experience from shareholders/investors to implement CSR.

H1D: The larger the SMEs, the more pressure they experience from the government to implement CSR.

H1E: The larger the SMEs, the more pressure they experience from the society to implement CSR.

H1F: The larger the SMEs, the more pressure they experience from the media to implement CSR.

H1G: The larger the SMEs, the more pressure they experience from environmental organizations to implement CSR.

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H2A: The larger the SMEs, the more assistance they receive from customers to implement CSR.

H2B: The larger the SMEs, the more assistance they receive from employees to implement CSR.

H2C: The larger the SMEs, the more assistance they receive from shareholders/investors to implement CSR.

H2D: The larger the SMEs, the more assistance they receive from the government to implement CSR.

H2E: The larger the SMEs, the more assistance they receive from the society to implement CSR.

H2F: The larger the SMEs, the more assistance they receive from the media to implement CSR.

H2G: The larger the SMEs, the more assistance they receive from environmental organizations to implement CSR.

## 2.5 WHAT ARE THE POSITIVE OUTCOMES OF IMPLEMENTING CSR?

The three aforementioned motivations for implementing CSR to please the various stakeholders have one thing in common: The motivations are sparked by the possibility of positive outcomes. As mentioned before, the business case can lead to the positive outcome of a better financial performance (Kapoor & Sandhu, 2010; Mishra & Suar, 2010; van Beurden & Gössling, 2008). The altruistic/internal motivation can lead to the positive outcome of believing that the company (which often represents the manager himself/herself in an SME) is giving back and doing something good for society (Hemingway & Maclagan, 2004). Lastly, external pressure as a motivation for implementing CSR can lead to positive outcomes such as avoiding fines and penalties by obeying regulations, maintenance of license to operate and lowering the risk of jeopardizing the business by not responding to external pressure from powerful players (Bansal & Roth, 2000).

It is important to note that companies are often motivated by a combination of the three (Bansal & Roth, 2000). However, the literature has mainly focused on the business case as a motivator for SMEs to implement CSR (Murillo & Lozano, 2006; Revell & Blackburn, 2007; Revell, Stokes & Chen, 2010; Stoian & Gilman, 2017) and as concluded above for all seven stakeholders, the business case can always be seen as a motivating factor for SMEs to implement CSR. Therefore, to test whether the business case is perceived to be the most important motivator for SMEs when implementing CSR as suggested by the literature, we propose the following hypothesis to compare the three motivators suggested; the business case, the altruistic motivator, and the external pressure motivator.

H3: The business case is the most important motivation for SMEs to implement CSR.

## 2.6 WHY ARE THE AVAILABLE TOOLS NOT BEING IMPLEMENTED?

Even though, as stated above, the literature has identified multiple positive outcomes of SMEs implementing CSR. There is still evidence that majority of SMEs have not implemented the CSR tools available. This includes both general CSR implementation tools and specific SME tailored tools (Johnson & Schaltegger, 2016).

It is interesting to see whether the size of the SME plays a role in the rate of implementation of a formal (a publicly accessible plan of action regarding social and/or environmental issues) CSR

strategy as the literature suggests that smaller companies tend to be less likely to have a formal CSR strategy in place (Russo & Tencati, 2009). The following hypothesis helps answer this:

H4: The smaller the company, the less likely it is to have a formal CSR strategy in place.

The next section will explore the possible explanations for the proposed low implementation rate and discuss the barriers firms face when dealing with CSR implementation. The barriers will be divided into three categories: Awareness of impact, complexity of tools, and lack of resources.

#### 2.6.1 AWARENESS OF IMPACT

Lee, Herold and Yu (2016) point out that SMEs may experience less pressure to partake in CSR related activities due to them having perceived lesser impact both environmentally and socially than larger companies. However, it has been shown that although the individual firm's impact might not be significant, collectively it is, since SMEs account for the majority of all European companies (European Commission, 2015). Increasing awareness has been recognized as a crucial part of generating internal expertise needed for implementation (Perez-Sanchez, Barton & Bower, 2003) as Gadenne, Kennedy and McKeiver (2009) showed how the more aware SME managers are of the benefits of partaking in environmentally responsible practices, the more likely they are to implement them.

The notion of SMEs having perceived less awareness of impact due to their size is explored in the following hypotheses:

H5A: The smaller the company, the less aware it is of their social impact.

H5B: The smaller the company, the less aware it is of their environmental impact.

#### 2.6.2 COMPLEXITY OF TOOLS

Lack of understanding and knowledge of how to implement the available tools can hinder SMEs from getting involved with CSR. Although, awareness has been raised as studies have shown, awareness does not necessarily translate directly into actions. (Ammenberg & Hjelm, 2003; Revell & Blackburn, 2007). Companies can therefore be aware of their impact yet not know of or how to implement the tools available. Murillo and Lozano (2006) argue that for SMEs, the term CSR can seem distant, hard to execute and even counterproductive. Furthermore, an empirical study from London and an Italian study both argued that perceived complexity of CSR can be an obstacle for SMEs, discouraging them from pursuing it (DTI, 2002 cited in Castka et al., 2004; Perrini & Tencati, 2006). Although many SME specific CSR implementation tools have been developed (Burke & Gaughran, 2006; Côté, Booth & Louis, 2006; Bull, 2007; Koroljova & Voronova, 2007), Johnson and Schaltegger (2016) discuss how the implementation rate of these SME specific CSR tools is low as none of them have become as widely implemented compared to the tools available

for the larger companies. Therefore, it is interesting to see if perceived complexity of the tools could be a part of the reason for why the available tools are not being implemented.

### 2.6.3 LACK OF RESOURCES

Another possible reason for the low implementation rate could be lack of resources. Although awareness and understanding of the available tools was to be improved, the lack of resources in terms of time and capital can hinder SMEs commitment to CSR (Gonzalez-Benito & Gonzalez-Benito, 2005). The accepted tools which are widely used by larger corporations are complex and require significant amount of resources that SMEs do not possess (Lee, Herold & Yu, 2016). Besides being low on financial resources, SMEs also lack the proper management skills. The scarce resources and limited management capacity translate into unwillingness to take on sustainable improvements in a strategic manner (Cassells and Lewis, 2011).

To better understand how much the notion of both complexity and lack of resources is perceived as obstacles for SMEs when implementing a CSR agenda, the following hypotheses are proposed:

H6A: The smaller the company, the more likely it is to see the complexity of implementing CSR as an obstacle of implementing a formal CSR agenda.

H6B: The smaller the company, lack of resources become more of an obstacle for implementing a formal CSR agenda

## 2.7 CREATING SHARED VALUE

The literature has suggested that CSR for SMEs can be looked at through the theory of social capital (Russo & Tencati, 2009; Sen & Cowley, 2013). The notion of social capital has been around since the 1990s and can be defined as “the norms and networks that enable people to act collectively” (Woolcock & Narayan, 2000). However, this thesis will be focusing on a closely related theory by Porter and Kramer (2011), the theory of creating shared value (CSV).

### 2.7.1 SHARED VALUE AS A SOLUTION?

CSR implementation can be looked at from an angle that is more visionary than the previously mentioned stakeholder approach to CSR. The notion of “creating shared value” is used to seek engagement from corporations to act in terms of bettering society and environment (Porter & Kramer, 2011). Porter and Kramer (2011) introduced the shared value concept as an attempt to unite corporations and society in solving issues and meeting unmet needs. They discuss the issue at a more macro level and emphasize capitalism inadequacy and its’ narrow conception, linking it to businesses not being able to live up to their potentials to meet society's challenges. This is supported by Dambisa Moyo (2016) who discusses concerns for repercussions arising from the purer forms of capitalism, linking it to stalled global economic growth rate. She claims this to be a key issue in hindering development of solutions to society's ills.



Porter, Kramer (2011) and Moyo (2015) argue the paramount of being open minded when considering actions in attempting to improve society. Furthermore, Porter and Kramer (2011) state that corporate purpose must be redefined as creating value and shifting focus from purely economic gains (or the business case), presenting it as a possible solution to reshaping capitalism and reacting to stalled economic growth by increasing innovation and productivity. Porter and Kramer (2011) discuss the need to emphasize giving up short term profits for the vision of creating shared value. Furthermore, Porter and Kramer (2011) discuss briefly how regulations and policies with penalizing efforts are put on corporations by governments and trade unions in order to attempt to gain control of the situation. However, without the shared common goal of creating more value for society it is only a band-aid on a broken system and without the appropriate governance it will be hard to mend.

Porter and Kramer (2011) manage to frame a complex problem in a neat way in their own terms. The most noteworthy part in this article is the framing of the concept in a simplistic manner of trying to get stakeholders and society to execute a common vision. Engaging with the larger community and corporations to join forces initiating a transformation in value creation and defying capitalistic ideals of firms' behavior in the market is imperative in taking a step towards mending some of societies' ailments.

## 2.7.2 THE FLAWS OF THE SHARED VALUE CONCEPT

### *TENSION FROM THE FIRMS' STANDPOINT*

Despite Porters and Kramer's renowned journal of shared value it has met some valid criticism, which might explain why it has mere sparkled at the aspirational level without touching upon the practicable aspect of the notion. Crane, Palazzo, Spence and Matten (2014) wrote a detailed counter to Porters and Kramer's journal by bringing up several flaws to the noble notion of the CSV. An essential limitation being the ignorance of the tension residing between the economic and societal goals, a significant oversight into the complex problem of to what extent firms can or should contribute towards social ills. The tension that Crane et al. (2014) discourse is supported by Margolis and Walsh (2003), who also argue the contradictions of the purpose of the firm from an economic standpoint and social expectations. Crane et al. (2014) further emphasize the problem by stating that most CSR and stakeholder management literature have ignored this tension. The tension between firms and society revolves around the previous definitions of firms' sole objective, to create profit for shareholders (Margolis & Walsh, 2003; Crane et al., 2014). As firms take measures risking that objective by allocating resources that could be put towards creating profit towards society without seeing any immediate causal tangible wealth generates a dilemma for the firm (Margolis & Walsh, 2003).

These CSR efforts and social incentives have been objected in the literature, Jensen (2002, cited by Margolis and Walsh, 2003) states that over two centuries of work in economics and finance point out that when all firms within the economy manage to maximize wealth, social welfare is

also maximized. Friedman (1970 cited by Margolis and Walsh, (2003) takes this argument further and condemns CSR investments as theft and political subversions, ultimately stating it unacceptable to devote company resources to address social ills. The least distance between these bipolar viewpoints of the objectives of a firm is to be found within the previously mentioned stakeholder theory (Margolis & Walsh, 2003; Crane et al., 2014). Margolis and Walsh (2003) add that the potential of stakeholder theory is hindered by assumptions calculated to accommodate economic factors. Margolis and Walsh (2003) state that the existing literature regarding stakeholder theory revolves around emphasizing outcomes and mostly financial as a reason to convince managers about the importance of stakeholders. Margolis and Walsh then ask: “What happens when attention to stakeholder interests yields results that diverge from the wealth maximizing ambitions of its shareholders?” (Margolis & Walsh, 2003, p. 13)

Therefore, it can be seen that both stakeholder theory and the notion of creating shared value have benefits and limitations. Thus, when combined could be applied both at the macro and the micro level as a way of increasing CSR implementation in SMEs.

#### *MARKET NORMS VS. SOCIAL NORMS*

The previous section discusses how stakeholder management and CSR literature have ignored the tension of firms’ objectives of creating profit (Crane et al., 2014). This thesis argues that since the nature of SMEs and their managerial circumstances, the tension of market norms and social norms at the individual level should be taken into considerations as well, as SMEs are most often privately held and operated by owners in a local community. SMEs’ operations often include a single operating unit and mostly local workers (Jenkins, 2004). Russo and Tencati (2009) discuss the tendency of micro firms for implementing responsible practices at certain stakeholders over others. They continue by stating that independent owners have tendencies to personalize relationship amongst society and businesses, since SME can often be family firms (Jenkins, 2004). These circumstances can cause tension when managers are conflicting under what norms to operate and have close relationships within the company as well as in its operating community. Therefore, this thesis argues that the tension at the individual management level can add on to the existing tension of firm objectives, especially amongst micro firms. Behavioral economics literature suggests that the tension of market norms and social norms clashing is also found at the individual levels. By individual levels we mean how individuals within society behave on everyday basis. Dan Ariely (2009), a noted author within behavioral economics, has performed several studies on the matter of engagement of people when working under social norms versus working under market norms.

Ariely (2009) argues that as the two norms intersect, people seem to enter into a contradiction of outcome of certain situations similar to corporations in the previous sections. When two people interact, one working under the assumption that this is a social interaction with another that is acting under market norms, collision is bound to happen. The situation of market norms and social norms must be handled delicately and the expectations of each party involved delegated to ensure the outcome matches expectations. Too summon this up, Ariely (2009) examples have shown that

people are more willing to do things free and only motivated by the emotional rewards, than an undesirable market norm outcome. Table 1 below further explains the difference between social norms and market norms.

Social norms	Market norms
Social norms engages people by the promise of emotional rewards. Economic or tangible rewards are not expected nor wanted.	Market norms are governed by economic rewards and cost benefit analyses. Where people work for payment and are motivated by tangibles value or economic gains
<p data-bbox="211 577 479 609"><b>Example of norm collision</b></p> <p data-bbox="211 619 1359 745">A lawyer is approached and asked to work for 30% of his fee for a good cause, declines the offer. Then later he is asked if he would work for free for a good cause and surprisingly he agrees. In this example it can be seen where the market norms failed since the work did not equal the market rewards. The social norms instead prevailed since doing it for free would deliver an altruistic reward, which was better than low financial rewards.</p>	

*Table 1: Social norms vs market norms*

In order to attempt gaining widespread engagement, these limitations and tensions must be contemplated. It can be argued that a change of this high degree needs a grand vision such as the notion of creating shared value to initiate engagement. Nonetheless, it is pivotal not to overlook the practicalities and the reality of how this vision can be achieved in small steps. Johnson and Schaltegger (2016) argued that those who are advising SMEs on sustainable measures should shift focus from the business case along with its cost saving agenda but rather emphasize value driven arguments in order to attempt further CSR engagement amongst SMEs.

### 2.7.3 MEETING IN THE MIDDLE

Meeting in the middle of the two aforementioned theories could engage SMEs in CSR implementation. Therefore, this thesis argues that creating a platform where SMEs can utilize stakeholder theory while creating shared value through networking and collaboration is of essence to encourage CSR commitment amongst SMEs.

Johnson and Schaltegger (2016) conclude their article with a summary of main focus points that implementation tools must fulfill. One of those key criteria is networking tools as a mean to increase widespread engagement of SMEs. Group and network oriented tools are considered promising in overcoming barriers to implementing CSR yet have not been researched extensively (Johnson & Schaltegger, 2016). Network and group oriented tools have gained leverage within the literature and have shown some interesting potentials by encouraging a greater diffusion in SMEs (Ammenberg & Hjelm 2003; Castka et al. 2004; Collins et al. 2007; Johnson & Schaltegger, 2016). Ammenberg and Hjelm, (2003) argue that the implementation of tools via network can encourage SMEs to implement alongside their cooperative peers in pursuing a common goal of generating sustainable value, thereby creating a form of shared value. Neamtu (2011) found evidence for

SMEs being more positive towards implementation tools when motivated by peers and stated that SMEs see peers as a trusted source of inspirations for implementing CSR. By generating local network and support programs for SMEs, a powerful synergy and potential domino effect in CSR implementation could be generated. Collins et al. (2007) have also discussed the importance of a more holistic view of CSR by seeing the benefits of looking at a single business that is interrelated to other organizations and that the actions of one firm can influence another.

There have also been discussions within the literature of the interdependency of key players within society, consisting and the lack of governmental incentives to encourage SMEs to improve/implement a CSR agenda in pursuing a common goal of improved social and environmental performance (Ammenberg & Hjelm, 2003). Hadjikani, Lee and Ghauri (2008). SMEs need to become more engaged to increase their CSR commitment in order to be more sustainable. To do so, shared value needs to be created between the main stakeholders. Those must be taken into considerations since they are all interrelated directly or indirectly. Firms need the support and a stable platform to work in and socio political units stand to gain from increased employment and social welfare of society. This interrelationship is mutually beneficial for both parties in establishing legitimacy and trust which will increase commitment between actors (Hadjikani, Lee & Ghauri, 2008).

As the literature review covers, SMEs are not implementing CSR, even with the available tools and the increased pressure from stakeholders. SMEs tend to work towards a short-term profit despite the proven results of the positive outcomes of implementing CSR. Porter and Kramer's (2011) solution of shared value cannot be applied effectively to the global level of solving societal problems as the critics point out. Therefore, in attempt to overcome the barriers of widespread engagement, networking with a common goal could potentially be beneficial for SMEs to initiate the engagement of implementing CSR.

## 2.8 THE KEY NETWORKING TOOLS

As this thesis discusses SMEs and not the whole capitalistic system as Porter and Kramer do, it is interesting to see if modifying the concept of shared value to fit SMEs in a networking system controlled by a central figure could assist in increasing SMEs' CSR implementation rate. The importance of networking for SMEs is known (Jäsmä, Tahtinen, Ryan & Pallari, 2011). However, researchers have pointed out the low implementation rate and the lack of research done of such tools for SMEs to assist them in implementing CSR, despite its ability of simplifying the implementation process while reducing cost of CSR (Johnson & Schaltegger, 2016; Moore & Spence, 2006). The following four networking methods mentioned in the literature will hereafter be mentioned as "the key networking tools" as this thesis recognizes these four ways as the main ways of networking and assist SMEs in implementing a formal CSR strategy thereby creating shared value to satisfy the main stakeholders.

1. **Network Benchmarking:** Jenkins (2004) suggests SMEs' willingness of using a benchmarking through networking as a way of learning how to implement CSR from successful SMEs, perhaps looking specifically at companies within the same sector. Furthermore, researchers have stated that benchmarking is especially beneficial when evaluating SMEs' environmental performance (Burke & Gaughran, 2006; Halila, 2007; Zorpas, 2010).
2. **Network Cooperating:** The literature has suggested that SMEs would be willing to cooperate with each other and even with their competitors as peer suggestions are valuable for their business and provide insight from within the industry (Jämsä et al., 2011; Neamțu, 2011). SMEs tend to be more trusting of information and suggestions coming from their peers than advisory organizations (Willims and Schaefer, 2013). Furthermore, Spence and Schmidpeter (2003) support the notion that SME networking cooperation can help both the SMEs themselves and the society as a whole.
3. **Network Access:** Although there has not been much research done on SMEs access to networking to assist with CSR, Jenkins (2004) found that SMEs generally felt that networking solutions were confusing as they were aimed at larger companies and not tailored to the different needs of SMEs, therefore there was a lack of access to CSR networking for SMEs. Furthermore, SMEs are frustrated with the multiple overlapping advices from different sources, stating their willingness to go through a single, localized networking point which would connect SMEs, give advice, and educate (DTI, 2002 cited by Castka, 2004).
4. **Network Assistance:** Murillo and Lozano (2009) stated that increasing CSR implementation within SMEs is not necessarily about creating new tools but rather to assist the SMEs by clarifying CSR in terms of objectives and initiate the efforts needed. They furthermore point out that for such a network to work, a network leader that is trusted and committed is needed to connect the SMEs within the network. Cooperation of third parties connecting SMEs together and getting them involved in CSR is needed for increased engagement (DTI, 2002 cited by Castka, 2004).

Therefore, hypothesis seven explores SMEs' interest in implementing the key networking tools that would create shared value while attending to the appropriate stakeholders' needs and whether the interest depends on the size of the SME:

H7: The smaller the SME the more interested it is in implementing CSR through the key networking tools

## 3 METHOD

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### 3.1 ACCESS – WHY STUDY ICELAND?

The ability to gain access to companies in this short time frame was the main reason for strategically choosing to study Icelandic SMEs. Both authors are very familiar with the market, and possessed the knowledge of where to turn to in order to gain access to the desired sample. Therefore, Icelandic SMEs were chosen as the source of data.

The access of data was through the service company Credit Info which operates under license from the Icelandic Company Registrar (Fyrirtækjaskrá). The following chapter presents background information on the Icelandic economy to set the scene for the reader before presenting further description of data collection.

#### 3.1.2 BACKGROUND INFORMATION ON ICELAND

Iceland took a hard hit during the 2008 financial crisis becoming the first developed country in 30 years to request assistance from the International Monetary Fund. Iceland's currency, the Icelandic Krona (ISK) fell by 95% against the dollar partially due to the unrealistically high interest rates which for an economy of roughly 300,000 people created an illusion of wealth, eventually causing the bubble to burst (Danielsson, 2008). Despite this, Iceland's economy has risen again at a fast pace to levels last seen before the 2008 crisis. Unemployment rates have dropped to levels not seen for the last 10 years. This is largely due to the country's rise in the tourism industry (Focus Economics, 2017) but according to Statistics Iceland (2017) over 2.3 million people went through the international airport in 2016 compared to roughly 900,000 in 2007. This economic growth resulted in new micro, small and middle size companies springing up.

Along with the economic growth, Iceland has been under a lot of pressure after experiencing more and more problems with environmental and social standards. In February of 2017 The Institute of Economic Studies (2017) released a climate report stating the pressure and the actions that need to be taken if Iceland is to uphold their end of the Paris Agreement to reduce emission in 2030 compared to 1990 by 40%. It has become clear that Iceland will be struggling to reach the goal of the Paris Agreement if they do not plan accordingly.

Although tourism has helped turn around the Icelandic economy, the tourism industry more than doubles the country's population during the busiest months of the year, affecting infrastructure, the health care system, the legal system, and the environment. Although the industry has been growing gradually over the past years, the rate of growth was highly underestimated, leading to 600,000 people utilizing a system built for 300,000 people. The tourism industry has been termed the "Dutch disease" a common term used to describe a sudden inflow of foreign currency into an economy due to one industry's success. This leads to an appreciation of the ISK, causing problems for other industries such as the fishing industry (Arion Banki, 2016).

According to Skemman (2017), a comprehensive database of articles and studies done within all universities in Iceland, a total of 48 articles have been written on the subject of CSR in Iceland. Most of them are industry specific or qualitative studies and do not give a clear picture of the overall CSR environment in Iceland especially not with the surge in new SMEs over the last few years.

### 3.2 RESEARCH PHILOSOPHY

As this thesis objectively measures SMEs' CSR efforts in a quantitative manner, a positivist stance is taken. However, as this is measured from a human-interest perspective (that is the managers) and considering various stakeholders, it cannot be declared that the thesis is purely positivist (Easterby-Smith, Thorpe & Jackson, 2015). Therefore, this thesis follows a critical realism research philosophy or a "version of positivism and constructionism, but with more emphasis on the former" (Easterby-Smith, Thorpe & Jackson, 2015, p.59). The critical realism philosophy is comprised of three different divisions, the empirical, the actual and the real. The empirical division represents the managers' view of their company's CSR activities and their motives for implementation. The actual division represents the SMEs' CSR activities that take place in reality. The real domain covers undetectable causal powers such as stakeholder pressure, and the tension between firms' objectives and society's expectations. Together the three divisions give an insight into CSR implementation in SMEs (Bhaskar, 1978 cited by Easterby-Smith, Thorpe & Jackson, 2015). Therefore, this thesis attempts to build on previous theories of CSR implementation within SMEs by utilizing stakeholder theory and the creation of shared value in order to fill in the knowledge gap of the low implementation rate of CSR within SMEs.

### 3.3 RESEARCH APPROACH

Due to the philosophical position adopted, a mostly deductive research approach was taken. That is, previous theories were utilized to generate the hypotheses and the survey questionnaire. The survey was then sent out to the chosen sample described below. The survey provided us with the tools to make observations and confirmation of the hypotheses from the data (Burns & Burns, 2008). The findings were then compared to previous studies done within the field shown in Table 2 below.

### 3.4 RESEARCH STRATEGY

A cross-sectional internet based survey was performed due to time and cost limitations. As suggested by Burns and Burns (2008), the survey started with an introductory message from the researchers along with a short explanation of CSR to ensure a common understanding of the term. The first three questions were of factual nature to establish the demographics of the companies surveyed and to ease into the more challenging questions. The following 18 questions further explored the implementation of CSR within the SMEs, SMEs' motives, and the perceived environmental and social impact of SMEs. Furthermore, four of the questions explored managers' interest in the possibility of CSR implementation through networking.

As seen in the questionnaire in Appendix A, a 5-point Likert scale was used for most questions using a nominal scale of measurement. Although, the Likert scale questions mainly measured intensity, a couple of questions were frequency based (Burns & Burns, 2008). Besides the CSR explanation at the beginning of the survey, the questions were kept as simple as possible and unnecessary explanations were avoided. Respondents picked the best fitting option each time and ticking multiple options was not allowed. Table 2 below provides an overview of the hypotheses, relevant questions regarding each hypothesis and what sources they were based on.



<b>H1</b>	<i>The larger the SMEs, the more pressure they experience from stakeholders to implement CSR</i>				
Question	To what extent do companies of my size feel pressured to implement CSR from the following stakeholders				
	<b>H1a</b> Customers	<b>H1c</b> Shareholders/ Investors	<b>H1e</b> Society	<b>H1g</b> Environmental Organizations	
	<b>H1b</b> Employees	<b>H1d</b> Government	<b>H1f</b> Media		
Source	Ammenberg, Börjesson, & Hjelm, 1999; Jenkins, 2004; Russo and Perrini, 2010 Williams & Schaefer, 2013 and Lee, Herold & Yu, 2015				
<b>H2</b>	<i>The larger the SMEs, the more assistance they receive from stakeholders to implement CSR</i>				
Question	To what extent do companies of my size receive assistance in implementing CSR from the following stakeholders				
	<b>H2a</b> Customers	<b>H2c</b> Shareholders/ Investors	<b>H2e</b> Society	<b>H2g</b> Environmental Organizations	
	<b>H2b</b> Employees	<b>H2d</b> Government	<b>H2f</b> Media		
Source	Martinuzzi, Huchler & Obermayr, 2000; Balzazar, 2010 and Neamtu, 2011.				
<b>H3</b>	<i>The business case is the most important motivation for SMEs to implement CSR.</i>				
Question	To what extent do you agree with the following statements of motives when implementing CSR				
Option	A)Company increases in financial value.    B)It feels good to give back to society. C)The company is expected to be socially responsible.				
Source	Tilley, 2000; González-Benito & González- Benito, 2005; Revell & Blackburn, 2007; Frigant, 2015; Johnson & Schaltegger 2016 and Stoian & Gilman, 2016.				
<b>H4</b>	<i>The smaller the company, the less likely it is to have a formal CSR strategy in place.</i>				
Question	How formal (a publicly accessible plan of action regarding social and/or environmental issues) is the CSR policy within your company?				
Source	Catska et al., 2004; Russo & Perrini, 2006; Russo & Tencati, 2009 and Cassells & Lewis, 2011.				
<b>H5a</b>	<i>The smaller the company, the less aware it is of their social impact.</i>				
<b>H5b</b>	<i>The smaller the company, the less aware it is of their environmental impact.</i>				
Statement	I have a good understanding of the potential risks to the environment from the work that I do.				
Question	How much impact do you believe a company of your size has on the community (employee training, donations, hiring by diversity, volunteering)?				
Source	Perez-Sanchez, Barton & Bower, 2003; Cassells & Lewis, 2011 and Lee, Herold & Yu, 2015.				
<b>H6a</b>	<i>The smaller the company, the more likely it is to see the complexity of implementing CSR as an obstacle of implementing a formal CSR agenda</i>				
Statement	The complexity of implementation is a hindering factor when implementing CSR				
Source	Castka et al., 2004; Murillo & Lozano, 2006 and Perrini & Tencati, 2006				
<b>H6b</b>	<i>The smaller the company, lack of resources become more of an obstacle for implementing a formal CSR agenda</i>				
Statement	Lack of resources is a hindering factor for companies of my size when implementing CSR				
Source	Castka et al., 2004; Murillo & Lozano, 2006 and Perrini & Tencati, 2006				
<b>H7</b>	<i>The smaller the SME the more interested it is in implementing CSR through a "networking system"</i>				
Statement	I would be more willing to implement a formal CSR agenda if I had access to network tools.				
Statement	Being able to benchmark against similar companies on CSR would help companies become more willing to implement formal CSR agenda				
Statement	Being able to cooperate with similar companies in implementing formal CSR agenda would be helpful				
Source	Martinuzzi, Huchler & Obermayr, 2000; Balzazar, 2010; Neamtu, 2011 and Johnson and Schaltegger, 2016.				

Table 2: Hypotheses, relevant questions and sources.

## 3.5 DATA COLLECTION

### 3.5.1 SAMPLING METHOD

In order to obtain an appropriate sample amongst Icelandic SMEs that would provide us the best insight into our research objectives we contacted Fyrirtækjaskrá or the Icelandic Company Registrar (ICR). The ICR keeps track of all companies in Iceland and registers them by a tax identification number and physical address. For research or marketing purposes, the ICR has four service companies that oversee and provide data from the ICR records upon requests. All four service companies were confirmed and asked for lists fulfilling the following criteria:

- Companies that employed fewer than 250 employees (SMEs as EU defines them).
- Companies that are active, (companies that have handed in financial statements for 2015).

These criteria were deemed necessary to fulfill due to our time scope. Since the authors had a short amount of time, it was important to use it wisely by solely requesting companies that fell under the defined criteria.

One out of the four service companies could fulfill the above-mentioned criteria. The list of companies that fulfilled those criteria consisted of 8297 companies which became our sampling frame. Companies were listed by their tax identification number and the number of employees. Since the time scope of the research project was short we had to consider the means of distribution method of survey. To distribute the survey by mail would risk getting responses in time and inflicting increased pressure on researchers by having to type in data from paper. Therefore, the options left for data collection were an internet based survey or a telephone survey. Due to authors' limited monetary resources the option of telephone interview was ruled out. Thus, only internet based survey remained as data collection method. There were a few factors that had to be accounted for when facilitating an internet based survey. From those 8297 companies within the sampling frame a random sample of 5000 companies was drawn. An important reason for choosing such a large sample was that since the only contact information included were the physical addresses of companies and researchers needed to access firms' email addresses. Therefore, it had to be accounted for that not all companies within the sample had publicly accessible email addresses. This factor was as predicted, a hindering factor, and from those 5000 randomly sampled companies, 2808 companies had publicly accessible email addresses.

The method used to obtain companies' email addresses was by internet search. Majority of companies had their own firm webpage or social media page where their email address was available. Otherwise, most companies employing six or less people had their email addresses listed under Icelandic contact search engines, ja.is and finna.is, or under industry organizations. In the case of small travel industry firms, their email addresses were often found under websites of larger travel companies' contact lists. Whenever possible, managers or senior employees were emailed directly. Otherwise, other accessible email addresses were used. To ensure the right firm's email

address was acquired, the firm's address and tax identification number was cross checked with the information on the sample list. If the information was ambiguous the firm was not included.

### 3.5.2 PRIMARY DATA COLLECTION

The concluding number of firms was 2808 companies, which researchers deemed a reasonable amount to meet research objectives even if response rate would be poor. A link to the survey along with a description of the survey and a profile of optimal surveyor and profile of researchers was emailed out to the 2808 companies. Since some of the email addresses were not personal, the researchers encouraged the reader if he or she was not the optimal profile to answer the survey (manager/senior employee that was well informed of the overall managing practices and strategy of the firm) to forward the email to the appropriate person.

When sending out the emails, researchers had gathered information on best measures to avoid having their email disregarded as spam mail. The measures taken for that was to ensure under 500 emails were sent from the same email address within 24 hours. The survey was sent out in batches from both researchers' personal mail and student email over 2 days or 24 hours apart from the first sent email.

The survey was kept open for ten days and received 582 responses, or a rather low response rate of 20.7%. However, this was an acceptable response rate, considering the time limitations and the difficulty of engaging SMEs to partake in studies (Macpherson & Wilson, 2003).

### 3.6 ETHICS

This research had few ethical concerns. In an attempt to increase the response rate and encourage honesty in responses, the survey was kept anonymous. The list of companies used will also remain disclosed due to contract with the service firm that provided the list of SMEs. Therefore, if future research will be done, researchers must get permission from both SMEs and the service firm.

### 3.7 ANALYSIS OF FINDINGS

The data was exported and analyzed using the Statistical Package for Social Sciences, better known as SPSS. The software was utilized to generate basic descriptives and analysis of the data. Thereafter, a combination of Spearman's rank order correlation and repeated measure ANOVA was used to accept and reject the hypotheses accordingly.

## 3.8 LIMITATIONS

### 3.8.1 TRANSLATION OF THE QUESTIONNAIRE

As the study was conducted on Icelandic SMEs, the questionnaire was translated to Icelandic. It was important to consider the meaning of relevant terms to generate the most accurate translation of the English version. However, due to the complexity of the translation there is a risk of subjective interpretation of terms and information that do not translate easily between the two languages. To try to minimize the effect, we were advised by two other native speaking Icelanders that could provide outsiders' perspective.

### 3.8.2 ARE MANAGERS' PERCEPTIONS A TRUE REFLECTION OF ACTIONS?

An important limitation to keep in mind is that although the study was quantitatively based, the responses reflect the managers' perceptions of their company's CSR strategy. This is a limitation that is always present when doing a study within social sciences. Therefore, the responses might not necessarily always be a true reflection of the company's actual actions (Burns & Burns, 2008). To try to minimize the effect of this limitation, the researchers emphasized the anonymity of the study to encourage honesty in responses. For the same reason, the questionnaire attempted to limit negative framing of questions as much as possible.

### 3.8.3 TIME LIMITATIONS

This thesis was completed in a 10-week period; therefore, time was of essence and limited the survey to an internet based study. The lack of availability of SMEs' email addresses further limited the available time. This was addressed by taking a larger sample than otherwise needed to reach the research objective within the given time.

### 3.8.4 CAUSATION VS CORRELATION

Although measuring correlation displays the relationship between two different variables and whether they are correlated, correlation does not account for causation. Therefore, although it can be stated that certain variables are correlated, it cannot be stated without doing further analysis whether or not there is a causation (Burns & Burns, 2008).

## 4 RESULTS

### 4.1 OVERVIEW OF THE DATA SET

As mentioned earlier, the study was sent out to 2808 Icelandic SMEs' CEOs and received 582 responses, or a response rate of 20.7%. As displayed in Table 3, most companies categorized themselves as a part of the "service industry" or 32.5%. The second largest industry was the "retail industry" with 14.8% companies followed by "other" with 13.9%. The company size distribution was quite uneven with 57.6% of the responses coming from micro sized companies (0 - 9 employees) and 33.8% from the "10 - 49 employees" group (Table 3). The company age scale was unevenly distributed as well with 57% of the companies being in the "13+ years" category (Table 3).

Demographics	n	Percent		n	Percent
Company Size			Industry		
0-9	335	57.6%	Agriculture	12	2.1%
10-49	197	33.8%	Fishing Industry	23	4.0%
50-99	24	4.1%	Service Industry	189	32.5%
100-249	26	4.5%	Retail Industry	86	14.8%
Company Age			Tourism Industry	76	13.1%
1-3 years	48	8.2%	Transportation Industry	12	2.1%
4-6 years	77	13.2%	Energy Industry	11	1.9%
7-9 years	55	9.5%	Tech. & Science industry	45	7.7%
10-12 years	70	12%	Manufacturing Industry	47	8.1%
13+ years	332	57%	Other	81	13.9%
Total n = 582					

Table 3: Overview of the data set

### 4.2 HYPOTHESES 1

The first hypothesis examined managers perceived pressure received from various stakeholders towards SMEs implementing CSR. The hypothesis was divided into seven sub-hypotheses. as shown in Table 4, based on the primary and secondary stakeholders identified in Figure 1. Significant pressure at the 0.01 level was detected for pressure from society with a correlation of 0.133. Other significant pressures were detected from the shareholders/investors and employees with even lower correlation as seen in Table 4. Other stakeholders were not perceived to inflict pressure. Therefore, hypotheses 1b, 1c, and 1e were accepted. Although three out of the seven hypotheses were accepted, Icelandic SMEs generally do not seem to experience high pressure from their stakeholders.

### 4.3 HYPOTHESES 2

The second hypothesis examined perceived assistance received from the same stakeholders and was therefore divided into seven sub hypotheses as well (Table 4). Employees were perceived to provide the most assistance in implementation of CSR strategy with a weak correlation of 0.152 at the significance level of 0.01. Significant perceived assistance was also detected from shareholders/investors at a low correlation level as seen in Table 4. Therefore, hypotheses 2b and 2c were accepted. Although significant assistance was not detected from the other stakeholders, government was the stakeholder that was perceived to provide the least assistance with the lowest mean value as seen in Appendix A. Overall, perceived assistance from stakeholders in CSR implementation was low.

<b>H1</b>	<i>The larger the SMEs, the more pressure they experience from stakeholders to implement CSR</i>			
Question	To what extent do companies of my size feel pressured to implement CSR from the following stakeholders			
	H1a Customers	H1c Shareholders/ Investors	H1e Society	H1g Environmental Organizations
	H1b Employees	H1d Government	H1f Media	
Source	Ammenberg, Börjesson, & Hjelm, 1999; Jenkins, 2004; Russo and Perrini, 2010 Williams & Schaefer, 2013 and Lee, Herold & Yu, 2015			
<b>H2</b>	<i>The larger the SMEs, the more assistance they receive from stakeholders to implement CSR</i>			
Question	To what extent do companies of my size receive assistance in implementing CSR from the following stakeholders			
	H2a Customers	H2c Shareholders/ Investors	H2e Society	H2g Environmental Organizations
	H2b Employees	H2d Government	H2f Media	
Source	Martinuzzi, Huchler & Obermayr, 2000; Balzár, 2010 and Neamtu, 2011.			

Table 4: Overview of results from H1 & H2

### 4.4 HYPOTHESIS 3

Hypothesis 3 was used to measure whether the business case was the most important motivation for SMEs to implement CSR. To do so, a repeated measure ANOVA was used to compare the differences in the means of the three motivator factors. The Mauchly's test of sphericity showed that we rejected the null hypothesis of sphericity, thereafter we looked at the Huynh-Feldt epsilon value and based on that we rejected the null hypothesis that the means were equal. The pairwise comparison then showed that there was a significant difference in the three means (Table 5) with the altruistic motivator having the highest mean of the three as seen in Table 5. The business case was the second most important motivator and external pressure came third, consistent with the results from hypothesis 1 which showed minimal pressure experienced from most stakeholders.

I	Factors J	Mean Difference (I-J)	Std. Error	Sig. <sup>b</sup>	95% Confidence Interval Difference		Factor Mean
					Lower Bound	Upper Bound	
Business Case	Altruistic rewards	-.359*	.035	.000	-.444	-.274	Business Case 3.86
	Expectations of Stakeholders	.790*	.053	.000	.664	.917	
Altruistic rewards	Business Case	.359*	.035	.000	.274	.444	Altruistic rewards 4.22
	Expectations of Stakeholders	1.149*	.055	.000	1.018	1.281	
Expectations of Stakeholders	Business Case	-.790*	.053	.000	-.917	-.664	Expectations of Stakeholders 3.07
	Altruistic rewards	-1.149*	.055	.000	-1.281	-1.018	

Based on estimated marginal means

\* The mean difference is significant at .05 level

b. Adjustment for multiple comparisons: Bonferroni

Table 5: Overview of results from H3

#### 4.5 HYPOTHESIS 4

The fourth hypothesis explored the correlation between the size of the SMEs and their implementation of a formal CSR strategy. The hypothesis was accepted with a significance value of 0.01 and a low correlation value of a 0.293. Therefore, it can be said that there is a correlation between the size of the SMEs and the implementation of a formal CSR strategy.

#### 4.6 HYPOTHESES 5

Hypotheses five looked at SMEs' perceived awareness of its social and environmental impact regarding its' size. Hypothesis five was broken into two sections, 5a examined the correlation of social impact and the SMEs' size. H5a was accepted with a significance value of 0.01. Correlation of H5a was minor at a 0.142. Hypothesis 5b investigated perceived awareness of SMEs' environmental impact in correlation to the size of companies. The hypothesis was accepted ( $p = 0.048$ ) with a slight to random correlation of 0.082. Therefore, perceived awareness of social impact is higher than the perceived awareness of environmental impact when looking at the SMEs' size.

#### 4.7 HYPOTHESES 6

Hypotheses six were used to measure factors that the literature had suggested were hindering for SMEs in the implementation of a formal CSR agenda. H6a measured the correlation between the size of the SMEs and the perception of complexity as an obstacle in implementation whereas H6b measured the correlation between the size of the SMEs and lack of resources as a perceived obstacle. Both hypotheses were rejected as seen in Table 6.

## 4.8 HYPOTHESIS 7

Hypothesis seven was used to measure if there was a negative correlation between SMEs' size and their interest in implementing the key networking tools defined in the literature. The hypothesis was rejected as it showed a significant p-value of 0.007 but with a positive correlation of 0.112.

Hypothesis	Spearman correlation coefficient
H4 <i>The smaller the company, the less likely it is to have a formal CSR strategy in place.</i>	.142**
H5a <i>The smaller the company, the less aware it is of their social impact.</i>	.082*
H5b <i>The smaller the company, the less aware it is of their environmental impact.</i>	.222**
H6a <i>The smaller the company, the more likely it is to see the complexity of implementing CSR as an obstacle of implementing a formal CSR agenda</i>	-.014
H6b <i>The smaller the company, lack of resources become more of an obstacle for implementing a formal CSR agenda</i>	-.081
H7 <i>The smaller the SME the more interested it is in implementing CSR through a "networking system"</i>	.112*

\*\*p>0:01; \*p>0:05

Table 6: Overview of results from H4 – H7

## 4.9 OTHER NOTEWORTHY RESULTS

In addition to testing the hypotheses, we also decided to see if there was a correlation amongst SMEs' awareness of social and environmental impact and implementation of a formal CSR strategy. This testing was based on Cassells and Lewis (2011) findings of SMEs' managers being aware of their companies' impact yet still not implementing CSR. However, this study's results showed a correlation between companies' awareness of their social impact, and the rate of implementation of a formal CSR strategy with a significant p-value of 0.01 and a moderately strong correlation of 0.301. Furthermore, the results showed a correlation between SMEs' awareness of their environmental impact and their rate of implementation of a formal CSR agenda. This correlation had a significance value of 0.01 and a low correlation coefficient of 0.222. It can therefore be said that increasing awareness is an important factor for increasing implementation rate among SMEs.

Another noteworthy result was found when further examining the key networking tools. Despite the low correlation between interest in implementing the key networking tools and SMEs' size, the four networking questions that combined make up the key networking tools all had a relatively high mean (Appendix A) and median values (Md = 4 for all four questions) compared to most other questions. It can therefore be said that SMEs were generally interested in the key networking tools without regards to their size.



## 5 DISCUSSIONS

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### 5.1 SHOULD SMEs CONSIDER STAKEHOLDERS WHEN IMPLEMENTING CSR?

When examining pressure and assistance from stakeholders, the results were somewhat consistent with previous findings (Jenkins, 2004; Russo & Perrini, 2010) which showed that smaller companies have fewer responsibilities towards stakeholders. The stakeholders that SMEs perceived placing most pressure on implementing CSR were society and employees. The larger SMEs did report higher pressure and higher assistance from some stakeholders although overall it seems as if Icelandic SMEs do not experience great pressure or assistance from their stakeholders (Appendix A). This does not mean that SMEs should not consider their stakeholders when implementing CSR as Russo and Perrini (2010) state the importance of adopting stakeholder theory to SMEs while exploiting social capital by creating shared value. This notion of creating shared value is apparent when looking at motivations for SMEs implementing CSR.

### 5.2 SHIFTING FOCUS FROM THE BUSINESS CASE

SMEs' motivations for implementing CSR were in line with the lack of pressure and assistance experienced from stakeholders as external pressure was perceived as the least important motivator. Although the literature has placed emphasis on SMEs being motivated by the business case (Murillo & Lozano, 2006; Revell & Blackburn, 2007; Revell, Stokes & Chen, 2010; Stoian & Gilman, 2017), the findings of the study showed that Icelandic SMEs were the most motivated to implement CSR by the feel-good factor of giving back to society. These findings support Jenkins' (2006) results which showed that although SME managers realized the possibility of the business case in implementing CSR, the managers' internal drive or the "feel-good" factor was the main motivator for implementing CSR. Likewise, Williams and Schaefer (2013) stressed the importance of shifting focus away from the business case and rather address the altruistic/internal motivators when advising SMEs. Although this study asked the companies to pick the most important motivating factor for implementing CSR, it is important to keep in mind that SMEs can be motivated by more than one factor (Bansal & Roth, 2000).

### 5.3 FORMALIZATION OF CSR

Although overall, the implementation rate of a formal CSR agenda in Icelandic SMEs was low (Appendix A), the study found that the larger the SME, the more likely it is to have a formal CSR agenda in place. This is in line with researchers' previous findings (Russo & Tencati, 2009), showing that formalization of a CSR agenda is highly dependent on the size of the company. Murillo and Lozano (2006) stressed the importance of development of tools that would ease formalization of CSR for SMEs.

## 5.4 INCREASED AWARENESS = HIGHER IMPLEMENTATION?

When it comes to SMEs' perceived awareness of their impact on the environment, the study found that there was a correlation between the SMEs' size and awareness of their environmental impact. Furthermore, overall awareness of impact was rather high (Appendix A). These results are similar to the ones found by Cassells and Lewis (2011) stating that the majority of the firms had a good understanding of their environmental impact.

This study also found that SMEs perceived awareness of positive social impact was correlated to the SMEs size, showing that larger SMEs perceived themselves as being aware of the possible positive social impact that their company has on society. In other notable results, we ran a correlation between awareness of environmental and social impact against the implementation rate of a formal CSR agenda. The results showed that the SMEs that have a high perceived awareness of environmental and social impact are more likely to have a formal CSR strategy. The literature has been contrasting on this matter. It has been argued that managers' awareness of impact is a key contributor for implementing CSR (Perez-Sanchez, Barton & Bower, 2003; Gadenne, Kennedy & McKeiver, 2009). However, other studies have argued that awareness does not necessarily translate directly into actions. (Ammenberg & Hjelm, 2003; Revell & Blackburn, 2007). As this study found a correlation between awareness of impact and implementation rate, It can be said that awareness of impact is an important factor for increasing implementation rate among SMEs. Furthermore, out of the two, the Icelandic SMEs showed a stronger correlation between the positive social impact on society, suggesting that their CSR measures are more aimed at aiding society rather than focusing on environmental efforts when implementing a formal CSR strategy.

## 5.5 IS THERE A SHIFT IN BARRIERS OF IMPLEMENTATION?

Despite literature stating that complexity (Catska et al., 2004; Hsu & Cheng, 2012) and lack of resources (Gonzalez-Benito & Gonzalez-Benito, 2005; Cassells and Lewis, 2011; Hsu & Cheng, 2012; Lee, Herold & Yu, 2016) as barriers for SMEs in implementing CSR, there was not a significant correlation between those factors and the SMEs' size. When looking at barriers without regards to the SMEs' size the means showed that in contrast to previous studies, most Icelandic SMEs did not see the complexity of CSR as a barrier for implementation. However, the lack of financial resources was seen as a somewhat hindering factor with a negative correlation of  $p = 0.05$ , meaning the smaller companies saw the lack of resources as somewhat of a barrier in implementing CSR yet not at a significant level (Appendix A).

## 5.6 SMEs' INTEREST IN IMPLEMENTING NETWORKING TOOLS

Johnson and Schaltegger (2016) have identified group and networking tools promising in overcoming barriers of implementation of CSR amongst SMEs. So far the research of networking as a tool of implementation has not been extensive although in recent years the literature of networking as a CSR tool emerged and it deemed potential to encourage a greater diffusion of

CSR within SMEs. (Ammenberg & Hjelm 2003; Castka et al. 2004; Collins et al. 2007; Johnson & Shcaltegger, 2016). Therefore, this thesis wanted an insight from Icelandic SMEs to explore whether networking is something they would find helpful in implementing CSR. This thesis also argued that there are four main aspects of networking that can assist SMEs when implementing CSR; Benchmarking, cooperating, access to network and network assistance. The study did not find a negative correlation between SMEs' size and interest in the key networking tools. However, the results showed overall high means and median values which can be interpreted as high interest in the tools from Icelandic SMEs of all sizes.

## 6 CONCLUSION

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### 6.1 CONSIDERATIONS FOR SMEs WHEN IMPLEMENTING CSR

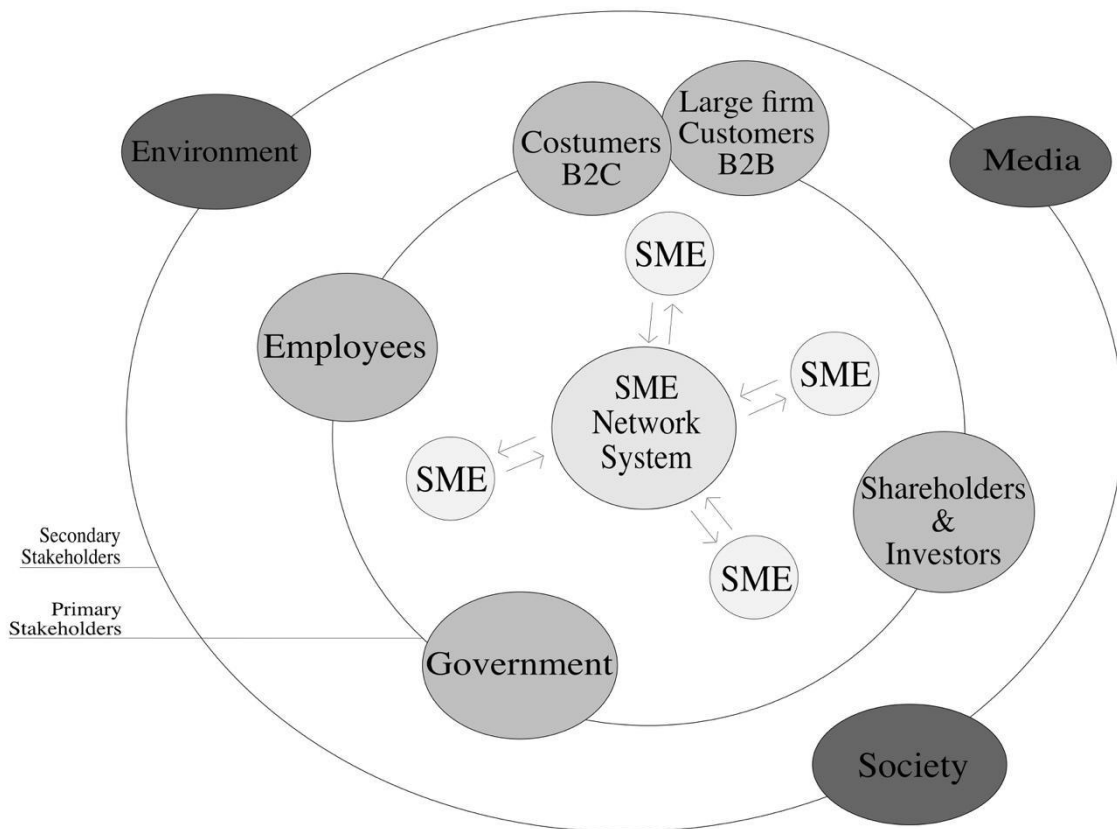
When implementing CSR, SMEs need to consider how to do so and what barriers they need to overcome. Increasing awareness of impact seems to be a crucial factor in increasing CSR implementation in SMEs especially among the smaller SMEs, while lack of resources and perceived complexity of CSR do not seem to pose as much of a problem.

As for the SMEs being motivated to follow through and act on implementing, it is apparent that the low stakeholder pressure and assistance (Appendix A) is reflected in SMEs motives for CSR implementation since not even the larger SMEs experienced much pressure or assistance from stakeholders. Although it is important to engage SMEs in considering the stakeholders (Russo & Perrini, 2010), SMEs are not motivated to implement CSR strategy by the external pressure but rather the altruistic/internal motivation of "doing good". This suggests that SMEs want to create shared value through their CSR implementation and further supports the importance of combining stakeholder theory with the notion of creating shared value. The displayed interest in implementing the key networking tools creates an opportunity to explore the possibility of a framework built around the key networking tools as a way of increasing CSR implementation in SMEs.

### 6.2 MEETING IN THE MIDDLE: THE SME NETWORK SYSTEM

As listed earlier, there are four identified key networking tools. First to be discussed is the benchmarking aspect of networking, where SMEs would have the option of comparing to similar SMEs (Jenkins 2004; Burke & Gaughran, 2006; Halila, 2007; Zorpas, 2010). Second aspect of networking is the cooperation of SMEs, literature has showed SMEs interest in cooperating with peers to gain valuable insights in implementing CSR (Jämsä et al., 2011; Neamțu, 2011). Network access was the third aspect of networking, literature suggests despite non-extensive research that SMEs would like access to a network and to one single source of network to access information and advice on CSR. (Jenkins, 2004; Castka, et al., 2004) The fourth aspect of networking was network assistance, suggesting that SMEs are not looking for new options of implementation tools but rather emphasizing the needed assistance to better reach objectives of CSR and initiating the efforts needed to implement (Murillo and Lozano 2009).

The aforementioned key networking tools are an attempt to address the problem of low CSR implementation rate within SMEs. We believe that by implementing the four key networking tools and integrating them with the identified stakeholders, we can provide a viable answer to the research question of the thesis, that is to find out how CSR implementation in SMEs can be increased while attending to stakeholders. The results from the study show a clear interest in such a system. Furthermore, the results show that SMEs are motivated to implement CSR by the wanting of giving back and doing good in the society. Jenkins (2006) stressed the importance of adapting stakeholder theory to SMEs. Russo and Perrini (2010) did as well, adding that stakeholder theory and the concept of creating shared value should be integrated into a single framework, focusing on educating and assisting SME managers.



*Figure 2: The SME network system*

The “SME network system” (Figure 2) proposes a new framework that addresses the study results by adapting stakeholder theory to SMEs, using the concept of shared value. As SMEs do not perceive high pressure from stakeholders, apart from minor perceived pressure from society and employees, these are the stakeholders that SMEs could possibly focus more on with their limited resources. The framework shows the previously defined primary and secondary stakeholders and proposes a centralized “SME network system” that connects SMEs to a network based on the key

networking tools, giving them an easier access and opportunity to benchmark and cooperate with similar companies while providing education and advice on CSR implementation. The framework addresses the heterogeneity of SMEs as advice would be given based on each SME's stakeholders, goals, and needs.

The "SME network system" has possibility of bringing together several SMEs and their resources to work together in solving societal and environmental issues in a measurable, effective way with minimal overlapping. However, as the literature has demonstrated that SMEs are not implementing CSR despite all the tools available. It could therefore be seen as farfetched that SMEs will establish a network system without some external assistance. This thesis argues that key actors within society must collaborate to create a platform where SMEs can contribute in realistic manner to meeting unmet needs or societal and environmental issues. Providing SMEs with the opportunity to solve issues through a network rather than on their own since they do not necessarily possess the resources to do so. Jenkins (2004) discusses the main risk of CSR implementation for SMEs being financial default. Jenkins continues by stating that only when SMEs are convinced that managerial changes will not place additional stress on operational margins they will consider the change. Therefore, SMEs can potentially see investment in sustainable measures as an operational or financial risk which perhaps they are not prepared to take if it ends up inflicting pressure on their operational margins (Jenkins, 2004).

Without these suggested measures, tension can form between the firms' objectives, as previously mentioned. Since not all companies are founded on the vision of bettering the society like Toms, where profit was not the original objective, mismatch between firms' objective to create profits and social expectations can be hard to overcome. Where firms enter a dilemma when taking measures that put the firms' objectives at risk by allocating resources to creating shared value, that could have been used to create proceeds can be hard to justify (Margolis & Walsh, 2003). Although the previously discussed motivation through the business case is focuses on SMEs generating profits when implementing CSR, it can be difficult to measure the amount of profit to expect or when it will be profitable. Here we could potentially see the clash of social and market norms if the SME makes an investment towards creating shared value. In the scenario where the investment is made under market norms and the SME that has limited resources at its disposal and high expectations towards this investment, the SME then does not receive the rewards it was expecting. Thus, risking the whole process of creating shared value. This is in particular important to contemplate since the study found that Icelandic SMEs are mainly motivated by altruistic measures, therefore the business case is perhaps the wrong motivator for this group.

### 6.3 VISION OF THE SHARED VALUE NOTION

In order to motivate engagement of SMEs, the visionary aspect must be at place. Vision is considered as a challenging goal, a desired future. Vision engages at a more feeling level rather than at the factual level and functions as a trigger for voluntary change (Lindgren & Bandhold, 2009. page 25). Matching with the results of our study that the Icelandic SMEs most influential

motivator, was the altruistic rewards, based on the feeling of doing good. Shared value adds the visionary motivation that stakeholder theory lacks and the stakeholder theory brings on the reality check to the shared value. According to Lindgren and Bandhold (2009) the pivotal aspect of a vision is that it must be challenging goal, far away from the comfort zone yet not impossible to reach. However, reality checks of visions are important to ensure that the vision is not too farfetched. This thesis argues that the shared value idea has those qualities and the criticism it has encountered is valid and can be considered as the barriers to overcome which are necessary to identify to achieve challenging goals.

It can thereby be stated that with the assistance from powerful stakeholders such as the government, the SME network system (Figure 2) creates a vision of shared value by implementing aspects of stakeholder theory and thereby addressing the needs of relevant stakeholders through the key networking tools identified.

#### 6.4 WHO SHOULD HELP SMEs?

The study suggests that SMEs perceive that they are not receiving assistance from key players when implementing CSR (Appendix A). This thesis argues that these incentives must be created by government or municipalities to launch these efforts. However, providing support through positive enforcements rather than through policies or fines as such negative enforcements cause tension between social norms and market norms (Ariely, 2009). Firms could for example choose to pay the fine to not have to deal with the burden of implementing CSR. By this it can be argued that the social norms and market norms are colliding (Ariely, 2009), by applying negative enforcements, the largest motivator (altruistic) of the Icelandic SMEs is at risk of becoming less effective. When a firm is forced to implement CSR through negative enforcements, the rewards of altruistic measures is put at risk. The risk of greenwashing also becomes higher with negative enforcements (Delmas & Burbano, 2011). This approach is supported by (Steurer, Martinuzzi & Margula, 2012) who recommend soft policies and positive enforcements rather than negative enforcements to encourage SMEs' engagement in implementing CSR. To establish such a framework, cost would need to be kept at a minimum level to encourage all sizes of SMEs to partake in the system. In order to do so, support would be needed from key stakeholder such as government and society. Authorities could look at this as an opportunity to get SMEs involved in addressing societal and environmental problems in the following ways:

- By advising SMEs on environmental actions, Iceland and other nations alike that are under pressure of reaching their goal of upholding their end of the Paris agreement (The Institute of Economic Studies, 2017) could benefit greatly by reducing emission and promoting a more sustainable way of business.
- Advising SMEs on how to support local societal causes, by donations, volunteering, or other forms of actions could help authorities steer SMEs in the right direction. This would minimize the SMEs' fragmented attempts of implementing CSR and rather address and solve current societal issues.

Furthermore, there are ideas to be found within the networking literature on how to create incentives and cut costs for government to assist SMEs, using public educational system to advice and help build the networks, governmental funding or tax incentives (Martinuzzi, Huchler & Obermayr, 2000)

## 6.4 FUTURE RESEARCH

Although this thesis is not stating that the “SME network system” is the dream solution, it would be interesting if future research would further address SMEs’ interest in the proposed framework of the “SME network system” across different cities/nations as well as researching authorities interest and willingness to support such a system. It is important that future studies on this are done both from a qualitative and quantitative perspective.

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## APPENDICES

### APPENDIX A: QUESTIONNAIRE WITH MEANS AND STANDARD DEVIATIONS

	Question/Statement	Std. Deviation	Mean
1	How many employees does your company have? 0-9 10-49 50-99 100-249 250 or more		1.55
2	What industry does your company operate in? Agriculture Fishing industry Service Industry Retail industry Tourism industry Transportation industry Energy industry Technology and science industry Manufacturing industry Other		
3	How long has your company been operating for? 1-3 years 4-6 years 7-9 years 10-12 years 13+ years		3.96
4	How often does your company donate to societal causes?	1.015	3.46
5	How often does your company participate in volunteering events (donates work)?	1.027	2.41
6	6. My company is environmentally focused (makes effort to reduce waste, recycle, limit pollution)	1.002	3.70
7	To what degree is there a formal (a publicly accessible plan of action regarding social and/or environmental issues) CSR policy within your company?	1.165	2.16
8	I have a good understanding of the potential risks to the environment from the work that companies of my size do	1.059	3.91
9	How much impact do you believe a company of your size has on the community (employee training, donations, hiring by diversity, volunteering)?	0.679	3.91

10	To what extent do you agree with the following statements of motives when implementing CSR Company increases in financial value It feels good to give back to society The company is expected to be socially responsible	1.076 1.039 1.082	3.86 4.22 3.07
11	Lack of resources is a hindering factor for companies of my size when implementing CSR	1.098	3.21
12	The complexity of implementation is a hindering factor when implementing CSR	0.968	2.62
13	Companies of my size feel pressured to implement CSR from the following stakeholders Customers Employees Shareholders Government Society Media Environmental Organizations	1.171 1.181 1.122 1.035 1.137 1.046 1.188	2.55 2.75 2.43 2.39 3.02 2.51 2.69
14	Companies of my size receive assistance in implementing CSR from the following stakeholders Customers Employees Shareholders Government Society Media Environmental Organizations	1.114 1.242 1.235 1.004 1.146 1.044 1.103	2.23 2.85 2.54 2.01 2.38 2.18 2.27
15	I find that the lack of individualization of CSR tools (tools are not tailored to each company's needs) prevents companies of my size in successfully generating a CSR agenda	0.890	3.05
16	Being able to benchmark against similar companies on CSR would help companies become more willing to implement a formal CSR agenda	0.996	3.57
17	I would be more willing to implement a formal CSR agenda if I had access to a network	1.003	3.39
18	Being able to cooperate with similar companies in implementing a successful CSR agenda would be helpful	0.983	3.44
19	Receiving outside assistance with CSR, would benefit companies of my size in generating a successful CSR agenda	1.044	3.42