Strategies and instruments for organising CSR by small and large businesses in the Netherlands

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Abstract

This paper analyses the use of strategies and instruments for organising ethics by small and large business in the Netherlands. We find that large firms mostly prefer an integrity strategy to foster ethical behaviour in the organisation, whereas small enterprises prefer a dialogue strategy. Both large and small firms make least use of a compliance strategy that focuses on controlling and sanctioning the ethical behaviour of workers. The size of the business is found to have a positive impact on the use of several instruments, like code of conduct, ISO certification, social reporting, social handbook and confidential person. Also being a subsidiary of a larger firm has a significant positive influence on the use of instruments. The most popular instrument used by small firms is to let one member of the board be answerable for ethical questions, which fits the informal culture of most small firms. With respect to sectorial differences, we find that firms in the metal manufacturing and construction sectors are more actively using formal instruments than firms in the financial service sector and retail sector. The distinction between family and non-family firms hardly affects the use of instruments.

Key words
Comparison of small and large firms,
organisation of corporate social responsibility,

Abbrevations

SOCAM: Servers Organisation for Compliance Audit Management

ISO: International Organisation for Standardisation

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1 Introduction

Business ethics has become a well-recognized aspect of management. Due to an increasing interest of society in responsible behaviour of firms, many firms are nowadays concerned about values like integrity and develop ethical codes to foster responsible behaviour of their employees. They feel that they must meet the 'triple P' bottom line expressing the expectations of stakeholders with respect to the firm's contribution to profit, planet and people in order to get a licence to operate.

As a result, it becomes more important for firms to integrate ethics in the organisational structure. For this purpose, a firm can use several strategies and instruments. In this paper we research the use of these strategies and instruments by large small enterprises in two provinces in the Netherlands. In particular, we are interested whether there are systematic differences between large and small firms with respect to the instruments that they use to foster ethical behaviour of the firm and its employees.

There are several reasons why we expect such systematic differences. First, large firms are more visible to the public and the media. This makes investments in responsible production and selling patterns relatively more important for large firms. The same effect we expect from scale: as large firms have a larger scale, the costs involved with the development of ethical instruments like a code of conduct is relatively small. Third, because of their larger scale, large firms have more need to instruments that facilitate the communication of values and norms within the firm and to their customers. Whereas small enterprises often have personal contacts with their customers and employees, large firms relatively operate more on large and anonymous markets with many customers and work with a large pool of employees. Therefore, we would hypothesise that large firms will make relatively more use of formal and public instruments to communicate its responsibility and to build up a consistent business culture, whereas small firms use more informal means. A fourth reason why we expect that large firms will make more use of instruments to organise corporate social responsibility (CSR) is that the competitiveness on the output market of the firm might be stronger for small enterprises than for large firms. If the competitiveness is strong, any price differential caused by additional costs from social and ecological efforts is very expensive in terms of declining market shares (Graafland, 2002a).

The content of this article is as follows. First, we give an overview of strategies and instruments that firms can use to stimulate ethical behaviour by its managers and employees. In section 3 we describe the sample of our research. Section 4 offers an extensive description of the outcomes. In section 5 we test our hypothesis that the scale of the firm has a significant impact on the use of different instruments. Section 6 summarises the main findings.

2 Organisation of ethics: strategies and instruments

To operate in a responsible way requires that managers and employees act in accordance with certain values and norms. Often, a firm has its own culture with unwritten rules that are communicated in an informal way. However, if firms grow larger, it becomes more difficult to apply informal channels to communicate the main business values and to ensure that employees act in a responsible way. Therefore, a firm needs instruments that can improve the communication of values and norms within the firm and between the firm and external stakeholders. For that purpose, the firm can follow different strategies and use various instruments.

Three strategies of organising ethics

There are several ways of defining and organising ethical behaviour. Building on the work of Sharp Paine (Sharp Paine, 1994), Hummels and Karssing (2000) distinguish three types of strategies. In the first strategy - the compliance strategy - the firm develops concrete standards of behaviour, which are communicated to all members of the organisation. The focus is on required behaviour (Trevino and Nelson, 1999). Supervision of the behaviour of the managers and employees or other business partners guarantees the ethical quality of the organisation partners. Those who are found shirking are punished. This strategy requires the following steps:

- communication of standards and procedures that hold for the members of the organisation. Often these standards concern rules that are minimally required;
- supervision of the behaviour of the organisation members;
- procedures to report unethical behaviour;
- punishment of organisation members that do not follow up the standards.

An example of the compliance strategy is the code of conduct and the audit procedures used by C&A. C&A is a large Western textile retail company. The C&A code for the supply of merchandise mainly contains concrete rules that can be checked and clearly outline what must be done or not done. The code is communicated to all suppliers and audited by Servers Organisation for Compliance Audit Management (SOCAM). Infringements are reported by SOCAM to C&A Buying and sanctioned by suspending business (Graafland, 2002b).

The second strategy - the integrity strategy - does not rely on the compliance of strict rules, but rather on the own responsibility and integrity of the individual employees on the basis of internalised values. Integrity means that managers and employees are prepared to fulfil their tasks in a professional, accurate and responsible way, taking into account all relevant interests. In order to apply this strategy in a successful way, the firm must define clear core values and train managers and employees to apply these core values in concrete situations. In order to apply this strategy in a successful way, the firm must

- define clear core values;
- train managers and employees to apply these core values in concrete situations;
- let managers have their own responsibility about which they are accountable.

For example, Levi-Strauss uses an ‘aspiration statement’ in which it describes its main values. This statement says, for example, that Levi-Straus wants its people to feel respected, treated fairly, listened to and involved. These are very general values, which leave open a lot of discretion in concrete decisions.

The third strategy - the dialogue strategy - pays attention to the expectations of the stakeholders of the firm. This strategy focuses on responsiveness to the ideas, interests and values of others. The organisation constantly tries to learn from new situations and from what external parties communicate. This strategy requires:

- ongoing communication about moral issues with external stakeholders;
- search for information about other cultures and conventions;
- being accountable for the business actions to external stakeholders.

An example is the Shell Report Profits and Principles of 1998. This Shell Report contained a separate Tell Shell card, which the readers of the report could send back to Shell to comment on the Report. In this way, Shell informs itself about the perceptions of its external stakeholders and can adapt its policies accordingly.

In reality, the three strategies are complementary. For example, in order to fight child labour effectively, one needs an appropriate mixture of the three strategies that takes all interests, values and insights into account. If one wants to combat child labour, one should adopt an effective audit system that prevents the worst forms of child labour by suppliers. However, from a broader perspective one should be aware that a strict compliance strategy can bring children into a less favourable situation. Respecting the underlying basic values therefore sometimes requires a flexible approach by, for example, offering working children alternatives from which they really benefit, including education in combination with appropriate working times and working conditions. Finally, in order to know the needs of the children and their families, information from representative organisations like local NGO's can be helpful.

Instruments

In our research we distinguish several instruments that facilitate responsible behaviour to external and/or internal stakeholders. We define responsible behaviour as all actions directed at safeguarding the legitimate interests of the stakeholders of the firm. What constitutes a legitimate interest should be determined by a moral analysis of the interests at stake and in case of serious disagreement by a dialogue process (Van de Ven, 1999)

First, in order to communicate the ethical standards, many firms have developed codes of conduct. A code of conduct is a document that sets out the basic responsibilities of the organisation towards its stakeholders (SER, 2001). Research indicates that employees from firms with a code of conduct feel more encouraged and supported for ethical behaviour than employees without a code (Adams et al, 2001).[1] A code of conduct can contain three types of statements: the mission statement that describes the purpose of the firm; value statements that describe the main values of the firm; and rules of conduct that describe the type of behaviour that the organisation expects from its workers or suppliers. Sometimes, a firm uses different documents for these different types of statements. When developing a code, an organisation is confronted with a series of choices (Kaptein and Wempe, 1998). For example, a code of conduct can either prescribe concrete norms or, instead, the general values of the firm. In case

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of a compliance strategy, the code will mainly contain rules that can be checked and clearly outline what must be done or not done. Particularly when the stakeholders have substantial interests at stake, a clear and finely outlined policy must be defined. The disadvantage of rules is that not all actions can be incorporated in rules. Therefore, a code must also make explicit considerations behind the rules that enable organisation members to apply an integrity strategy in line with the basic values of the firm. Another choice concerns the stakeholders for whom the code applies. Some firms use an internal code for employees only, whereas others prefer an external code, for example for suppliers or the general public.

In order to ensure that the code of conduct is much more than simply a paper commitment, firms sometimes set up procedures to audit compliance with the code and to promote the awareness of the code. Auditing is the process in which an organisation measures, evaluates, reports and adapts its social impact and ethical behaviour in light of the values and expectations of stakeholders. For small and medium firms it is often difficult to organise this process by itself. A more practical approach is to make use of existing certifications, like ISO 9001 and ISO 14001.[2] Firms can voluntarily choose to subject themselves to the judgment of independent organisations that are allowed to certify the social or environmental quality of the production processes of the firm. Whereas ISO 9001 is mostly concerned with safety issues, ISO 14001 relates to environmental aspects. The advantage of the ISO 14001 norm is the practical focus. It is a recognized global standard, open to all organisation. No initial review is necessary (McIntosh *et al*, 1998).In order to keep the ISO certificate, each year the firm has to develop an annual ecological scheme that describes the goals and actions for improving the environmental situation. This environmental year plan specifies the items that the firm wants to improve. Besides the concrete actions to realize these targets, the year plan reports the costs per operation, the division that is responsible for the operation and the date at which the operation will be realized. As the ISO 14001 requires

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improving the safety and ecological standards each year, it stimulates to continuous innovation.[3] Another certificate that we include in our research is the so-called NEVI code of conduct. This certificate guarantees the position of suppliers and protects them against unethical behaviour of customers.

An instrument related to auditing is the publication of an annual social report. An outstanding example is the report of Shell. In this report Shell gives many statistics on environment like emission of CO^2 and other gases, safety, operating procedures to ensure equal opportunities, gender diversity, grievance procedures, social investments and reported cases of bribery (see www.shell.com/annualreport). Independent accountancy bureaus (Price Waterhouse Coopers and KPMG) verify some of these statistics. Some firms also include social aspects in the annual financial report. For example, Heijmans reports in his annual report the sickness absence rate, the number of employees that became disabled and the number of injuries specified to different types. The report also includes an overview of the volume of construction waste. Finally, it reports the numeration of members of the board.

Whereas codes of conduct, ISO-certifications and social reports improve the accountability of the firm to external stakeholders, other instruments are particularly useful to organise the responsibility to internal stakeholders, like employees. First, an internal social handbook may clarify the position of employees by defining many rules with respect to the labour conditions of employees. Another possibility is to appoint a confidential person for employees, in whom employees can trust and can communicate abuses on the shop floor to when, for example, their direct boss is involved. The confidential person can provide first help to the victim, advise about the possibilities for further action, guide the process and play an intermediary role between the victim and the offender. In this way, legal procedures can sometimes be prevented and structural action can be undertaken to improve the situation (Kaptein and

Buiter, 2001). The ethics committee, the human resource manager or a member of the workers' council can all have a similar function. The presence of an ethics committee is a clear signal to the organisation's members. In very small firms most of these instruments demand too many resources from the organisation. In that case, one can stimulate the internal communication of ethical issues if the director or a member of the board explicitly takes responsibility for this. A final instrument to improve the ethical awareness in the firm is to supply training to employees. This instrument is especially relevant if the firm follows an integrity strategy in which the core values of the firm are communicated. In order to be effective, one should train the employees how to apply these core values in concrete situations.

The various instruments serve different functions. For example, codes of conducts and social handbooks explicate the values and norms and thereby clarify the policy of the firm. They show what the firm expects from its management and employees. The reflection on values and norms will also help to reduce inconsistencies in the policy of the firm. Second, a code of conduct and, in particular, ethical training empowers the moral consciousness of the employees. Third, certifications offer management tools to identify shortcomings and to improve the ethical standards. Also internal procedures like a confidential person and an ethics committee may stimulate managers and employees to consider the ethical values and norms. Fourth, a public code of conduct and the publication of a social report improve the dialogue with external stakeholders by communicating what they can expect from the firm. Finally, a code of conduct, certifications and the publication of a social report may also improve the external reputation of the firm if the firm is able to prove that its acts are in accordance to its code of conduct.

3 Sample

The goal of the research is to analyse the organisation of ethics by large and small enterprises in two Dutch provinces North Brabant and Zeeland[4]. A standard classification of a small firm applied by the organisation for small and medium sized business in the Netherlands is a firm with less than 100 employees. Accordingly, large firms are defined as firms with 100 or more employees[5]. In order to increase the comparability between different firms, the research focuses only on four sectors: construction, metal manufacturing, financial services and wholesale traders. The focus on four sectors allows the comparison of results for different firms within one sector. Moreover, the selection facilitates detecting sector-specific characteristics.

table 1

In order to obtain the addresses of firms, the Chamber of Commerce was asked to make five random address lists. Four lists consist of 300 addresses of firms in the four sectors with fewer than hundred employees. The fifth lists contained 318 addresses of all firms with more than one hundred employees in the four sectors.

The sample of firms that sent in a complete questionnaire consists of 111 firms. Table 2 gives an overview of the response per sector.

table 2

As can be seen, the response rate was relatively low (about 15% for large firms and 5% for small firms). In addition, we received 13 incomplete responses that were not appropriate for our research. Reasons for the low response were:

- some firms ceased to exist
- addresses given by the Chamber of Commerce were not correct
- single person firms (as the strategies and instruments are only useful for organisations with more than one person)

A phone call three weeks after the final date of sending in the questionnaire to 40 firms that did not respond showed that most firms did not return the questionnaires either because of the discussed subject, the high work pressure or the length of the questionnaire. Indeed, besides 11 questions about the organisation of ethics and 8 questions about characteristics of the firm (see below), the questionnaire contained 75 other questions related to the vision of firms on CSR and on all kinds of practical aspects (see Graafland et al., 2002).

The relatively low response rate implies that the outcomes probably do not fully represent the complete sample of 1518 firms. Indeed, it is likely that firms that are relatively active in using instruments to foster corporate social responsibility will have been more inclined to send in the questionnaire. However, comparison with the results of other research (see below) indicates that there is no reason to believe that this bias is very large. Nor do our results suggest that, because of the lower response rate, the (positive) bias would be much stronger for small than for large firms (see below). Another question is whether the answers of the respondents reflect social response bias or the real situation. As the questionnaire was anonymous, firms had no reason to present a more favourable picture compared to the real situation. Indeed, as we will see below, many firms reported a relatively low score with respect to several instruments, indicating that the questionnaire was filled in in an honest way.

table 3

Table 3 presents the average size of the firms in various sectors, both at the local level and at the national level. The first column shows that the construction and metal manufacturing firms are on average much larger if measured at the local level. However, since a relative small share of the construction firms in the panel are a subsidiary firm of a larger firm, the size of the total firm including sister firms is relatively small for the construction sector. In contrast, the average size for metal manufacturing firms and financial services at the overall level is relatively large, as many local firms are part of a very large national firm. This is especially relevant for financial services with less than 100 employees at the local level. As 41% of these firms are part of a large firm, the size of the total firm to which these small enterprises belong is much larger. Since we expect that both the size of the local firm and the size of the total firm impacts the use of instruments, we will include both variables in the econometric estimates in section 5.

4 Results

Strategies

One question in the questionnaire specifically asks which type of strategy is used by the firm to organise corporate social responsibility. The question was formulated as follows: For the organisation of corporate social responsibility in the firm we make use of: (1) fixed standards with controlling and rewarding systems, (2) stimulate the awareness of clear standards without controlling or sanctioning mechanisms, (3) a dialogue with stakeholders from which we determine new aspects of corporate social responsibility that we want to realise, (4) no strategy. The first option reflects the compliance strategy, the second option is used to represent the integrity strategy, the third option the dialogue strategy, whereas the last option is assumed to reflect firms that have not deliberately thought about how to integrate their ethical standards in the firm.

Table 4 gives an overview of the answers. The table shows that a relatively large proportion of small firms prefer a dialogue strategy with stakeholders, in particular in the construction sector. This result matches the findings of Spence et al. (2000). Their research focuses on the approaches of small businesses to the environment in the UK and the Netherlands. The small businesses in the Netherlands that were included in the research are all from the region of North Brabant, which makes their findings especially relevant for us. The researchers conclude that small business in the Netherlands make use of “communicative processes of bargained consultation, dialogue and exchange of information, through which consensual agreements about co-operation on social problems among a plurality of partners are pursued" (Spence, et al., 2000, p. 958).

Larger firms consider this dialogue strategy useful as well, but relatively favour the integrity strategy, in particular in financial services and the wholesale sector. The compliance strategy is least popular. Maybe this is due to the fact that the control and rewarding of ethical behaviour requires a lot of resources. Another reason might be that the Dutch consensus culture renders a strict compliance strategy ineffective. Finally, it is noted that among smaller firms a substantial proportion of firms consider none of the three strategies as relevant. This might indicate that these firms feel that corporate social responsibility is not sufficiently relevant to require a systematic strategic approach.

table 4

Instruments

The use of different instruments was researched by ten questions. The first question asked for the use of a written mission statement or plan of policy. We find a substantial difference between large and small firms. In particular, 90 % of the large firms have a mission statement against 49% of the small firms. A closer look shows that the large metal manufacturing and financial firms all have a mission statement, whereas 80% of the large construction firms and wholesalers do so.

More interesting for our research are the other nine questions that relate to instruments that are specifically designed to stimulate ethical behaviour. In order to investigate the current situation both from a static point of view as well as from a dynamic point of view, we used a similar structure of questions as Ulrich et al. (1998). In particular, we did not only ask for the present use of the instruments, but also whether the firm was aware of the instrument and planned to use it in the future. The results are reported in table 5.

Table 5 Table 5 shows that, on average, large firms make more use of all instruments. The most popular instruments are social handbook and confidential person. Also ISO certifications are very common among large firms, whereas a majority use a code of conduct, publish social indicators and have a member of the board that is answerable for ethical issues. From a dynamic perspective, it can be concluded that in the future the incidence of a code of conduct and social reporting will increase. Nine percent of the large firms has planned to introduce a social report, whereas 14% of the large firms knows about codes of conduct and considers them to be a useful instrument.

Least popular are the ethics committee and ethical training options. An explanation might be that most firms already use a confidential person and therefore consider these additional instruments as over-abundant. Another explanation is that a substantial part of the large firms do not know these instruments. The same holds for the relatively new NEVI code of conduct for suppliers.

As already mentioned, Table 5 confirms our hypothesis that small firms are less inclined to use formal instruments to foster ethical behaviour within the organisation than large firms. As noted in the introduction, there are several reasons that explain such systematic differences. First, large firms are more visible to the public and the media. This makes investments in external communication patterns like a code of conduct, ISO certification and social reporting relatively more important for large firms. Second, as large firms have a larger scale, the costs involved with the development of ethical instruments are relatively small. Third, because of their larger scale, large firms have a greater need for instruments that facilitate the communication of values and norms to external stakeholders and within the firm. Indeed, for very small firms these kinds of instruments are not really functional. A final reason why large firms will make more use of formal instruments to foster corporate social responsibility is that the competitiveness on the output market of the firm might be stronger for small firms than for large firms. As Graafland (2002b) theoretically shows, the costs involved with high administrative burden caused by the application of various instruments may be too high for these firms.

Although small firms make less use of the various formal instruments, there are some similarities between large and small enterprises. In particular, like large firms, small firms make relatively good use of a social handbook and a confidential person. Another 11 % has planned to introduce a social handbook. Another similarity is that an ethics committee, ethical training and commitment to the NEVI code are least popular, whereas codes of conduct and ISO certification take an intermediate position. The most important exception is the position of the member of the board. In contrast to large firms, this is the most common instrument that small firms use to communicate values and norms. Moreover, another 12 % of the small firms consider this to be a useful instrument. This confirms the importance of the informal culture that fits the relatively small scale of small firms and facilitates direct communication of values and norms by the member of the board.

Interrelationship between different instruments

Table 6 presents the relationship between the use of different instruments. In almost all cases there is a significant correlation between all combinations of instruments. However, in only a few cases this correlation is mildly strong (correlation > 0.5 and determination coefficient (r^2 > 0.25). This indicates that once firms become aware of the importance of using formal instruments to foster the ethical standards within the organisation, they are somewhat more inclined to adopt a combination of various complementary instruments. For example, if a firm introduces a code of conduct that defines the standards in a very compact way, it may also need a social handbook to spell out the more concrete and detailed rules. Furthermore, if the firm takes ethical standards seriously, it must also create procedures for employees to complain about unjust treatment, which requires an ethics committee or confidential person.

Table 6

Comparison of use of instruments with other research

In order to benchmark the efforts of the firms in the two Dutch provinces North Brabant and Zeeland from an international perspective, we have compared our results with findings from Ulrich *et al* (1998). They investigated the use of instruments by 550 German and 224 Swiss firms. As their sample only consists of large firms, we only compare their results with the finding for the large firms in our sample.

For the code of conduct and social reporting, our results are very similar to the results of Ulrich et al. They find that only 29 % of the large German and Swiss firms do not know or consider the code of conduct as a useful tool. In our sample, this percentage is only a slightly higher, namely 32 %. Also with respect to the publication of a social report the results are very similar. In both samples 23 % of the firms do not know about social reporting or does not regard it useful. Similar findings apply to the ethics committee and ethical training. In the German and Swiss sample 74% did not know of the instrument of an ethics committee or regarded them as not useful (against 77% for our sample). On the other hand, the number of large firms that have such a committee is somewhat larger for Dutch firms (17% against 5% for German firms). Furthermore, 8% of the German and Swiss firms regularly provide ethical training and 5% plan to do so, whereas 68% do not know this instrument or do not regard it as

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useful. In the Dutch sample, 14% uses this instrument but 74% does not know it or considers it as irrelevant.

More differences are found for the other instruments. In particular, the Dutch firms in Brabant and Zeeland use confidential persons relatively actively. In German and Swiss firms 50% do not know this instrument and another 18% judge it as irrelevant. For the Dutch firms, these percentages are 2 % and 5 % respectively. Also the accountability of a board member with respect to ethical issues features higher for Dutch firms than for German and Swiss firms. In the German and Swiss sample, 21% considered this instrument not useful (against 9% in our sample). Moreover, 50% of the German and Swiss firms is unknown with this instrument against 14% in our research.

Unfortunately we cannot compare our results with the study by Ulrich *et al* for the other instruments - ISO certification, NEVI code and social handbook -.

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A source for comparison of our results from a national perspective is provided by a recent research of KPMG in co-operation with the VNO-NCW North[6] on corporate social responsibility by firms in three Northern provinces in the Netherlands.[7] In this research, 43 % of the firms in Friesland, Groningen and Drenthe are found to have a code of conduct, which is relatively low compared to the 51 % in our sample. However, the situation is changing rapidly. Within three years, 70% of the firms expect to have developed their own code of conduct, which is higher than in our sample.

Second, the research of KPMG shows that 52% of the firms in the three northern provinces of the Netherlands have a confidential person. In this respect, the large firms in North Brabant and Zeeland have a much higher score, namely of 84%.

Concluding, we do not find evidence that large firms in North Brabant and Zeeland differ very much from large German firms or other Dutch firms. They even seem use certain instruments more actively, such as a confidential person and an responsible board member.

However, it should be noted that the relatively low response rate of 15% for large firms in our sample does not permit too strong conclusions in this respect.

Interrelationship between strategy and instruments

Table 7 describes the use of instruments per type of strategy. As could be expected, firms that have filled in 'no strategy' are indeed least actively using instruments for organising ethics in the firm. This conclusion holds for all instruments (except the NEVI code).

A second finding that fits with *a priori* hypothesis is that firms that stress the 'compliance strategy' are most actively using instruments that facilitate the communication of concrete and verifiable rules within the firm, like code of conduct, ISO certification and social handbook. More surprising is that these firms make relatively high use of confidential persons, ethics committee and ethical training. Although the use of confidential person and ethics committee are not inconsistent with the compliance strategy, one would have expected ethical training to be the most popular instrument of firms that favour an integrity strategy.

Table 7

As expected, firms that favour the dialogue strategy make more use of codes of conduct and social reporting as instruments that facilitate the communication with external stakeholders. They also make relatively high use of a board member that is answerable for ethical issues. This suggests that this instrument can serve the purpose of communicating the commitment of the firm to values and norms to external stakeholders.

Finally, we unexpectedly find that firms that favour an integrity strategy are not as active in using various instruments as firms with a compliance or dialogue strategy. This holds for all instruments.

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5 Multiple regression analysis results

In this section we formally test the hypothesis already indicated by Table 5 that large companies make more use of formal instruments to foster CSR. In addition, we use the statistical analysis to research the interrelationship between the use of instruments and other external factors like the sector in which the company operates and whether the company is a family business or non-family business.

Instruments

The results of the regression analysis of the relationship between instruments and exogenous variables are reported in Table 8. In Table 8 the dependent variable is a dummy that is set at 1 if the firm uses the particular instrument. Otherwise it is zero. The last column tests for the use of the sum of all instruments.

In most cases the F-test shows that the external factors have a substantial and significant impact on the use of the particular instrument. Only in the case of the NEVI code, responsibility of the board member and ethical training the F-test is well below the critical value. In the case of the NEVI code and ethical training this is probably due to the low use of these instruments (see Table 5).

Table 8 statistically confirms the outcome in section 4 that large firms are more actively using various instruments for organising ethics. For ISO certification, social reporting, social handbook, and confidential person this impact is significant, for the other instruments we find a positive but insignificant impact. Also, being a subsidiary of a larger firm has a positive impact on the use of instruments, notably for a code of conduct, social reporting, social handbook, confidential person and an ethics committee. This may be due to the fact that the local firm can benefit from the provisions offered by the total firm. Another explanation is that firms that have more than one subsidiary have greater need to communicate and coordinate the ethical standards because of possible cultural differences between the local divisions.

table 8 From the sectoral perspective, we find that metal manufacturing and construction firms are more actively using ISO certification, social reporting and a social handbook than the financial service sector and the retail sector. This fits with the character of the production processes in the metal manufacturing sector and the construction sector. One would expect that the financial sector might be especially interested in communication with external stakeholders by codes of conduct and social reporting. In addition, because of the larger share of women working in the financial sector, confidential persons and ethics committees may be more common because of the higher probability of sexual harassment. However, the estimation results only weakly confirm these effects.

In terms of the relationship between family business and use of instrument, the effects are in most cases insignificant. On average, being a family firm has a small positive impact on the use of instruments. Only in the case of the use of an ethics committee is the impact significant.

6 Conclusions

This article investigates the use of various strategies and instruments to organise ethics in the firm by large and small firms in two provinces in the Netherlands. We find that:

- large firms make relatively more use of an integrity strategy that defines core values without controlling or sanctioning mechanisms. Small firms rely relatively more on a dialogue strategy in which they try to learn from stakeholders which aspects of corporate social responsibility are most important to realise. The compliance strategy that communicates fixed standards, controls the behaviour of the workers and applies sanctions in case of infringements, is least popular both among large and small enterprises. This seems to fit the Dutch consensus culture.

- Firms that favour a compliance strategy make relatively high use of a code of conduct, ISO certification and social handbook, whereas firms that favour a dialogue strategy are most active in social reporting and assigning a board member who is particularly answerable for ethical questions. Firms that have no clear strategy least actively use formal instruments to organise ethical standards in the firm.
- In many cases the use of one particular instrument to foster ethical behaviour of the firm is significantly positively correlated to the use of another particular instrument. For example, firms that have a social handbook also often make use of a confidential person.
- Large firms make relatively more use of several formal instruments to foster ethical behaviour. The most popular instruments are respectively social handbook, confidential person and ISO9001/14001 certification. Furthermore, a significant proportion (more than half) of the large firms also make use of a code of conduct, publication of annual social report and a member of the board that is clearly responsible for ethical questions. Only a small percentage of the large firms has an ethics committee or provides ethical training to the employees.
- Small firms make relatively little use of these instruments compared to large firms. The most common instrument to communicate values and norms within small firms is that a member of the board is answerable for ethical questions. This confirms the importance of an informal culture for small firms.
- For all instruments distinguished in the research (code of conduct, ISO certification, signing of NEVI code, social reporting, social handbook, confidential person, ethics

committee, board member responsible for ethical issues and ethical training) we find that subsidiaries of a larger firm more actively use the particular instrument than independent firms. This finding also holds for larger firms and stresses the value of these instruments as means to coordinate the ethical standards between different subsidiaries within a large firm.

- Firms in the metal manufacturing sector more actively use codes of conduct, ISO certification, social reporting, social handbook and ethics committee than firms in the financial service sector or retail sector. Firms in the construction sector are relatively most active in using ISO certification, social reporting and social handbook.
- Family firms and non-family firms show very similar patterns. Only in the case of the ethics committee does being a family firm have a significant positive impact on the use of the instrument.

If we look at these research findings it becomes clear that large firms are implementing and developing a quite complete set of instruments to organise their efforts with respect to their social responsibility. In this respect there are no spectacular differences with large firms in the northern part of the Netherlands, nor with large firms in Germany and Switzerland. Therefore, there seems to be no further need for initiatives that stimulate the use of instruments by large firms in the southern part of the Netherlands. However, since this study did not evaluate the way these instruments are used, further research is needed to determine the professional level at which these instruments are developed and implemented. If 62 % of the large firms claim to have an annual social report, one might become curious about the quality of these reports. Sometimes a social report means no more than a statement of a member of the board of directors about improvement of working conditions. In general, more research should be done on the quality and effectiveness of the instruments that are being used to improve social responsibility of large firms. Such research should encompass the views of stakeholders too.

With respect to small firms it still makes sense to foster the acquaintance with the instruments for organising CSR among entrepreneurs and managers, since many of them have indicated that they are not familiar with such important instruments like a code of conduct, social handbook and ethical training. At the same time the research findings (Table 5) indicate that a lot of instruments are known but rejected or rejected at first glance. The usual instruments to organise social responsibility have no appeal to a large group of small firms. This brings us to the question whether there is a viable alternative to the standard way of organising CSR? The popularity of the dialogue strategy combined with the measure of making a member of the board answerable for ethical issues points us in the direction of ethical leadership and the importance of a climate of mutual trust between the firm and its stakeholders. Every business needs mutual trust to function properly, otherwise its transaction costs would be too high or it would have to choose for the immoral strategy of hit and run (Etzioni, 1988). Formal instruments like a code of ethics and a social report can be used to induce trust in situations where there is no strong personal tie between the board of directors and a stakeholder. In case of small firms, personal ties are probably much more important, especially the trustworthiness of the owner-manager of the firm. It can be a relative advantage of a small firm that the climate of trust is based on relatively strong personal ties instead of on impersonal instruments like a code of ethics that should give stakeholders an idea of the corporate identity and trustworthiness of a large firm. For instance, if something goes wrong, one does not have to follow all kinds of formal procedures to inform the firm about the problem. A simple call to the owner-manager of the firm should be enough to get the attention needed. We suspect that the dialogue strategy in case of small firms does not amount to much more than this reliance on its approachability. Its simplicity is perhaps its greatest strength because in the end every dissatisfied stakeholder wants to speak the boss in person. Our research does not allow us to confirm these assumptions, but we would recommend further research into this matter. Research could be done on the motives of small firms that reject most instruments to organise CSR and on how they deal with complaints and expectations of their stakeholders. Only then we can answer the question whether there is a viable alternative to organising CSR with the well-known instruments discussed in this article.

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[1] However, other research cannot detect any positive influence of a written code of conduct on ethical behavior or perceptions. See, for example, Kohut and Corriher (1994) and Marnburg (2000).

[2] See for more information on the ISO norms: www.iso.ch

[3] Another example is the international Social Accountability 8000, developed by the American Council on Economic Priorities Accreditation Agency (CEPAA) in co-operation with employers, unions and non-governmental organisations (NGOs). SA8000 mainly concerns labour aspects. Since our research focuses on Dutch firms operating on local markets, we do not include this certification in our questionnaire.

[4] The reason for the selection of these two provinces is that two regional employer organisations and one employee organisation of these provinces financed the research.

[5] This distinction between small and large firms means that we do not follow the distinction between small and medium sized firms as is common in research that focuses on small and medium sized firms. The reason for this is that we believe that for our research objective a rather rough distinction between small and large firms suffices.

[6] This name (VNO-NCW) is a result of a fusion between the Dutch Association of Enterprises (VNO: Verbond van Nederlandse Ondernemingen), and the Dutch Christian Union of Employers (NCW: Nederlands Christelijk Werkgeversverbond).

[7] KPMG, VNO-NCW, Kamers van Koophandel (Chamber of Commerce) Friesland, Groningen and Drenthe, 2002, Maatschappelijk Ondernemen is core business, Brochure.

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Tables

Table 1 Sectors

Sector	Specification
Metal manufacturing	All firms that deal with the production of machines and appliances like office machines and computers, electronic machines appliances and requirements, audio, video, telecommunication machines and requirements, medical machines and instruments, cars and transport instruments
Construction	All firms that deal with the building industry
Financial services	Financial institutions, mortgage banks, construction funds and accountants
Wholesale traders	All wholesale traders in textile products, clothing, shoes, domestic appliance, glass, Chinese pottery, wallpaper and cleansers, perfumes, cosmetics, pharmaceuticals and non-food consumer products

Table 2 Number of completed questionnaires

	Large	Small	Total
Metal manufacturing	14	17	31
Construction	14	10	24
Financial services	10	17	27
Wholesalers	10	19	29
Total	48	63	111

Table 3 Average number of employees per firm (at the local level)

	Total (at local level)	Large (> 100 employees at local level)	Small (<100 employees at local level)

		At local level	Of which part of larger firm	Including sister firms	At local level	Share of firms that are part of larger firm	Including sister firms
Construction	675	1132	36%	5078	36	20%	1083
Metal manufacturing	367	787	86%	54316	21	12%	77
Fin. Service	83	169	50%	35614	32	41%	12312
Retail	148	396	70%	3405	17	21%	720

Table 4 Strategies of organising CSR (as a %)

Type of strategy	Metal manufacturing	Construction	Fin. Services	Wholesale	Total	Large	Small
Compliance	21	13	4	10	12	20	7
Integrity	17	17	35	41	28	40	19
Dialogue	28	44	42	21	33	27	37
Non-applicable	35	26	19	28	27	13	37
	100	100	100	100	100	100	100

Table 5 Instruments for organising CSR[a]

	Realised		Planned		Known and useful		Known and not useful		Unknown	
	Large	Small	Large	small	Large	Small	Large	Small	Large	Small
Code of conduct	51	29	2		14	4	9	25	23	42
ISO 9001/14001 certification	76	32		6	5	4	10	43	10	15
NEVI code	6	2	2	1	3	0	5	18	27	33
Publication of annual social report	62	20	9	2	4	5	13	36	11	38
Social handbook	87	40	2	11	9	7	2	19		23
Confidential person	84	40	2	2	7	7	5	32	2	19
Ethics committee	17	7		4	7	2	29	46	48	42
Member of board is answerable for ethical issues	67	59		2	9	12	9	9	14	19
Ethical training	14	7			12	7	23	31	51	55

[a] As a percentage of the respondents

Table 6 Bivariate correlation[a]

	Code of conduct	ISO certification	NEVI code	Social reporting	Social handbook	Confidential person	Ethics committee	Board member	Ethical training
Code of conduct	X	**0.29**	**.030**	**0.58**	**0.51**	**0.47**	**0.53**	**0.37**	**0.40**
ISO		X	**0.33**	**0.29**	**0.44**	**0.36**	0.17	*0.22*	0.19
NEVI			X	**0.31**	*0.23*	*0.24*	**0.51**	*0.23*	**0.32**
Report				X	**0.60**	**0.49**	**0.42**	*0.23*	**0.32**
Handbook					X	**0.72**	**0.31**	**0.40**	*0.23*
Conf. Person						X	**0.38**	**0.55**	0.20

Ethics committee							X	*0.43*	**0.41**
Board member								*X*	*0.22*
Ethical training									X

[a] values in bold are significant at the 0.01 level, values in italics are significant at the 0.05 level.

Table 7 Strategy and instruments[a]

	code	ISO	NEVI	Social report	Social Handbook	Confidential person	Ethical commit-tee	Board member	Ethical Training
Compliance	60	100	18.2	33.3	84.6	76.9	25	69.2	25
Integrity	22.2	42.3	3.4	34.5	62.1	55.2	3.8	57.1	7.4
Dialogue	59.3	58.1	12.9	59.4	69.7	67.7	18.8	72.7	12.5
No strategy	29.6	30.8	3.8	21.4	39.3	46.4	3.7	51.9	3.7

[a] As a percentage of the respondents

Table 8 Results of multiple regression analysis for instruments[a]

	Code of conduct	ISO certification	NEVI code	Social reporting	Social handbook	Confidential person	Ethics committee	Board member	Ethical training	Total
Number of employees	0.10 (1.11) {0.267}	0.18 (2.19) {0.031}	0.07 (0.91) {0.365}	0.73 (3.13) {0.000}	0.30 (4.21) {0.000}	0.26 (3.25) {0.002}	0.02 (0.23) {{0.818}	0.05 (0.52) {0.603}	0.02 (0.25) {0.806}	1.37 (2.80) {0.007}
Subsidiary	0.45 (4.26) {0.000}	0.12 (1.33) {0.188}	0.13 (1.67) {0.098}	0.97 (3.64) {0.001}	0.17 (2.09) {0.039}	0.30 (3.43) {0.001}	0.30 (3.76) (0.000)	0.11 (1.00) {0.316}	0.16 (1.96) {0.053}	1.93 (3.45) {0.001}
Metal manufactu-ring	0.22 (2.03) {0.045}	0.22 (2.35) {0.021}	0.07 (0.83) {0.411}	0.51 (1.88) {0.262}	0.13 (1.50) {0.137}	0.01 (0.65) {0.515}	0.15 (1.75) (0.084}	0.02 (0.17) {0.867}	0.02 (0.25) {0.806}	1.25 (2.22) {0.030}
Construction	0.15 (1.29) {0.201}	0.37 (3.70) {0.000}	0.05 (0.61) {0.541}	0.83 (2.92) {0.018}	0.15 (1.66) {0.099}	0.01 (0.80) {0.425}	0.00 (0.04) {0.972}	-0.06 (0.50) {0.622}	-0.06 (0.62) {0.540}	1.15 (1.90) {0.062}
Financial Services	0.15 (1.41) {0.163}	-0.19 (1.88) {0.063}	-0.09 (1.06) {0.294}	0.04 (0.19) (0.117}	0.04 (0.46) {0.644}	0.00 (0.41) {0.682}	0.07 (0.87) {0.389}	-0.02 (0.18) {0.862}	0.05 (0.60) {0.548}	0.55 (0.95) {0.345}
Family	0.06 (0.64) {0.523}	0.04 (0.52) {0.601}	0.13 (1.76) {0.082}	0.18 (0.73) {0.624}	-0.06 (0.79) {0.434}	0.10 (1.32) {0.191}	0.16 (2.15) {0.035}	0.05 (0.52) {0.602}	0.05 (0.63) {0.532}	0.43 (0.79) {0.431}
Intercept	0.52 (4.31) {0.000}	0.49 (4.66) {0.000}	0.16 (1.71) {0.091}	0.39 (3.86) {0.018}	0.62 (6.63} {0.000}	0.64 (6.23) {0.000}	0.27 (3.01) {0.003}	0.737 (5.84) {0.000}	0.267 (2.81) {0.006)	3.55 (5.63) {0.000}
R^2	0.35	0.37	0.11	0.47	0.38	0.33	0.20	0.03	0.08	0.43
R^2 adj	0.31	0.33	0.05	0.40	0.34	0.29	0.14	-0.04	0.02	0.39
F	7.64	8.59	1.80	11.08	9.78	7.85	3.66	0.42	1.30	9.02

[a] T-values between brackets, p- values between braces