International transfer of employee-oriented CSR practices by multinational SMEs

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Abstract

Will multinational SMEs use internationalisation to achieve labour cost savings at the expense of employees both in their home country and abroad or will they transfer their existing employee-oriented practices to their foreign subsidiaries? This paper argues that the answer to this question is affected by: (1) the salience of employees at home as well as abroad to management; (2) the type of employee-relations arrangements in use within the company; (3) the capability to develop and use high-performance human resource instruments for employee-oriented CSR practices; (4) the capability to adapt the type and design of high-performance human resource instruments to the local institutional environment; (5) the extent to which the multinational SME possesses institutional capital. Multinational SMEs with slack resources, a high degree of institutional capital, and to which employees are highly salient, are most likely to transfer employee-oriented CSR practices abroad and to do so successfully.

Key words

Multinational small and medium-sized enterprises, corporate social responsibility, employee relations, international transfer of practices, human resource management

Introduction

In May 2004, eight countries in Central and Eastern Europe join the European Union. By that time some 150 Dutch transport companies, including small and medium-sized enterprises (SMEs) have acquired subsidiaries in the countries concerned. That way, they could profit from truck drivers from these low-wage countries to carry out transport jobs all over the European Union (EU). East European truck drivers replace up to an extent expensive Dutch truck drivers as they earn much less for the same job content, work longer hours and carry part of entrepreneurial risk as they may be fined if, irrespective of circumstances, they do not complete their ride in time. If East European truckers complain about their working conditions, they are invited to quit (Hensen, C. 2008).

The above mentioned practices highlight the importance of a hitherto greatly neglected aspect of corporate social responsibility (CSR), namely, the position of employees as internal stakeholders of small and medium-sized enterprises (SMEs) in an international context. This paper addresses the issue of international transfer of socially responsible, employee-oriented practices by multinational SMEs to subsidiaries in transition economies. The objective of this paper is to identify the ways that could possibly fill this gap in the literature.

The continuing process of globalisation and regional economic integration has increased the freedom of companies to act socially irresponsibly. Fears that this may lead to a ‘race to the bottom’ with respect to labour rights and care for the environment have led to wide-spread protests, which in their turn have stimulated the rise of corporate social responsibility (CSR) as management concept (Crane, A., Matten, D., & Spence, L. J. 2008;van Tulder, R. & Zwart, A. 2006;Vogel, D. J. 2005). In academic circles, CSR has received wide-spread attention and has been the subject of extensive research, see e.g. (Lee, M. P. 2008). However, the issue of transferring socially responsible practices aimed at employees within multinational corporations, let alone multinational SMEs, has received virtually no attention. Mankelow (

2008) states that social responsibility focused on employees in SMEs is an almost unexplored area. This is remarkable as quite a number of authors indicate that to SMEs employees are (one of) the most important stakeholder group(s), see e.g. (Hammann, E. M., Habisch, A., & Pechlaner, H. 2009;Jenkins, H. 2006;Spence, L. J. 2007).

This raises a number of questions with respect to the possible obstacles to the transfer of socially responsible employee-oriented practices; the more as numerous studies address the international transfer of human resource management (HRM) practices within multinational corporations (Smale, A. 2008). It is generally argued in the HRM and institutional literatures that value-laden practices are very hard to transfer successfully. This then certainly holds for socially responsible employee-oriented practices, which are explicitly value-laden. Transfer of these CSR practices to foreign subsidiaries is intended to replace the usual practice and order of the host country institutional environment by new ‘rites and rituals’ that have originated in the parent company’s home-country institutional environment (Czarniawska, B. & Mazza, C. 2003). Thus, within the foreign subsidiary a need for interpretation of the new practice and order is created, the outcome of which is uncertain.

However, uncertainty may also be created by the nature of the knowledge embodied in CSR practices aimed at employees. In general, there is a large component of tacit knowledge in HRM practices which complicates transfer (Amit, R. & Belcourt, M. 1999;Lado, A. A. & Wilson, M. C. 1994;Smale, A. 2008). This problem is exacerbated for SMEs by the fact that HRM in SMEs is far less formalised and thus codified than in larger companies (Cassell, C., Nadin, S., Gray, M., & Clegg, C. 2002;De Kok, J. & Uhlaner, L. M. 2001;Harney, B. & Dundon, T. 2006).

Finally, it is argued in the literature that successful implementation of CSR by a company needs an authoritative champion within the company. For SMEs, this will mostly be the owner-manager or a senior member of top management (Jenkins, H. 2006). This necessitates the presence of such a person within the subsidiary's management as well. He/she should be able to affect employees' perception and interpretation of the new practices – these new 'rites and rituals' – in such a way that these practices are not only implemented but are internalised as well.

Consequentially, this paper's research question is: What elements should be part of an explanatory framework for transfer of socially responsible employee-oriented practices by multinational SMEs to subsidiaries in transition economies. In this paper a multinational enterprise is defined as a firm "that engages in foreign direct investment and owns or controls value-adding activities in more than one country" (Dunning, J. H. 1992: 3). For SMEs, the EU definition is adopted: SMEs are autonomous enterprises employing no more than 250 employees (European Commission 2003).

The remainder of this paper is divided into four sections. In the first section, I consider the position of the stakeholder view in the field of CSR theory. Special attention will be given to employees as stakeholder group. Employee-oriented CSR practices are to be designed based on employees' needs and interests as starting point. This normative starting point is its essential point of distinction with traditional HRM strategies which are essentially instrumental in nature, taking the effect of HRM practices on firm performance as starting point. Nonetheless, employee-oriented CSR practices will materialise in HRM strategies and practices. Accordingly, the second section presents the common grounds of the HRM and stakeholder view literatures. It will be argued that developing and implementing an employee-oriented CSR strategy requires efforts by both employer and employees on the basis of trusting relationships.

The fact that employee-oriented CSR strategies are not as much instrumentally as normatively based makes consideration of the institutional environment imperative. Quite a few authors argue that, in order to identify the opportunities for and the obstacles to transferring HRM strategies and practices, a combination of the national business system approach and the new institutionalist approach is most fruitful, see e.g. (Ferner, A. & Quintanilla, J. 1998). The implications will be discussed in the third section. The focus of research in all of the relevant literatures has been on large corporations mainly. In the final section, therefore, a conclusion will be presented in the form of an overview of the possible implications for transferring employee-oriented CSR strategies and practices by multinational SMEs. Finally, some practical implications will be indicated for multinational SMEs.

The stakeholder view in CSR theory

Over the past decades, not only large corporations have become more internationalised, but also SMEs. More and more SMEs establish subsidiaries abroad (European Communities 2004;Hollenstein, H. 2005). Contributing factors are the improved access to information and communication due to technological progress, the decrease in transportation costs, the increased competition resulting from market liberalisation, and, in Europe, the recent enlargement of the European Union (European Communities 2004;Hessels, S. J. A. 2004). The most important motives are access to new markets and location advantages such as low wage costs and access to local resources (Hessels, S. J. A. 2004;Hollenstein, H. 2005).
As stipulated in the introduction, the negative consequences of internationalisation and globalisation have given the corporate social responsibility movement its present momentum. However, modern academic debate on corporate social responsibility already started off with the publication in 1953 of H.R. Bowen's book 'social Responsibilities of the Businessman' (Carroll, A. B. 1999;Garriga, E. & Melé, D. 2004;Lee, M. P. 2008). During the first decades, theorising centred on the impact of engagement in CSR on society, while later on the debate shifted to the relationship between CSR and other organisational goals (Lee, M. P. 2008;Wood, D. J. & Jones, R. E. 1995). This was paired to a simultaneous shift from

explicitly normatively oriented research to implicitly normatively and performance oriented research (Lee, M. P. 2008).

The essential question in CSR might be formulated as how best to combine the economic, legal and ethical responsibilities of the firm towards society (Carroll, A. B. 1979;Godfrey, P. C. & Hatch, N. W. 2007;Mintzberg, H. 1983;Windsor, D. 2006;Wood, D. J. 1991). Consequently, a central problem in CSR research is the inherent tension between the normative element of why firms should act on behalf of the social good on the one hand and the economic or instrumental element of how engaging in CSR can contribute to firm performance on the other (Godfrey, P. C. et al. 2007;Margolis, J. D. & Walsh, J. P. 2003). A multitude of studies has tried to establish a (positive) link between corporate social performance and corporate financial performance. However, the outcome of this research has remained inconclusive (Aupperle, K. E., Carroll, A. B., & Hatfield, J. D. 1985;Griffin, J. J. & Mahon, J. F. 1997;Margolis, J. D., Elfenbeid, H. A., & Walsh, J. P. 2007;McWilliams, A. & Siegel, D. S. 2000;Ullmann, A. A. 1985).

Many authors, e.g., Aupperle et al. (1985), McWilliams and Siegel (2000) and Wood and Jones (1995), argue that the inconclusiveness of the research on the CSP-CFP relationship is due to the fact that corporate social responsibility is a broad and vague construct that is difficult to operationalise. One approach seeking to mend this shortcoming is to link the concept of corporate social responsibility to the stakeholder view of the firm. That way, the logical question – when addressing the social responsibility of companies – to whom companies should be responsible can be answered; in the words of Carroll (1991: 43), “there is a natural fit between the idea of CSR and an organisation’s stakeholders”. Therefore, in this paper, Jones’ (1980: 59-60) definition of CSR is adopted: “corporate social responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract”. In this definition, the stakeholder concept is already implicitly present. To date, the stakeholder view has become the dominant theory in the CSR field (Crane, A. et al. 2008;Lee, M. P. 2008;Margolis, J. D. et al. 2003;Wood, D. J. et al. 1995).

The stakeholder view of the firm was originally developed by R.E. Freeman. He defined stakeholders as “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, R. E. 1984: 25). The stakeholder view of the firm differs from the dominant neoclassical economic views of the firm in that firms should not only serve the interests of shareholders but of other stakeholders as well if the firm is to survive and prosper. This makes the stakeholder view particularly suitable for application in the CSR field (Branco, M. C. & Rodrigues, L. L. 2007;Freeman, R. E. 1984;Harrison, J. S. & Freeman, R. E. 1999;Wood, D. J. et al. 1995).

The central goal of stakeholder management is to strive for maximum overall cooperation between the entire system of stakeholder groups and the company in order to achieve the objectives of the company (Garriga, E. et al. 2004;Post, J. E., Preston, L. E., & Sachs, S. 2002). Thus, the stakeholder view can be seen as a sort of compromise between the ‘societal’ view and the ‘organisational’ view on CSR as it encompasses the effects of stakeholder management on both the organisation and society, specified as the relevant stakeholder groups. However, this implies that the aforementioned tension in CSR theory between normative and instrumental aspects also emerges in the stakeholder view.

The focus in research on CSR in general and on the stakeholder view on CSR in particular for the most part has been on large, incorporated companies (Habisch, A. 2004;Jenkins, H. 2004;Lepoutre, J. & Heene, A. 2006;Murillo, D. & Lozano, J. M. 2006;Spence, L. J. 2007;Spence, L. J., Schmidpeter, R., & Habisch, A. 2003;Thompson, J. K. & Smith, H. L. 1991). However, despite the limited amount of research on SMEs, the stakeholder view on CSR is deemed to be relevant par excellence for SMEs as the nature of doing business in

SMEs is largely personal (Fuller, T. & Tian, Y. 2006;Graafland, J. J., van de Ven, B., & Stoffele, N. 2003;Jenkins, H. 2006;Lepoutre, J. et al. 2006;Perrini, F., Russo, A., & Tencati, A. 2007;Spence, L. J. 2009). More than is possible in large corporations, SME stakeholder relationships may be characterised by a more trusting, informal basis and personal engagement with a smaller gap between the relative power of stakeholder and company (Jenkins, H. 2006). SMEs are likely to act responsibly because their legitimacy with immediate stakeholders like employees, customers and local community is at stake in a far more direct and personal way than it is with large corporations (Fuller, T. et al. 2006). Besides, where CSR in American and increasingly also in European multinational corporations engage in explicit CSR by specifically communicating their social responsibility policies, programs and practices (Matten, D. & Moon, J. 2008), the nature of CSR in SMEs is mainly implicit and informal (Fassin, Y. 2008;Graafland, J. J. et al. 2003;Habisch, A. 2004). Finally, where corporations aim at maximising shareholder value, SMEs are mostly run by owner-managers. As they combine agent and principal in their own person, they have some leeway in addressing social responsibility issues because they are not under the obligation to maximise profit (Jenkins, H. 2006;Spence, L. J. 2009).

> *Proposition 1: Multinational SMEs are more likely to fruitfully combine the normative and instrumental aspects of their employee relations management when their way of doing business is characterised by trusting, personal relationships and when they are run by the owner-managers.*

However, there are also important obstacles to carrying out CSR policies by SMEs. Many SMEs are characterised by a lack of slack resources in the form of time, specialised skills and financial resources. This situation is often aggravated by the very competitive nature of many markets causing a continuous struggle for SMEs to survive commercially (Campbell, J. L. 2007;Lepoutre, J. et al. 2006). Furthermore, the demands from large suppliers may force SMEs to cut costs in such a way that social responsibility is jeopardised (Fassin, Y. 2008;Morsing, M. & Perrini, F. 2009).

Proposition 2a: Multinational SMEs will be less likely to engage in employee-oriented CSR when they are active in very competitive markets.

Proposition 2b: Multinational SMEs will be less likely to engage in employee-oriented CSR when they are dependent on a few large customers.

Wood and Jones (1995: 235) argue that much of the research on the relation between social and financial performance of firms starts from an implicit assumption that "*only owners are seen as having the right to evaluate corporate performance and only that performance judged to be relevant to owners is an appropriate concern of management*". However, as each stakeholder group forms expectations about desirable firm performance and experiences the effects of firm behaviour, each stakeholder group also has the right to evaluate firm behaviour. This implies the use of measures of corporate social performance which are tailored to specific stakeholder groups such as employees (Branco, M. C. et al. 2007;Rowley, T. & Berman, S. 2000;Wood, D. J. et al. 1995).

According to instrumental stakeholder theory, not all stakeholder groups are equally important to the firm. Clarkson's (1995) distinction between primary and secondary stakeholders is often used in the literature, see for example (Brammer, S. & Pavelin, S. 2004;de la Cruz Déniz-Déniz, M. & De Saá-Pérez, P. 2003;Dentchev, N. A. 2004;Galbreath, J. 2006;Hillman, A. J. & Keim, G. D. 2001;van der Laan, G., van Ees, H., & van

Witteloostuijn 2008). Primary stakeholders are stakeholders are stakeholders without whose cooperation the firm cannot survive while secondary stakeholders can affect or be affected by the firm but are not essential for its survival (Clarkson, M. B. E. 1995).

Therefore, the selection of primary stakeholders is an important process for firms (Post, J. E. et al. 2002). Selecting stakeholder groups to whom most attention should be paid can be done by measuring their salience on the basis of particular attributes of stakeholder groups (Freeman, R. E. 1984;Mitchell, R. K., Agle, B. R., & Wood, D. J. 1997). Salience is defined as "the degree to which managers give priority to competing stakeholder claims" (Mitchell, R. K. et al. 1997: 854). Mitchell et al. (1997) developed a model for identifying and prioritising stakeholders based on the possession of power to influence the firm and/or legitimacy of the relationship with the firm and/or urgency of the claims on the firm. The most salient stakeholders, definitive stakeholders, possess all three attributes. Stakeholders possessing both power and legitimacy form the 'dominant coalition' in the enterprise. In many firms, employees can be headed under this category (Agle, B. R., Mitchell, R. K., & Sonnenfeld, J. A. 1999;Mitchell, R. K. et al. 1997).

Employees are a highly salient stakeholder group for SMEs, perhaps even more so than for large companies (Jenkins, H. 2006;Mandl, I. & Dorr, A. 2007;Spence, L. J. 2007). In various studies on the relative importance on stakeholder groups for SMEs, on average, firms indicate that employees are (one of) their most important stakeholder groups, see e.g. (Hammann, E. M. et al. 2009;Hoevenagel, R. & Bertens, C. 2007;Jenkins, H. 2006).

> *Proposition 3: Multinational SMEs will be more likely to transfer employee-oriented CSR practices to foreign subsidiaries if the employees both at home and abroad are highly salient to top management.*

An important factor affecting the salience of employees as stakeholder group is the power over resources they can exert (Frooman, J. 1999;Wood, D. J. et al. 1995).
Frooman (1999) considers relations between stakeholders and firms as resource relationships in which there is a potential conflict of interests. The degree of mutual interdependence between firm and stakeholder group determines the stakeholder group's power over the firm with respect to resource usage. This power can be symbolic, material or coercive in nature (Wood, D. J. et al. 1995). Thus, stakeholder management capability can be viewed as the capability of the firm to persuade stakeholders to put their resources to the best use possible for the company. In order to achieve this, companies need to build up trusting relationships with their stakeholders in order to convey convincingly to their stakeholders that the companies' actions create mutual value for the companies themselves and the stakeholders (Laszlo, C., Sherman, D., Whalen, J., & Ellison, J. 2005;Wood, D. J. et al. 1995). Gaining the trust of stakeholders is important because trust generates commitment, which in turn results in effort benefiting the firm (de la Cruz Déniz-Déniz, M. et al. 2003).
Trust depends on the beliefs of the parties involved that their expectations concerning the behaviour of the other party towards them will not be violated. This implies a mutual vulnerability of parties. Mayer et al. (1995: 712) define trust as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party". This definition is most appropriate here, as it embodies a willingness to take risk. However, if trust is to be effective in the employee-organisation relationship, firms must consistently live up to their promises and avoid opportunism at times at which this might be advantageous (Pfeffer, J. 1994;Wicks, A. C., Berman, S. L., & Jones, T. M. 1999).

Employee-oriented CSR and HRM

Employees are both instrumentally – managers focus on the capacity of employees to influence revenues and profits positively instead of on the quality of employees merely as a debit item that at all cost has to be minimised – and normatively – managers recognise employee claims as legitimate – salient stakeholders (Agle, B. R. et al. 1999;Bae, J. S. & Lawler, J. J. 2000;Barney, J. B. & Wright, P. M. 1998;Berman, S. L., Wicks, A. C., Kotha, S., & Jones, T. M. 1999;Pfeffer, J. 1994). This puts demands on the management of employment relations within the firm in the sense that it must enable trust and mutual value creation. Trust in employees is indicated by the degree to which employees are given responsibility in the execution of their tasks (Whitley, R. 1999). If mutual trust is to arise, both parties must recognise that the gains of production are fairly distributed among the stakeholders of the organisation (principle of distributive fairness) and that employees are sufficiently satisfied, involved and participating in the functioning of the organisation (principle of procedural fairness) (Brammer, S., Millington, A., & Rayton, B. 2007;Van Buren, H. J. 2005).

Tsui and colleagues (Tsui, A. S., Pearce, J. L., Porter, L. W., & Tripoli, A. M. 1997) split up employee-relations arrangements into four categories: the quasi-spot contract type, the mutual investment type, the under-investment type and the over-investment type. In the quasi-spot contract the employee receives short-term, purely economic rewards in exchange for well-specified contributions. The company is completely free to hire and fire workers. Thus, this employee-relations arrangement rests on an exclusively economic exchange model and can be said to provide for distributive fairness while the principle of procedural fairness is completely absent. The mutual investment arrangement rests upon both an economic and a social exchange model. Social exchange encompasses unspecified, broad and open-ended obligations for both parties. Besides monetary rewards, employees are offered employment security, investments in training to further career opportunities and a general care for their well-being. Thus the mutual investment arrangement can be argued to provide both for distributive fairness and procedural fairness. This creates for employees a reason to reciprocate in attitude and behaviour (Brammer, S. et al. 2007).

The other two arrangements represent a mixture of the quasi-spot contract and mutual investment arrangements and are characterised by unbalance in the mutual obligations between company and employees (Tsui, A. S. et al. 1997). The over-investment arrangement is characterised by high employment security and training investment on the hand and on the other by relatively narrow job descriptions without discretionary behaviour as reciprocation being expected (Bae, J. S. et al. 2000;Tsui, A. S. et al. 1997). It does imply, however, that the over-investment arrangement like the mutual investment arrangement provides for both distributive justice and for procedural justice. Finally, the under-investment arrangement is characterised by expectations of fully committed employee behaviour on the part of the firm in exchange for short-term, specified monetary rewards, while, on the other hand, the firm wants to be able to adapt the number of employees to its needs, so to enjoy freedom of hiring and firing (Bae, J. S. et al. 2000;Tsui, A. S. et al. 1997). In this case it can be argued that employees will experience absence of procedural fairness and, most likely, of distributive fairness as well. Clearly, only the mutual investment and over-investment arrangements are compatible with employee-oriented CSR practices.

Fey et al. (2007) state that the quality of employee performance is determined by employees' ability as well as their motivation or commitment. This implies an important role for the human resources management (HRM) function within the company, irrespective of whether this function is organised in a full-fledged HRM department as in large corporations or is part of the tasks of a top manager or the owner-manager as in smaller companies.

Consequently, an employee-oriented CSR approach implies an important role for ethics in the management of employee relations (Agle, B. R. et al. 1999;de la Cruz Déniz-Déniz, M. et al. 2003;Lado, A. A. et al. 1994;Van Buren, H. J. 2005). The ethics role is specified as non-violation of employee expectations with respect to the outcomes of specific behaviours. In exchange, employees will actively engage in behaviour that supports achievement of the firm's goals (Fey et al.). For such an employee-oriented approach to be successful, both a fit between HRM at strategic level and HRM practices and an internally consistent set of HRM practices are deemed necessary (Björkman, I. & Lervik, J. E. 2007;Huselid, M. A., Jackson, S. E., & Schuler, R. S. 1997;Pfeffer, J. 1994). A good fit is supposed to result in organisational commitment of employees in the form of reciprocation behaviour and, thus, in favourable consequences for employee performance.

Organisational commitment of employees entails employee decision making in the firm's interests, based on the firm's values and goals (Black, L. D. 2005). Three forms of organisational commitment can be distinguished. Affective commitment refers to identification with and involvement in the organisation; second, continuance commitment refers to the costs employees think to result from leaving the organisation; and, finally, normative commitment refers to an obligation felt by employees to stay employed within the organisation. Especially affective commitment seems to result in a desirable employee outcomes such as attendance, job performance and health (Brammer, S. et al. 2007).

An employee-oriented CSR approach should be aimed at creating mutual affective and normative commitment among firm and employees. Apart from non-violation of mutual expectations, this also carries the necessity to create a fit between the pursuit of employee organisational commitment and the supervisory style of management. Commitment is stimulated by a supportive supervisory style characterised by "facilitating employee skill development and training, a concern for employees' needs and feelings and the use of voice as opposed to exit as a feedback mechanism" (Beugelsdijk, S. 2008).

There seems to be general agreement that employee organisational commitment is stimulated by a consistent use of high-performance or high-commitment human resource (HR) instruments, e.g., see (Beugelsdijk, S. 2008;Brammer, S. et al. 2007;de la Cruz Déniz-Déniz, M. et al. 2003;Konrad, A. M. & Mangel, R. 2000;Lado, A. A. et al. 1994;Pfeffer, J. 1994). Examples of high-performance HR instruments are employee empowerment, task autonomy, employee participation, investment in training and career development, team work and job design, and work-life-balance programs (Beugelsdijk, S. 2008;de la Cruz Déniz-Déniz, M. et al. 2003;Pfeffer, J. 1994;Whitley, R. 1999).

> *Proposition 4a: Multinational SMEs will be more likely to transfer employee-oriented CSR practices to foreign subsidiaries if they make use of the mutual investment employee-relations arrangement both at home and abroad.*

> *Proposition 4b: Multinational SMEs characterised by the mutual investment employee-relations arrangement will be more likely to make use of high-performance or high-commitment human resource instruments in designing their employee-oriented CSR practices.*

However, SMEs hardly engage in strategic planning, let alone that they formulate an explicit HRM strategy (Harney, B. et al. 2006;Marsden, A. & Forbes, C. 2003). Combined with the fact that only relatively few SMEs employ professional HRM managers, one may conclude that there is a lack of managerial theoretical understanding of HRM in SMEs (Bacon, N., Ackers, P., Storey, J., & Coates, D. 1996). Still, it turns out that quite a few SMEs, and especially the larger ones, do make use of high-performance HR instruments such as delegation of responsibility, performance appraisals, team work, and job design (Bacon, N. et al. 1996). As multinational SMEs in general will be relatively large and sophisticated, this will probably hold for them as well. Atkinson (2007) found that fulfilment of expected employer obligations towards employees exerts large influence on employee organisational commitment. Mandl and Dorr (2007) report that application of an employee-oriented CSR approach by European SMEs resulted in a decrease in employee turnover and absenteeism.

Institutional environment and international transfer of employee-oriented CSR

Crane and colleagues (2008) argue that the appropriate content of CSR depends on the national institutional environment. The national institutional environment will also affect whether and to what extent companies will act socially responsibly (Campbell, J. L. 2007). Consequently, the definition of CSR will also differ across countries (Mandl, I. et al. 2007). For example, in highly regulated countries, a CSR policy aimed at employees is likely to focus on issues such as work-life balance, training and employability, while in less regulated countries such concerns as working conditions and unionisation gain attention (Crane, A. et al. 2008). This implies that multinational enterprises wishing to transfer stakeholder practices for employees to foreign subsidiaries have to take into account relevant institutional differences between home country and host country (Campbell, J. L. 2006).

The function of institutionalist theory is to help understand how the environment affects the functioning of organisations (Mitchell, R. K. et al. 1997). According to the institutional view, the motives of economic behaviour are not only determined by human behaviour directed at economic optimisation but also by social justification and social obligation (Alas, R. & Tafel, K. 2008;Oliver, C. 1997). Institutions can be defined as behavioural expectations that will be sanctioned if violated (Bresser, R. K. F. & Millonig, K. 2003). Consequently, institutions will affect the way firms treat their stakeholders (Campbell, J. L. 2006). In the framework of this paper, new institutionalism and the comparative business systems approach are the most relevant institutionalist perspectives.

The comparative business systems approach studies how different national institutional environments lead to the development of different forms of economic organisation across countries (Djelic, M. L., Nooteboom, B., & Whitley, R. 2008). These distinct national configurations of institutions have internal complementarities that enable the creation of institutionally-based comparative advantages (Jackson, G. & Deeg, R. 2008). Business systems are nationally determined because nation states form the principal battlefield for social and political competition in industrial capitalist economies (Whitley, R. 1999). Institutions are seen as influencing the identity and interests of economic actors (Jackson, G. et al. 2008). New institutionalism, on the other hand, focuses on organisational forms and practices. It studies the role of societal influence and pressures for social conformity in shaping organisations' strategies and actions. The institutional environment of firms consists of rules, norms and beliefs with respect to economic activity that define socially acceptable economic behaviour (Oliver, C. 1997;Tempel, A. & Walgenbach, P. 2007). The function of institutions is to help reduce uncertainty for organisations (Peng, M. W. 2002).

In the new institutionalist perspective, organisational behaviour, routines and structures are affected by institutions embodying expectations why organisations may be useful, what purposes they should fulfil and how they should be designed. The legitimacy of organisations is the key issue here (Tempel, A. et al. 2007). Institutions differ across societies and sectors. In order to gain legitimacy and resources, organisations must adapt to their institutional environment (Bresser, R. K. F. et al. 2003;Brouthers, K. D., Brouthers, L. E., & Werner, S. 2008). Suchman (1995: 574) defines legitimacy as "a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions". As legitimacy is granted by society (Wood, D. J. 1991), it implies a perception by government, employees and customers that the firm's strategies are isomorphic with the institutional environment (Brouthers, K. D.

et al. 2008). This necessitates the possession of context-specific knowledge in order to be able to achieve the firm’s objectives (Brouthers, K. D. et al. 2008).

DiMaggio and Powell (1983) capture the entire institutional environment relevant for an organisation in the construct of organisational field. An organisational field comprises “those organisations that, in the aggregate, constitute a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organisations that produce similar services or products” (DiMaggio, P. J. & Powell, W. W. 1983: 148). Organisations strive for legitimacy within their organisational fields. Three mechanisms make an organisation undergo isomorphic change during this effort: (1) coercive isomorphism stemming from the influence of other organisations upon which the organisation in question is dependent and from the influence of cultural expectations in society; (2) mimetic isomorphism encouraging imitation of other organisations in situations of uncertainty; and (3) normative isomorphism stemming from increasing professionalisation in modern societies (DiMaggio, P. J. et al. 1983;Tempel, A. et al. 2007). However, according to new institutionalists, change towards isomorphism does not necessarily result in an in an increase in efficiency (DiMaggio, P. J. et al. 1983;Tempel, A. et al. 2007). By contrast, in the comparative business systems approach, adaptation to the institutional environment in a specific business system is efficient within the confines of that business system (Hall, P. A. & Soskice, D. 2001;Tempel, A. et al. 2007;Whitley, R. 1999).

Proposition 5: Multinational SMEs will be more likely to be affected by coercive and cognitive institutional mechanisms then by normative institutional mechanisms in designing an employee-relations arrangement in their foreign subsidiaries.

As noted before, SMEs are characterised by a lack of professional knowledge with respect to systematised and sophisticated human resource management. This implies that there will be a strong tendency among multinational SMEs for their foreign subsidiaries to comply with the employee-relations arrangements which are common practice in the host country. This may be an obstacle for transferring employee-oriented CSR practices to the foreign subsidiary. However, in the CSR literature it is argued that values of top management play a very important role in applying CSR policies and practices (Hemingway, C. A. & Maclagan, P. W. 2004;Swanson, D. L. 1999;Waldman, D. A., De Luque, M. S., Washburn, N., & House, R. J. 2006). This is even truer for SMEs because of the pivotal role of the owner-manager. Consequently, the owner-manager championing CSR is conditional for consistent and successful engagement in CSR (Jenkins, H. 2006). This implies that the top manager of the subsidiary also needs to be a champion of CSR, if transfer of employee-oriented CSR practices is to be successful.

> *Proposition 6: Multinational SMEs are less likely to be affected by institutional constraints in the host country in implementing employee-oriented CSR in the foreign subsidiary if both the SME owner-manager and the foreign subsidiary top manager champion employee-oriented CSR.*

Institutions consist of three components each of which exerts a particular type of pressures. The regulative component consists of formal and informal rules that promote certain types of behaviour and restrict other types. Conformity with the regulative component is enforced by coercive pressures in the form of sanctions. The normative component is made up of norms, values, beliefs and assumptions about human nature providing standards for individuals and organisations to determine which types of behaviour can be deemed to be appropriate.

Normative pressures in the form of moral obligations lead to compliance with norms and values. Finally, the perception and interpretation of reality by individuals is determined by the cognitive component. It encompasses all aspects of institutions that are taken for granted and exercises cognitive pressures through subjective, taken-for-granted assumptions (Bresser, R. K. F. et al. 2003;Jackson, G. et al. 2008;Kostova, T. 1997). Fey et al. (2007) argue that this may help explain that specific HRM practices will affect employees in different countries differently. For example, due to normative and cognitive institutions in the formerly centrally planned economy, employees in transition economies are suspicious of instruments such as performance appraisal (Fey et al., Alas).

With respect to the different components of institutions, Tempel and Walgenbach (2007) signal that new institutionalists focus especially on normative and cognitive institutions such as norms and taken-for-granted assumptions about the appropriate organisation of companies. For example, firms mimic best HRM practices in the belief that these will increase efficiency, but in fact because of their social legitimacy (Amit, R. et al. 1999). The comparative business system approach, on the other hand, focuses on regulative institutions, such as financial and training systems. The type of labour market affects the type of skills employees are encouraged to develop. Flexible labour markets stimulate the development of portable skills enabling employees to switch easily between firms. Inflexible labour markets stimulate the development of firm-specific skills as these enable employees to strive for merit-based promotion (Fey et al., Hall and Soskice).

Oliver (1997) argues that institutional capital enables companies to deal with the institutional environment. Bresser (2003: 229) defines institutional capital as “the specific conditions in an organisation’s internal and external institutional context that allow the formation of competitive advantage”. The internal institutional environment differs across organisations; this helps to explain why organisations are more heterogeneous and why tendencies towards isomorphism within organisational fields are more limited than new institutional theorists suggest (Bresser). Thus, possession of institutional capital is crucial in transferring employee-oriented CSR practices to foreign subsidiaries.

Bresser (2003) distinguishes between three types of institutional capital. Cognitive capital comprises the cognitive abilities of the firm's decision makers to interpret the cognitive component of institutions. The less this interpretation is affected by institutionalised structures and routines and taken-for-granted assumptions, which form cognitive sunk costs, the higher the level of cognitive capital. Cognitive sunk costs are the social and psychological costs linked to changing firm habits and routines (Oliver, C. 1997). Normative capital consists of the firm's institutionalised norms, values, structures and routines. The easier its internal system of norms and values enable modification of structures, routines and resources, the more normative capital the organisation possesses. Together, cognitive capital and normative capital make up internal institutional capital. Regulative or external institutional capital is the firm's capability to deal with the formal and informal demands of actors in the external institutional environment. The more the organisation is capable of proactively influencing external institutional actors, the more regulative capital the organisation possesses (Bresser, R. K. F. et al. 2003).

The analysis of the processes by which MNEs transfer practices to and implement practices in foreign subsidiaries focuses on key issues as the extent to which home-country behaviour is reproduced abroad, the extent of adaptation of practices to the host-country institutional environment and how such adaptation takes place (Ferner, A. et al. 1998;Ferner, A., Quintanilla, J., & Varul, M. Z. 2001;Tempel, A., Wächter, H., & Walgenbach, P. 2006). Foreign subsidiaries function in two different institutional environments, the host-country institutional environment and the parent-firm institutional environment (Hultén, P. 2006), implying that MNEs operate in multiple organisational fields depending upon the number of countries and sectors in which they are active (Ferner, A. et al. 1998). As a result, MNEs are subject to competing isomorphic pulls (Ferner, A. et al. 1998;Kostova, T. & Roth, K. 2002). There is a continuum of possible outcomes ranging from complete foreign subsidiary adaptation to the local institutional environment at the one extreme to complete ‘global inter-corporate isomorphism’ due to the isomorphic pressures from key global competitors at the other extreme (Ferner, A. et al. 1998).

With a view to employee relations management, this is the more interesting as it is often argued that it is important to adapt HRM practices to the local institutional environment (Alas, R. et al. 2008;Fey, C. F., Morgoulis-Jakoushev, S., Park, H. J., & Björkman, I. 2007;Harney, B. et al. 2006). Labour market regulation often even makes it imperative to conform to local standards (Ferner, A. et al. 1998). However, this will hold to a lesser extent for countries characterised by relatively flexible labour market institutions such as the UK and Eastern European countries (Ferner, A. et al. 1998;Tempel, A. et al. 2006).

Practice transfer is important to MNEs as this allows making use of its competitive advantages on a worldwide scale, gaining better control of operations worldwide and contributing to the development of a common corporate culture (Björkman, I. et al. 2007;Ferner, A. et al. 1998;Kostova, T. 1999;Kostova, T. et al. 2002). Practice transfer, however, is not successful by definition (Blazejewski, S. 2006;Kostova, T. 1999;Mohan, A. 2006). This holds especially for (strategic) organisational practices – HRM practices being part of these – the rules of which reflect underlying values (Alas, R. et al. 2008;Kostova, T. 1999;Mohan, A. 2006). Organisational practices are defined by Kostova (1999: 309) as “particular ways of conducting organisational functions that have evolved over time under the influence of an organisation’s history, people, interests, and actions and that have become institutionalised in the organisation”. This makes practice transferability dependent upon transferability of meaning and values.

Kostova (1999: 311) defines transfer success as “the degree of institutionalisation of the practice at the recipient unit”. Institutionalisation consists of two stages: implementation and internalisation. Implementation is the degree to which the formal rules of the transferred practice are carried out in the recipient unit. Internalisation refers to the degree of taken-for-grantedness of the practice in the recipient unit (Björkman, I. et al. 2007;Kostova, T. 1999). Björkman and Lervik (2007) state that, in order to be completely successful, transferred practices should be integrated with the already existing practices in the recipient unit.

Kostova and Roth (2002) argue that transfer success depends on the differences between home-country and host-country institutional environments. For example, transfer of practices which lack supportive conditions in the host-country environment will be hard to accomplish successfully (Tempel, A. et al. 2006). On the other hand, the influence of the host-country institutional environment may be reduced to an extent by a ‘positive liability of foreignness’; the foreign subsidiary is not expected to be completely isomorphic with the relevant local institutional environment.

Furthermore, transfer success depends on the relational context – defined by dependence, trust and identification – between parent company and subsidiary (Kostova, T. et al. 2002). In other words, transfer success is dependent upon the institutional capital of the MNE. Thus, in dealing with employees in unfamiliar institutional environments, especially the possession of internal institutional capital probably is important for multinational SMEs. Blazejewski (2006) argues that especially differences in normative institutions may cause conflicts in the transfer process, in particular of value-infused practices. She distinguishes between four types of transfer processes: conflict-free, avoidance/ignorance, hidden conflict and open conflict.

Only conflict-free practice transfer processes allow for unaltered transferred practices (Blazejewski, S. 2006;Hultén, P. 2006).

Proposition 7a: Multinational SMEs are less likely to adapt employee-oriented CSR practices to the local institutional environment when they do not possess institutional capital.

Proposition 7b: Multinational SMEs are more likely to possess cognitive and normative institutional capital than regulative institutional capital due to a relative lack of power compared to large multinational corporations.

Proposition 7c: Multinational SMEs are more likely to transfer employee-oriented CSR practices successfully to their foreign subsidiaries if they possess cognitive and normative institutional capital to such an extent that they can adapt easily to the local institutional environment.

Research shows that with respect to HRM practices MNEs from different home countries go about distinctively in managing their employees (Ferner, A. et al. 1998;Ferner, A. et al. 2001). Though there is evidence of 'Anglo-Saxonisation' of HRM practices in MNEs, this process tends to be coloured in nationally specific ways. Bae and Rowley (2001) state that national HRM systems remain varied because the distinctness of national institutional environments restricts transferability of HRM practices. Ferner et al. (2001) argue that managerial orientation affects the impact of institutional constraints on HRM practice; within limits, institutional constraints can work out differently across firms. But, vice versa, even in deregulated host-country environments, MNEs have no unlimited freedom of action.

The fact that empirical research has resulted in findings pointing to convergence as well as findings evidencing continuing divergence may be attributed to the fact that transfer may occur at different levels of HRM systems: the strategic level with guiding principles and basic assumptions, the setup of the system of HRM practices and the practice process of the specific HRM practices. The strategic level is easiest to transfer because it is almost completely codified. The lower levels, however, contain much tacit knowledge complicating transfer to subsidiaries (Bae, J. S. & Rowley, C. 2001;Smale, A. 2008). This will apply to an even greater extent to SMEs, since these have hardly ever an explicit HRM strategy.

Conclusion

Though there has been extensive research on most elements affecting the opportunities for multinational SMEs to carry out a stakeholder strategy aimed at employees in their foreign subsidiaries by transferring the relevant and applicable HRM practices, this research addresses the various elements for the most part in isolation. All in all, by far the greatest part of this research applies to the situation in large corporations. On the whole, very little attention has been paid to the specific circumstances in SMEs. Research on multinational SMEs in particular is virtually non-existent.

With respect to the stakeholder view on CSR, there has been some research on this topic related to SMEs, but essentially exclusively with respect to identifying relevant stakeholder groups. How SMEs carry out CSR-oriented stakeholder policies, has hardly been investigated at all. This also goes for employees, the stakeholder group that many authors have found to be the most relevant stakeholder group for SMEs (Mankelow, G. 2008).

On international aspects of CSR, it is generally remarked in the literature, that this is, for the most part, painfully absent (Campbell, J. L. 2006;Crane, A. et al. 2008;Lee, M. P.

2008;Spence, L. J. 2007). Little attention has been paid to the CSR dilemmas resulting from MNE involvement in multiple institutional environments, for instance that many MNEs move production locations in highly developed economies to low-wage countries (Jones, M. T. 1995;Peng, M. W. & Pleggenkuhle-Miles, E. G. 2009). With respect to multinational SMEs, there has been no research on the implications of operating in multiple institutional environments with regard to transfer of employee-oriented CSR practices.

I have argued that successful transfer of employee-oriented CSR practices is dependent on the fulfilment of a number of conditions. First, managing the company, both at home and abroad, should be based on trusting relationships with employees. Second, development of trusting relationships will be advanced if employees are highly salient to the owner-manager. This salience is expressed in a mutual investment employee-relations arrangement in which high-performance or high commitment human resource practices occupy a prominent position. Third, prominent champions of employee-oriented CSR, both in the parent company and the foreign subsidiary, are needed to overcome host-country institutional constraints on engagement in employee-oriented CSR. Finally, multinational SMEs must possess sufficient institutional capital in order to be able to adapt parent-company employee-oriented CSR practices to the host-country institutional environment while preserving the intent of these practices.

Case studies are most helpful for developing the required in-depth knowledge of the ‘how’ and ‘why’ of the processes involved in the transfer of employee-oriented CSR practices (Yin, R. K. 2003). This knowledge comprises, first, employee salience to company management and the resulting objectives and strategy with respect to employees. Second, the impact of entrepreneurship on achieving these objectives should be researched. Third, the relevant differences between the various institutional environments involved are to be mapped out.

As the industry may affect the nature of strategies employed towards employees, companies from both the manufacturing and the services sector should be selected. Since the characteristics of these industries are widely diverging, such a setup warrants a fruitful opportunity for cross-case search for patterns which enhances the possibilities for generalisation of findings (Eisenhardt, K. M. 1989). This effect will be strengthened by selecting for both sectors companies with an explicit employee-oriented CSR strategy as well as companies without an explicit employee-oriented CSR strategy. Furthermore, as the effects of the institutional environment may be characteristic for one particular country, subsidiaries in several countries have to be researched to enable generalising across countries.
Presently, it turns out to be difficult for SMEs to implement a consistent employee-oriented CSR strategy in foreign subsidiaries due to differences in the institutional environment. The proposed research setup may result in a list of opportunities for SMEs to apply socially responsible practices adapted to other national institutional frameworks. This would enable multinational SMEs to realise a consistent employee-oriented CSR strategy across their international subsidiaries.

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