

**Refereed paper**

**Title: The affectation of socially responsible HR practice**

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# **THE AFFECTATION OF SOCIALLY RESPONSIBLE HR PRACTICE**

## **Abstract**

This paper focuses on social responsibility (SR) and human resources in a context of small business. SR is defined as ‘obligations to constituent groups in society other than stockholders and beyond that prescribed by law and union contract’ Jones (1980: p.59-60). Numerous studies have addressed the economic significance and effects of small enterprises but contributions to HR within small enterprises have remained unexplored in contemporary SR literature. A case research methodology employing theoretical replication was used to select 10 small enterprises that were chosen with the assistance of the Hunter Business Chamber, Australia. A semi-structured face-to-face interview with the owner of the enterprise who also functioned as the manager was undertaken using a research instrument comprised eight qualitative and open-ended questions. The questions specifically addressed the small enterprise HR priorities, owners’ motivations, and financial contribution to SR. This research is designed to fill a gap that exists in the literature and can be considered innovative and timely given the growing interest by society in the SR area from a small enterprise perspective. The principal objective of this research is to broaden the understanding of so small enterprises by addressing the research problem: “Are human resource policies of small enterprises socially responsibility or market driven?”

## **1. INTRODUCTION**

This study focuses on a relatively novel area of social responsibility (SR) in the context of small business. Numerous studies have addressed the economic significance and effects of small enterprises but community and sociological contributions of small enterprises have remained largely unexplored in contemporary SR literature.

This study is driven by the aggregate potential of small enterprises which provides an economic justification for research into small enterprise SR. The Generosity of Australian Businesses (2002, 3) sought to evaluate social contributions by large and small enterprises. A significant financial finding was that ‘the small business sector donated \$251million, more than each of the medium and large business sectors’. This suggests an emerging recognition of the small enterprise sector in the process of generating goodwill to the society at a time when SR has become a buzzword given the collapse of a number of multinational firms.

This research is designed to fill a gap that exists in the literature and can be considered innovative and timely given the growing interest by society in the SR area from a small enterprise perspective. The principal objective of this research is to broaden the understanding of social and economic roles of small enterprises in the community by addressing the research problem: “Are human resource policies of small enterprises socially responsibility or market driven?”

The following section, the literature review, outlines the concept of SR employed in this paper, discusses the nature of small enterprises, and reviews previous SR studies

with particular reference to small enterprise SR within an Australian context. This section is followed by research methodology, findings and discussion, conclusions and implications, and limitations and future research.

### **1.1 Definition of social responsibility**

Jones (1980: 59-60), defined SR as “obligations to constituent groups in society other than stockholders and beyond that prescribed by law and union contract”. An enterprise is not being socially responsible if it merely fulfills minimum requirements in one or more of economic, social, or legal responsibilities: social responsibility begins where the law ends.

SR was developed by Carroll (1991) who argued ethical and philanthropic functions had taken a significant place that coincided with change in social attitudes, with the ‘discretionary component’ becoming ‘philanthropic’ and embracing ‘corporate citizenship.’ Carroll’s (1991) placement of the economic category as the base, a fundamental upon which legal, ethical, and philanthropic depends, supports the neoclassical paradigm: ‘the business of business is business.’ Fulfillment of responsibilities are not undertaken in a sequential manner, that is economic followed by legal, ethical, and philanthropic but coincidentally, at the same time, fulfilling multiple objectives of an enterprise despite responsibilities being differently ranked.

CSR literature has developed to support and complement large firm CSR activities. The development of Corporate Citizenship (CC), for example, has been further refined by Matten and Crane (2005) which outlined an approach to extend its theoretical

conceptualization. The proposed definition of CC (Matten and Crane, 2005: 173) is to be commended for its broad definition of a stakeholder and is consistent with CC literature as it applies to large enterprises. Specifically, the Matten and Crane (2005: 173) definition “reframes CC away from the notion that the corporation *is* a citizen in itself (as individuals are) and toward the acknowledgement that the corporation administers certain aspects of citizenship for other constituencies”. In doing so, this definition perpetuates the concept that a small business is a scaled down version of a large enterprise as the “reframed” definition fails to recognise that small businesses exhibit an intimate relationship between the enterprise itself and the entrepreneur/small business owner. Accordingly, the authors adopt a definition of SR, perhaps dated, but more appropriate to a study of small business SR.

Harrison and Freeman (2000, p.483-484) concurred with Carroll (1991) and further argued “The theoretical problem is that surely ‘economic effects’ are also social, and surely ‘social effects’ are also economic and dividing the world into economic and social is quite arbitrary.”

## **1.2 The nature of small business**

The role for management is relevant for large enterprises with its division of power between owners and managers (Cyert and March, 1963; Berle and Means, 1932) with small enterprises having a greater likelihood of coincidence of power between owners and managers. Small enterprise owners usually have a more direct impact on operations and activities of enterprises than owners of large enterprises (Wiklund, 1998a, b; Cressy, 1996; Perry, 1985; Cooper, 1982). A close and direct role of small

enterprise owners may imply multi-dimensional goals; a commercial orientation as well as personal preferences, objectives, and ambitions such as desire for lifestyle, family, and reputation in communities (Spence and Ruthfoord, 2001; Birley and Westhead, 1994; O'Farrell and Hitchens, 1988). Consequently, owners of small enterprises play a more critical role in development of their enterprise than owners of larger enterprises (Wiklund, 1998; O'Farrell and Hitchens, 1988; Shuman and Seeger, 1986), prompting Storey (1994: p.10) to argue a small enterprise is 'not simply a scaled down version of a large firm.'

This research adopted the current ABS definition of small business which embodied qualitative characteristics described in Wiltshire Committee (1971: p.11): 'one or two persons are required to make all the critical management decisions... with specific knowledge in only one or two functional areas,' and defines a small retail enterprise in terms of number of employees (Small Business in Australia 1999, 2000: p.2): '...a businesses employing less than 20 people.'

Small enterprises have consistently been seen to demonstrate a market orientation, both overseas (Pelham, 2000; Pelham and Wilson, 1996) and within an Australian context (Mankelow and Merrilees, 2001; Kotey and Meredith (1997). In large measure this illustrates a desire to be 'close' to their market and respond in such a way that suits their mutual benefit, namely a product meeting the changing consumer needs as well as provided profit and growth for the business. An implicit theme is an intimate relationship between owners and key stakeholders, for example employees. Consequently, personality, preferences, objectives and behaviours of small enterprise

owners are likely to be reflected in the performance of an enterprise to a far greater extent than that of large enterprises (Wiklund, 1998; Alizadeh, 1996).

### **1.3 Previous studies in social responsibility**

The issues of social responsibility have generated a great deal of discussions in the literature since 1970s. The contemporary SR thoughts reflected diversity as regards its pattern, motivation and impact on communities (Kedia and Kuntz, 1981). SR literature has been related almost exclusively to large enterprises in terms of theoretical development, for example CC (Matten and Crane, 2005) and empirical studies (KPMG, 2005) with a recent trend to include reference to small enterprises. The large enterprise studies demonstrate a presence of SR with diversity as regards its form, motivation and impact on communities (KPMG, 2005; Kedia and Kuntz, 1981).

Thompson and Smith (1991, p.31) observed “the most notable characteristic of empirical research on CSR (*corporate social responsibility, authors’ comment*) in small business is the limited number of studies”. Thompson and Smith (1991) noted a total of eight articles had been published, a situation which has changed little with approximately 20 articles primarily focused on small enterprise SR. A situation that is exacerbated when SR is further limited to an aspect, for example socially responsible small enterprise employment practices, in which the present authors were unable to locate any previous publications. A possible explanation for this dearth of studies is offered by Katz, Aldrich, Welbourne and Williams (2001, p.8); “We think it may be because HRM is considered by many to be a large firm phenomenon”. Some ten years after Thompson and Smith (1991), Heneman, Tansky and Camp (2001) outlined the

future research directions in HR in small and medium enterprises with ethics and social responsibility receiving, at best, cursory consideration as avenues for research.

There have been a limited number of Australasian small enterprise SR studies which have either addressed aspects of SR or employed imprecise definitions of SR. Schaper and Savery (2004) and Council of Small Business Organisations of Australia (2000) found small businesses played a major role in supporting local communities. The ABS Generosity of Australian Businesses (ABS, 2002) developed a concept of “total giving” that included philanthropy, donations, sponsorship, and enterprise strategic decisions and, in doing so, mixed SR and market-driven activities. A New Zealand study by Knuckey, Johnston, Campbell-Hunt, Carlew, Corbett, and Massey (2002) included sponsorship which, like ABS (2002) blurred the concept of SR.

Mankelow (2006) identified the motivational aspects small enterprise SR in the context of regional Australia. In particular, the study examined the managerial perception of SR action and the driving forces shaping the status of small enterprises in terms of their actual behaviour in regard to their community. It was found SR participation was intimately related to the profit orientation of an enterprise. A relationship between an enterprise profit motive and SR aspects of enterprises varied from a view that SR participation is an extension of profit making activities to a view that SR participation was undertaken with community stakeholders based on altruistic motives. The majority of enterprises embodied a mixture of marketing and altruism, biased towards the marketing end of continuum.



In summary, the research problem; Are human resource policies of small enterprises socially responsibility or market driven?" is discussed within a framework in which Jones (1980: p.59-60), defined SR as "obligations to constituent groups in society other than stockholders and beyond that prescribed by law and union contract" and where a small enterprise is defined as employing less than 20 people.

## **2. RESEARCH METHODOLOGY**

This research employs an interpretivist ontology with a realist epistemology to access a 'hidden slice of reality,' and to facilitate an understanding of managerial perceptions where meanings are socially constructed rather than being value-free. A substantive qualitative methodology was viewed as appropriate at a pre-paradigmatic stage (Perry, Alizedah and Riege, 1997) when 'investigating contemporary phenomena within real-life contexts when the boundaries between phenomenon and context are not clearly evident' (Yin 1994: p.13). Theoretical replication was used to purposefully select 10 cases that were chosen with the assistance of the Hunter Business Chamber, Australia. Cases were descriptively named, Butcherco is a retail butcher, Floristco is a retail florist, and Musico is a retailer of sheet music and musical instruments. A semi-structured face-to-face interview with the owner of the enterprise who also functioned as the manager was undertaken using a research instrument comprised eight qualitative and open-ended questions. Owner-managers were exclusively chosen as their perceptions more adequately reflect the SR intentions and practices of small enterprises. Qualitative data, words or groups of words, was analyzed within a context of a research problem with computer software used for axial coding while a need to remain 'close' to the data precluded the use of computer software for selective coding.

### **3. FINDINGS AND DISCUSSION**

#### **3.1 Overview of the cases**

The cases represent a range of retailers across industries from the membership of the Hunter Business Chamber (see table 1, column 1). Before analysing the findings it is necessary to discuss two points to provide a context for the findings, namely the size and age characteristics of the enterprises and secondly, how employees are viewed by the enterprise owners.

- **Characteristics of the enterprises**

The ten retail enterprises encompass a range of industry sectors, for example a florist, butcher, stationer, and pharmacy. Enterprises may be described as established with the age of the enterprise ranging from two years to forty eight years, average of fifteen years with seven of the ten businesses being established in excess of ten years. The number of employees range from two to twelve with average of approximately seven employees. All businesses conform to the definition of a small business with four enterprises (Bakerco, Clothescos, Floristco, Giftco) being further classified micro small business as they employ less than five people.

- **How employees are viewed by the enterprises**

Enterprise owners experienced little difficulty identifying and ranking stakeholders that were linked to operational aspects of enterprises; employees, customers, and suppliers. Employees, customers, and suppliers were, with exception of Pharmco, ranked either one, two, or three by interviewees, indicating a strategic orientation. Employees, customers and suppliers were key stakeholders considered critical to enterprise operations and, followed by community stakeholders (Mankelow, 2006).

**Table 1 Analysis of cases**

<b>Enterprise</b>	<b>Owner HR priorities</b>	<b>Owners' motivations</b>	<b>SR financial contribution</b>
Bakerco Age 2 Employees 6	- Employment - Safe working environment - On the job training in business related activities	- Increase employee morale - Mutual obligations	Nil
Butcherco Age 14 Employees 10	- Flexible hours and conditions - On the job training in business related activities	- Long-term survival - Marketing - Reduce employee turnover	Nil
Clothesco Age 3 Employees 3	- Flexible hours and conditions - Above award payments	- Long term survival - Social obligations to families	Nil
Floristco Age 11 Employees 3	- Flexible hours and conditions - Equitable work allocations - On the job training in business related activities	- Long term survival - Marketing - Effective advertising - Equity in work tasks	Nil
Fruitco Age 15 Employees 12	- Employment - Pleasant working environment. - Instill work principles	- Marketing - Attract customer support - Altruism	Nil
Giftco Age 3 Employees 2	- Flexible hours and conditions	- Long term survival - Marketing - Tradition of enterprise	Nil
Jewelerco Age 30 Employees 7	- Flexible hours and conditions - External training in business related activities.	- Long-term survival - Increase employee morale	Nil
Musico Age 48 Employees 9	- Flexible hours and conditions - Employment: chosen as a music expert - On the job training in business related activities	- Marketing	Nil
Pharmco Age 12 Employees 10	- Flexible hours and conditions	- Marketing - Increase employee morale	Nil
Statco Age 12 Employees 7	- Flexible hours and conditions - External and on the job training in business related activities.	- Long term survival - Marketing - Increase employee loyalty	\$2400

Small enterprises ranked employees of primary importance, marginally before customers. The closeness of the ranking being illustrated by Pharmco who commented:

- *My employees are my core people that matter in my business and my customers and it's hard to say which one would be the greatest stakeholder. I think my employees who would be the greatest stakeholders.*

A rank order that placed employees, customers and suppliers (dominant stakeholders) fulfilling economic/legal responsibilities ahead of community stakeholders (discretionary and/or potential) fulfilling ethical/philanthropic is consistent with a strategic enterprise orientation. In doing so, interviewees illustrated a strategic enterprise focus by assignment of priorities to operational stakeholders that addressed economic and legal responsibilities of enterprise operations ranked before communities that may be classified and fulfilling ethical/philanthropic responsibilities (Mankelow, 2006; Mitchell, Agle, Wood, 1997,).

### **3.2 Owner HR priorities**

The enterprise characteristics and salience of employees provided a framework to discuss owners' HR priorities, motivations, and financial contribution to SR. The owners' HR priorities are summarised in table 1, column 2. The recorded response either related specifically to employment of staff or intimately intertwined with owner priorities focused on the operation of the enterprise itself.

The most common HR priority (eight out of ten respondents) was "flexible hours and conditions". This was usually interpreted to mean that if an employee had either a family emergency (visitation to a dentist) or family function (school carnival) the employer would grant "time off" usually on two conditions; a casual replacement is

available and time would be “made up” at a later date. This flexibility was considered to be appreciated by staff which was seen by the employer as increasing morale and engendering staff loyalty. “On the job training”, primarily on business-related activities, such as selling techniques, was undertaken by six of the ten enterprises. Other HR priorities included the provision of “employment” by three enterprises which also mentioned along with a “safe” and “pleasant work environment”, and “instill work principles”. In summary, owner HR priorities were business-centric, focusing on operational aspects of the enterprise with an emphasis on flexible hours and conditions, on the job training, and provision of employment to staff.

### **3.3 Owner HR motivations**

The HR motivations of the owner, in order of importance, centred on the enterprise (marketing, long term survival), employees (morale, turnover, loyalty), and the enterprise owner (altruism).

Marketing of the enterprise was the most common (seven out of ten firms) motivation underpinning SR. Marketing emphasised SR activities with internal (employees) and external (suppliers) stakeholders to present the enterprise in the best possible light as a socially aware and responsible enterprise. Giftco, for example, perceived to be a prominent part of their SR viewed *the annual ball is huge advertising for us*. Likewise respondents were eloquent in their generous treatment of employees in meeting their unexpected needs but Clothesco commenting: *if you look after your staff, they're happy, they'll look after your future too*. This comment reflects a sense of mutual obligation between owners and employees as well as being indicative of wider

community obligations with more than a hint of altruism on the part of the owner (discussed later in this section).

The previous comment suggests the next motivation to be discussed, long term survival that was listed by six out of ten owners. Growth and survival of small enterprises is problematic. To facilitate enterprise longevity owners recognize a need to accommodate the requirements of employees and provide a level of flexibility. Jewelerco, for example, noted that *it is very important to look after the staff that you have*, while Statco also recognized the critical role of staff: *employees to me are my business*.

Owners specifically listed motivations directly related to employees and employee-related aspects. An objective to “increase employee morale” was mentioned by four of the ten respondents. The critical role of the employee was recognised by business owners in that they considered employees to be the most salient stakeholder of the business. Consistent with this status employers provided flexible conditions as well as socially responsible activities such as equity in work tasks with Floristco commenting; *We’re all just workers and we work hard*, Fruitco promoted a ‘protestant work ethic’ commented; *I try to instill upon them wonderful work principles*. It is unclear as to whether the primary motivation is to foster the well-being of the individual or to ensure the profitability and growth of the enterprise.

Altruism in a number of guises was mentioned by four of the ten business owners as being a motivation for SR. A sense of mutual obligation to employees was quoted by Clothesco; *it’s very important to be flexible particularly with children*. Obligations were also expressed towards the community in general as expressed by Bakerco;

*we're just happy to give back to the community because they keep us employed and food on our table.*<sup>1</sup> A more philanthropic position was taken by Fruitco; *a gift from the heart...if you expect something back you're going to be very, very disappointed...it's a nice thing to do...I like to help the community at large.*

The HR financial contribution is summarised in table 1, column 4. The level of SR is almost non-existent with nine of the ten small business owners unable to assign a dollar amount to employees. The exception is Statco with \$2400. Section 3.4 includes a discussion and analysis of HR priorities, motivations, and financial contribution.

### **3.4 Discussion and analysis**

Small enterprise owners had an intimate knowledge of their enterprises and, as a result, demonstrated little propensity to formally express enterprise objectives and policies. However, a lack of documentation need not imply small enterprises were devoid of either direction or strategic orientation. Interviewee comments suggested an expressed intention to be 'close' to operational stakeholders, such as employees, and designed strategies and policies that addressed present and future needs of the enterprise. Consequently, small enterprises were strategically oriented as seen in ranking of stakeholders and multiple enterprise objectives such as profit maximization, marketing activities and networking with local markets including community stakeholders.

SR participation with employees took place in a consistent manner across small enterprises. A possible explanation for similar employee SR participation is that

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<sup>1</sup> Small enterprises contributed, on average, \$4900 per annum to community groups and associations. See Mankelow (2006) for further comment.

conditions of employment are specified under enterprise agreements and awards, thus employees receive flexible hours and conditions of employment within a safe working environment. In addition, a desire to motivate and keep an enterprise's *most valuable assets*, employees, reduced the likelihood of alternative employment, while provision of 'family friendly' employment practices was perceived necessary as Butcherco commented: *all other businesses are doing it*. Interestingly, no respondent referred either to the award governing employment or whether the flexibility was in excess of what was required under the award. As Butcherco perceived all businesses (small businesses) were permitting a level of flexibility which became the norm. In short, the owner response was market-driven and should not be viewed as SR.

The provision of conditions of employment in excess of minimum legal requirements need not imply SR participation. The ubiquity of flexible work practices were part of augmented employment provisions, expected and received by employees. What was previously part of extra-ordinary provisions has become, as a consequence of changing market-driven expectations, routine and not in excess of normal provisions to employees. On the other hand, Statco provided flexible employment conditions not driven by a response to labour market conditions. Statco allowed an employee to undertake activities, in enterprise time, to promote and develop Hugs, a Hunter-based charity designed to promote charity-business partnerships to improve physical and emotional well being within local communities. The provision of paid, flexible employment conditions is qualitatively and quantitatively different from employment flexibility compared to that experienced in other case studies in this research, and may be described as SR, that developed a concept of SR being in excess of that, which is mandated because of legal and economic requirements.



Small enterprise owner HR motivations focused on HR were in large measure subsumed within broader enterprise motivations such as marketing and long term survival of the firm. A possible explanation being that business owners, because personal shortcomings in HR, which were exacerbated by no HR specialist on-staff, treated employees in an indifferent manner, as though employees have limited alternative employment prospects.

#### **4. CONCLUSIONS AND IMPLICATIONS**

The relatively close relationship between enterprise owners and their employees enabled a considered, some would argue compassionate response to the employees request for “special” consideration. The owners, almost without exception agreed to the employee request but it was subject to conditions (make the time up) with a mixture of motivations which emphasized a structured if not strategic orientation to acceding to the request. The provision of training enhanced business efficiency and profitability with a secondary emphasis on generic and portable skills for the employee. The provision of employment for staff is laudable but even then staff keep their job because they are of primary importance and perceived to be critical to the enterprise. A pleasant and safe, particularly a safe working environment is a mandatory requirement under the Occupational Health and Safety Act (2000).

Despite a significant amount of enterprise expenditure on SR (Mankelow, 2006) interviewees were not able to assign monetary values to SR participation. There is a strong suggestion that contributions to employees were not SR participation but a market-driven response from competitive pressures to match provisions by other

enterprises and, as such, does not constitute SR participation: a crux of SR participation.

Small enterprise owners say the “right things”, for example; *employees are to me my business; it is very important to look after your staff*; and an enterprise’s *most valuable asset*. The revealed behaviour is quite to the contrary. An “outsider” would, based on the evidence argue the existence of a credibility gap between stated priority (intention) and practice (reality). Small business owners’ HR practices respond to market-driven imperatives: they match the competitors’ position, in this case HR conditions. Despite the revealed preferences being market-focused, the authors have a “romantic belief” that small enterprises HR priorities are socially responsible and not affectation, pretending to be something they are not.

## **5. LIMITATIONS AND FUTURE RESEARCH**

This research raises the possibilities of further research either in different locations, industries, or research methodologies. A case research methodology and coding procedures, for example, may be used as a basis to replicate other SR in other locations including non-regional areas where research has indicated small enterprises operate differently compared to urban small enterprises. The size of the sample and the methodology suggest a need to develop a quantitative research instrument distributed to a larger, representative sample to quantify the extent of SR.

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