

# Keeping at Arm's Length or Searching for Social Proximity? Corporate Social Responsibility as a Reciprocal Process Between Small Businesses and the Local Community

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**Abstract** This article examines the relationship between corporate social responsibility and locality in the small business context. This issue is addressed by studying the interplay between small businesses and local community based on the embeddedness literature and using the concept of social proximity. On the basis of 25 thematic interviews with owner-managers a typology is constructed which illustrates the owner-managers' perceptions of the relationship between the business and the local community. The findings emphasize the importance of reciprocity as it is suggested that corporate social responsibility in relation to locality is constructed as a response to the interpretations of reciprocal community support between small business owner-managers and local community.

**Keywords** Small business · Corporate social responsibility · Locality · Local community · Reciprocity · Embeddedness · Social proximity

## Introduction

This article examines the relationship between corporate social responsibility (CSR) and locality in the small business context. The prevalent views on CSR challenge the idea of a business being responsible only for supplying goods and services to society (see Friedman 1970), by reflecting both the social imperativeness and the social

consequences of a business (Crane and Matten 2004). Corporate social responsibility can be described as a commitment of businesses towards the economic as well as social development of the communities where they operate. This interest in the social role of businesses is based on the idea of businesses being closely interconnected in communication and adjustment processes with their different stakeholders (Bathelt and Glückler 2003). Instead of being understood as an isolated entity, businesses are considered to be 'constituted by or operate under influences originating from various social spheres' (Oinas 1998, p. 39). This interconnectedness is often described by using the concept of embeddedness, which, according to Granovetter (1992, p. 33), refers to the fact that 'economic action is affected by actor's dyadic relationships and by the structure of the overall network of relations'. According to this view, the economic sphere cannot be considered as separable from other social spheres, which provide supplementary motives and enacts alternative realities (Johannisson and Mönsted 1997). Businesses are seen as agents or actors influenced by their wider social environment and are able to shape it. In this study, we approach this idea of wider social environment by adopting the concept of social network, which refers to the finite set of actors and the specific relations defined on them (Wasserman and Faust 1994, p. 20).

The rise of embeddedness has been an organic part of the so-called cultural turn or 'new' economic geography which has focused on cultural, institutional and evolutionary perspectives of regional development (Hudson 2003, p. 742; Bathelt and Glückler 2003, p. 119). Analyses representing this paradigm are strongly inspired by institutional and evolutionary economics and economic sociology. The vantage point of these institutional analyses has been on relational links between regions' actors and institutions, structures of trust, and in broadest sense, the whole

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dynamics of social relationships (DiMaggio and Powell 1991). The development and success of the specific regions or individual enterprises are seen to be conditional on and interdependent on the systems of meaning and patterns of social relations (e.g. Simonsen 2001, pp. 41–50; Boggs and Rantisi 2003, p. 109). Thus, cultural systems of meaning like ethics and CSR can be considered to affect the success of individual enterprises and regions.

Small businesses have often been characterized through/by the embedded nature of their business relations. According to some views, small businesses are considered to be strongly embedded in their local communities (e.g. Castka et al. 2004; Werner and Spence 2004), and their success is often related to their degree of legitimacy and approval from local stakeholders (Perrini 2006), whilst others emphasize their disassociation from their surroundings (e.g. Curran and Blackburn 1994; Curran et al. 2000). In any case, it can be argued that local community, through different norms, social expectations, as well as monitoring and sanctioning mechanisms, has noticeable effects on the decision-making of small business owner-managers and therefore their conception of CSR and ethical business behaviour. Several studies show that individuals who operate their own business are significantly influenced by the community where their firms are located (Brown and King 1982; Serwinek 1992; Smith and Oakley 1994). However, in this article, we advance that it is not merely the geographical locations or features of community that are meaningful to different interpretations of responsibility, but also rather the interaction processes between business owner-managers and local community within certain locality, are those which count (e.g. Steyaert 1997).

Although there is a vast amount of literature concerning both locality and CSR, the interrelationship between these two concepts, especially in the small business context, has rarely been the focus of research. As an exception to this, Besser (1998) has argued for the significance of local community to the small businesses social responsibility by demonstrating that the business operators' perceived level of collective action is associated with their commitment to and support for the community and, consequently, to the success of their businesses (see also Besser 1999; Besser and Miller 2001; Kilkenny et al. 1999). There is still, however, a need to further consider those aspects and conditions of local community that, according to small business owner-managers, either encourage or discourage socially responsible business behaviour (see Campbell 2007). In order to address this issue, the relationship between small businesses and their local communities is studied here by examining *business owner-managers' perceptions of the relationship between their business and the local community and the reflection of those perceptions on the interpretations of CSR*.

This study aims to deepen the understanding concerning the operation of small businesses as part of local communities, by investigating the role of socially embedded relations in the process of constructing interpretations of local responsibilities, and as a consequence contribute to the theoretical discussion about small business CSR. Locality is addressed here by using the theoretical concept of proximity, which originates from embeddedness literature (Granovetter 1985; Torre and Gilly 2000) referring to the feeling of social, cultural, psychological or physical closeness between the business and its stakeholders (McMahon and Harvey 2006). Even though the proximity discussion is often connected with innovative performance at the organizational or regional level (e.g. Knoben and Oerlemans 2006), it is considered here as a prominent and applicable theoretical concept to examine CSR in the small business context. Accordingly, this study makes an empirical effort to apply the concept of social proximity in the framework of small business CSR. Indeed, there is lack of knowledge concerning the social responsibilities of small businesses since most research has focused on CSR in the large business context (e.g. Perrini et al. 2007; Spence 1999). Finally, as Besser (1998, p. 413) and many other scholars have noted, businesses represent a major source of resources for community development. That is why deepening the understanding about small business–local community relationships can offer tools for regional development as well.

### **Theoretical Framework: Embedded Relations and Social Proximity Between a Business and its Local Community**

In this study, CSR is examined in the relationship between small business owner-managers and the local community as a single stakeholder group (e.g. Freeman 1998). Corporate social responsibility is defined here in line with the Observatory of European SMEs (2002) as the voluntary integration of social and environmental concerns in an enterprise's daily business operations and in the interaction with its stakeholders. In previous studies the responsibilities of small businesses towards the local community have often been divided into two or more categories. Besser et al. (2006), for example, distinguished support and leadership in the community as essential elements of the local responsibilities of small businesses, whilst Niehm et al. (2008) ended up with three different categories, namely commitment to community, community support and a sense of community. It should be noticed though, that the precise essence and manifestation of CSR lies at the discretion of each business, thus depending not only on the core competencies and stakeholder interests, but also on

the cultural and institutional context of the business (Crane and Matten 2004).

In the small business context, the size of a business often followed by rather personal relationships between the business and its stakeholders can be considered as an important factor affecting its perceptions of its local responsibilities (e.g. Courrent and Gundolf 2009; Lepoutre and Heene 2006; Spence 1999; Vyakarnam et al. 1997). Similarly, the coincidence of ownership and control and the mixing of personal and organizational relationships are often typical for small businesses and influence their relationships with the local community. The owner-manager is therefore in the key position when trying to understand the relationship between the business and the local community (Quinn 1997). Several studies show that individuals who operate their own business are significantly influenced by the community where their firms are located (Brown and King 1982; Smith and Oakley 1994).

Interest in the question of proximity can be linked to a recent trend in economics, and in particular in spatial and industrial economics, which are increasingly dedicated to the analysis of the environment of enterprises. According to this approach, the behaviour of businesses is explained to a great extent by their productive and institutional environment and by the relations of exchange, competition and cooperation, which they maintain with other economic actors, often located a short distance away. As a whole, the discussion about proximity addresses the location of a firm in relation to its stakeholders: whether the firm must be localized close to or far from other actors and what are the consequences of this location (Torre and Gilly 2000, pp. 169–171). As Rallet and Torre (1999, p. 379) point out, the history of local relationships counts ('proximity matters'), but so does the history of non-local relationships ('distance matters'). It is acknowledged that non-local relationships may be as important as local ones for the success of firms and their regions (Oinas 2002, p. 66; see also Grotz and Braun 1997). Therefore, neither local nor non-local relationships are taken here as a decisive factor.

Although proximity is often used to refer to the spatial or physical distance between economic actors other dimensions of proximity can be identified as well. Boschma (2005a), for example, breaks proximity down into five categories, namely cognitive, organizational, geographical, social and institutional proximities (cf. Knobens and Oerlemans 2006). The categorization of proximity into different dimensions functions to draw attention to different bases of interaction between social actors; that is, businesses can build on various dimensions of proximity when trying to coordinate their actions and improve their economic performance (Boschma 2005b). Furthermore, the different dimensions of proximity are not unrelated to the other dimensions, but can either reinforce or substitute for

each other. Geographical proximity, for example, is most likely to stimulate social proximity, because a short geographical distance is seen to favour social interaction and trust building (Boschma 2005a, p. 67). It is suggested here that in the case of local communities, these two dimensions are closely related.

The terms of local community and locality are conceptually somewhat overlapping (Cox 1998). In this study, locality is understood as a theoretical concept, similar to Cooke (1990, p. 296) who states that '(l)ocalities are not simply places or even communities, they are the sum of social energy and agency resulting from clustering of diverse individuals, groups and social interests in space'. In other words, various actors produce localities through their social relationships over space (see also Cox 1998; Cox and Mair 1988). In this study, the concept of locality thus includes the idea of local community as the embodiment of the existence of a certain geographical closeness and social proximity in terms of feelings of belonging and similarity (see also Torre and Rallet 2005) as well as the idea of reciprocity that is essential for the existence of communities and holds them together (e.g. Hamilton 1965). Indeed, reciprocity can be considered as indispensable in generating and sustaining productive social exchange (Becker 1986, p. 132).

The focus of the study is on the social dimension of proximity. Social proximity refers to the actors who belong to the same space of relations. The concept is thus strongly linked with the concepts of structural equivalence and embeddedness (Knobens and Oerlemans 2006, p. 78). Boschma (2005a) defines social proximity in terms of socially embedded relations between agents at the micro-level. 'Relations between actors are socially embedded when they involve trust that is based on friendship, kinship and experience' (Boschma 2005a, p. 66). Boschma's definition of social proximity comes very close to the definition of social embeddedness (Granovetter 1985; 2005). The main assumption in this article is the focal idea that most behaviour (including thus economic behaviour) is closely embedded in networks of interpersonal relations and that such an argument avoids the extremes of under- and oversocialized views of human action (Granovetter 1985, p. 504).

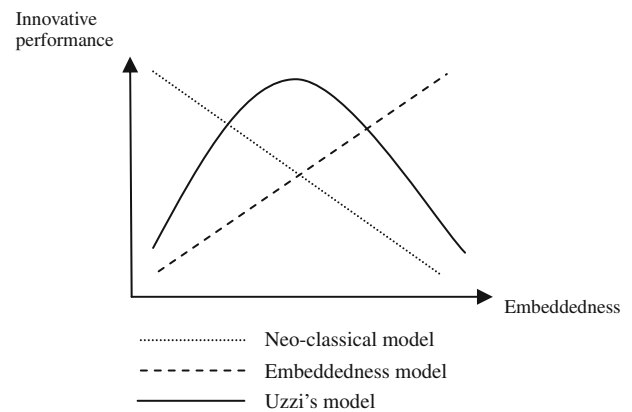
Boschma's definition of social proximity does not include situations in which people share the same sets of values, such as ethnic and religious values. This aspect of cultural proximity at a more macro-level will be associated with the notion of institutional proximity. Social proximity thus concerns the idea of embeddedness at the micro-level since similar to North (1990), Boschma (2005a) makes a distinction between the institutional environment at the macro-level (such as norms and values of conduct) and institutional arrangements at the micro-level where these norms and values are embodied in specific exchange relations. The latter aspect is covered by the notion of social

proximity. In this study, these institutional arrangements are perceived at the micro-level as settings for local norms and expectations, embodied in (dyadic) relationships between actors. Therefore, the aim is not to analyse the presumed virtues of the localization of enterprises in a limited area as such, but the question is about social proximity or distance in relation to the local community as a stakeholder.

In contrast to neo-classical economics, embeddedness literature suggests that the more socially embedded the relationships of a firm are, the more interactive its learning, the better its performance. Embeddedness is also related to the ethical considerations of business behaviour, as it is argued to be one of the factors that decrease, though not eliminate, unethical business behaviour (e.g. Courrent and Gundolf 2009). However, Uzzi (1997) and Boschma (2004; 2005a) argue that too much social proximity (socially overly embedded relations between actors) may also have adverse impacts on business activities. First of all, those kind of embedded relationships in which much loyalty is involved may lead to an underestimation of opportunism when relations are based on the emotional bonds of friendship and kinship (Uzzi 1997). Secondly, long-term relationships, or too much commitment may lock buyers and suppliers into the established ways of doing things, at the expense of their own innovative and learning capacity.

Aforementioned is the key of the whole proximity discussion here: too much social proximity is expected to be detrimental to the firm's learning capacity and regeneration and therefore forms a hindrance to its economic success. Similarly, if a business is socially too distant from its local community, this is seen to cause problems too. Thus, it can be argued that the social dimension of economic relationships has a positive influence on the performance of a business up to a certain threshold (contrary to neo-classical thinking), after which these positive effects can turn negative when the social relationships become too closely tied (Boschma 2005a, p. 67; Boschma et al. 2002, p. 21). Following Uzzi (1997), Boschma (2004; 2005a) has argued that a network consisting of both market relationships (keeping a social distance) and embedded relationships (involving social proximity) may circumvent these problems and increase innovative performance. Uzzi (1997) and Boschma (2005a) make an argument against both neo-classical economy and the embeddedness model by introducing a model of social proximity as described in Fig. 1. According to this, there is an inverted 'U' relationship between embeddedness and innovative performance at the firm level.

This study is built to a large extent upon Uzzi's and Boschma's reasoning. Although used in a slightly different context, their logic was adopted and perceived as a useful conceptual and theoretical tool for contemplating community-business relationships in localities. More precisely, based on the ideas of Uzzi and Boschma, we assume that in



**Fig. 1** The relationship between the degree of embeddedness and the innovative performance of a firm (source Boschma et al. 2002, p. 31)

addition to its positive effects, social proximity between a business and its stakeholders (in this case local community) can also have a negative influence on the interpretations of CSR. Since social proximity is largely perceived as a social construction, the aim is not to identify or measure proximity or distance between actors as such (e.g. Alba and Kadushin 1976; Courrent and Gundolf 2009). Instead, the focus here is on the logics of belonging and similarity in exchange relations, which is the essence of social proximity. Furthermore, even though the exchange relations examined in this study take place in the economic context, in the realm of exchange of money for goods and services, it is emphasized here that economic exchange relations cannot be understood without the social aspect being involved (e.g. Granovetter 1992). The social aspect focuses on the relations amongst the actors that shape the exchange of resources and benefits (Das and Teng 2002). Similar to economic exchange relations, typical for social exchange relations is the aim for 'balanced' exchanges through the process of reciprocity (Becker 1986). Thus, the balance in the exchange relations stems from the costs invested and benefits derived from the exchange; the important point here is that the exchange should be perceived as balanced by the participants involved (Becker 1986, pp. 111–113). Thus, it is the multifaceted process of interpretation between the business and the local community that is decisive. By using the term *proximity*, social 'nearness' between actors is emphasized and by referring to *distance* the other end of the continuum is described; that is, social 'farness' between actors. Therefore, it is the question of social proximity–social distance gradation.

## Methodological Framework

The empirical data of this study is based on interviews with 25 Finnish small business owner-managers: 3 women and

22 men. Here a 'small business' is defined as an independently owned and operated firm (Peterson et al. 1986) with fewer than 50 employees and an annual turnover of 10 million euro or less (European Commission 2003). The selection of the interviewed small business owner-managers was done by applying the purposeful sampling method to ensure informative and rich but still manageable data (Patton 2002, pp. 230–246). The main criterion for the purposeful selection was the line of business (food manufacturers and knowledge intensive service providers). These two lines of businesses were chosen because they represent two distinctly different types of industry: product versus service, traditional versus non-traditional, more location-bound versus less location-bound. By setting these criteria, the idea was to obtain variation in the data to understand the process of sense-making of small business owner-managers and to capture the equivocality of the phenomenon with a manageable number of informants. Within these criteria, the interviewed businesses were randomly chosen from public business registers. This kind of selection of interviewed businesses was made to increase the credibility of the empirical data, not to foster representativeness (ibid. 240–241). (See Appendix, Table 1).

The largest business employed 30 people, whilst in three of the interviewed businesses the owner-manager worked as a sole trader. The interviews were conducted between September 2004 and January 2005. All the interviews were tape-recorded and transcribed verbatim. The length of the interviews varied from 45 to 150 min. Wide-ranging open-ended questions were used, covering topics such as owner-managers' perceptions on community support, i.e. how is a business contributing to the community and vice versa, their commitment to the community at personal and business level and their views on the local atmosphere for entrepreneurship.

The qualitative analysis of the data was based on the construction of heuristic ideal types, which were formed by synthesizing and arranging the empirical data into a unified thought-construct (see Patton 2002, pp. 457–462). In order to accomplish this, the analysis was based on the readings of the data through two different theoretical frameworks, namely CSR and social proximity. First, the transcribed interviews were read through several times to form a comprehensive picture of the data. During this phase analytic case descriptions were created of each interview (ibid., pp. 437–440). In these case descriptions attention was particularly paid to the ways CSR in relation to the local community was described by focusing on the small business owner-managers' attitudes towards local community, the relationship between a business and local community and local responsibility (e.g. Niehm et al. 2008 for the similar categorization of local CSR in the small business context). However, the aim was not to look for

any results at this point but to organize the data in more manageable chunks describing CSR towards local community. Second, the case descriptions were reread to gain deeper understanding about the data in relation to social proximity. During this phase of the analysis, we paid attention to the expressions of closeness, togetherness, similarity and local norms and identified any congruencies and discrepancies in the descriptions of local CSR in relation to social proximity. Based on these congruencies and discrepancies, the empirical data was organized into three different categories, which were derived from the proximity theory and constructed the types of social proximity in business–local community relationships.

Every phase of the analysis was first conducted individually by each author, after which the ideas and interpretations that emerged during the process were jointly discussed to reach the consensus. Although rather laborious, this way of utilizing analyst triangulation is often considered to increase the credibility of the research (Patton 2002). We also presented our analyses and findings to colleagues and the feedback comments that we received served the purpose for this article. Similarly, we use citations from the interviews in the main body of the text to make it easier for the reader to evaluate the interpretations we have made.

### **Empirical Analysis: Typology of Social Proximity in Business–Community Relationships**

In this section, the three types that describe social proximity between a business and local community are introduced. These are called: (A) too much social proximity, (B) too much social distance and (C) optimal social proximity. Although these types are constructed on the basis of the empirical data, they do not represent any particular business per se, but each interviewed business reflects the essence of a type, and they should not necessarily be assigned to one of them. The headings referring to each type are named in the spirit of the proximity discussion (e.g. Boschma 2005a) which explains their unintended normative nature.

#### **Type A: Too Much Social Proximity**

The idea of too much social proximity between a small business and local community is usually related to those businesses strongly embedded in their localities with a multifaceted network of personal and business ties. The businesses are located in close geographical proximity to all the important stakeholders. Although local relationships are an essential resource for the operation of these businesses, the role of the local community is still considered

mostly as a disturbing factor. The local community is described using words like enviousness and lack of appreciation and encouragement.

But it's just the way that the rest of the society sees us small entrepreneurs. I think that local people have a lot to learn, in a positive way, so that they would stop being jealous of nothing. (Interviewee 1)

In this type, the relationships between the business and the local community are presented by emphasizing the restrictive nature of local norms and the social sanctioning mechanism. Social norms refer here to a guide for behaviour established through social interaction and feedback. The non-adherence to social norms and contradictions of expectations are considered to lead to sanctions (Spencer 2005). Thus, the local community is considered to limit the entrepreneurial autonomy of small business owner-managers by strictly defining the role of a small business as a part of the local social structure. This normative pressure is further built on the idea of isomorphism, as deviations from the local social expectations lead to sanctions. In particular, the economic success or failure of a small business can be strongly sanctioned as they both are related to the idea of inappropriate utilization of community resources, and thus, are seen as threats to the community. Bankruptcy, for example, is described as the ultimate failure of social expectations, which can sometimes lead to rather drastic social sanctions, like the loss of personal status in the local community. The following citations illustrate the normative pressure felt by the small business owner-managers:

...when you first lose your money and then your reputation, well, it's quite a tough spot, and then with your relatives and family and acquaintances around, and maybe you used to be some kind of important person in that community, and... suddenly you're, like, scum... And in the city it's of course easier to start over, nobody knows you, nobody is interested in whether your business has gone bankrupt or not. (Interviewee 15)

The relationships with too much social proximity are also described with asymmetry in reciprocal community support. Similar to Kilkenny et al. (1999, p. 232) reciprocated community support is understood here as the joint occurrence of the business supporting the community and the community supporting the business. Thus, although there is intense interaction between the business and the local community, the objectives of these two parties either do not coincide, or the community is thought to treat local businesses in an unequal manner and to favour some businesses at the expense of others. These interpretations of asymmetry have, in turn, an effect on the small business owner-manager's attitudes towards the local community,

which include intensive negative emotions that can trap businesses in the self-defeating cycles of behaviour (see Uzzi 1997).

They've been clamouring here about impartial treatment on that issue but it isn't all that impartial. [...] When we've been arguing about the three thousand [euro] and I've declared in reply to the municipality that I'm not employing anyone [living in the municipal area]. [...] Everybody gets the kind of reply from me that they themselves give me. (Interviewee 7)

Within this type, participation in local political decision-making and social influence in general are considered to increase social proximity and are seen as weaknesses for the business. Taking part in these kinds of public activities is considered to increase the amount of different, often contradictory, expectations towards the owner-manager, and thus increases the potential for negative sanctions when failing to fulfill these expectations. Non-participation in social affairs is justified by defining social involvement beyond the role of a business.

I think that [an entrepreneur] shouldn't go poking into societal affairs because then those groups will emerge, one group will say that 'by the way, I'm not buying from that guy because of what he said about that issue'. [...] Not in a small locality, at any rate. I don't know about larger localities, it may be different there, but this is what is likely and quite certain to happen in a small locality. (Interviewee 3)

In this type, CSR is based on the adherence to local norms defining what is right and wrong in business and further implying standardization and boundaries for business activities. The main reason for the small business owner-managers to acknowledge their local responsibilities is to avoid any social or economic sanctions; that is, to survive, the business owner-managers do not consider having any other choice but behaving in a responsible manner towards the local community. Besser (1999, pp. 17–19) presumes that the interrelation between CSR and businesses within small cities or sparsely populated (rural) communities is based on their greater self-sufficiency in terms of the labour market, services, customers, etc. Therefore, it is compulsory for the firm to be ethical in the local economy. The fear for local sanctioning mechanisms is greater in small communities because of the fact that those mechanisms are likely to work more easily and their consequences are more crucial for businesses (difficulties in obtaining labour, the loss of community support, etc.). This makes CSR rather externally stimulated and does not necessarily include any moral considerations. Indeed, control talk that emphasizes ethical compliance

and ignores owner-managers' autonomy does not necessarily increase morality, for it is not associated with moral community and moral development (see also Maguire 1999).

...then, since we're operating in a small locality, and if it's in the area, then these people will be sure to remember it for a very long time. So, in a way, a small producer will suffer from something like this, from doing something morally questionable, for much longer than some big company would. (Interviewee 4)

Although the interpretations of responsibility towards local community culminate in the adherence of local norms, this does not mean that making responsible business decisions would always be easy for small business owner-managers. On the contrary, in some cases close relationships and strong social norms can hinder the small business owner-managers from making decisions as they cannot be made on the basis of economic factors only. In some cases, the owner-managers consider the social proximity between their businesses and the local community as an obstacle to rational decision-making. For example, when making decisions concerning downsizing, the expectations and normative pressure of a local community can endanger the sustainability of a business as the owner-manager tries to avoid the disapproval of the community. In the worst case, too much social proximity can block enthusiasm for establishing a business.

But the attitude for entrepreneurship is such that a lot of people are afraid of the idea of becoming an entrepreneur because of the huge responsibilities. And there are actually these cases where the Grim Reaper has visited both the enterprise and the entrepreneur at the same time, because the entrepreneur has lost his personal reputation there. (Interviewee 5)

In conclusion, it is typical for this type that asymmetry of reciprocity characterizes the small business owner-managers' relationships with the local community. Although small business owner-managers contribute to their communities by operating in accord with local norms and avoiding any harm, they do not feel sufficiently supported by the community. On the contrary, too much social proximity is considered to hinder the operation of a business because of the existence of a strong social sanctioning mechanism restricting entrepreneurial freedom and autonomy. As a consequence, the owner-managers who are overly embedded in the local community do not initiate socially responsible actions towards the community. Rather the aim of responsible business behaviour in such relationships is to avoid social sanctions. Still, local

responsibilities cannot be totally ignored because the community plays such an important role in the operations of a business.

#### Type B: Too Much Social Distance

The second type represents the opposite to the first one, as the relationships between a small business and the local community are described with too much social distance. The role of the local community as a stakeholder of the business was diminished by presenting the community as an insignificant actor in business life. In some cases, this was due to a difficulty in properly discerning the existence of the local community. Even though the existence of the local community was acknowledged, the business was depicted through its embeddedness in non-local networks. The local community was described above all through lack of the feeling of togetherness.

I belong to the local entrepreneurial association, but I don't have much in common with those people and that's why I haven't participated in its operations a lot. (Interviewee 8)

In case of too much social distance between a small business and its local community, lack of reciprocal relations is highlighted. While the previous type illustrated the idea of asymmetrical reciprocity, here the existence of reciprocal relationships is not recognized at all. The local community is thought to have rather indifferent and ignorant attitudes towards the businesses—it does not know about or is not interested in the operations of such local businesses. Thus, despite the geographical proximity, the social distance between these two parties hinders the development of reciprocity.

...if they ask you what you're doing in concrete terms, well, I'm sitting over there at the computer and staring at the screen, that's how the locals see it. I'm not doing anything, am I? [...] I don't have any kinds of commitments here. After all, to me this locality is more or less... I don't have anything to do with this locality, so to say. (Interviewee 8)

As a result, the small business owner-managers are not particularly committed to the area and are unwilling to invest any voluntary resources in the development of the local community. Therefore, besides the taxes paid by the business, the local community and local economy do not necessarily benefit from the operation of the small business. The following citation demonstrates the small business owner-manager's perceptions of reciprocity in social exchange relations. The citation shows that the owner-manager recognizes the logic of reciprocity, and regards it as a necessary element in exchange relations. Still, as a

result of social distance reciprocal social relationships between a business and local community are not established at all.

Nobody's ever taken any contact on behalf of the town to ask if things are running well here in [name of town]. Not that you'd be thinking yourself about your relation with the public sector in any way. You just concentrate on your own operations and take care of your customers. (Interviewee 18)

In this type, the independence and autonomy of the small business owner-managers are strongly emphasized. Too much social distance from the local community is not considered as a problematic issue, but the anonymity it entails is appreciated, and the value added that the local community could bring to the operation of the business cannot be envisaged. Indeed, it is suggested here that close relationships with the local community can be even seen as a threat to the value of independence as they can be interpreted as showing over-dependence on others. According to Curran and Blackburn (1994, p. 113), this produces a 'fortress enterprise' mentality when articulating with the wider environment, which suggests that levels of linkages with external economic contacts, as well as any local relations, which have implications for their business contacts, will be limited. The following citation exemplifies this aspect of anonymity in business:

I reckon it would be more difficult to do business in the countryside. In the city, there are so many different firms operating here that one can really concentrate on minding one's own business. But in a small community, jealousy would easily occur there. A firm can succeed but if it is too successful it would have to be put back into line... But it's possible to operate here, like, in a wide environment quite anonymously, in certain sense. (Interviewee 18)

When describing relationships with too much social distance, the core activities of the business operation are often highlighted and the descriptions somewhat reflect the neo-classical ideas of the role of a business as a producer of goods and services in the framework of the legal system. Thus, responsibility towards the local community and paying one's taxes are often regarded to be one and the same thing, and no other responsibilities are considered necessary.

I don't feel that this firm is otherwise responsible at the moment, otherwise than through these taxes, by paying value-added taxes and then income tax, so... so that's really the only interest that society has in my enterprise. That's the way I've understood it. [...] It's mainly a question of whether the enterprise feels

responsible for ensuring that it generates a maximal amount of tax income. (Interviewee 8)

In conclusion, it is typical for this type that the non-existence of reciprocal relations between the small businesses and the local community detached them from each other. Even though the businesses have a geographical proximity in relation to the local community, this does not lead to a sense of mutuality because of the feeling of social distance between the two parties. Similarly, the responsibility towards the local community is adjusted to a non-existent level within the legal framework. Too much social distance between a business and the local community seems not to be, however, a problem from the businesses' point of view, as businesses have reciprocal relationships with other stakeholders, such as non-local customers and other business partners. Anyhow, too much social distance can be interpreted above all as a problem for the local community as it cannot take advantage of the businesses' potential success and their voluntary contributions to the development of the local area. Furthermore, as the businesses are not very committed to the area, decisions about relocating a business are easier than they would be in the first type. This can also turn out to be a threat to the economic sustainability of a local community.

#### Type C: Optimal Social Proximity

The third type represents the situation where optimal social proximity exists between a small business and its local community. Similar to the first type, optimal social proximity requires the idea of close social relationships between a business and the local community. In this type, as distinct from the first type, local social networks are considered an essential resource and a competitive advantage for a business. Often, the identity of a business is strongly related to the locality and the business is considered an important actor in the local social structure. The mutual interaction between a business and its local community is acknowledged and the idea of a business as an isolated fortress is explicitly denied.

I don't get it that some people want to isolate themselves from society or lock themselves up and try to operate in there... After all, this is about interaction and dependence on the environment. (Interviewee 15)

Characteristic of relationships within optimal social proximity is the idea of reciprocity working well. Reciprocity between a small business and its local community can be described as a partnership in which the local community and the local authorities contribute to the success of businesses by purchasing their products or services, providing supportive services and being interested in their



operational preconditions. The important aspect is also the fair treatment and appreciation of local businesses. Thus, the businesses are, for example, encouraged to take part in local development by asking their opinions and giving them a chance to comment on local affairs. This evokes positive responses amongst small businesses, as they are committed to the local community and willing to invest resources in the economic development and well-being of the locality. In this type, reciprocity thus works as a powerful motivator for collaboration between small businesses and the local community.

And yes, they've asked for our opinion, there's been interaction of that kind with the town management and major officials, and I do feel that in certain respects we do have a certain responsibility to [name of town]. So as to earn or obtain our right of existence, which I think today doesn't require you to live in the municipality in question. (Interviewee 15)

In this type, taking part in local activities is seen as a natural part of the role of a business owner. The small business owner-managers do not feel any need to try to distance or externalize themselves from the community. On the contrary, involvement in local activities is also an important means of contributing to the success of their own business since the economic well-being of the local community is considered to reflect upon the operation of all local actors. Emphasis on this kind of ripple effect is common when small businesses with optimal social proximity describe their role in the local community. Thus, local involvement is not considered a threat to rational business operation, but optimal social proximity between a small business and its local community is beneficial for both parties.

The town did go along with this extension very readily as a guarantor, and in principle, as long as there are alternatives available in [name of town] the workers will be hired from here. (Interviewee 13)

Responsibility towards the local community is also strongly articulated through the economic success and survival of the local area. It is considered an obligation of a business to take part in local activities to contribute to the welfare of the local community. This can be done, for instance, by supporting local suppliers, giving money to local charity or taking part in local development activities. Although responsibility towards the local community is often considered a compensation for community support, it can similarly be seen as a way to gain legitimization for business activities from the local community.

Of course, you try to consider the success of your own municipality... The inhabitants of our own

municipality should see to it that we always carry our responsibility for the community if at all possible. [...] That'll keep it rolling. (Interviewee 4)

In this type, responsibility is more than an adjustment under normative pressure or taking care of the legal obligations of a business. In other words, the core functions of the business are extended from the pure production of goods and services to contributing to the welfare of the local community as a stakeholder of the business. The justification for responsibility towards the local community is often based on the idea of enlightened self-interest—bearing responsibility for the local community is thought to be in the best interests of the business. According to this view, the main motivation for local involvement is the awareness of the positive outcomes a business will gain in the long run (see Besser 1999; Besser et al. 2006; Kilkenny et al. 1999; Miller and Besser 2000). These positive outcomes seldom are, however, of any direct financial benefits, and the actual benefits can often be rather difficult to measure, like positive reputation and smooth local collaboration.

... the idea was that it would support the development of the locality or region, and then again, the entrepreneur will naturally wonder 'how will it support my enterprise?', so it has to support both. With these earnings you can't afford to get involved in very large functions for the public good, but shall we say, if it supports the operations of the enterprise, then we'd deem it reasonable—let's hope that it will be just that. And the main idea is, namely, to develop this region. (Interviewee 15)

In conclusion, in this type reciprocity is understood similarly to Gouldner (1960) as a moral norm, which is an essential constituent in social life. Indeed, the relationship between a small business and its local community leads to a 'virtuous circle of reciprocity' where both parties can easily acknowledge the benefits of the interaction. Thus, both consider it essential to invest in the success of each other. In this type, small businesses are considered a natural part of the local community. The owner-managers realize that an essential part of running a business is local involvement and responsibility towards the local community. Similarly, for the local community, the existence of small businesses is something worth valuing.

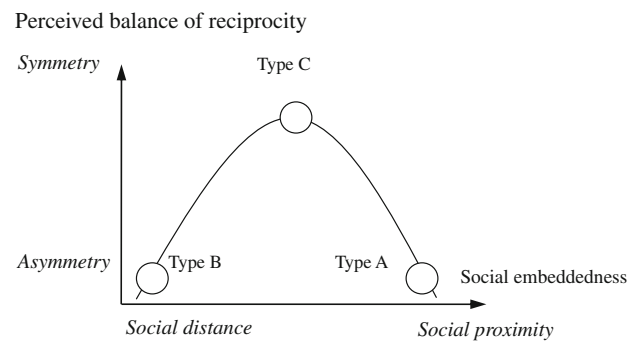
## Conclusion and Discussion

This study concentrated on CSR amongst small businesses owner-managers and their interpretations of their

responsibilities towards their local communities. The relationships a small business has with other stakeholders, such as employees, customers and suppliers were not explicitly emphasized here. Therefore, whether social proximity has such a crucial role in the construction of the responsibilities towards other stakeholders or not should be further examined. Likewise, the aim of this study was not to make any normative distinctions between different kinds of interpretations of local responsibilities emerging in the different types. Rather, the aim was to show how the interpretations of these responsibilities arise in the continual interaction between a small business and its local community as a stakeholder.

The three types described above shed light on the processes by which small businesses and local communities are interrelated in the context of CSR. The interpretations of the responsibility towards the local community are adjusted in line with the interpretations of community support through the idea of reciprocity. As reciprocity aims to balanced exchange relations, the subjective perceptions of the functioning of reciprocity are an important aspect in assessing the relationship. According to Becker (1986, p. 107), for example, in order to ‘create and sustain balanced social relationships, the good returned will have to be good for the recipient, and (eventually) *perceived* by the recipient both as good and as a return’ (italics added by the authors). Accordingly, our results show that the perceptions of symmetry, asymmetry and the lack of reciprocal relationship influence the interpretations of CSR that small business owner-managers hold towards local community and justify their level of involvement in local development. The perceptions of the balance of reciprocity in exchange relations, on the other hand, are influenced by the perceptions of social proximity between a business and local community. Our study has thus illustrated the process in the relationship between the business owner-manager and the community within which s/he is embedded. It has also demonstrated the significance and complexity of the local community’s role in the construction of the owner-managers’ interpretations of CSR. As a summary, the basic logic of this interaction is shown in Fig. 2.

In the figure, the y-axis represents the perceived balance of reciprocity between a business and the local community whilst X-axis stands for social embeddedness (social distance–social proximity). The three types that describe the relationship between social proximity and CSR in the small business–local community context create an inverted ‘U’ in this figure. As the figure demonstrates, CSR is constructed as a response to the interpretations of a sense of community (social embeddedness) and community support (the perceived balance of reciprocity) either as avoidance of social sanctions (Type A), as adherence to law (Type B) or as a moral obligation (Type C). The figure should not be



**Fig. 2** The relationship between perceived balance of reciprocity and social embeddedness

understood as a static one though. On the contrary, we suggest that transitions in the inverted ‘U’ are possible. Accordingly, adjustments in the social proximity between small business and local community affect the perceptions of reciprocity which reflect in the interpretations of local CSR.

The local community is not, however, a sole source of this interpretation process because all the relevant social networks are not geographically localized. It can be assumed that the very same logic of the ‘circles of reciprocity’ and the regulation of distance is valid within other contexts as well—for example, when it is the question of businesses’ relationship to customers or other businesses in the same branch but elsewhere. This was illustrated in cases where the owner-managers were more worried about relationships elsewhere within the same line of business, which was the case in type B. The latter is also typically present in type B, where businesses are detached from their local community, but responsible for the society in the form of paying their taxes. Therefore, the asymmetry or symmetry of reciprocity can be traced to many other relationships as well.

We acknowledge that the small business owner-managers’ interpretations of local responsibilities can be affected by various personal and business-related variables. Similarly, whether a business is located in rural or urban area may have an effect on the owner-managers’ local responsibilities. According to our analysis, it seems, for example, that those businesses described by too much social proximity (Type A) were mainly operating in small rural localities. Although the potential role of different variables in owner-managers’ interpretations of local responsibilities poses an interesting question, it is beyond the aim of this study and could be a task of future research. As we have demonstrated, the geographical location of the firm, business-related variables or features of the community are not the sole explanatory factors for the interpretations of local responsibilities, but the reciprocated interaction processes between business owner-managers

and local community within certain locality are those that count. Therefore, this study has addressed the essential process of reciprocity as an underlying element in the formation of CSR between small businesses and their localities.

The essence of the proximity framework is that interaction is a precondition for economic success. Optimal social proximity brings about trust and therefore knowledge exchange is better between economic actors. This eliminates the risk of opportunistic behaviour and promotes durable relationships opposed to pure market relationships and arm's length ties (Boschma 2005a). This follows Uzzi's (1997) reasoning, who suggested that both embedded and market relationships are needed at the network level to secure social proximity and distance. At the network level, this means a balance or mixture of arm's length ties and embedded relationships (see also Boschma 2005a, pp. 66–71). This optimal mixture underpins enterprise competitiveness. Besser (1999, pp. 26–27) has stated that there is a significant link between business social responsibility as measured by the commitment by business operators to and support for their community and their assessment of their success (see also Kilkenny et al. 1999; Miller and Besser 2000). Although the performance or success of the firms as such were not explicitly measured here, there were owner-managers' interpretations of the firms' operating conditions, which led us to inferences about success. Actually, the typology presented and especially type C deepens the understanding about the interrelationship between CSR and success by showing how optimal proximity 'adjusts' social responsibility, and how this virtuous circle of reciprocity may lead to welfare and economic success for the whole community.

This study confirmed Uzzi's (1997) and Boschma's (2005a) theorizations and findings concerning embeddedness and proximity discussions to some extent. In sum, social proximity seems to stimulate economic interaction in

a positive way up to a certain threshold, after which the negative effects appear. Anyhow, detrimental impacts of social distance on businesses were not observed, at least in the short run, as Uzzi's model and Boschma's reasoning may predict. That might look like the confirmation of the neo-classical model at first glance, but it can be assumed that actually it is the local economy that suffers, which may, in the long run, be pernicious for the small businesses as well. Yet, one should be cautious as regards to contribution to the theory of proximity because of the fact that it was used here within an applied context. Therefore, it cannot be said that the theory was tested here as such but the aim was to bring conceptual and theoretical discussion about proximity onto empirical grounds. Secondly, as many scholars have put it, different forms of proximities are intertwined with each other. Therefore, it is an exaggeration to say that it is optimal *social* proximity/distance that is the decisive factor for the success of small businesses.

As a practical implication, this study indicates that those responsible for developing small businesses (small business developers, intermediary organizations, etc.) in local communities should recognize the logic of reciprocity, which has a significant role in shaping CSR. Small businesses will respond to the community in a way that is commensurate with the perception of how they are treated. When seeking advantage and economic success in small businesses and the entire local community, the ability to sustain the virtuous circle of reciprocity has a decisive role.

### Appendix

See Table 1.

**Table 1** Description of the interviewed small business owner-managers

Number of the interview	Main business activity	Year of establishment of business	Number of employees	Location of the business <sup>a</sup>	Population of the municipality of the business location
1	Tourism and food supplies (manufacturing and service)	1994	3	Core rural municipalities	10,000–50,000
2	Food supplies (manufacturing)	1992	2	Rural municipalities close to urban areas	<10,000
3	Food supplies (manufacturing)	1980	2	Sparsely populated rural municipalities	<10,000
4	Tourism (service)	1980	6	Sparsely populated rural municipalities	<10,000
5	Food supplies (manufacturing)	1989	6	Sparsely populated rural municipalities	<10,000
6	Engineering (service)	2002	1	Core rural municipalities	<10,000
7	Building (service)	1988	1	Core rural municipalities	10,000–50,000
8	Food supplies (manufacturing)	1990	15	Sparsely populated rural municipalities	10,000–50,000

**Table 1** continued

Number of the interview	Main business activity	Year of establishment of business	Number of employees	Location of the business <sup>a</sup>	Population of the municipality of the business location
9	Engineering (service)	2002	1	Core rural municipalities	<10,000
10	Food supplies (manufacturing)	1962	25	Core rural municipalities	10,000–50,000
11	Food supplies (manufacturing)	1995	5	Core rural municipalities	<10,000
12	Education (service)	1993	20	Regional centre	10,000–50,000
13	Food supplies (manufacturing)	1983	2	Core rural municipalities	<10,000
14	Food supplies (manufacturing)	1998	12	Core rural municipalities	<10,000
15	Administration (service)	1986	12	Core rural municipalities	10,000–50,000
16	Administration (service)	1993	11	Core rural municipalities	10,000–50,000
17	Administration (service)	1996	10	Metropolitan area	>500,000
18	Administration (service)	1997	12	Metropolitan area	>500,000
19	Marketing (service)	1996	16	Metropolitan area	100,000–500,000
20	ICT (service)	1984	10	Metropolitan area	100,000–500,000
21	Food supplies (manufacturing)	1991	23	Metropolitan area	100,000–500,000
22	Food supplies (manufacturing)	1974	30	Metropolitan area	>500,000
23	Food supplies (manufacturing)	1956	8	Metropolitan area	>500,000
24	Administration (service)	1988	5	Metropolitan area	>500,000
25	Food supplies (manufacturing)	n.a.	30	Metropolitan area	>500,000

<sup>a</sup> The categorization of rural municipalities is based on the established and often cited tripartite division of Finnish rural municipalities developed by Malinen et al. (2006)

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