J Bus Ethics (2013) 118:413–427
DOI 10.1007/s10551-012-1598-6

The Relevance of Stakeholder Theory and Social Capital Theory in the Context of CSR in SMEs: An Australian Perspective

Suman Sen · James Cowley

Received: 8 August 2012 / Accepted: 11 December 2012 / Published online: 20 December 2012

Abstract The concept of business responsibility, usually termed as corporate social responsibility (CSR), originated in the early 1930s after the Wall Street crash of 1929 exposed corporate irresponsibility in large organisations. The understanding of CSR has evolved since then and its scope has now broadened from mere compliance to corporate laws to active alignment of internal business goals with externally set societal aspirations. Unfortunately, the significance of this multidimensional concept within the small and medium enterprise (SME) sector has continued to be overshadowed by its application in large and multinational organisations. More importantly, this has led to the practice of judging SMEs, which are experiencing increasing pressure to engage in social activities, as if they are no different from their larger counterparts. This study therefore investigates CSR from the perspective of SMEs in Australia without any theoretical presumptions and then comments on the relevance and applicability of the two theories that have been commonly used to investigate business responsibility, namely, stakeholder theory (ST) and social capital theory (SCT). The research findings indicate that CSR within the SME sector is more aligned to the fundamentals of SCT, mainly owing to the unique resource and survival challenges that they face, and which are, arguably, not so pronounced in large organisations.

S. Sen (✉) · J. Cowley
Southern Cross Business School, Southern Cross University, Lismore, NSW, Australia
e-mail: suman.sen@scu.edu.au

J. Cowley
e-mail: crick@ozemail.com.au

Keywords Corporate social responsibility · Small and medium enterprises · Social capital theory · Stakeholder theory

Abbreviations

ABS	Australian Bureau of Statistics
CSR	Corporate social responsibility
OECD	Organisation for Economic Co-operation and Development
SCT	Social capital theory
SME	Small and medium enterprise
SRI	Stanford Research Institute
ST	Stakeholder theory

Introduction

In the last couple of decades, corporate social responsibility (CSR) has become the focus of business operations and a popular topic of investigation for policy-makers, practitioners, and academics from a range of disciplines. Since Berle and Means (1932) first advocated business responsibility (after the Wall Street crash of 1929) in large organisations towards their investors through greater transparency and accountability, this rudimentary concept has continued to evolve in line with the growing awareness of business impacts on the society.

For example, Johnson (1971) explained, “a socially responsible firm is one whose managerial staff balances a multiplicity of interests instead of striving only for larger profits for its shareholders” (p. 50). The Committee for Economic Development (CED 1971) indicated the primacy of economic issues over social values and eventually those newly emerging and still amorphous responsibilities that improve a business' social environment. Likewise, Carroll (1979) proposed an early emphasis on the economic and then legal aspects followed by ethical and discriminatory issues.

Davis (1973), however, contended that CSR is a firm's response to issues beyond the narrow economic, technical and legal requirements of a firm; therefore it begins where the law ends. Similar views have been put forward by others who noted CSR as distinguished by its long-term managerial focus (Steiner 1971) and discretionary rather than mandated actions (e.g. see Manne and Wallich 1972; Sethi 1975).

Wood (1991) criticised Carroll's (1979) steps and phases of responsibility portrayed as 'isolated domains'. She opined, businesses respond to three principles: (i) legitimacy at the 'institutional' level indicating that a business must not use its power without justified reasons, (ii) public responsibility at the 'organisational' level suggesting firms will be responsible for their actions which affect the society and (iii) morality at an 'individual' level implying that managers need to be constantly aware of the moral issues and act accordingly. While the literature on CSR is vast and diverse (see e.g. Carroll 1999; Dalton and Cosier 1982; Eilbert and Parker 1973; Epstein 1987 for a more detailed overview), in the present business environment, it is largely understood as conforming business goals to those social expectations over which organisations have no influence (Horrigan 2010).

The notion of business responsibility within the small and medium enterprise (SME) sector, however, has continued to be overshadowed by its importance in large and multinational organisations (Lepoutre and Heene 2006). Reflecting on the legacy of CSR, Brenkert (2002, p. 34) candidly stated that "business ethicists have treated the ethics of entrepreneurship with benign neglect". Unfortunately, this has led to the practice of judging SMEs from the perspectives of their larger counterparts (Jenkins 2004; Murillo and Lozano 2006; Spence 2007). It is only recently that researchers investigating CSR has argued that large firms and SMEs differ in critical ways and that CSR must encompass these disparities (Russo and Perrini 2010; Spence 2007). This also implies that the theoretical lenses through which CSR was explained in the past may not be appropriate to understand SME approach to CSR.

Among the numerous theories that have been applied, stakeholder theory (ST) and social capital theory (SCT) stand out as the two most popular ones (see Adapa and Rindfleish 2011). Proponents of ST (e.g. Brenner and Cochran 1991; Freeman 1984) view management choice as a function of stakeholder influences and argue that organisations address a set of stakeholder expectations, economic objectives being the most important, by participating in social activities. By way of contrast, social capital theorists (e.g. Bourdieu 1986; Coleman 1990; Putnam 1993) are primarily concerned with the significance of relationships and their networks as a resource (social capital) embedded within the networks of mutual acquaintance and recognition. Reflecting on this ideology, a group of business researchers (e.g. Fuller and Tian 2006; Perrini 2006; Spence et al. 2003; Spence and Schmidpeter 2003) claim that organisations participate in social activities with the aim of increasing their social capital.

In 2006, Perrini proposed that CSR in large firms should be based on ST, whereas, in SMEs, it should be understood through the application of SCT. Later, Russo and Perrini (2010) restated that the two theories should be taken as alternative and not complementary for explaining CSR in any organisation. They also opined that neither ST nor SCT can exclusively and, respectively, explain large firm and SME responsible behaviour. Thus, the literature remains inconclusive on the legitimacy of both the theories in the context of SME responsibility.

In this article, we adopt a bottom-up approach by exploring CSR from the perspectives of Australian SMEs, and then analyse to what extent their understanding and behaviour aligns with the fundamentals of ST and SCT. Following a brief overview of each of these two theories, the study summarises existing literature on SMEs and their approach to CSR, culminating into five research questions. By avoiding theoretical presumptions and allowing the raw data to inform the reality, a deeper and more nuanced insight to SME CSR was gained. Based on these findings, we justify the relevance of one theory over the other, and clarify the existing confusion in the literature.

Review of Stakeholder Theory

The term 'stakeholder' first appeared in management literature in an internal memorandum at the Stanford Research Institute (SRI) in 1963 (Freeman 1984, p. 31). SRI defined stakeholders as those groups on which the organisation is dependant for its continued survival, limiting its focus to shareholders whose needs were perceived to be the only goals of a business. Later, in 1984, Freeman integrated stakeholder concepts into a coherent construct and redefined stakeholders as "any group or individual who can affect or is affected by the achievement of the firm's objectives" (p. 47). The core idea underlying this revised concept is that organisations are required to address a set of stakeholder expectations, albeit broader than those of the shareholders, and management choice is a function of stakeholder influences (Brenner and Cochran 1991).

Definitions of Stakeholder

Since the publication of Freeman's (1984) ST, a large body of literature has emerged that is varied in nature and to some extent confusing (Deegan and Unerman 2006). The range of 'stakeholder' definitions proposed by researchers (see Table 1 below) explain how the concept has evolved over time and varied among authors.

Table 1 Definitions/explanations of Stakeholder

Freeman (1984, p. 46)	'can affect or is affected by the achievement of the organisation's objectives'
Evan and Freeman (1988, p. 79)	'benefit from or are harmed by, and whose rights are violated or respected by corporate actions'
Wicks et al. (1994, p. 483)	'interact with and give meaning and definition to the corporation'
Clarkson (1995, p. 106)	'bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm'
Donaldson and Preston (1995, p. 85)	'Persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activities.'
Mitchell et al. (1997)	Possession of attributes: power, legitimacy and urgency
Freeman (2002, p. 39)	'…redistribution of benefits…redistribution of important decision-making power to all stakeholders'

As is evident from the above definitions, stakeholder theorists neither reject Friedman's (1962) idea of profit maximisation as the only goal, nor support the view that managers only have moral obligations toward shareholders. They argue for two basic premises: (i) to perform well, managers need to pay attention to a wide array of stakeholders (e.g. environmental lobbyists, local community, competitors), and (ii) managers have obligations to stakeholders which include, but extend beyond shareholders (Freeman et al. 2010).

In 2002, Freeman suggested that businesses should redistribute benefits and important decision-making power to all stakeholders based on the contribution they make. However, he did not shed any light on how to assess the contributions made by different stakeholders. Eventually, Freeman with his co-authors (Dunham et al. 2006) ranked all stakeholders into two groups using the terms *cooperation* and *collaboration*. Cooperation with those in the community who affect or are affected by the business, and, collaboration with those on whom the business relies for support, namely, employees, suppliers, and customers.

Recently, Freeman et al. (2010) claimed that ST is compatible with Friedman's (1962) maximising of shareholder value since the only way to maximise value sustainably is to satisfy stakeholders. Accordingly, companies need quality products and services that customers want, good relationship with suppliers to ensure consistent cutting-edge operations, inspired employees to improve performance, and community's support to grow the business successfully.

Stieb (2009, p. 39), however, vehemently argues against Freeman's (2002) intention to revitalise "the concept of managerial capitalism by replacing the notion that managers have a duty to stockholders with the concept that managers bear a fiduciary relationship to stakeholders". He further criticises Freeman and Philips (2002) on the grounds that different opinions and interpretations of ST put forward by Freeman et al. are contradictory. Several other scholars (Elms et al. 2002; Key 1999) also question the credibility of this theory and claim that it lacks a theoretical foundation that can be tested. Nevertheless, as Key et al. (2004) note, the stakeholder approach is still pivotal for investigating management issues such as CSR.

Stakeholder Salience Model

Mitchell et al. (1997) developed a stakeholder salience model to understand the importance of individual stakeholders based on their possession of one or more of the three attributes: power, legitimacy and urgency. Stakeholders possessing only one attribute have low salience and are termed as latent stakeholders. Depending on the type of attribute possessed, namely, power, legitimacy or urgency, they are termed as dormant, discretionary and demanding respectively. Stakeholders possessing any two of the attributes have moderate salience, known as 'expectant stakeholders'. Amongst them, those having power and legitimacy are dominant, those having legitimacy and urgency are dependent, and those with power and urgency are called dangerous stakeholders. If all three elements are apparent in a stakeholder relationship, management have a clear and immediate mandate to attend and prioritise that stakeholder's claim. In addition, by gaining or losing any of the attributes, stakeholders can shift between categories.

SME Stakeholders

The table below (see Table 2), which is based on Mitchell et al.'s stakeholder salience model, lists a range of potential SME stakeholders and their types, ranked in the order of higher to lower salience.

Table 2 SME stakeholders' salience classification

	Attributes possessed	Salience classification
Owners	Power/legitimacy/urgency	Definitive
Employees	Power/legitimacy	Dominant
Customers	Power/legitimacy	Dominant
Suppliers	Power/legitimacy	Dominant
Investors	Power/legitimacy	Dominant
Family of owners	Legitimacy	Discretionary
Political groups	Legitimacy	Discretionary
Trade associations	Legitimacy	Discretionary
Community	Legitimacy	Discretionary

Although this ranking holds true in most situations, the dynamics in the business environment (Freeman 1984) may change the above sequence. For example, when certain skills are in demand, employees possessing those skills gain the attribute 'urgency' and turns into definitive stakeholders. Similarly, a spouse of the owner in a senior management position is a definitive stakeholder, but the same person becomes a discretionary stakeholder when he/she passively enjoys the business rewards.

Review of Social Capital Theory

Social capital, broadly speaking, refers to social networks, the reciprocities that arise from them and their value within the business environment. According to Putnam (2000, p. 23), it has "forceful, even quantifiable effects on many aspects of our lives" and it is more than just "warm, cuddly feelings or frissons of community pride". Even though the earliest use of the term 'social capital' dates back to early twentieth century (see Hanifan 1916), inspiration for most of the current work stems from the seminal research of Coleman (1988) on education, and Putnam (1993) on civic participation and institutional performance.

Theoretical Aspects of Social Capital

There are two theoretical models underpinning the concept of social capital: one led by Bourdieu, and the other by Putnam. Bourdieu (1986) focussed on the role played by different forms of capital in the reproduction of unequal power relations. Coleman (1990), however, took a more rational perspective and defined social capital by its function: "facilitate(s) certain action of individuals who are within the structure" (p. 302). According to him, there are three forms of social capital: (i) obligations and expectations which depend on the trustworthiness of the social environment; (ii) the capacity of information to flow through the social structure in order to provide a basis for action and (iii) the presence of norms. While both Coleman and Bourdieu saw social capital as an attribute of an individual, Putnam (1993) regards it as an attribute of a community. The latter believes that social capital stems from the networks, norms and trust that develop within a group, and provides the impetus to pursue shared objectives of all members belonging to that group.

The interpretation of this concept as a form of capital prompted a range of responses. Bourdieu (1986) explained that, just as access to economic capital brings certain privileges to a group or an individual, and cultural capital (e.g. familiarity with high art, literature, or manners) sets a group or individual apart from their less-privileged peers, social capital supplies the networks and connections that allow continued and future access to privilege. Likewise, Putnam (1993) compared social capital as connections among individuals to physical capital as physical objects and human capital as properties of individuals.

Fukuyama (1995) integrates social capital and trust within an economic framework as opposed to a sociological perspective like Coleman or a political science perspective like Putnam. Comparing the relative economic performance of different nations and cultures on the basis of levels of trust, he found that the level of trust inherent in a given society determines its prosperity and degree of democracy, as well as its ability to compete economically.

The World Bank and the Organisation for Economic Co-operation and Development (OECD) have also valued the concept of social capital. The OECD (2001, p. 1) defines social capital as "networks together with shared norms, values and understandings that facilitate co-operation within and among groups". The World Bank (1999) further argues that social capital is not the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions; rather it is the glue that holds them together.

However, social capital could also be detrimental to the society (Adler and Kwon 2002). This is because stronger actors, who possess the informational advantage, may keep the weaker parties excluded from their network, downplay social norms, and restrict individual freedom (Portes 1998). Similar drawbacks of social capital have also been discussed by Halpern (1999) when a social network does not constitute a social good. Thus, social capital may lead to nepotism, injustice and corruption, too.

According to Adler and Kwon (2002), the source of social capital lies in the structure and content of an actor's social relations. Its effects flow from the information, influence and solidarity it makes available to the actor. They have identified three dimensions of social structure that are rooted in different types of relations: market relations, in which products and services are bartered or exchanged for money; hierarchical relations, in which obedience to authority is exchanged for material and spiritual security; and social relations, in which favours and gifts are exchanged.

SME Social Capital

For businesses to succeed, strategies call for entrepreneurs to develop resources and competencies that can provide long-term competitive advantage (Barney 1991; Nahapiet and Ghoshal 1998). For example, Larson (1992) notes that it is in the reciprocity of mutual obligations that entrepreneurial businesses create competitive advantage and power to manage social governance. Consequently, academics (Fuller and Tian 2006; Spence et al. 2003) focus on the social capital embedded in the network ties of SMEs to overcome the limitations often not experienced by large organisations. Although Nahapiet and Ghoshal (1998) found importance of social capital as a facilitator of intellectual capital development, Ghoshal and Moran (1996) saw it as an 'organisational advantage' emerging from business relationships.

Liao and Welsch (2005) suggest that network ties provide access to resources and information that assist SMEs with their functioning (Murillo and Lozano 2006). It helps them to survive competition in the market by compensating for their relative weaknesses, such as smaller size, lower economies of scale and lower security (Spence and Schmidpeter 2003). Nahapiet and Ghoshal (1998) claim that these are the resources that provide shared representations, interpretations and systems of meanings among parties. The common ground created through shared language encourages future cooperation and information exchange, thereby resulting in trusting relationships between the members. Furthermore, images of transparency, goodwill and good citizenship are also some of the favourable outcomes that businesses can gain through formal engagement, engagement within and across sectors, volunteerism and charity (Spence et al. 2003).

SMEs: A Sector Different from Large Businesses

SMEs are "a heterogeneous group of business, ranging from a single artisan working at home and producing handicrafts to sophisticated software-producing firms selling in specialised global niches" (Fischer and Reuber 2005, p. 131). An important early study (Wiltshire Committee 1971) in Australia defined small business as one in which one or two persons make all the critical management decisions (e.g. accounting, purchasing, processing or servicing, marketing). However, a more accepted quantitative definition states that small businesses are companies with less than 20 employees and medium businesses are companies with less than 200 employees (ABS 2002). This study was based on the above definition since it focuses on Australian SMEs only. With regard to qualitative factors such as operations and organisational structure, there is hardly any difference between SMEs across the world (see Meredith 1994) and this justifies the evaluation of the research findings in the light of existing literature.

Being mindful of the different sizes of businesses, Westhead and Storey (1996, p. 18) noted that small firms are not the scaled-down versions of larger firms, and therefore, "theories relating to SMEs must consider the motivations, constraints and uncertainties facing smaller firms and recognise that these differ from those facing large firms". Accordingly, in the section below, we reflect on those SME characteristics that could potentially influence their approach to CSR.

Characteristics of SMEs

Short-range management perspective, lack of trained staff and capital are some of the characteristics commonly seen in SMEs (Welsh and White 1981). These traits, collectively termed as resource poverty, often restrict the organisation's ability to focus on strategic gains (Jenkins 2006; Spence 2000). Others noted issues such as the lack of technical expertise (Barry and Milner 2002), capital to undertake technical enhancements (Gaskill et al. 1993; Raymond 2001) and organisational planning (Miller and Besser 2000; Tetteh and Burn 2001) in most SMEs affecting their operational scope.

Small firms also tend to have organisational structures and management styles that are different from larger organisations. There also exists a significant difference in the organisational structure and management styles between large and small organisations. Several studies (e.g. Bunker and MacGregor 2000; Murphy 1996) have referred to the smaller management teams that are strongly influenced by the SME owners (Bolton 1971), with little control over their environment (Hill and Stewart 2000; Westhead and Storey 1996) and a strong desire to remain independent (Dennis 2000; Drakopolou Dodd et al. 2002). They often undertake several tasks (Spence 1999), and consequently, the awareness of issues beyond the day-to-day running of the business remains low (Tilley 2000).

The relatively simple, flexible and highly centralised management structure (Mintzberg 1979) of SMEs is further reinforced by the limited number of hierarchical levels (MacMillan 1975). Decisions are strongly influenced by the owners' personal values and intuitions rather than long-term planning and rationality, which in turn explain why SMEs, in general, are accused of being 'strategically myopic' (Mazzarol 2004). Nevertheless, owing to the relatively simple organisational structure (Dean et al. 1998), such organisations are usually quicker, flexible, and responsive to the dynamics of the business environment (Goffee and Scase 1995).

Another important aspect that differentiates SMEs from large-scale businesses is power and visibility. While smaller size results in lower negotiation power (Porter 1980) and political influence (Hillman and Hitt 1999) to overcome market risks, Bowen (2000) saw visibility as the crucial factor in shaping business behaviour. Hadjimonolis (1999) and Quayle (2002) further explained that since SMEs tend to rely heavily on few customers within their local community, they are highly visible and their activities are under constant public scrutiny.

Recent studies (Glancey et al. 1998; Stewart et al. 1998) demonstrate that an organisation's performance can be explained in terms of the personality traits of its owner-manager. In the case of SMEs, whose owner-managers come from different backgrounds, have unique personalities and varying motives, the above finding also implies that they bring diversity to the SME sector (Nooteboom 1994). From this premise, Spence and Rutherfoord (2001) argue that the acceptance of a profit-maximising and rational economic entrepreneur as the standard image of small business owner-manager is likely to be incorrect.

Immediate Literature: CSR in SMEs

To examine the applicability of ST and SCT in the context of SME business responsibility, it was important to develop a comprehensive understanding of the following: (i) what SMEs understand by CSR, (ii) how they participate in CSR, (iii) who influences their social behaviour, (iv) what are their motivations to get involved in CSR, and (v) the rationale for other voluntary engagements, if any. The discussions below summarise existing literature in each of these areas, identify the knowledge gaps, and the research questions to explore.

CSR as Perceived by SMEs

There is a lack of consensus about SMEs' familiarity and their perception of CSR in the literature. For example, Garriga and Mele (2004) found that businesses understand CSR as an obligation towards the society, whereas Hitchens et al. (2005) and Petts et al. (1999) argue that SMEs never think about CSR, nor do they acknowledge their social and environmental impacts. Others (e.g. Anglada 2000; Gerstenfield and Roberts 2000; Tilley 1999) noted that, in the minds of SME owner–managers, socially responsible activities are perceived as costs affecting their bottom-line. Vives et al. (2005) slightly differed from the above by stating that companies integrating social responsibility in their overall strategy may not experience such expenses as an extra cost. Porter and Kramer (2006), however, remain sceptical about this since they observed that SMEs think and participate in CSR in a standardised way, instead of aligning it with their strategic objectives. Finally, Spence (2007) opined that the smaller size of SMEs provides little space to hide mistakes, and therefore the moral proximity with community and customers strongly influences their perception of CSR. The above diverging views form the basis of the first research question:

Research Question 1 How is CSR perceived by SMEs?

SME Participation in CSR

Compared to large organisations, small businesses are assumed to perform poorly in terms of business ethics (Jenkins 2006). Researchers (e.g. Gerstenfield and Roberts 2000; Hitchens et al. 2005; Hunt 2000) have identified factors such as lack of knowledge and involvement of SME owner–managers in daily activities affecting their ability to engage in social activities. While some (Curran et al. 2000; Thompson et al. 1993) found SMEs to have fewer CSR programmes aimed at their local community compared to customers and employees, Joseph (2000) highlighted the important role these businesses play in regional economic development through participation in various societal problems. Mankelow (2003, p. 179) also found that small enterprises focus more on community stakeholders, but their approach is "tailored, structured and designed to enhance enterprise strategic objectives". Spence (2007), however, argues that small businesses react on an ad hoc and personal basis to social needs because they do not have the resources to focus on strategic gains.

Carr (2003) suggests that responsibility and ethics is a personal ethos that informs the practice of any business. In the case of SMEs, this implies that personal ethos and business behaviour is inseparable (Fuller and Tian 2006). In contrast, Brown and King (1982) argue that local business community culture is often strong enough to replace owners' personal values, and therefore, social control is a powerful form of governance on smaller networked businesses (Larson 1992; Leifer and White 1986). This raises the second research question:

Research Question 2 How do SMEs participate in CSR?

Stakeholder Influence on CSR Decisions

It is well established that social interaction with stakeholders shapes responsible behaviour of SMEs more than in large organisations (Fuller and Tian 2006). The extent of CSR participation with different stakeholders thus reflects the influence that they have on the decisions taken by the SME owner–managers. Mankelow (2003) found that small businesses in Australia prioritise the demands of dominant stakeholders (e.g. customers, employees, and suppliers) over discretionary stakeholders (e.g. community). Likewise, Murillo and Lozano (2006) noted that the most important factor that legitimates participation in social activities is internal (financial objectives) and community expectations receive lesser importance. Fuller and Tian (2006) also concluded that businesses value social capital gained through social activities, but the majority of such activities are oriented towards their dominant stakeholders. All these observations suggest that definitive and dominant stakeholders, which have some kind of economic stake in the business, have a greater influence on CSR decisions than discretional stakeholders.

In contrast, some business researchers (e.g. Goffee and Scase 1995; Spence and Rutherfoord 2001) strongly oppose the notion of profit maximisation as the key motivation of small firm owner–managers, and therefore argue that fulfilling expectations of dominant stakeholders may not be an imperative for SMEs. Later, Spence and Schmidpeter (2003) and Jenkins (2006) also found SMEs to participate in CSR extensively by engaging with their community, and most importantly, those activities bring no direct business benefit. The above divergent views regarding the probable influence of stakeholders on SME participation in CSR prompted the third research question:

Research Question 3 Which stakeholders influence CSR participation in SMEs?

SME Motivations to Participate in CSR

Even though research on social responsibility of SMEs is multidisciplinary, investigation of the underlying motivations has been a common theme. The range of CSR motivations identified in the literature varies widely between authors and reflect the yet to be consolidated state of knowledge in this area. The Table 3 below summarises the major findings.

Table 3 Motivation of CSR in SMEs

Mankelow (2003)	Long-term survival, increase employee morale, customer support, customer loyalty, business reputation, altruism, character/values of owner, recognition, expectations of community, etc.
Castka et al. (2003)	Business profitability, ethical operation
Spence and Schmidpeter (2003)	Gaining community support, long-term survival, business reputation, access to information, marketing
Spence et al. (2003)	Philanthropic, character/values of the owner, business reputation, long-term survival, creating network
Fuller and Tian (2006)	Business reputation, meeting stakeholder (mainly internal) expectations
Murillo and Lozano (2006)	Character/values of the owner, social/economic model of the manager, competitive impact, innovation possibilities, basis for differentiation, legal regulation, vision/mission of the company
Williamson et al. (2006)	Legal compliance, business performance
Jenkins (2006)	Philanthropic, competitive impact, access to resources (employees), moral and ethical reasons, business image, increase employee morale
Udayasankar (2008)	Basis for differentiation, access to resources, increased visibility, meeting stakeholder demands and expectations
Russo and Perrini (2010)	Increase trust, business reputation, legitimacy with specific stakeholders (suppliers, customers, employees and local community), external influences (cultural, institutional and political)

The rationale to engage in CSR ranges from philanthropic to strategic and includes both building of social capital and the fulfilment of stakeholder expectations. Mankelow (2003) observed that Australian small enterprises are strategic about CSR participation and prioritise economic objectives over the needs of community stakeholders. Similar conclusions were also drawn by Castka et al. (2003) and Williamson et al. (2006). But Spence et al. (2003) found that SMEs, being largely local, follow the principles of SCT and participate in CSR to improve their company's goodwill and image. Russo and Perrini (2010, p. 217) stated that CSR motivates SMEs "to exploit the strong relationships built out of trust, reputation and legitimacy with specific stakeholders (suppliers, customers, competitors and the local community) sufficiently to improve their license to operate". Graafland and Smid (2004) accepted that CSR is primarily a reputation-building mechanism, but opined that business reputation is less important for SMEs and therefore not their actual motivation to engage in CSR. This leads to the fourth research question:

Research Question 4 Why are SMEs motivated to participate in CSR?

Rationale for SME Engagement in Voluntary Activities

Recent literature has identified a tendency among SME owner–managers to devote part of their valuable time engaging with various associations. In a study of German and UK SMEs, Spence and Schmidpeter (2003) noticed that owner–managers proactively involved themselves with institutions beyond regulatory and institutional requirements. Fallon and Brown (2000) discussed how a chamber of commerce membership helps their member firms with a balanced representation of local economic interests and legitimacy that would not have happened otherwise. Hillman and Hitt (1999) also explained that, owing to the smaller size of the business and limited individual political significance, SMEs fail to influence political decision making. Nevertheless, associations that have an institutionalised place in policy decision-making provide SMEs a stronger platform to voice their concerns against more powerful stakeholders (Lepoutre and Heene 2006).

Even though such voluntary engagements are not part of the CSR agenda, it is worth investigating what encourages inherently resource-poor SMEs to invest in activities that bring no direct benefit for the business or fulfil any stakeholder demand. To explore if this behaviour exists among Australian SMEs, and understand the rationale behind such involvement, the fifth research question was framed.

Research Question 5 Do SME owner–managers voluntarily engage themselves with different associations, and if so, why?

The Research Design

A qualitative case-study research methodology was applied to investigate the CSR approaches undertaken by Australian SMEs. This was appropriate since our focus was on an area that was little understood (Miles and Huberman 1994; Neuman 2006), while the analysis required an in-depth understanding of a complex phenomenon with a hidden slice of reality, in this case, the perceptions of SME owner–managers. In addition, case-study research has been recommended for *how, why and what*-type of research questions that focus on contemporary events (Saunders et al. 2003; Yin 2009), such as CSR participation in the existing business environment. Furthermore, the issue under exploration is a real-life situation where the boundaries between the phenomenon and the body of knowledge are unclear (see Eisenhardt 1989; Gable 1994; Yin 1994). This was the case because CSR has been probed by numerous disciplines through the application of various theoretical frameworks, each interpreting the context from their own perspective.

This research was conducted in the Gold Coast region of Australia. A sequential sampling technique was adopted to ensure all possible interpretations get captured. After 12 interviews, we achieved data saturation and discontinued with the data collection process. Cases were purposively chosen from a wide range of business sizes employing between 4 and 72 employees, and industry sectors including aviation, education and retail (see Appendix 1 for participant profiles). One in-depth interview for each of the participating organisations was arranged either with the owners or the managers who were directly responsible for their respective business' social responsibility.

Given that the topic is sensitive and informants may respond in a socially desirable way, interviewers developed a rapport with the interviewees prior to data collection, phrased interview questions to make the participants comfortable irrespective of their participation in CSR, applied multiple tests of validity and reliability, and finally triangulated data with information available from secondary sources such as annual reports (that included the company's social activities), company brochures, media publications, etc. Although the limited number of cases does not represent the entire sector, it enabled collection of rich data revealing some of the most crucial aspects of SME approach to CSR.

Findings

CSR from a SME Perspective

Most of the SMEs were not familiar with the term CSR. After it was explained in common language, without demarcating the boundaries of such activities, varying understandings of the concept were put forward, all of which were taken into consideration. Among the four most popular explanations, these being *looking after people who support the business*, *giving back to the community*, *being a community member* and *operating the business ethically*, the first three reflect a strong philanthropic perception. Some respondents perceived CSR as *creating business reputation*, *helping community organisations* and *following social norms*. Interestingly, all SMEs believed that they have some social obligations, but none viewed the concept (CSR) as just an economic or legal responsibility of the business.

The impacts of CSR expenses were mixed. Of the 12 participants, three experienced very little impacts, while two regarded the impacts as "fairly strong". Another six felt a moderate impact, but most of them preferred to manage the costs by limiting their CSR activities instead of disengaging from such practices. Two included them in the budgeting process, and one sponsored activities and charities that matched the company's profile. Only one participant regarded CSR expenses as an investment with the expectation of long-term business benefits.

SMEs did not see any contradiction between the economic objectives and their moral obligations, rather considered CSR as a morally correct behaviour. However, all respondents shared the view that businesses need to remain profitable in order to meet their moral obligations.

CSR Activities Undertaken by SMEs

In line with the moral viewpoint held by the interviewees, participation in CSR is mostly philanthropic, led by supporting charities and is closely followed by sponsorships, fund raising and employee benefits. None of the SMEs engaged in CSR that involves other dominant stakeholders such as customers and suppliers. In addition, smaller firms had marginally less involvement in philanthropic activities than the rest. Among all other activities undertaken, the majority involve the broader community in some way or another. For example, by minimising business' impact on the environment, SMEs perceive that they behave responsibly towards their society. Although this was the reason why environment was not considered as a stakeholder different from the community stakeholders in this study, it should be explored further if SMEs should rate environment equally with other discretional stakeholders. The three businesses that did not to participate in any of the philanthropic activities were found to be business-to-business firms, and therefore had very limited interaction with the society.

One of the interview questions revealed that SME owner–managers, per se, are more inclined to CSR programmes that engage definitive and dominant stakeholders. Two of their most preferred activities (options were provided by the researcher) were 'financial support for employees to enhance professional skills' and 'control energy usage to reduce operational costs'. These involve either the definitive or the dominant stakeholders, both having some economic interest in the business. Options such as 'sponsor a local football team', 'donation for better cancer treatment' and 'funding a community group that opposes smoking' were the least favoured ones. This apparent discrepancy between the actual (community-oriented CSR participation) and stated behaviour (profit-oriented CSR participation) indicated that there is some other factor that motivate or compel SMEs to engage more with their discretionary stakeholders.

CSR expenses in the majority of SMEs were ad hoc. Businesses that had a predetermined budget were relatively larger in size and also closer to their community owing to the nature of the business. Resources were consistently identified as the major constraint, and the extent of participation in CSR, as one of the respondents stated "depend on our business' performance, not actual intentions".

Influences on CSR

CSR decisions in most businesses were independently taken by the owner–managers, except for one that had investors and a range of community members involved due to their organisational structure. Although seven of the participants encouraged staff and/or peers to participate and one accepted suggestions from suppliers, the decision-making power was still held by the owner–managers. Three did not allow any stakeholder to participate.

Nevertheless, the CSR agenda of the company in which a range of stakeholders collectively took the decisions was not much different from the company where the owner–managers were the only participants, both being equally philanthropic. Likewise, companies in which staff members participated were also involved in charities and sponsorships, often without any benefit for their staff. This implies that the participation of stakeholders did not influence the CSR decisions and that community remains at the forefront of SME social responsibility.

Another notable aspect was that most owner–managers struggled to identify their stakeholders. One participant understood stakeholders as those who own a share in the business, while another said that "we do not have any stakeholders". After the interviewer explained the meaning of stakeholder, nearly half of the respondents reported that there was no influence from their stakeholders. Further probing, however, revealed that their participation in CSR activities was more tuned to the demands of their social expectations. Among those that admitted some kind of influence, the majority referred to discretional stakeholders. Thus, lower salient stakeholders appeared to have a greater impact on CSR decisions.

Motivations to Engage in CSR

Nearly all participants identified *building business reputation* as their primary goal to participate in CSR. SMEs with aims such as fulfilling *personal satisfaction* and *to be seen as a community member*, were greater in number than those having economic objectives such as *motivating staff* and *meeting stakeholder* (mainly customer) *expectations*. More importantly, none of the participants undertook social activities exclusively for their definitive or dominant stakeholders. Hence, the most common underlying motivation was to build relationships and networks with community members that improve the business' image and at the same time, increase their personal satisfaction. In other words, economic goals were not the predominant motivation for SMEs to engage in CSR.

Informal discussion with the interviewees further revealed that SMEs, except a couple of the large (by number of employees and turnover) ones, had no advanced planning for CSR. They either wanted to continue their ongoing activities or adapt to their stakeholders' expectations. Although the bigger SMEs appeared to be proactive, they did not have any intention to leverage CSR for the benefit of their business. Like most participants, they saw it as "an opportunity for social involvement".

Rationale for Other Voluntarily Engagements

During the course of the interviews, respondents indicated that resources, particularly time and money, are the biggest challenges for CSR. Nevertheless, this did not restrict any of the SME owner–managers from taking time out of their busy schedule to engage with some institution that had no direct stake in the business.

Interviewees clarified this apparently confusing behaviour by stating that connections with these institutions or associations are instrumental for the purpose of networking and information sharing. Some discussed the increased negotiation power that they gain through these networks to influence stronger stakeholders like governments. Others explained how these associations educated them about the upcoming market trends and introduced the business to markets which they would not otherwise have explored.

Discussion

The concept of CSR continues to be as fluid, as discussed in the literature. Despite a range of understandings put forward, SMEs agree that businesses have obligations beyond economic and legal responsibilities. In fact, SMEs see participation in such activities as an obligation towards the community members who trust them, and an opportunity to show how the business shares the social values. Although this supports Garriga and Mele's (2004) conclusions, in-depth questions revealed deeper insights into the attitude of SMEs in relation to CSR. For example, SMEs neither denied their business' impact on the society, nor did they see CSR as a cost-disadvantage, an outcome which contradicts the findings of Hitchens et al. (2005) and Gerstenfield and Roberts (2000) respectively. Furthermore, the 'morally correct' perception of CSR in itself is indicative of the importance that they give to social relations (see Adler and Kwon 2002) and formal engagements with a range of stakeholders, instead of fulfilling the economic expectations of dominant stakeholders only.

SME engagement in social responsibility strongly reflects their views on CSR, but contradicts with Dunham et al.'s (2006) proposition of *collaboration* with dominant stakeholders and *cooperation* with discretional stakeholders. Through the popular activities such as supporting charities, providing sponsorships and fund raising, SMEs *collaborate* with community stakeholders to improve their social relations, whereas *cooperation* with employees foster the market relationships, all contributing to increased social capital. Although smaller SMEs were found to have less involvement in philanthropic activities, it was primarily because of their resource-poorness (Nooteboom 1994), and not what Curran et al. (2000) stated as 'detachment from the locality'. The findings also support Spence's (2004) proposition that smaller businesses are more inclined to community issues, thereby refuting the long-held belief that participation of SMEs in CSR is poor (Thompson et al. 1993). As opposed to Mankelow (2003), CSR planning in SMEs is an ad hoc process. Even though a proactive approach was evident in some, the planning and budgeting process was neither structured, nor strategic. In addition, the fact that costs restrict the extent of CSR participation proves that such organisations have not yet integrated social responsibility in their overall strategy. Nevertheless, when one considers the 'resource poverty' (Welsh and White 1981) and 'strategically myopic' management in SMEs (Mazzarol 2004), these findings appear to be coherent.

The discrepancy between the stated behaviour of the SME owner–managers and the actual behaviour of SMEs questions the validity of intertwined ownership and management, (Nooteboom 1994) and the alignment of owner's personal ethos with business behaviour (Fuller and Tian 2006; Spence 2007) in such organisations. It appears that, in the current business environment, a community's influence on SME is strong enough to subside, if not displace, owner–managers' personal values and interests. The presence of powerful social governance (see Larson 1992; Leifer and White 1986) is clearly at loggerheads with the ST approach to business management since SMEs cannot risk overlooking community expectations for immediate profits.

Community issues were found to be at the forefront of CSR in SMEs. At the same time, social activities that involve dominant stakeholders mainly confined to employees. Both these findings together demonstrate that lower salient stakeholders receive greater attention and, even when stakeholders (in this case, customers and employees) are comparable in salience, CSR activities vary between them. Hence, stakeholder salience is not the criterion for SMEs' social participation, as was proposed by Mitchell et al. (1997). Yet SCT is able to explain this behaviour given that different relations create different types of social capital. That said, it was beyond the scope of this study to investigate if connections with employees generate greater value for SMEs than the relationships with other dominant stakeholders.

The research findings also indicate that the dominant stakeholders of SMEs have little or no influence on CSR decisions. Community relationships, by way of contrast, appeared to be the most important criterion legitimating SME responsible behaviour and not the internal (financial) motives, as claimed by Mankelow (2003) and Murillo and Lozano (2006). Since involvement of employees in the decision-making process made no difference to community-oriented CSR participation by SMEs, it could be said that SME social responsibility neither conforms to Freeman's (2002) notion of "redistribution of benefits … to all stakeholders", nor does it follow Mitchell et al.'s (1997) stakeholder salience model. Once again, from a social capital perspective, such behaviour makes sense given that civic engagement creates a favourable image of the business within the local community.

Motivations to participate in CSR further allude to the above conclusion. As opposed to Graafland and Smid (2004), business reputation is the primary objective for SMEs to engage in CSR. More importantly, the most common motivations such as 'personal satisfaction' and 'to be seen as a community member' indicate the strong intention of SMEs to establish themselves as a good corporate citizen, and simultaneously, win community's support or reduce public scrutiny on business actions. Alternatively, the less important goals, such as 'motivating staff' and 'meeting stakeholder expectations', confirm that profit maximisation is not an imperative for SMEs (Goffee and Scase 1995; Spence and Rutherfoord 2001), at least in the context of business responsibility. However, activities engaging employees and stakeholders contribute to SME social capital through improved market and social relations (Adler and Kwon 2002). Thus, by participating in CSR, as Bourdieu (1986) stated, SMEs are privileged by the opportunity to compensate for their low resource strengths and thereby survive competition in the market; something that is not of a major concern for larger organisations. Regulatory compliance, proposed by Williamson et al. (2006), was not a motivation for the interviewees since Australian businesses are not subject to any CSR-related legislation.

Despite the much-discussed resource weakness in SMEs, the motivation to engage voluntarily in some kind of association produced new supporting insights to their business approach. SME owner–managers consider access to institutionalised platforms is pivotal to survive and improve their business' profile. In the context of this research, such an attitude delivers two core messages. First, SMEs are strongly dependent on their networks of interpersonal relationships, and second, connections with more powerful members in society (e.g. trade associations) or the hierarchical relations (Adler and Kwon 2002) produce greater value than the resources invested for such engagements. Even though voluntary engagement with associations and CSR practices are two distinct areas, the approach to business management in the former complements the research findings from the latter, particularly the importance of stakeholder relationships over stakeholder interests.

Stakeholder Theory: Limitations in the Context of SME Responsibility

From the above discussions, it became clear that Freeman's (1984) definition of stakeholder and Mitchell et al.'s (1997) stakeholder salience model (suggesting businesses to prioritise the demands of stakeholders who have financial interests in the business), fail to embrace the challenges and motivations of SMEs to engage in CSR. These businesses do not see social responsibility as a means to satisfy their stakeholder expectations or directly increase their profit margins. Moreover, SMEs do not experience any influence from their higher salient stakeholders in matters related to CSR. In relation to this, some may argue that SMEs are ignorant of the terminology 'stakeholder', but they value higher salient stakeholders in the same manner as their larger counterparts. Even if we take this argument into consideration, ST still fails to explain why SME owner–managers prioritise discretionary stakeholders over dominant stakeholders while participating in CSR. From the perspectives of ST, this behaviour can only be justified if we accept that community stakeholders possess not only 'legitimacy', but also 'power' in the form of social governance, and 'urgency' in the form of community support. In that case, however, the classification of stakeholders proposed by Dunham et al. (2006) does not hold since SMEs prefer to *collaborate,* not *cooperate* with community members. Although Mitchell et al. (1997) mentioned that stakeholders may shift between categories by losing or gaining any of the attributes, stakeholder theorists do not suggest prioritisation of stakeholders whose contribution to the business (profit) is less (discretionary stakeholders) than others (dominant stakeholders). This also implies that ST cannot be regarded as an alternative for explaining CSR (Russo and Perrini 2010), at least in the context of SMEs. But before this conclusion is generalised, the research findings need to be tested in various locations against a broader sample size.

Social Capital Theory: The Legitimate Paradigm to Interpret SME Responsibility

When viewed through the lens of social capital theory (SCT), SME understanding of CSR, participation in CSR and the motivations behind CSR appears consistent and justified in the light of the inherent resource challenges to which they are subjected. Their perception of CSR, such as 'looking after people', 'giving back to the community', 'being a community member', 'helping community members', 'following social norms' and 'creating business reputation', are all elements of social capital and, most importantly, none of these is either economic or legal responsibility of the business. This explains the noted discrepancy between SME participation in CSR and the stated behaviour of SME owner–managers. Participation in CSR through engagement with discretionary and selected dominant stakeholders demonstrates their intentions to generate trust, goodwill and solidarity among the members whose continuous support enable SMEs to compete with others in the market. This also suggests a need to explore if relations with some dominant stakeholders (employees) produce greater social capital than the others (e.g. suppliers, customers). Furthermore, the importance of hierarchical relations, i.e. connections with powerful members of the society over market relationships is also coherent with the resource constraints and survival challenges the SME sector confronts. To sum up, social responsibility in SMEs is about building relationships and networking with a range of stakeholders, not judged by their stake in the business, but the social capital these connections create for the business. Hence, this study supports Perrini's (2006) initial view that CSR in SMEs should be understood through the application of SCT.

Conclusion

This study was based on a limited number of cases, but has produced more nuanced insights into SME social responsibility, and the applicability of ST and SCT in this context. The two most crucial ones among them are (i) survival is a major challenge for SMEs, and (ii) SME owner–managers view CSR as an opportunity to increase social capital to overcome this challenge and compensate for their limited resource capabilities. These clearly indicate the different sets of challenges that SMEs must deal with, and simultaneously, justify their approach to CSR. For SMEs, the research outcomes are useful to understand how CSR decisions are taken by similar organisations, the resource challenges that restrict CSR engagement, and, identify the types of CSR activities they should get involved in. Hence, assessment of SME social responsibility through the lenses of ST will not only be inappropriate, but also misrepresent the moral and ethical views held by such organisations.

The value for SMEs particularly lie in the fact that researchers, practitioners and policy-makers, who are responsible for advising business strategies and implementing policies, will now have a better understanding of SME behaviour, their challenges, limitations and goals for participating in CSR for researchers, practitioners and policy-makers. Accordingly, SMEs can expect pragmatic solutions and effective policies from them that will not only exert less pressure to participate in CSR activities that do not effectively reduce their survival risks or facilitate the growth of this sector, but also benefit the broader society by bridging the gap between internal business goals and externally set societal aspirations.

That said, we suggest further investigation of the research problem in different locations, involving a larger sample size and using different methodologies to validate the research findings. Further research is also required to explore the relative importance of each type of social capital that SMEs accrue through relationships with different stakeholders.

Appendix 1: Interview Questions

(i) What do you understand by the term 'CSR"?
(ii) Do you think there is any social responsibility of your business?
(iii) Do you find economic objectives of the business are in contradiction to moral obligations? If so, how do you manage them?
(iv) What is your organisation doing in the area of CSR?
(v) How would you like to prioritise the following CSR activities?
  (a) Donation for better cancer treatment
  (b) Additional medical benefit for employees
  (c) Sponsor a local football team
  (d) Funding a community group that opposes smoking
  (e) Financial support for employees to enhance professional skills
  (f) Control energy usage to reduce operational costs
(vi) Is there any predetermined budget for CSR? If so, what factors affect them?
(vii) Could you please inform how CSR decisions are taken in your business?
(viii) To what extent do your stakeholders influence such decisions?
(ix) Why is your company participating in CSR activities?
(x) Are there any future plans about CSR? If so, what are they?
(xi) Are you, or is your company, a member of any trade union or industry association? If so, what was the motivation for such involvement?

Appendix 2: Profile of the Participating SMEs

	Name (pseudo) of the SME	Industry/business type	Number of employees
1	Company A	Language school	40
2	Company B	Aviation	66
3	Company C	Horse Race and Retail Sales	30+ casuals
4	Company D	Accounting Firm	30–35
5	Company E	Urban Vegetation Management	70
6	Company F	Website Designing	15
7	Company G	Coffee Shop- Retail Franchise	16 (Head Office only)
8	Company H	Construction	38–40
9	Company I	Fruit and Vegetable Retail	27
10	Company J	Accounts and Business Strategy	19
11	Company K	Accounting Firm	5
12	Company L	Marketing Communication	3

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