

CSR, work environment and trust creation in SMEs.

Impact of ethical behaviour at the firm level.

Authors

Lise Granerud, PhD, Researcher, National Research Centre for the Working Environment, Copenhagen, Denmark.

Dorte Boesby, PhD scholar, National Research Centre for the Working Environment, Copenhagen, and Centre for Corporate Social Responsibility, Copenhagen Business School, Denmark.

Abstract

Ethical and responsible business practices have developed from covering external commitments to comprising firm-internally oriented initiatives in large as well as in smaller firms. Such practices can be more or less formalised either as documented Corporate Social Responsibility (CSR) or informal and voluntary socially or environmentally responsible performance.

Previous research shows that especially small companies mainly engage in CSR for ethical reasons, and informal relations widely dominate their organisational functioning. A recent study of the relation between CSR and work environment in small Danish enterprises illustrates how CSR appears as having a positive impact on the psycho-social work environment. Linking these findings with literature of trust and organisational learning, this paper argues that by maintaining psycho-social conditions, CSR-activities contain prospects for impacting organisational trust and strengthen the functioning of informal relations, as well as the quality of organisational performance especially in small firms.

Key words

CSR, small enterprises, work environment, trust

Introduction

Small and medium-sized companies have importance due to their quantity, number of employees and in many OECD countries also from their economic significance (Jenkins 2004). The understanding of large companies can not necessarily be used to understand small firms. They are not just small large firms, but have their own agendas, different kinds of management and handling

issues, other ways of behaving and distinct problems – i.e. ethical business practice has frequent priority (Spence and Rutherford 2003). Some small firms recognise their ethical behaviour as Corporate Social Responsibility (CSR), but many small firms, although having corresponding activities, do not acknowledge these as CSR (tns-Gallup 2005). Small firms are also more informally organised and have wider problems in their work environments (Sørensen OH, Hasle P, Bach E. 2007) concurrently with that psycho-social work environments in general face increasing problems (Pejtersen J.H., T.S. Kristensen 2009). To improve small enterprises' way of coping with their specific challenges, better destined research directed at this group is required. Also the CSR literature is dominated by a focus on large firms. A more diverse understanding of small firms as well as their motives for CSR-engagement is still lacking (Jenkins 2004).

Concurrently, small as well as large firms are under pressure for continuously upgrading their production, products and performance to stay competitive (Tidd, Bessant and Pavitt 2001). Successful upgrading and innovation in modern firms requires –along with other factors– well working organisational learning with a high level of information exchange and knowledge sharing in the organisation (Nonaka & Takeuchi, 1995), which again necessitates a well working social infrastructure with trustworthy social relations (Arena, Lazaric and Lorenz 2006, Hirsch and Gellner 2001, Leonard-Barton 1995, Madhoc 2006). Social trust has become more important for upgrading organisational performance along with the change away from Tayloristic-controlling management (Adler & Hecksher 2006, Bachmann and Zaheer 2006) within the knowledge economy.

On the background of an empirical study of relation between CSR and work environment in small Danish enterprises, the paper illustrates prospects of a positive impact from CSR-activities on especially the psychosocial work environment. Linking these findings with theories of organisational trust and learning, the paper argues that a sound psycho-social work environment is required to create high-trust dynamics that are more vital for mainly informally organised enterprises. However, management cannot decide trust to be present; they can only enhance the conditions for its creation (Long and Sitkin 2006). Firm-internal CSR activities directed at employees can be part of such an emphasis with prospects of supporting organisational functioning and development, particularly in small firms.

This paper intends add to the under researched area of understanding small firms and CSR by addressing a) the relationship between CSR and work environment and b) the prospect for impact of CSR on trust creation and organisational functioning and development.

Research and conceptualisation

This section highlights previous research and conceptualises the main pillars of our analysis: CSR and small companies, and the relation between psycho-social work environment, trust and organisational development.

CSR

During recent decades, we have seen an increased significance of values and ethics as part of business strategies (Paine 2003). Responsible business practices have developed from mainly being charity activities within large firms to cover internally as well as externally oriented initiatives carried out in large as well as smaller firms. Such practices can be more or less formalised either as documented Corporate Social Responsibility (CSR), i.e. as part of the UN Global Compact scheme, or they can be voluntary social or environmental responsible performances outside any formal account.

Central debates within the field of CSR concern what motivates and drives companies to manage and act according to CSR principles. Many researchers include various and comprehensive drivers for responsible business practices (Jenkins 2004, Moore & Spence 2006, Paine 2003, Spence & Rutherford 2003) arguing that some companies might mainly engage in CSR for ethical reasons. Paine (2003) has divided drivers for engaging in CSR into four main areas: Risk management, organisational functioning, market positioning and civic positioning. She mentions a fifth driver, 'the better way', connected to just being an honest and good citizen without further explanation. Paine developed these drivers with large firms in mind. To consider the drivers and the impact of CSR in small companies, we must turn to recent research attending the specific characteristics of small and medium-sized enterprises (SMEs) and their practices of CSR.

SMEs

Previous research shows that SMEs have common characteristics that distinguish them from large firms. They are often owner-managed (Beaver 2003), and the organisational distance is short and

execution of decisions and operation is less formal than what is typical for large firms (Masurel 2007). They work more unsystematically and short sighted because they have fewer resources to meet challenges (Jenkins 2004, Masurel 2007, Spence and Rutherford 2003). Due to the lower formalisation, informal relations are more critical for the organisational functioning and make the small firm more dependent on social relations and trust (Granerud 2006). Concurrently, SMEs have more risks and problems in their work environment compared to large firms (Sørensen OH, Hasle P, Bach E. 2007). Despite these common traits, small firms are not a homogenous group. They consist of very different kinds of production and organisation, i.e. connected to whether it is a high tech trade or a cleaning company. The way owner-management is carried out also varies greatly. Management might build on paternalistic attention and control in some traditional family-owned businesses, or be more open for employee involvement and participation i.e. when depending on self-organised employees or when owners take part in the production.

CSR in SMEs

Ethical business practices frequently have priority in SMEs, and particularly owner-managers are more likely to give emphasise to ethical values and behaviour (Morsing, Valentin and Hildebrandt 2008, Spence & Rutherford 2003). Although contributions on CSR and SMEs have emerged within this century, the area can still be characterised as under researched (Jenkins 2004, Moore & Spence 2006, Spence & Rutherford 2003). Referring to Paine's generated drivers for value-driven business practices, previous research characterises motivation for CSR in SMEs as a wish for acting responsibly in regard to the local community (Moore and Spence 2006) and hence an example of Paine's notion of 'civic positioning'.

Due to informal relations widely dominating organisational functioning in small firms, they are more likely to perform without explicit guidelines. Although ethical guidelines are more frequent in larger firms (Paine 2003) and larger firms are more formalised, they are not necessarily more ethical than smaller firms. Especially small companies might mainly engage in CSR for ethical reasons (Jenkins 2004) and ethical motives are the most frequent explanations for CSR engagement in owner-managed SMEs (Morsing & Valentin 2008, Morsing, Valentin and Hildebrandt 2008, Spence & Rutherford 2003). The ethical motives are conceptualised in Paine's term 'the better way'.

Particularly small firms target CSR activities at employees (tns-Gallup 2005). Research shows that responsible business practices in SMEs are dominated by activities that cover upgrading of competencies, improving working conditions and relations, aiming at creating a mentally and physically healthy work conditions (Jenkins 2004, Kramer et al 2005, Moore & Spence 2006, tns-Gallup 2005). This is a less articulated, less intentional motivation for implementation, more indirectly embedded in 'organisational functioning' in Paine's understanding. Summing up on Paine's drivers, research shows that the fifth pure ethical driver prevails among SMEs. 'Civic positioning' and 'organisational functioning' are also very relevant, while risk management and market positioning seem of less importance (Morsing, Valentin and Hildebrandt 2008). However, organisational functioning can be regarded as covering both more or less explicit motives for engaging in CSR.

Organisational development and trust in small companies

Organisational development requires a high level of information exchange and knowledge sharing (Nonaka & Takeuchi, 1995). Prospects for organisational development depend on transmission of knowledge and organisational learning through formal as well as informal communication channels in the organisation (Granerud 2006, Madhok 2006). Formal organisational communication takes place through explicit guidelines and predetermined communication routes and creates possibilities for transmission of knowledge, i.e. guidelines of informing superiors and meetings where employees are expected to forward information. Informal communication practices – shaped by personal relations, together with expectations and feelings in the organisational culture – determine the quality and the amount of the transmission. The organisational culture influence whether employees feel engaged to participate, adding views and experiences, with an expectation of being taken seriously; or they find it is not worthwhile forwarding issues, trying to hide incidents or even display counter-productive behaviour (Knights and Roberts 1982). Following cultural theories and organisational theories of trust, the process of transforming individual knowledge to organisational learning is shaped by the social relations and trust in the organisational culture because these impact willingness and motivation for participation and collaboration, and for transmitting and sharing knowledge (Arena, Lazaric and Lorenz 2006, Hirsch and Gellner 2001, Leonard-Barton 1995, Ellström 2001, Fox 1974, Morsing 1999, Weick and Westley 1996). Trustworthy social relations have a crucial impact on the extent and content of communication and thus for whether individual knowledge will be institutionalised in the organisation and generate organisational learning

(Ellström 2001, Madhoc 2006, Weick and Westley 1996). Organisational trust has increasingly become important for the social infrastructure and upgrading of organisational performance in any kind of firm.

Whether the organisational practice supports the objectives behind or there is a counter-productive behaviour between management and workers is connected to the presence of high- or low-trust dynamics in the organisation (Fox 1974). Management can decide about the formal relations and communication routes, but management cannot determine the informal relations. Management can only encourage a certain behaviour that emphasises respect, dialogue and positive expectations - prerequisite for creation of organisational trust where employees are likely to take responsibility and initiatives also outside formal tasks (Long and Sitkin, 2006, Granerud 2006). Paternalistic hierarchical and controlling management forms fail to activate the potential knowledge base in the firm (Adler & Hecksher 2006, Bachmann and Zaheer 2006, Madhoc 2006). Such management forms might still be prevailing among a number of SMEs. However, other SMEs perform more collaborative types of management, more likely to produce high-trust dynamics. The high-trust dynamics in mind are not based on loyalty and duty, but relates to a more dynamic organisational environment based on trust of intentions (Adler & Hecksher 2006, Granerud 2006). Particularly within small firms dominated by informal work practices, presence of high-trust dynamics can strengthen functioning of the informal relations that again to some extent can substitute weak formal routines in organisations with short organisational distance (Granerud 2006). Mutual trust of intentions can enable exchange of knowledge and experience, especially important regarding sensible areas like i.e. transmission of mistakes and doubtful decisions. Trust of intentions can support a dynamic organisation that facilitates collaboration and change in environments under increasing complexity and uncertain circumstances (Adler & Hecksher 2006, Granerud 2006).

CSR is regarded as a management practice that can be embedded in as well more paternalistic or more collaborative features.

The Danish Study

The relation between CSR-activities and work environment in small firms has been examined in a Danish study from 2007 to 2008. The purpose of the study was to investigate the possibility to use CSR strategies to improve work environment in small firms.

The study built on the hypothesis that CSR could add to managements' voluntary engagement to improve work conditions and work environment in small firms and that due to the typically informal management of small firms, the voluntary nature of CSR is more attractive and manageable for them to work with than formalised law compliance.

Investigation method

An explorative investigation approach with qualitative research methods searching for understandings was found adequate due to the aim of finding meanings in a new field. The investigation has been divided in three parts:

- a) A review of previous research on the area.
- b) Qualitative interviews with key CSR professionals representing different interests in the Danish context.
- c) Visits in 21 small firms within three industries and interviews with employers and employees.

Small enterprises were defined as firms with less than 50 employees, leaving out medium-sized enterprises in the European understanding. Work environment was comprehended broadly covering physical risks as well as psycho-social aspects. CSR referred to the EU definition:

A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. (European Commission 2001).

a) The literature study consisted of a systematic search in international databases for literature on the key words 'CSR', 'work environment' as well as 'small enterprises' and related key words. It appeared impossible to distinguish between small and medium-sized enterprises. Covering the three key issues, only 11 articles appeared. To enlarge this small sample a few related studies was added generated through knowledge in the research group. As an example the Danish People & Profit Project that has generated three investigations around CSR in Small and Medium-Sized Danish enterprises. This material was included in analysis of work environment impact of CSR.

b) The investigation of the position among key stakeholders to linking CSR and work environment consisted of 10 semi-structured interviews with key persons from three groups:

- 1) Public authorities and organisations,

- 2) Labour and employers' organisations,
- 3) CSR managers in three large firms requiring CSR from their small suppliers.

The interviews aimed at exploring the position to and experience with CSR in small firms, through their perceptions and expectations, and initiatives connected to CSR. The interviewees in the large firms had experience or views on the impact of their CSR requirements in their sub-suppliers. These understandings were supplied by observations in one information meeting on CSR held in collaboration between an employers' organisation and the public CSR promoting project, People and Profit.

c) The investigation of CSR in the 21 small firms was carried out as a combination of qualitative interviews and observations. The firms were selected within companies with between 10 and 50 employees, where management had some ideas about or shown interest in CSR. The firms were found within three industries: Hotel and Restaurants, Industry, and Transport. A previous quantitative study of CSR activities in Danish firms has showed that among the seven different industries with the largest impact on the Danish economy (Kramer et al 2008), small firms in these three industries had most CSR activities directed towards employees (tns-Gallup 2005). The presence of employee directed CSR was expected to increase likelihood of finding impacts on work environment. In each firm at least one manager and at least one employee, often the shop steward or safety representative, was interviewed from a semi-structured guideline. In three cases employees were interviewed in the presence of their managers. The semi-structured interviews explored whether and how small enterprises recognize relations between CSR and work environment, how they work with CSR in practice and their prospects for improvement of work environment through CSR initiatives. After the interviews the shop floor area was presented and added to the impression of the firm.

All interviews were recorded and used for dividing the perceptions schematically in an analytic table. Notes from the observations were added to the table. The tables were analysed by NVivo7, in categories connected to Paine's notion of drivers and rationale of CSR-activities. The specific CSR-activities were coded in seven categories (following Ashridge Centre for Business and Society, see Results a)). The analyses also divided the field material in rationales behind CSR and catalysts for CSR.

Results

The material was examined by seeing CSR as a management strategy to improve work environment and organisational culture as well as employee activities or ways to reduce risks at the work place.

a) The literature review aimed at answering: What perspectives are present in earlier research regarding CSR and work environment in small enterprises?

The literature study confirmed that the area is scarce researched. Of the 11 found articles, only seven articles were peer reviewed, covering the key words. The main points of the articles were that it is difficult to use the CSR concept in small firms, because it is developed for large firm. CSR activities in small firms are motivated by different rationales than in large firms. Small enterprises are widespread engaged in improving employee conditions, but they are less likely to codify the engagement in formal policies. This implies that research on CSR has to be executed differently in small firms (Boesby et al 2008).

The previous Danish research on CSR in small firms had divided the CSR activities in seven categories: Visions and values, Customer activities, Employee activities, Supplier activities, Stakeholder activities, Societal activities, and Environmental activities (Ashridge 2005). Especially the 'employee activities' were expected relevant for the work environment. However, the other categories also holds potential for affecting the work environment.

The result of the following two empirical investigations, b) and c), cover understandings of CSR and work environment, reflected among key stakeholders and in small enterprises that by various reasons are interested or involved in CSR. The results have to be comprehended on its time limited premises and as a preliminary step into a new research area, linking CSR-activities and work environment in small enterprises.

b) The enquiry among CSR key persons in organisations and enterprises aimed at answering: What perspectives dominate important stakeholders on CSR and work environment in small enterprises?

The interviews with the organisations show that the concepts of CSR and work environment are intended in various directions connected to their particular interests. The three investigated large

firms all had explicit CSR-requirements expected to impact the work environment in their sub-suppliers. However, the large firms do not control the implementation which makes it difficult to assess the impact. A large public organisation use CSR-requirements as a way to implement social and welfare politics (Boesby et al 2008).

c) The study in the small firms aimed at investigating: What perspectives do managers and employees have on CSR and work environment in small enterprises? What types of work environment conditions are relevant for CSR? Are CSR activities with impact at the work environment more relevant for particular types of small enterprises? Why do small firms involve in CSR related work environment issues?

The result confirmed that many small firms had activities that can be regarded within the frame of CSR and work environment, but also that they rarely use the term CSR before their large customers require them. The CSR-activities were in general found directed at employee health in a broad sense and the psycho-social work environment. The motivation for CSR-engagement is generally connected to retention of employees. The small firms seem likely to utilise responsible practices indirectly to increase employee satisfaction, motivation for individual engagement and collaboration, and strengthen social ties as well as attracting and maintaining qualified labour and reduce absence. The most reported activities were directed at the psycho-social conditions. This can also be related to the focus of the investigation on voluntary initiatives. The physical work environment to a large extent is regulated through legislation in Denmark. The psycho-social impact was highlighted as important particularly for firms in the service sector, found in two of the investigated three industries: namely transport, and hotel and restaurants. The psycho-social work environment was mentioned as important for the quality of the product, especially in cases where employees had direct customer contact. (Boesby et al 2006)

Ethical and value based reasoning, 'the better way', were highlighted as internal motives. Internal motives related to organisational functioning were more prevailing in firms with organisational changes. Supplier demands or expectation of CSR engagement and information through industrial networks were external circumstances. Small firms often initiated CSR-activities ad hoc, as a result of combined incidents, internal emerged needs concurrently with external propositions or demands. They generally do not use the activities strategically.

All in all, the study indicates that managers and employees in small firms see a positive relation between CSR activities and the work environment, mainly related to the psycho-social conditions. This is more dominant in service oriented enterprises. CSR activities seem particularly appropriate to impact the soft side of work environment, which is also the most difficult part to regulate through legislation. Nevertheless, it is difficult for the small enterprises to take advantage of their CSR activities as a business case and develop their use strategically. The potential of CSR is not exploited because the engagement is incidental (Boesby et al 2008).

Discussion and perspectives of CSR in small firms

Previous research shows that the main part of CSR engagement in Danish SMEs is directed at employee activities to create physically and mentally healthy work conditions. Concurrently, international research highlight that small firms are likely to behave from ethical reasoning, although in a less formalised way, connected to the prevailing more informally dominated organisations. In this relation it is also important distinguishing between small and medium sized companies, because domination of informal relation can only be expected in relatively small firms. The medium sized firms necessarily need a more formalised organisation to operate. This paper has been concerned with the relation between CSR, work environment and trust, and its further prospects for impact on enterprise development in small companies with less than 50 employees.

Due to the importance of informal relations and the short organisational distance in small firms, trust is likely to contain a special opportunity for the organisational functioning in this group of firms. High-trust dynamics and trust of intentions can strengthen the function of informal relations, and to some extent be an alternative for weak formal decision structures. Trustworthy social relations support employees taking initiative and action when required, instead of waiting for instructions and orders from superiors. High-trust dynamics reduce fear of failure and support attitudes towards sharing knowledge and experience. Hence, it is regarded as productive for understanding impact in small enterprises to distinguish between different types of management. Although often, but not always being managed by the owner, management in small enterprises varies greatly, i.e. building on hierarchical or paternalistic features, or shaped by mutual expectations of positive intentions. The management form is crucial for whether the firm-internal trust is able to substitute uncertain formal structures and support upgrading of organisational

performance. Hierarchical forms are less likely to enable change compared to more collaborative kinds of management.

The Danish study has showed that small firms have a range of activities that can be characterised within the frame of CSR, although they do not recognise the activities as CSR, and the reasons for CSR engagement were primarily ethical – confirming previous research. The study demonstrated that civic positioning and organisational functioning are also important motives, the last mentioned primarily in firms with organisational changes. The study illustrates that small firms have CSR-activities relevant for the work environment, particularly directed at the psycho-social area, and more dominating in service industries.

The psycho-social work environment is particular critical for the organisational functioning and development in mainly informally organised small firms. Maintaining positive psycho-social conditions hold prospects for strengthening firm level trust creation and high-trust dynamics and communication practices, supporting organisational functioning through the informal relations. Thus, organisational function can be regarded as a driver for CSR in Paine's understanding, as well as an outcome of improved performance.

The mentioned prospects for a beneficial outcome of firm internal CSR activities on firm performance and development, illustrate the potentials for a more strategically use of CSR in small firms. Particularly in firms with collaborative management, and in service companies, CSR contains prospects for improving the business as well as the conditions for employees. However, CSR can only strengthen present positive spirals high-trust dynamics, it cannot change low-trust dynamics.

Although the Danish study of CSR and work environment has showed a positive impact on particular the psycho-social work environment, assessing the benefit of CSR in small firms requires taking wider and more distinct characteristics of the single enterprise into account, i.e. the management form, the kind of industry, differentiation of size, various kind of owner-management and other aspects that determine the diversity of this group of companies. The Danish study pointed at lack of research on the area. There is a need for deeper insights in what impact behaviour and performance in various types of small enterprises, to examine the value of ethical behaviour and

CSR for the firm-internal work conditions concurrently creating pathways to development of small enterprises.

Conclusion

Small firms have significance for the work conditions of the main part of employees and for most national economies, but small firms, their characteristics and management, lack research.

Concurrently impact of CSR has mainly been investigated connected to large firms but has recently gained growing attention among researchers of SMEs. This paper has added to the understanding of ethical behaviour in small enterprises and its impact at the firm level.

Referring to related literature, the paper has showed that small firms differ from large firms by being more ethical engaged. Firm-internal and employee directed activities seem to be the most attractive kind of CSR in small enterprises. Concurrently, small firms work more unsystematically and are more informally organised, they generally do not use guidelines or CSR strategically. This paper has furthermore applied theories of organisational trust and culture to demonstrate the impact of management practices and the psycho-social condition on high-trust dynamics and knowledge sharing. Trust of intentions is particularly important for informal organisational practices and hence for support of organisational functioning and learning.

Building on a recent qualitative Danish study of CSR and work environment in small enterprises, this paper has examined the prospects for CSR in small enterprises. The study demonstrated that firm-internal CSR-activities are prevailing in small firms, although they often do not entitle these as CSR. It also showed that the employee directed CSR activities were relevant for the work environment, less relevant for managing specific risks, maintained by legislation in Denmark, and more directed at health and the psycho-social work environment. Furthermore in small service companies where employees had direct customer contact, the psycho-social work conditions were especially emphasised because these were regarded as vital for the quality of the product by the management.

Combining previous research with the recent study, the paper has argued that the psycho-social work environment is of importance not only for the well being of the employees but also for trust and functioning of informal relations, which again are critical for knowledge sharing and learning.

Hence, firm-internal CSR-activities maintaining the psycho-social conditions hold prospects for the impact of firm level trust creation with wider prospects for organisational functioning and firm development particularly in small firms. The special prospects for gain within the psycho-social work environment as for the organisational performance and development could be an argument for the advantage of a more strategic use of CSR within this group of firms.

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