



Policy Brief on Social and Corporate Responsibility and Governance in young SMEs

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...recognize the importance of taking a role in addressing the many challenges the world faces today. We investigated whether strengthening the entrepreneurial economy would risk weakening the trend towards more CSR because young and small enterprises are perhaps less able or inclined to maintain high levels of CSR. Results from a lab experiment in the field have shown there is little to worry about. There is an urgent need, however, to strengthen the knowledge base by mapping entrepreneurs' social attitudes and linking these to their CSR behavior. Furthermore, we argue for developing entrepreneurship policies that promote more sensitivity to CSR.

Introduction

The world is facing urgent challenges. Population growth, climate change and energy transition all pose challenges governments alone simply cannot address. The global move towards corporate social responsibility (CSR) has seen large multinational corporations engage with these challenges. CSR in small and medium sized enterprises (SMEs) and in particular in young SMEs has been much less visible and to date is largely understudied. Still SMEs collectively make up over 60% of

employment and account for over 2/3rds of all pollution (EC 2016; Parker et al. 2009). Moreover, if we push policy makers to promote a more Entrepreneurial Society in Europe, the share of young SMEs in the economy will rise. Consequently, it is urgent to investigate how this will affect the trend towards a more socially and ecologically responsible corporate sector. In this policy brief, we present arguments and some supporting evidence to show that the CSR performance of young SMEs is driven mainly by the personal attitudes and social

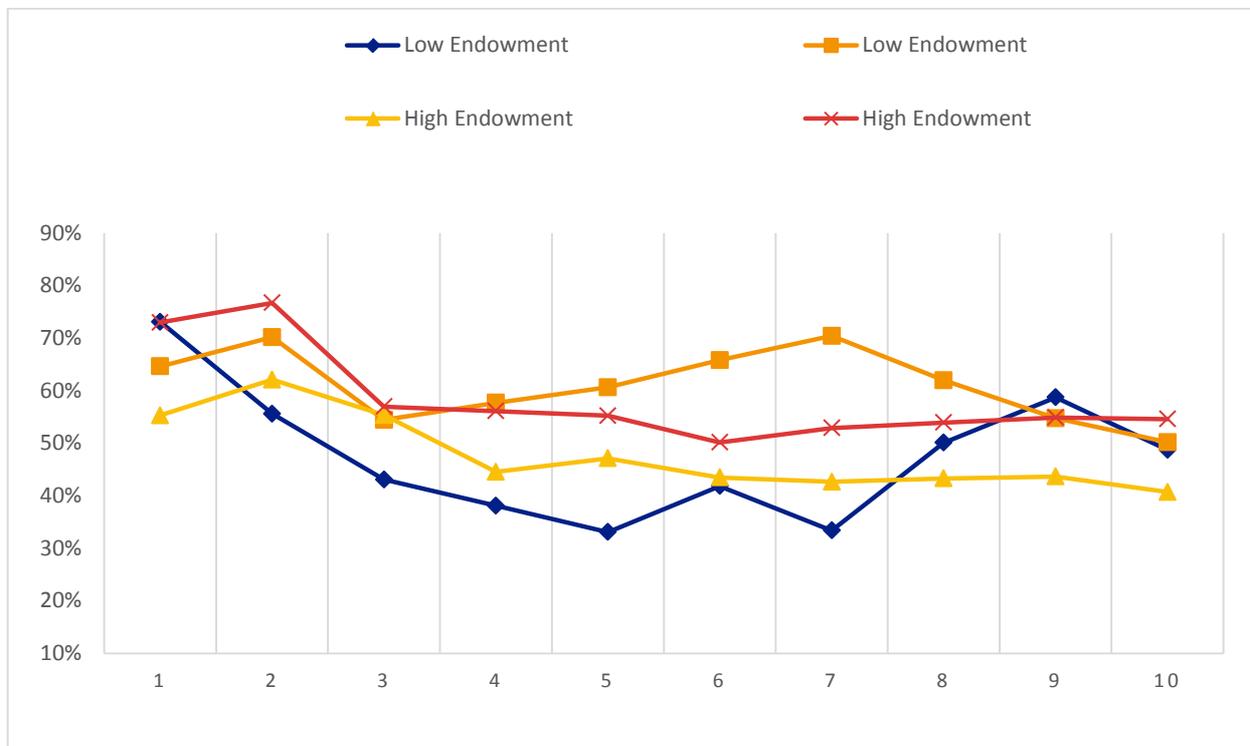




disposition of the founder-entrepreneur. An experiment in the field then showed us that entrepreneurs are in fact more co-operative and socially oriented than non-entrepreneurs. This implies that a transition to a more entrepreneurial economy will not weaken but possibly strengthen CSR achievements to date. To ensure it does, entrepreneurship policies should emphasize creativity and co-operative venturing more than business skills. This brief first briefly discusses the research we have done. Then we elaborate on the most pertinent results and policy implications and

reporting on CSR practices typically target large multinational corporations (MNCs) and SME implementation of CSR practices is much more informal and therefore largely invisible. The evidence we did find, strongly suggests that actions and attitudes of leading managers and employees are profoundly important in large and small firms alike. Moreover, comparative case studies (e.g. Baumann-Pauly et al. 2013) suggest CSR in SMEs is less visible but more profoundly incorporated in business practices. But very little is known about the social attitudes of entrepreneurs. We

Figure 1: Average contribution levels per round for entrepreneurs and non-entrepreneurs in high and low stakes game



conclude.

The Entrepreneur Matters

We have first surveyed the available scientific evidence on CSR in SMEs. This evidence is rather scattered and produces mixed results. This is largely due to the lack of good data on SMEs in general and on their CSR performance specifically. The international initiatives to promote CSR and enhance transparency and

therefore decided to investigate these in a field experiment. This Sharing and Co-operative Attitudes Lab Experiment (SCALE) was designed and implemented in three different subject pools in Germany in 2015-2016.

The Entrepreneur is Social

The results of SCALE-experiment support the conclusion that entrepreneurs are more co-





operative than non-entrepreneurs and therefore unlikely to weaken the trend towards more CSR in business. The figure above for example shows that entrepreneurs on average contribute more of their endowment (in % on the vertical axis over 10 rounds of interaction on the horizontal axis) to a joint project than non-entrepreneurs. They are also shown to freeride less and co-operate more in their game behavior. To the extent that such pro-social attitudes are a good proxy for overall attitudes towards CSR, this is of course good news. Promoting entrepreneurship will then promote inclusive growth and CSR in SMEs. Of course, a lot of caveats must be made with these preliminary results. The SCALE-experiment should be reproduced with entrepreneurs from different cultural and institutional backgrounds to put a stronger empirical basis under our result. Moreover, we have compared our entrepreneurs to non-entrepreneurs active in the start-up scenes of Hamburg and Berlin. These are certainly not representative of other, potentially more relevant control groups, such as top-level managers in MNCs or regular employees. We did compare our entrepreneurs to business and economics students as a first approximation, and results are even stronger and in line with the emerging trend towards more social entrepreneurship (Lepoutre et al. 2013). But more research in the field is needed to establish the claim that entrepreneurs are more pro-social. This is also true for the hypothesis that co-operative behavior in a lab environment is a good proxy for attitudes towards and commitments to CSR in real business environment.

Implications and Recommendations

Our research supports three policy recommendations that we would like to emphasize.

1. DG-Research should support experimental research. Specifically, implementing the SCALE-experiment in multiple countries and subject pools would yield valuable information on the social attitudes of entrepreneurs across European contexts and ecosystems.
2. DG-Growth should investigate the link between social attitudes and actions (e.g. measured in SCALE) and CSR commitment and performance in real world businesses.
3. DG Growth and Member States should design their entrepreneurship policies and supporting institutional framework to promote CSR awareness and sensitivity among entrepreneurs.

These policies do not directly generate more CSR results or inclusive and innovative growth in Europe. Instead, they create the knowledge base required to align policy efforts in the usually distinct areas of entrepreneurship policy and CSR support. Moreover, they help build the long run preconditions for an innovative SME-sector that contributes more to addressing societal challenges.

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