Inconvenient Truth: Do UK Owner-Managers value Social and Environmental Goals?

Keywords: Owner-managers, social goals, environmental goals

Abstract

Topic

The European Commission, UK government and UK devolved administrations such as the Scottish Government are increasingly interested in the potential contribution of corporate responsibility (CR) and mission-led business (MLB). But what importance do UK owner-managers place on social and environmental goals relative to economic goals for their business, and has this changed over time? This paper addresses this topic by comparing the results of two equivalent large scale and representative surveys of UK owner-managers in 2009 and again in 2015.

Aim

Most of the existing research on responsible business thinking within the SME sector in the UK is qualitative and exploratory in nature. The aim of the paper is to present novel quantitative data on the prevalence of responsible business thinking among the UK owner-manager community, demonstrating changes over time and identifying the characteristics of owner-managers of responsible businesses and how they and their businesses differ from owner-managers with different business goal combinations.

Methodology

To estimate prevalence rates of responsible business thinking among owner-managers in the UK, this study used an annual large scale survey of individuals, the Global Entrepreneurship Monitor (GEM), conducted by a large scale international research consortium which has been operating since 1999. Every year, GEM asks a series of questions related to business creation and ownership. In 2009 and 2015, a set of questions on business goals was added. This asked all individuals who said they were trying to start a business (493 in 2009 and 272 in 2015) or running their own business (1,371 in 2009 and 551 in 2015) to allocate 100 points across their economic, social and environmental goals for their business. Cluster analysis was used to create owner-manager groups with similar combinations of economic, social and environmental goals.

Results

For both nascent and existing owner-managers, the sample cleanly clustered into three groups: one dominated by economic goals (just under 50% of the sample), one with a majority of social goals (just over 25% of the sample), and one which was more balanced (just under 25% of the sample). Significant differences were found between the characteristics of individuals in these clusters. There was little change in mean and median goal allocation from 2009 to 2015.

Contribution

This study has shown that less than 25% of owner-managers in the UK have balanced economic, social and environmental goals; economic goals are still the over-riding priority for the majority of owner-managers, and this proportion has not shifted between 2009 and 2015. The concept of the responsible business does not seem to have been embraced by minority groups of owner-managers, including women, ethnic minorities and immigrants as much as by the dominant class of white males. It appears that much more work needs to be done to reach out to these groups in particular if the concept of responsible business is to take hold in the UK.

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Introduction

The European Commission, UK government and UK devolved administrations such as the Scottish Government are increasingly interested in the potential contribution of corporate responsibility (CR) and mission-led business (MLB). The European Commission defines corporate social responsibility (CSR) as ""the responsibility of enterprises for their impacts on society" (EC, 2011). The UK government recently defined corporate responsibility as "the voluntary action businesses take over and above legal requirements to manage and enhance economic, environmental and societal impacts" (BIS, 2014, p3). The UK government has also shown interest recently in the phenomenon of mission-led business, defined as any business that can fully distribute its profits, identifies an intention to have a positive social impact as a central purpose of its business, makes a long-term or binding commitment to deliver on that intention through its business and operations and reports on its social impact to its stakeholders (Cabinet Office, 2016). Within the UK, the Scottish government is placing increasing emphasis on "responsible business", and wants to position Scotland as "a global leader in responsible business" (Scottish Government, 2016, p34).

This government interest is mirrored by the emergence of a "doing well by doing good" hypothesis, which remains controversial. Consumers appear to be increasingly willing to pay more for CSR. For example, 65% of global respondents in Nielsen's 2015 corporate social responsibility survey said they were willing to pay extra for products and services from companies that are committed to positive social and environmental impact, up from 55% in 2014, 50% in 2012 and 45 percent in 2011 (Nielsen, 2015) and there is evidence of a "halo" effect for the products of companies that practice CSR (Chernev and Blair, 2015). For example, Henderson and van den Steen (2015) have recently proposed a theory in which a firm's adoption of a prosocial purpose can increase profitability by strengthening employees' reputation and identity because this leads to higher effort and lower wages provided that implementing purpose is costly with respect to direct monetary payoffs. However, evidence is conflicting as to whether this translates to higher profits for public companies that practice CSR (Servaes and Tamayo, 2013). Among SME owners, scholars have argued that on the one hand, their relative lack of resources might mitigate their desire, if any, to practice CSR (Fassin, 2005), while on the other hand, their embeddedness in local communities might motivate them to engage in CSR (Chrisman and Fry, 1982). A recent survey of SMEs in the US found some evidence of a positive link between motivation and capabilities on the one hand and CSR activities on the other, and between CSR activities and financial performance (Arend, 2014).

Given this background of increasing consumer interest in CSR, and growing support for a link between CSR and firm performance, this paper asks: what importance do UK owner-managers in general place on social and environmental goals relative to economic goals for their business, and has this changed over time? Most of the existing research on responsible business thinking within the SME sector in the UK is qualitative and exploratory in nature (see, e.g. Jenkins, 2009; Carrigan et al, 2016). While these studies go narrow and deep, there is no balancing study that gives a broad view of the prevalence of responsible business thinking among owner-managers in the UK. A recent review had to go back to a self-selected sample of FSB members in 2007 (Levitt, 2012, p.66). This is the gap that this paper aims to fill. This paper addresses this topic by comparing the results of two equivalent large scale and representative surveys of UK owner-managers in 2009 and again in 2015. The results offer a picture not just of the prevalence of responsible business thinking among the owner-manager community, but within the owner-manager community, across time, across the four nations of the UK, across different phases of the entrepreneurial process from start-up entrepreneurs to established business owner-managers, and across different types of owner-managers based on their personal and business characteristics.

Methodology

To estimate prevalence rates of responsible business thinking among owner-managers in the UK, this study takes individuals as its units of analysis, not businesses. A representative survey of individuals rather than businesses was therefore necessary. This study made use of an annual large scale survey, the Global Entrepreneurship Monitor project (GEM), conducted by a large scale international research consortium which has been operating since 1999. Every year, GEM asks a series of questions related to business creation and ownership. In 2009 and 2015, a set of questions on business goals was added. This asked all individuals who said they were trying to start a business (nascent entrepreneurs) or running their own business (existing owner-managers) to allocate 100 points across their economic, social and environmental goals for their business. This provided a simple, standard method of measuring responsible business thinking which has been employed successfully in 54 countries across the world (Bosma and Levie, 2010). The proportion of nascent entrepreneurs who stated they didn't know how to answer these questions in 2009 was around 9% but in 2015 was significantly lower at 4%. The proportion of existing owner-managers who stated they didn't know was 6% to 7% in 2009 and 4%, in 2015. Of a total sample of 21,127 individuals interviewed in 2009 (7,828 in 2015), 493 nascent entrepreneurs and 1,371 owner-managers were interviewed (272 and 551 in 2015). Cluster analysis was used to generate groups of owner-managers with similar combinations of economic, social and environmental goals.

Results

Figure 1 shows the mean and median points out of 100 given by nascent entrepreneurs and existing owner-managers in 2009 and in 2015. It shows that there was little change in mean and median goal allocation from 2009 to 2015, with individuals on average allocating 50 points to economic goals, 30 points to social goals and 20 points to environmental goals. In the 2015 sample, an ANOVA test suggested that allocation of points to economic goals decreased significantly with age for nascent entrepreneurs (F=3.329, p=.037), while allocation of points to social goals increased significantly with age (F=9.106, p=.000). No clear pattern was visible for existing owner-managers. Among both nascent entrepreneurs and existing owner-managers, males allocated significantly more points on average to economic goals than females (F=4.079, p=.044; F=18.343, p=.000), and male nascent entrepreneurs allocated significantly less points on average to social goals (F= 11.403, p=.001). Among existing owner-managers only, allocation of points to both economic and social goals increased with education level (F=6.540, p=.000; F=4.320,p=.000). There was no apparent relationship between household income of the respondents (the sample was divided equally into lower, middle and upper income) and their pattern of allocation to economic, social and environmental goals. Ethnic minority nascent entrepreneurs allocated significantly more points to economic goals and significantly less points to social goals than white nascent entrepreneurs (F=6.302, p=.013; F=5.200, p=.023). Nascent entrepreneurs who were born in the UK but had lived abroad were significantly more likely to allocate more points to environmental goals than other groups, including life-long residents of the same region, regional migrants who had not lived abroad, or immigrants (F=3.299, p=.021). For existing owner-managers, both life-long residents and immigrants were significantly less likely to allocate points to social goals than other groups (F=5.117, p=.002).

A series of OLS regressions was run to estimate the independent effects of these different demographic characteristics on point allocation. This confirmed a negative effect on allocation of points to economic goals of being young (18 to 29), of being an immigrant or having post-secondary education. This result was mirrored in the regression results for allocation of points to social goals: middle-aged nascent entrepreneurs (aged 30 to 49), immigrants and those with post-secondary education allocated significantly more points to social goals. Young nascent entrepreneurs (aged 18 to 29) and those with post-secondary education allocated significantly more points to environmental goals.

Among existing owner-managers, the OLS regressions showed that women allocated significantly less points to economic goals and significantly more points to social goals. Existing owner-managers with middle and upper household incomes allocated significantly more points to economic goals and significantly less points to social goals than existing owner-managers with lower household incomes. Existing owner-managers who were ethnic minority individuals, allocated significantly more points to social values than existing owner-managers who were white. Existing owner-managers in the middle age bracket (30 to 49) allocated significantly more points to social values than older existing owner-managers. Existing owner-managers who were immigrants allocated significantly more points to economic values and significantly less points to social values than other migrant types. Existing owner-managers who were ethnic minorities allocated significantly less points to environmental goals than existing owner-managers who were white. For existing owner-managers, there was a clear negative relationship between allocating points to environmental values and age. Existing owner-managers with post-secondary education allocated significantly more points to environmental values than other groups.

A cluster analysis of the 2015 sample demonstrated that for both nascent and existing owner-managers, the sample cleanly clustered into three groups: one dominated by economic goals (just under 50% of the sample), one with a majority of social goals (just over 25% of the sample), and one which was more balanced (just under 25% of the sample). Compared to the economics-driven owner-managers, the balanced owner-managers were more likely to live outside London, to not be afraid of failure in business, regard their business as having little or no competition, to export, to use the internet to sell, less likely to be in business because they wanted to be independent, less likely to have a higher degree, more likely to be male and white, and much more likely to put substantial effort into measuring the social and environmental impact of their business. The social owner-managers were relatively less likely to be immigrants and more likely to be middle aged, white, female, relatively poor, to work part-time on the business, and not to work from home. Economics-driven owner-managers were more frequent in Northern Ireland; balanced owner-managers were more frequent in Wales and Scotland and rare in Northern Ireland.

Contribution

This study has shown that less than 25% of owner-managers in the UK have balanced economic, social and environmental goals. Economic goals are still the over-riding priority for the majority of owner-managers, and this proportion has not shifted between 2009 and 2015. Although there is no evidence that their businesses are larger or have higher growth aspirations, the businesses of owner-managers with balanced goals do appear to have several economically desirable properties, including a lack of competition, use of the internet as a sales channel and export propensity. The concept of the responsible business does not seem to have been embraced by minority groups of owner-managers, including ethnic minorities and immigrants as much as the dominant class, although it should be noted that women were more likely than men to be running businesses with primarily social goals. Interest in environmental goals seems to be affected more by relative youth and education. These results should be of interest not just to national and regional governments, and to UK organisations that promote corporate responsibility such as Trading for Good and Business in the Community, but also to business schools and business educators generally. It would appear that there is much more work to be done to reach out to minority groups in particular if the concept of responsible business is to take hold in the UK.

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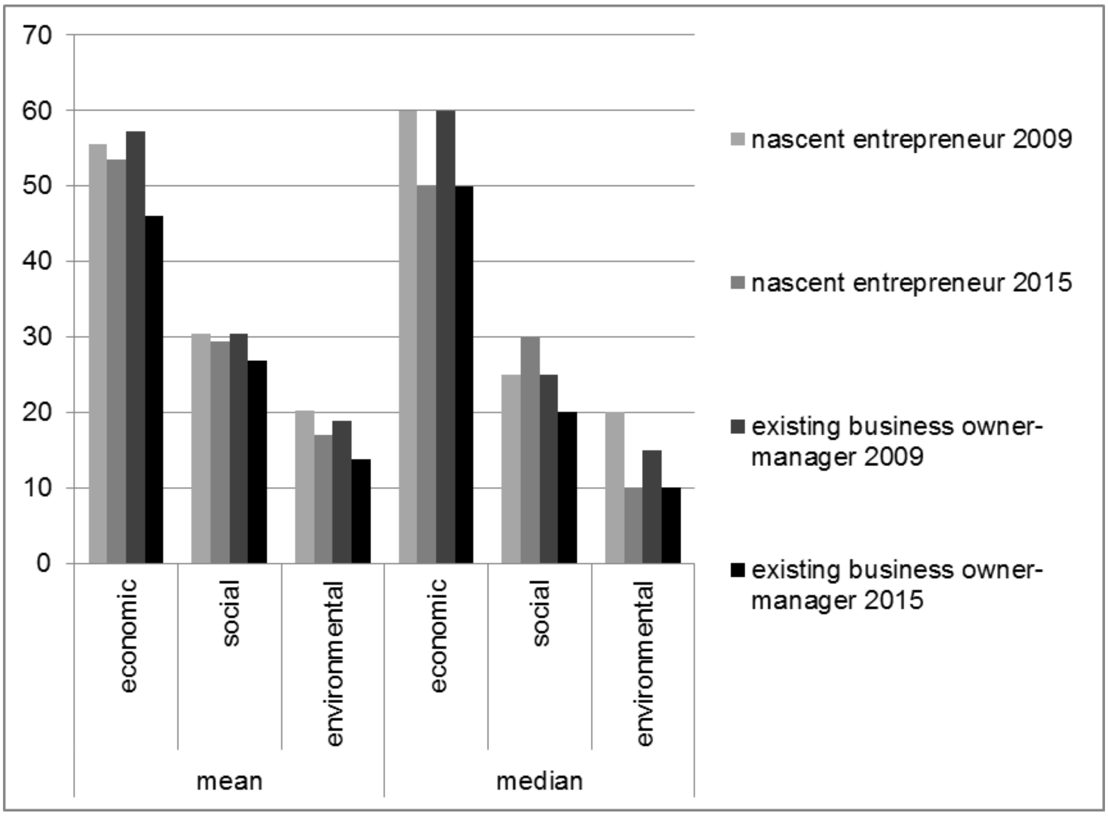
Figure 1. Mean and median allocation of 100 points to economic, social and environmental goals by nascent entrepreneurs and existing owner-managers in the UK in 2009 and 2015.



Source: Global Entrepreneurship Monitor UK 2009 and 2015 Adult Population Surveys.