

**RESEARCH**

# Stimulating the Social Responsibility of Small Businesses: Government Policy and Social Innovations

**Professor Daiva Labanauskaite**

*Department of Economics, Klaipeda University  
Klaipėda, H. Manto g. 84, LT-92294, Lithuania*

Email: [daiva.labanauskaite@ku.lt](mailto:daiva.labanauskaite@ku.lt)

ORCID: 0000-0002-3538-3991

**Dr Oleksandra Rozhenko**

*Department of Economics, Klaipeda University  
Klaipėda, H. Manto g. 84, LT-92294, Lithuania*

Email: [oleksandra.rozhenko@ku.lt](mailto:oleksandra.rozhenko@ku.lt)

ORCID: 0000-0002-9358-5436

**ABSTRACT**

**PURPOSE:** The aim of this paper is to theoretically analyse and determine the significance of the social responsibility of small businesses based on research by leading scientists. It also aims to identify and develop proposals and recommendations for strengthening the social responsibility of small businesses through innovations and government stimulation.

**METHODS AND APPROACHES:** The authors used a systematic approach, a structural-functional approach, and a critical approach, together with a symbiosis of relevant methods, to provide a direct, structured, and systematic consideration of issues related to the social responsibility of small businesses and to deepen the understanding of government regulation and social innovation in this context.

**FINDINGS:** The findings indicate that, both conceptually and practically, the government plays a key role in shaping the social orientations of small businesses, which are tasked with creating favourable conditions for increasing social responsibility, a goal closely tied to innovation policy.

**CITATION:** Labanauskaite, D. and Rozhenko, O. (2024): Stimulating the Social Responsibility of Small Businesses: Government Policy and Social Innovations. *World Journal of Entrepreneurship, Management and Sustainable Development*, Vol. 20, Nos 3/4, pp.213-228.

**RECEIVED:** 5 November 2024 / **REVISED:** 8 December 2024 / **ACCEPTED:** 10 December 2024 / **PUBLISHED:** 30 December 2024

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**ORIGINALITY:** The findings contribute to the general knowledge of stimulating the social responsibility literature, and aid in a better understanding of the specifics, features, and significance of government policy, as well as the role of social innovations in enhancing small business activities efficiently and effectively.

**KEYWORDS:** *Small Business; Social Innovations; Social Responsibility; Social Responsibility Evaluation of Small Business; Strengthening the Social Responsibility*

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## INTRODUCTION

Elevating its level of social responsibility is one of the main requirements and directions for ensuring business development (Čater *et al.*, 2023; Ghanbargpour and Gustafsson, 2022; Lu *et al.*, 2021; Sarwar *et al.*, 2023; Solovjova and Sivolapova, 2022; Úbeda-García *et al.*, 2021). This includes small businesses (SB), as mentioned by Alinaghian and Razmdoost, 2021, Fatoux, 2009, Wang *et al.*, 2022, and Yáñez-Araque *et al.*, 2021.

It is important to mention that entrepreneurs' interests sometimes diverge from and conflict with those of society and the government (Sarwar *et al.*, 2023; Schwartz and Weber, 2006; Wang and Ye, 2024). The constant deterioration of business conditions forces business owners to violate both legal norms and moral principles (Canestrino *et al.*, 2020; Oesterreich *et al.*, 2022). As a *sequitur*, the meaningfulness of social responsibility increases due to its significant institutional influence; this can complement government regulation and ensure adherence to established state principles.

It should be emphasised that the need to consider the social responsibility of SB is due to several circumstances. First, any business should be characterised by social utility; this includes the satisfaction of needs for goods (Alinaghian and Razmdoost, 2021; Espasandín-Bustelo *et al.*, 2023). Second, SBs must responsibly treat hired labour and contribute to the solution of social problems, creating new criteria for its development (Su *et al.*, 2024). Third, there is a natural tendency to strengthen the interaction of SB with large enterprises (De Silva *et al.*, 2021; Weerawardena *et al.*, 2021). Therefore, the social responsibility of the latter largely depends on the similar orientations of the SB. Fourth, the activity of SBs are more localised, accompanied by direct interaction with the consumer. This makes it “tangential” to social problems, and a new understanding of responsibility and social utility arises (Canestrino *et al.*, 2020; Wójcik *et al.*, 2022).

SBs are largely included in the shadow economy and are associated with many violations of social norms. In this regard, stimulating the social responsibility of SBs is an important factor in overcoming the economic and social damage caused by shadow economy activities (Schwartz and Weber, 2006; Su *et al.*, 2024).

Additionally, the social responsibility of the SBs allows for preventing many conflicts and disputes characteristic of the micro level, to foster the harmonious development of society (Canestrino *et al.*, 2020; Collewaert and Fassin, 2013; Oesterreich *et al.*, 2022; Yáñez-Araque *et al.*, 2021).

## THEORY AND LITERATURE REVIEW

Modern science lacks a unified understanding of social responsibility, with differing interpretations. One perspective holds that social responsibility in business is driven by government regulation and formal norms, such as labour laws, where businesses may exceed minimum requirements. This view emphasises the government's role in guiding corporate behaviour through legislation and codes.

Conversely, social responsibility can also exist in areas without direct regulatory influence, where businesses voluntarily take on social obligations beyond legal requirements. This approach highlights the importance of voluntariness and suggests that motivation for such actions may stem from altruism, a desire for favourable treatment, or the pursuit of economic benefits. The level of social responsibility is influenced by the severity of social issues, government effectiveness, and cultural factors.

When regulatory frameworks intersect with social responsibility standards, businesses face choices about adhering to or exceeding minimum requirements. The concept of social responsibility is tied to business ethics, which explores the moral implications of business actions and regulations. Various interpretations of business ethics emphasise the relationship between ethics and business practices.

The article aims to analyse the significance of social responsibility among small businesses, drawing on research from leading scholars, and to propose recommendations for enhancing this responsibility through innovation and government support.

## METHODS AND APPROACHES

It is important to note that to achieve the aims of this paper, the authors used the following three approaches: a systematic approach, a structural-functional approach, and a critical approach. These approaches provided a direct, structured, and systematic consideration of issues related to the social responsibility of small businesses, and made it possible to identify and deepen the understanding of government regulation and social innovation in the context of the social responsibility of small businesses.

Furthermore, to conduct the research in accordance with the aims, the authors used a symbiosis of methods that allowed them to generalise and systematise the results from the papers and

publications of the world's leading scientists. Additionally, these methods helped determine aspects related to the concept and specifics of social responsibility, as well as its management at all levels. Among these methods were content analysis, comparative analysis, classification, induction and deduction, critical analysis, and system analysis.

# ANALYSES AND RESULTS

## Social Responsibility and Government Regulation

Social responsibility and government regulation serve similar regulatory functions, creating an “institutional menu” for businesses (Alinaghian and Razmdoost, 2021; Dang *et al.*, 2020; Geginat and Saltane, 2016; Yu *et al.*, 2023). The extent of social responsibility is influenced by the costs of implementing social actions alongside government norms. High compliance costs can limit additional investments in social responsibility, whereas lower costs allow businesses to increase their social initiatives. Additionally, companies that disregard legal obligations might still engage in socially responsible actions.

When making institutional choices, businesses weigh marginal costs against the benefits of social responsibility within the context of legal compliance costs and their potential consequences. Governments can encourage social responsibility by lowering these costs, especially when benefits are minimal. In unregulated areas, social responsibility is dictated solely by the assessment of specific costs and benefits.

Social responsibility is increasingly integral to business practices across many countries, although its implementation, objectives, and outcomes remain widely debated (Canestrino *et al.*, 2020; Čater *et al.*, 2023; Oesterreich *et al.*, 2022; Schwartz and Weber, 2006). As social problems intensify, the scope of business responsibility widens, leading to increased discussions regarding its value from social, governmental, and business perspectives. This encompasses positive social benefits and negative social costs (Table 1).

**Table 1: Positive and Negative Consequences of Social Responsibility and its Reasoning**

Positive consequences	Negative consequences
Distribution of business income to solve social problems. Reduction of public spending on solving social problems and the possibility of reorientation of spending in other directions. Improving relations between management and employees, increasing the productivity of the latter. Increasing the efficiency of solving social problems, improving the quality of life of the population, and promoting social development. Formation of a better image of enterprises and their differentiation according to the level of social orientations.	Reduction of investments of enterprises in the development of activities. Increase in prices for products, including due to the improvement of their quality and additional social benefits. Decreasing attention to social needs on the part of government bodies and public organisations. “Unprofessional” approach to solving social problems, the impossibility of full government control in this area. Inefficient use and dispersion of resources, which could be managed centrally by the government.

Argumentation “for”	Argumentation “against”
Aggravation of social problems. Limited capabilities of the government. Expansion of the scope of business activity. Significant positive effects of social responsibility in the internal and external environment of enterprises.	Economic impracticality of social initiatives for businesses and increase in unprofitability. Lack of competencies and business prerogatives to solve social problems. Violation of competition conditions. Orientation of businesses towards economic dividends.

Source: Created by the authors based on Alinaghian and Razmdoost, 2021, Gasparin *et al.* 2021, Natorina *et al.*, 2022, Wójcik *et al.*, 2022 and Yu *et al.*, 2023

Social responsibility in business is often rhetorical, with its benefits varying by country. However, it exists as a socio-economic phenomenon that has positive consequences and deserves government support (Dang *et al.*, 2020). As businesses take on greater societal responsibilities, effective government and public engagement can reveal the true intentions of unethical enterprises and promote a culture that condemns excessive business pragmatism. To mitigate potential downsides, regulation should primarily draw on mass culture.

The highest form of social responsibility is the implementation of an appropriate business management concept, including:

1. satisfaction of consumer needs;
2. meeting the requirements and interests of employees;
1. environmental protection and careful treatment of natural resources;
2. participation in solving the problems of unemployment and poverty;
3. promotion of raising the population’s level of education;
4. compliance with the principle of “reasonable sufficiency” in achieving commercial goals.

This defines the direction for ensuring the social responsibility of businesses, extending beyond their economic activities.

Understanding and supporting social responsibility in businesses involves evaluation by government, academia, and public organisations. Assessments (Cosenz and Bivona, 2021; Weerawardena *et al.*, 2021) identify violations such as misleading advertising, concealment of facts, improper reporting, market collusion, and other unethical practices. It is important to note that not all violations can be fully assessed, and the lesser impact of minor violations by small businesses (SBs) should be considered. Traditional social responsibility analysis can apply to SBs, focusing on their societal impact and economic behaviour.

The authors suggest two levels of evaluation for SBs: (1) measuring the achievement of benchmarks or standards, and (2) assessing the significance of social initiatives. Benchmarking is feasible within specific groups or local contexts, while the significance of social initiatives can be generalised at the sector level.

At the sector level, the social responsibility of SBs should be evaluated based on the following indicators:

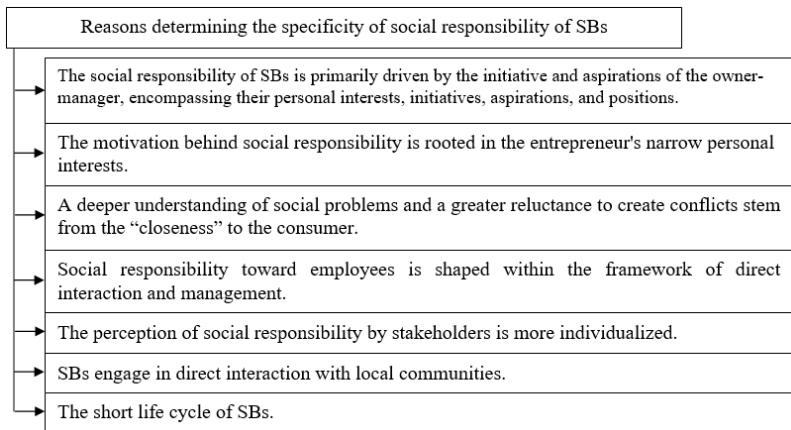
1. educational measures in business ethics and social responsibility;
2. participation in conferences, forums, and other events for exchanging experiences;
3. the number of scientific articles, journals, and other publications dedicated to social responsibility;
4. support for ethical business initiatives and encouragement of socially oriented investments by the government.

At the micro level, it can be measured by changes in enterprise status, participation in training events, propaganda, conferences, conducting promotions.

The social responsibility of small businesses (SBs) differs conceptually from that of large companies. SBs operate on a smaller scale, focusing on ethical behaviour towards consumers and respecting the values of partner companies. Their interaction with consumers and large businesses requires distinct approaches to social responsibility. While universal manifestations of social responsibility apply to SBs, the impact on stakeholders can vary among groups based on territory, industry, or sector, influencing control measures.

## The Specificity of the Social Responsibility of SBs and the Directions for its Evaluation

The social responsibility of SBs varies due to specific factors, as illustrated in Figure 1. SBs often form associations that regulate member behaviour, allowing for collective expressions of social responsibility. To enhance social activity, these associations can adopt codes of conduct, organise events, engage in social activities, and support members in their social efforts.



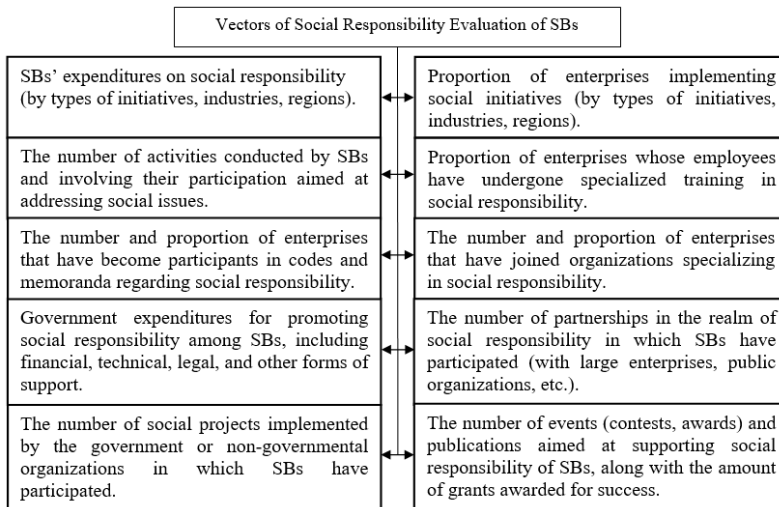
**Figure 1: Reasons Determining the Specificity of Social Responsibility of SBs**

Source: Created by the authors based on Alinaghian and Razmdoost, 2021, Canestrino *et al.*, 2020, Úbeda-García *et al.*, 2021, Weerawardena *et al.*, 2021 and Wójcik *et al.*, 2022

## FINDINGS

Analysis of research by leading scientists reveals that no single approach to social responsibility exists among small businesses (SBs), although there are various national models. The government's decisive role in influencing the social orientations of SBs is confirmed. It is essential for government to create favourable conditions for social responsibility and business ethics, as well as encourage private enterprises to address societal issues through legislation and public outreach.

Establishing a standard for social responsibility among SBs requires a specialised institutional framework supported by the government (Dang *et al.*, 2020; Geginat and Saltane, 2016). To effectively promote social responsibility, ongoing monitoring and specialised studies are necessary, together with a unified evaluation benchmark for the SB sector. Proposed evaluation vectors for social responsibility among SBs are illustrated in Figure 2.



**Figure 2: Vectors of Social Responsibility Evaluation of SBs**

*Source:* Constructed by authors based on Čater *et al.*, 2023, Ghanbarpour and Gustafsson, 2022, Lu *et al.*, 2021, Sarwar *et al.*, 2023, Solovjova and Sivolapova, 2022 and Úbeda-García *et al.*, 2021

Enhancing social responsibility in the context of increasing innovative activity is crucial. Innovations can boost profitability, facilitating the expansion of social initiatives, and are increasingly driven by social considerations. As the importance of addressing social issues grows, they will likely lead enterprises to explore new economic avenues. Consequently, focusing on social responsibility is becoming essential in management at both micro and macro levels.

In such circumstances, it is crucial to correctly conceptualise the idea of social responsibility of SBs in connection with innovations.

## DISCUSSION AND RECOMMENDATIONS

### The Direction of Strengthening the Social Responsibility of SBs Through Innovations

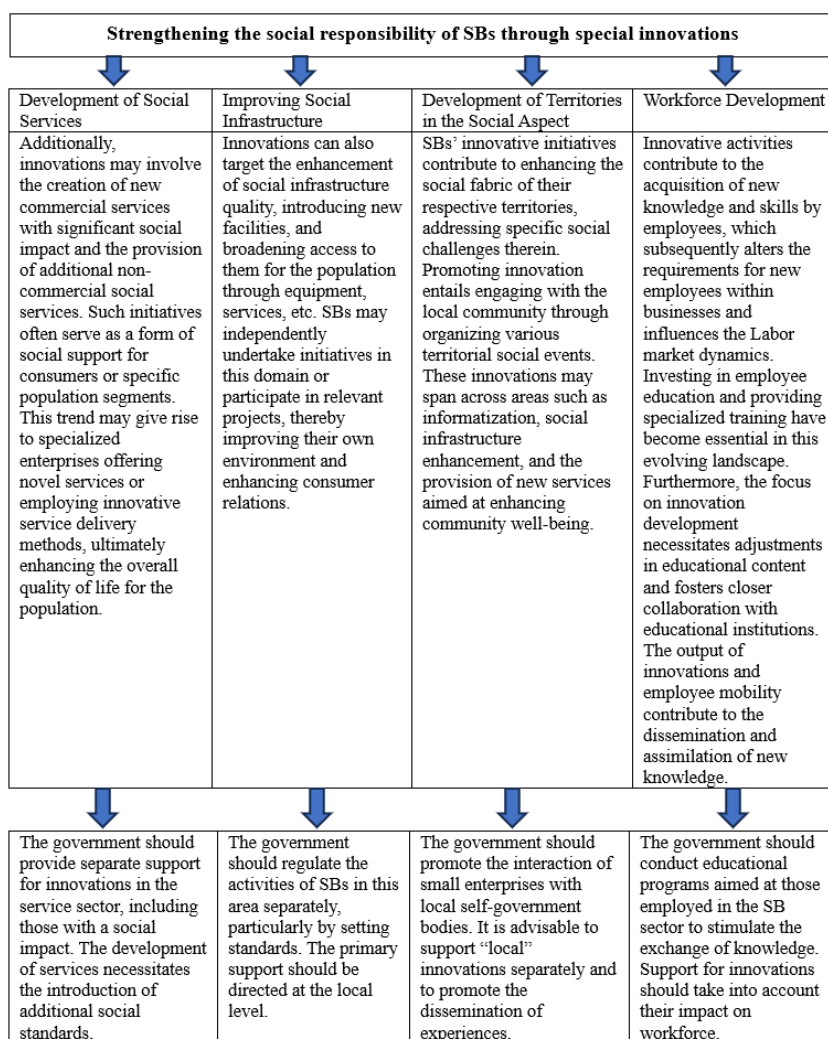
The connection between social responsibility and innovation is rooted in the interdependence of innovativeness and socialisation as key trends in modern economic development. Innovations are increasingly oriented towards societal needs and are influenced by changes in education, information, and employment (Douglas and Prentice, 2019; Pezeshkan *et al.*, 2016). Both innovation and social responsibility are integral to the business models of small businesses (SBs), complementing each other and enhancing enterprise activities (Espasandín-Bustelo *et al.*, 2023; Gasparin *et al.*, 2021).

Two key circumstances must be considered. First, rising innovative activity amplifies the challenge of ensuring quality social responsibility and broadens its scope (Alshawaaf and Lee, 2021; Azmat *et al.*, 2023; Natorina, 2019; Oeij *et al.*, 2019). Second, social responsibility significantly enhances the innovative endeavours of SBs (Cosenz and Bivona, 2021; Skare *et al.*, 2023; Tykkyläinen and Ritala, 2021; Weerawardena *et al.*, 2021). Innovations can notably bolster the social initiatives of SBs, with effective social activities driven by novel approaches (Ghanbarpour and Gustafsson, 2022; Vanberg, 2008; Varadarajan and Kaul, 2018; Wang *et al.*, 2022; Zhang *et al.*, 2022).

The modern economy will shift from serving purely consumer interests to addressing both individual and societal needs, leading to a greater focus on the social effects of innovation. Ethical imperatives such as sustainability will become central to marketing innovations, influencing all aspects of SB innovative activities (De Silva *et al.*, 2021; Islam *et al.*, 2022; Wang *et al.*, 2022).

To strengthen the social responsibility of SBs through innovations, several directions are proposed. These include integrating social considerations into innovative activities and fostering stakeholder collaboration to enhance social impact.





**Figure 3: The Main Directions of Strengthening the Social Responsibility of SBs through Special Innovations**

Source: Created by the authors based on Alinaghian and Razmdoost, 2021, Azmat *et al.*, 2023, Canestrino *et al.*, 2020, Douglas and Prentice, 2019, Lu *et al.*, 2021, Tykkyläinen and Ritala, 2021, Weerawardena *et al.*, 2021, Yu *et al.*, 2023 and Zhang *et al.*, 2022

Social services can diversify across various areas, including client interaction and health services. In the context of an economic recession, specialised work by small businesses (SBs) in employment support is essential, particularly for the elderly and women adapting to new work conditions. The growing focus on social responsibility highlights the need for innovation, engaging consumers and public organisations to meet new social demands.

Moreover, SBs should expand their efforts in social entrepreneurship and social innovations to address pressing social needs, such as improving working conditions, healthcare, education, and environmental protection. These innovations are vital for modernising social institutions within the business sector and require strong government support.

## Government Stimulation of Social Innovations in SBs

Government stimulation of social innovations in SBs should be grounded in the significant advantages that such innovations bring to enterprises. These advantages include:

- strengthening positive feedback between the enterprise and the consumer;
- demanding greater consideration of society's interests, necessitating the introduction of progressive approaches in marketing;
- stimulating the search for new ways to increase competitiveness, considering changing needs, and contributing to the creation of new advantages;
- leading to the emergence of a new culture – a culture of social innovation –allowing for the expansion and intensification of the creative activity of the staff;
- demanding the development of new approaches in innovation management, including in the field of design and organisation of the innovation process;
- contributing to better identification, differentiation, and development of the company's resources, leading to increased efficiency in their use.

A wide variety of social innovations targeting different social groups leads to the diversification of business practices and the inclusion of the enterprise in numerous social processes, fundamentally changing business behaviour. Social innovations have unique diffusion methods that also allow the enterprise to expand its partnership ties. However, the intensification of social innovations requires special legislative support and targeted assistance at the intersection of innovative, social, and entrepreneurial policies.

Supporting social innovations has its own specificity: the motivation of the enterprise is not solely based on the desire to directly obtain profit, and there is no risk impact as in the case of conventional innovations. Instead, social innovations are grounded in the high social responsibility of the enterprise and the willingness to allocate additional resources towards them. Therefore, government support for social innovations requires a certain addition to the structure of innovation policy with tools aimed at fostering creativity, enabling better resolution of social problems. In this regard, the following types of support are offered:

1. special information provision by the Ministry of the Economy;
2. organisation of interaction with target social groups and public organisations;
3. technical and advisory support from authorities and institutions engaged in social policy.

Under the condition of sufficient substantiation of social innovations, SBs may be granted separate benefits within the mechanisms of government stimulation of innovative activity. Additionally, the government should actively support the partnership of enterprises in the implementation of social activities, enabling them to combine efforts and resources. This support can be manifested in the creation of new entrepreneurial networks, which can be initiated by the government with organisational and resource support.

The realisation of government stimulation of social innovations in SBs, taking into account its specificity, requires:

- implementing new technologies of government management with a social focus, including technologies for monitoring and controlling the social activities of the Ministry of Economy, decision-making in the social sphere, public relations, professional culture, IT in interaction with businesses, and identifying social risks;
- developing special codes on social entrepreneurship and guidance in the field of social innovations;
- developing social innovation evaluation methods, including for differentiating SBs in order to provide support;
- developing a methodology for substantiating the priorities of stimulating the social activity of SBs.

## CONCLUSIONS

Drawing from critical analysis and practical developments, the authors proposed vectors of the social responsibility evaluation of small businesses, emphasising the crucial role of innovations and underscoring their important role. Furthermore, the authors suggested the main directions of strengthening the social responsibility of SBs through special innovations that encompass leveraging innovative approaches to address social and ethical imperatives, and integrating social considerations into all aspects of innovative activity. Additionally, the authors found that government support for social innovations requires enhancing innovation policy with tools aimed at fostering creativity and enabling better resolution of social problems. They then determined the relevant types of government support required.

Strengthening the social responsibility of SB requires the establishment of an appropriate institutional framework. Its construction is based on defining functions, assessing the quality of the institutional environment in this area, and formulating new tasks. It is necessary to create new institutions (distribution; relationships with different categories of citizens; social security; social activities), as well as optimise transactional components through access to social information, and regulation of demonstrations of social responsibility.

Government policy regarding the social responsibility of SBs should have a stimulating nature and ensure the implementation of a set of measures: introducing additional social requirements during the provision of benefits and grants, providing various supports for social initiatives of SBs, implementing educational initiatives and competitions. It is advisable to support innovations aimed at the development of the workforce, territories (in the social aspect), social infrastructure and services.

Stimulation of social innovations in the SB sector should be carried out in co-ordination with all levels of the economy. At the macro level, the creation of special legislative provisions and regulatory mechanisms in the field of social innovations is envisaged. Entrepreneurial networks focused on social innovations should be formed at the level of the SB sector and industries, and the processes of development of entrepreneurial culture should be supported in relation to them. At the micro level, the stimulation of social innovations should focus on improving the conditions for the implementation of creative ideas, saving resources, and obtaining specific information about social problems.

Therefore, the stimulation of social innovations should become a separate area of support for SBs, which will create additional reserves for their development. On the other hand, the social responsibility of SBs will acquire new dimensions and quality due to significant resource limitations that exist.

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## BIOGRAPHY



**Dr Daiva Labanauskaite** is a Professor at the Department of Economics at Klaipeda University, Lithuania. Her research interests are related to the service economy and especially the economic evaluation of the development of international tourism. Recently, Dr Labanauskaite has actively worked with international sustainable tourism development projects and collaborated in the preparation of tourism development strategies. While participating in sustainable urban development project activities, she analysed and evaluated the economic sustainability of urban sustainable development. Dr Labanauskaite gives lectures as a visiting professor to students at universities in Germany, Latvia, Finland, and other EU countries.



**Dr Oleksandra Rozhenko** holds a PhD in Economic Sciences and serves as an Associate Professor and Researcher at the Department of Economics at Klaipeda University, Lithuania. She works in the areas of Enterprises Economic Security, Economic and Legal, and Corporate Social Responsibility. In addition, she has authored and co-authored numerous scientific and methodological papers in these areas and has presented her work at international scientific conferences.

