Encouraging Sustainability Amongst Small Businesses

Summer 2006
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Defra has commissioned and funded this study, but the views expressed in this guide do not necessarily reflect Defra policy.
Defra’s 5 year strategy (Delivering the Essentials of Life) coupled with the UK Government sustainable development strategy (Securing the Future) set out an ambitious agenda for environmental leadership and sustainable development. Embedding these core principles relies on influencing change and making it easier for producers and consumers to behave more sustainably. This is a sizeable task, since changing behaviours is a complex matter and innovative solutions are required.

In July 2005, Defra initiated a programme of research that aimed to broaden understanding of how Government (and others) can most effectively promote pro-environmental behaviour amongst producers and consumers. Several studies were commissioned as part of this research programme, each with a remit to explore a unique aspect of pro-environmental behaviour change.

This practical guide forms part of a series of papers that aims to summarise the key findings and policy implications from these studies.

A full list of titles in this series is provided below:

Number 1: Sustainable Resource Use in the Home
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Number 9: Encouraging Sustainability Amongst Small Businesses
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This guide sets out findings from a project to investigate ways of influencing small companies to behave more sustainably. In particular, the study explored how intermediary organisations, service delivery organisations and specific initiatives are influencing small business behaviour on a range of policy issues, and how these can be used more effectively to bring about behaviour change on environmental and social issues.

Background

The Small to Medium sized Enterprise (SME) sector in the UK is significant and makes an important contribution to the national economy through both the turnover and employment that is generated. SMEs account for 99.9% of UK businesses, generating an annual turnover of £1.23 trillion and employing almost 13 million people. It therefore stands that, collectively, SMEs will also have significant impacts on the environment. For example, in 2003, the Environment Agency reported that SMEs were responsible for ‘up to 80% of all pollution incidents and more than 60% of the commercial and industrial waste produced in England and Wales’. Furthermore, survey findings made by the Agency suggest that three-quarters of SMEs are unaware of their environmental obligations. The key challenge therefore is to reach this significant number of SMEs to bring about behavioural (business practice) change in a way that will result in positive environmental impacts.

Engagement of SMEs in environmental management issues is, however, inherently complex. Research on European and UK SMEs concludes that a range of barriers currently prevent SMEs from effective management of environmental and social issues. These include:

- inappropriate language;
- lack of time and resources;
- short-term business-planning horizons;
- lack of appropriate information; and
- fear of doing things incorrectly.

Although there is already a wealth of advice, support, services and products which provide information on and raise awareness of sustainability and the environment, it appears that these are still peripheral for many SMEs. This implies the need to look again at the best ways of raising awareness and changing environmental behaviour among SMEs. This project focused on one approach – how to make more effective use of existing mechanisms for influencing SME behaviour.

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3 The full summary report produced as part of this study is available at:
Research aims and objectives

The National Centre for Business and Sustainability (NCBS) set out to investigate how the UK’s SME sector is influenced by intermediary organisations, service delivery organisations and programmes of activities, and the different approaches they use. Specifically this study aimed to identify how these affect SME behaviour in different policy areas and how these can be utilised more effectively to bring about behavioural change on both environmental and wider sustainability issues. In order to realise this aim, the study had the following objectives:

- to determine the motivations, barriers and enabling factors which affect the behaviour (business practice) of small businesses; and
- to highlight how existing approaches can be used to influence pro-environmental behaviour change among small businesses.

Research approach

Information was gathered through two main tasks.

1. The first task was to review existing approaches to influencing changes in practice amongst businesses.

2. This was complemented by a review of selected SMEs that have changed their business behaviour as a result of support or advice from an external organisation.

Information for the reviews was gathered by way of a literature review and interviews. Interviews were carried out with representatives from selected organisations delivering business support and advice, and with representatives from case study businesses.

‘Enablers’ of behaviour change in small businesses

For the purposes of this study we looked at ‘enablers’ who engage with SMEs across a range of issues and provide specialist or generic advice on environmental management, business support, health and safety, etc. These include:

- **intermediary organisations** – offering basic information and advice, and/or providing a signposting service to more specialist organisations (e.g. Business Link);

- **delivery organisations** – actually providing specific support or services to SMEs such as training and audits (e.g. Greenwich Environmental Management Service – see Case Study 1 on page 7); and

- **programmes of activities or initiatives** – set up as a separate programme of activity within an umbrella organisation or government department, or established as a short/medium-term initiative under a particular funding stream (e.g. Envirowise, WRAP or Enworks). They can act as intermediaries and/or delivery bodies.

These enablers use a range of approaches to engage with SMEs, such as: providing written or web-based literature, developing case studies, running training and events, carrying out onsite visits, or hosting help-lines.
Influencing the behaviour of small businesses in a pro-environmental/sustainability context is a key challenge. Whilst there is much published evidence on encouraging households and consumers to adopt more sustainable behaviour, attempts to promote sustainable production are less well documented. One exception is a growing body of evidence documenting how companies have attempted to ‘go green’ to improve their public profile or tap into niche markets. Understanding the key elements of successful adoption of improved practices among SMEs is an important prerequisite to finding policy solutions that can reach such a widespread group.

A range of factors appear to be key in helping influence the behaviour of small businesses and bringing about change. These are summarised in the box below and explained in more detail in subsequent sections.

**Key factors helping SMEs change their behaviour**

The case study businesses were attracted to different enablers by their ability to provide or signpost them to appropriate help. The choice of organisation was influenced by both local factors (knowledge, credibility and delivery) and national profile. SMEs identified a number of factors that helped them to adopt better (environmental) business practices:

- receiving individual tailored support highlighting manageable steps;
- the importance of business mentoring, networks and industry leadership (peer influence);
- a realisation that business change would result in marketing opportunities; and
- funding to carry out improvements.

Enablers identified a number of additional factors leading to success in influencing SME behaviour including:

- long-term relationships;
- provision of accessible information using appropriate language; and
- flexibility in the support being offered.

**Key attributes of a successful ‘enabler’**

**Accessible information with appropriate language**

Enablers have more success in effecting behaviour change if they communicate with SMEs in appropriate language, and produce information and guides that are short and simple to understand. Using issues that are of more immediate interest to SMEs (such as health and safety and human resources) can be the ‘hook’ that enables an initial interaction with an SME, environmental issues can then be introduced once the working relationship has been established. Those enablers which are able to reframe an environmental issue as a good business practice
issue and make the link between sustainability and competitiveness (e.g. change from talking about reducing CO₂ and climate change to talking about efficient use of energy) appear to be better at engaging SMEs. The Carbon Trust, for example, has found this method successful when highlighting energy efficiency savings to demonstrate financial benefits.

**National organisations with experience of local delivery**

The enablers which appear to be most attractive to SMEs, and have the most success at influencing the behaviour of SMEs are those which are delivered by national organisations through regional branches or through local organisations. Many of the SMEs stated they are more likely to work with an enabler if it is accredited/attached to a recognisable national organisation, as this adds credibility to any subsequent partnership work and is useful when marketing themselves to large companies. For example, case studies produced by WRAP have given credibility and national recognition to organisations using recycled materials. Knowledge of regional, sub-regional and local issues adds to the credibility of an organisation or initiative and was a crucial factor when engaging with the SMEs. Groundwork, which has sub-regional ‘trusts’, is a good exemplar of this type of approach (see Case Study 2 on page 9).

**Individual tailored support and flexibility**

SMEs respond well to face-to-face visits or audits, as these lead to the provision of help and advice that is tailored specifically to their business needs. Giving an SME a single point of contact like a business advisor or account manager (a practice used effectively by Business Link) helps to foster a long-term relationship between the small business and the enabler. SMEs are then more likely to come back to that contact in the future for further advice or support.

Small companies which are often short of time and resources also appear more likely to undertake change if they are offered support and training which is flexible. Not only does the content need to be tailored to the business, but it needs to be provided at a time and place that is convenient.

**Manageable steps**

Expectations of the amount of change that can be achieved by an SME have to be realistic – if overly ambitious targets are set, the SME will be deterred by the time or resource commitment. Enablers that have been successful in changing behaviour often offer support which helps realise small achievable goals in the short term. The stepped approach to achieving an Environmental Management System offered by a number of enablers is a good example.

**Funding**

In many cases, SMEs would not have changed their behaviour without financial assistance (e.g. grant funding) as they are often unable to invest in equipment or training which have a long payback period. Linked to this, there needs to be flexibility in funding which allows enablers to be responsive to the individual needs of an SME.
Case Study 1: Greenwich Environmental Management Services and Modern Mix Concrete Supplies

Modern Mix Concrete Supplies (MM) manufactures and supplies materials to the construction industry. Due to the nature of its activities, it is regulated under the Local Air Pollution Prevention and Control (LAPPC) regime. Tower Hamlets local authority recommended that it would be beneficial for MM to implement an Environmental Management System (EMS) in order to help its licensing process, and recommended the help of Greenwich Environmental Management Services (GEMS).

GEMS started by raising awareness among company staff about general environmental issues. This led to MM developing an initial EMS for the company and achieving ‘Green Mark Level 1’. The company then felt confident enough to start working towards ISO14001 accreditation. As well as improving environmental management issues, the intervention of GEMS has helped put Modern Mix ahead of some of its competitors on environmental issues. This intervention was successful as the company felt it would not have had the time or knowledge to design an EMS without external support.

Why GEMS? Local Authority recommendation.
Key factors enabling the change: Individual tailored support; accessible information; manageable steps.

Transferable lessons

- Modern Mix felt that the expertise and approach of GEMS staff helped make the change happen.
- The ‘Green Mark’ scheme provided a useful stepping stone to developing a full EMS.
- By gaining ISO14001 accreditation, Modern Mix is now more able to compete effectively.
- Modern Mix felt that other SMEs may only implement EMS when they see their competitors doing so, and when it becomes important for gaining business.

Long-term support and relationships

Enablers or delivery agents that have been established for a period of time and are not seen as a short-term initiative appear to have more credibility with SMEs. The SMEs have confidence that they can use this organisation over a long period of time. This long-term view encourages enablers to develop good relationships with SMEs, helps them deliver changes in the SMEs behaviour and deliver long-term environmental/sustainability outputs. The Cumbrian Rural Enterprise Agency is a good example of this as it has been offering advice and support to businesses in Cumbria for 20 years and has built up a strong regional reputation with SMEs.
3. Key findings

The importance of peer influence amongst the business community

Small businesses can be influenced by their peers in a variety of ways, such as through mentoring, networking or supply chain pressure. These all appear to be effective ways of bringing about behaviour change and are being used by enablers on a range of agendas.

- **Mentoring.** SMEs can learn a lot from working with a larger mentor organisation and applying that knowledge to their business. An added benefit of this is that SMEs who can demonstrate that they have worked with larger organisations can gain credibility with others. Business in the Community's BIND (Business, Innovation, Networking and Development) cross-border small firm support initiative that links SMEs to large companies in Ireland has demonstrated the benefits of this arrangement for both parties.

- **Industry leadership.** A number of enablers reported using larger companies to encourage the SMEs further down their supply chain to work towards sustainable management practices, and small businesses appear to respond well to this practice. This can help SMEs demonstrate to both existing and potential clients that they are being more proactive in addressing aspects of their environment-related behaviour.

- **Business networks.** Being part of a wider business network appears to play a key role in influencing the behaviour of some small businesses. Being a member of a business network provides SMEs with an opportunity to share and disseminate best practice on a range of issues, as well as to learn from their peers. Business-to-business learning has a key role to play in terms of encouraging behavioural change amongst SMEs, as the learning experience is delivered in a way and language that is relevant to the business. Business networks also provide SMEs with the opportunity to collaborate on environmental or other projects. Similarly, the various enablers consulted as part of this study reported that an effective way of influencing SMEs is to use existing networks such as trade associations or green business groups to publicise services and receive referrals.

Barriers to change

The study also highlighted a number of barriers to the adoption of the available advice and support for facilitating behavioural change. There was a general feeling that the majority of SMEs are simply not aware of the advice, training and funding they can access. Those that are aware of the support available do not always think their organisation will be big enough for any help. Some SMEs said they were concerned about appearing disorganised and unprofessional to other organisations if they opened themselves up for closer scrutiny. There was also a feeling that as more companies start to become aware of environmental issues and use them as a marketing tool, others will be under pressure to compete and will have to take these issues more seriously.
Case Study 2: Groundwork and the Manchester Rusk Company

Manchester Rusk Company (MRC), a food coatings manufacturer, was looking for guidance on ways to improve its business – including how to meet new legislative requirements. The company had heard about Groundwork’s work in the region and so approached them for assistance.

Initially Groundwork carried out a survey to assess MRC’s energy usage. This led to some changes in practice and the installation of basic energy-efficient equipment, which in turn resulted in a reduction of energy usage and costs. Following this, Groundwork carried out an assessment of MRC’s waste management, and advised on segregation of waste streams and recycling. These changes generated savings amounting to £10,000 and also reduced the amount of waste going to landfill by 85%.

MRC felt that, although it probably would have looked at these issues as part of its improvement plans, Groundwork made the process much easier by helping with the background work (e.g. locating companies to carry out improvement work), reviewing options, and supplying grant funding to help make the changes.

**Why Groundwork?** Local knowledge, but with national credibility.

**What changed?** Energy-efficient equipment installed; reduced energy use and costs; reduced waste to landfill.

**Key issues enabling the change:** Individual tailored support; manageable steps; funding.

**Transferable lessons**

- Success was achieved through demonstrating that even a small change in practice can have a large financial impact on an SME.

- Groundwork helped make the process simple by assessing what needed to be done, sourcing contractors and providing funding. This removed important barriers (lack and time and money) which would have prevented the changes being made.

- The changes made had a short pay-back time which made them more attractive to the SME.

- The company has used the changes as a marketing tool when trying to attract new business.
4. Policy implications

This study has identified six factors which are crucial to more successful engagement with SMEs.

1. Using established links and forming partnerships
2. Building capacity on environment and sustainability
3. Making the issues and support accessible
4. Enabling the enablers
5. Encouraging business networks and leadership
6. Promoting partnership across government, delivery agents and local authorities

1. Using established links and forming partnerships

Given the huge number and diversity of SMEs it is essential that existing links with small businesses are fully utilised to stimulate environmental behaviour change in SMEs. A huge number of national and regional organisations engage closely with SMEs across a range of agendas, not just sustainability. These could be used to raise awareness about environmental and sustainability issues, regardless of the issue the business initially seeks to address. This means looking outside usual partners/routes and exploring links with organisations that work with SMEs on a range of issues. In some cases, the most successful way to engage will be through enablers working on single issues. In other cases, the most appropriate route will be through organisations who offer more general business support.

2. Building capacity on environmental and sustainability issues

Increasing the awareness of environmental and sustainability issues in the key organisations that engage with SMEs is crucial to generating widespread behavioural change among SMEs. SMEs will often only ask for help on one issue (usually its most pressing business need) and it is likely that this will not relate to sustainability. Regional delivery bodies (such as Business Links and Chambers of Commerce) need to be supported to help them make the most of these initial interventions and ensure that environmental and sustainability issues become part of the follow-up support process where appropriate. This will require capacity building and skills development for staff in those organisations so that they recognise the type of environmental and sustainability needs that SMEs might have, can highlight risks and opportunities in this area and have the knowledge to be able to signpost them to appropriate specialist support. It may also require changes to diagnostic tools so that they include questions about sustainability issues and environmental performance.

3. Making the issues and support accessible

Many SMEs are simply not aware that sustainability is an issue they need to address and they do not see the practical benefits it will have for their business. Therefore the way in which messages are communicated to SMEs when contact is first established, is critical to building a long-term relationship and encouraging behavioural change. The language used is important if SMEs are to see the business advantages of changing their behaviour to be more sustainable. An effective
way of doing this is using the risks and opportunities approach. So, for example, instead of talking about CO₂ emissions and climate change, the risks of climate change such as flooding and increased insurance premiums are highlighted. The opportunities from changing behaviour can also be highlighted, ie reduced waste will improve competitiveness. It is also important that any behavioural changes suggested to SMEs are in small manageable steps so that the change is seen as achievable in the short timeframes in which these companies operate. If the initial intervention is successful and results in a real benefit to the SME, they are likely to seek help via that same route in the future. In addition support and advice needs to be provided at times and places that are convenient to SMEs.

4. Enabling the enablers

The discussions highlighted the importance of both national and the regional credibility which comes from sustained regional delivery. Central departments have a role in maintaining a commitment to key national organisations and initiatives such as WRAP, Envirowise and The Carbon Trust, and should look for ways of lending support to organisations who are already working effectively with SMEs at the regional level. It is clear that a number of organisations understand how to work effectively with SMEs but are sometimes limited in their ability by the prescriptive nature and restricted timescales of funding. Flexibility in funding is important. Outcome-oriented funding that is less prescriptive about how these outcomes are achieved, allows enablers more freedom to provide small businesses with the assistance they need to improve their business and its competitiveness at the same time as addressing sustainability. The funding that is available to these enablers also needs to be continued for the longer-term, not for two to three year periods. The most successful enablers are those who have been working with companies for many years and have therefore built a strong reputation and are able to develop ongoing relationships with SMEs.

5. Encouraging business networks and leadership

Business networks are an effective way of getting businesses to share best practice with each other and will often enable a demonstration of the benefits of sustainable behaviour change, and facilitate those changes to happen. Business leadership is also an important factor – both positive and punitive. The importance of the supply chain and the pressure larger businesses can place on the SMEs further down the chain is evident. This can be punitive in the form of refusing contracts which do not meet standards, but it can also be more supportive with SMEs being mentored by the larger companies. Our study found that small businesses that have worked with larger companies felt they had benefited immensely and made improvements to their business that they would not have made on their own. Therefore larger companies sitting at the top of supply chains could play a valuable role in promoting sustainable business practices. This has the added benefit of providing the larger companies with the sustainable products and services that their clients are increasingly asking for, as well as helping the SME improve its performance and increase its chances of gaining new business.
6. Promoting partnership across government, with delivery agents and local authorities

Sustainability is by its very nature a cross-cutting theme and one which affects all areas of government policy and business activities. Promoting sustainability and bringing about behavioural change in UK businesses should therefore be embedded in the work of all departments. Links between other government departments could be improved to increase the number of routes through which sustainability issues are raised with businesses.

Delivery agencies or regulators such as the Environment Agency who work with businesses on the sustainability agenda need to seek opportunities to bring about a wider range of behavioural change (not just on their particular aspect of sustainability). This could be achieved through using appropriate language, being aware of other organisations operating regionally, encouraging networking and looking at the types of funding support they provide. Other organisations that work with businesses on totally different agendas, such as health and safety, business development, providing legal/financial advice also have an important role to play as they are able to ensure sustainability is embedded in the small business agenda by highlighting the issues and signposting other enablers. This is especially true of those organisations which provide businesses start-up and financial advice who will often be involved with an SME from the beginning.

Local authorities have a number of opportunities to interact with SMEs in their local area: through business advice offered by the council, through council procurement, and compliance with environmental legislation. Local authorities therefore need to be fully aware of all the enablers and support organisations in their area with a view to making referrals.

Suggestions for further research

The findings of this work have raised some issues that could be explored further in order to better understand how to influence SME behaviour in a sustainable way.

- The business support organisations that exist at the regional level, including those working on environmental and sustainability issues, need to be comprehensively mapped. Some ‘mapping’ may already have occurred, but further work is needed to find out who holds this information, who is responsible for updating it, how SMEs are being made aware of it, and how business support organisations and advisors are using it.

- Cluster organisations have been successful at changing behaviour on a number of issues among their target audience. More work needs to be done to look at the ways in which these clusters are changing SME behaviour and whether they could be used more effectively to change environmental or sustainability behaviour across a number of sectors.

- More work needs to be done to look at ways of embedding sustainability into SME behaviour with a particular emphasis on the inception stage. This would put sustainability on the agenda for new SMEs from the outset and make it easier to engage them in the issues later as the business grows.

- Although a potentially challenging area, an examination of the economic instruments to influence pro-environmental change at the small business sector could deliver benefits. Exploratory work looking at innovative economic instruments tailored towards SMEs (eg tax breaks, no-interest loans, etc.) could unearth some valuable findings.
5. Supplementary information

References


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