

Taking Small Steps: Business Priorities, Environmental and Social Responsibility in UK SMEs

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Taking Small Steps: Business Priorities, Environmental and Social Responsibility in UK SMEs

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EXECUTIVE SUMMARY

This report presents the headline results from the second wave of the Business Futures survey conducted by the Enterprise Research Centre (ERC) in February-April 2022. First, it examines the business priorities of the micro, small and medium enterprises (SMEs¹) and how these changed compared to the first wave of the survey, which was conducted in 2020. Second, it continues the ERC's work exploring environmental practices of SMEs in recognition of the UK government's net zero emission targets. Third, the report also extends the analysis to the domain of social responsibility by shedding some light on activities of UK SMEs aiming to create social benefits for people and communities.

This research highlights the importance of different SME management characteristics and decision-making in the adoption of environmentally and socially responsible practices. It provides first insights on the relationship between considering environmental and social issues in decision-making and taking active, albeit '*small steps*' to reduce environmental impact and create value for people and communities by identifying 'attitudes-to-action' gap in both areas. The report also examines differences in environmental and social attitudes and actions of female-led and ethnic-minority-led businesses compared to other SMEs. Finally, the report stresses the breadth of benefits reported by those who adopt more environmentally and socially responsible actions demonstrating that achieving net zero and social goals is compatible with other business goals. Key insights include:

Business priorities

- Cost reduction remains the key business priority identified, especially for micro-businesses and small firms. The levels of product or service innovation and reduction of environmental impact are as high as found in 2020. In contrast, changes in processes and the introduction of new digital technologies reduced significantly in 2022 compared to 2020, once businesses had adapted to the new context imposed by the Covid-19 pandemic.
- In 2022, consistent with 2020 findings, one in two firms prioritises environmental impact reduction. At the same time, only one in four UK SME said 'generating social and community benefits for people' was a business priority in the past 12 months.

¹ For convenience, in this report we employ term SMEs, referring to both SMEs strictly speaking, i.e. businesses with between 10 and 249 employees and micro-businesses with 5 to 9 employees.

- Rural firms were significantly more likely to have prioritised reducing their environmental impact and generating social and community benefits compared to urban firms. This is particularly true for young rural firms of up to 5 years old.
- Business owner-manager characteristics play a role in business priorities with female-led businesses being more likely to have pro-social priorities compared to male-led firms.

Environmental responsibility

- The overwhelming majority of UK SMEs (89 per cent) reported considering environmental implications at least sometimes when taking business decisions. However, there is evidence of an 'attitude to action gap' approximately 23 per cent of firms have not yet introduced any active steps to reduce their environmental impact, despite paying attention to the environmental impact of business decisions.
- Contrary to considering environmental implications, for which firm size does not seem to play any important role, pro-environmental action depends on size with smaller firms being less likely to have undertaken steps to reduce environmental impact than larger SMEs.
- Barriers to reducing environmental impact include cost, and the related information and skill requirements. Knowing where to get reliable information matters for the ability of the firms to take environmental action. Government support schemes and websites are the most frequently cited sources of reliable information followed by professional and industry associations, as well as online search and social media community.
- Around three in four business undertaking active pro-environmental steps reported benefits in the form of reductions in carbon emissions. At the same time, the benefits are not confined to the reduction in carbon emissions only but also concern broader positive outcomes for business in form of improved business reputation, skills development, innovation, and business performances. However, the beneficial outcomes of net zero practices are not spread evenly across firm size with medium sized firms being more likely to reap benefits from net zero practices than small and micro firms.

Social responsibility

- Four in every five UK SMEs say that they take social implications into account at least sometimes in making business decisions. At the same time, less than one in two report undertaking steps to actively generate social benefits for people and communities over the last year. Size appears to matter in respect to pro-social action with medium-sized businesses being more likely to undertake pro-social actions (61 per cent) compared to small (49 per cent) and micro firms (42 per cent).
- Half of female-led businesses reported having undertaken active steps to generate social benefits. The 'attitude-to-action' gap among female-led businesses is smaller compared to non-female-led businesses.
- Ethnic-minority-led businesses were more likely both to consider social factors when taking business decisions (88 per cent) and to take active steps to generate social benefits for people and communities (59 per cent) compared to other firms.
- Half of respondents said that the coronavirus pandemic did not change their socially responsible actions, with under one third of SMEs reporting an increase in this area. The increase was driven by those who have been already socially responsive: the pandemic made these firms increase the intensity of their engagement, while having only limited influence on other SMEs.
- Most adopted practices relate to measures that may positively affect labour productivity, such as actions aiming to improve wellbeing and diversity in the workplace, and payment of fair wages to the employees. Medium-sized businesses were more likely to provide support to community organisations and offer employment or training opportunities to disadvantaged people. Just under one in five firms said that they had prioritised suppliers that value social responsibility and ethical employment practices.
- Around three in four firms undertaking steps to generate social and community benefits, said that this resulted in a positive impact on the community, but also positively affected firm's identity and reputation. Interestingly, more firms reported gaining broader business benefits from action on social responsibility than from action to reduce environmental impact.

1. INTRODUCTION

The continuing climate emergency has led the UK government to visualise a green economic recovery. By 2050, CO₂ emissions will be Net Zero, according to the UK's Net Zero Emissions Law (BEIS, 2020). Whilst the role of SMEs was largely overlooked in the Government White Paper (ibid) (which focused on energy and manufacturing industry), nonetheless there are implications for all SMEs. The Enterprise Research Centre has conducted two large scale surveys into the response of SMEs towards net zero (Kesidou & Ri, 2021b; Wishart, Roper, & Kesidou, 2021). Although the first survey was conducted at the height of the COVID-19 crisis, when some urgent decisions needed to be taken, the survey revealed the widespread agreement that environmental issues were salient for SMEs (Kesidou & Ri, 2021a).

Moreover, there is an increasing agreement and expectation of the social role of SMEs as major vehicles of job creation, especially for the less affluent (Ibrahim et al., 2012), and the importance of their involvement with local communities (Santos, 2011). At the same time, SMEs owners-managers, constrained in resources and time, may be limited in implementation of socially responsible activities (Lepoutre and Heene, 2006). In such conditions, even '*small steps*' may be hard to take - especially where they are perceived to be 'business costs without benefits' (Scagnelli et al., 2013; Zastempowski and Cyfert, 2021) and not aligned with other business priorities.

The aim of this report is to draw an overall picture of the nexus of business priorities, environmentally and socially responsible actions, and resulting benefits of UK SMEs. This report presents the headline results of the second Business Futures survey conducted in February to April 2022.

The next section describes our research approach and data, before discussing the business priorities identified by SMEs, including the role of environmental and social and community benefits. Following this we examine the steps firms took to reduce their environmental impact. Then, paper focuses on the social impact of SMEs including their interaction with their communities.

2. APPROACH AND DATA

This report continues the ERC's work exploring environmental practices adopted by SMEs in recognition of the UK government's net zero emission targets. Although SMEs are responsible for a significant proportion of CO2 emissions SMEs have lagged in the adoption of sustainability management tools, such as Lifecycle Analysis (LCA) and Environmental Management Systems (EMS). The prevailing frame for this work is through 'barriers' and drivers' (Blundel and Hampton 2021, Brown and Sherriff 2014). Significant internal drivers include reputation and cost cutting (Kesidou and Ri 2021) and intrinsic motivation, based on pro-environmental values (Afsar, Badir and Kiani 2016). Significant barriers due to less information and the standardisation of such tools on the conditions prevailing in large businesses (Johnson and Schaltegger 2016). However, the 'barriers' and 'drivers' framing has been criticised because it fails to contend with the decision-making context of SMEs where personal, professional and organisational values prevail (Williams and Schaefer 2013) and where SMEs are embedded in unique contexts and sets of relationships (Spence 2016).

Our approach is to understand the decisions to adopt net zero practices as the result of the internal decision-making context of SMEs. Much of the adoption of business practices by SMEs results from the priorities and interests of the SME managers consistent with an upper echelon perspective on business behaviour (Heyden et al. 2013, Hambrick 2007). Where SMEs are closely held financially, they have the ability to emphasise those aspects that are significant for them. Therefore, the characteristics of the business management and the extent to which SME owners-managers consider the environmental implications of decisions taken may have greater influence over the likelihood of adopting environmental practices. Moreover, similar mechanisms of priorities and the consideration of social implications of decisions may influence prosocial behaviour of SMEs too. Therefore, we apply the same approach to explore the engagement of UK SMEs with activities which aim to benefit people and communities.

The analysis uses a novel dataset Business Futures 2022, the second wave of the initial Business Futures survey conducted in Autumn 2020. The survey, which was carried out during the Spring 2022, set out to deepen the understanding of environmental practices of UK SMEs and to shed some light on socially oriented activities. The data was collected from around 1,000 SMEs across the UK by using a mixed approach - Computer Assisted Telephone Interviewing and online survey. The questionnaire replicated some of the questions of the Business Futures 2020 survey in relation to business priorities,

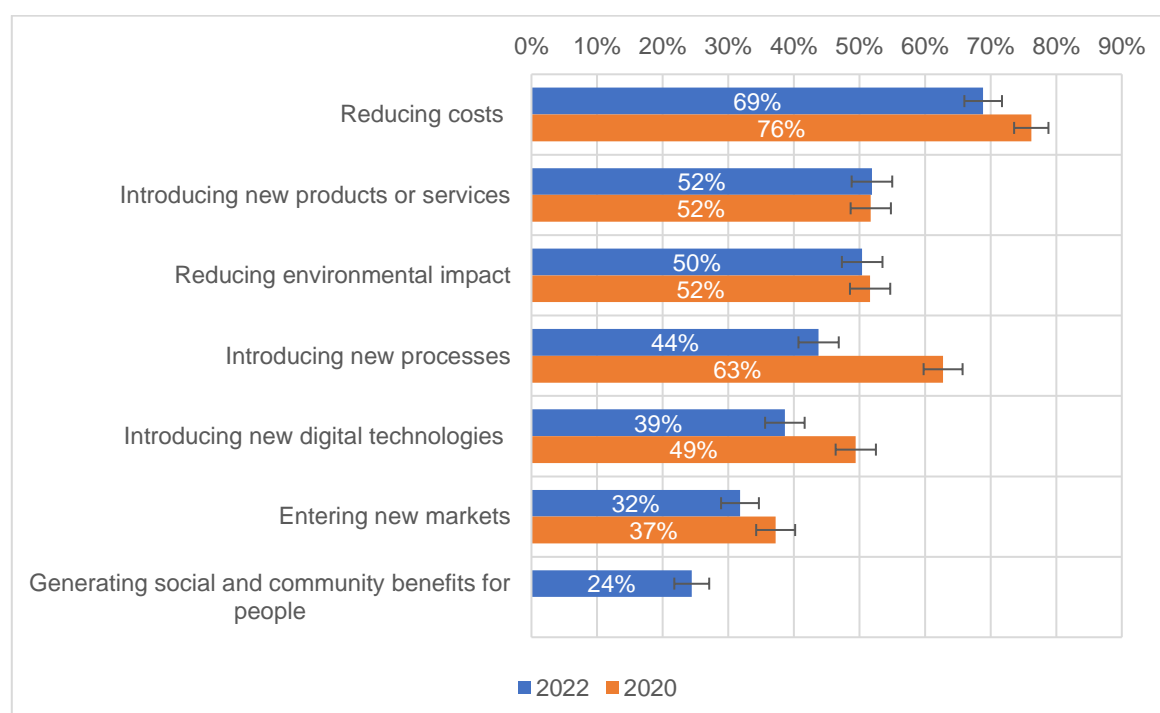
environmental practices, and use of digital technologies, and included a series of new questions to gain understanding of prosocial behaviour of SMEs.

The sample focused on private sector firms employing between 5 and 250 employees, of which 213 were micro businesses with 5 to 9 employees, 537 small with 10 to 49 employees and 253 – medium-sized businesses with between 50 and 249 employees. Northern Ireland SMEs were overrepresented in the sample relative to the rest of the UK to enable regionally specific analysis. In this study, in order to provide results which are representative of the UK population of SMEs, observations were weighted.

3. BUSINESS PRIORITIES OF UK SMES

The Business Futures Survey 2022 investigated the strategic priorities of UK SMEs in the preceding 12 months. Figure 1 shows how these priorities have changed compared to late 2020, when the first ERC Business Futures survey was conducted and when cost reduction was the top priority.

Figure 1. Business priorities of SMEs in 2022 and in 2020



Source: ERC Business Futures 2022, ERC Business Futures 2020

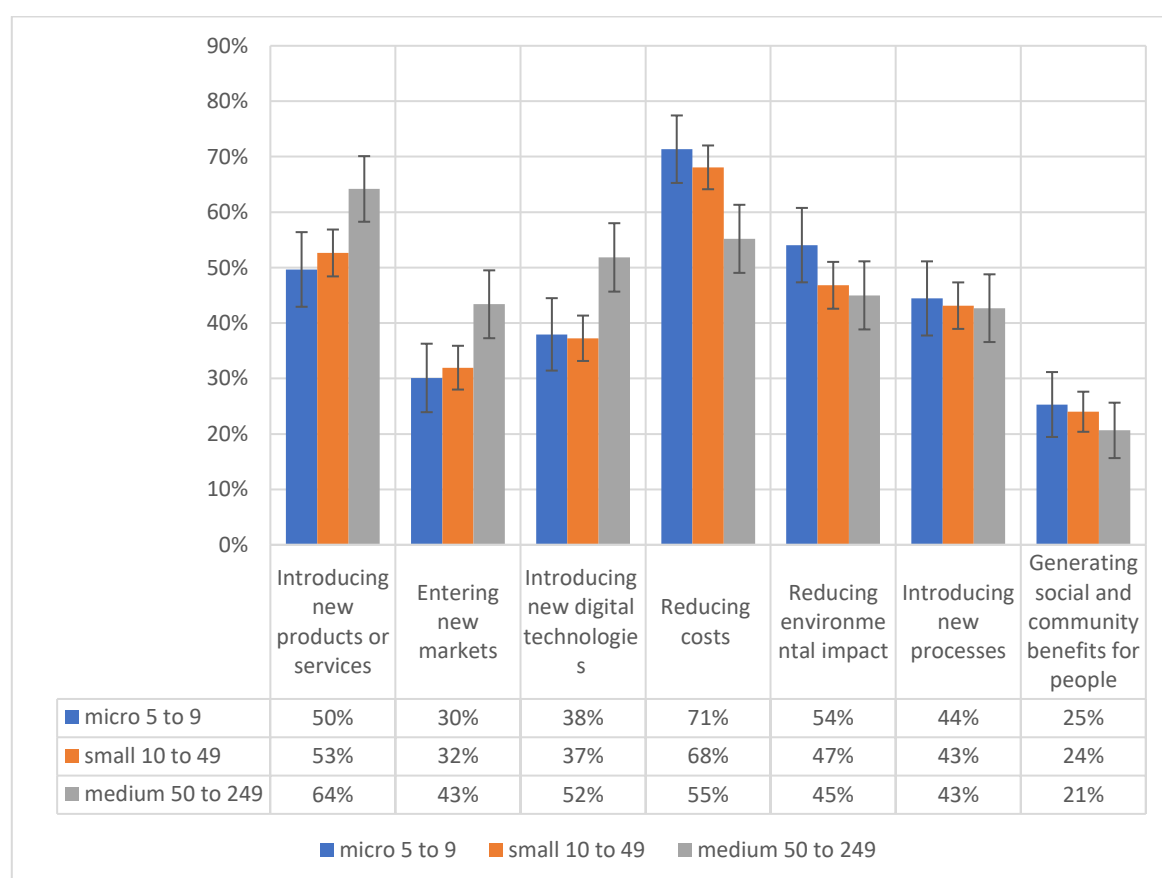
Base: all firms (in 2022 – 1,003; in 2020 – 1,019); black bars indicate 95% confidence intervals.

In 2022, cost reduction remained the key concern, with 69 per cent of UK SMEs citing this as a priority, although this is a significant decrease from 76 per cent of firms in 2020. For around half of SMEs, 'introduction of new products or services' and 'reducing

environmental impact' was a business priority, and this did not change compared to 2020. In contrast, the share of firms citing 'introducing new processes' and 'introducing new digital technologies' as business priority reduced significantly in 2022 compared to 2020, once businesses had adapted to the new pandemic reality. For one third of SMEs, 'entering new markets' was stated as a priority, a slight decrease compared to 2020. In 2022, the survey also sought to explore the extent to which UK SMEs consider benefits for community and society when doing business. Just under one in four UK SME said that 'generating social and community benefits for people' was a priority for the business in the past 12 months.

Figure 2 shows some differences in business priorities by firm size, with larger SMEs being on average more ambitious to enter new markets, but also more likely to focus on introducing new products or services, and digital technologies. On the contrary, cost reduction was more of a preoccupation for smaller firms. Interestingly, the data suggests that micro and small firms were not lagging behind their larger counterparts in terms of social and environmental priorities.

Figure 2. Business priorities by firm size

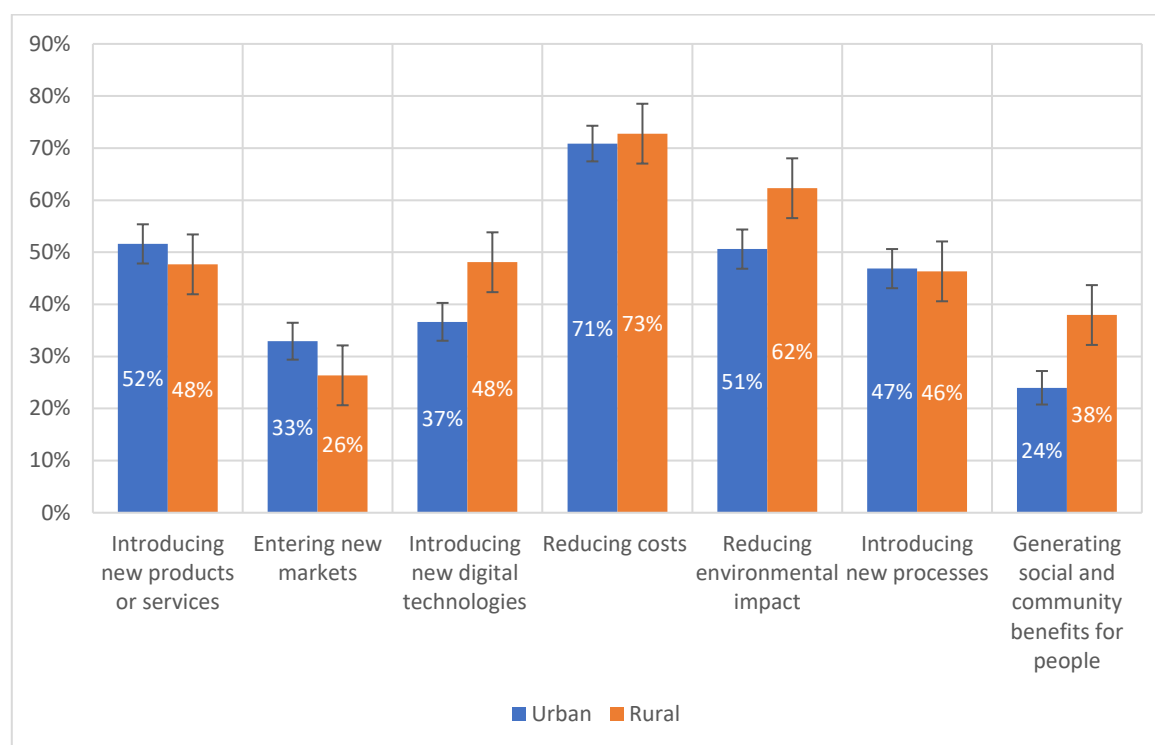


Source: ERC Business Futures 2022

Base: all firms (1,003), 213 micro (5 to 9 employees), 537 small (10 to 49 employees), 253 medium (50 to 249 employees); black bars indicate 95% confidence intervals.

As shown in Figure 3, rural firms were significantly more likely to have prioritised reducing their environmental impact (62% of rural firms vs 51% of urban firms) and generating social and community benefits (38% vs 24%). This is consistent with previous analysis of ERC Business Futures 2020 data where rural firms were also more likely to have pro-environment priorities than urban firms².

Figure 3. Business priorities: urban vs rural firms



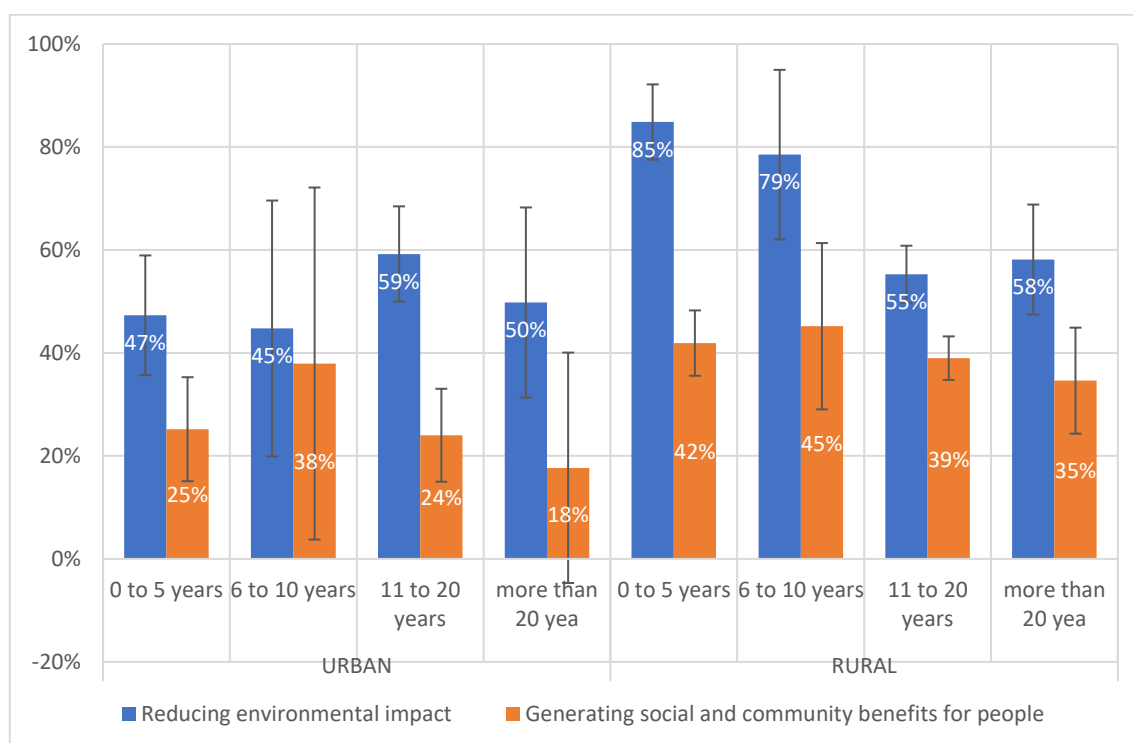
Source: ERC Business Futures 2022

Base: All firms with urban/rural identifier (826), urban (678), rural (148); black bars indicate 95% confidence intervals.

Interestingly, the overwhelming majority of young rural enterprises (of up to 5 years old) (85%) said that reducing environmental impact was a priority for their business compared to 47% of young urban businesses (Figure 3b).

² Wishart et al. (2021)

Figure 3b. Business priorities: urban vs rural firms by age structure



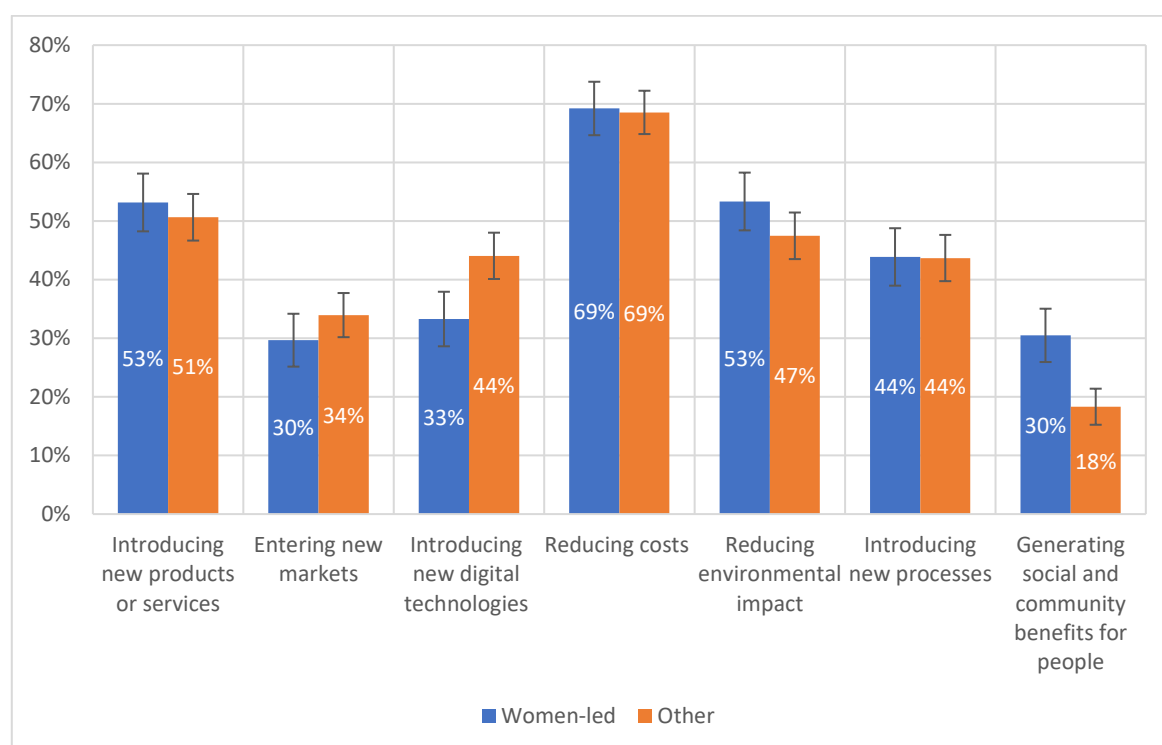
Source: ERC Business Futures 2022

Base: All firms with urban/rural identifier (826), urban (678), rural (148); black bars indicate 95% confidence intervals.

As shown by Figures 4 and 5, business owner / manager characteristics play a role in business priorities. Thus, a statistically significant higher percentage of female-led firms have pro-social priorities compared to other SMEs (30% vs 18%). On the contrary, female-led businesses are less likely to prioritise introduction of new digital technologies.

Ethnic minority-led firms are on average at least as likely to prioritise product or service innovation, new markets entry, introduction of digital technologies and social impact as other firms. In contrast, only 40 per cent of ethnic minority led SMEs cited reducing environmental impact as priority compared to 53 per cent among other firms, with this difference being statistically significant. It was also the case for introducing new processes (34% of ethnic minority led firms compared to 46% of other firms).

Figure 4. Business priorities: female-led vs other firms



Source: ERC Business Futures 2022

Base: All firms (1,003); female-led (395), other (608); black bars indicate 95% confidence intervals; female-led firm is defined as a firm with women representing 50% or more of people managing the business on a day-to-day basis.

Figure 5. Business priorities: ethnic minority-led vs other firms



Source: ERC Business Futures 2022

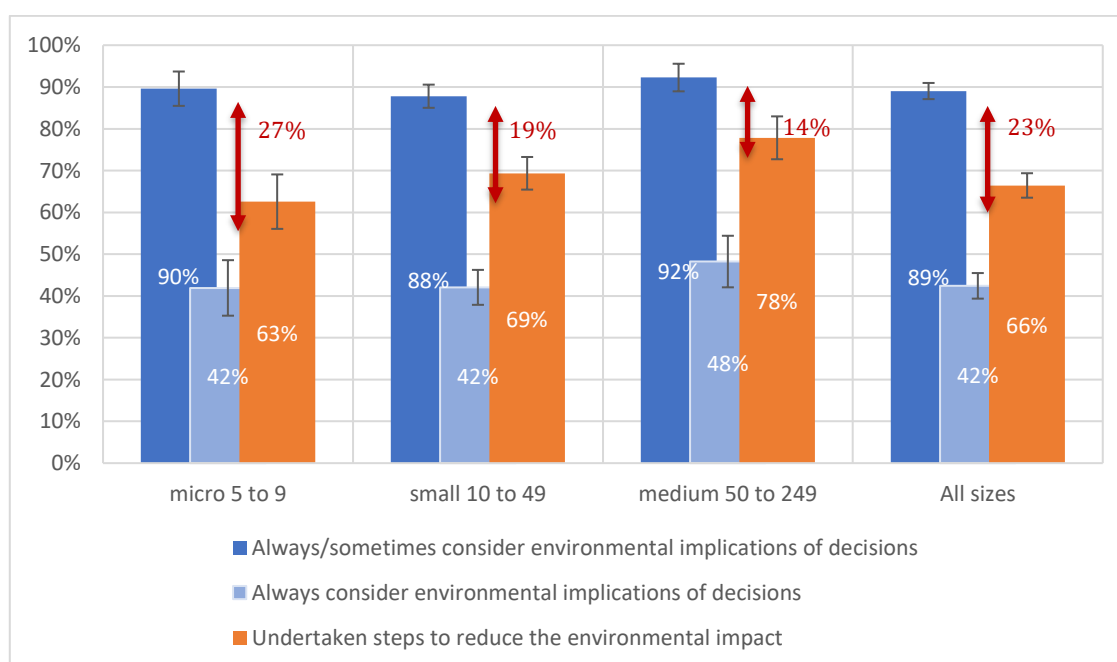
Base: All firms (1,003); ethnic minority-led (131), other (872); black bars indicate 95% confidence intervals; ethnic minority-led firm is defined as a firm with 50% or more of people managing the business on a day-to-day basis being from ethnic minority groups.

4. SMES AND ENVIRONMENTAL SUSTAINABILITY

The majority of UK SMEs said that they had been considering environmental implications when taking business decisions (89% of all firms). This is true for all firms irrespective of their size: we find no statistically significant differences when analysing the responses by size (Figure 6). At the same time, we find evidence that this is not always transformed into action with 66 per cent of firms saying that they have undertaken actions to minimise environmental impact. Therefore, around 23 per cent of UK SMEs, despite paying attention to the environmental impact of business decisions, have not yet introduced any practices to reduce this impact. We were interested in exploring this ‘attitude to action gap’ further as a way to explain the barriers that may hold back some firms from actions to support their environmental credentials.

Contrary to considering environmental implications, for which firm size does not seem to play any important role, pro-environmental action depends on size with smaller firms being less likely to have undertaken steps to reduce environmental impact than larger SMEs. Therefore, as illustrated by Figure 6, the gap between attitudes to action is larger for micro and small firms than for medium-sized firms; moreover the gap between micro firms and medium sized firms is statistically significant.

Figure 6. Environmental impact – gap between considering environmental implications and environmental action

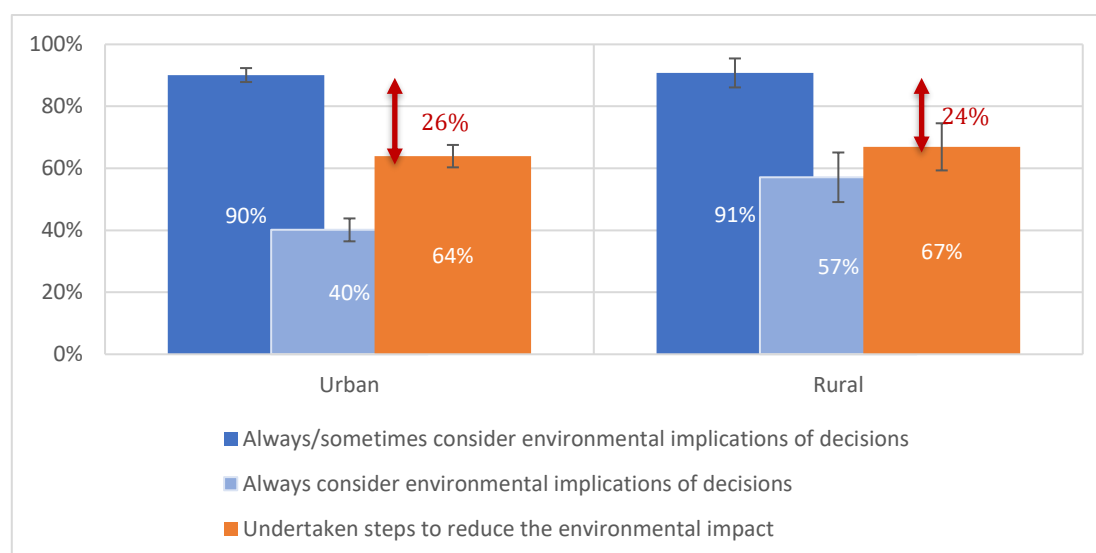


Source: ERC Business Futures 2022

Base: all firms (1,003), 213 micro (5 to 9 employees), 537 small (10 to 49 employees), 253 medium (50 to 249 employees); black bars indicate 95% confidence intervals.

In the case of urban versus rural firms, the gap is slightly smaller for rural firms but these differences are not statistically different. No differences between the urban and rural location are evident in the survey, with two-thirds of both taking steps to reduce their environmental impact.

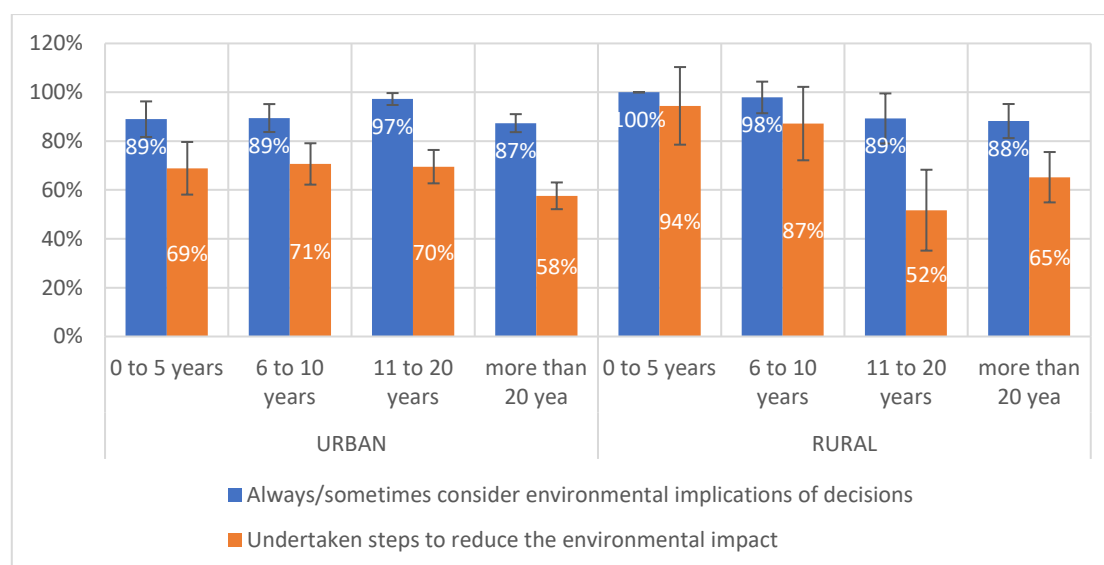
Figure 7. Environmental impact – gap between considering environmental implication and environmental action, urban vs rural



Source: ERC Business Futures 2022

Base: All firms with urban/rural identifier (826), urban (678), rural (148); black bars indicate 95% confidence intervals.

Figure 7b. Environmental impact – gap between considering environmental implications and environmental action, urban vs rural by age group



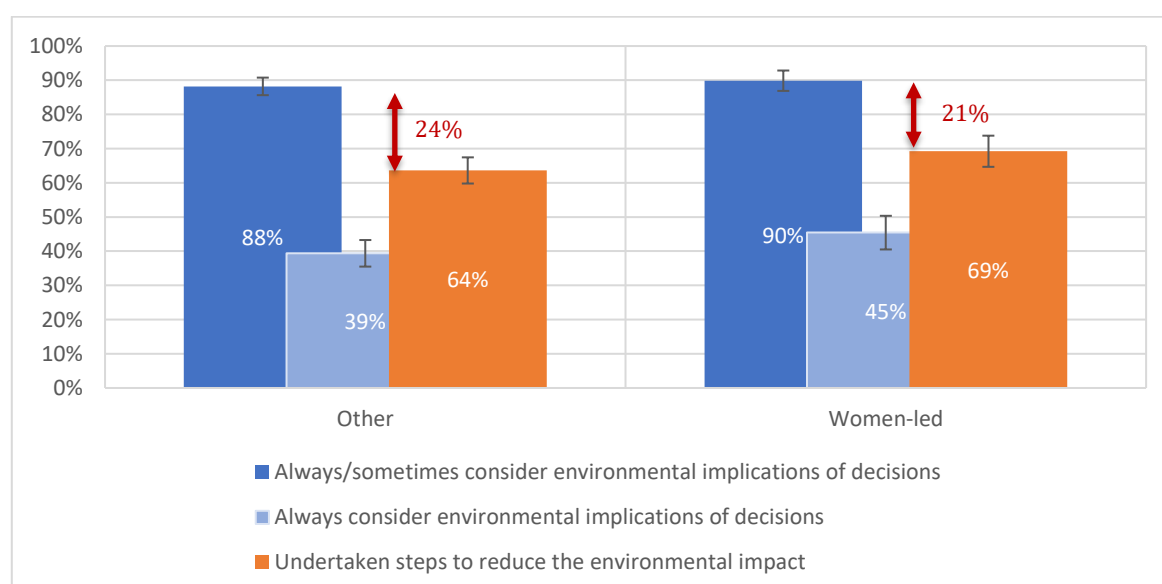
Source: ERC Business Futures 2022

Base: All firms with urban/rural identifier (826), urban (678), rural (148); black bars indicate 95% confidence intervals.

One of the differences between rural and urban firms in the literature is the greater connection rural firms have with others in their locality, termed ‘embeddedness’ (see for example Baù et al., 2019). One hypothesis suggests that the longer the firm is located in the area the greater this connection. Consequently, we were interested in whether the rural businesses by age would exhibit a particular pattern. Whilst the numbers of firms in each group might be small making us less confident about the findings, we find that older firms were less likely to undertake steps to reduce their environmental impact in urban areas. In rural areas, firms under ten years old were much more likely to both consider the environmental impact and take steps to reduce it (see Figure 7b).

Turning to the characteristics of the firm, the gap between the attitudes and action was marginally smaller for female-led businesses (21%) versus non-female-led businesses (24%). More female-led businesses were taking steps to reduce their environmental impact although this was not statistically significant see Figure 8. However, for ethnic minority businesses the gap between the attitudes and action was significantly smaller: ethnic minority-led businesses (10%) versus non-ethnic minority-led businesses (25%). One-in-four more ethnic-minority-led businesses were taking steps to reduce their environmental impact, which was statistically significant (see Figure 9).

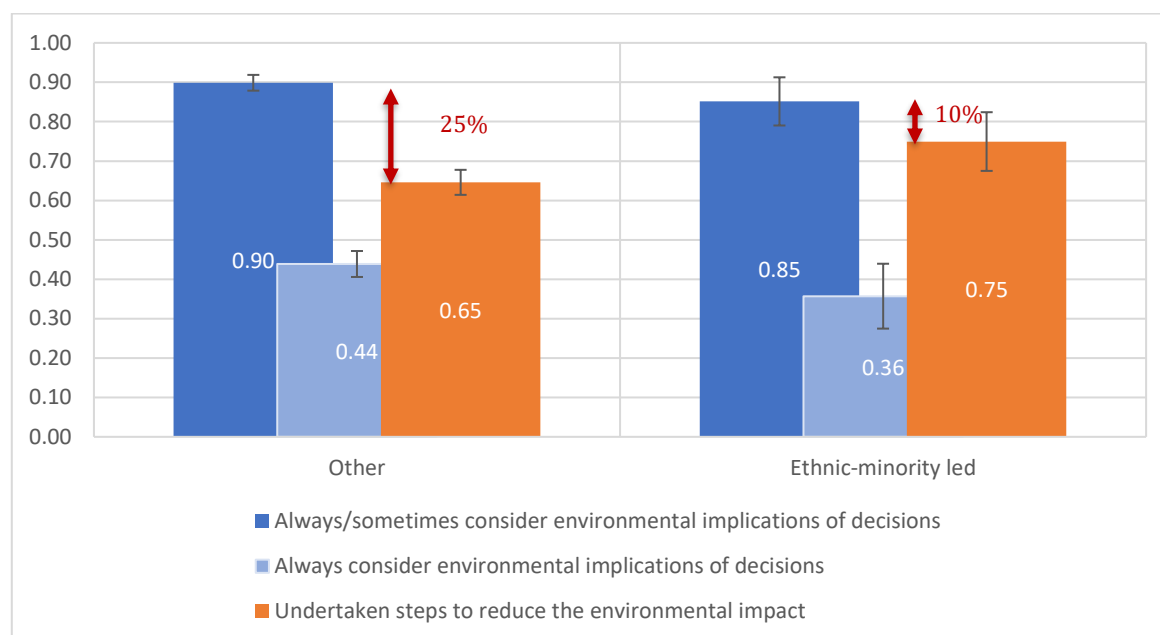
Figure 8. Environmental impact – gap between considering environmental implications and environmental action, female-led firms vs other



Source: ERC Business Futures 2022

Base: All firms (1,003); female-led (395), other (608); black bars indicate 95% confidence intervals; female-led firm is defined as a firm with women representing 50% or more of people managing the business on a day-to-day basis

Figure 9. Environmental impact – gap between considering environmental implications and environmental action, ethnic minority led firms vs other



Source: ERC Business Futures 2022

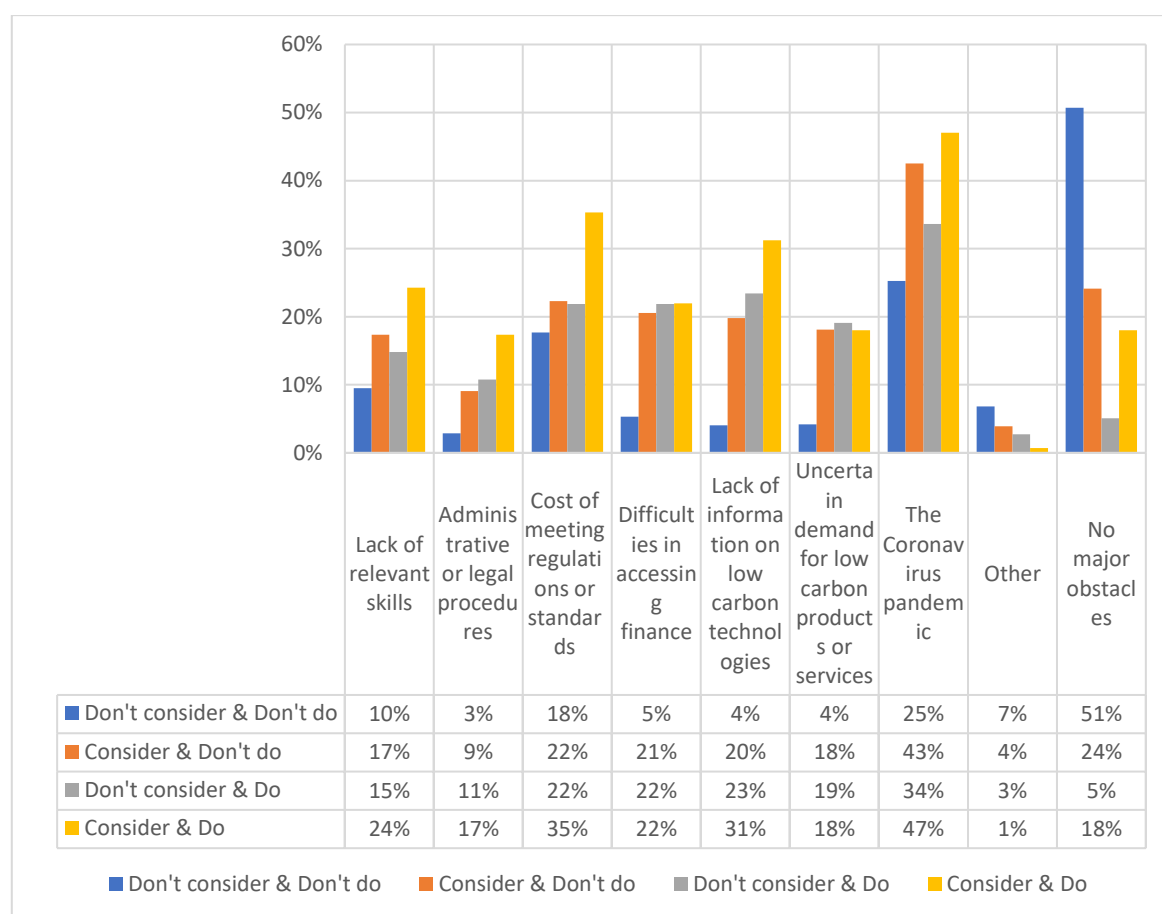
Base: All firms (1,003); ethnic minority-led (131), other (872); black bars indicate 95% confidence intervals; ethnic minority-led firm is defined as a firm with 50% or more of people managing the business on a day-to-day basis being from ethnic minority groups.

To further examine the barriers that firms may encounter on their environmental sustainability journey, all firms were classified into four distinctive groups. First, '*Don't consider & Don't do*' includes all firms who do not consider environmental implications of business decisions and did not undertake any actions to reduce environmental impact of the business. The second group, '*Consider & Don't do*' refers to those who consider environmental implications when taking decisions ('sometimes' or 'always') but have not yet undertaken any steps to reduce carbon emissions and environmental impact, i.e. firms in the 'attitude to action gap'. The third group, '*Don't consider & Do*' refers to those firms who although not necessarily considering environmental implications (replying 'never' or 'don't know') reported having undertaken some steps to reduce environmental impact. Finally, the fourth group '*Consider & Do*' comprises all firms who both consider environment when taking business decisions, and have already undertaken steps to reduce environmental impact of the business.

Interestingly, firms in the fourth group, i.e. those who already started their net zero journey, were also more likely to cite barriers constraining them on this journey (Figure 10). Apart from the pandemic, which was the most frequently cited factor for all groups, the cost of meeting regulations and lack of information were regarded the most important (35% and

31% respectively). For 24 per cent of firms in this group, relevant skills were also an important factor. Overall, firms classified as being 'in the gap' showed lower percentages than the 'Consider & Do' group. Although counterintuitive, this is not uncommon: some obstacles may be unforeseen in the beginning and adoption of new practices is often accompanied by a valuable learning-by-doing process. In this sense, it is not surprising that more than 50 per cent of firms who neither consider environmental implications nor do any steps, do not see any major obstacles to the environmental action.

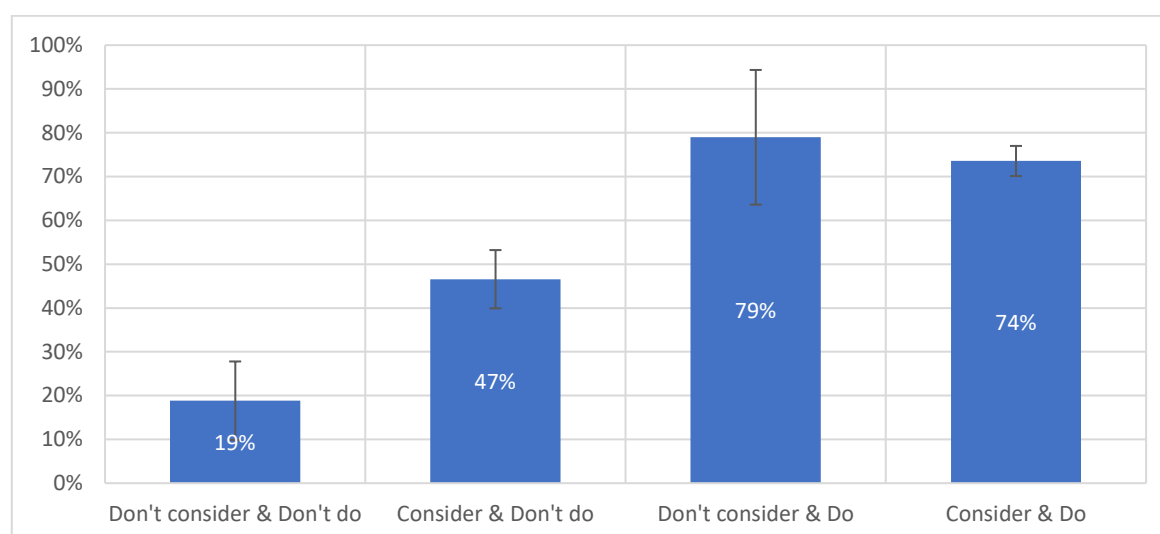
Figure 10. Barriers to environmental action by categories



Source: ERC Business Futures 2022

Base: All firms (952 non missing obs); 'Don't consider & Don't do' (81); Consider & Don't do (237); Don't consider & Do (29); Consider & Do (656).

Figure 11. Percentage of firms in each category knowing where to find reliable information



Source: ERC Business Futures 2022

Base: All firms (952 non missing obs); 'Don't consider & Don't do' (81); Consider & Don't do (237); Don't consider & Do (29); Consider & Do (656).

The knowledge of where to find sources of reliable information appear to make a difference to the ability of the firms to take action (see Figure 11). Most interesting is the comparison of those who have the same status in terms of consideration and whether or not they take action. Thus, of those who don't consider and don't do, 19 per cent know where to find reliable information; whereas of those who don't consider and do, 79 per cent know where to find reliable information. Similarly with respect of those who consider and don't do, 47% know where to find reliable information; whereas of those who consider and do, 74% know where to find reliable information. At first sight finding reliable information might even be as important as intention.

The most popular source of reliable information for all groups was from government support schemes or websites (66%) (see Table 1). This was followed by online search or social media community (54%) and professional industry association or other professional peer networks (54%). Perhaps the most instructive columns are the 'consider and don't do' and 'consider and do'. The patterns of information are similar with the same top three sources. More specialist consultants were referred to by those who 'consider and do' (35%) compared to those who 'consider and don't do' (21%). More technology companies were referred to by those who 'consider and do' (32%) compared to those who "consider and don't do' (22%) (see Table 1). This table still leaves us with some questions around the specific role of support schemes versus online information and the extent to which peers are involved.

Table 1. Sources of information by category

	Don't consider & Don't do	Consider & Don't do	Don't consider & Do	Consider & Do	All firms
Professional and industry associations, or other professional peer networks	62%	50%	24%	56%	54%
Government support schemes or websites (e.g. GOV.UK, the Business Climate Hub)	58%	60%	42%	69%	66%
Universities or other public research/education institutes	28%	20%	20%	20%	20%
Technology companies	21%	22%	18%	32%	29%
Specialist consultants	49%	21%	8%	35%	32%
Online search or social media community	33%	47%	17%	58%	54%
Customers	30%	35%	13%	31%	32%
Supply chain	41%	37%	20%	35%	35%
Friends and family	23%	31%	9%	24%	25%

Source: ERC Business Futures 2022

Base: Firms knowing where to find reliable information (604); 'Don't consider & Don't do' (20); Consider & Don't do (105); Don't consider & Do (20); Consider & Do (459).

Table 2. Net zero practices adoption rates by firm size

	micro 5 to 9	small 10 to 49	medium 50 to 249	All sizes
No net zero steps	39%	31%	22%	35%
Undertaken environmental reports or audits	11%	18%	24%	15%
Introduced new or improved production processes with environmental benefits	19%	20%	24%	20%
Introduced new or improved delivery, transport, or distribution systems	17%	17%	27%	17%
Invested in research and development related to the environment	7%	10%	19%	9%
Introduced air pollution monitoring and filtering	5%	12%	17%	9%
Conducted training on environmental matters	17%	24%	27%	21%
Conducted market research related to low carbon products or services	8%	12%	20%	11%
Introduced new low carbon products or services	20%	20%	31%	21%
Switched to more renewable energy	20%	24%	28%	22%
Recycled waste, water, or materials (circular economy)	44%	46%	46%	45%
Other	4%	4%	1%	4%
Average number of practices adopted	1.69	2.02	2.64	1.89

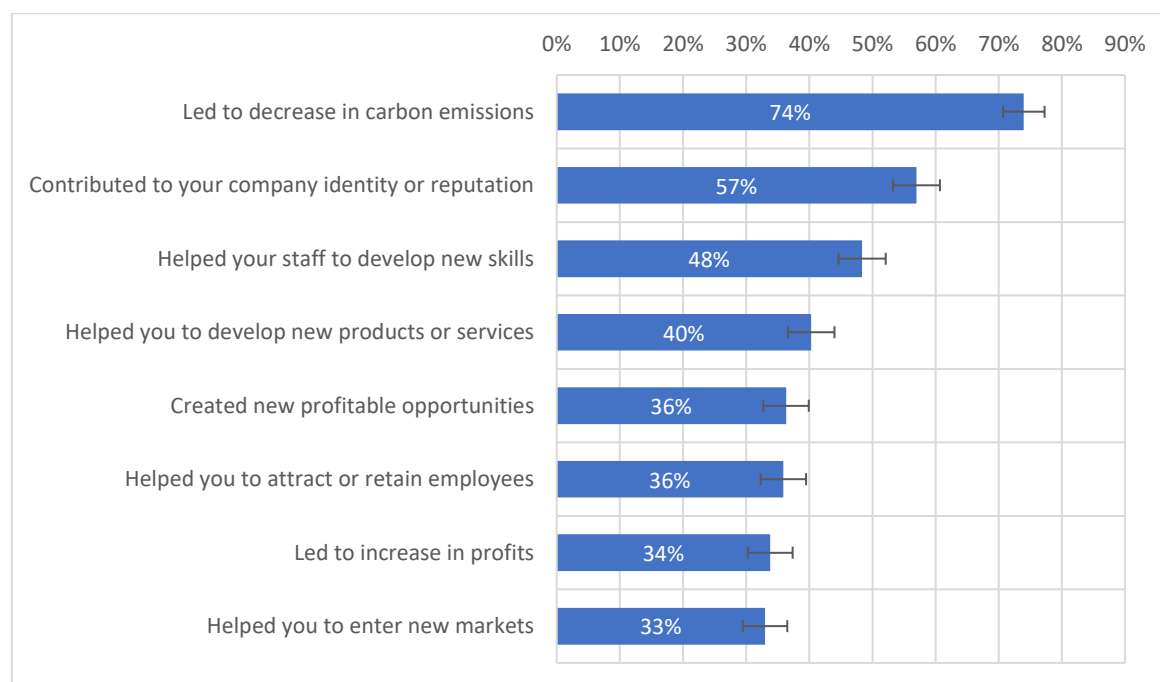
Source: ERC Business Futures 2022

Base: all firms (1,003), 213 micro (5 to 9 employees), 537 small (10 to 49 employees), 253 medium (50 to 249); black bars indicate 95% confidence intervals.

Turning to the adoption rates themselves, Table 2 shows the adoption of environmental practices by firm size. The first row tells us that more of the smallest firms were taking no steps to reduce their environmental impact and the last row tells us that the average number of practices adopted increases with firm size. The most popular step was to recycle waste, water or materials where nine in every twenty firms were taking this step. The second most popular step was to switch to more renewable energy followed by introducing new products or services. One-in-five micro or small firms had introduced new low carbon products with more medium sized firms (31%) taking this step. Other steps were more likely to be taken by medium sized firms, such as environmental audits, training, air pollution monitoring, and R&D.

The outcomes of net zero practices are not confined to the reduction in carbon emissions, although this is the most likely outcome (74%). The steps also contribute to the company's identity and reputation (57%). There were benefits related to the workforce with help staff develop new skills (48%), helping attract and retain employees (36%), helps innovation through the development of new products or services (40%), new opportunities (36%) and new market entry (33%). As well as the increase in profitable opportunities, companies reported an outcome of increased profits (34%). Net Zero brings balanced benefits from performance through employee enhancements and innovation.

Figure 12. Outcomes of net zero practices

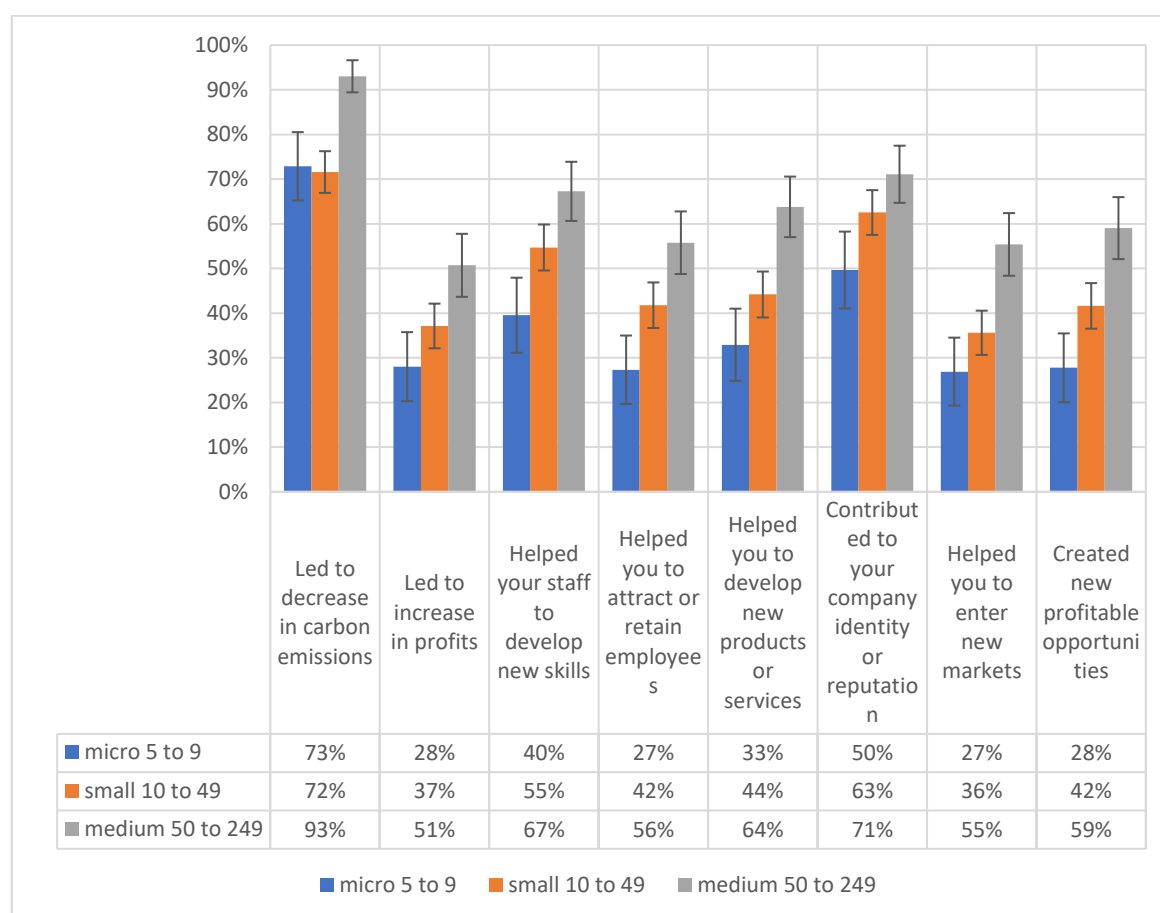


Source: ERC Business Futures 2022

Base: all firms who have undertaken steps to reduce environmental impact (685); black bars indicate 95% confidence intervals.

The beneficial outcomes of net zero practices are not spread evenly across firm size. Typically, medium sized firms reap more benefits from net zero practices than small firms and micro firms. This would be consistent with longstanding work suggesting the growth of the firm is related to managerial acumen (e.g. Penrose, 1957; Orser, Hogarth-Scott and Riding, 2000). Medium sized firms were advantaged in innovation and profitable opportunities. Differences between micro and small firms were confined to staffing issues, where more small firms found net zero practices helped employees both to be attracted and/or retained and to develop new skills.

Figure 13. Outcomes of net zero practices by firm size



Source: ERC Business Futures 2022

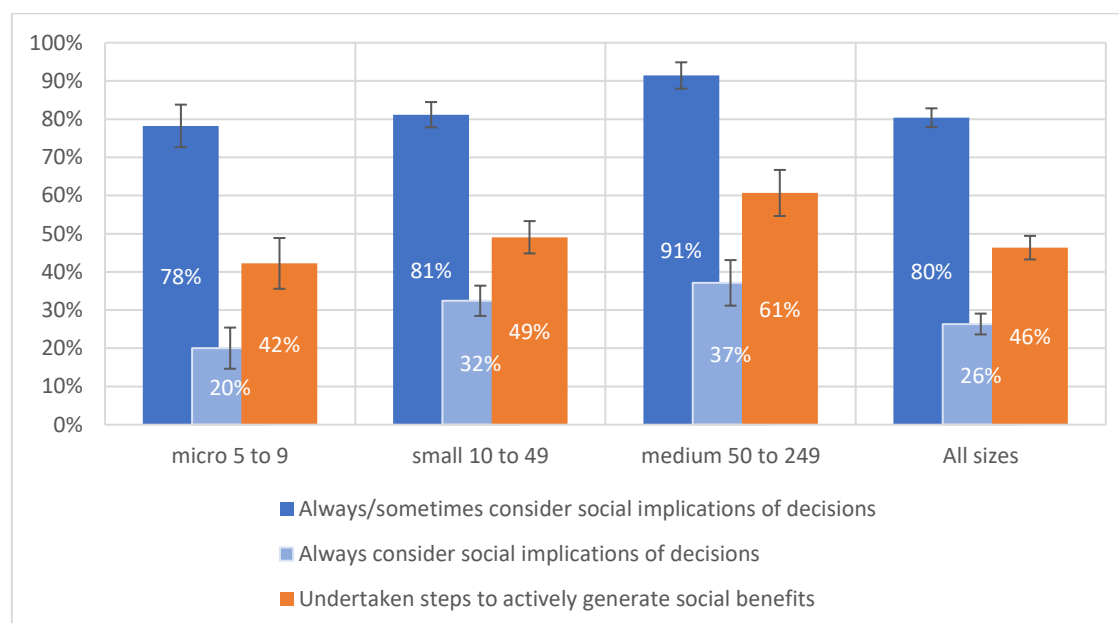
Base: all firms who have undertaken steps to reduce environmental impact (685), 131 micro (5 to 9 employees), 360 small (10 to 49 employees), 194 medium (50 to 249 employees); black bars indicate 95% confidence intervals.

5. SMES AND SOCIAL RESPONSIBILITY

In the Business Futures 2022 survey this year we also asked firms how likely they were to consider the social implications of business decisions they make. Figure 14 shows that four in five UK SMEs ‘always’ or ‘sometimes’ take into account social factors when making business decisions, and only one in four - ‘always’. This varies slightly by firm size with medium-sized businesses being more likely consider social implications (91%) than small (81%) and micro (78%) firms.

At the same time, not all the firms who consider social implications of their decision-making are also actively engaged in socially responsible practices. Thus, 46 per cent of UK SMEs said that they undertook steps to actively generate social benefits for people and communities over the last year. Again, medium-sized firms were more likely to undertake pro-social actions (61%) compared to small (49%) and micro firms (42%), with this difference being statistically significant with 95 per cent confidence.

Figure 14. Considering social implications of business decisions and active steps to generate social benefits, by firm size

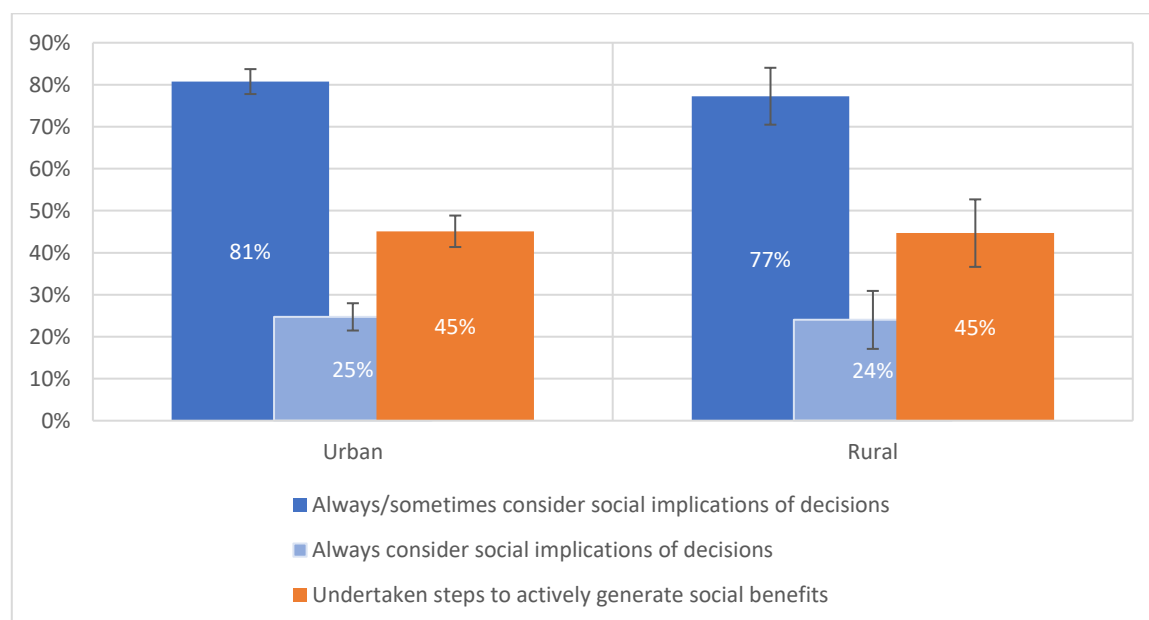


Source: ERC Business Futures 2022

Base: all firms (1,003), 131 micro (5 to 9 employees), 360 small (10 to 49 employees), 194 medium (50 to 249 employees); black bars indicate 95% confidence intervals.

There is no statistically significant difference between rural and urban firms regarding their likelihood to consider social implications of decisions (Figure 15). Rural firms were also as likely as urban firms to undertake active pro-social steps.

Figure 15. Considering social implications of business decisions and active steps to generate social benefits, urban vs rural firms

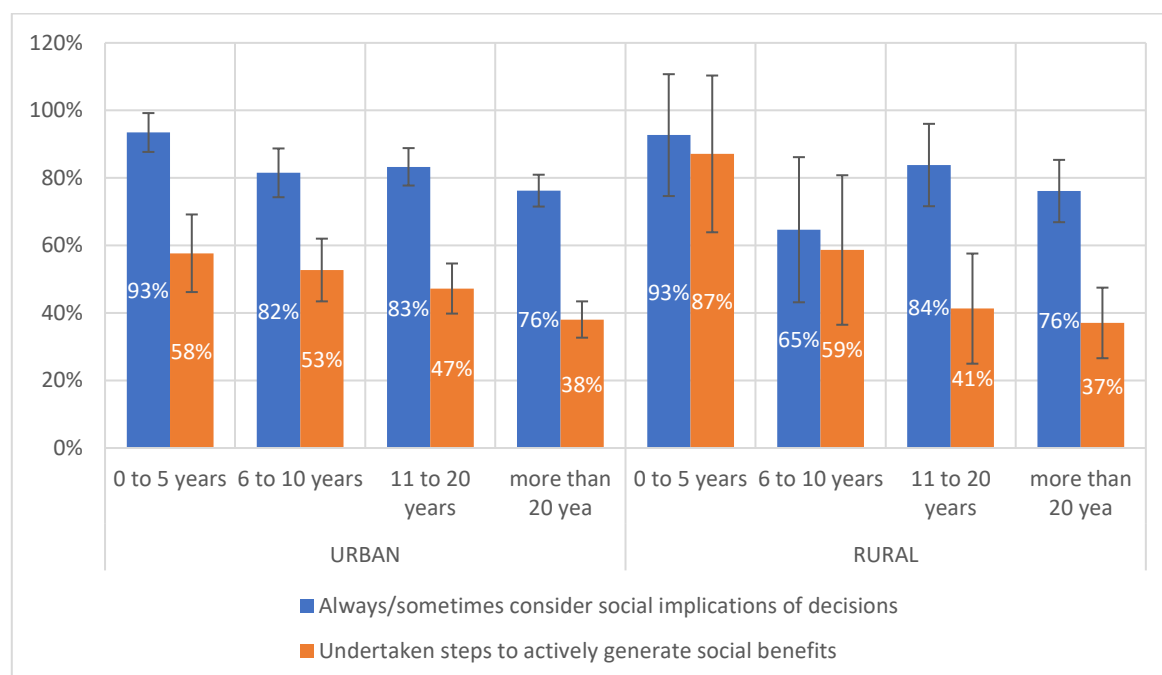


Source: ERC Business Futures 2022

Base: All firms with urban/rural identifier (826), urban (678), rural (148); black bars indicate 95% confidence intervals.

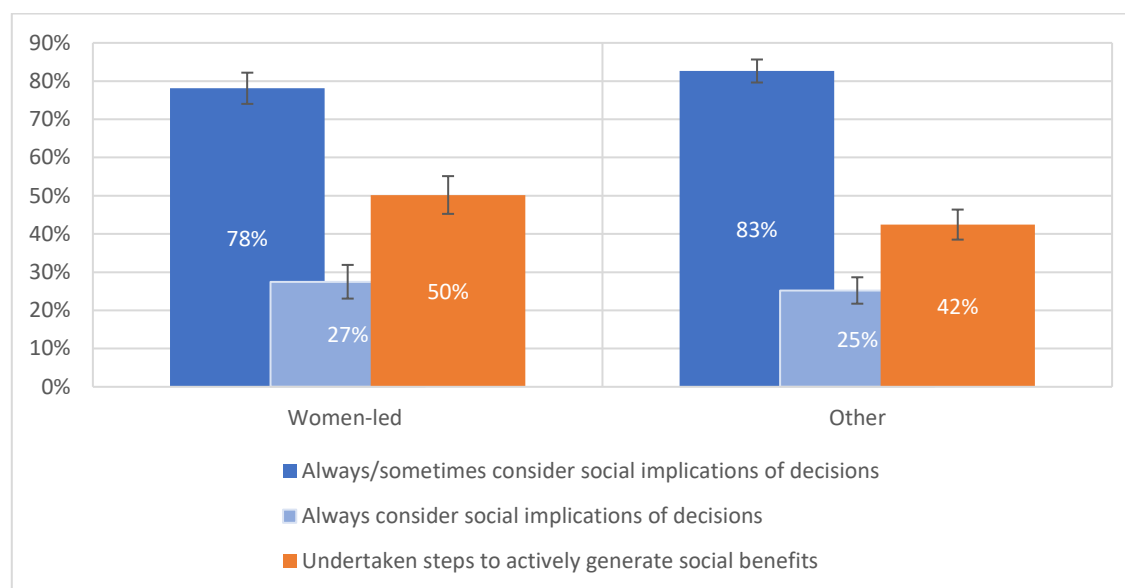
Interesting nuances appear however when looking at the rural/urban differences by business age groups (Figure 15b). In urban areas, the share of firms both 'considering social implications of decisions' and 'undertaking active steps to generate social benefits' is declining with age, so that the differences between two indicators remain stable over time around 35 per cent. In contrast, this gap seems to widen with age for rural firms: young rural firms are almost equally likely to consider social implications and act to generate social benefits. This insight should be taken with a pinch of salt: the sample size does not allow us to talk about statistically significant differences here.

Figure 15b. Considering social implications of business decisions and active steps to generate social benefits, urban vs rural firms by age group



When looking at differences by ownership/management team characteristics, one in two of female-led business (50%) reported having undertaken active steps to generate social benefits compared to 42 per cent non-female-led firms (Figure 16); although there were more non-female-led firms who reported that they either always or sometimes considered the social implications of decisions. However, this difference is not statistically significant. In contrast, ethnic-minority-led businesses were more likely both to consider social factors when taking business decisions (88%) and to take active steps to generate social benefits for people and communities (59%) compared to other firms (Figure 17). Greater concern for the social implications of business is consistent with a stronger role for the community in the decision-making processes within ethnic minority-led businesses.

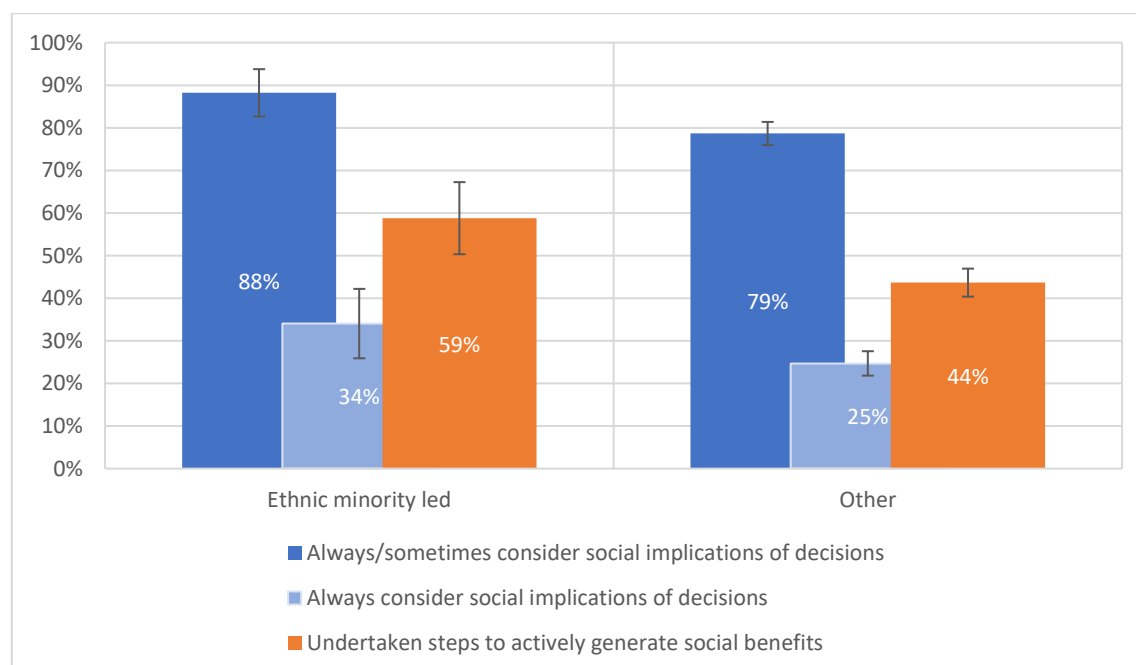
Figure 16. Considering social implications of business decisions and active steps to generate social benefits, female-led firms vs other



Source: ERC Business Futures 2022

Base: All firms (1,003); female-led (395), other (608); black bars indicate 95% confidence intervals; female-led firm is defined as a firm with women representing 50% or more of people managing the business on a day-to-day basis

Figure 17. Considering social implications of business decisions and active steps to generate social benefits, ethnic minority led firms vs other

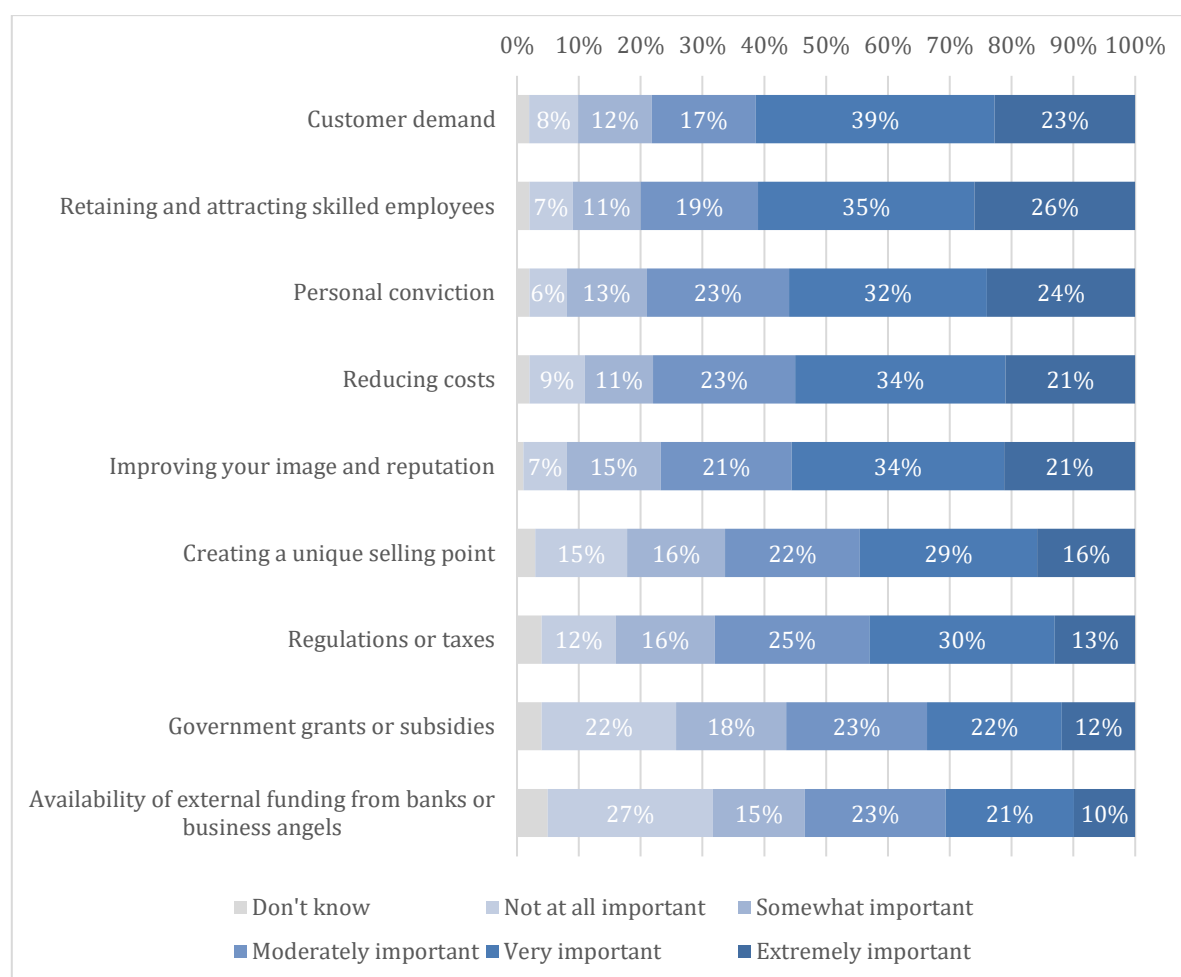


Source: ERC Business Futures 2022

Base: All firms (1,003); ethnic minority-led (131), other (872); black bars indicate 95% confidence intervals; ethnic minority-led firm is defined as a firm with 50% or more of people managing the business on a day-to-day basis being from ethnic minority groups.

In the survey firms were asked to evaluate the importance of different internal and external factors in influencing business prosocial efforts on a scale from 1 'not at all important' to 5 'extremely important'. Overall, five factors were rated to be highly important with more than 50 per cent of businesses evaluating them as 'very important' or 'extremely important' (Figure 18). These were 'customer demand' and 'retaining and attracting skilled employees' (equally 61% of firms), personal conviction and cost reduction (equally 56%), and 'improving your image and reputation' (55%).

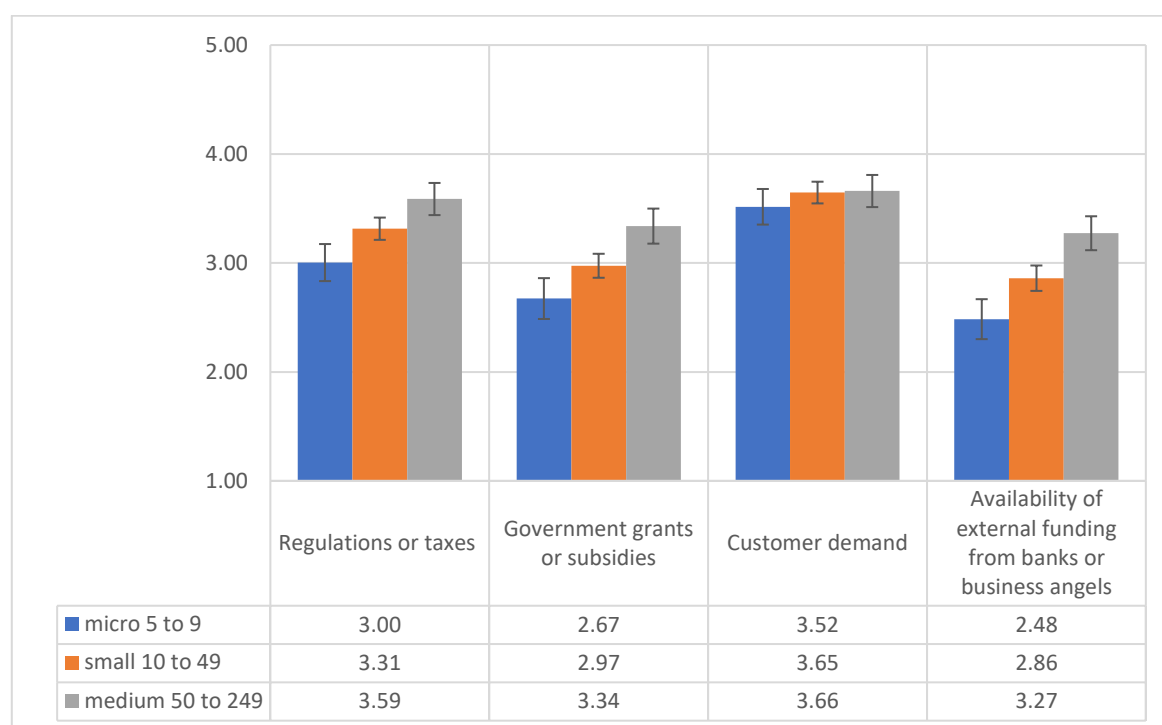
Figure 18. Importance of different factors in influencing business prosocial efforts



Source: ERC Business Futures 2022
Base: All firms (1,003)

When comparing factors influencing social efforts by firm size, some differences occur. Thus, Figure 19 looking at external factors shows that while customer demand is equally important for micro, small and medium-sized businesses, other factors – such as regulations or taxes, government grants or subsidies and availability of external funding – are more important for larger firms compared to smaller firms. As Figure 20 summarises, differences by firm size are less substantial for internal drivers with the average importance of personal conviction, reputation, cost reduction and skills retention being not statistically significantly different across size groups. Social value which contributes to 'creating a unique selling point' appears to be a slightly more important factor for medium-sized businesses compared to micro firms.

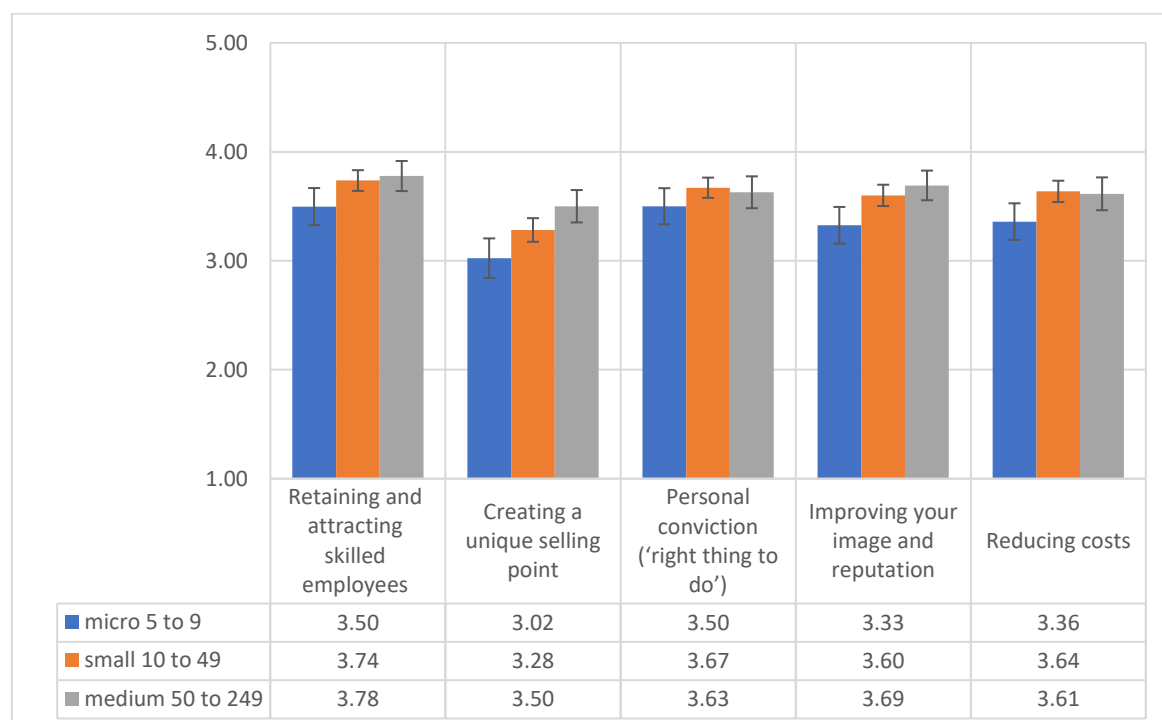
Figure 19. Average importance of external factors in influencing business prosocial efforts by firm size (on a scale from 1 'not at all important' to 5 'extremely important')



Source: ERC Business Futures 2022

Base: All firms excluding those who replied 'don't know / refused', black bars indicate 95% confidence intervals.

Figure 20. Average importance of internal factors in influencing business prosocial efforts by firm size (on a scale from 1 'not at all important' to 5 'extremely important')



Source: ERC Business Futures 2022

Base: All firms excluding those who replied 'don't know / refused', black bars indicate 95% confidence intervals.

Similarly to firm profiles based on environmental attitudes and action, we have also categorised businesses depending on whether they have been considering the social implications of decisions, and whether they have undertaken steps to actively generate social benefits for people and the community, analysing influencing factors by each category. Figure 21 shows that regarding external factors, the only statistically significant difference between 'Consider & Don't do' and 'Consider & Do' groups relates to the availability of external funding, with a larger proportion of firms in 'Consider & Do' group rating this factor as highly important (39% vs 26%). Regarding internal factors (Figure 22), all but cost reduction factors are rated as highly important by a larger proportion of firms in 'Consider & Do' group compared to 'Consider & Don't do' category. This may indicate that internal factors such as personal conviction, image and reputation and employee's retention policy are major driving forces behind an active participation of the UK SMEs in pro-social practices.

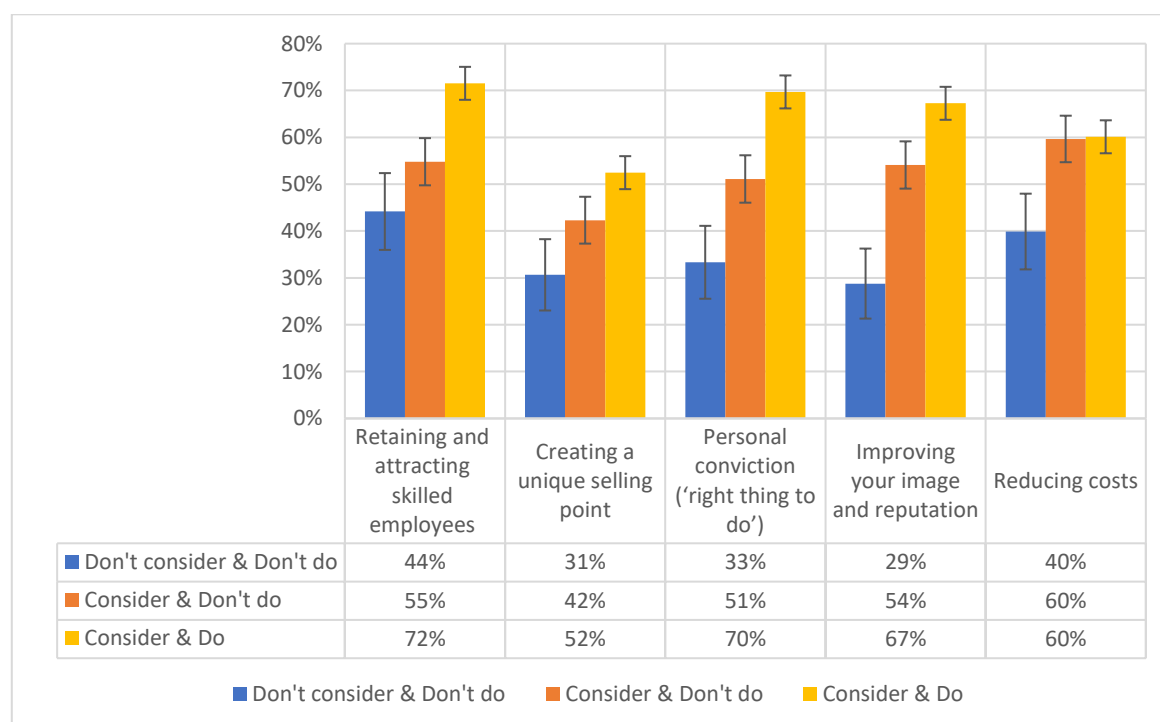
Figure 21. Percentage of firms in prosocial behaviour profiles attributing high importance ('very important' and 'extremely important') to external factors



Source: ERC Business Futures 2022

Base: 'Don't consider & Don't do' (142), 'Consider & Don't do' (376), 'Consider & Do' (456); the small group of 'Don't consider & Do' (29) is omitted here; black bars indicate 95% confidence intervals.

Figure 22. Percentage of firms in prosocial behaviour profiles attributing high importance ('very important' and 'extremely important') to internal factors

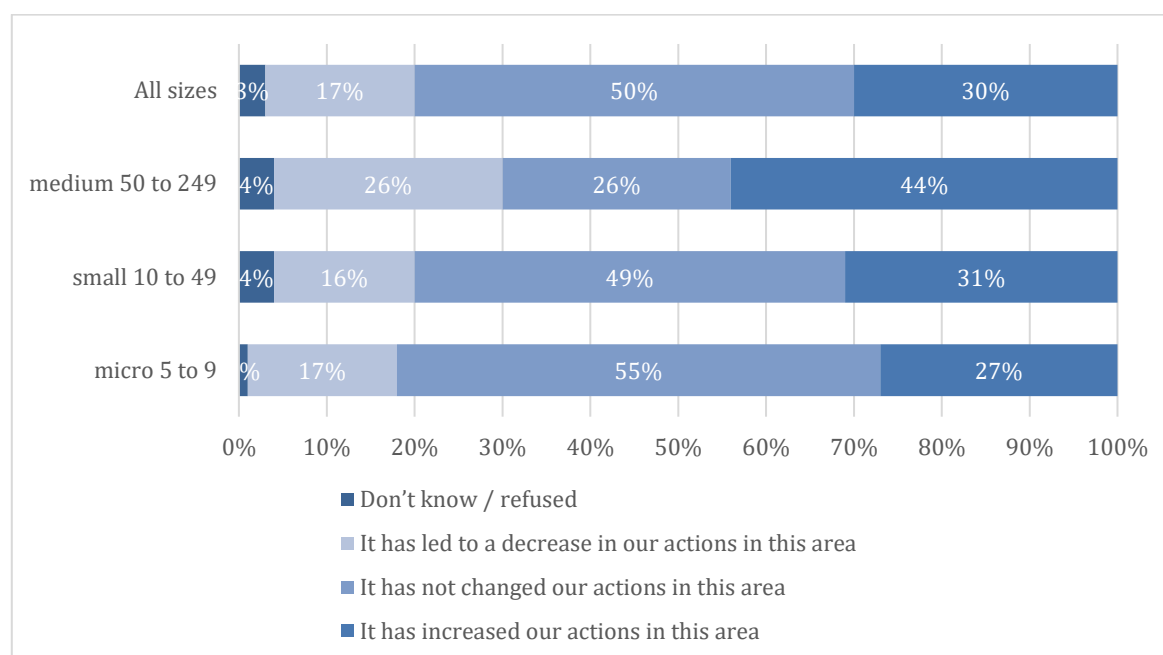


Source: ERC Business Futures 2022

Base: 'Don't consider & Don't do' (142), 'Consider & Don't do' (376), 'Consider & Do' (456); the small group of 'Don't consider & Do' (29) is omitted here; black bars indicate 95% confidence intervals

When asked about how the coronavirus pandemic affected their prosocial actions, half of respondents said that it did not change their actions and this area, 17% reported a decrease and 30% - an increase (Figure 23). This varies by firm size however: medium-sized firms were more likely to say that they increased their prosocial actions due to the pandemic (44%) compared to micro (27%) and small firms (31%).

Figure 23. Influence of the coronavirus pandemic on business activities to generate social and community benefits by firm size

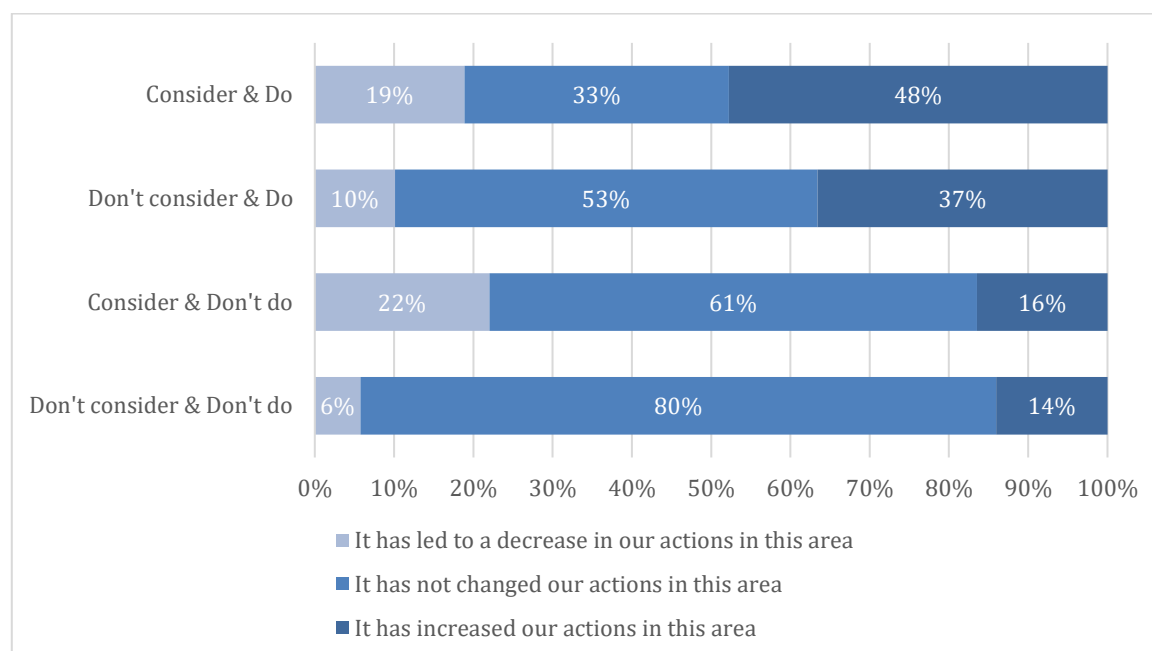


Source: ERC Business Futures 2022

Base: All firms (1,003), 213 micro (5 to 9 employees), 537 small (10 to 49 employees), 253 medium (50 to 249).

Figure 24 shows that an increase in prosocial actions due to the pandemic was more likely to be reported by 'Consider & Do' firms, i.e., firms who both consider social implications and act on generating social benefits. On the contrary, firms in 'don't do' groups were more likely to say that the pandemic had no influence on their social responsibility efforts. Therefore, at first sight the pandemic made those who have been already socially responsive increase the intensity of their engagement, while having only limited influence on other SMEs.

Figure 24. Influence of the coronavirus pandemic on business activities to generate social and community benefits by firm profile



Source: ERC Business Futures 2022

Base: All firms excluding 'don't know / refused' (971), 133 'Don't consider & Don't do', 358 'Consider & Don't do', 29 'Don't consider & do', 451 'Consider & Do'.

To better understand the uptake of prosocial activities by UK SMEs, the survey also included questions on seven different practices. Table 3 summarises the adoption rates of each of seven practices by firm size as well as providing information on the average number of practices adopted simultaneously. Overall, the most commonly adopted practices relate to wellbeing and diversity in the workplace and payment of fair wages to the employees, i.e., measures that may potentially positively affect labour productivity. Thus, around one in four firms reported paying the Real Living Wage to employees, introducing mental health and wellbeing initiatives, and making steps to support gender and ethnic equality in the workforce. Support to community organisations and various volunteering initiatives were also reported by 25 per cent of firms, with higher proportion of medium-sized firms (35%) compared to micro (23%) and small (27%) firms. It is not surprising that medium-sized firms were also more likely to offer employment or training opportunities to disadvantaged people (30%) compared to 14 per cent of micro and 20 per cent of small firms. Just under one in five firms said that they had prioritised suppliers that value social responsibility and ethical employment practices and 15 per cent of firms said that they had monitored the impact of their products and services on community wellbeing in the past 12 months.

Overall, firms generate social benefits by adopting a portfolio of socially responsible practices, including on average more than three different activities.

Table 3. Adoption rates of pro-social practices by firm size

	micro 5 to 9	small 10 to 49	medium 50 to 249	All sizes
Offered employment or training opportunities to disadvantaged people (e.g., long-term unemployed)	14%	20%	30%	17%
Paid the Real Living Wage to your employees	28%	27%	25%	27%
Introduced initiatives to promote good mental health and wellbeing at work	24%	29%	26%	26%
Made steps to support gender and ethnic equality in the workplace	22%	23%	31%	23%
Supported community organisations (e.g. volunteering/engagement with local schools)	23%	27%	35%	25%
Monitored the impact of your products or services on community wellbeing	14%	15%	22%	15%
Prioritised suppliers that value social responsibility and ethical employment practices (e.g. respect human rights)	16%	22%	24%	19%
Other	2%	1%	0%	2%
Did not undertake any steps to generate social benefits for people and communities	58%	51%	39%	54%
Number of practices (Base: all firms)	1.41	1.63	1.93	1.54
Number of practices (Base: those who undertook active steps)	3.34	3.31	3.18	3.32

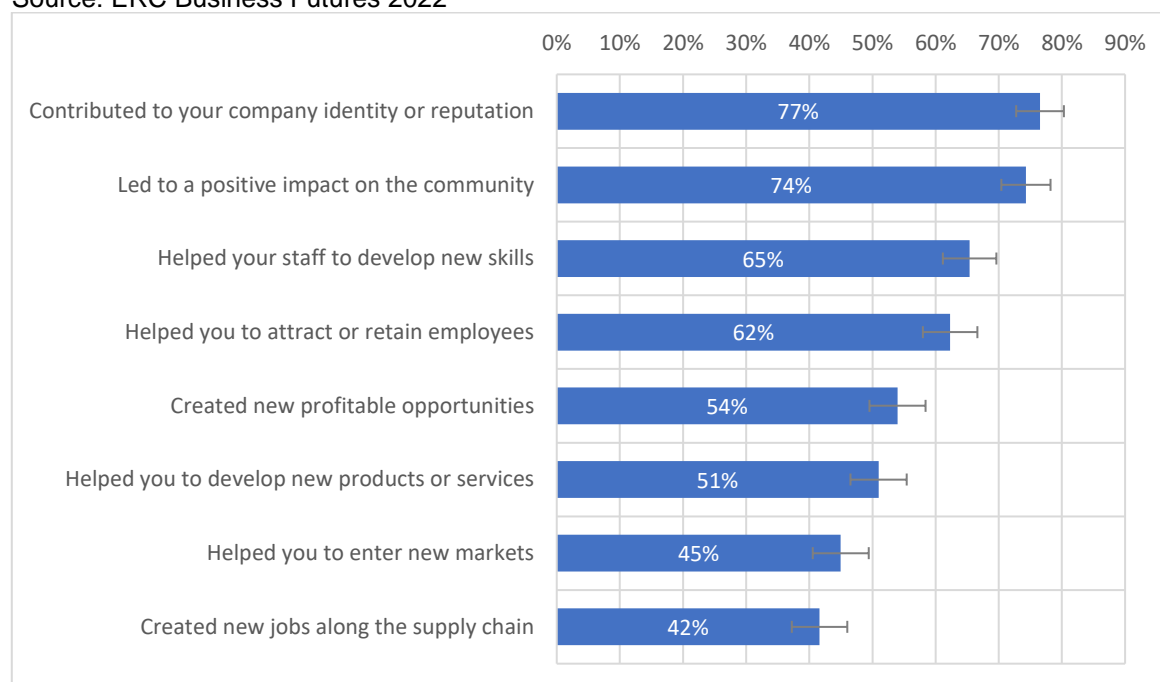
Source: ERC Business Futures 2022

Base: All firms (1,003), 213 micro (5 to 9 employees), 537 small (10 to 49 employees), 253 medium (50 to 249).

UK SMEs evaluated the outcomes of their prosocial activities positively. Thus, around 3 in 4 firms undertaking steps to generate social and community benefits, said that this resulted in a positive impact on the community, but also positively affected firm's identity and reputation (Figure 24). Other internal benefits for the business were also considerable, with 62 per cent of firms saying that it helped to attract and retain employees and 65 per cent reporting skills development by employees. Moreover, more than half of businesses actively engaged in prosocial activities also reported product or service innovation (51%) and opening up of new business opportunities (54%) as a result. As Figure 26 shows, the last two outcomes were significantly more likely to be reported by larger businesses. This was also true for creation of new jobs along the supply chain and new market entry.

Figure 24. Outcomes of business activities to generate social and community benefits

Source: ERC Business Futures 2022

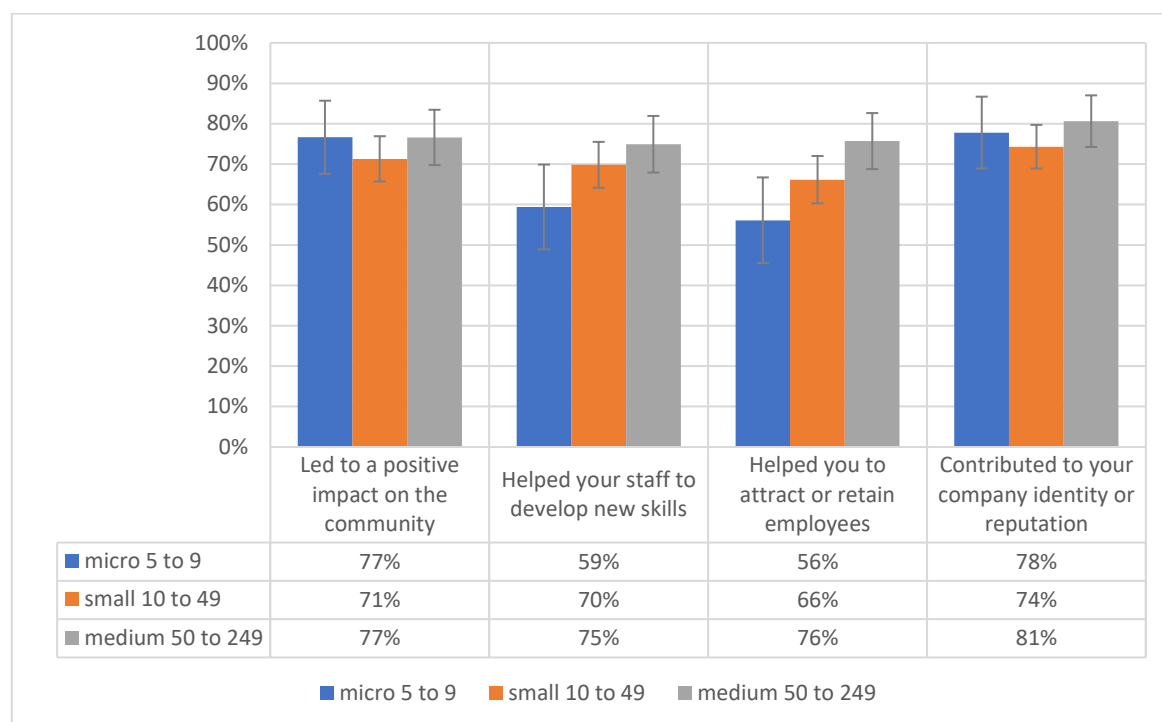


Source: ERC Business Futures 2022

Base: firms undertaking steps to generate social and community benefits (485); black bars indicate 95% confidence intervals.

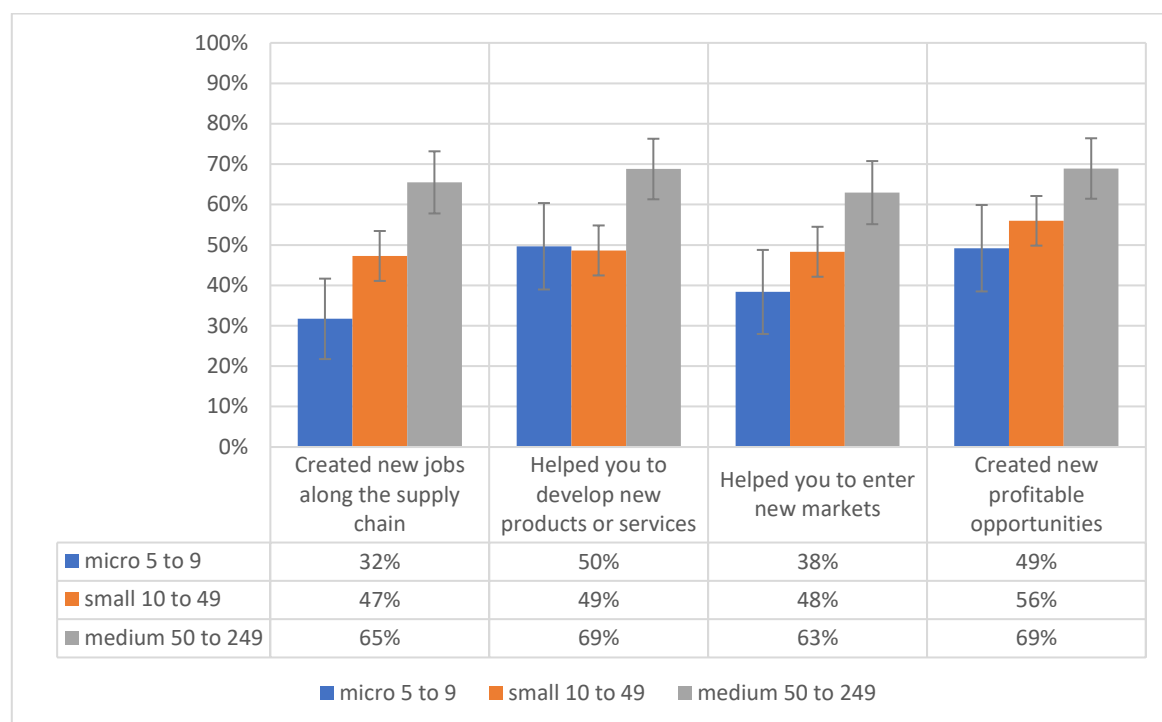
The beneficial outcomes of social and community benefits are spread more evenly across firm size than the benefits of Net Zero. Community impact and company reputation had similar outcomes for micro, small and medium sized firms. Although medium sized firms seem to reap greater benefits from social and community practices than micro and small firms in terms of staffing issues, these differences were not significant.

Figure 25. Outcomes of business activities to generate social and community benefits by firm size
(1)



As mentioned earlier, firm size differences were evident in innovation benefits. Medium sized firms were more likely to report that they created new jobs along the supply chain, developed new products or services and created new profitable opportunities from their social and community activities.

Figure 26. Outcomes of business activities to generate social and community benefits by firm size (2)



Source: ERC Business Futures 2022

Base: firms undertaking steps to generate social and community benefits (485), 85 micro (5 to 9 employees), 252 small (10 to 49 employees), 148 medium (50 to 249) black bars indicate 95% confidence intervals.

6. DISCUSSION AND CONCLUSION

Attitude to Action Gap

The overwhelming majority of UK SMEs (89%) reported considering environmental implications at least sometimes when taking business decisions; and four in every five UK SMEs take social factors into account at least sometimes in making business decisions. However, we show an 'attitude to action gap'. Barriers to reducing environmental impact include cost, and information and skill requirements. Knowing where to get reliable information matters. Future work will investigate the 'attitude to action gap' with a multivariate analysis including firm characteristics and the role of information.

Priorities to Action

Priorities remained similar in the survey findings across the two years, with some reductions in innovation from 2020 to 2022. The link between priorities, considering issues in decision-making and actions were not always clear. We can illustrate this using the

example of environmental impact and ethnic minority led businesses. Although fewer ethnic minority firms prioritised reducing their environmental impact, their attitude to action gap was smaller. Figure 9 shows more ethnic-minority businesses undertook steps to reduce their environmental impact. The breadth of the priorities may enable the business to perform actions as an indirect result of other activities (Kay, 2011). For example, businesses prioritising cost reduction, may adopt more cost-effective energy solutions and introduce changes in production and distribution processes which might enable reductions in environmental impact. Future work will consider clusters of firms based on their business priorities to investigate how these influence the subsequent firm actions. We expect that firms with focus on optimising processes and cost reduction will be more likely to reduce their environmental impact; whereas firms prioritising innovation may enhance their reputation through social responsibility actions.

Female-led and Ethnic-Minority-led businesses

The report highlighted different environmental and social attitudes of female-led and ethnic-minority-led businesses. Future research will develop a multivariate analysis to ascertain how significant these firm characteristics are in the shift towards reducing environmental impact and enhancing social responsibility.

Urban and rural businesses

Rural businesses were more likely to prioritise environmental, social and digital goals than urban firms. Interestingly, this difference appears to be driven by young rural firms. In rural areas firms under ten years old were much more likely to both consider the environmental impact and take steps to reduce it, and were almost equally likely to consider social implications and act to generate social benefits. Future research is needed to examine what drives this new generation of rural firms to be more socially and environmentally engaged and what implications it may have for rural areas.

Finally, the research findings overall reiterate the breadth of benefits which can accrue to SMEs from the adoption of the steps to reduce environmental impact and practices to enhance the business' social responsibility, with important implications for policymakers seeking to create behaviour change.

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