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More than resilience: Views of Northern Ireland SMEs towards environmental and social impact

ERC Research Report

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More than resilience: Views of Northern Ireland SMEs towards environmental and social impact

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EXECUTIVE SUMMARY

This report presents some headline results from the second wave of the Business Futures survey¹ on 115 Northern Ireland micro, small, and medium-sized enterprises (SMEs²). First, it examines the NI SMEs' business priorities in comparison with the priorities of SMEs from the rest of the UK. Second, it continues the ERC's work exploring environmental practices of SMEs in recognition of the 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 NI 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' gaps in both areas. Finally, the report stresses the breadth of benefits reported by those who adopt more environmentally and socially responsible actions, which demonstrates that achieving net zero and social goals is in fact compatible with other business goals.

Business priorities

- Cost reduction remains the key concern for NI SMEs in the post-pandemic period, especially for micro (5 to 9 employees) and small-sized (10 to 49 employees) firms. Two other priorities about introducing new products/services as well as introducing new processes were also highly reported, followed closely by a concern about reducing environmental impact. In contrast, only less than a third of NI SMEs prioritised generating social and community benefits for people, even though this is still higher than that proportion of SMEs in the rest of the UK (24.3%). Nevertheless, the difference is statistically insignificant.

¹ The survey was conducted by the Enterprise Research Centre (ERC) in February-April 2022. The whole sample includes nearly 1,000 UK SMEs.

² For convenience, in this report we employ the 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.

- To break it down further by firm size, larger NI SMEs seemed to be more concerned with reducing environmental impact; introducing new processes; and introducing new digital technologies. With regards to social priorities, there is no evidence of differences across firm sizes, with around a third of SMEs in each category stating their priority about generating social benefits.
- Cost reduction was even more important for rural firms than for their urban peers (85.2% and 75%, respectively). In contrast, urban firms were more concerned about almost all the other priorities surveyed.
- Our results also show that business owner-manager characteristics play a role in business priorities. In more details, a significantly higher proportion of female-led firms stated their environmental priorities compared to other SMEs (53.1% and 41.1%, respectively). On the contrary, ethnic minority-led firms focused more on introducing new products/services, as well as introducing new digital technologies, while they seemed to be less preoccupied with social and environmental priorities than other SMEs.

Environmental responsibility

- More than three quarters of NI SMEs had been considering environmental implications at least sometimes when making business decisions (77.2%). However, it varies across firm sizes, with a significantly lower proportion of micro firms reporting environmental considerations. Additionally, the proportion of NI SMEs that had actually engaged with taking steps towards environmental sustainability is also lower, at 56.1%.
- While a higher proportion of rural firms stated that they considered environmental impacts in their business decisions, the proportion of firms actually taking steps to reduce environmental impact is higher in urban areas. However, these differences are statistically insignificant.
- Interestingly, those NI SMEs who already started their net zero commitment, were also more likely to cite barriers constraining them on this journey. We believe this is attributable to the fact that some obstacles may be unforeseen at the beginning and the adoption of new practices is often accompanied by a valuable learning-by-doing process. In this sense, it is not surprising that over half of those firms who

have not considered the environmental implications of their business, also do not identify specific obstacles to future environmental action.

- Apart from the Covid-19 pandemic, some other most frequently cited barriers include the cost of meeting regulations; the lack of information on low carbon technologies; and the lack of relevant skills.
- Knowing where to get reliable information matters for the ability of NI SMEs to take environmental action. The most popular source of reliable information for all groups was from government support schemes or websites (reported by 67.4% of NI SMEs surveyed). Two other sources which were also highly reported by more than half of NI SMEs are: (1) Professional and industry associations, or other professional peer networks, and (2) Specialised consultants.
- The outcomes of net zero practices are not confined to the reduction in carbon emissions, although this is the most likely outcome for both NI SMEs and SMEs in the rest of the UK (61.7% and 74.2%, respectively). The steps also contribute to the company's identity and reputation, the second most reported outcome for both regions, as well as helping staff to develop new skills and creating new profitable opportunity for those firms.

Social responsibility

- Approximately four in five NI SMEs 'always' or 'sometimes' take into account social factors when making business decisions. In particular, one in four SMEs surveyed always consider social responsibilities. However, these figures also vary slightly by firm size, with medium-sized businesses being more likely to consider social implications (97%) than small-sized (81.2%) and micro (78.3%) firms.
- Similar to the environmental considerations reported above, not all the firms who consider social implications in their business decisions are also actively engaged in socially responsible practices. In fact, less than half of NI SMEs (43.4%) reported that they undertook steps to actively generate social benefits for people and communities over the last year.
- When looking at differences by ownership/management team characteristics, higher proportions of female-led SMEs reported both their consideration and

commitment to pro-social steps than other firms. A similar pattern can be found for ethnic minority-led SMEs.

- When asked about how the Covid-19 pandemic affected their pro-social actions, nearly half of respondents said that it did not change their actions in this area, while 21.5% reported a decrease and 28.8% stated an increase. This varies by firm size however: medium-sized firms were more likely to say that they increased their pro-social actions due to the pandemic (37.7%) compared to micro (25%) and small-sized firms (29.2%).
- To break it down further, the data shows that the pandemic seemed to make those who were already socially responsive increase the intensity of their engagement, while having only limited influence on other SMEs.
- With regards to the outcomes, approximately three in four SMEs undertaking steps to generate social and community benefits said that this resulted in a positive impact on both the community and also the firm's identity and reputation. Besides, while NI SMEs seemed to benefit more as these activities helped their staff to develop new skills, a significantly higher proportion of SMEs in the rest of the UK reported their gain from developing new products and services as well as creating new jobs along the supply chain.

1. Introduction

The post-Covid pandemic era has raised the necessity of committing to environmental sustainability and social responsibility for firms. This is in line with the key focuses stated in the Department for the Economy's strategic 'A 10x Economy' plan: "to bring our motivations of innovation, life chances and wellbeing together the vision is structured in a way to drive growth; tackle the concentration of impacts on those groups least able to absorb the shocks; **increase wider societal wellbeing; contribute towards our response to climate change and meeting net-zero carbon emissions;** and be relevant to the challenges that we are facing in our society, environment and economy."³

This target, no doubt, requires considerable commitment from all actors in society. As the Northern Ireland economy is dominated by small and medium-sized enterprises⁴ (SMEs), they play a crucial role in the government's environmental and social plan. However, as stated in a recent Lloyds's report: "SMEs recognise the importance of sustainability, but they face significant barriers when it comes to turning their ambition into a reality".⁵ Therefore, we believe it is important to understand NI SMEs' business priorities, attitudes and current practices towards environmental and social responsibilities.

In this report, utilizing new data from recent ERC Business Futures survey 2022, we present some insights on these aspects. Most importantly, our results indicate that there are gaps between SMEs' consideration and commitment to steps towards environmental sustainability and social responsibility. Besides, even though there are several barriers, NI SMEs did indicate quite a few positive outcomes from their commitment towards these targets.

³ [DfE: A 10x economy: Northern Ireland's decade of innovation](#)

⁴ As indicated in DBEIS - Business Population Estimates 2021, 99.86% of all firms in Northern Ireland employ fewer than 250 employees. Source: [National Statistics: Business Population Estimates 2021](#)

⁵ [Lloyds: From Now to Net Zero - A Practical Guide for SMEs](#)

2. Business Futures survey 2022 and the Northern Ireland sample

The analysis utilizes 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 three main themes: (1) SMEs' business priorities; (2) the environmental practices and outcomes, and (3) to shed some light on socially oriented activities of UK SMEs. The data was collected from around 1,000 SMEs⁶ across the UK by using mixed methods - 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 pro-social behaviour of SMEs.

The Northern Ireland sample contains information from 115 SMEs. The sample focused on private sector firms employing between 5 and 250 employees, of which 30 were micro businesses (5 to 9 employees), 51 small-sized (10 to 49 employees) and 34 medium-sized businesses (50 to 249 employees). With regards to manager-owner characteristics, 34 NI SMEs are female-led, while only 10 firms are led by ethnic minority group. The rural/urban separation is a bit more balanced, even though the sample decreases to only 66 firms, with 46 of them from urban area.

While the report provides some insights into Northern Ireland SMEs' business priorities as well as attitude and commitment towards environmental and social responsibilities, the small sample size of only 115 Northern Ireland SMEs must be acknowledged. Even though all observations are weighted, in order to provide representative results with some regional comparisons, any generalised conclusion should be carefully derived.

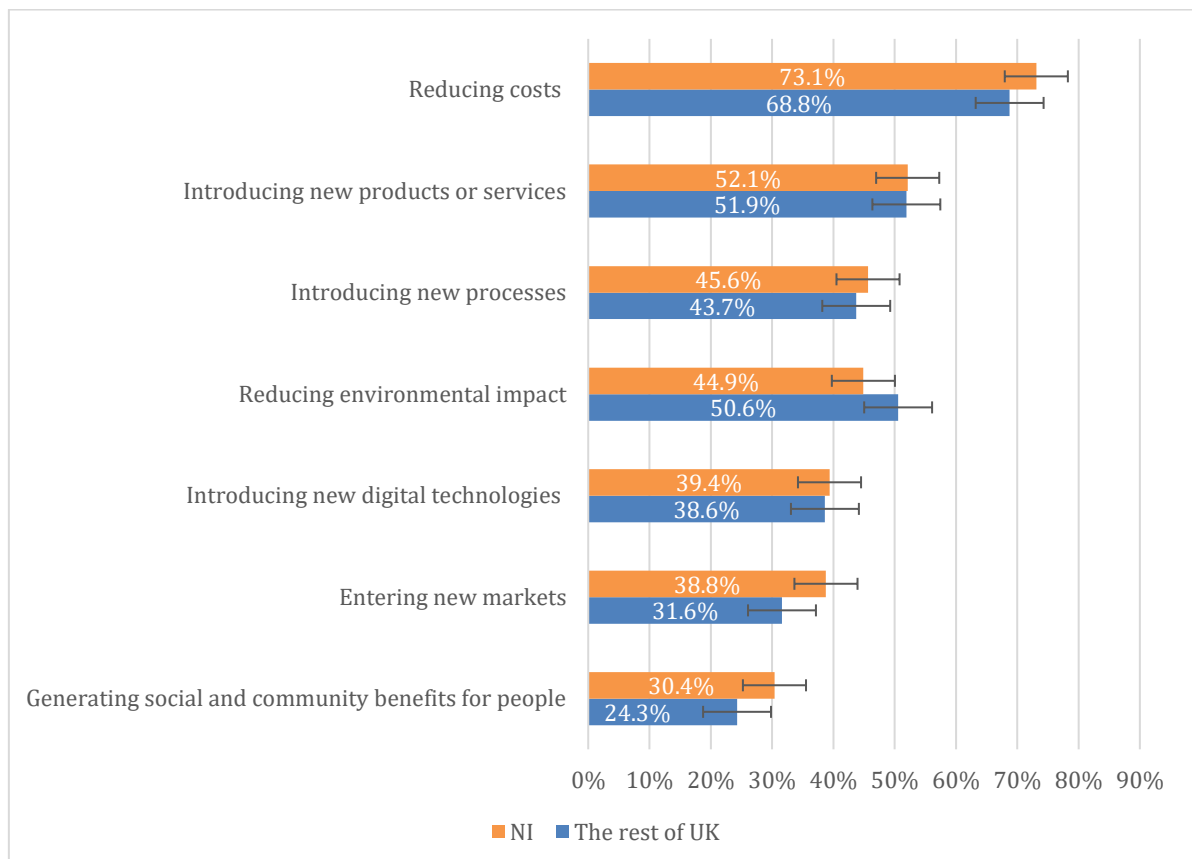
⁶ Northern Ireland SMEs were overrepresented in the sample relative to the rest of the UK to enable regionally specific analysis. In this study, in order to provide results which are representative of the UK population of SMEs, observations were weighted.

3. Business priorities of Northern Ireland SMEs

The Business Futures Survey 2022 investigated the strategic priorities of UK SMEs in the preceding 12 months. Probably due to the remaining effect of the Covid-19 pandemic, Figure 1 shows that *cost reduction* remains the key concern for nearly three quarters of NI SMEs as well as almost 70% of SMEs in the rest of the UK. Two other priorities of *introducing new products or services*, and *Introducing new processes* were also reported strongly by roughly half of SMEs in NI and the UK.

Besides, notably, a significant proportion of both Northern Ireland SMEs (44.9%) and SMEs in the rest of the UK (50.6%) expressed *reducing environmental impact* as another important priority. In contrast, only a quarter of SMEs in the rest of the UK (24.3%) prioritised *generating social and community benefits for people*, while this proportion is slightly higher in Northern Ireland (30.4%), however the difference is statistically insignificant.

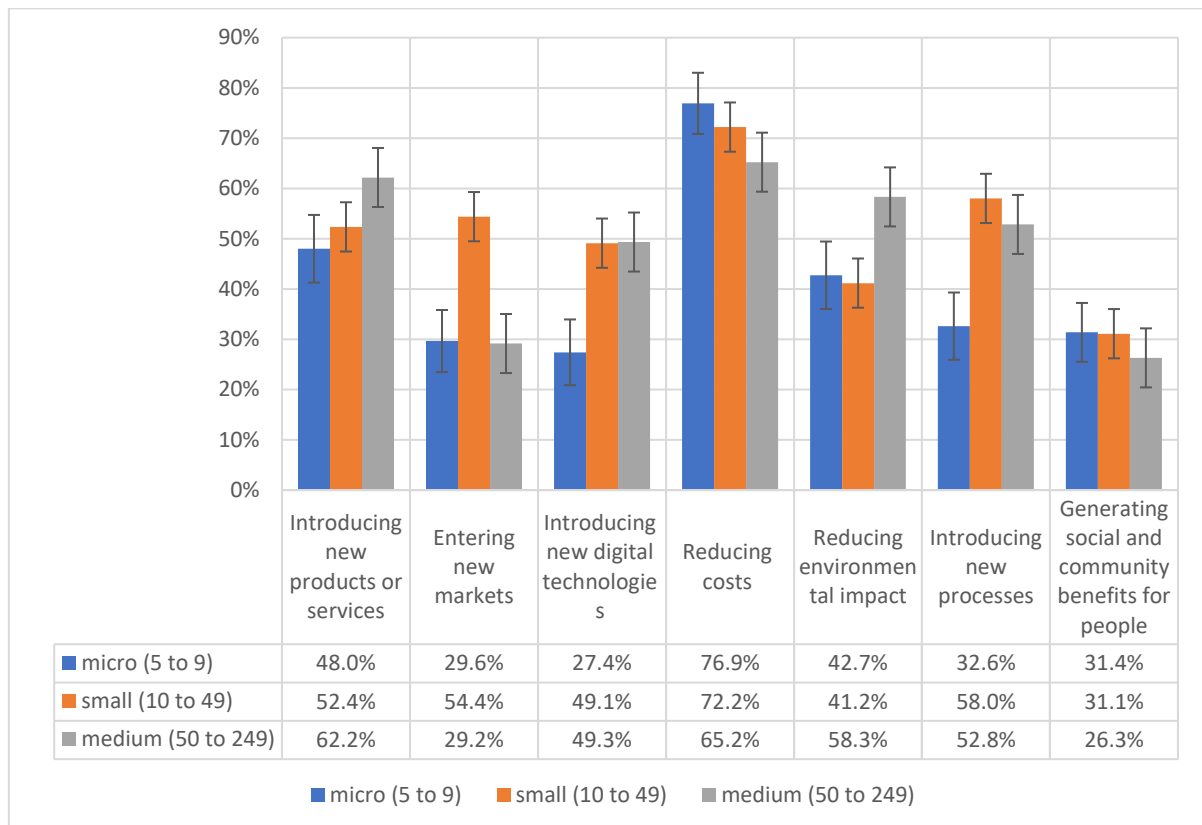
Figure 1: SMEs' priorities: Northern Ireland compared to the rest of the UK (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

Figure 2 shows some differences in NI SMEs' priorities by firm size. While smaller SMEs were more preoccupied with *cost reduction*, larger NI SMEs seemed to be more ambitious in *reducing environmental impact* and *introducing new processes* as well as *introducing new digital technologies*. With regards to *social priority*, there is no statistically significant difference detected from Figure 2, where around 30% of SMEs in each category stated their concern about generating social benefits.

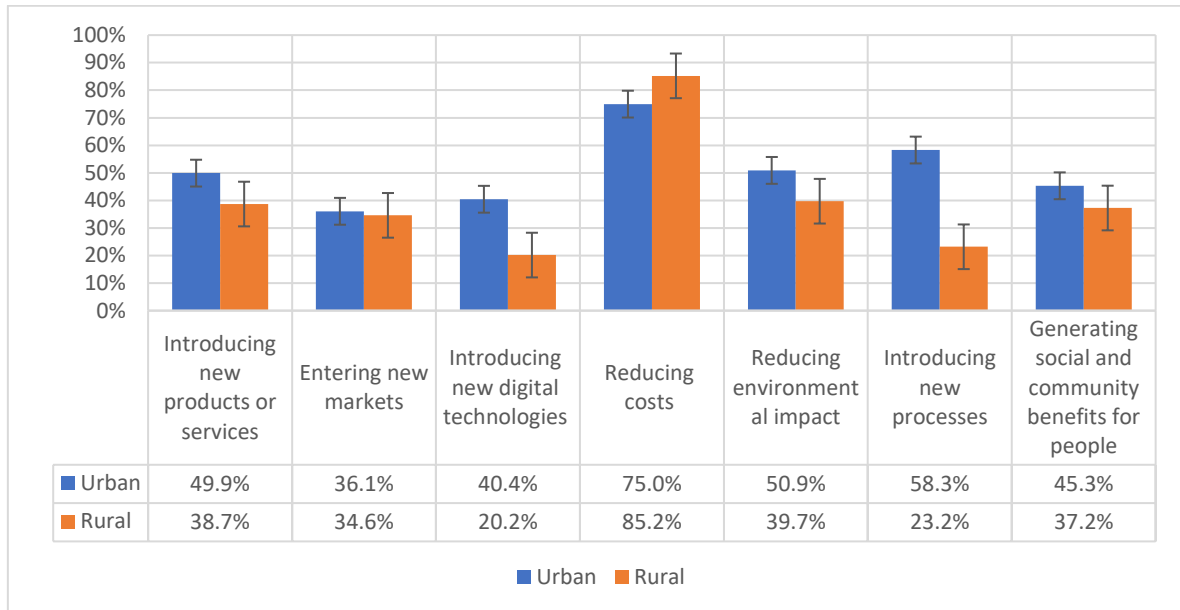
Figure 2: Business priorities by firm size (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

As shown in Figure 3, *cost reduction* was even more concerning for rural firms than for their urban peers (85.2% and 75%, respectively). In contrast, urban firms were more ambitious in almost all the other priorities surveyed. Nevertheless, the differences between urban and rural firms about these priorities are mostly insignificant, especially when considering the social and environmental ones.

Figure 3: Business priorities by urban/rural firms (black bars indicate 95% confidence intervals)

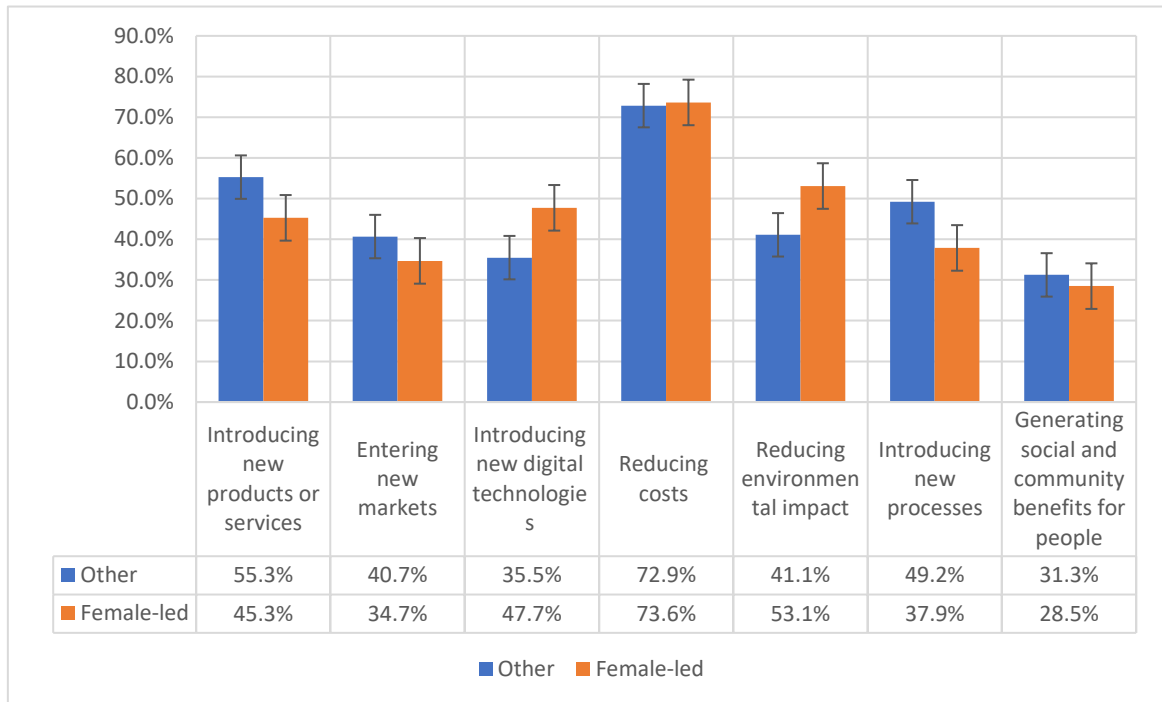


Source: ERC Business Futures 2022

Figures 4 and 5 show that business owner/manager characteristics also played a role in NI SMEs' priorities. A higher proportion of female-led firms stated their environmental priorities compared to other SMEs (53.1% and 41.1%, respectively). On the contrary, female-led firms were less likely to prioritise *introducing new product or services* as well as *introducing new processes*, even though they put more emphasis on prioritizing *introducing new digital technologies*.

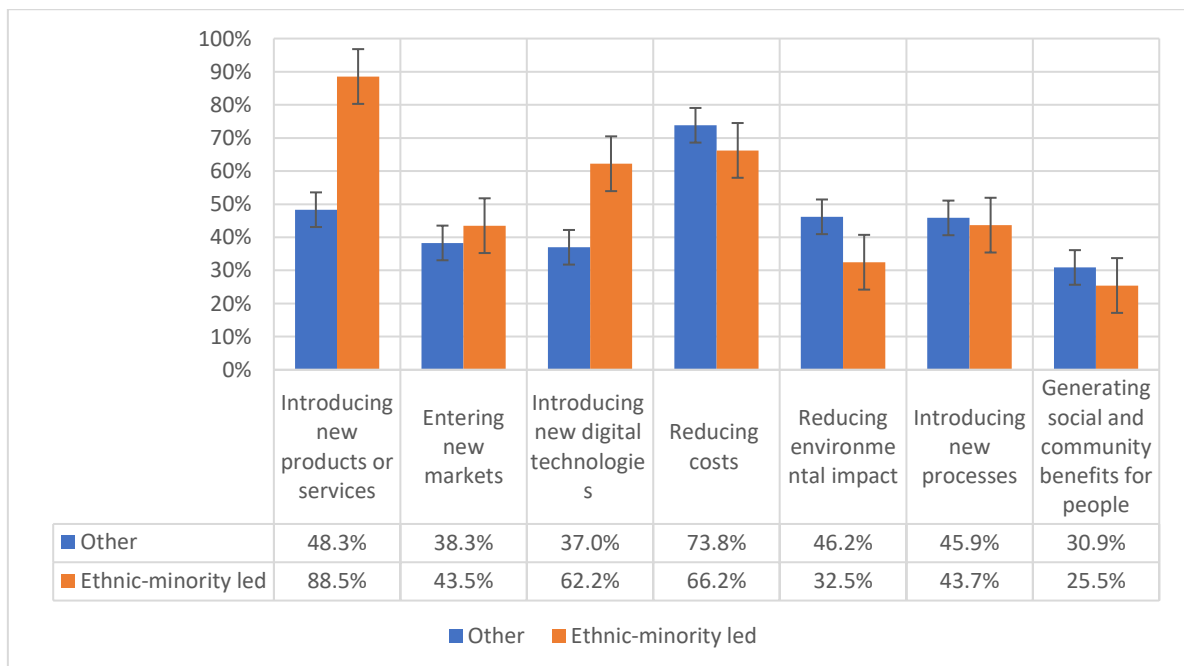
Similarly, ethnic minority-led firms indicated some different priorities with their peers. They focused significantly more on *introducing new products or services* (88.5%), as well as *introducing new digital technologies* (62.2%). However, they seemed to be less preoccupied with social and environmental priorities than other SMEs.

Figure 4: Business priorities: female-led versus other firms (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

Figure 5: Business priorities: Ethnic minority-led versus other firms (black bars indicate 95% confidence intervals)

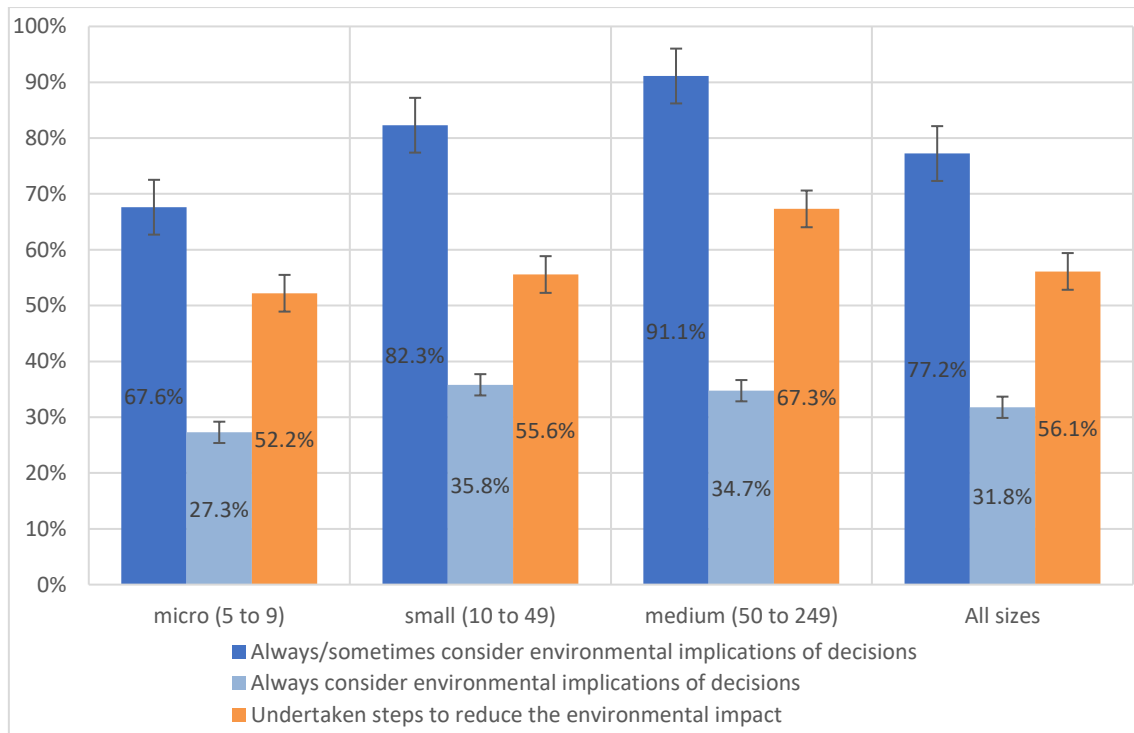


Source: ERC Business Futures 2022

4. SMEs and environmental sustainability

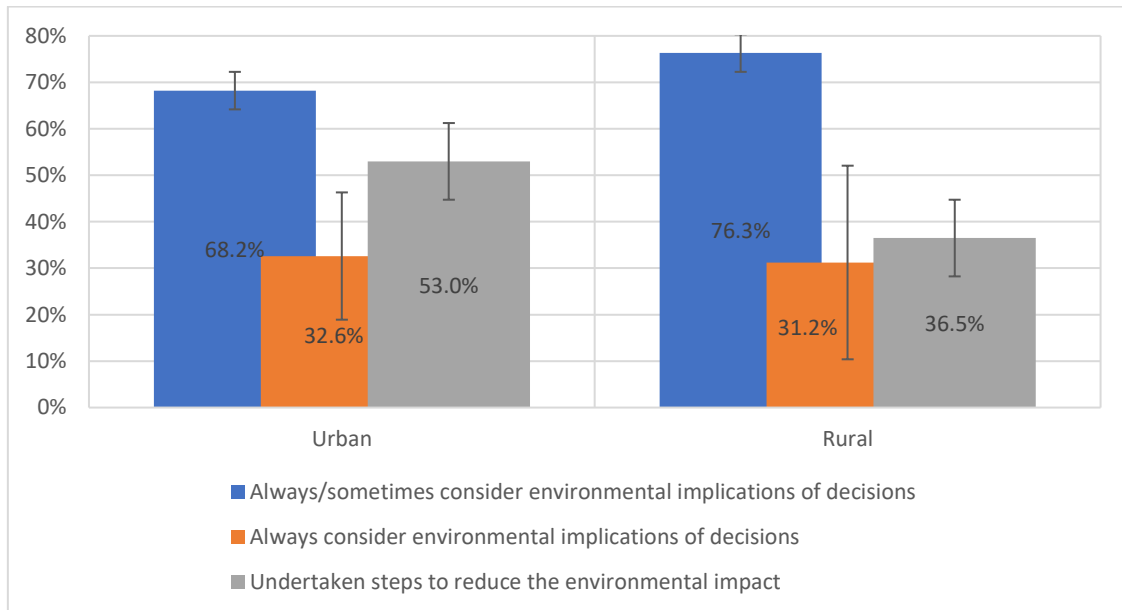
Figure 6 indicates that more than three quarters of NI SMEs had been considering environmental implications at least sometimes when making business decisions (77.2%). However, while this consideration was found in almost all medium-sized firms surveyed (50 to 249 employees), only 67.6% of micro firms (5 to 9 employees) reported it. Similarly, the proportion of micro firms said that they always consider environmental impact in their business decisions is significantly smaller than that of small and medium-sized firms. Besides, the proportion of NI SMEs that had actually engaged with taking steps towards environmental sustainability is lower, just 56.1% across all firm sizes.

Figure 6: Environmental impact – gap between considering environmental implications and environmental action (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

Figure 7: Environmental impact – gap between considering environmental implications and environmental action: urban versus rural firms (black bars indicate 95% confidence intervals)

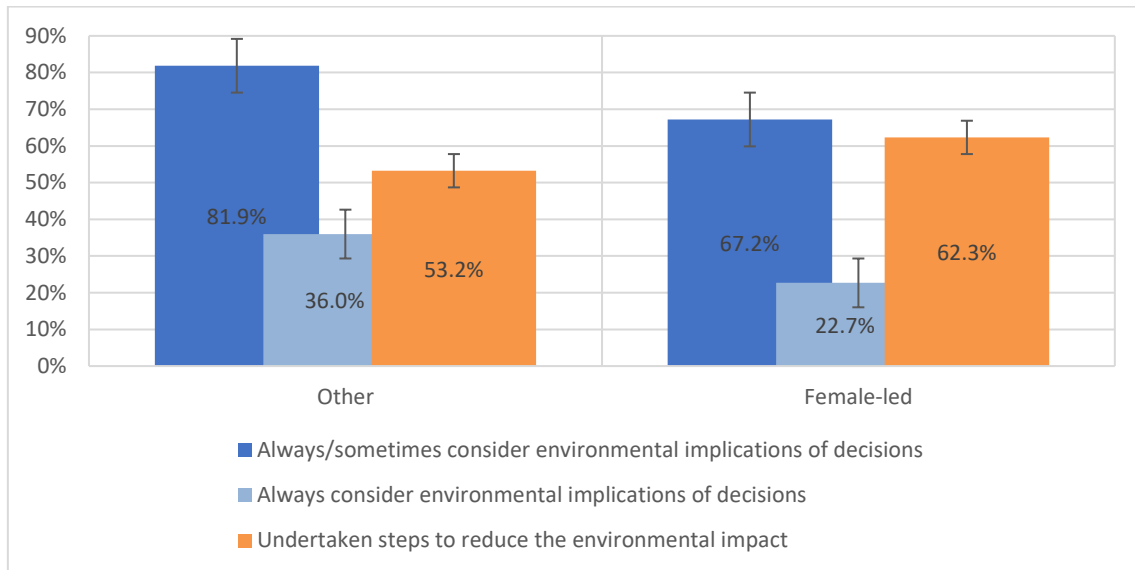


Source: ERC Business Futures 2022

In the case of urban versus rural firms, Figure 7 indicates that while a higher proportion of rural firms stated their consideration about environmental impacts in their business decisions, the proportion of firms that have taken steps to reduce environmental impact is higher in urban areas. However, the differences here are statistically insignificant. Besides, nearly one third of firms in both urban and rural areas confirmed that they always consider environmental sustainability in their decision-making process.

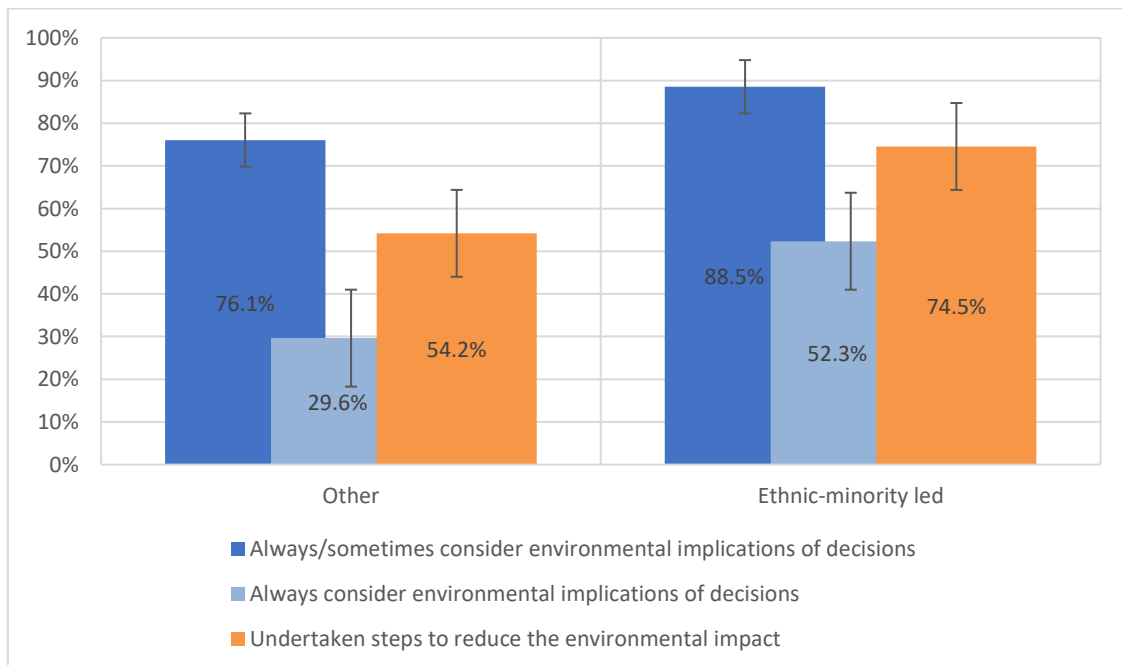
Turning to owner/leader characteristics, Figure 8 shows that less female-led SMEs reported their consideration about environmental sustainability in business decisions than their peers. However, they actually engaged more with taking steps to reduce environmental impact. Differently, higher proportions of ethnic minority-led firms reported their consideration about environmental impact in business decisions as well as their engagement in different steps towards reducing it, even though, again, these differences are statistically insignificant (Figure 9).

Figure 8: Environmental impact – gap between considering environmental implications and environmental action: Female-led versus other firms (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

Figure 9: Environmental impact – gap between considering environmental implications and environmental action: Ethnic minority-led versus other firms (black bars indicate 95% confidence intervals)



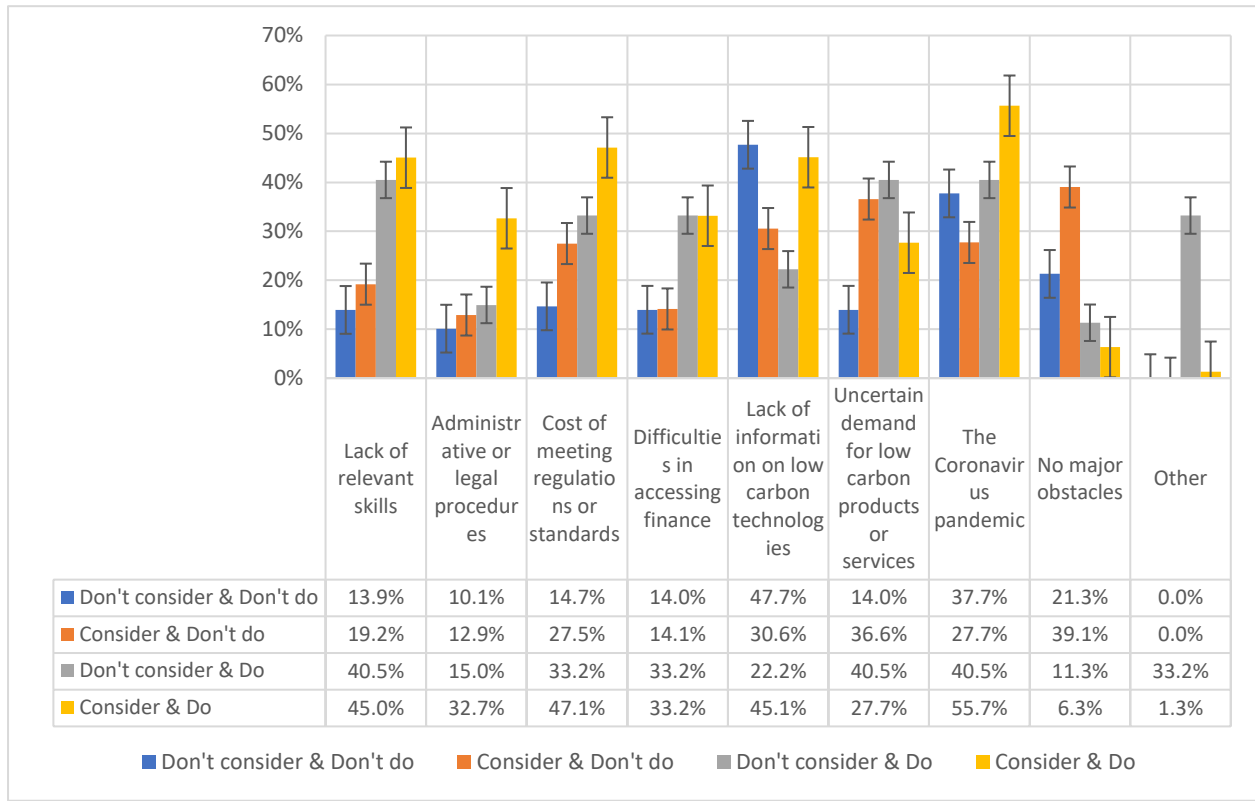
Source: ERC Business Futures 2022

To further examine the barriers that firms may encounter on their environmental sustainability journey, all firms were classified into four distinctive groups:

- The first group, '*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 commitment, were also more likely to cite barriers constraining them on this journey (Figure 10). Apart from the pandemic, some other most frequently cited barriers include the cost of meeting regulations; the lack of information on low carbon technologies; as well as the lack of relevant skills. In particular, the lack of information on low carbon technologies was reported by 47.7% of '*Don't consider & Don't do*' group. Overall, firms classified as being 'in the gap' show lower percentages for these barriers than the '*Consider & Do*' group. Although counterintuitive, this is not uncommon: some obstacles may be unforeseen at the beginning and the adoption of new practices is often accompanied by a valuable learning-by-doing process. In this sense, over half of those NI SMEs which have not considered environmental implications of their business; nor taken any steps to address environmental issues, also identify no major obstacles to undertaking future environmental action.

Figure 10: Barriers to environmental action by categories (black bars indicate 95% confidence intervals)



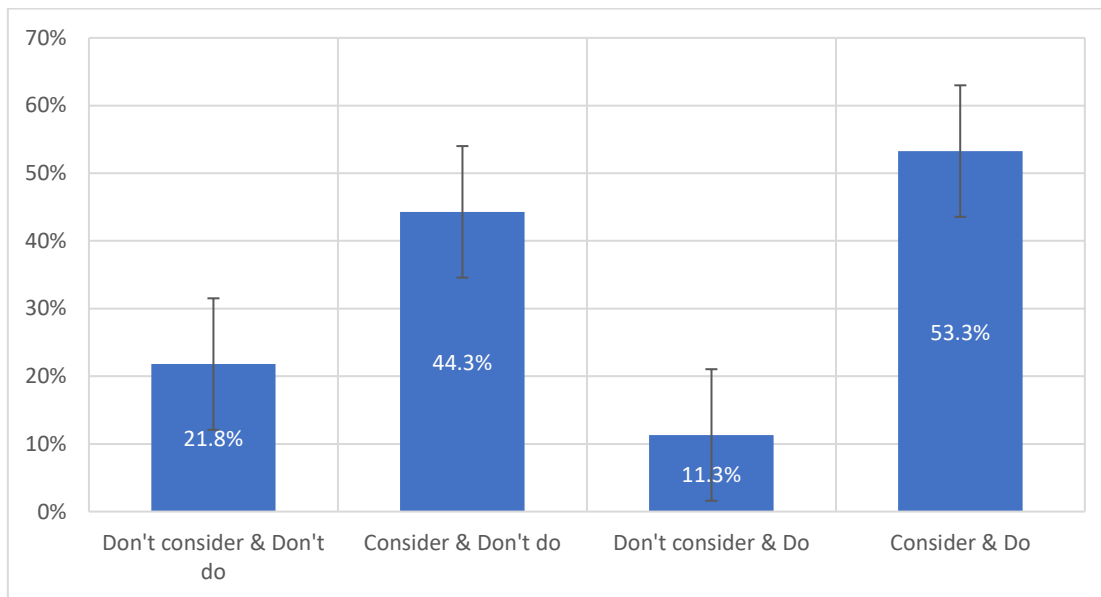
Source: ERC Business Futures 2022

The knowledge of where to find sources of reliable information on low carbon technologies appeared to make a difference in 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 consider and don't do, 44.3% know where to find reliable information; whereas of those who consider and do, the figure is 53.3%. At first sight, finding reliable information might even be as important as intention. However, with regards to those who 'don't consider', the proportion of firms who know where to find reliable information was even higher if they 'don't do'. Therefore, it seems what is most important for NI SMEs is whether there is consideration about environmental sustainability.

Table 1 shows that the most popular source of reliable information for all groups was from *Government support schemes or websites* (67.4%). This was followed closely by *Professional and industry associations, or other professional peer networks* (65.3%). *Specialist consultants* was also reported as another reliable source by more than half of all surveyed SMEs in Northern Ireland. Perhaps the most instructive columns are the 'Consider and don't do' and 'Consider and do'. While the latter seemed to rely more on information from *Government support schemes or websites* (71.3%), the most cited

source of information for the former was from *Professional and industry associations, or other professional peer networks* (74.7%). In addition, those who consider and don't do also reported two other important sources of information: *Customers* (76.4%) and *Supply chain* (60.8%). This information possibly raises some questions around the specific role of support schemes versus online information and the extent to which peers are involved.

Figure 11: Proportion of firms in each category knowing where to find reliable information (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

Table 1: Sources of information by category

	Don't consider & Don't do	Consider & Don't do	Consider & Do	All firms
Government support schemes or websites (e.g. GOV.UK, the Business Climate Hub)	44.2%	63.2%	71.3%	67.4%
Professional and industry associations, or other professional peer networks	77.2%	74.7%	58.3%	65.3%
Specialist consultants	44.2%	55.9%	53.1%	52.1%
Customers	44.2%	76.4%	24.5%	42.4%
Online search or social media community	45.6%	43.8%	37.6%	41.2%
Supply chain	22.8%	60.8%	33.8%	39.9%
Universities or other public research/education institutes	0.1%	45.3%	30.9%	31.9%
Technology companies	44.2%	40.5%	31.7%	34.6%
Friends and family	0.1%	41.1%	9.8%	19.7%

Source: ERC Business Futures 2022

Table 2. Net zero practices adoption rates by firm size

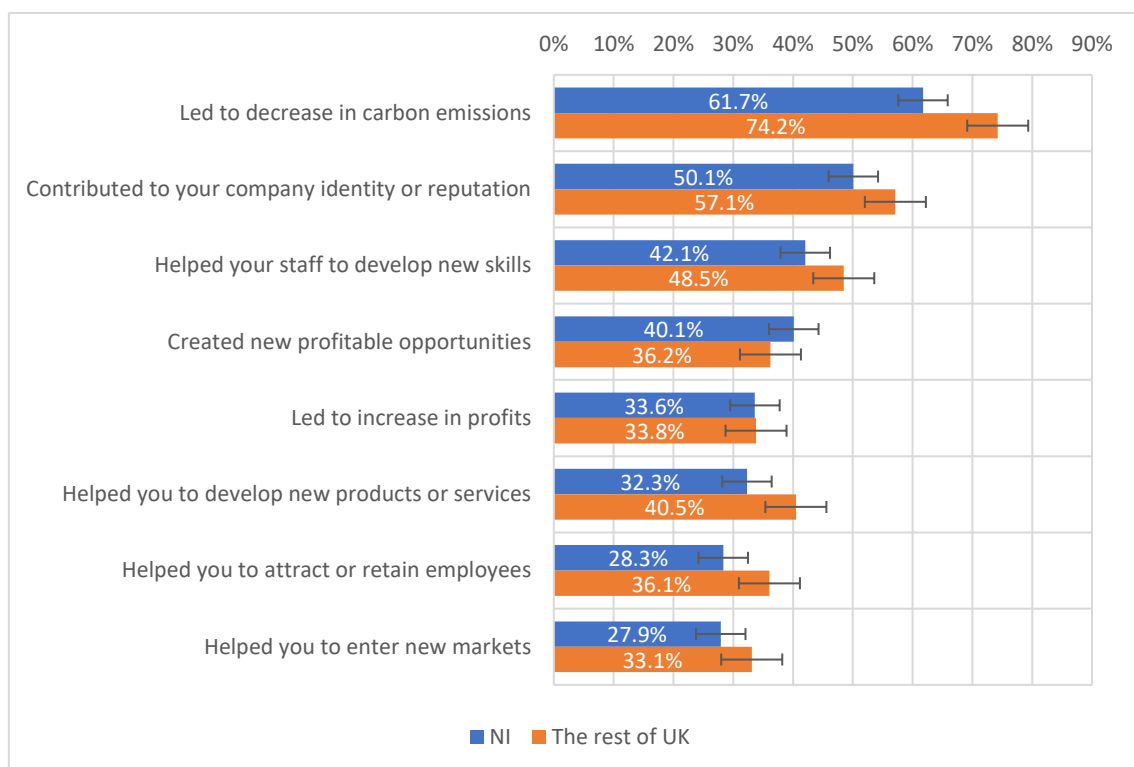
	micro (5 to 9)	small (10 to 49)	medium (50 to 249)	All sizes
No Net Zero	47.8%	44.4%	32.7%	43.9%
Recycled waste, water, or materials (circular economy)	45.6%	37.6%	43.6%	42.3%
Introduced new or improved production processes with environmental benefits	17.8%	27.1%	23.4%	22.3%
Switched to more renewable energy	20.2%	17.2%	35.2%	21.7%
Introduced new low carbon products or services	8.9%	25.4%	14.5%	16.1%
Introduced new or improved delivery, transport, or distribution systems	13.0%	21.3%	8.9%	15.4%
Undertaken environmental reports or audits	6.6%	19.1%	23.2%	14.2%
Conducted training on environmental matters	7.1%	18.0%	20.6%	13.5%
Conducted market research related to low carbon products or services	8.3%	13.7%	8.8%	10.4%
Invested in research and development related to the environment	1.7%	13.3%	14.8%	8.3%
Introduced air pollution monitoring and filtering	2.4%	9.6%	6.0%	5.7%
Other	4.8%	4.1%	3.0%	4.2%
Number of Net Zero practices	1.32	2.02	1.99	1.70

Source: ERC Business Futures 2022

Table 2 shows the adoption of environmental practices by firm size. The first row highlights that a larger proportion of the smallest firms were taking no steps to reduce their environmental impact and the last row confirms that their average number of practices adopted is the lowest. The most popular step was to recycle waste, water or materials, reported by 42.3% of all NI SMEs surveyed. The second most popular step was to introduce new or improved production processes with environmental benefits; followed by switching to more renewable energy. Other steps were more likely to be taken by medium sized firms, such as environmental audits, or conducting training about environmental matters, while a considerable proportion of small sized firms reported their commitment in introducing new low carbon products or services (25.4%).

The outcomes of net zero practices are not confined to the reduction in carbon emissions, although this is the most likely outcome for both NI SMEs and SMEs in the rest of the UK (61.7% and 74.2%, respectively). The steps also contribute to the company's identity and reputation, the second most reported outcome for both regions. In particular, more NI SMEs tended to report the outcome of creating new profitable opportunities, while they fell behind their peers in the rest of the UK for almost all other outcomes, ranging from helping staff to develop new skills to helping SMEs to enter new markets.

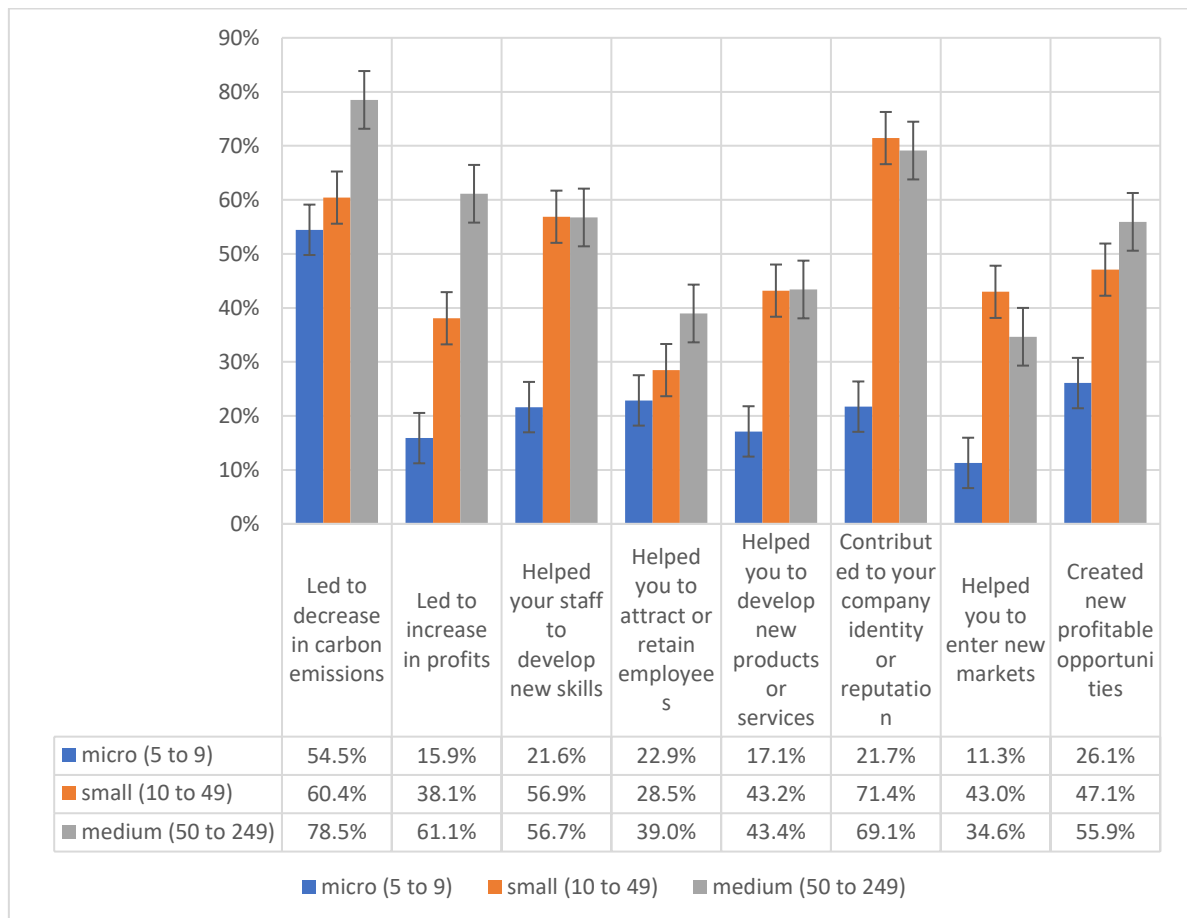
Figure 12: Outcomes of net zero practices (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

However, Figure 13 shows that these outcomes are not spread evenly across firm size. A significantly higher proportion of medium-sized firms in Northern Ireland reported the benefit of reducing carbon emissions, while small-sized firms tended to benefit most in improving their image and reputation. Micro firms, in contrast, reported fewer benefits than their peers, as we can see from Figure 13 with most of the differences being statistically significant.

Figure 13: Outcomes of net zero practices by firm size (black bars indicate 95% confidence intervals)



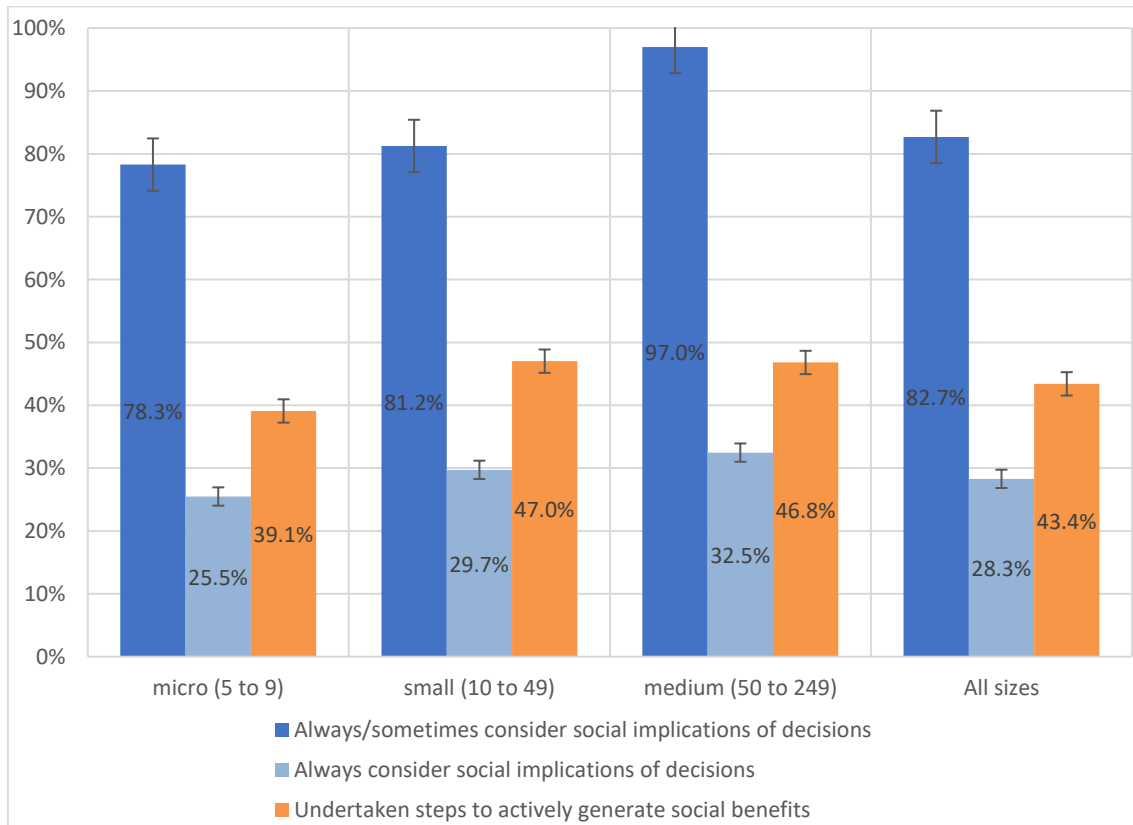
Source: ERC Business Futures 2022

5. SMEs and social responsibility

In the Business Futures 2022 survey we also asked firms how likely they were to consider the social implications of the business decisions they make. Figure 14 shows that approximately four in five NI SMEs ‘always’ or ‘sometimes’ take into account social factors when making business decisions, however only one in four - ‘always’. This varies slightly by firm size with medium-sized businesses being more likely to consider social implications (97%) than small-sized (81.2%) and micro (78.3%) firms.

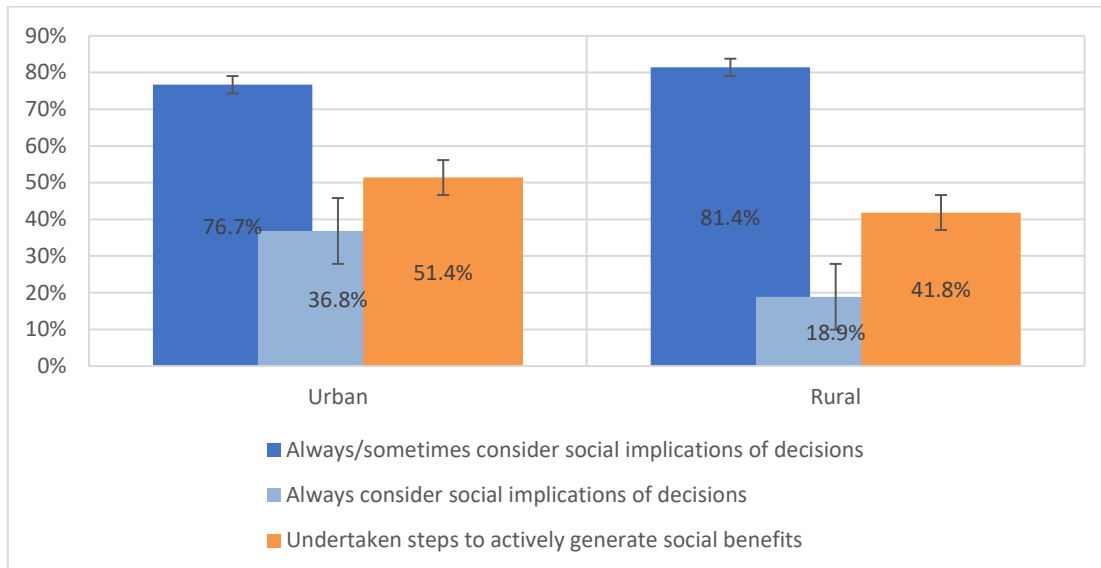
At the same time, not all the firms who consider social implications of their decision-making are also actively engaged in socially responsible practices. In fact, less than half of NI SMEs (43.4%) reported that they undertook steps to actively generate social benefits for people and communities over the last year. Again, larger firms were more likely to undertake pro-social actions compared to micro firms, with the difference being statistically significant at 95% confidence.

Figure 14: Considering social implications of business decisions and active steps to generate social benefits, by firm size (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

Figure 15: Considering social implications of business decisions and active steps to generate social benefits, urban versus rural firms (black bars indicate 95% confidence intervals)

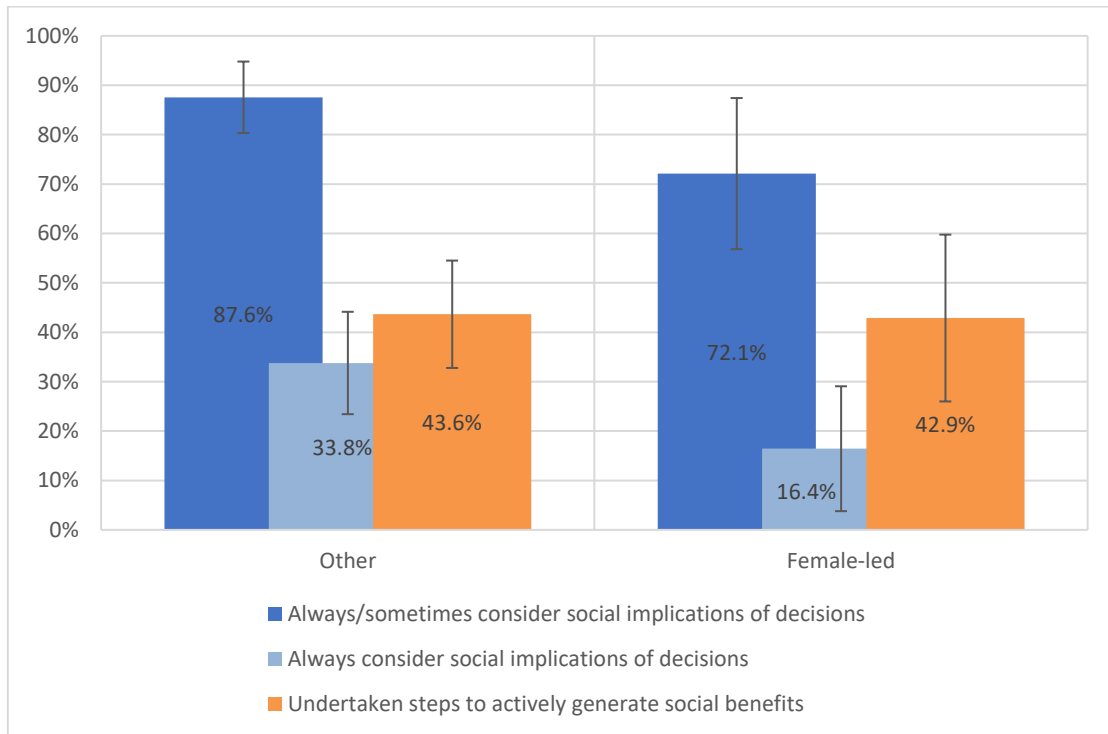


Source: ERC Business Futures 2022

Figure 15 shows that there is no evidence of differences between rural and urban firms regarding their likelihood to consider social implications in decision-making processes. Nevertheless, a higher proportion of urban firms (51.4%) reported their commitment in taking steps towards social influence than their rural peers (41.8%).

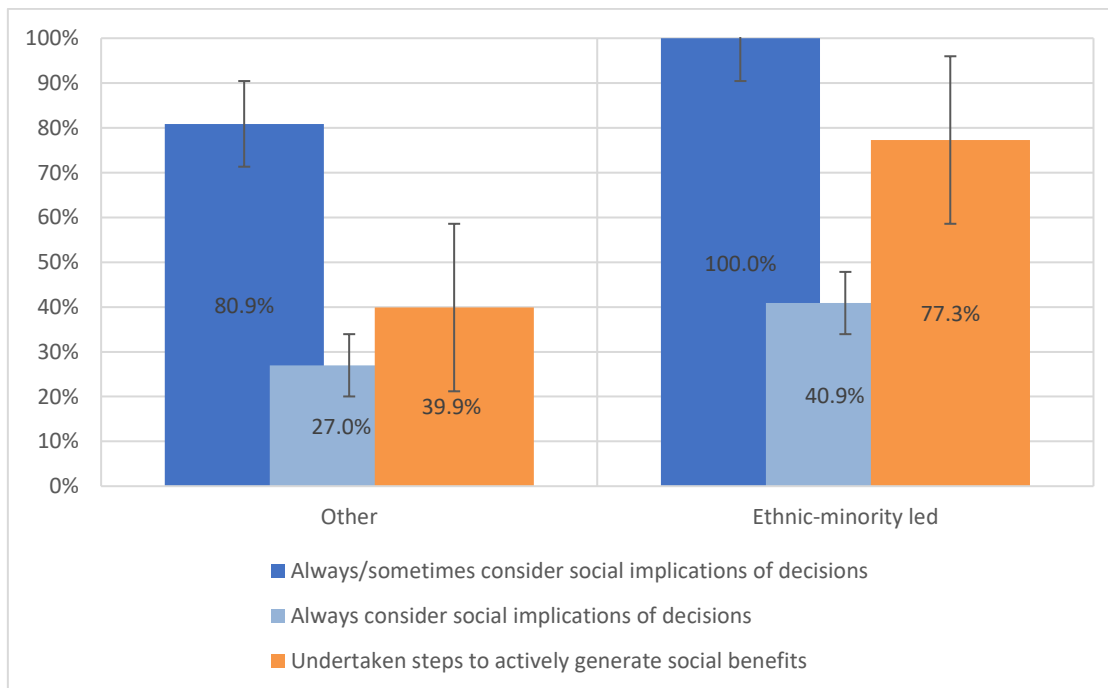
When looking at differences by ownership/management team characteristics, higher proportions of female-led SMEs reported both their consideration and commitment to pro-social steps than other firms. In particular, 33.8% of female-led SMEs reported that they have always considered social impact when making business decisions, in comparison with only 16.4% for others. However, there is no notable difference between the proportions of these two groups reporting their actual commitment to pro-social steps (43.6% and 42.9%, respectively). Besides, Figure 17 shows that more ethnic minority-led SMEs reported both their consideration and commitment to pro-social steps than their peers.

Figure 16: Considering social implications of business decisions and active steps to generate social benefits, female-led versus other firms (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

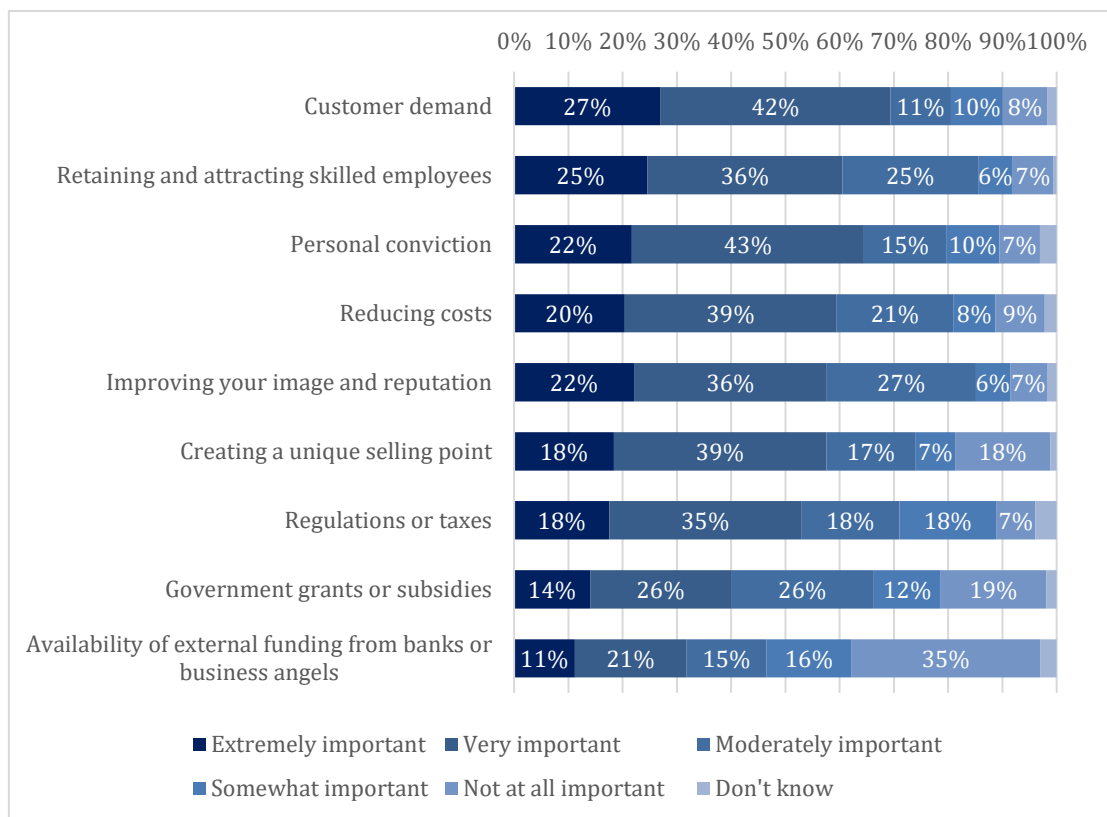
Figure 17: Considering social implications of business decisions and active steps to generate social benefits, ethnic minority-led versus other firms (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

In the survey SMEs were also asked to evaluate the importance of different internal and external factors in influencing business pro-social efforts on a scale from 1 - 'not at all important' to 5 - 'extremely important'. Overall, except from 'Government grants or subsidies' and 'availability of external funding from banks or business angels', all 7 other factors were rated by more than 50% of surveyed SMEs as either 'very important' or 'extremely important' (Figure 18). In particular, two of the most important factors for NI SMEs are 'customer demand' (rated as either 'extremely important' or 'very important' by 69% of NI SMEs surveyed) and 'personal conviction' (65%).

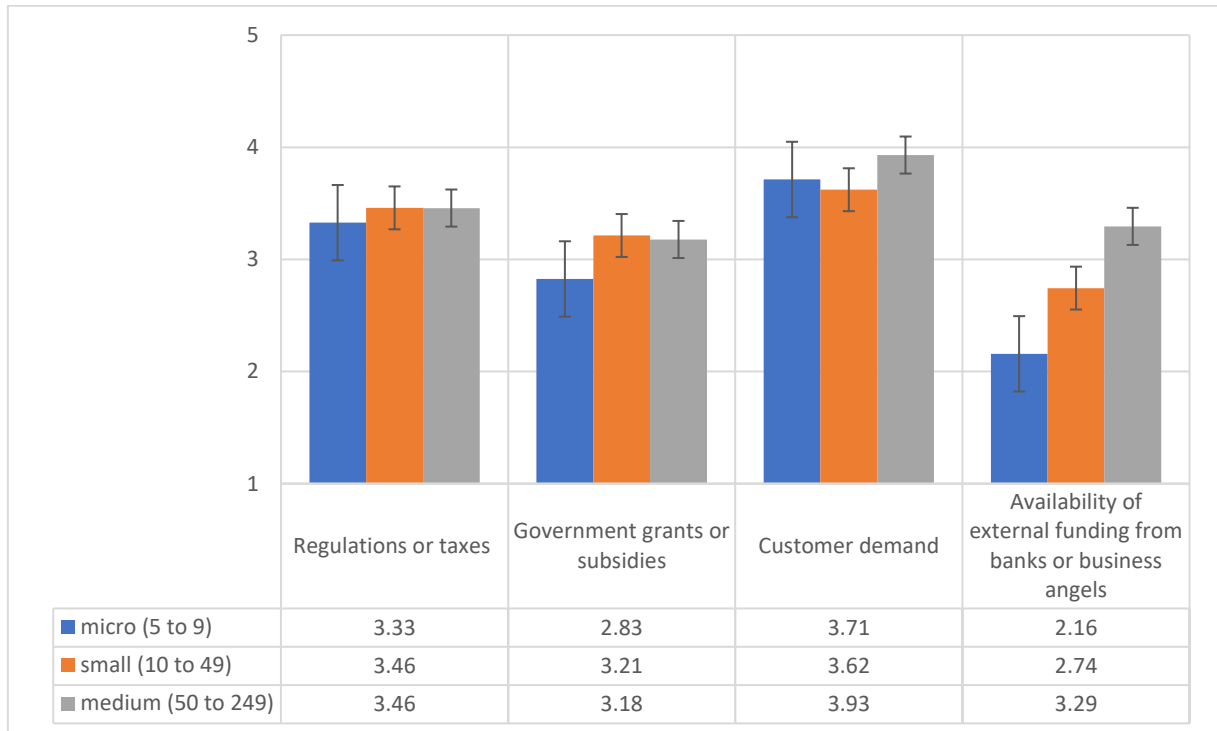
Figure 18: The importance of different factors in influencing business pro-social efforts



Source: ERC Business Futures 2022 (black bars indicate 95% confidence intervals)

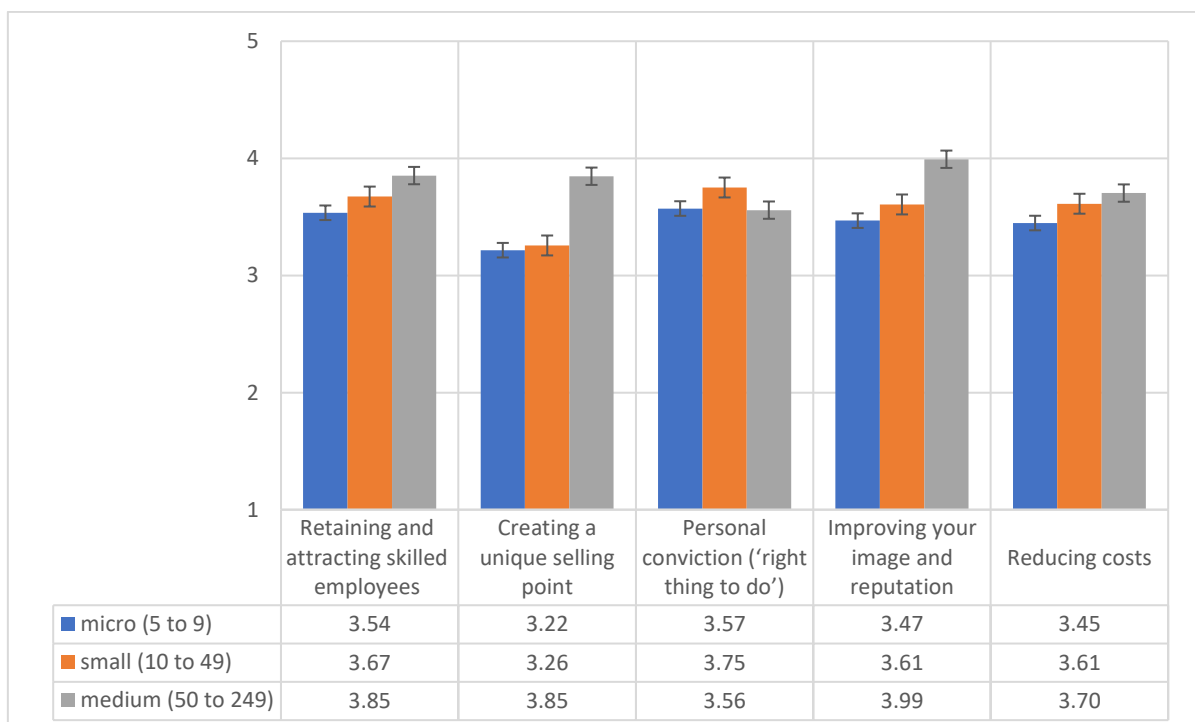
When comparing factors influencing social efforts by firm size, some differences occur. Figure 19, looking at external factors, highlights that the 'availability of external funding from banks and business angels' was reported to be highly important for medium-sized firms, while all the other external factors: 'customer demand'; 'regulations or taxes'; and 'government grants or subsidies' having no statistically significant difference in influence across firms of different size. In contrast, looking at internal factors, Figure 20 shows that medium-sized firms placed greater emphasis on the importance of 'improving image and reputation' as well as 'creating a unique selling point' than small-sized and micro firms.

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



Source: ERC Business Futures 2022

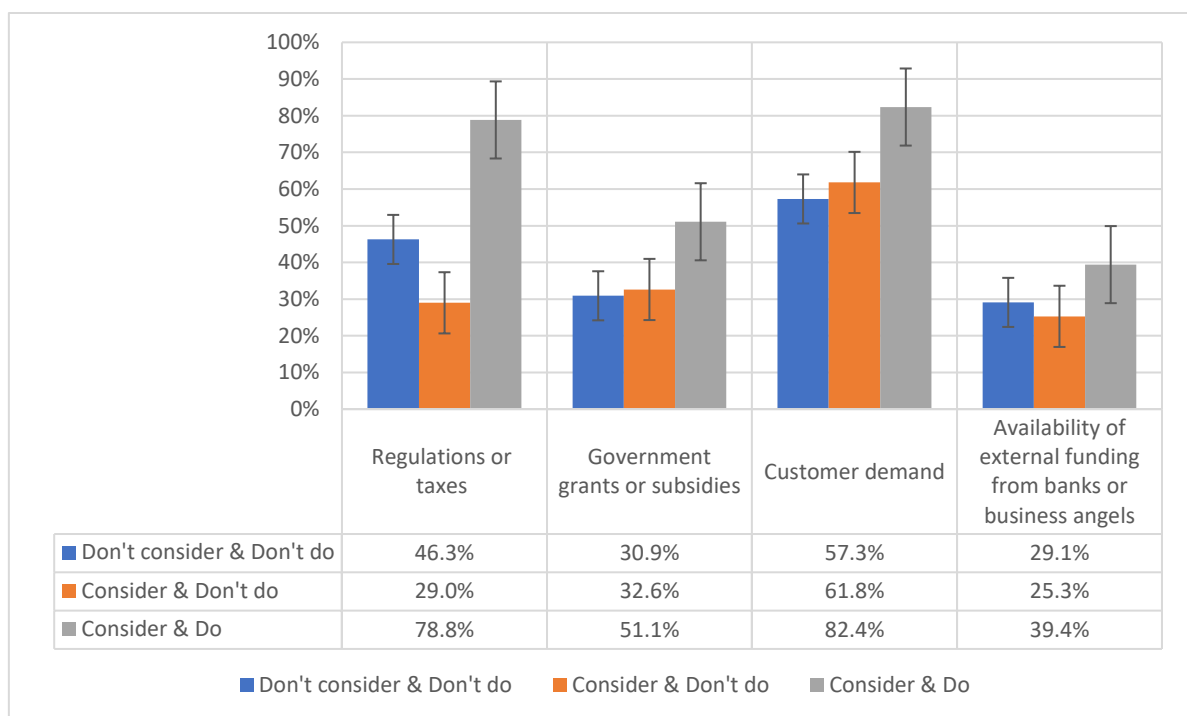
Figure 20: Average importance of internal factors in influencing business pro-social efforts by firm size (on a scale from 1 'not at all important' to 5 'extremely important')



Source: ERC Business Futures 2022

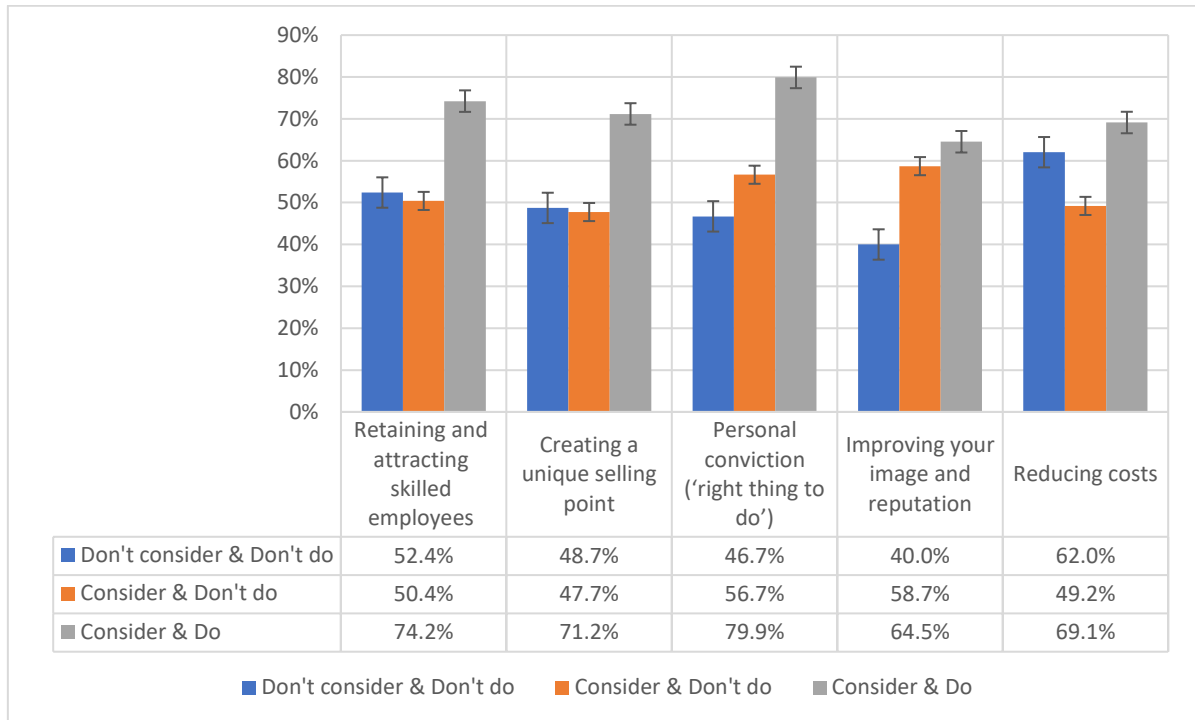
Similar to firm profiles based on environmental attitudes and action, we have also categorised businesses depending on whether they have considered the social implications of their decisions, and whether they have undertaken steps to generate social benefits for people and the community, analysing influencing factors by each category. Figures 21 & 22 show that most of the factors, both internal and external, were reported to be highly important for more firms under the 'consider & do' category. In particular, 82.4% of 'consider & do' SMEs reported 'customer demand' to be a highly important factor, and 79.9% of NI SMEs in this category reported the same for 'personal conviction'.

Figure 21: Percentage of firms in pro-social behaviour profiles attributing high importance ('very important' and 'extremely important') to external factors



Source: ERC Business Futures 2022

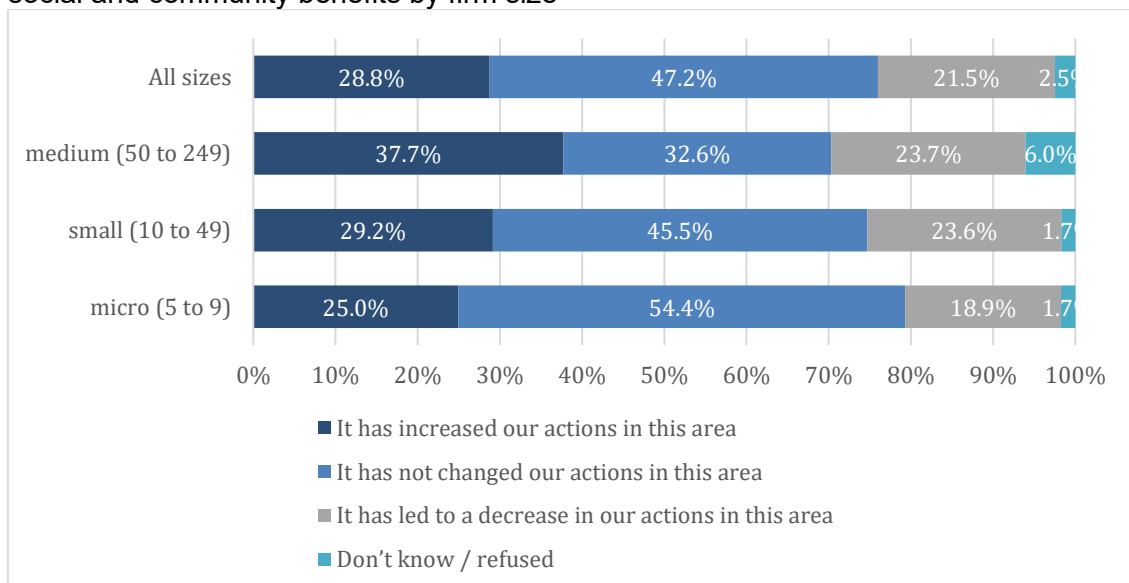
Figure 22: Percentage of firms in pro-social behaviour profiles attributing high importance ('very important' and 'extremely important') to internal factors



Source: ERC Business Futures 2022

When asked about how the Covid-19 pandemic affected their pro-social actions, nearly half of respondents said that it did not change their actions, while 21.5% reported a decrease and 28.8% reported an increase (Figure 23). This varies by firm size however: medium-sized firms were more likely to say that they increased their pro-social actions due to the pandemic (37.7%) compared to micro (25.0%) and small-sized firms (29.2%).

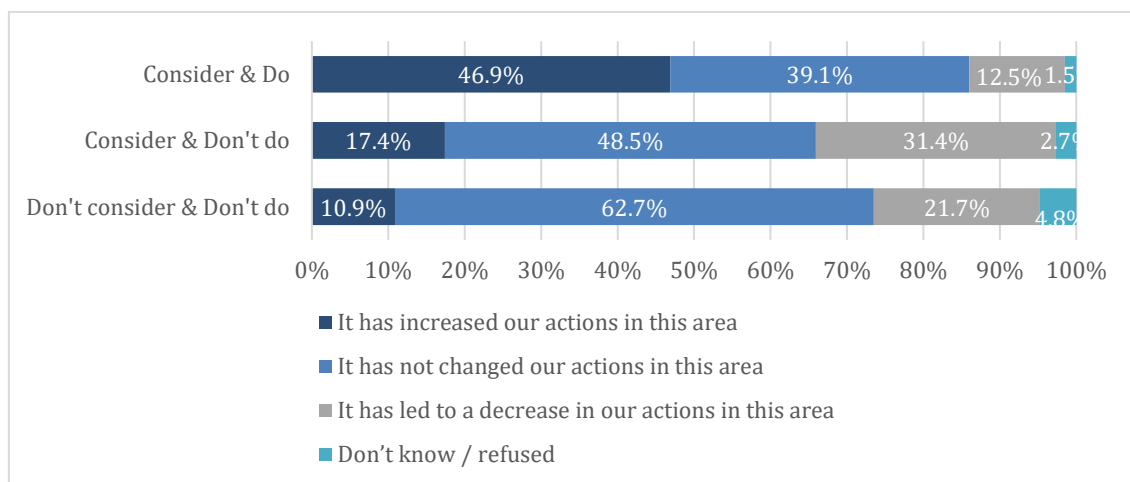
Figure 23: Influence of the coronavirus pandemic on business activities to generate social and community benefits by firm size



Source: ERC Business Futures 2022

Figure 24 shows that an increase in pro-social actions due to the Covid-19 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. Hence, at first sight, the pandemic seemed to make those who have been already socially responsive increase the intensity of their engagement, while having only limited influence on other SMEs.⁷

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



Source: ERC Business Futures 2022

To better understand the uptake of pro-social activities by NI 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.

More than one third of NI SMEs reported their engagement in paying the Real Living Wage to employees, followed by supporting community organisations (29.5%) and introducing mental health and wellbeing initiatives (23.8%). Supporting gender and diversity as well as equality for disabled employees were also reported by more than one fifth of the sample. However, Table 3 shows that larger firms tended to engage more with these pro-social activities than micro firms.

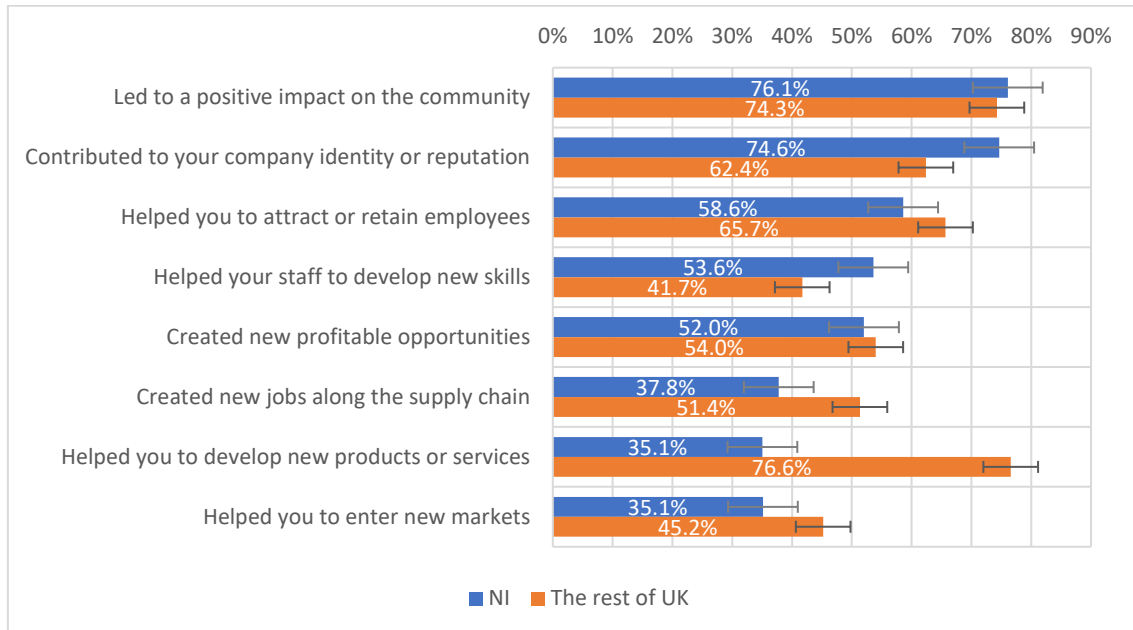
⁷ Due to its inadequate number of firms in the sample, results of the group 'Don't consider & do' are not reported here.

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
Paid the Real Living Wage to your employees	34.3%	38.9%	26.5%	34.6%
Supported community organisations (e.g. volunteering/engagement with local schools)	26.7%	31.7%	32.1%	29.5%
Introduced initiatives to promote good mental health and wellbeing at work	14.8%	33.5%	26.4%	23.8%
Offered employment or training opportunities to disadvantaged people (e.g., long-term unemployed)	14.2%	27.4%	31.8%	22.2%
Made steps to support gender and ethnic equality in the workplace	11.3%	27.2%	29.4%	20.4%
Prioritised suppliers that value social responsibility and ethical employment practices (e.g. respect human rights)	13.7%	19.5%	26.1%	18.0%
Monitored the impact of your products or services on community wellbeing	7.7%	15.2%	17.4%	12.2%
Other	5.3%	0.0%	0.0%	2.4%
Did not undertake any steps to generate social benefits for people and communities	60.9%	53.0%	53.2%	56.6%
Number of practices	1.23	1.93	1.90	1.61
Number of practices (Base: those who do)	3.14	4.11	4.05	3.71

With regards to the outcomes, approximately three in four SMEs undertaking steps to generate social and community benefits, said that this resulted in a positive impact on both the community and also the firm's identity and reputation (Figure 25). However, while NI SMEs seemed to benefit more as these activities helped their staff to develop new skills, a significantly higher proportion of SMEs in the rest of the UK reported gain from developing new products and services as well as creating new jobs along the supply chain.

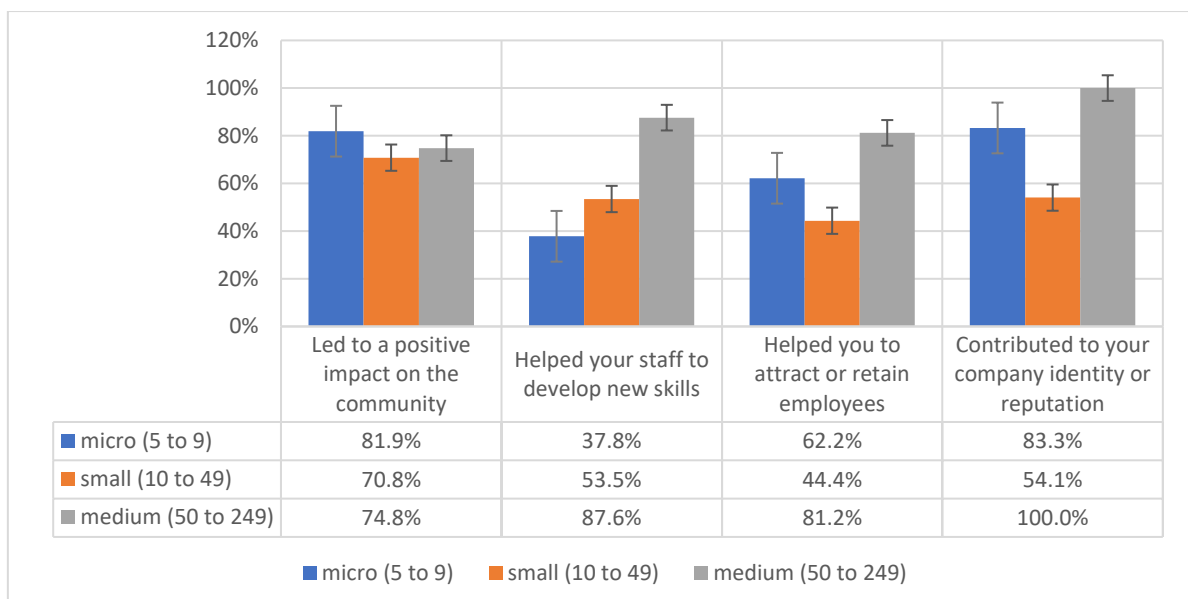
Figure 25: Outcomes of business activities to generate social and community benefits (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

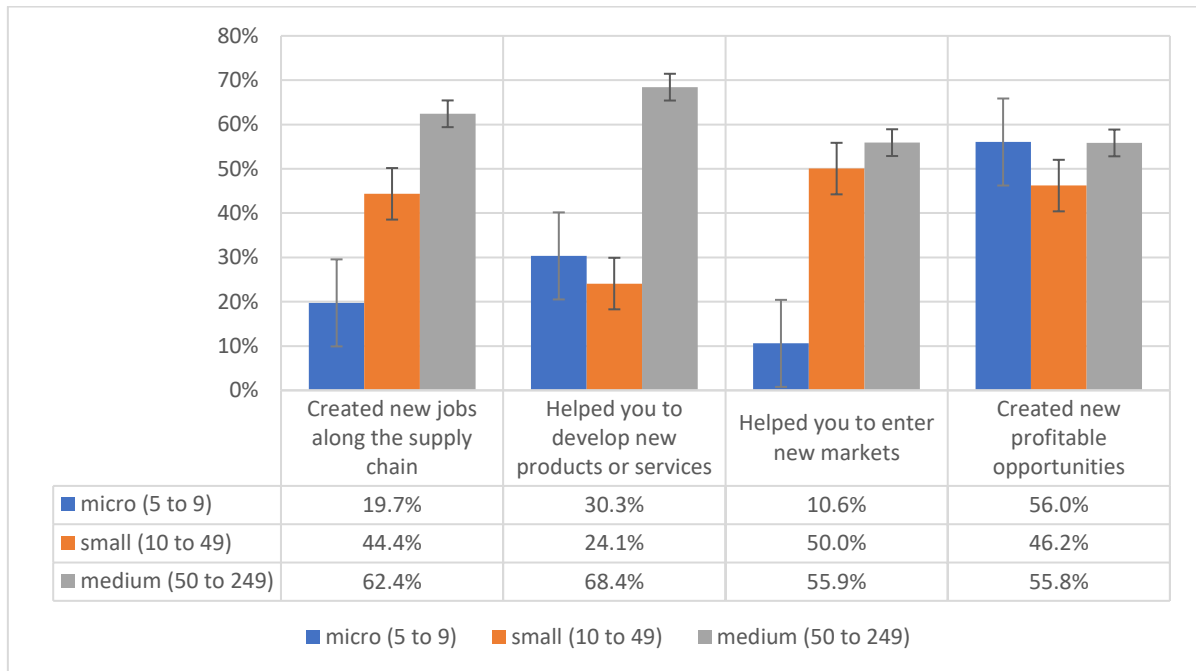
Similar to the benefits of Net Zero, business benefits from social and community actions, are spread unevenly across firm size. Figures 26 & 27 show that a higher proportion of larger firms reported these benefits than their smaller peers. The differences are statistically significant for three specific social benefits surveyed: ‘helping staff to develop new skills’; ‘creating new jobs along supply chain’; and ‘helping to develop new products and services’.

Figure 26: Outcomes of business activities to generate social and community benefits by firm size (1) (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

Figure 27: Outcomes of business activities to generate social and community benefits by firm size (2) (black bars indicate 95% confidence intervals)



Source: ERC Business Futures 2022

6. Conclusion

As stated in PwC's report last year: "It's been a tough few years for the Northern Ireland economy. As we begin to see light at the end of the pandemic tunnel, what does the future hold?".⁸ With the ambitious goal of achieving Net Zero carbon energy by 2050 set by the Department for the Economy in 2021⁹, no doubt all Northern Ireland firms need to be progressive in their commitment towards environmental and social responsibilities. However, due to their limited resources, being progressive can be more challenging for SMEs.

In this report, utilizing the data from ERC's new Business Futures survey 2022, we present several results on NI SMEs' business priorities as well as their attitude and commitment towards environmental sustainability and social responsibility.

First, our results indicate that in this post-pandemic era, cost reduction remains the most important concern for NI SMEs, followed by two other priorities about introducing new products/services and introducing new processes. Notably, reducing environmental impact was also stated as an important priority for nearly half of NI SMEs surveyed. In contrast, less than one third of NI SMEs (30.4%) reported that they also prioritize social responsibility, though it is still higher than the figure for SMEs in the rest of the UK (24.3%)

Second, we show that despite all the surrounding challenges and uncertainties, the importance of environmental protection and social responsibility seems to be deep-rooted in NI SMEs' strategies and actions. Nevertheless, there are clearly some gaps between NI SMEs' consideration and actual commitment towards these goals. Our analysis also indicates that there are several beneficial and valuable outcomes for SMEs who engaged in taking these environmental and pro-social activities, including improving their image and reputation, as well as creating new profitable opportunities. These insights might inspire other SMEs to start their journey towards Net Zero and engage more with activities that generate social benefits.

⁸ [PwC - Seizing the opportunity - February 2022](#)

⁹ [DfE: Consultation on policy options for the new Energy Strategy for Northern Ireland](#)

Limitations

While the report provides some insights into Northern Ireland SMEs' business priorities as well as attitude and commitment towards environmental and social responsibilities, the small sample size of only 115 Northern Ireland SMEs must be acknowledged. Even though all observations are weighted, in order to provide representative results with some regional comparisons, any generalised conclusion should be carefully derived.

