The Ecological Modernisation of Small Firms in the UK

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Abstract
This research explores the environmental practices of small and medium-sized enterprises (SMEs) in the UK, using ‘Ecological Modernisation’ (EM) theory as an analytical tool. In-depth interviews with owner-managers in the construction industry suggest that there is a major gulf between the win-win philosophy of EM and the perceptions of small firms, as the majority of owner-managers do not perceive there to be significant enough business benefit in pursuing environmental goals. The market is not signalling to them that product value can be raised or that customers can be won by embracing environmental best practice. Moreover, the financial returns to be made from using resources more efficiently are not perceived to be significant enough to overcome the considerable inertia owner-managers display towards finding the time and resources to undertake environmental measures.

Introduction
Small firms are often overlooked in the business literature because it is large corporations which are seen as the real movers and shakers of the business world. However, in reality SMEs are crucial to the economy; they constitute 99% of all businesses, provide 43% of private sector employment and 36% of turnover (SBS, 2003). The vast numbers of small firms mean that in aggregate they undoubtedly have a significant impact on ecological systems. It has been estimated that up to 60% of the carbon dioxide emitted by UK business results from the activities of SMEs (Marshall Report, 1998). The Environment Agency (2003) estimates that 60% of commercial waste, and 8 out of 10 pollution accidents results from SMEs in the UK.

Due to the increasing recognition that the ‘ecological footprint’ of small firms is indeed significant, the environmental practices of this sector has become an emerging field of enquiry in the UK. Studies have found that SMEs tend to have a low level of engagement with environmental agenda’s. However, there has been little attempt at placing these empirical findings within a broader theoretical framework of socio-environmental relations. In this paper we present the preliminary findings of an ESRC funded study into the responses of SMEs to environmental issues, using Ecological Modernisation theory as an analytical tool. EM theory is useful not only because it provides a more theoretical framework from which to discuss the responses of small firms but because it has a particular significance within environmental policy debates due to the increasing predominance of EM discourse within European and UK politics (Barry, 2003).

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1 Small firms have under 50 employees, medium sized firms have 50-250 employees, large firms have over 250 employees
In the following sections we present a summary of two strands of EM theory, followed by a brief analysis of EM ideas in current UK environmental policy discourse. We then present some preliminary findings from the ESRC study, followed by a discussion of their implications for both EM theory and UK policy.

**Ecological Modernisation Theory**

EM theory arose in the 1980’s as a challenge to the steady-state and zero-growth ideologies dominant in the 1960’s and ‘70’s. In opposition to the Club of Rome’s ‘limits to growth’ argument, the architects of the theory (Joseph Huber, Martin Janicke and Udo Simonis) postulated that through human ingenuity the economy could continue to grow whilst also ensuring environmental protection. This was to be achieved via resource efficient technical innovation which would allow greater productivity to occur without the need for more material and energy usage, thereby de-linking economic growth from environmental degradation. Since then, EM theory has developed considerably and is now a mainstream theory within disciplines which focus on socio-environmental relations.

Some scholars (such as Weale, 1992; Mol, 1995; and Spaargaren, 1997) use EM as an analytical tool to explore current processes of environmental reform and social change in industrialized nations. Others (such as Christoff, 1996, and Dryzek 1997) argue for or against the notion that EM has normative merit as a political programme. Murphy (2000) highlights that the distinction between EM as a theory of social change and as a political programme is an important one, particularly as it is common in the literature for its analytical and prescriptive dimensions to be confused.

Mol (1997) stresses EM’s analytical merit by presenting it as a theory of unplanned social change with the following core tenets:

1. **Delinking environmental degradation from economic growth**
   It is argued that both economic and environmental gains have been made in some industrialised nations (such as the UK, Germany, Denmark, and the Netherlands), providing evidence that economic growth can be delinked from environmental degradation. For instance, the OECD (2002) reports that carbon dioxide emissions have decreased in the UK whilst economic growth has continued to increase.

2. **Transformation of social institutions**
   Such physical transformations are seen to be the outcome of the reform of social institutions, clustered into the following 5 trends:
   
   1. **The changing role of science and technology**
      Science and technology are judged not only for their role in perpetrating environmental problems but for their role in curing and preventing them. Science and technology are hence seen as central institutions for overcoming environmental problems
   
   2. **The increasing importance of market dynamics and economic agents in ecological restructuring**
      It is contended that production processes in industrialised nations are restructuring around ecological principles in response to market signals. The market is encouraging the ‘greening’ of industry via rising consumer demand for environmentally-friendly goods and services, growing markets for environmental technology and increasing stakeholder pressure for environmental

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management. Environmental reform is being encouraged by innovators, entrepreneurs and other economic agents (such as consumers, producers, credit institutions and insurance companies). It is claimed that there is a growing rejection of the opposition of economics and ecology, hence notions of ‘eco-efficiency’ and ‘economising ecology’ are becoming increasingly important within industry.

3. **Changing discursive practices and emerging ideologies**
   It is contended that new ideologies are emerging in business, public and political arena’s. Neglect of environmental considerations is no longer seen as acceptable, and environmental interests are increasingly seen as potentially harmonious with economic interests.

4. **Transformations in the role of the state**
   A process of ‘political modernisation’ is perceived to be taking place within industrialised nations as governments shift from a command-and-control policy style to a ‘steering’ approach which emphasises market-based incentives (such as environmental taxes and voluntary agreements) and increased public participation in policymaking. Reflecting the retreat of the state since the 1980’s, processes of political modernisation include a transfer of responsibilities from the state to the market, which ostensibly accelerates processes of ecological modernisation because the market is considered to be a more effective mechanism for tackling environmental problems than the state. This neo-liberal emphasis on the free market and deregulation has encouraged a collaborative relationship between government and business and has augmented the power of business in policymaking.

5. **Changing role and ideology of social movements**
   Social movements are described as becoming less radical and more reformist. As such, they have been increasingly involved in policy prescriptions regarding environmental reform instead of being relegated to the periphery of institutional decision-making.

In its normative dimension, ecological modernisation is an ideology based on the fundamental premise that environmental protection is a precondition for long-term economic advancement (Weale, 1992\textsuperscript{15}). Environmental and economic goals are thus seen as a positive-sum game. Proponents of EM as a political programme conceive of environmental protection as a potential source of future growth by stimulating innovation, providing new market opportunities for eco-products and clean technology and lowering clean-up costs. Environmental degradation is not considered an inevitable outcome of capitalism or industrialization, but as an opportunity for institutional learning. In this view, capitalism can evolve to accommodate environmental problems by increasing the ‘environmental efficiency’ of the economy. This can be done by substituting polluting and non-renewable materials with environmentally benign and renewable ones, recycling and minimising waste, encouraging resource and energy efficiency (Gouldson and Murphy, 1997\textsuperscript{16}). Whilst it is recognised that industrialisation has caused environmental problems, the solution is seen to lie in the promotion of more and better modernisation, not (as many radical environmental groups hold) in radically altering or rejecting modernisation.

**EM discourse and UK policy**
Berger et al (2001\textsuperscript{17}) argue that EM theory is of particular significance because it underlies the mainstream environmental policies and practices of Western industrialised nations. Strandbakken and Stø (2003\textsuperscript{18}) maintain that ecological modernisation is the perspective guiding the World Commission for Environment and Development, and is the new name for current environmental politics in the European Union. So to what degree do EM ideas underlie environmental policies and discourse in the UK?

Whilst not referring specifically to ‘ecological modernisation’, since its ascendance to power in 1997 New Labour has increasingly emphasised the complementarity of economic and environmental goals, and has referred to ‘environmental modernisation’ in key environmental speeches. For instance, in a speech on sustainable development Tony Blair stated that:

“tackling climate change or other environmental challenges need not limit greater economic opportunity...economic development, social justice and environmental modernisation must go hand in hand” (Tony Blair, 2003)

In a speech at the Fabian Society conference, the deputy Prime Minister John Prescott stated that:

“There is a widespread view that environmental damage is the price we have to pay for economic progress...Modern environmentalism recognises that...an efficient, clean economy will mean more, not less economic growth and prosperity...Treating the environment with respect will not impede economic progress, it will help identify areas of inefficiency and waste and so unleash whole new forces of innovation” (John Prescott, 2003)

Like EM discourses, policy rhetoric adopts the language of business, emphasising the business case for sustainability by linking environmental management with greater efficiency and competitiveness:

“The environment is a business opportunity...there are economic benefits in reducing waste, avoiding pollution and using resources more efficiently...Reducing pollution through better technology will almost always lower costs or raise product value/differentiation” (DTI, 2000)

The notion that economic and environmental goals might be in serious tension is excluded from the government’s rhetoric on the environment; it is certainly not presented as a possibly problematic issue for industrial production processes or for global capitalism. Instead, environmental protection and economic growth is portrayed as a positive-sum game, suggesting that EM is indeed the normative basis upon which current debates on environmental policy in the UK are founded.

Political programmes of EM emphasise the adoption of innovative policy tools such as market-based incentives (MBI’s) and voluntary agreements that ‘steer’ businesses towards eco-efficient practices. This does not rule out legislative sanctions but the rhetoric strongly emphasises voluntary action. Having established the imperative for environmental improvement with its policies, the state also plays a key role in improving the capacity of industry to respond to that imperative via, for instance, public investment in clean technology and R&D programmes and provision of information on environmental best practice (Murphy, 2001).

Reflecting these ideas, the policy documents ‘A Better Quality of Life: A Strategy for Sustainable Development for the UK’ (DETR, 1999) and the DTI’s ‘Sustainable Development Strategy’ (2000) both stress the need to raise ‘environmental productivity’, ‘to get more out of the economy from less’ by using resources more efficiently. Environmental productivity is to be raised primarily by increasing the eco-efficiency of the economy via measures such as waste minimisation, recycling, energy efficiency and pollution prevention. MBI’s have recently become a favoured policy tool to encourage eco-efficiency in the UK, and various environmental taxes have been introduced such as the climate change levy, congestion charging in inner London, the landfill tax, aggregates tax and the fuel duty. There is also a strong accent on voluntary action, with the Department of Trade and Industry exhorting industry sectors to outline ‘Sectoral Sustainability Strategies’, and with the provision of information and advice to SMEs via the Environmental Technology Best Practice Programme and the Energy Efficiency Best Practice Programme. There are also initiatives to encourage clean technology innovation, such as the Green Technology Challenge and the Sustainable Technology Initiative.

It can be argued that EM’s ‘win-win’ premise is what gives it strength as an ideology for New Labour. Because it renders the imperative for environmental protection compatible with the government’s central goal of wealth creation, it is a particularly attractive discourse for electorally sensitive politicians attempting to respond to the competing demands of industry, consumers and environmental groups. However, what seems to be lacking in much of the policy rhetoric is a consideration of the perception of business owners themselves. If industry is to assume a central role in processes of ecological modernisation, it seems pertinent to explore whether the SMEs which make up 99% of UK industry have a connectivity with the win-win philosophy of EM. For instance, do owner-managers agree that the environment is a potential source of economic growth? Do they perceive the ‘business case for sustainability’? Are they becoming ‘greener’ as a result?

**Our Study**
Funded by the European Social Research Council (under its ‘Environment and Human Behaviour’ programme), our study (which is still in progress) aims to provide some answers to these questions. The methodology is qualitative and involves face to face interviews with 40 SME owner-managers in London and Leeds, as well as 10 ‘key informants’ drawn from industry and government. Two industry sub-sectors are being studied, the building and restaurant industries. Due to the fact that it is still a work in progress, we are only able to present the preliminary findings from the interviews with builders here.

**Research Objectives**
Of particularly interest are the following core tenets of EM theory (as described by Mol, 1997):

1. **The increasing importance of market dynamics and economic agents in ecological restructuring**
   - are SMEs showing signs of ecological restructuring? Are market dynamics driving this?

2. **Changing discourses and emerging ideologies**
   - do owner-managers accept the business case for sustainability?
   - are environmental and economic interests increasingly seen as compatible?

3. **Transformations in the role of the state**
   - is the ‘greening’ of SMEs being encouraged by the environmental policies of the state?

**Preliminary Findings**
Reflecting the predominance of small firms in the construction industry, the builders interviewed were all owner-managers of small and micro firms, with the exception of one medium-sized firm. Their work ranged from housebuilding and domestic refurbishments to commercial developments.

i. **Are builders showing signs of ecological restructuring?**
Spontaneous responses revealed that the environmental practices which were most relevant to builders were those which overlapped with health and safety issues. Respondents knew a great deal about the toxicity of different materials and the various health and safety protocols for usage and disposal.

   "You’ve got to keep a check on site for things that might result in chemical spillages ... You’ve got to be seen to be doing the right thing with these products... Toxins, glues and tile adhesives and things like that will always be kept aside to dispose of in a different way."

Beyond vigilance with disposal of toxic materials, most respondents felt little personal responsibility in reducing environmental impacts. Despite an awareness that the construction industry had a considerable collective environment impact, many felt that there was little they could do to improve things because of the numerous structural barriers that they faced.

ii. **Are market forces encouraging the greening of SMEs?**

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All respondents highlighted that a major barrier was the fact that environmental issues were not a priority for clients:

“You ask me about environmental issues, yet people want me to fit hardwood doors for them that have come from tropical rainforests, so what can you do?”

“Occasionally clients may pay lip service to the environment and put in a question like, “What is your policy on the environment?” or, “What efforts are you intending to make to use environmentally friendly materials?” So you’ll say, “Yeah, well we’re thinking of doing this, that and the other.” “Oh, that’s great,” they’ll say. But another company might do nothing, and guaranteed their price will be cheaper than yours because of it and they’ll always get the job.”

When asked whether they ever highlighted environmentally-friendly options to customers, many builders felt that it was not really their job to promote ‘green’ materials, and felt ill-equipped to do so since they usually didn’t know which materials had less environmental impact than others. Environmental issues were also considered to be a low priority for manufacturers, who were blamed for a lack of eco-labelling.

“There’s no environmental rating for you to make a decision. So you don’t know”

Manufacturers were also blamed for the increased toxicity of modern building materials:

“The building manufacturers and suppliers are really the ones that government should be targeting. We only use what’s available. What can we do about the fact that manufacturers are making products that are more and more toxic?”

Other market forces such as supply chain pressure seemed to be doing little to encourage environmental best practice within the industry:

“Principal contractors inevitably try to get their profits by squeezing their sub-contractors. So this means that there is constant pressure to cut corners, to only do only what is absolutely necessary to get the job done”

Larger firms were seen to be more environmentally proactive than smaller enterprises because they were more likely to be targeted by regulators. However one respondent claimed that this had not resulted in much of a ‘trickle down’ effect due to the trend for consolidation within the industry:

“The big guys have bought subsidiaries so all their work goes to them and other sub-contractors have been squeezed out. Their subsidiaries are probably having to be more environmentally aware but not the rest of the industry”

The influence of parent firms on their subsidiaries was evident in one case, as the owner-manager of a small firm which was part of a major construction consortium had implemented environmental management systems at the parent firm’s behest:

“We have a series of internal audits to check that all the procedures are in place and that we’re following them...because we know that we’ve got the ISO14000”

iii. Do owner-managers perceive the business case for sustainability?

Across the sample, the extremely competitive nature of the construction industry was highlighted as a major barrier to voluntary environmental action. As one key informant put it:

“It is an incredibly competitive industry. It is probably the most competitive sector of the economy. Because there are so many firms, barriers to entry are almost non-existent, margins are subsistence level – there is no fat in the industry. ... By and large the industry is a subsistence industry and doesn’t have any money to invest in people, technology, training, anything”

Environmental measures were generally perceived to involve extra costs, therefore it was considered difficult to take voluntary action to reduce impacts because cost-effectiveness was the number one concern:

“Everything is so competitive, tenders are usually won on who is cheapest or who can do the job quickest...Environmental management is just not cost effective”
“Environmental issues don’t even register on the radar of most firms because they’re struggling to survive in such a competitive industry”

The business case for using green materials was not apparent; they were consistently seen as more expensive and therefore were thought to hold little appeal for most customers:

“Cost is king: people will always go for the cheaper option”

A few respondents also imagined that some green materials might be of lower quality or durability, or that they might be more difficult to work with and would therefore slow the job down. It was also pointed out that there were lots of materials used in construction for which there were no sustainable substitutes. Of the few respondents that had heard of the aggregates tax (a levy on quarry material), substitution had reportedly not resulted as it was believed that there weren’t any comparable materials to switch to. The cost of the tax was born by the client anyway and so was of little concern to builders.

Waste minimisation was another area where the business case was not apparent. Many respondents were quick to highlight the huge volumes of unnecessary waste that was produced in construction, exacerbated by the increasing trend for refurbishment in the UK:

“People move house a lot more now than they ever did… People now think, ‘Well, we’ll put this cheap kitchen in because we might not be here in three years’’” and then they go to another house and the first thing they think is ‘let’s have a kitchen fitted - we don’t like this kitchen. Rip it out’”

Again it was felt that there was little builders could do about this wastefulness:

“If you’re chopping the building back to a shell what’s got to come out has to come out”

Although it was acknowledged that many of the materials put in the skip were perfectly reusable, hardly any of it was stored for use at a later date. A few builders had attempted to do this in the past, but found that the expense of keeping the old material was more than the expense of buying it new, once the cost of storage and labour (eg to load and unload the material, remove nails from timber etc) had been factored in. Often, the used material was not quite to the specification required for the next job, so it was just easier and cheaper to buy material new. There was also reportedly little incentive to recycle is it was not considered cost-effective. Many respondents claimed that the management and labour time involved in separating waste was prohibitive:

“I’d have to hire two extra people on site just to check that things were being put in the right bin”

There were also reportedly few markets for recycled materials, therefore organising collection was difficult:

“The cost of destressing good quality metal means there’s no incentive to collect it. Recycling doesn’t really work that well.”

“There’s many occasions when that’s recyclable, but there isn’t a recycling place to take it to”

Some respondents claimed that if the infrastructure was there, they would be more than happy to pay someone to collect the recyclable materials, provided it was no more than the landfill tax. Others felt that the organisational cost of separating waste and monitoring waste management would still be prohibitive. Because of these barriers, the landfill tax had had minimal effect on waste management practices, with the cost simply passed on to the customer:

“Those going to pay for taking off the wood gently, stacking it, de-nailing it, shortening it, inspecting it for woodworm? You can slap another tax on and I’m just going to pass it on”

It was felt that any increases in the tax would just encourage fly tipping, which was claimed to have become increasingly prevalent as less scrupulous builders attempted to keep down costs. It was apparently not uncommon to be approached by illegal collectors offering to take skips away for a discounted price.

Reportedly, cost pressures had also encouraged bad practice regarding the handling of toxic waste:
“Once we found some asbestos on site, and we hid it in the skip because it would have meant closing the site down for two weeks whilst it was dealt with in the proper manner, and would have cost the firm £200,000 and probably my job”

In terms of energy efficiency, only the subsidiary firm was taking measures to reduce office energy usage. Others highlighted that there was little incentive to save energy on site as mains electricity was used that was paid for by the client:

“We’ve often left on all the lights on a building site because it was too much hassle to turn them off. And we haven’t thought about it because it’s not us who pays”

iv. Are the environmental policies of the state encouraging environmental reform?

Despite numerous government-led initiatives to encourage best practice within the construction industry, (for instance ‘Rethinking Construction’, ‘Partners in Innovation’ and the ‘Construction Best Practice Programme’, which all have sustainability as part of their remit), respondents and key informants alike consistently highlighted regulation as the only thing really driving environmental reform. Whilst there was a good deal of frustration at the amount of regulations (particularly health and safety regulations) that builders were confronted with, legislation was considered a necessary tool in effecting change in the industry. As one key informant put it:

“It’s a horrifying thought, but its true; the only way to really influence builders is through regulations”

Many builders highlighted that improving the safety record of the construction industry was a major goal for government and that the raft of health and safety regulations implemented had done much to drive change within the industry. However, environmental issues were not considered to be a top priority for government and therefore environmental legislation was perceived to be much less stringent.

Duty of care and special waste were highlighted as the main regulations that affected respondents. However, low levels of compliance were consistently highlighted as a major - and ubiquitous - problem within the industry. The pressure to cut corners in order to reduce costs was reportedly high due to the enormous competitive pressures on firms, exacerbated by the many ‘cowboy’ builders in the industry willing to undercut at every opportunity.

“People are so conscious about cost, that they think chucking hazardous waste into the normal skip and hiding it with some bricks is worth the risk”

“It’s a cut-throat industry. Cowboy builders will always try to undercut you by cutting corners”

Exacerbating this situation was the perception that enforcement was extremely poor:

“I think the Environmental Agency tend to rely on being contacted rather than going out and looking.”

“The regulators will check up on big construction sites so the big guys will make sure they’re compliant. But the problem lies with the little guys who are regularly breaking the law because for them it’s worth the risk. They know they are unlikely to be caught because there are so many of them”

Discussion

These responses suggest that very little ecological restructuring is taking place within the building industry as SMEs see many of their environmental impacts as beyond their control. The business case for using green materials, and for eco-efficiency measures such as recycling and minimising waste is not apparent to the owner-managers interviewed. The enormous competitive pressures on firms (exacerbated by the many unregulated ‘cowboy’ builders in the industry), has meant that cost and speed are the number one issues whilst environmental management remains a peripheral (even negligible) concern for most firms. Environmental measures are resisted as an unnecessary cost burden; even regulatory obligations are sometimes flouted to reduce costs so it is perhaps not surprising that so few firms appear to have embraced voluntary environmental action. Indications of low levels of compliance within the industry and a lack of adequate enforcement suggests that the introduction of more stringent environmental regulation may only push more small firms into the shadow economy. Carrots as well as sticks are required, but so far market-based mechanisms such as the landfill and aggregates tax have done little to incentivise environmental reform. It is evident that the environmental and economic sustainability of the construction industry are
intimately connected. Whilst the business case for environmental best practice is not perceived, and whilst there continues to be such small profit margins for SMEs due to excessive price competition, there will continue to be a lack of management resources to invest in environmental management.

Implications for EM theory
The findings from this study challenge some central assumptions in EM theory. EM theory holds that changing state-market relations result in an increasing role for economic actors in environmental reform, and that these actors use mainly economic arguments to articulate environmental goals. This does not seem to be the case for SMEs in the UK’s building industry. This study has found little evidence of an increasing role for small firms in environmental reform, and in fact economic arguments are used to resist rather than articulate environmental goals.

EM theory also holds that industry is being stimulated to improve its environmental performance by market forces and by the ‘steering’ policies of the state. Yet this study has found that customers have little interest in environmental considerations and so firms are not incentivised to differentiate themselves on environmental credentials. Due to cost pressures, supply chain relations appear to be actively discouraging environmental best practice (with the exception of environmentally proactive large firms and their subsidiaries). In terms of government policy, it seems that regulation rather than market-based incentives or voluntary approaches have been the main driver of environmental reform amongst small firms in the building industry.

Two conclusions may be construed from these findings. The first is that EM theory is of only limited use in explaining social change amongst SMEs in the UK’s building industry. Whilst further evidence is needed to confirm whether this conclusion can be generalised to a wider sample and to other sectors in and beyond the construction industry, the evidence from this study certainly suggests that owner-managers generally view the environment as a threat rather than an opportunity. The second conclusion involves the prescriptive merits of EM. Advocates of EM as a political programme view political modernization as a vital catalyst for the ecological modernisation of industry because of the key role that ‘steering’ policy approaches play in encouraging industrial reform. Extrapolating from this idea, it may be hypothesized that processes of ecological modernisation have been slow to occur amongst SMEs in the building industry because the state has not done enough to remove barriers to innovation and stimulate environmental reform.

Implications for policy
Our findings suggest a major gulf between government rhetoric on the environment and the perceptions of SME owner-managers. Whilst politicians may espouse the win-win philosophy of EM, it seems that many small firms have yet to accept the business case for sustainability. In light of this, one may question the government’s emphasis on voluntary action and the exhortation of win-win arguments to encourage environmental reform within the SME sector. Several reasons can be given for the ineffectiveness of this voluntary approach:

i. Owner-managers are not convinced of the win-win
Clearly many small business owners are not convinced that embracing environmental management is a good way of reducing costs or winning customers. Voluntary environmental action will obviously be resisted if owner-managers think there is a chance that it will adversely affect their firm’s competitiveness.

ii. SMEs do not always act like rational economic actors
Even if owner-managers accept the win-win in some cases, this does not mean that they will act like rational economic actors and actually carry out such action. As Levett (2001, p4)\textsuperscript{25} points out:

“companies continue to neglect huge ‘win-win’ opportunities for improving environmental performance which would also save money. The reason is simple: companies do not make such improvements whenever they offer a financial payback, or even when it is a very quick payback, but only when it is the quickest and surest payback out of all the inessential, optional projects competing for attention – and then, only when the core business can spare any management attention or investment capacity to progress them”

ii. Voluntary approaches encourage the environment to be seen as a peripheral issue

This brings us to the problem that the environment is not yet seen as a core business concern for most small firms. Regulation gives small firms a clear signal of their environmental priorities whilst voluntary approaches tend to relegate the environment to a peripheral position in most business agendas. An emphasis on voluntarism without the threat of future legislative action sends a message to business that the environment is not a key concern for government; if it does not enjoy legislative or political priority, reducing environmental impacts will not seen to be an urgent requirement for business – unless of course there are profits to be made from it.

Whilst neither the government nor the market are forcing the environment onto the business agenda of SMEs, owner-managers will always feel there are other more urgent and lucrative things to be working on. Levett (2000) argues that this is why after years of information provision on environmental best practice the government has not been successful in bringing about reform amongst SMEs. He suggests that:

“Information is not the point. Two methods actually work. The first is direct, face to face site specific advice and support, which takes a lot of the management time and uncertainty out of the enterprise....The second is simple good old fashioned regulation, which shifts environmental improvements from midway down managers 'mañana' pile to the top of the 'must do in order to stay in business' pile.” (Levett, 2001, p9)

If voluntary action is being resisted by SMEs, it is difficult to understand why the government has persisted in its narrow focus on the win-win when the obvious answer is to take a more interventionist approach. Attempting to build the capacity of SMEs to respond to environmental imperatives via information provision will clearly not work if that imperative has not been established in the first place. What is needed is a shift away from the ‘carrot’ of win-win EM rhetoric towards the ‘stick’ of regulation, as this is the only way to be certain that the environment becomes a top business priority for small firms. Legislation has evidently been one of the few things driving environmental reform within the building industry. Despite their aversion to being over-regulated, owner-managers grudgingly acknowledge that more stringent environmental legislation is the only way to really effect change in the industry. The advantage of regulation for SMEs is that it means that their environmental obligations are made clear from the start, offering the security of a ‘level playing field’ so that environmental good practice is not perceived as a threat to competitiveness. However, to ensure that there really is a level playing field, it is clear that a robust system of enforcement is required if further regulation is to avoid pushing more small firms into the shadow economy. Regular inspection and ‘spot checks’ would go a long way towards encouraging firms to view their environmental obligations as a legitimate business concern, rather than an optional extra when they find the time.

Market-based incentives also have the potential to be effective in stimulating change provided they are part of a well-planned, integrated policy mix. Environmental taxes can be effective because they make voluntary action profitable; taxing environmental bads and incentivising environmental goods provides the price signals needed to establish the business case for sustainability. However, economic incentives cannot be solely relied upon to effect change within the SME sector because (as previously highlighted) owner-managers may continue to ignore win-win opportunities whilst there are perceived to be more pressing and profitable things to be working on. For instance, a tax credit on recycled materials may not be seen as enough to compensate for the extra management and labour time required to observe proper waste separation procedures. To be truly effective, MBI’s need to be combined with the kinds of infrastructure developments that make it easy for firms to be more environmentally proactive. The landfill tax will do little to incentivise small firms to minimise waste if there is not perceived to be a convenient and cost-effective infrastructure for recycling. Similarly, the aggregates tax will not incentivise firms to switch to more environmentally benign materials if substitutes are not readily accessible. Clearly, the government has a major role to play not just in encouraging firms to decrease inputs and outputs, but in making it possible -and easy - for them to do so.

Conclusion

Our findings point to a major problem with the win-win philosophy of EM and its fundamental faith in the market for solving environmental problems; SMEs have little incentive to improve their environmental
performance whilst they remain unconvinced that environmental management is good for business. It is argued here that a sensible approach for policymakers would be to acknowledge the possibility that it may not always be possible for firms to have their cake and eat it. Instead of being consistently a precursor to further economic growth, the kind of radical environmental reform required to truly make progress towards sustainability may cause considerable economic hardships as the true environmental and social costs of production are internalised. With the formidable changes that sustainable development requires in the years ahead, surely the energies of policymakers would be better spent encouraging firms to view their environmental obligations as a legitimate business expense, rather than consistently a win-win game? Surely a perceptual change is required, such that both government and industry view a clean environment as worth the cost?