**Civil Regulation, the Environment, and the Compliance Orientations of SMEs**

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The article explores the impact of civil regulation on the environmental behaviour of SMEs. It shows that although civil regulatory pressures are generally subdued, and that conventional regulation continues to be an important driver of behaviour, there are circumstances where civil pressures nevertheless produce a ‘regulatory’ stimulus. Where they do, it appears civil regulatory pressures tend to derive from stakeholders pursuing relatively narrow self-interest (rather than public-interest) mandates; and they normally target particular issues rather than ‘social responsibility’ in any broad sense. SME responses typically take the form of compliance-reinforcing (rather than beyond compliance) measures. For SMEs, it is suggested that, in some circumstances, civil regulation provides a bespoke regulatory mechanism which is more likely to bring about changes in basic practices on narrow issues. It can also be seen as producing a particular type of consensual micro-social contract and public interest service.

**INTRODUCTION**

It is well-known that the environmental impacts of small and medium enterprises (SMEs)[[1]](#footnote-1), though hard to measure, are significant. They are said to produce in the region of 64% of industrial pollution (Teknologist Institut 2010), 60% of commercial waste and 80% of pollution incidents (NetRegs 2005). Whilst these impacts clearly require managing, efforts must take into account the need not to harm the contribution these firms make to the economy. After all, SMEs comprise around 98-99% of all firms and are said to generate 67% of employment (Ecorys 2012). And it is also important to consider the resources and capabilities needed to tackle the environmental impacts of SMEs. Given their number and diversity (e.g., the European economy has over 20m SMEs: Ecorys 2012), a State may be unable to assume sole responsibility for properly regulating their environmental activities, particularly where it relies, as many do, on the use of more conventional command-and-control instruments – instruments often seen as inflexible, costly, bureaucratic, and not always effective at reaching the root causes of environmental problems (Fiorina 1999; Malloy 2010; Gunningham & Grabosky 1998).

The idea that States, through direct interventions, may be unable to fully manage the activities of firms, coincides with the view that a range of regulatory approaches are required and that ‘regulatory responsibilities’, broadly defined, should be shared among different market and social actors, thereby leveraging the ‘regulatory resources’ of these actors (Gunningham & Grabosky 1998; Gunningham et al. 2004; Vogel 2005, 2010; Fransel 2011). Of course, any submission that the State should not act as the sole source or provider of regulation raises important ethical questions. These questions, however, are not considered here. What is considered here is the effectiveness of relying on alternative agents to fulfil surrogate regulatory standard-setting and enforcement functions. More specifically, our aim is to provide an initial understanding of how smaller firms respond to pressures to improve environmental behaviour from civil and economic constituents. What, so to speak, do these constituents do, what effects do they have, and why? The broader context for such enquiry is the observation that civil society occupies the space taken up by, and the interstices between, the family, state, and market, and involves some form of collective action (Edwards 2000; Chandhoke 2002). When influencing the behaviour of firms, this action can be considered a form of regulation – sometimes called ‘civil regulation’ (Vogel 2005, 2007; Zadek 2007; Moon & Vogel 2008; Grabosky 2013) – and, presently, what we know about its impact on the social conduct of SMEs is scarcely beyond speculation.

The article explores these issues using interview data from 110 UK-based manufacturing SMEs. The data, which were collected over five years (2004-2009), support other studies which show that traditional regulation drives behaviour; although the data add to existing studies by revealing differences across firms, supporting our general thesis that these differences will shape firms’ responses. Notably, while it is clear that SMEs generally have little need to respond to civil regulation, because the pressures are subdued, situations exist where these pressures do influence some SMEs. Here, we observe that the pressures tend to emerge from stakeholders pursuing a private or self-interest (rather than public-interest) mandate; and they tend to target specific issues rather than ‘social responsibility’ in any broad sense. Furthermore, while there are differences in how firms interpret and respond to pressures, the common theme is that firms are more likely to take compliance-reinforcing (rather than beyond compliance or ‘good citizenship’) actions. For SMEs, civil regulation can be said to represent a form of consensual micro-social contract, and may best be seen as performing, in some circumstances, a bespoke ‘problem solving’ rather than ‘behaviour improving’ function.

We start by briefly looking at the literature on civil regulation and considering the view that stakeholders perform a regulatory function. Then, we review the literature on SMEs, focusing particularly on the factors that influence environmental behaviour. From this, we introduce and consider the idea of compliance differences, and draw on this to guide the analysis in the following section – the study itself. The paper concludes with a discussion of the implications arising from the analysis, and, in addition to stressing the need for further research, it affirms that in some circumstances civil regulation can provide a form of regulatory oversight for SMEs.

**STAKEHOLDERS AS CIVIL REGULATORS**

Studies of the ethics of business have a long history rooted in religious, cultural, and philosophical ideas (Lewis 1985), and they have over time adopted various theoretical and intellectual perspectives (e.g., Kantian, utilitarian, psychological, legal, political, economic). Our study takes a stakeholder perspective, which is an established branch of the business ethics literature (e.g., Freeman 1984; Carroll 1989, 1991; Heath 2006; Fassin 2009). Stakeholder analyses typically consider the types of ethical and practical issues presented when those with a stake in a firm have diverse or competing needs. Questions typically focus on what firms should do, which draw on normative concepts, and what they actually do, which draw on empirical evidence (Donaldson & Dunfee 1994). Again, our study contributes to the latter, and in so doing connects stakeholder analysis with the study of regulation. It links the role of social and economic communities in generating norms through the enforcement of a micro-social contract (Donaldson & Dunfee 1994), and reflects on the role this plays in regulation for the public interest.

The view that civil society members can act as regulatory agents, and can support broader regulatory objectives, is a fairly recent but nonetheless reasonably well-established feature of the literature. It accords with the idea that social goals are more attainable if policies adopt a shared responsibility approach and embrace regulatory instruments which extend beyond the State’s more conventional boundaries (Gunningham & Grabosky 1998; Grabosky 2013; Hutter & Jones 2007; Jordana & Levi-Faur 2004). It is also consistent with the idea that, when considering social and environmental matters, firms do not act exclusively on the strength of government regulations or through fear of legal sanctions, for their activities can, as it were, be ‘regulated’ by market and social influences (Grabosky 2013; Gunningham et al. 2003, 2004; Vogel 2005; O’Rourke 2005; Kagan et al. 2003; Lynch-Wood & Williamson 2007). Thus, what is now sometimes termed ‘civil regulation’ relates to the influences of different stakeholders (*e.g.*, NGOs, community members, market actors) as they observe, appraise, and possibly try to shape how firms perform. It can be likened to a quasi-contractual relationship, where a firm’s products and services, alongside its wider deeds, must be accepted by relevant constituents of society if the firm is to be allowed to trade its assets and capabilities. This in fact accords with integrative social contract theory (Donaldson & Dunfee 1994); where micro-social contracts between, say, a local community and a smaller firm, are part of a contractarian process that delivers normative judgements and behaviours. Donaldson and Dunfee (1994) consider this important, for the micro-social contract enforces the ground rules set down by the wider macro-social normative contract. It is also considered an efficient process since it can accommodate the diversity of interactions that often operate locally. In response to these interactions, and in trying to comply with the micro-social contract, firms may attempt to legitimise their conduct by, for instance, demonstrating compliance or beyond compliance activities (Gunningham et al. 2004; Vogel 2010; Lynch-Wood & Williamson 2007).

Several studies show how structured and unstructured constituents of society – *e.g.*, customers, financiers, trade associations, communities, professional organizations, social movement organizations, charities, faith groups – contribute to regulatory space through their capacity, *inter alia*, to influence firms, marshal networks, and shape market conditions (Bendell 2000; Grabosky 1995, 2013; Vogel 2005, 2010; Gunningham et al. 2003, 2004; Bennie 1998; Newell 2008; Williams et al. 2011; Zadek 2007). Indeed observations suggest the scope of civil regulation can be wide. Pressures, for instance, may derive: from NGOs through boycotts, media initiatives, and collaborations; from consumers through their purchasing choices, use of social media, complaints to regulatory or media organisations, or lawsuits; from other firms through supply-chain initiatives, contracts, and procurement strategies; and even insurers, when they apply pressure through the differentiation of premiums and liability insurance (Vogel 2005, 2008, 2010; Grabosky 1995, 2013; Yaziji & Doh 2009; Force *et el.* 2011; Bennie 1998). Moreover, developments such as the information revolution, digital technology, and social media, suggest the civil regulatory net is expanding (Grabosky 2013).

The existence of so-called civil regulation has prompted scholars to consider how it interacts with other, more formal, regulatory arrangements. Is civil regulation a necessary substitute, in that it regulates areas of society that governments are unwilling or unable to control themselves (Vogel 2005; Grabosky 1995, 2013)? Does it fill a regulatory and enforcement void, created by an increasingly complex society and the associated inability of governments to exercise power to deliver desired public goods (Grabosky 1995)? Is civil regulation a necessary supplement to the State, even if it is not replacing the State (Vogel 2010)? Is it that civil regulation works with State regulation to become a combined pressure that delivers desired outcomes? If so, are there combinations of State intervention and civil regulation that prove particularly effective in regulating firms? In other words, is civil regulation an effective and efficient mechanism for generating and enforcing micro-social contracts? Finally, by considering whether (and how) civil regulation acts as a type of regulation, it is appropriate to consider what is required for regulation to fulfil a regulatory function. Hood et al. (2001) show how a regulated activity, if it is to be a regulated activity, must incorporate three features. The features, which are inherent within any control system, are: a) the need for some form of standard-setting; b) the ability to gain information about the regulated area to know if the standard-setting has to be amended due to changing circumstances; and c) the ability to change the working of the regulated area to produce desired behaviour. The context within which we will consider these issues is the environmental behaviour of SMEs.

**SMEs & THE ENVIRONMENT**

Over the last 15 years or so, several studies have shown that SMEs are, if not necessarily unsympathetic, unresponsive to environmental issues (Lynch-Wood & Williamson 2013; Williamson *et al.* 2006; Tilley 1999; Williamson & Lynch-Wood 2001; Revell & Rutherford 2003; Thornton *et al.* 2009; Patton & Worthington 2003; Merritt 1998). This lack of responsiveness has been attributed to several factors that are internal and external to the firm, and which, it is suggested, are shaped by the size of the firm itself (Baylis et al. 1998; Lepoutre & Heene 2006; Rutherfoord et al. 2000; EIM & Oxford Research for DG Environment 2011). ‘Resources’ and ‘owner-manager ‘attitudes’ are the main internal factors, while a ‘lack of stakeholder pressures’ is the main internal factor.

Perhaps the most obvious factor that influences the environmental practices of SMEs is resources (Gunningham 2002; Hillary 2000; Noci & Verganti 1999; Lepoutre & Heene 2006). Indeed, a lack of resources (*e.g.,* employees, capital, skills, technologies) has been shown to hinder the development of environmental improvements, and has in fact been used to explain issues such as low levels of awareness of environmental issues (*e.g*., regulatory requirements), poor compliance records, and a general reluctance to engage in green initiatives or make eco-innovations (Lynch-Wood & Williamson 2013; Baylis et al. 1998; Wilson et al. 2011; Tilley 2000; Hillary 2000; Côté et al. 2006; Brío & Junquera 2003; The Gallup Organisation 2011; EIM and Oxford Research for DG Environment 2011). What is particularly relevant for our study is the observation that SMEs in the manufacturing sector are more likely than SMEs in other sectors to cite a lack of resources as a reason for not going beyond legislative requirements (European Commission 2012). Another related internal factor is said to be the ‘attitudes’ of SME owners and managers. SME Owner-managers, for example, often claim that their firms have only limited environmental impacts (Lynch-Wood & Williamson 2013; Netregs 2009; Rowe and Hollingsworth 1996: Revell and Blackburn 2007; Simpson et al. 2004; Hillary 2000), and, consequently, they often feel there are no real justifications for making investments to improve environmental performance (Revell & Rutherfoord 2003). This view is reinforced by the overriding concerns that owner-managers have for commercial survival and success, since this tends to suppress environmental or ethical values (Williamson et al. 2006). Additionally, SMEs are likely to find it more difficult to get their environmental efforts rewarded by the market, so they may view the market as a barrier to environmental innovation (Spence et al. 2000). Even when owner-managers are sympathetic to environmental issues, commercial pressures can produce an ‘attitude-practice’ gap so that actions rarely go beyond compliance or basic efficiency savings (Tilley 1999; Redmond et al. 2008; Petts et al. 1999; Rowe & Enticott 1998; Worthington & Patton 2005).

Alongside this, external civil regulatory or ‘stakeholder’ pressures are often seen, though sometimes speculatively, as only a weak incentive for change in SMEs (Gunningham et al. 2003; Lynch-Wood and Williamson 2007; Thornton et al. 2009). While there is a paucity of research in this area, it has been suggested that relevant stakeholders generally lack interest in the practices of smaller firms (Lynch-Wood & Williamson 2013; Studer et al. 2008; Williamson & Lynch-Wood 2001; Revell & Blackburn 2004; Rowe & Enticott 1998). This is evident, for example, in the lack of supply-chain or wider market pressures for improvement in SMEs (Merritt 1998; Williamson & Lynch-Wood 2001; Thornton et al. 2009). It has also been argued that the combination of factors that produce strong civil regulatory pressures (*e.g*., high environmental impacts, strong brand, customer pressure) are mostly absent for smaller firms (Lynch-Wood & Williamson 2007). These factors can explain why the environment is not usually a priority for smaller firms (Revell & Blackburn 2004) and why, compared to larger firms, SMEs attach less importance to developing an environmental reputation (Graafland & Smid 2004).

The way these internal and external issues combine is important, providing a basis for the claim that SMEs respond to traditional regulatory approaches (e.g., Tilley 1999; Williamson et al. 2006). For example, the gap between the positive attitudes and more reactive practices of SME owner-managers, and the observed importance of traditional forms of regulation, led Tilley (1999) to suggest that environmental improvement in SMEs requires a strong regulatory framework. Tilley (2000) also found little support among SMEs for self-regulatory approaches. When arguing that business performance is an overarching driver of behaviour, Williamson and his colleagues (2006) posited that SMEs will engage in environmental activity when there is an obvious business benefit from doing so; and conversely, to only otherwise engage when regulation commands it. The authors suggested that while ‘business performance’ and ‘regulation’ considerations drive behaviour, regulation generally produces higher levels of activity. The authors also suggested policies advocating voluntary practice were unlikely to have a major impact on SMEs. To some degree, this is evident in work by Studer et al. (2006), who, in addition to showing that SMEs are less inclined than larger firms to engage in voluntary environmental activities, showed that smaller firms prefer to wait for the certainty of impending legislation before taking concrete actions. Recently, Lynch-Wood and Williamson (2013) demonstrated that, although SMEs have important capacity and behavioural differences, traditional regulation continues to be the most important driver. For many SMEs, traditional command-style regulatory rules signify the beginning and end of their responsibilities.

This presents important issues for policymakers and academics alike. Traditional forms of regulation are seen as driving behaviour, but are criticised for being costly and so on, and for not always being effective at reaching the root causes of environmental problems. And we have also seen that even though traditional regulation drives behaviour, many firms remain sure of just how compliant they are. So while it drives behaviour, the mechanisms for ensuring compliance with traditional regulation are not necessarily in position or effective. It remains important, therefore, to keep exploring how other types of regulation, and other approaches, can support important social objectives. With this in mind, an important feature of our analysis is the recognition that while many studies have confirmed that SMEs have an overall disposition to the environment, such studies often inadvertently and incorrectly homogenise SME behaviour (see: Lynch-Wood & Williamson 2011; Lynch-Wood & Williamson 2013). And, by downplaying the importance of differences across SMEs, they may have underestimated how other forms of regulation support the successful application of command-and-control approaches, and how for some firms other forms of regulation may be important in driving behaviour change. At the heart of our analysis, then, is claim that SMEs can have different compliance dispositions, and that it is possible to explore how different forms of regulation interact with those compliance behaviours. In the analysis we have shown this to be the case inductively (using a grounded theory approach similar to that advocated by Glaser and Strauss (1967)), by showing how regulation, and in particular civil regulation, interacts with different compliance types.

**THE STUDY**

Our study focuses on the environmental behaviour of manufacturing SMEs. SMEs are important to the manufacturing sector. UK Sources suggest that at the start of 2012 there were there were 231,000 manufacturing firms, and that SMEs comprised 56.8% and 32.9% of the sector’s employment and turnover respectively[[2]](#footnote-2). Alongside their economic importance, it is recognised, as indicated earlier, that SMEs have significant environmental impacts, and that firms with particularly large impacts are often in the manufacturing sector (Teknologist Institut 2010). Thus, between 2004 and 2009 we conducted several studies of SMEs. While each was a separate study, they had identical core themes (*e.g.,* the types of information collected, the firms observed, and data analysis). Briefly, the core themes involved: an examination SME behaviour; at least one face-to-face meeting with an owner-manager or senior employee; the interview lasting at least one hour, being recorded, and being semi-structured with the same core questions and prompts being employed; and the recorded information being transcribed and analysed inductively to identify regular themes.

The research approach focused on ‘factual’ matters. It involved asking questions about concrete issues (e.g., ‘has the firm been prosecuted?’) and exploring practices surrounding those issues (e.g., what happened following prosecution?). The interview questions derived from our knowledge of regulation, understanding of business and regulatory literature, and previous experiences of researching SMEs. The core questionnaire was designed to elicit i) basic organisational data such as turnover etc, ii) information on different aspects of environment management and strategy (e.g., whether firms have environmental managers or policies); and iii) information on regulatory matters, broadly defined (e.g., whether firms have environmental permits etc). As well as eliciting facts, the questionnaire contained prompts to facilitate conversations around the facts. Unplanned prompts were also used to allow conversations to follow paths set by interviewees.

The firms were based in the West Midlands. Being the industrial heartland of the UK, the West Midlands was considered suitable for examination as the study’s focus was manufacturing SMEs. Of the 21,780 manufacturing firms in the West Midlands at the start of 2012, 214,635 were SMEs[[3]](#footnote-3). SMEs comprised over 99% of the region’s manufacturing firms, over 39% of the regional sector’s turnover and over 59% of its employment. A total of 600 SMEs were randomly selected from business directories. The firms were telephoned a) to verify the sector b) to confirm the number of employees and c) to find out the contact details of the most senior person. Each firm was then sent a letter: outlining the aims of the study; requesting participation; and specifying it would involve an onsite interview. A follow-up call was made several days later to enquire whether the letter was received and if the relevant individual was willing to be interviewed. While many firms were reluctant to be interviewed, 110 firms eventually participated (27 medium, 54 small, 29 micro). Interviews, which lasted between one and three hours, were recorded and transcribed.

The interviews produced over 1600 pages of transcribed text, which were reduced using a thematic grouping approach. It was agreed that an initial grouping should centre on regulatory forms, as this was the main focus. Groups were then divided according to distinctions determined by the data. It was clear, say, that a particular regulatory form (e.g., tax) applied to firms in different subsectors (e.g. engineering), so on that basis the data were subdivided according to the subsectors in the dataset. This produced an initial set of broad themes and these broad themes commenced an analysis process that was ‘data-driven’, yielding thematic categories based on differences and similarities within the dataset. A benefit of having the first ‘tier’ of analysis intentionally broad and allowing sub-themes to emerge (e.g., stakeholder –related issues), was it reduced the influence of presuppositions. By breaking down the dataset into smaller units of common parts, the data became less value laden, which reduced the bias when those common parts were construed to constitute a distinctive category. Furthermore, the process of reconstruction, because the smaller data units were less value laden, enabled us to think more abstractly, which facilitated further re-categorisation to support theory construction.

**RESULTS**

Due to the data’s scope, the following analysis focuses on some ‘typical’ issues. Tables are used sparingly to show the number of respondents offering comparable views, with more detailed considerations of those views being provided using suitable quotes. All firms are coded (medium firms are ‘med-1’ to ‘med-27’ etc). We first consider the characteristics of the firms themselves, before looking at civil regulatory issues.

**RESOURCES**

A lack of resources was reported as an issue for 89 firms. The issue of resource scarcity was raised in different contexts (e.g., rising raw material costs, competitive pressures), and was commonly presented using such terms as ‘financial constraints’. One respondent said: “I have to account for every point zero, zero of a penny, that’s the type of price we work to” [med-3], while another reported: “I hardly have the resources to do what I’m doing at the moment. It’s obviously a very small company and the margins aren’t great” [sm-20]. It was apparent that scarce resources affected environmental capabilities. Respondents tended to indicate, firstly, that they perceived their firms as having insufficient resources to deal effectively with environmental issues and, secondly, of not being prepared to allocate more resources than was considered necessary. In describing his firm as a “tiny company”, one interview pointed out that he had no resources to make “environmental or those types of investments” [mic-29]. Other respondents said: “we don’t have the money or the time – this industry’s really bad and the environment’s not really a concern” [med-7]; “there’s very little money about at the moment, there’s no way I can spend anything simply for the sake of the environment” [sm-5]. Resource scarcity also included time, expertise and people. When discussing employees, the manager of a medium-sized firm stated: “you need them to do their job and that’s what they do and so by taking people out or even educating... ....educating people takes time and training and sometimes you just can't afford to do it…” [med-18].

**RESOURCE DIFFERENCES**

Notwithstanding this, resource differences shaped how firms prioritised their tasks and responsibilities. Resource differences are of course most obvious when considering employees – micro firms obviously have less human capital than small firms etc. The data also revealed that turnovers of micro firms were generally smaller, and so on (Table 1). That said, differences in turnover were evident within the categories shown in Table 1. That is, micro firms with a turnover of less than £1m included firms with turnovers of £250,000, £600,000 and so forth. Importantly, it was also evident that a firm with, say, 4 employees could have a higher turnover than a firm, say, with 7. And as Table 1 demonstrates, it is possible – though not common – for a micro firm to have a higher turnover than a small firm, and for a small firm to have a higher turnover than a medium firm. Thus, irrespective of the criteria used to measure resource differences (e.g. technology employed, market share), the data indicate that differences will continue within and beyond any chosen category.

**Table 1: Size-turnover relationship**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Less than £1m | £1m-£2.5m | £2.5m–  £5m | £5m –  £10m | £10m + |
| Mic | 27 | 2 |  |  |  |
| Sm | 20 | 21 | 12 | 1 |  |
| Med |  |  | 12 | 11 | 4 |

The effects of these resource differences could be seen in several ways. Environmental responsibilities, for example, tended to differ in line with employee and turnover differences. As Table 2 shows, in smaller firms the responsibility for environmental issues tends to reside with owners or directors, while in larger firms the environment is often a delegated function. But as the Table also shows, there are variations within particular categories (e.g., small firms have ‘owner-manager’ and ‘delegated’ environmental responsibilities). Care is needed when interpreting data showing that ‘owner-managers’ have environmental responsibilities. For example, in some smaller firms, it was clear that respondents had given little thought to what these responsibilities entail: “I suppose I’d have to be wouldn’t I? Not really thought about that” [mic-17]. At the same time it is equally important to realise that, notwithstanding that there are variations within the pattern shown in Table 2, overall, as firm size increases (in terms of employee numbers) the co-ordination of activities is more likely to involve more than one person.

**Table 2: Co-ordinating responsibilities**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | **Mic** | **Sm** | **Med** | **No data** |
| Responsibilities | Owner/proprietor/MD | 29 | 26 | 4 | 8 |
| Delegated |  | 23 | 20 |
|  | | | | | |
| Co-ordinating activities | One person | 24 | 27 | 9 | 12 |
| More than one person | 2 | 22 | 14 |
|  | | | | | |
| Time (per week) | None to “as and when” | 10 | 9 | 2 | 9 |
| Under 1hr | 12 | 18 | 6 |
| Over 1hr | 2 | 21 | 16 |
| Over 5hrs |  | 2 | 3 |

The amount of time dedicated to environmental issues is a further indicator of resource differences. When asked, responses ranged from ‘no time at all’ to ‘virtually all of my time’. Smaller firms typically spent less time, represented by the “as and when” response (e.g., “To be perfectly honest, very little really” [mic-3]). In contrast, the manager of a medium-sized firm said: “I’d say about 50% of my time at the moment” [med-9].

**COMPLIANCE PROFILES**

As indicated, we examined factual compliance-related issues and events, and attitudes surrounding these events, to identify how firms approached compliance issues. The data show that firms do in fact have different approaches to issues related to compliance. The prevailing dispositions can be seen as ‘natural compliance’ and, to a much lesser extent, ‘strategic compliance’. The natural complier, for example, would be able to offer examples of attempted compliance and would often be able discuss issues (e.g., costs) surrounding this. The strategic complier could talk (and provide examples) of actions that were not necessarily enshrined in law. They tended to be more proactive and knowledgeable. It is important to stress, however, that these categories are ideal types, in that they capture a firm’s dominant characteristic. They do not necessarily ‘sum up’ a firm.

The vast majority (79: 72%) of firms could be classed as were natural compliers. With compliance being their primary motivation, natural compliers generally aimed to do neither less nor more than law required: “if there were environmental regulations then first and foremost we’d have to comply with them. That’s always the first prerequisite” [med-13]; “to be on the right side of the law, so we’re covering ourselves basically” [sm-38]; “That is a bit of a driver really isn’t it? The regulations are driving what we do” [med-1]. Different reasons were provided as a justification for this approach. Some respondents sought compliance since they felt it was the right thing to do: “the management….do care about the environment, and they’re applying their sort of ideology into the company by trying to get everything right within the law” [med-25]. Others expressed stronger environmental values, but indicated these were overridden by commercial pressures: “I personally did have quite a strong environmentally-friendly ethos, but survival has kind of taken over” [sm-54].

Importantly, natural compliance is a broad posture and firms exhibited a range of behaviours. Some firms were vulnerable natural compliers, as they were unsure of their compliance status. For example, some firms expressed uncertainty over whether they were compliant across all areas: “Reality is we don’t really know…I’ve got a good idea of what we should be doing, but I don’t really know, if that makes sense” [med-11]; “all those things probably affect us, but by how much, I have to admit, we’re unsure... [mic-26]. Such compliance vulnerability was more evident for some firms than others; six (35%) medium firms admitted compliance vulnerability, compared to 30 (75%) small and 19 (86%) micro firms. In contrast, some firms exhibited considerable knowledge, as one respondent from a firm with an environmental permit said: “Yes, I’m confident we know what we’re doing. We’ve invested a lot to get it right – I could show you around if you like” [sm-5]. Consistent with these variations in natural compliance behaviour, there were firms that were not vulnerable across all areas of activity. There were in fact areas where compliance was more assured, like, as shown below, where there was guidance on compliance through the supply-chain. Similarly, as also seen later, some firms received compliance help from wider support networks.

Another, less prevalent, but nonetheless important, compliance behaviour is strategic compliance. The strategic complier is a firm that takes a planned and proactive view of regulation, sometimes building in safety margin. It may also adopt measures not necessarily enshrined in law. One respondent says: “any future or planned projects are always assessed to make sure they meet current law. [Interviewer: do you go beyond your license requirement?] We certainly are, yeah. Broadly speaking whenever I talk to anybody else involved in environmental management, whether they would admit it to you, they would pay scant regard to whatever permits or authorizations they’ve got up until the point they get found out. That certainly isn’t the case here.....we’ve been very proactive because of the nature of firm we are” [med-9]. Strategic compliers are tactical, not altruistic. They either seek to identify with or exploit market opportunities for good environmental behaviour or safeguard their positions by reducing risk. Furthermore, strategic responses differ across and within firms. Firms may exceed compliance in some areas, but not others. They might exceed compliance where it makes strategic sense, but not where the strategic imperative is absent.

**EXTERNAL SETTINGS**

To consider how external settings affect behaviour, we looked at issues related to ‘visibility’ and ‘stakeholder practices’. However, determining visibility through the interview process is challenging because some measures (e.g., consumer brand awareness) were largely irrelevant for our sample of SMEs. This led us to consider respondents’ perceptions of their environmental impacts, and how this may have influenced their visibility to the wider world. Alongside this, we looked at their stakeholders, e.g., whether they responded to this visibility or if they applied pressure for change irrespective of it. The stakeholders were identified by the interviewees themselves, and they included customers, communities, support agencies, and an assortment of less prominent bodies. Accordingly, we have not considered what in other circumstances may have been important stakeholders (e.g., investors).

**1. Impacts and Challenges**

Most respondents considered their firms’ environment impacts to be insignificant, although more noticeable impacts were evident in some medium and a minority of small firms. Importantly, it was evident that some respondents had given little thought to their firms’ impacts: “not sure is the honest answer. We don’t have any environmental issues......We don’t have a lot of waste” [sm-27]; “it’s not something that I’m particularly aware of day-by-day.....apart from the waste that that produces. Nothing really” [sm-17]; “Not thought about it. But no, nothing” [mic-22]. Most respondents considered their firms as having few impacts: e.g. “Can’t think of anything” [mic-17]; “No, nothing like that” [mic-8]). Where respondents acknowledged having at least some small impacts, these impacts typically concerned issues relating to waste or energy: e.g., “To reduce waste...The clay waste can be re-used. The fired waste can’t. That’s put into waste skips and then we’re charged to tip it. So it’s a cost” [med-27]. Interestingly, respondents would often describe their environmental challenges in commercial terms (e.g., cost reductions) rather than ‘environmental’ terms, as the following comments suggest: “The only one that really affects us to any great extent is if we change the oil in the machines. We have to get a proper contractor in to come and take the waste away. In the old days someone would pay us for the old oil. Nowadays we have to pay for it to go. [Unplanned prompt: what about energy?] I suppose we’re fairly….I mean our electricity bill is about £500 a month. There are other costs I’m far more concerned about” [Mic-4];“Not very many or wide ranging impacts. You’d have to say the cost of waste is the biggest one” [med-7]. Although dependent on firms’ activities, as firms increase in size their environmental impacts, and awareness of them, tend also to increase. One respondent, whose firm had an environmental permit, said: “The main ones we have are emissions to the atmosphere from the boiler process, the burning of the timber, but we have a sophisticated monitoring system for that. It’s only a problem that we have to comply with legislation, which we do....And the second one is the emissions to the atmosphere that come from the boiler when we burn the timber and the off-cuts, the sawdust....That provides quite a few emissions to atmosphere that we have to deal with. Yes, we had to spend about £750,000 putting a new boiler in about three years ago. Yes, it wasn’t meeting the existing standards” [med-15].

**2. Stakeholders Exchanges**

As a rule, respondents felt that the level of concern or interest displayed by their stakeholders, as reflected in their dialogue and relations with these stakeholders, was limited. Table 3, which overstates the true position of contact because it records substantive and less substantive interactions, shows that most (65) firms reported having no dialogue with stakeholders on environmental matters, and that 45 had some dialogue with one or more stakeholders. Larger SMEs generally appeared to have more interactions with a wider range of stakeholders.

**Table 3: Environmental interactions**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **All** | **Med** | **Sm** | **Mic** |
| **Customers** | 32 | 11 | 13 | 8 |
| **Communities** | 17 | 9 | 7 | 1 |
| **Structured groups/NGOs** |  |  |  |  |
| **Support agencies** | 11 | 5 | 6 |  |
| **Other (e.g., insurers)** | 9 | 5 | 3 | 1 |
| **No interactions** | 65 | 8 | 40 | 21 |

**Business Customers**

The majority of respondents reported having no environmental dialogue with their customers, which suggests customers are largely indifferent to their SME suppliers’ environmental practices. Comments such as the following were relatively common: “No, environmental’s got nothing to do with customers here. Customers never come in and say you’ve got to do this or that. It’s got nothing really to do with them, has it?” [Mic-5]; “No. We obviously have dialogue with the customers over design and production, time and delivery and stuff. But we’ve never had one customer come up to us and say ‘I want you to use this because it’s more environmentally friendly” [med-25]; “If we were put under pressure from customers to trade with it then yes, we would go down that route, but without the push from customers then no, we wouldn’t do it. Because we don’t need to. But I don’t think people are that bothered” [sm-33]. Such comments, like many other responses, suggested dialogue between customers and suppliers was focused mainly on commercial matters: “I’d say we’ve done various exercises on reducing raw materials, but not from an environmental point of view. They’ve been cost-reduction exercises” [med-5]; “they base their ideas and decisions on quality, cost. Some want products quickly, some want good quality products, some want the cost. None of them have said they want the environment though” [sm-3]; “I think they [customers] tend to leave a lot of that down to us. I feel as though…we make it…I make it personally as efficient as I can. If there is a way of using less cardboard, I’ll do it, but that’s not really from an environmental point of view. It’s to do with costs” [mic-2].

A number of respondents did however report a level of dialogue with customers on environmental issues. According to some respondents, this dialogue was relatively insignificant (e.g., simple fact-finding or questionnaires): “I get questionnaires mainly referring to health and safety all the time but with the odd little environmental issue in...... But it’s hardly worth bothering about” [sm-29]; “we do get questionnaires from companies, but it depends on the company...... I’ve never known companies who would make a real demand on environmental issues.....we had one who stipulated a certain type of pallet, a plastic pallet as opposed to a normal pallet, and I don’t know what that was based on, but probably not the environment” [sm-5]. And, even where it was reported that a dialogue had taken place, it seldom resulted in fundamental practice changes: “We actually have one [environmental policy]. Someone asked me for a copy the other week. I know I wrote one once some years ago, but I couldn’t find it. We do need to have one though – our customers expect us to have one, and I did actually write one for a customer, but couldn’t find it the other day when somebody asked me for it” [mic-6]; “Just the odd few [ask for an environmental policy].....it doesn’t mean much” [sm-40].

Where there was evidence of a more meaningful dialogue taking place between SMEs and their customers, this dialogue typically focused on specific technical, product, or regulatory issues. One respondent, for example, outlined how his firm was “trying to develop recyclable packaging because of one of the customers. It’s an ISO 14001 approved company and we send all their goods in recyclable packaging and they send them back to us for reuse” [med-2]. Another respondent reported that “We’ve worked with a customer on increasing the levels of recycled material that's used in some of our stuff. That was customer driven, yeah, so it did involve us doing a fair amount of work to try to source it and it's a question that we, we get don’t asked regularly”[sm-2]. For some firms, the dialogue was triggered by customers’ own regulatory pressures: “We’ve been working with [customers] on the ROHS compliance stuff and they know exactly what they’re doing. That’s really helpful because they pass that on” [sm-44]; “Especially for the American market, I gather their regulations are a lot tighter on hazardous products than we are....There are stringent tests on these materials so before you can even supply to some American companies, we have to be really tight on what we use. Some customers will make demands on us to get it right” [med-19]. There were a small number of firms that had experienced greater demands from customers, particularly where there was pressure to secure management system accreditation: “We’re a reasonably big company and we extract stuff from quarries. I suppose we need to be seen to be doing the right thing. As I said, we’re monitored by the local authority and we sort of felt that we needed to go for ISO14001 because of that. And we have been asked in inverted commas if we’ve got it on more than one occasion by a couple of our customers” [med-14]. Another interviewee said “it was a sort of a requirement from one of our major customers. It was something we’d been looking at for a while but [large firm] is quite a big customer and it was really something that they were really quite keen on us doing......I strongly suspect we possibly wouldn’t have pursued it if that pressure hadn’t been there.....There’s a strong possibility that we would not have continued being the main supplier” [sm-15].

Finally, the relationship between firms and customers is of course critical, yet the data suggest customers have relatively little interest in suppliers’ environmental activities. Importantly, the data also indicate that customers may have a limited amount of control or influence over their SME suppliers’ environmental activities. When respondents were asked to comment on how many customers their firms had, for example, responses ranged from 4 to well over one thousand, which suggests supply-chain pressure may, in many cases at least, be diluted: “Probably 300, 250 to 300” [mic-15]; “Not many…erm, about 120. [Unplanned prompt: and most key customers?] 25 of those would represent 60 percent of the business” [sm-39]; “You're talking about 150” [sm-21]; “Clients I would say about 4” [sm-38] “Between 500 to 600” [sm-52]; “We must be approaching the 270 mark now I would have thought” [sm-8].

**Local Communities**

The lack of attention paid to the environmental behaviour of SMEs was also evident when looking at local neighbourhoods and communities. Here, respondents generally reported having limited dialogue with, or pressure from, local community members. Typical responses included the following: “not at all’ [mic-17]; “No issues at all” [sm-43]. For a number of respondents, this could be explained by their firms’ low environmental impacts: “I suppose because of the area around here, it’s fairly low key. And we don’t really have any impacts” [sm-36]. But as can be seen from this response, location was also an important factor. Given that many firms were sited on industrial parks or away from residential areas, a number of respondents felt there were no ‘communities’ as such to affect: “Not here we don’t because this is an industrial zone. So I haven’t got very many close neighbours, they’re mostly industrial neighbours and they’re just as keen to get on with their business as I am” [sm-50]; “Well, we’re not really a dirty company and... we’ve got very few houses in the very close proximity” [med-11].

A small number of firms had experienced more significant pressures from local community members. And here, there appeared to be a link between community dialogue and pressure and firm size, with larger firms appearing to receive greater levels of attention than smaller or micro firms. At least three important issues can be observed from the interview data. Firstly, community pressures usually resulted from ‘self-interest’; in other words, local community members tended to focus on matters that affected them personally (e.g., noise, smell). One respondent reported that “we did have some complaints....we had to have someone in with a meter to try to find where the noise was coming from. We were getting a lot of noise from a factory so we weren’t sure if it wasn’t noise from an adjacent factory that was causing it. And we had to identify, and we’ve got a lot of ducts so we didn’t know if it was ours causing the problem. A neighbour had kept a log of the times when the noise was so that helpful to us, we checked if anybody was working that weekend” [med-16]. Another respondent said: “We did have an issue once where some green powder was escaping – it painted [their] roofs and the neighbours came over and told us. That was sorted though” [med-8]. Secondly, and as the previous quotes indicate, firms tended to respond positively: “We’d had a complaint about noise from the housing at the back, and we couldn’t understand why we never had it before. And I think it was a time when we had some compressors and other machinery and conditioners, so we had to look at that. We found a couple of cases when they’d been left on overnight so ....we’ve got the settings right now” [med-19]. Thirdly, community interest could sometimes lead to more formal regulatory responses:

“There are some ‘irritated’ residents around us. We’ve had a number of calls over the years about various things. We’ve felt we’ve always responded to those calls; sometimes they’ve gone straight to the local authority. [Unplanned prompt: What issues?]. Noise mainly. Light seems to be the next one. In all instances I have quite a good relationship with the environmental rep from the local authority and we have I hope always proved to be very willing to try to do what we can. And we’ve always done what he’s asked us to do in one way, shape or form......And he’s always conceded that they live near an industrial estate, so they’ve got to accept that. But we’ve just had a formal warning notice [Unplanned prompt: Why?]. Noise and light again...........The guy from the local authority’s acknowledged that he’s received notice of it and he’s had to go into his formal mode now. So it’s a very formal reply and then he’s got to work out what constitutes a nuisance, because it can only be a nuisance” [med-17].

While most respondents reported little or no local community pressure, it was nevertheless clear that they were sensitive to the needs of surrounding communities: “I don’t want to make it cause inconvenience for my neighbours if I'm producing everything from smells to gases or anything else, it doesn’t matter, if I'd be uncomfortable with it ....so I don't do it” [med-6]; “We don’t want to upset the neighbours if you like. So we’re going to try our best on that one. Ultimately, if you don’t do as you’re told you get a smack on the wrist. But it’s more really just to keep the area happy. If we upset the people that live near there, we wouldn’t be able to operate as we do....we’d have problems” [sm-9]. That said, there was little evidence of this leading to concrete actions.

**Support Agencies**

Again, in the main respondents reported having limited dialogue with environmental support agencies or networks. Typical responses were as follows: “We’ve not had anything to do with them, no [mic-11]; “Nothing like that round here. No, there’s nothing like that that I know of” [sm-24]. Yet there were a number of firms that had received help or support from various agencies, although it was clear that much of this help was directed at compliance-related issues. It was reported by one interviewee that “We’ve had quite a lot of dealing with [person] from Groundwork. They’ve worked with us quite closely and I think we’re fairly safe. I mean there’s legislation that we’re possibly not complying with or perhaps we‘re not aware of but, having had a third party come in and have a look at our processes, we don’t have significant problems” [med-11]. Another respondent said “I went to one of their [Groundwork) seminars on something that was coming in – we had to do. It was quite good. Otherwise I hadn’t heard of them” [sm-21], while a further interviewee stated: “We did a lot more work last year, as I said I did send a couple of members of staff on some training courses [local environmental business network] had done. It was on packaging and dealing with our hazardous waste and other stuff we had to do. We did learn a lot from that. But God knows we haven’t put it all into practice, because of time restraints…I decided to join that because I can see the increasing environmental legislation and it’s impacting on us in quite a lot” [med-3]. It is also interesting to note that smaller SMEs, and particularly micro firms, are seldom involved with wider networks. For smaller firms, there was some evidence that assistance often comes from basic information sources and networks that were not environment-specific, such as trade associations of chambers of commerce. For example, the owner of a micro firm commented: “To be honest I don’t think I am fully aware of all of them [the regulations], but Business Link organisation and the local Chamber of Commerce send out newsletters with news about some of them and I tend to quickly sift through it all and make a judgement as to whether it’s likely to be important to us because there’s such a lot of it passes over my desk” [mic-47].

**Structured groups and NGOs**

Although respondents were often asked the question, it is interesting that none of the firms in the sample indicated any dialogue with, or pressure from, structured pressure groups or NGOs of any type.

**Others (e.g., insurers)**

There was evidence of some pressure from sources such as insurers, although this typically depended on the nature of the firms’ activities. One respondent says “We do get stuff from the insurance company. They do…the insurance company will ask us on an annual review to comply with certain stuff and ask for confirmation that we do. [Is that more from a health and safety perspective than an environmental one?] It is. But environmental stuff’s starting to creep in” [mic-21]. The pressure can be more significant where firms’ processes are potentially more harmful. One manager of a firm with an IPPC license reports: “Oh yes, insurers look at everything. Like, they won’t give you proper insurance unless you’ve got protection from the river, because they won’t pay for the flooding of the river, unless you’ve got proper protection. They inspect all that” [med-5].

**FINAL REMARKS**

We first need to make some general observations on the behaviour of SMEs. Those firms we have observed are, as a rule, unresponsive to environmental issues, with their activities tending to be both limited and typically motivated by compliance with traditional regulation. This is a familiar pattern of rule-following that is supported by several studies (e.g., Williamson et al. 2006; Tilley 1999; Patton & Worthington 2003; Merritt 1998). Yet even with a small population of manufacturing firms, we see different behaviours; such as some SMEs aiming for basic compliance for different reasons; some operating with varying degrees of risk of noncompliance; and some approaching compliance more strategically, and doing so with different degrees of commitment and for different reasons.

Like other studies (*e.g*., Lynch-Wood & Williamson 2011, 2013), our observations suggest these differences derive from two factors that combine to shape how firms respond to regulation; that is, ‘capabilities’ and ‘orientations’. Capabilities vary across firms, and though size is a useful measure, it does not necessarily determine capability, or how capabilities are used. For sure, larger SMEs have more employees, typically higher turnovers, and a greater range of skills and technologies and so on, and this means larger firms will generally outperform smaller ones. Larger SMEs, for example, are likely to have more knowledge of regulation and be in a safer ‘compliance’ position. Yet we see evidence of, say, smaller firms (*i.e.*, in terms of employee numbers) occasionally having higher turnovers than larger firms. And importantly, we also see firms with similar capabilities responding differently and firms with seemingly fewer capabilities occasionally outperforming those with more. This complex picture is due to firms’ ‘orientations’. Orientation is related to, yet independent of, capability. It is related to capability in that a firm’s resources and skills etc. will influence how it views and approaches different issues. But orientation is independent in that other factors – e.g., culture, education, and wider socio-economic contexts (*e.g*., competitive pressures, civil regulation, prevailing commercial values) – are, to varying degrees, also important determinants of orientation. Ultimately, it seems the combination of capabilities and orientation determines a firm’s receptivity to different regulatory instruments. And this combination enables us to envisage firms with different regulatory receptive capacities.

Given our observations on the compliance orientations of SMEs, what role, if any, can civil regulation play in the regulatory toolkit? It is firstly important to comment on the relationship that exists between civil regulation and firms. On one hand, civil regulation forms part of the context, and is thus one factor, that influences a firm’s orientation. On the other hand, a firm’s capacity – and its interpretation of the ‘standards’ set by civil regulators – will determine how, if at all, it responds.

We have seen that civil regulatory pressures are generally subdued and do not strongly influence the orientation of many SMEs, which means other factors may be more important in shaping orientation. Many stakeholders appear to have limited interest in the environmental practices of SMEs, possibly because they lack understanding of these impacts, and the environment is not a significant feature of dialogue. That said, we have also observed that civil regulation does influence *some* SMEs. The­ types of pressures we have identified can be described as low-key and extemporised. It is quite common for pressures to derive from stakeholders who pursue a relatively narrow self-interest (as opposed to a public interest) mandate. Stakeholders are often unconcerned with broader ‘social responsibility’ issues; their concerns are more straightforward or provincial, typically focusing on narrow issues that affect them directly. Community constituents, for instance, are more likely to show concern when issues affect them personally, while customers often show interest in suppliers to the extent that suppliers’ products have to comply with certain regulatory requirements. But this serves a purpose nonetheless, for it seems to support the compliance process, even if it only rarely promotes beyond compliance activities or broader notions of social responsibility. Generally speaking, civil regulatory pressures appear insufficiently strong to overcome the natural compliance orientations of most SMEs, yet these pressures can still bring about valuable compliance-reinforcing practice changes. It can have a useful ‘problem solving’ function, even if it will only rarely have a behaviour improving function.

When considering Hood et al.’s (2001) regulatory constituents, we see that civil regulation has differential impacts across SMEs. For many SMEs it does not serve a strong regulatory function, since many constituents do not set separate or independent standards for these firms, while many constituents may view relevant standards as those already enshrined in law. But evidence also suggests civil regulation can, in particular circumstances, satisfy the conditions outlined for a regulated activity. It can set standards of behaviour and gather information on those standards, and it can change behaviour in line with the standards expected. But it rarely acts alone and is not universally applicable. When considered in the context of a micro-social contract, it is clear the ‘contract’ can operate through different civil regulatory actors. But perhaps more significantly, in most instances the micro-social contract does not need to incorporate civil regulatory pressure. Rather, it appears that the contract can be sustained through traditional forms of regulatory oversight, and that this produces a minimal form of compliance. And in doing so, it seems to conform to the ideas outlined by Donaldson and Dunfee (1994), in that this behaviour is morally rational because it ‘satisfices’ local economic and social decision making criteria (i.e., minimally compliant behaviour satisfices macro social and micro social expectations). At the same time, it suggests there is scope to change the level of the satisficing behaviour of some SMEs by leveraging more effectively civil regulatory pressure. Indeed, in light of the limitations direct regulation it is important that we find ways of facilitating sources of civil regulatory pressure if we want more SMEs to move beyond minimal satisficing behaviour. After all, civil regulation can, if the right circumstances exist, provide a useful public interest service. From a policy perspective, given that many SMEs are reluctant to deploy scarce resources for environmental purposes, then it seems that they often rely on the knowledge of others to inform and direct their decision-making on regulated activities. This often requires that they trust the information source, with the data showing, for this sample of SMEs, that these include trade associations, chambers of commerce, non-governmental support agencies, suppliers, customers, and informal business contacts. Using civil regulation by developing trusted networks could therefore be a particularly effective way of managing the implementation of State regulation for many SMEs. To be sure, this will require further research as it is clear that a trusted network is not a ‘one size fits all’ entity. It is likely to be specific in terms of its constituency and mode of operation, and, from this, can be said to require ground level facilitation rather than top down direction

On final reflection, our study focuses on a sample of firms in a limited area, and so has not captured the full range of firms and is not representative of the differences that may exist. It is also unlikely that we have captured the full extent of the differences between the firms we have analysed. There is, then, likely to be much to be identified and understood, so we need more research into how differences may affect the way we regulate and how we think about regulation.

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1. SMEs, as defined by European Recommendation 2003/36, are firms with fewer than 250 employees (and turnovers of less than €50m or balance sheet totals of less than €42m). The Recommendation gives details for further subcategories of ‘micro’, ‘small’ and ‘medium’ firms: a medium firm has 51–250 employees, a small firm 10–50, and micro firm fewer than 10. [↑](#footnote-ref-1)
2. < https://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/80247/bpe-2012-stats-release-4.pdf>. [↑](#footnote-ref-2)
3. <https://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/80247/bpe-2012-stats-release-4.pdf> [↑](#footnote-ref-3)