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# Unexplored aspects of the social licence for SMEs

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## Abstract

**Purpose** – *This paper aims to examine social licence in the context of small and medium-sized enterprises (SMEs). Social and economic actors can assist in protecting the environment by granting firms a social licence. The social licence is regarded as a regulatory trigger, which some claim can improve organisational practices and possibly induce beyond compliance behaviour.*

**Design/methodology/approach** – *The paper uses data from interviews with the owners and managers of 110 manufacturing SMEs.*

**Findings** – *Social licence pressures are generally weak, while traditional regulation remains essential for encouraging and sustaining environmental activity. That said, the data show important differences across firms, for some SMEs are influenced by and responsive to social licence pressures. Typically, these pressures derive from stakeholders who pursue a relatively narrow self-interest (rather than public interest) mandate, and focus on particular issues rather than broader objectives of environmental responsibility. When responding to pressures, SMEs are likely to take specific and focused actions that address specific stakeholder concerns.*

**Research limitations/implications** – *Fresh insights are provided into the social licence and smaller firms. Contrary to previous views, there are circumstances where the social licence provides a limited and tailored regulatory tool for initiating change, and it typically leads to firms making alterations to business practices that tend to be low-cost and easy to implement. The social licence can provide a consensual micro-social contract and limited public interest service, and, subject to supporting circumstances, it may be extendable to other types of smaller firms.*

**Social implications** – *The paper presents fresh insights into the relationship between SMEs and social and economic stakeholders.*

**Originality/value** – *The paper provides new insights into how relevant stakeholders can influence the environmental behaviour of small firms.*

**Keywords** *Stakeholders, Small to medium-sized enterprises, Regulations*

**Paper type** *Research paper*

## Introduction

Small and medium-sized enterprises (SMEs), or firms with fewer than 250 employees, produce significant environmental impacts. Estimates suggest they produce around 64 per cent of industrial pollution (Teknologist Institut, 2010), which is concerning for different reasons. One concern relates to their ubiquity and importance. SMEs comprise roughly 99 per cent of all firms and generate in the region of 67 per cent of employment (Ecorys, 2012). When tackling their environmental impacts, therefore, it is important to safeguard, as far as possible, their economic contribution. Another concern relates to regulatory and compliance issues. Given their sheer number and many forms (Spence *et al.*, 2012), it is likely that the State will lack the necessary resources, knowledge and capacities to regulate and monitor SME activities. This is particularly evident when there is an over-reliance on traditional "direct" regulatory instruments. Direct instruments, such as process standards or performance standards, are often seen as overly bureaucratic, resource-heavy and sometimes ineffective at addressing the sources of environmental problems. This particular

claim is consistent with another view that forms the basis of this article, which is that alternative regulatory approaches are needed. A "smart" regulatory approach suggests regulatory responsibilities should be shared among different market and social actors (Gunningham and Grabosky, 1998; Gunningham et al., 2004). It is claimed this will boost the total stock of available regulatory resources and will draw on the particular strengths of different actors in the regulatory process. Exploring this further, this article looks at alternative (or non-State) actors and their effectiveness at undertaking surrogate standard-setting and enforcement functions. It asks: Are SMEs affected by pressures from civil and economic actors, and if they are, how do they respond? The analysis is situated in a wider literature which posits that members of civil and economic society can, under certain conditions, influence the behaviour of firms, and that when this happens, it takes the form of a "social licence" – a type of civil regulation (Gunningham et al., 2004; Lynch-Wood and Williamson, 2007, 2014b; Fransen, 2011).

These issues are explored using data gathered during interviews with 110 manufacturing SMEs. The data confirm existing research by showing that traditional regulation tends to drive environmental behaviour, although the data also show that SMEs exhibit differences in terms of *why* and *how* they respond. This is an important backdrop to the examination of the social licence. While the data are generally consistent with previous studies, showing that civil and economic pressures are generally weak, they also reveal instances where these pressures do affect some firms. In other words, differences across SMEs influence the extent to which they are affected by the social licence. The social licence thus takes on different forms for different firms, but, where it does operate, it can be seen that stakeholders tend to pursue a narrow private or self-interest mandate, rather than a public interest mandate. Rather than targeting broader matters of environmental responsibility, stakeholders tend to target particular problems or issues that affect them directly. While there are differences in how firms interpret and respond to social licence pressures (e.g. responses may be transient or enduring), SMEs typically take specific, narrow and low-cost actions that address specific concerns. SMEs are less likely to embrace deeper notions of environmental or social responsibility, often because this is not what is required of them. It is concluded that the social licence, when applied to SMEs, supports a tailored problem-solving role for a limited number of firms. As such, it does not provide an all-embracing behaviour-improving function. The inference is that this constitutes a context-specific micro-social contract and that when this occurs, it can provide a limited public interest service.

## Regulation and the social licence

There are three interpretations of the term "regulation" outlined by Baldwin et al. (2012). One, the most far-reaching, is all forms of social or economic influence. This broad interpretation can include those regulatory measures, influences and forces that can shape and hold firms to account and, importantly, which are said to operate beyond the traditional State or legal domain (Hutter and Jones, 2007). Such an interpretation of regulation is consistent with a view that civil and economic society can "regulate" organisational behaviour and support broader policy objectives by granting firms a so-called social licence (Gunningham et al., 2003, 2004; Lynch-Wood and Williamson, 2007). It is an interpretation that also relates to stakeholder theories, in that those different bodies who are affected by the behaviour of a firm have a legitimate claim on – and indeed can influence – how that behaviour should be exercised (Freeman, 1984; Carroll, 1989, 1991; Heath, 2006; Donaldson and Dunfee, 1994; Fassin, 2009).

Broadly speaking, the social licence concerns the influences of various stakeholders (e.g. consumers, communities, social movement organisations) on the firm. These stakeholders set their own standards and conditions, and may seek to observe performance so that they can alter how firms behave. The social licence is a regulatory influence that draws upon the powers of markets and norms (Lynch-Wood and Williamson, 2007; Vogel, 2005). It

functions on the basis that firms do not take actions or decisions simply due to government regulations or the threat of legal sanctions (Gunningham *et al.*, 2003, 2004; Vogel, 2005). And it has alternative "sanctions" (e.g. reputation loss) if firms fail to meet their social licence conditions (Gunningham *et al.*, 2004). The social licence can also be considered a form of private regulation or a quasi-contractual tool. For a firm to operate in the market, its products and services, together with its broader actions and deeds, must be accepted by society's relevant actors. It is compatible with integrative social contract theory (Donaldson and Dunfee, 1994), where micro-social contracts between, for example, a local community and a smaller firm are part of a contractarian process that delivers normative judgements and behaviours. The social licence can thus be considered a regulatory tool that complements other forms of regulation, as it requires firms to meet society's environmental expectations and avoid activities that societal groups find offensive, irrespective of whether these expectations are enshrined in law (Gunningham *et al.*, 2004; Lynch-Wood and Williamson, 2007).

It is possible to position the social licence in a body of work that shows how organised groups and individuals in society contribute to regulatory space. These bodies contribute to this space through their ability and capacity to affect firms, to organise and marshal networks and to shape and influence market conditions (Bendell, 2000; Grabosky, 1995, 2013; Vogel, 2005, 2010; Gunningham *et al.*, 2003, 2004; Bennie, 1998; Newell, 2008). Observations suggest the regulatory powers of civil society members can be strong. Consumers can influence firms through their purchasing preferences or through complaints to regulatory bodies; social movement organisations can influence firms through boycotts, media initiatives or other partnerships; and firms can influence other firms through supply-chain initiatives or procurement strategies (Vogel, 2005, 2008, 2010; Grabosky, 1995, 2013; Yaziji and Doh, 2009; Force *et al.*, 2011). Moreover, as Grabosky (2013) has observed, the regulatory capacities of civil society may be expanding owing to developments such as digital technologies and social media.

Yet, questions remain over whether the social licence really is an effective mechanism for improving organisational behaviour. In what contexts is it influential? Can it regulate areas and issues governments may be reluctant or unable to manage themselves? Does it fill a regulatory and enforcement gap created by increasing societal complexity and the inability of governments to exercise power to deliver desired public goods? The particular context for this analysis is SMEs, as they remain largely unexplored in terms of the applicability and relevance of the social licence.

## SMEs and environment: a summary

Studies suggest that SMEs are generally unresponsive or reactive to environmental issues (Williamson and Lynch-Wood, 2001; Williamson *et al.*, 2006; Tilley, 1999). They also suggest that traditional regulatory instruments, which normally mean command-and-control approaches, are the main drivers of behaviour and practice (Tilley, 1999; Williamson *et al.*, 2006; Patton and Worthington, 2003; Petts *et al.*, 1999). The factors used to explain this lack of responsiveness, and to explain why traditional regulation is a driver, are both internal and external to the firm and are often interconnected. It is worth considering some of these in a little detail.

The internal factor seen as having the most significant bearing on the environmental behaviour of SMEs, and one of the first things we think of when considering small firm issues, is resources. It is well-documented that SMEs lack resources, broadly defined to include employees, assets, skills and so forth (Lynch-Wood and Williamson, 2014a; Gunningham, 2002; Hillary, 2000; Lepoutre and Heene, 2006; Baylis *et al.*, 1998). It is claimed that scarce resources can restrict the capacity of smaller firms to make environmental improvements, and there are suggestions that manufacturing SMEs are even more prone to resource-constrained inertia (European Commission, 2012). Resource constraints are said to explain the lack of knowledge of environmental and regulatory

matters, poor compliance performance and a reluctance to participate in green or eco-innovation initiatives (Lynch-Wood and Williamson, 2014a; Baylis *et al.*, 1998; Wilson *et al.*, 2011, 2012; Hillary, 2000; Côté *et al.*, 2006; Brío and Junquera, 2003; The Gallup Organisation, 2011; EIM and Oxford Research for DG Environment, 2011).

Another important and related internal factor is the SME owner-manager's attitude or frame of mind. This has several characters. It is, for example, a familiar claim among owner-managers that their firms' environmental impacts are only small (Lynch-Wood and Williamson, 2014a; NetRegs, 2009; Rowe and Hollingsworth, 1996; Revell and Blackburn, 2007; Simpson *et al.*, 2004; Hillary, 2000). The consequence of this is that owner-managers may see no strong justifications for allocating resources or making investments to improve their firms' environmental performance (Revell and Rutherfoord, 2003). To an extent, it is also a view that is reinforced by the prevailing concerns that many owner-managers have for commercial survival and success (Williamson *et al.*, 2006). Indeed, such concerns have been said in many cases to overshadow any sympathies they may have for environmental matters (Williamson *et al.*, 2006). So even when owner-managers do have concerns over the environment, the pressures and demands of competition can produce an "attitude-practice" gap so that actions rarely go beyond the making of simple efficiency savings (Tilley, 1999; Redmond *et al.*, 2008; Rowe and Enticott, 1998).

External stakeholder (or social licence) pressures are thought to be weak for most SMEs (Lynch-Wood and Williamson, 2007; Thornton *et al.*, 2009). This is related to a lack of interest in the environmental practices of smaller firms by relevant stakeholders (Studer *et al.*, 2008; Williamson and Lynch-Wood, 2001; Revell and Blackburn, 2004; Rowe and Enticott, 1998). For example, there seems to be a lack of supply-chain or wider market pressures for environmental improvement in SMEs (Merritt, 1998; Williamson and Lynch-Wood, 2001; Thornton *et al.*, 2009). Furthermore, it is supported by the argument that for most SMEs, the determinants of stronger social licence pressures – factors like customer power and interest and strong brands – are largely absent (Lynch-Wood and Williamson, 2007). These factors help us to understand why the environment is not usually a priority for smaller firms (Revell and Blackburn, 2004) and why, when compared with larger firms, SMEs tend to attach less importance to developing their environmental reputations (Graafland and Smid, 2004).

There are two important features of the following analysis. Firstly, until now, there is a lack of empirical research into how social licence issues affect SMEs. Secondly, while many studies suggest that SMEs have a particular approach to environmental issues, one that is largely unresponsive, research has tended to over-standardize the characteristics, features and behaviours of smaller firms (Lynch-Wood and Williamson, 2011, 2014a). By not properly considering differences across firms, we may have inadvertently misjudged how other regulatory arrangements support a more successful application of command-and-control approaches, or how for some smaller firms, alternative regulatory frameworks may be important. Essential to the following analysis, therefore, is the view that SMEs differ and that we need to explore how different forms of regulation interact with different SMEs.

## The study

From 2004 and 2009, the authors conducted several studies of SMEs. Although these studies were separate, they had a common theme, i.e. assessing the environmental behaviours and practices of smaller firms, and predominantly firms from the manufacturing sector in West Midlands region of the UK. Each study involved at least one interview with an owner or senior manager. The interviews lasted a minimum of one hour, adopted a semi-structured approach and were recorded. Importantly, the research tended to focus on factual matters and the behaviours that surrounded them. It involved questions about material issues (e.g. "Has the firm been prosecuted?", "Does the firm have an environmental management system?") and their social context (e.g. "How did you feel

about being prosecuted?", "Why did you have an environmental management system?"). To provide appropriate information, the questionnaire was designed to elicit basic organisational and environmental context data, including information on regulation and governance mechanisms, information on the values surrounding those data and information on how this became acted out in the context of the firm. This required fixed and unplanned prompts to facilitate discussions. Overall, the studies were selective rather than exhaustive, as they sought to uncover behaviour to do with the environment (Herzlich, 1973). The research is accordingly qualitative to obtain this deeper level of analysis. This reduces the extent to which we are able to generalise, although this can be overcome partly by comparing the data and the analysis to other studies and the literature more widely.

Interviewing firms over a lengthy period may raise problems, such as one of consistency, but it has the advantage that practices and views can be gauged against a shifting regulatory context. This helped reduce bias in that responses were not overly influenced by a particular and time-specific concern. Having a bounded sample, and one where the businesses are similar to the extent that they are manufacturing firms, was also useful in that it enabled the researchers to provide for a more accurate assessment of nuanced differences across those firms. The "sameness" in the sample also provided for an assessment of the extent to which such homogeneity translated itself into practice. We could assess their level of similarity, and if there was similarity, how that shared meaning came about.

The process of choosing the firms was representative to the extent that they were randomly selected from local business directories and checked to see if they satisfied the inclusion criteria. Many firms were contacted, initially by telephone to verify that the firm was involved in manufacturing and that it was indeed an SME. Contact details of relevant senior personnel were also sought, and a follow-up letter was sent to explain the aims of the study and request participation. It was pointed out that participation would involve an onsite interview and that information would be anonymised. To increase participation, the targeted individual was then contacted by phone to see if they had received the invitation, and by using the opportunity to explain the purpose of the study, to reassure them that it involves no more than one interview. This led to 110 firms agreeing to be interviewed (27 medium, 54 small and 29 micro). The interviews were recorded and transcribed and provided to the participants to ensure they accurately reflected what was said. As indicated earlier, some bias was reduced by concentrating on actual practices and the background to those practices. To reduce bias in the analysis process, the data were discussed collectively by the researchers and with other researchers to ensure that different perspectives were considered. The actual process of analysis involved reducing the text on the basis of a thematic approach.

Following the transcribing process, the data were analysed inductively to discover common issues and themes. Some initial groupings centred on regulatory forms, and groups were then divided according to distinctions determined by the data. This produced some initial broad themes which then started an analysis process that was "data-driven", producing thematic categories based on differences and similarities within the data set. A benefit of having the first "tier" of analysis intentionally broad and allowing sub-themes to emerge (e.g. stakeholder-related issues) was that it reduced the influence of presuppositions. By breaking down the data set into smaller units of common parts, the data became less value-laden. This reduced the bias when those common parts were construed to constitute a distinctive category. Additionally, 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.

## Findings

For the purposes of presenting the results, the firms have been coded (medium firms are "med-1" to "med-27", etc.). The findings focus on a confined number of "typical" issues,

owing to the data's scope. For context, it is useful to look at the broad compliance characteristics of firms before looking at issues around the social licence.

### Compliance styles

One of the most important things that the data reveal is that firms approach compliance issues differently. Table I presents the different compliance profiles across the different firms in the sample. The most prominent approaches can be classed as "natural compliance" and, to a lesser extent, "strategic compliance". Generally, a firm that had a natural compliance profile was one whose environmental activities were motivated by traditional direct regulatory approaches. Respondents from naturally compliant firms were in a position to provide examples of attempted compliance and to discuss issues (e.g. costs, practical difficulties) around this. Firms classed as strategic compliers would typically take actions that were not necessarily enshrined in law, and might show greater proactiveness and awareness of environmental issues. It is important to note, however, that these categories are broad or "ideal" types and so they do not necessarily "sum up" the firm. Rather, they capture some pronounced characteristics.

The majority of SMEs were natural compliers. The data show that 79 firms had this broad profile. Compliance being their primary incentive, these firms generally aimed to do neither less nor more than the law required: "if there were environmental regulations then first and foremost we'd have to comply with them" [med-13]. Respondents offered different reasons to explain this. Some respondents sought compliance, as they felt it was the right approach: "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 somewhat overshadowed by commercial pressures: "I personally did have quite a strong environmentally-friendly ethos, but survival has kind of taken over" [sm-54]. As this indicates, it should be noted that natural compliance captured a broad set of firms that exhibited different behaviours. Some were vulnerable natural compliers, unsure of their compliance status and unsure of whether they were fully compliant across all areas: "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 medium firms admitted compliance vulnerability, compared to 30 small and 19 micro firms, so there appeared to be a relationship between compliance vulnerability and firm size. 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" [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. Equally, as also seen later, some firms received compliance help from wider support networks.

A less common though important approach was strategic compliance. Strategic compliers took a planned and proactive view of regulation, perhaps building in a margin of safety or implementing measures not necessarily enshrined in law. One respondent said "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 [. . .] we've been very

| Table I | Compliance profiles | | | |
|---|---|---|---|---|
| | *All* | *Medium* | *Small* | *Micro* |
| Deliberate non-compliance | 1 | – | – | 1 |
| Natural compliance | 79 | 17 | 40 | 22 |
| Strategic compliance | 10 | 7 | 2 | 1 |
| No data | 20 | 3 | 12 | 5 |

proactive" [med-9]. Strategic compliers are tactical rather than 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, perhaps exceeding compliance where it makes strategic sense but not where the strategic imperative is absent.

### The social licence

When examining how external settings influenced SMEs, matters relating to "visibility" and "stakeholder practices" were explored. It is evidently difficult to determine visibility through the interview process. Measures such as brand awareness were less relevant for SMEs in the sample. To overcome this, the analysis looked at respondents' perceptions of their environmental impacts and how this may affect their visibility to the wider world. Then, it was important to explore firms' stakeholders, e.g. whether they responded to this visibility or applied pressure for change irrespective of it.

*Environmental challenges of SMEs.* Like other studies that have looked at SMEs, respondents generally considered their firms' environmental impacts to be insignificant, although some noticeable impacts were evident in some medium and a minority of small SMEs. It is important to recognise, however, that a number of respondents had given very little thought to whether their firms in fact had any environmental impacts (e.g. "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]). For respondents who acknowledged having some small environmental impacts, these typically concerned matters such as waste or energy: e.g. "To reduce waste [. . .] That's put into waste skips and then we're charged to tip it. So it's a cost" [med-27]. As this shows, it was often the case that respondents would describe their environmental challenges as commercial (e.g. cost) rather than environmental issues. When reporting on the environmental challenges his firm faced, one respondent said "the cost of waste is the biggest one" [med-7]. Perhaps unsurprisingly, there appeared to be a relationship between firm size and awareness of environmental impacts. While dependent on firms' particular activities, as firms increase in size, their environmental impacts, and awareness and acknowledgement of these impacts, also tend to increase. The following interviewee, whose firm had a pollution permit from the Environment Agency, said: "The main ones we have are emissions to the atmosphere from the boiler process [. . .] [. . .] 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 [. . .]" [med-15].

*Stakeholders.* Generally, respondents felt that the level of concern or interest displayed by their stakeholders, which was reflected in dialogue and other exchanges with these stakeholders, was limited. Most (65) firms reported having no dialogue with stakeholders on environmental matters, while some dialogue with one or more stakeholders was reported by 45 SMEs. Generally, the larger SMEs seemed to have more interactions with a broader range of stakeholders. This section considers the main stakeholders identified through the interview process, which have been grouped as, "local communities", "business customers", "support agencies" as well as a collection of less prominent bodies.

The majority of respondents generally reported having limited dialogue with, or pressure from, *local community* members (e.g. "No issues at all" [sm-43]). Some respondents put this down to 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 this comment suggests, site and location were also considered important. That many respondent SMEs were sited on industrial parks or away from residential locations meant that interviewees felt there were no "communities" as such to have an impact on. As one respondent said: "[. . .] 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]. Nevertheless, a relatively small number of firms had experienced some pressures from local community members, and again there seemed to be a link between community pressure and firm size, with larger firms appearing to receive greater levels of attention than small or micro firms. Furthermore, the interviews revealed a number of important issues as regards firms and their local communities. For example, community pressures were typically the result of individual "self-interest"; that is, local community members tended to focus on matters that affected them personally (e.g. noise or light). It was reported by one respondent 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 [. . .] [. . .] 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" [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]. Another important observation, as the last comment indicates, is that firms tended to respond positively and would attempt to address any concerns in full: "We'd had a complaint about noise [. . .] [. . .] 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]. Finally, community interest could on occasions activate more formal regulatory proceedings. In response to complaints about noise, one interviewee talked about a visit from a local authority official: "[. . .] 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].

It is worth noting that while most respondents reported having little or no local community pressure, it was nevertheless clear that respondents were alert to the needs of their surrounding communities. One respondent said: "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]. It was similarly suggested by the manager of a small firm that "We don't want to upset the neighbours if you like. So we're going to try our best on that one [. . .] [. . .]. If we upset the people that live near there, we wouldn't be able to operate as we do" [sm-9]. Notwithstanding such sentiment, there was little sign of this resulting in material actions.

The lack of interest in the environmental behaviour of SMEs was also evident when looking at the data on *business customers*. Most respondents reported having no dialogue with customers over environmental matters, suggesting customers are largely indifferent to suppliers' environmental practices. The following comments were relatively common: "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]. As such comments indicate, negotiations between suppliers and customers were more likely to concentrate on commercial matters: "they base their ideas and decisions on quality [. . .]. None of them have said they want the environment though" [sm-3]. That said, some respondents did 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): "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].

It is important to note that where there are indications of more significant "environmental" exchanges taking place between SMEs and customers, these tended to focus on specific technical, product or regulatory issues. One respondent, for example, went into some detail about 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]. It was reported by another respondent 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 don't get 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]. There were a small number of firms that had experienced greater demands from customers, particularly where there was pressure to gain 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].

Once again, generally speaking, respondents reported having limited dialogue with environmental *support agencies or networks*. The following response was relatively typical: "Nothing like that round here. No, there's nothing like that that I know of" [sm-24]. Nevertheless, there were a small 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 matters. One interviewee reported 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]. It was reported by another respondent that "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 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 evidence that assistance often comes from basic information sources and networks that were not environment-specific (e.g. trade associations, chambers of commerce). The owner of a micro firm, for instance, 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].

Finally, there was some evidence of pressure from other sources, such as *insurers*, though this typically depended on the nature of a firm's activities. For instance, one respondent said: "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 damaging to the environment. The manager of a firm with an IPPC license said: "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].

## Conclusion

The findings suggest that social licence pressures are generally weak and thus do not provide a strong regulatory mechanism for SMEs. This is in line with other work that has considered the applicability of the social licence in a small firm context (Lynch-Wood and Williamson, 2007; Thornton *et al.*, 2009). Mostly, stakeholders appear to lack interest in the environmental practices of SMEs, perhaps because they lack awareness or understanding of these impacts, and the environment does not appear to feature prominently in the exchanges taking place across stakeholders. For many SMEs, other factors, particularly compliance with traditional forms of regulation, are more likely to drive performance. This, once again, supports other studies (Tilley, 1999; Williamson *et al.*, 2006; Studer *et al.*, 2006).

Yet, this is where the similarities with most other SME studies end. Consistent with recent work that considers the importance of organisational differences when trying to understand how firms interact with or internalise regulation (Lynch-Wood and Williamson, 2011, 2014), it would be wrong to think that the social licence has no impact, for it clearly influences some SMEs. As we have seen, while the types of pressures that SMEs face are not always strong, and though they are largely unsystematic, pressures nevertheless exist in some situations and contexts. Noticeably, social licence pressures commonly derive from stakeholders who pursue a relatively narrow self-interest mandate, rather than a broader public interest mandate. Stakeholders appear less concerned with wider issues of environmental or social responsibility, tending instead to focus on issues that are more directly relevant to them and which affect personal or private interests. Local community actors, for instance, often act in isolation and are more likely to convey concerns when issues impact on their well-being (e.g. when a firm's activities produce harmful noise). Business customers may show interest in suppliers to the extent that suppliers' products have to comply with particular requirements. While these could be described as low-level pressures, and despite the fact that they often derive from self-interest, they have been shown to act as a regulatory trigger. SMEs react by taking specific and narrow actions that address these specific concerns. Some responses may be transient, like where an SME writes an environmental policy at the request of a customer (even though the policy does not necessarily become embedded in practice), but some may be more enduring (e.g. where an SME alters practices owing to a neighbour's complaint). What is also observed is that responses may be stronger where social licence pressures interact with formal regulatory law. A stakeholder pressure with the backing of law *may* induce a different response than a stakeholder pressure that has no such backing. This, the data indicate, is a consequence of regulation being the predominant driver of behaviour.

Finally, while social licence pressures are less likely to lead to SMEs taking those deeper actions that constitute the purpose of environmental responsibility or management, they can nevertheless have a useful "problem solving" role and provide some targeted and focused environmental solutions. The social licence can therefore, in some circumstances at least, act as regulatory trigger for SMEs and provide a limited form of micro-social contract and public interest service. In such circumstances, societal bodies can set their

own standards and conditions relating to behaviour, and they can alter practices in line with expected standards. However, given that the findings relate to a limited number of firms from one economic sector, then clearly more work is needed to explore the nuances of the social licence in relation to other types of SMEs in other sectors.

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