

Evidence

Understanding and improving SME compliance

Project summary SC080017/S2

The Environment Agency is responsible, with others, for implementing and enforcing regulations designed to protect our environment. A crucial element of our role is to engage with businesses whose activities may impact on the environment and who are, or may be, covered by regulations. In particular, we need to address the environmental impacts of SMEs (Small and Medium-sized Enterprises), which are responsible for about half of all serious industrial pollution incidents.

We know that we face several challenges when we try to engage with SMEs and we commissioned this research to:

- provide us with a better understanding of the scope and scale of these challenges;
- assess the effects of initiatives that we have already taken to address some of these issues.

This study found that communication (in both directions) is the main challenge when dealing with SMEs. Several factors are important, these include, among others, the sheer number and diversity of SMEs (even within a business sector), the limited capacity of SMEs to cope with the regulatory burden due to lack of resources, and the difficulty of identifying and targeting businesses that are often not part of larger groupings (e.g. trade associations).

The conclusions and recommendations of this study will inform our efforts to continuously improve our performance in regulating activities that affect the environment.

There is limited research into what drives SMEs' compliance with environmental regulation and what regulatory measures might improve their compliance.

This study used structured interviews with Environment Agency officers, who had knowledge of different regulatory regimes and sectors, to capture the current state of our knowledge.

The authors found that:

- We regulate a wide range of SMEs, possibly up to a million, but regulations are generally not related to the size of businesses, so we do not collect this information.
- Most of the regimes that affect SMEs involve either permits or registrations, and a level of inspection. Inspections can be infrequent, for instance farmers are inspected every 20 years (on average).
- We have little information about SME compliance and the factors that affect it. We know most about the agricultural sector, where farmers' ability to understand regulations and their acceptance of them, alongside the costs of implementing regulations are key factors in compliance.
- The main challenge we face in regulating SMEs is communication, both to SMEs so that they understand regulatory requirements, and from SMEs so that they are able to engage with regulations and own them.

The authors found a wide range of initiatives to improve SME compliance, but their extent varied significantly between regulations/sectors. They identified four types of initiatives:

- capacity building initiatives to improve the ability of our staff to understand the nature and needs of the SMEs that they regulate;
- regulation simplification initiatives to reduce compliance burdens by changing regulations or regulatory policy;
- regulation communication initiatives to enhance the understanding of regulations, both in terms of their coverage and content, such as Netregs;
- co-regulation initiatives where we co-operate with other regulators and private sector operators to deliver regulation.

The most common initiatives, which are improving communication with SMEs, are addressing the most important challenge that the authors identified.

There were also significant numbers of co-regulatory initiatives, but limited capacity building and simplification initiatives.

The authors conclude that:

- We do not know the number of SMEs we regulate and we do not collect this information. Our staff are often unaware of the definition of an SME.
- Regulatory regimes are designed around environmental risk and are not designed to address any of the particular needs or challenges encountered when regulating SMEs.
- There is very limited understanding of the factors that affect compliance levels among SMEs, except in the case of farmers. This highlights the importance of credible two-way clear and simple communication.
- Our initiatives, to improve SME regulation, vary across regulatory regimes.
- The most common initiatives to improve SME compliance are aimed at improving communication. This is also the main factor in achieving improved compliance, according to our current understanding.
- We have very few initiatives designed to build the capacity of officers to regulate SMEs.
- We have a wide range of initiatives involving different types of co-regulation. Providing these remain credible, they have the potential to increase the efficiency and effectiveness of the regulation of SMEs.

Based on these conclusions, the authors make the following recommendations:

- We should develop systems to collect data on the regulated community that classifies companies into large, medium, small and micro sized. This will facilitate a better understanding of the needs and challenges of the community.
- We should consider how to get the most value from inspections by linking them to a broader communication strategy, e.g. inviting the regulated to training days with the incentive that attendees will be inspected less frequently.
- We should improve understanding of what affects SMEs' compliance by, for example, working more closely with trade associations and conducting detailed qualitative interviews with regulated SMEs to complement the Netregs quantitative survey of SMEs.
- We should systematically evaluate, and learn from, the different initiatives that are trying to improve our communication with SMEs.
- We should develop initiatives in key sectors (e.g. farming and construction) to build our understanding of the different types of SME businesses we are dealing with.
- We should develop a policy on the use of co-regulation that recognises the potential benefits, but ensures credible regulation.

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