Pro-environmental business and clean growth trends for the East Midlands 2020

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Key Points

Based on responses to the East Midlands Chamber (EMC) Quarterly Economic Survey (Feb 2020):

- The percentage of businesses in the East Midlands deriving turnover from low carbon and pro-environmental goods and services has nearly doubled between 2015 and 2020: increasing from 16% in 2015 to 31% in 2020.
- 36% of businesses say their environmental strategy is strongly linked with their business growth strategy.
- However, four in ten firms do not feel well informed about support for clean growth and more than a quarter (26%) are not engaging with the clean growth agenda.

Introduction

This briefing highlights key outcomes of a fuller analysis of the East Midlands Chamber (EMC) Quarterly Economic Survey (QES) from February 2020 by the University of Derby Business School (DBS)[i]. Whilst the QES routinely explores a range of business interests, this analysis refers to a series of topical questions that focused on companies' awareness and engagement with the clean growth agenda and the degree to which they supply and benefit from low carbon and environmental goods and services (LCEGS)[1]. 406 businesses took part in the survey overall, however only 250 responded to the LCEGS questions. This 'no response' rate of 38% is nearly double the rate of previous surveys. Respondents represented firms from all size categories of businesses (see Fig. 1) and all three counties of the East Midlands – Derbyshire, Nottinghamshire and Leicestershire. Half the respondents were from two sectors; Engineering and Manufacturing (26%) and Professional Services (24 %).

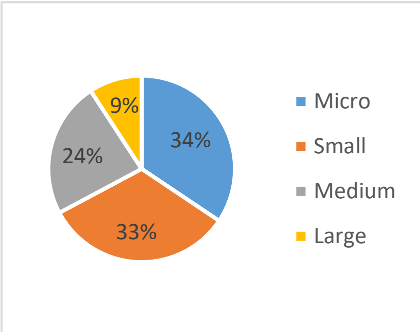

Figure 1 - Survey response by company size

Pro-environmental goods and services provided

Respondents were asked what pro-environmental goods their firms offered. Figure 2. shows responses to the list provided. Compared to the 2018 survey, there were significant increases in renewable energy generation (from 4% in 2018 to 8% of the responses in 2020) and in energy efficiency (from 8% to 13% of the responses). Contributions to the 'other' category for this question highlight the range of pro-environmental products and services emerging across every sector: sustainable design, ethical investment funds, manufacturing lubricants from re-refined base oils,

[1] In this fast-moving arena, the terminology used by economic commentators is shifting. Previously, the Department for Business Innovation and Science used 'LCEGS' as an umbrella term to capture a range of business activities, spread across many existing sectors (like transport, construction, energy etc.) that focused upon the common purpose of reducing environmental impact (DBIS, 2015). However, the Office for National Statistics (ONS) now distinguishes between the Low Carbon and Renewable Energy Economy (LCRE) and the Environmental Goods and Services Sector (EGSS). Throughout this report we refer to 'pro-environmental business'; an inclusive term that reflects the broadest range of environmentally driven business practices.

sustainable packaging, vehicle mileage reducing IT, recycled products, smart metering infrastructure service, land remediation and regeneration, emissions control and acoustic management and innovation in portable fire extinguishers.

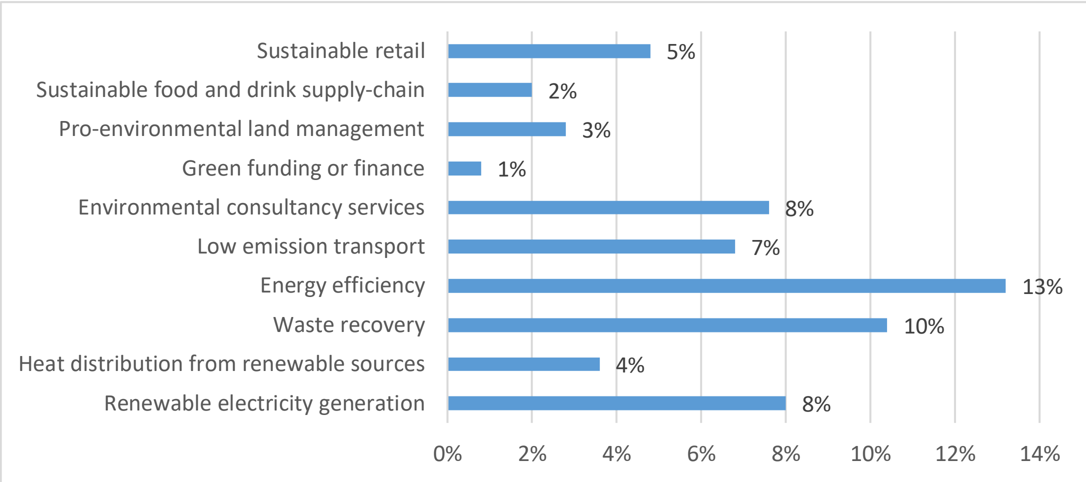

Figure 2 - Pro-environmental goods & services provided

Business views about the clean growth policy

Respondents were asked to respond to a series of statements about the clean growth policy landscape on a scale between 'totally agree' to 'totally disagree' (Figure 3). This question provided some contradictory results. Although 56% of respondents agreed or strongly agreed that they know how to access business support in the area, 43% had accessed local business support and 50% had a good understanding of local clean growth policy, four in ten firms did not feel well informed about support for clean growth, with only 23% feeling well informed. There was also a significant proportion of 'neutral' responses (56%) to the question that asked whether the policy landscape helped firms to engage with the clean growth agenda. Taken together, these mixed responses suggest there is moreo be done to raise awareness and promote engagement with pro-environmental business support and the clean growth agenda.

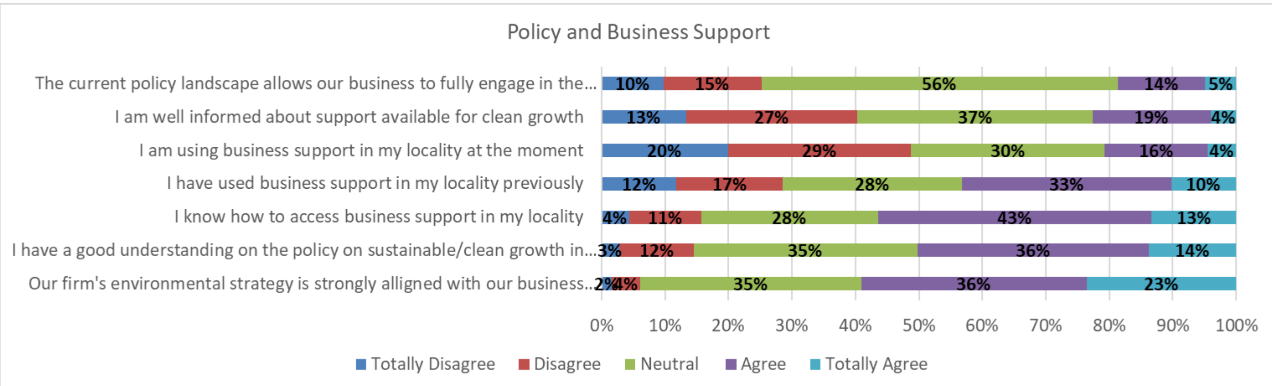

Figure 3- Attitide towards clean groth policy and business support

Clean growth trends: turnover generated from LCEGS

Of those businesses that responded, 49% generated part of their turnover from low carbon and environmental goods and services (LCEGS) in 2019-20, with more than three in ten businesses generating between 1-19% of their turnover from LCEGS. Just over half of businesses in the study do not derive any form of turnover from LCEGS (Figure 4).

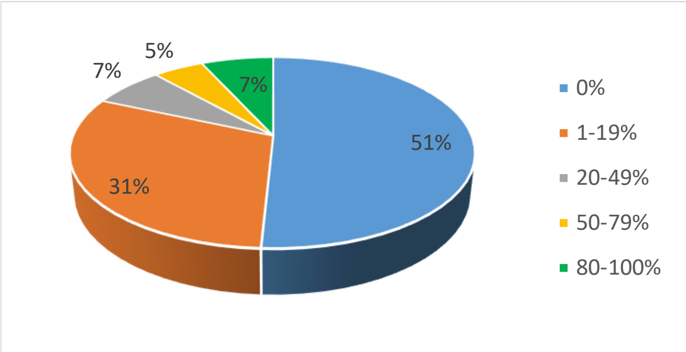

Figure 4 Turnover generated from LCEGS, QES 2020

The data comparing the proportion of turnover generated from LCEGS depending on company size is presented in Figure 5. This reveals an interesting trend. Although micro businesses are more likely to have 'no turnover' generated by LCEGS (58%) and the lowest proportion of the 1-19% turnover category; they are more than double the proportion of companies delivering 50% or more of their turnover from LCEGS, compared to other categories. This may indicate that a growing proportion of micro companies in the region are making LCEGS a key feature of their business model compared with larger firms. Further research is needed to establish if these are start-up micro firms that are responding to market needs or more established firms that are adapting to new opportunities.

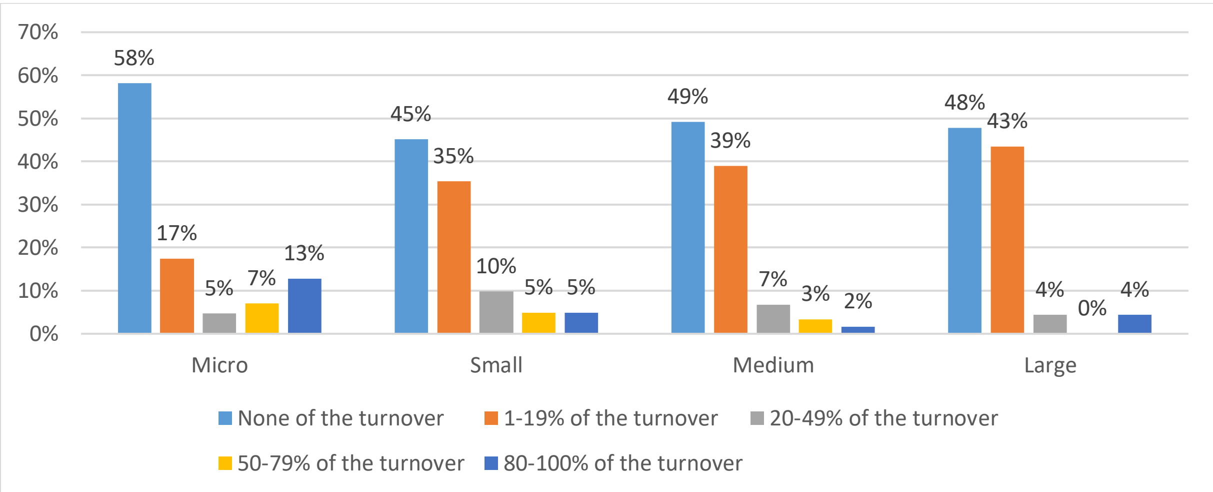

Figure - 5 Percentage turnover generated by the LCGS – analysis by size

A similar survey exploring LCEGS turnover was carried out in 2015, 2017 and 2018. Combining these results with the 2020 survey, over this five year period we see consistent growth of pro-environmental provision from firms of all sizes, with small and large businesses doing slightly better than micro and medium sized firms in this respect; with strongest growth in the 1-19% category for large companies (from 10% in 2015 to 43% in 2020). This suggests that increasing numbers of large companies are entering the supply market for pro-environmental goods in the East Midlands. In contrast, micro firms are growing stronger in >50% turnover category over the period, adding weight to the hypothesis that increasing numbers of micro firms are specialising in pro-environmental goods and services compared to small, medium and large firms.

Taking into account the 'no response' rate, the comparative analysis presented in Figure 6 shows a doubling of LECGS provision across all categories of firms between 2015 – 2020; with the percentage of businesses deriving some turnover from LCEGS increasing from 16% in 2015 to 31% in 2020, and 19% of businesses deriving 1-19% of their turnover from LCEGS sector in 2020, compared with 8% in 2015. Given that this is a routine survey by the EMCC targeting the whole range of businesses in the region, this reflects a slow, but positive trend towards pro-environmental provision over the past five years.

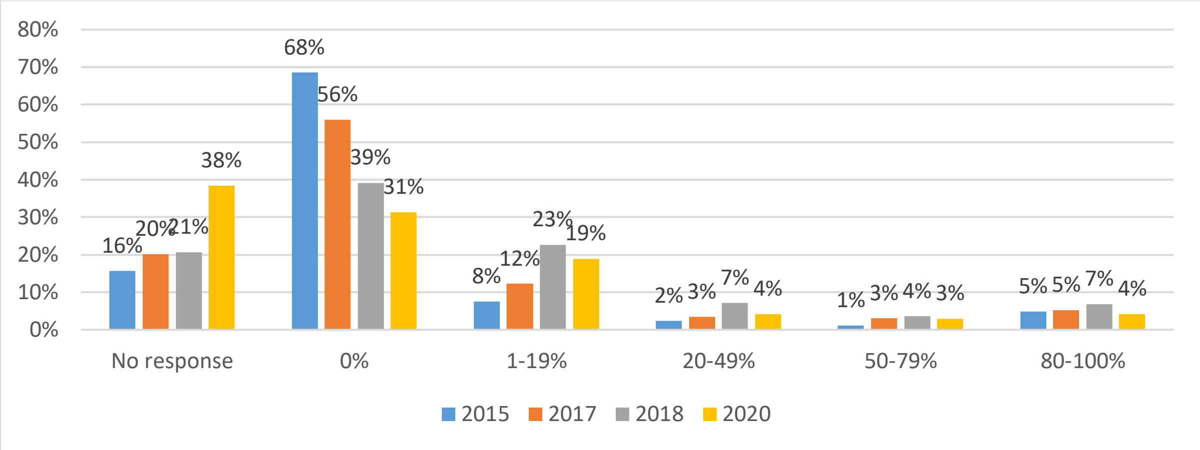

Figure 6 - Turnover generated by supplying LCEGS - Comparative analysis 2015-2020

Clean growth strategies

In addition to the 31% of firms supplying goods in the LCEGS sector in 2020, 59% either agreed or strongly agreed that their firm's environmental strategy is strongly linked with their business strategy (Figure 3). The survey also asked the following question: 'The regional green economy is growing. To what extent have you considered capitalising on this in your growth strategies'? 19% of those surveyed confirmed that their company were proactively capitalising on opportunities presented by the clean growth agenda. 10% of the businesses stated that they had started developing activities towards clean growth and 6% were beginning to develop plans towards

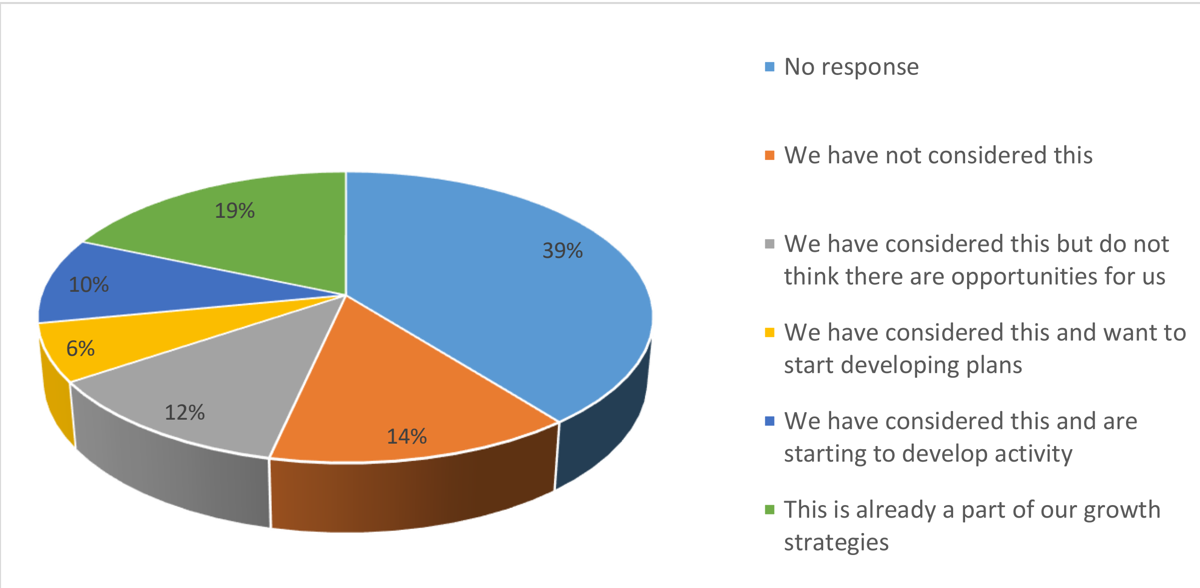

Figure 7 – Attitudes towards clean growth opportunities

integrating clean growth opportunities into their growth strategies. So, in total 35% of businesses surveyed were at different stages of integrating clean growth opportunities into their business growth strategy (Figure 7).

However, an interesting trend emerges when we consider that 14% of businesses surveyed had not considered opportunities presented by green growth at all and 12% of the businesses surveyed had explored these opportunities but did not consider them worth pursuing. Alongside the trend of increasing turnover from LCEGS over the five years since 2015, these figures suggest that whilst at least a third of firms are proactively pro-environmental in their business strategy, a quarter are not engaging with the clean growth agenda.

The analysis of these responses by company size is also illuminating and reflects trends described in the academic literature. Namely, that larger companies appear to be well in advance of their smaller counterparts, in respect of their strategic approach to clean growth; with 77% of large companies either incorporating clean growth or developing clean growth strategies, compared with only 33% of micros businesses, 49% of small and 50% of medium-sized firms.

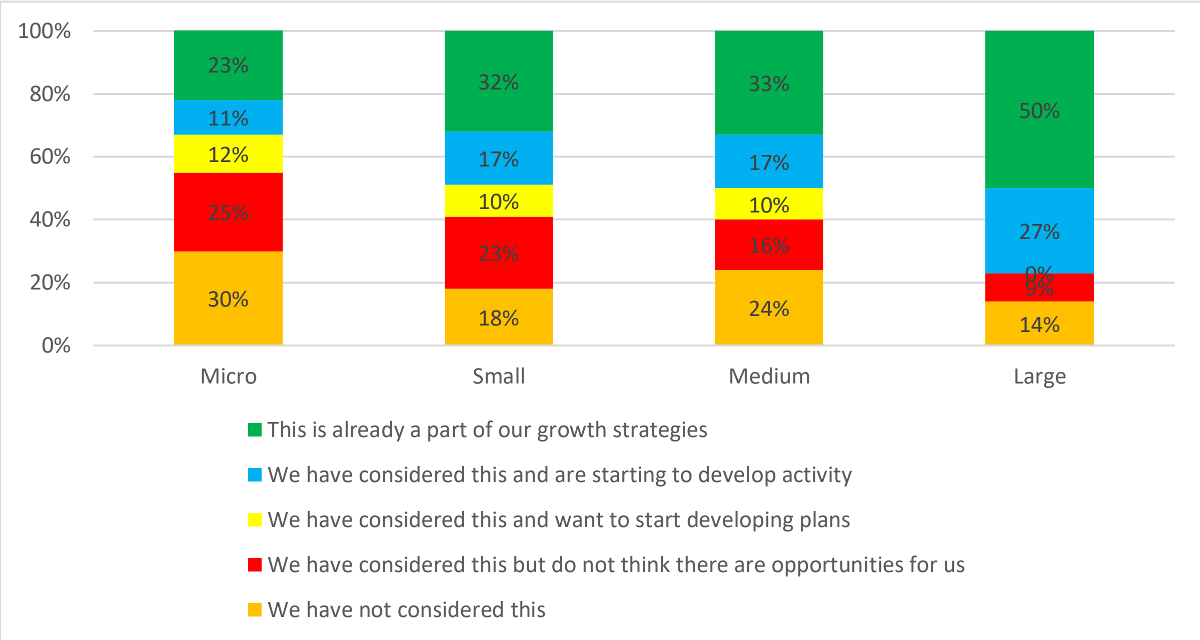

Figure 8 - Attitudes towards clean growth opportunities by company size

A similar question about strategy was also asked in 2018 which indicates a clear positive trend in strategic awareness of the green economy; with the percentage of businesses that consider the green economy in their growth strategies increasing from 10% in 2018 to 19% in 2020; and companies that had never considered it decreasing from 36% to 14%.

Areas of business need strengthening

When asked which areas of their own business needed to be strengthened to capitalise on clean growth opportunities (Table 1), we found a strong focus on within-business efficiencies. Unsurprisingly, use of renewables, energy efficiency, resource efficiency and waste management were considered to be the most important areas needing to be strengthened. With innovation support, sustainable purchasing and procurement, product and service design and leadership for sustainability following closely behind. Most surprising was the result that ‘access to green funding and finance’ was deemed amongst the least important of these 16 business areas.

Energy efficiency and use of renewables	Access to pro- environmental business support
Resource efficiency	Supply-chain management
Waste management	Green marketing and branding
Introducing low carbon technologies/processes	Accreditation to an environmental standard
Product service design and development	Environmental management
Sustainable purchasing and procurement	Access to pro-environmental networks
Leadership for sustainability	Access to green funding and finance
Innovation support and knowledge management	Engaging with local clean growth networks

Table 1 - Pro-environmental business areas to be strengthened

Conclusion

Our analysis suggests a variety of key implications for firms, business support agencies and policy makers. Firstly, there is a clear positive trend in the proportion of businesses supplying the LCEGS market, and a similar positive trend for firms to include clean growth in their strategic thinking. Although SMEs have some way to go to catch up with large companies in this respect, it is encouraging to see more micro companies specialising in pro-environmental goods and services, with this trend presenting important opportunities for the greening of local supply chains.

For business support agencies and policy makers there is an obvious call to accelerate their efforts in promoting the clean growth agenda, amongst SMEs in particular. Furthermore, our analysis makes the point that support provision needs to be nuanced and differentiated for the large number of small and micro firms whose needs are often quite different to medium and large companies; and because the challenges of supporting firms to enter sustainable supply chains are very different to the challenges of growing a company to become a specialist or market leader in one of the growing number of niche pro-environmental markets.

References

DBIS (2015) *The Size and Performance of the UK Low Carbon Economy: Report for 2010 – 2013*. HM Government.

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