

OKOLJSKA ODGOVORNOST KOT KONKURENČNA PREDNOST MALIH IN SREDNJE VELIKIH PODJETIJ

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Povzetek

Mala in srednja velika podjetja (v nadaljevanju MSP) se manj zavedajo in posvečajo okoljskim trendom, zakonodajam in tržnim priložnostim, ki iz njih izhajajo. Večkrat podcenjujejo vpliv lastnega poslovanja na okolje, ki je s stališča podjetja res majhen, vpliv celotnega sektorja MSP pa je precejšen. Okoljsko odgovornost MSP ovirajo tudi pomanjkanje veščin, ozaveščenosti in (človeških) virov v podjetju, zato se okoljskega menedžmenta večinoma lotevajo reaktivno in ne proaktivno. Primerno zasnovana okoljska zakonodaja lahko spodbudi v podjetjih inovacije, ki znižajo celotne stroške proizvoda ali povečajo njegovo vrednost. Tovrstne inovacije pomagajo podjetjem, da svoje vire izkoristijo bolj produktivno. Namen prispevka je prikazati načine, kako lahko MSP povečajo svoje konkurenčne prednosti na podlagi okoljske odgovornosti, ter analizirati, kakšna okoljska zakonodaja je potrebna, da bi spodbudila inovacije, produktivnost virov in konkurenčno prednost MSP.

Ključne besede: *MSP, odgovornost, okolje, konkurenčna prednost, zakonodaja.*

ENVIRONMENTAL RESPONSIBILITY AS COMPETITIVE ADVANTAGE OF SMALL AND MEDIUM-SIZED ENTERPRISES

Abstract

Many small and medium-sized enterprises (SMEs) are often less aware of, and careful about, environmental trends, regulations or the market opportunities available to them. SMEs tend to underestimate their environmental impacts, which may be small on a company-by-company basis, but are considerable when looking at the SME sector as a whole. Internal barriers, such as a lack of skills, awareness and (human) resources, further hamper environmental responsibility. As a result SMEs are reactive rather than proactive when dealing with environmental management. Properly designed environmental standards can trigger innovations that lower the total cost of a product or improve its value. Such innovations allow companies to use a range of inputs more productively. The aim of the paper is to demonstrate the ability of SMEs to create a competitive advantage by adopting environmental responsibility and to analyze what kind of environmental regulation is needed to promote innovation, resource productivity and competitiveness in SMEs.

Key words: *SMEs, responsibility, environment, competitive advantage, regulation.*

1 Introduction

When it comes to the environment, small business is big business (Bardelline, 2008). SMEs represent 99.8% of all European enterprises and 67.1% of private-sector jobs (EC, 2008). In 2008 they accounted for 98.3% of all Slovenian enterprises and provided 57.7% of jobs in Slovenian economy (GZS, 2009). Clearly, SMEs make an important contribution to employment, innovation and growth in the EU but can also exert considerable pressure on the environment. This is not necessarily caused by SMEs' individual pressure, but by their combined total impact across sectors. Although there is little evidence of their specific impacts on the environment, there is a general consensus from research that SMEs are a particularly problematic

group in terms of compliance with environmental legislation (Monkhouse, Wilkinson, Herodes, Hjerp, 2006).

SMEs are often unaware of their environmental impacts, or of the environmental legislation affecting their company. This situation is undesirable for two main reasons. Firstly, by being unaware of the environmental impacts of their own activities, and the environmental legislation affecting them, SMEs can present a significant threat to the environment. Secondly, SMEs are missing the chance to benefit economically from the opportunities presented by better environmental management (e.g., energy efficiency or improved process management) and eco-innovation (Monkhouse, Wilkinson, Herodes,

Hjerp, 2006). That is why it is important to engage SMEs in debate about environmental responsibility and to demonstrate how they can achieve competitive advantage through environmental responsibility.

This paper demonstrates how SMEs can take advantage of their opportunities offered by environmental responsibility. The paper begins by exploring what is known about the characteristics of SMEs and what drivers and barriers SMEs face when engaging in environmental responsibility. The paper looks at how SMEs can achieve added value and competitive advantage through environmental responsibility; it discusses the environmental regulation that need to be in place to promote innovation, resource productivity and competitiveness in SMEs. The paper highlights issues that are important for policy makers and those trying to influence SMEs.

2 Environmental Performance of SMEs

SMEs are far from being a homogenous group. However they have a number of features in common and encounter similar problems in relation to environmental compliance and performance. The defining characteristic explaining SMEs behaviour is size, but there are also other internal and external dynamics that explain their behavioural characteristics. SME behaviour is often understood in terms of the psychological characteristics of the entrepreneur or owner-manager. These characteristics vary widely depending on individual personalities and differing ownership structures, and will influence the company's approach to environmental responsibility. The most common form of SME is the owner-managed firm where ownership and control lie with the same person. This lends legitimacy to the personal decisions made on how to use company resources and allows a degree of autonomy in how environmental responsibility is approached (Jenkins, 2009).

The entrepreneur may be responsible for several business tasks at once (Spence, 1999) and awareness of issues beyond the day to day running of the business may be low (Tilley, 2000). SMEs can be difficult to regulate as they are both reluctant to adopt voluntary regulation but are also distrustful of bureaucracy and are less responsive to institutional pressures, e.g., legal, competitor benchmarking, government agencies, public and private interest groups (Jenkins, 2006). On the other hand, SMEs that do consciously recognize the sustainability agenda are, compared to larger enterprises, likely to be able to integrate it faster into their business. They may also be better able to make the link between personal and ethical values and the creation of business value;

and to respond more quickly to market-place pressures and new opportunities (Grayson, Dodd, 2007).

2.1 Drivers for Environmentally Responsible Activities in SMEs

It has to be kept in mind that the company's motivations to get involved in environmental and social responsibility usually are various. A positive strategic orientation on responsible acting can be seen to constitute a precondition for any concrete activities. In SMEs, particularly the entrepreneur's position towards ethically responsible actions is important as in the majority of cases he/she is the only one influencing the company's decisions (Mandl, Dorr, 2007, Rustja, 2009). Evidence from The Institute for Entrepreneurship and Small Business Management survey (Knez-Riedl, 2002) shows that 34% of the Slovenian SMEs involved in CSR activities decided to do so because of "ethical" reasons. Furthermore, research on the environmental responsibility of Slovenian SMEs conducted in 2003 found a similar result - the most frequent reason for environmentally responsible activities among the surveyed enterprises was concern for a healthy environment and human health (65%) (Knez-Riedl, 2003). The other internal drivers for environmentally responsible activities are related to the business case. Surveys (Knez-Riedl, 2002, 2003) reveal that SMEs are motivated by the perceived business benefits of environmental and social responsibility, even if in majority of cases this is not the most important motivation.

However, in order to become engaged not only a positive tenor towards environmental responsibility is necessary. Rather, each individual activity also needs an "operative impetus". In many cases, this is an "external" impulse (European Multistakeholder Forum on CSR, 2004):

- Investors - seeking to invest in line with their own values, or in line with an expectation that companies with a responsible approach will be better investments;
- Consumers and others in the supply chain - choosing one product, service or company over another on the basis of their understanding of its environmental or social credentials;
- Public authorities - through a range of mechanisms including promotion and information provision, their own role as purchasers, regulatory, and fiscal signals;
- NGOs - monitoring and assessing the environmental and social impact of business and campaigning for improvements;
- Other companies, business networks, intermediaries and supply chains - co-operatively

through sharing experience, developing a shared understanding of better approaches and expectations, providing external benchmarks and challenging practices in business to business relationships.

2.2 Barriers for Environmentally Responsible Activities in SMEs

The main barriers faced by SMEs include the limited resources (human and financial) available to them, particularly at the smaller end of the scale; a lack of information and awareness; a short-term economic perspective; and the perception that environmental management is peripheral to core business. The small size of many SMEs means that entrepreneurs have a number of different roles and responsibilities, and consequently environmental issues tend to suffer from lack of attention compared with core business decisions. The lack of resources can also lead to the SME being risk-averse and less willing to invest in new environmental technologies, partly as the pay-back period of these investments is often only apparent over a number of years. Moreover, the organisation and operating procedures of SMEs are significantly different from those in larger companies. They are unlikely to have an environmental division or a specialist/dedicated person responsible for environmental compliance and management in the company. Consequently many SMEs rely on external actors and relationships, such as business associations, for information about environmental legislation (Monkhouse, Wilkinson, Herodes, Hjerp, 2006).

A survey on the environmental responsibility of Slovenian SMEs in 2003 showed that lack of time and high costs were the main obstacles hindering environmental activities. Lack of time was an obstacle in micro and small enterprises, whereas high costs was an obstacle for medium-sized enterprises. However, environmentally responsible activities were focused mainly on packaging and waste managing (45%), followed by material utilisation (43%). Among the so-called other environmental indicators, environmental education (20%) and participation in other environmental projects (17%) was most often mentioned. The majority of enterprises also did not adopt any environmental standards (85%), as only 2% of enterprises had the ISO 14001 certificate. Within the next three years, one third of surveyed enterprises were likely to start or continue with environmental activities; one third of enterprises had either no plans or did not know what their enterprises are likely to do in the future with regard to environment protection (Knez-Riedl, 2003).

3 Link Between Environmental Performance and Competitive Advantage of SMEs

One way to engage SMEs more effectively in environmental management is to demonstrate how they can achieve added value and competitive advantage through realising and maximising the opportunities presented by environmental responsibility. Research from Denmark suggests that, taking into account the financial costs, two areas of corporate social responsibility are more likely than others to bring measurable competitive gains in the short-term: environment (reduce costs for energy or waste disposal) and innovation (deriving business from socially beneficial innovations) (Kramer, Pfitzer, Lee, 2005). In their article, Porter and van der Linde (1995) challenge the notion that environmental goals involve a trade-off between social benefits and private costs. The 'Porter hypothesis' proposes that innovation can stem from environmental issues, which can lead to commercial competitive advantage.

SME entrepreneurs can reap concrete business benefits of their environmental initiatives which are the main constituents of competitive advantage:

- 1. Product benefits** (Porter, van der Linde, 1995):
 - Higher quality, more consistent products,
 - Lower product costs (for instance, from material substitution),
 - Lower packaging costs,
 - More efficient resource use by products,
 - Safer products,
 - Lower net costs of product disposal to customers and
 - Higher product resale and scrap value.
- 2. Process benefits** (Porter, van der Linde, 1995):
 - Materials saving resulting from more complete processing, substitution, reuse or recycling of production inputs,
 - Increases in process yields,
 - Less downtime through more careful monitoring and maintenance,
 - Better utilization of by-products,
 - Conversion of waste into valuable forms,
 - Lower energy consumption during the production process,
 - Reduced material storage and handling costs,
 - Savings from safer workplace conditions and
 - Elimination or reduction of the cost of activities involved in discharges of waste handling, transportation and disposal.
- 3. Better reputation management** (Grayson, Dodd, 2007): reputation obtained when demonstrating environmental responsibility helps to improve relations with:

- Local communities - a license to operate from the local community is more easily obtained when demonstrating environmental responsibility;
 - Employees - retaining and recruiting staff is easier as environmental considerations can be important when deciding which organisation to work for;
 - Customers - improving customer loyalty and winning new customers as many large companies demand evidence of good environmental practice from their suppliers and the number of eco-consumers is growing.
4. **Better risk management** (Grayson, Dodd, 2007): anticipating future legislation, so getting practical experience and helping to ease the burden of compliance.
 5. **Easier access to capital** (Grayson, Dodd, 2007): SMEs are responding to new demands and requirements from banks, insurers and investors regarding environmental responsibility.

European study “CSR and Competitiveness – European SMEs Good Practice” showed that generally, there is a causal chain: CSR activities result in direct internal effects that lead to indirect effects for both, the company and its stakeholders. These, in turn, influence the company’s competitiveness. The implementation of measures regarding environmental management will result in altered products or production processes within the SME. This may refer to more efficient procedures or improved and environmentally friendly products. On the one hand, in many cases this results in a more favourable atmosphere within the enterprise, and in better relations with external stakeholders such as business partners, authorities and financial institutions. Furthermore, enhanced reputation may also contribute to a better position of the company at the labour market which is a particular advantage for SMEs that are often not perceived as an attractive employer (Mandl, Dorr, 2007).

A good example of a Slovenian medium-sized enterprise, realising competitive advantage from its environmental responsible activities, is company Polycom in Škofja Loka. Polycom’s activities related to environment result in reduced costs for energy and waste conservation. They also lead to better working conditions, better relations with local community and enhanced reputation and credibility of the company. The quality of products has improved, which results in better relations with company’s business partners (Rustja, 2009). SMEs such as Polycom are realising concrete business benefits from their environmental responsibility and keeping their so-called licence to operate - the unwritten authority to do business that is granted by a company’s stakeholders at large.

4 SME-Friendly Environmental Regulation

A number of studies regarding environmental performance of SMEs (Tilley, 2000; Simpson, Taylor, Barker, 2004; Williamson, Lynch-Wood, Ramsay, 2006) suggest that SMEs, generally, will not adopt voluntary environmental practices and show that regulation is the most effective mechanism for changing environmental behaviour. Compliance with legislative requirements was given as the main reason for environmentally responsible activities for 41% of the surveyed enterprises according to 2003 survey on the environmental responsibility of Slovenian SMEs (Knez-Riedl, 2003). Study of Williamson et al. (2006) revealed that SMEs will try to comply with, but will not go beyond, environmental regulation because their market-based decision-making frames are incompatible with beyond-compliance behaviour.

The importance of government regulations in inducing a firm’s ecological responsiveness was recognized by Porter and van der Linde (1995) who argue, that properly designed environmental standards can trigger innovations that lower the total cost of a product or improve its value. The Network of the Heads of European Environment Protection Agencies (2005) submitted the paper in which they conclude, that there exist significant evidence from international research, that good environmental management and regulation in Europe can support a clean, competitive economy and a healthy environment in which to work and live. It is clear, for example, that companies innovate in response to tighter waste regulation, to change products and processes so that they generate less waste. They save money and possibly find an opportunity to charge a premium price for an improved product. Similarly, companies have responded to the climate change levy by investing in energy efficiency, again cutting costs.

Regulation is needed for five major reasons (Porter, van der Linde, 1995):

- To create pressure that motivates companies to innovate;
- To improve environmental quality in cases in which innovation and the resulting improvements in resource productivity do not completely offset the cost of compliance, or in which it takes time for learning effects to reduce the overall cost of innovative solutions;
- To alert and educate companies about likely resource inefficiencies and potential areas for technological improvement;
- To raise the likelihood that product innovations and process innovations in general will be environmentally friendly; and
- To create demand for environmental improvement until companies and customers are

able to perceive and measure the resource inefficiencies of pollution better.

Oppressive environmental regulation can be damaging as the most burdensome constraint reported by SMEs is their compliance with administrative regulations. Indeed, SMEs bear a disproportionate regulatory and administrative burden in comparison to larger businesses. UK Environment agency (2009) explains that modern regulation aims to find the right balance: a risk-based, cost-effective response, that will drive environmental improvements, reward good performance, but still provide the ultimate reassurance that tough action will be taken on those who fail to meet acceptable standards. In addition, modern environmental regulation should focus on SMEs according to principles set in the European strategic document "A Small Business Act for Europe", adopted in June 2008. EU recognizes that being SME-friendly should become mainstream policy, based on the conviction that rules must respect the majority of those who will use them (EU, 2008).

Modern, SME-friendly, environmental regulation should therefore be (Porter, van der Linde, 1995; EU, 2008; Environment Agency, 2009):

- Risk-based: resources should be allocated according to the risks involved, e.g., applying fewer resources where the risks are lower.
- Targeted or outcome-focused: the environmental outcome should be central in planning and assessing the performance. It should be achieved by using the most appropriate instruments. Direct regulation of the kind, which has traditionally been used to control emissions to the environment will continue to have an important role – but will become smarter through the appropriate use of risk based approaches, greater standardisation, associated charging mechanisms, environmental taxes, trading schemes, negotiated agreements and education programmes. Specific measures should be used for SMEs, such as derogations, transition periods and exemptions, in particular from information or reporting requirements, and other tailor-made approaches, wherever appropriate.
- Focused on the end-user: the impact of forthcoming legislative and administrative initiatives on SMEs ("SME test") should be assessed and relevant results taken into account when designing proposals. Interactions with stakeholders, including SME organisations, should be mandatory prior to making any legislative or administrative proposal that has an impact on businesses.
- Cost-effective: not imposing unnecessary administrative burden on regulated businesses.

5 Conclusions

This paper has highlighted the main aspects of environmental responsibility of SMEs. It has demonstrated that there are many reasons that drive and hinder environmental responsibility in SMEs. The main driver for responsible action lies in ethical values of the owner-manager, while regulation remains the most effective mechanism for changing company's environmental behaviour. The paper recognizes that lack of information, expertise, and resources make it difficult for SMEs to comply with environmental legislation. This also prevents them from fully exploiting the opportunities for increased efficiency, improved reputation and better relations with external stakeholders offered by sound environmental management. Policy makers and those trying to influence SMEs should be working on modern, SME-friendly approach to environmental regulation to make it easier for SMEs to tackle these problems and to transform the environmental challenge into business opportunities.

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