

Chapter 1

Environmental Sustainability Practices for SMEs

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ABSTRACT

The rate and scale of environmental degradation, through economic activities, has triggered widespread awakening among businesses, governments and civil society. The world over, corporations have responded by adopting sustainability practices and reporting. However, much of these happen within the premises of the corporations. As larger organizations outsource their manufacturing and service operations to small and medium enterprises (SMEs), they effectively shift their environmental burden on their vendors. In most developing countries, poor regulations and weak enforcement of environment laws leave the SMEs on their own, to improve their environmental practices. However, their limited resources and managerial capabilities are often inadequate to undertake sustainability practices. This chapter presents the findings of a research conducted among engineering SMEs in India. It proposes a lifecycle approach towards environmental practices and discusses potential business benefits and value creation from this. The chapter gives a roadmap for green business strategies, which SMEs can implement within their organization.

1. INTRODUCTION: WHY SMEs?

In our lifetime, we have witnessed some of the worst natural calamities. Warnings of polar ice melt, tsunamis, hurricanes and snowstorms are increasingly frequent. Death and destruction from such causes are steadily on the rise. Are these the vagaries of the planet or is this a response to human activities? This question has been extensively debated in the last few years, but has ended up creating more questions than answers. Should the environment be prioritized over industrial growth? Does the planet come ahead of people? Is technology leading to faster depletion of natural resources? Many such uncomfortable questions are now challenging the very structure of free markets.

However, the argument that unbridled consumption on a planet with finite resources, will inevitably lead to collapse, is gaining momentum. History offers ample proof of civilizations collapsing because

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they had overlooked resource overuse (Diamond, 2000). Over the last decade, many corporations have come to terms with this prognosis and have taken up the path of sustainability. Many global corporations now have sophisticated sustainability programs indicating a level of acceptance to the environmental imperative. However, even as the awareness grows within society and governments, small enterprises seem to be spared. Their small size is effective in warding off attention and on the other hand their sheer number poses an enforcement challenge for authorities. Although their scale of operations renders a proportionately small environmental impact, it is estimated that their collective impact may be as much, if not more, as that of large industry. Moreover, many SMEs are part of global supply chains of large corporations and undertake manufacturing activities for them. As key suppliers to the large corporations, a significant portion of their environmental burden is thus transferred to the SMEs. They contribute significantly to a nation's economy and its GDP and from a precautionary principle then, it is imperative that SMEs be encouraged to improve their environmental performance within their own operations. The potential benefit from this is far too large to be neglected.

SMEs generally adopt reactive strategies which focus on compliance rather than sustainability (Hobbs, 2000). Recent studies show that the firm size is one of the major determinants of a firm's green strategy – environmental actions undertaken are inversely proportional to the company size (Bianchi & Noci, 1996). In the 2011 survey on Sustainability and Innovation, the MIT Sloan Business School too had similar findings (MIT Sloan Sustainability Dashboard). SMEs generally follow business instincts to reduce resource use and waste and are keen to save costs through efficient resource usage. But those practices which need investments or inflict costs are not popular among them. Employing clean technologies and life-cycle analysis often does not find favor among small firms. When faced with the prospect of no business gains, SMEs tend to disregard environmental improvement as a non-priority expense (Esty & Winston, 2009). In most developing countries, the potential contribution of SMEs to a cleaner environment may not have been realized yet. Taking the case of India, current policy and legal frameworks do little to encourage or support SMEs in this direction. As the adoption of sustainable practices by SMEs is critical for national environmental goals, they must be encouraged to go beyond the usual eco-efficiency practices. While the magnitude of impact on the environment of an individual SME will depend on the technologies employed, packaging used, energy consumption patterns and distribution and supply chain usage, there is no doubt on the necessity of them improving their environmental performance.

The author's research with SMEs shows that green business practices offer distinctive business benefits for SMEs. Large corporations increasingly demand environmental management systems from their suppliers since greening their supply chains contributes directly in their own sustainability efforts. Similarly, environmental management certifications are integral part of vendor qualification criteria for many companies. Moreover, in many developed economies, bankers and financial lending institutions require environmental risk assessment from their loan applicants. Similarly, many insurers charge higher premium from SMEs who are exposed to environmental risks. In the European Union, extended producer responsibility (EPR) requires corporations to be responsible for their products, no matter where they are produced. This has prompted large companies to disqualify SME suppliers who do not meet the environmental standards. On the other hand, SMEs in consumer businesses have witnessed growth in green consumerism not just in developed economies but also countries like India. To serve this market, SMEs must go beyond green manufacturing. This requires technical and managerial skills, but will extend the first mover advantages to those early in the game. These are just some of the obvious business benefits accrued through green practices.

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