Inspiring new research and innovating new solutions

SME sustainability challenges 2013

SMEs Can’t Go It Alone

Network for Business Sustainability
Business. Thinking. Ahead.
I am pleased to present our annual report on the sustainability challenges of SMEs. For the second consecutive year, this report identifies SME-specific challenges, while highlighting the contributions of small firms towards sustainability.

This year, NBS’s SME Council brought the importance of interactions with society to the forefront. These interactions involve a company improving the relationships with actors of its value chain, with policy-makers, with researchers, with NGOs and with clients. For SMEs, success in sustainability depends on the extent of collaboration and the quality of these interactions.

Between Companies
“Achieving an economic, social and environmental balance is not only difficult for a single company, but often far less effective than when the balance is achieved by a network of firms working together. This signals the importance of collaboration. We need to understand collective performance and use this to to work towards a more holistic/complete view of sustainability,” Tima Bansal, Executive Director, NBS.

To date, effective sustainability practices include impact assessment and measurement, goal-setting, and reporting. Yet, a new collective approach is emerging between organizations. Partnerships are beginning to form to set common measurement standards and develop indicators for different industries, such as the Sustainability Measurement and Reporting System of the Sustainability Consortium, or taking on industry-specific challenges, such as the Outdoor Industry Association Eco Index demonstrates. In either case, these partnerships reveal that companies are no longer solely concerned with internal operations or the impacts of one entity, but rather of those of a collective. This collaborative approach eases the development of shared objectives by expanding the field of attention paid to sustainability issues and multiplies the impact of a single company’s manoeuvres.

With Government
On a broad scale, SMEs want to optimize the effectiveness of their relationships with governments. Government provides incentives, yet frequently restricts company actions to drive sustainability with ineffective regulation. Small and medium-sized enterprises believe that society would greatly benefit from a more transparent exchange of information and a clearer distribution of responsibilities.

With the Scientific Community
The scientific community is of strategic importance to the SME community. Collaborative opportunities exist not only in knowledge production and corporate skills development, but also in fostering innovation as a means to sustainability. Partnerships between companies from a given sector or value chain can benefit from scientific support by researchers. By re-examining the classic boundaries between the scientific community and business, challenges can be translated into research frameworks that drive practical solutions to sustainability issues.
With Consumers
Consumers are critical stakeholders. They express their environmental intentions, but are inconsistent in applying these intentions to their own buying behaviour. They remain wary of greenwashing, yet are often overwhelmed with sustainability propaganda that they fall victim to interpreting it as information.

SMEs do not have the means to launch major information campaigns, but would like to participate in education on sustainability to increase the demand for sustainable products and services. The challenge will be to ensure that this education assists consumers in improving decision-making, rather than adding to their confusion.

Openness and Cooperation
I would like to extend my sincere gratitude to the members of the SME Council, who shared their experiences and energies to define the sustainability challenges for 2013. I hope that these challenges will be interpreted by our readers from a perspective of openness and cooperation.

Sincerely,

Marie-France Turcotte
Director, Montreal Office
Network for Business Sustainability

Cover image courtesy of GEOS Spa Sacacomie, a member of NBS’s SME Council.
introduction

For the second time this year, NBS’s Montreal Office met with the SME Council to discuss their sustainability priorities and challenges. NBS is pleased to welcome three new members to this council in 2013. Under the direction of Marie-France Turcotte, the SME Council meeting provided an opportunity to strengthen the ties between the academic community and the business world, and include SMEs in the dialogue on sustainability.

The challenges identified in this report were defined by a council of directors of small and medium-sized enterprises as well as representatives from public and government organizations. Each organization represents a different sector and is recognized for its commitment to sustainability. NBS will continue to hold SME Council meetings annually to take stock of the challenges faced by SMEs.

This report outlines the eight main sustainability challenges confronting SMEs in 2013. These challenges reflect two major concerns: to improve organizational performance and to improve integration into society. As such, they strike a balance between the pillars of sustainable development, innovation, and business continuity. Moreover, they aim to build bridges between SMEs and governments to coordinate sustainability efforts, enhance communication and engage the public – their clientele.
How to Use this Report

*SME Owners and Managers*: Consider what your organization is doing to address the environmental and social impacts of its operations. Where are there opportunities for growth or improvement? Which of the issues listed in the report is something your company should be thinking about in the coming years? For resources to help you make your organization more sustainable, visit nbs.net.

*Policy-makers, Certification Bodies, Consultants and NGO’s*: Consider these challenges as you develop resources, policies, funding sources and services for small- and medium-sized organizations.

*Researchers*: Consider researching the issues identified by these SME sustainability leaders. NBS’s mission is to engage the scientific community in producing rigorous, relevant resources that inform practitioners’ decision-making and help them become sustainable. The challenges identified here are research questions of interest to SMEs.

What is Business Sustainability?

Business sustainability is the inclusion of financial, environmental and social concerns into business decisions. Sustainable companies:

- Create long-term financial value.
- Know how their actions affect the environment and actively work to reduce their impacts.
- Care about their employees, customers and communities and work to make positive social change.
- Understand these three elements are intimately connected to each other.

Compared to companies that focus on short-term profits and that make decisions based solely on the bottom line, sustainable companies think long-term. They forge strong relationships with employees and members of the community. They find ways to reduce the amount of natural resources they consume and the amount of waste and pollution they produce. As a result, sustainable companies endure, surviving major shocks like global recessions, worker strikes, executive scandals and boycotts by environmental activists.
Funding Research: How You Can Help SMEs Become Sustainable

The Network for Business Sustainability (NBS) produces valuable resources that help senior leaders and sustainability managers make informed business decisions. Every year, NBS funds research projects called “systematic reviews” for two of the sustainability challenges identified by our Leadership Council. These research projects synthesize the best knowledge in the world and provide a solid foundation of knowledge upon which managers and researchers can build. The final reports are available for free on nbs.net: http://nbs.net/publications/executive-reports/.

This report marks our commitment to continue developing knowledge specific to SMEs. Our goal is to provide SME managers with objective, reliable resources that help them adopt sustainable practices. If you are interested in undertaking or supporting research in one of the SME challenges, please contact us at info@nbs.net.

“The SME Council plays an important role in creating a space to share experiences with like-minded peers as well as a center of expertise providing practical guidelines to helping us improve our own business practices and reach more sustainability.”

Marie-Hélène Labrie
ENERKEM
Eight questions define the sustainability challenges SMEs face in 2013:

1. How can SME investments in sustainability drive concrete financial results?
2. How can SMEs promote the creation of coherent and efficient sustainability regulations?
3. How can SMEs innovate to maintain competitiveness and contribute to sustainability?
4. How can SMEs participate in raising public awareness on the three pillars of sustainability?
5. How can SMEs embed sustainability actions in the organizational culture?
6. How can SMEs prepare business succession and ensure continuity?
7. How can manufacturing SMEs prompt retailers to promote their sustainable products?
8. How can SMEs increase competitiveness against greenwashers?
How can SME investments in sustainability drive concrete financial results?

SMEs want to integrate sustainability into their core businesses, but find that sustainability objectives pull them in different directions. “Should I invest in environmental certification, or should I allocate funds to promotional campaigns that grow our client base?” In other words, are there cases where “planet” can take precedence over “profit”? This question, put forth by the executive director of GEOS Spa Sacacomie, a member of the NBS SME Council, illustrates the dilemma facing SME managers wanting to optimize their triple bottom line.

This tension prompts a holistic rethinking of how SMEs manage investments in sustainability. SMEs seek to harmonize environmental and social objectives with the bottom line. They endeavour to improve understanding of the impacts and benefits of their sustainability initiatives, so they can translate their investments into concrete financial results.

“Should I invest in environmental certification, or should I allocate funds to promotional campaigns that grow our client base?”

Marie-Rachel Charlebois
GEOS SPA SACACOMIE
2 CHALLENGES

How can SMEs promote the creation of coherent and efficient sustainability regulations?

SMEs feel excluded from regulatory decision-making processes and find that new sustainability regulations can limit their efforts. More specifically, they are critical of the prescriptive nature of regulations as well as the planning and monitoring of these measures. SMEs feel this leads to counter-productive consequences for them – and also for society.

As an example, the introduction of Quebec’s regulation on extended producer responsibility transferred the responsibility of end-of-life product management to manufacturers. Insertech, a repurposing social enterprise, specializes in subcontracting the end-of-life management of electronics and IT equipment. To position itself as a competent and credible player in the eyes of manufacturers and clients, Insertech obtained a demanding certification put in place by the industry. To date, however, the company has not seen a return on investment. It finds that the coordination between industry and the government did not lead to recognition of new standards and that the certification did not increase its own visibility. Insertech spends significant energy promoting and explaining the certification. Such tasks frequently exceed the capacity of SMEs and of the industry to establish increased legitimacy.

Recognized repeatedly for its sustainable performance, Insertech does not oppose regulatory reorganization of its industry. However, just like other SMEs it is interested in understanding which practices achieve sustainability while minimizing the unintended consequences of regulation. How can public policies and regulations support company objectives and a sustainable society?

“... which practices achieve sustainability while minimizing the unintended consequences of regulation?”
How can SMEs innovate to maintain competitiveness and contribute to sustainability?

SMEs are significant contributors to the economic fabric of the regions in which they operate. They are also impacted by the global economic context and many of them compete on a global scale. Against this backdrop, innovation is essential to their survival. Through innovation, SMEs can serve as a lever for environmental protection and create social value.

To strengthen its position in the North American market, Quartz Nature recently expanded its line of winter coats. The proximity between the company and its market triggered the development of new products while helping secure responsive customer demand. Since Quartz Nature’s production is in Quebec, it seized an opportunity to invigorate the local economy and contribute to local know-how.

SMEs seek to increase opportunities that enable them to offer high-quality, value-added products and services that contribute to sustainability. What actions can they take to foster this type of innovation?

“How can SMEs innovate to maintain competitiveness and contribute to sustainability?”
A firm’s contribution to delivering sustainable solutions is not limited to environmental protection: it includes responding to economic and social issues. However, SMEs have picked up on a general misunderstanding of sustainability in society. They believe that social and economic components are frequently forgotten, resulting in business contributions going unnoticed or being devalued.

The search for long-term financial value creation is a major challenge for SMEs that is also part of their responsibility to society. By integrating actions at the social and environmental levels, businesses striving for long-term profitability act responsibly towards their shareholders, their employees and the communities in which they operate.

To adjust expectations, SMEs find it necessary to raise greater awareness of all three pillars of sustainability; they wish to learn what they can do to engage in this endeavour.

“... social and economic components are frequently forgotten, resulting in business contributions going unnoticed or being devalued.”
SMEs wish to establish a corporate culture of sustainability, but face organizational realities such as a high turnover and disparities in employee awareness levels or willingness to act.

The challenge for SMEs is to remain focused on sustainability within a dynamic context. Creating a sustainability policy is not enough; objectives must be clear, employees and management must show commitment through consistent actions and, little by little, a set of values and habits transcending the individuals of the organization can emerge. This is even more critical for SMEs, since time dedicated to the education of sustainability is limited. To optimize their activities, SMEs seek to establish a culture of sustainability that creates a cycle, which reinforces sustainable habits and values in the workplace. This promotion of sustainability involves all employees in the organization – not just a few.

SMEs need action plans that help structure a culture of sustainability for all employees in their organizations.

How can SMEs embed sustainability actions in the organizational culture?
How can SMEs prepare business succession and ensure continuity?

A growing number of businesses are at risk of closure. Finding suitable successors for exiting business leaders, typically the founder of SMEs, is a challenge. Less than a quarter of family company successions last longer than six years after the transfer. Failure to pass on or take over the company can lead to major socioeconomic consequences that entail job losses and negative impacts on business partners. Given the large proportion of SMEs within Canada, this presents an issue with a considerable impact on society.

The challenge for SME leaders is to ensure the longevity of their companies by preparing a quality succession plan, while assuming responsibility for the socioeconomic issues introduced by the maneuver. Yet, the succession process is a difficult one: “The smaller the SME, the greater the challenge,” explained Yvon Léveillé of JAS Filtration. Fewer employees indicate limited pools of succession candidates as well as a lesser likelihood that SME leaders can find sufficient time to focus on succession planning. This critical issue requires preparation and cannot be delegated to another player in the company.

SME leaders want to increase the survival chances of their company, while fostering the culture of sustainability at the company. What tools enable SMEs to prepare for succession in a way that ensures the longevity of their company?

1 Guihur, Marcoux and Koffi, 2012, Premiers regards sur les rapports entre le successeur et ses employés pour leur engagement dans la dynamique de succession en PME
How can manufacturing SMEs prompt retailers to promote their sustainable products?

Although consumers increasingly inform themselves about sustainability, they are often confused as to which products and services actually achieve better sustainability performance. Even for the well-intentioned consumer, it is difficult to apply good intentions to a final purchase. How can SMEs bring distributors onboard to help alleviate this issue?

To improve profiling of the sustainable attributes of its winter coat collection to consumers, Quartz Nature realized it was important to involve its retailers. Each year, the company organizes Quartz Nature Clinic at strategic retailers to inform buyers and floor staff of the unique features of their collection. For this SME, it is not only important to establish links with buyers in department stores, but also with the floor staff at these retailers since they serve as the main point of contact between the client and the coat. To offset the major turnover characteristic of the retail industry, it is important for Quartz Nature to carry out this activity annually. Doing so empowers sales staff to promote the product more effectively to consumers. Building retailer awareness has become a systematic step in the marketing process of a product for this SME.

Unfortunately, this technique will not apply to all manufacturers – particularly if products are destined for the mass market. SMEs continue to look for ways to refine their marketing strategies to increase the demand for sustainable products and services. Manufacturers counting on big box distributors question how the added environmental value of their products can be recognized.

“Even for the well-intentioned consumer, it is difficult to apply good intentions to a final purchase.”
Greenwashing adversely affects sustainable SMEs competitiveness. One on hand, greenwashers grab market share that does not correspond to the products they market. On the other hand, these companies make consumers mistrustful and reluctant towards products that are truly sustainable, often by offering products of inferior quality or that bear unrecognizable certification.

Greenwashing also complicates efforts to create dialogue on sustainability. To what extent can truly green companies praise the sustainable attributes of their products without themselves being accused of greenwashing?

Insertech recently obtained a certification attesting that their reconditioning, re-use and recycling method for electronic devices respects the laws and environment. They face competition from companies who promote a green image, yet do not offer the same validated assurance. Without guarantee or accountability, unscrupulous recyclers only recover valuable materials, such as metal, while delivering the rest – such as plastics and hazardous waste – to the landfill or exporting them to a country with lax regulation on electronic waste. Companies believe they act responsibly by giving their equipment to these recyclers without knowing that they are instead exacerbating the problem of electronic waste. As public opinion gains awareness of the situation, certified recycling and reprocessing companies lose major market share as they try to dissociate themselves with industry malpractice.

Sustainable SMEs find greenwashing unfair, but lack the means to increase their competitiveness against greenwashers. They look for actions to help them appropriately inform consumers.

“Greenwashing also complicates efforts to create dialogue on sustainability. To what extent can truly green companies praise the sustainable attributes of their products without themselves being accused of greenwashing?”

Luc Bélair
INSETECH

Each SME Council member was invited to join based on their performance in the following areas: sustainability initiatives; vision, mission and values linked to sustainability; a sustainability-oriented business model; and proactive approaches to sustainability. NBS invited companies from diverse sectors – but only one organization from each sector – to develop a list of sustainability challenges that was as representative as possible.

The SME Council’s goal was to define the greatest sustainability challenges facing SMEs in 2013. This report presents the perspectives of SMEs operating in an industrialized economy and defining priorities of international concern that have the broadest possible relevance. In defining the challenges, the SME Council representatives engaged in a three-stage process:

1. Identifying their own individual issues.
2. Aggregating and refining the issues into meaningful categories.
3. Ranking the refined challenges by importance.

This process yielded a series of issues that is representative, prioritized and agreed-upon.
about NBS

A non-profit organization based at Western University and UQAM in Canada, the Network for Business Sustainability produces authoritative resources on important sustainability issues with the goal of changing management practice. We unite thousands of researchers and professionals worldwide who believe passionately in research based practice and practice-based research.

NBS is funded by the Social Sciences and Humanities Research Council of Canada, the Richard Ivey School of Business at Western University, the Université du Québec à Montréal and our Leadership Council.

For additional resources visit nbs.net/knowledge.

NBS SME Council

The SME Council is a group of sustainability leaders from diverse sectors. At an annual meeting, these leaders identify their business sustainability challenges – the issues on which their organizations need authoritative answers and reliable insights. Their sustainability challenges inform NBS’s research projects.