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Article *in* Sustainability Accounting Management and Policy Journal · October 2010

DOI: 10.1108/20408021011089239

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The current issue and full text archive of this journal is available at
www.emeraldinsight.com/2040-8021.htm

Received 12 January 2010
Revised 15 March 2010,
22 May 2010
Accepted 21 June 2010

Engaging small- and medium-sized businesses in sustainability

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Abstract

Purpose – The purpose of this paper is to explore how to meaningfully engage small- to medium-sized enterprises (SMEs) in strategies that improve the social and environmental sustainability of their businesses.

Design/methodology/approach – This paper is a conceptual review of the business case for sustainable development that has been offered to the business world. The paper describes the unique features of SMEs that indicate the need to reframe the case for socially and environmentally sustainable business practices for SMEs, and, using arguments discussed in the literature, we summarize the business case for sustainable development that has been specified for SMEs.

Findings – SMEs need particular attention when it comes to business strategies for sustainable development, since the business case is not the same as for large firms. Furthermore, tools that are developed to support sustainability in SMEs need to recognize that these companies have different resources and profiles than larger firms.

Research limitations/implications – Sustainable development as a concept captures most issues facing our societies, which means there are endless possibilities for companies to find strategies that will impact – and hopefully improve – their social and environmental performance. While this paper does not provide empirical evidence and support, it offers some insights on practical and social implications of SMEs engaging in sustainability.

Practical implications – This overview may help and give ideas to owners and managers of SMEs to rethink their overall business strategy by not only incorporating sustainability in their core values and actions but also implementing such strategy. In fact, this diversity of opportunities is where there is hope for turning the current world trajectory towards healthy and resilient human and natural communities.

Originality/value – This paper provides review of the current debates and opportunities in business strategies for sustainable development, and an application to the realities of business operations for SMEs.

Keywords Management strategy, Small to medium-sized enterprises, Sustainable development

Paper type Conceptual paper

Sustainability Accounting, Management and Policy Journal
Vol. 1 No. 2, 2010
pp. 178-200

2040-8021
DOI 10.1108/20408021011089239

The authors would like to thank participants of the 3rd Annual International Conference on Business and Sustainability held at Portland State University for their helpful comments and suggestions.

1. Introduction

It now appears that a majority of the population in developed countries increasingly recognize that we collectively face severe social and environmental threats around the world related to global warming[1]. The *Living Planet Report* published by the World Wildlife Fund (WWF, 2008, p. 2) states that the planet has a limited capacity "to support a thriving diversity of species, humans included". The report indicates that problems related to the ecological footprint such as deforestation, water shortages, declining biodiversity and ecosystems, and climate change are currently considered major threats to human and environmental health across the globe (WWF, 2008). Engaging more socially and environmentally sustainable practices is essential – and beneficial – to the well-being of the world and the societies in which we live. Yet, the Chicago Council on Global Affairs (2007) found that few people, organizations, and governments appear to be willing to make the changes required to prevent the onslaught of disasters forecasted if we continue business as usual.

Business researchers examining and addressing the concerns about business as usual have adopted the terms sustainability and sustainable development as an overarching concept designed to describe and encompass a broad range of practices. In this paper, we define sustainability and sustainable development using the dominant definition established by the World Commission on Environment and Development (WCED) in 1987: "Sustainable development means meeting the needs of the present without compromising the ability of future generations to meet their own needs." Although this definition has been criticized as vague, naïve, and lacking sufficient focus on the social dimension to sustainability (Littig and Greißler, 2005; McCright and Clark, 2006), it remains the most commonly used definition. The business sustainable development research literature has interpreted the WCED definition to encompass three components – social fairness, environmental responsibility, and financial viability (Etzion, 2007; Peloza, 2008). This definition means that firms engaged in sustainability need to seek strategies that simultaneously create economic value and integrate concerns for the human communities in which they operate the ecosystems where they have an impact.

Our literature review encompasses research that examines either the social or environmental impact or, in few cases, both. This literature includes other terms, such as corporate social responsibility (CSR) or colloquial terms such as "a green company", to discuss or describe sustainable practices, depending on the focus of the research.

One set of players that will have a major impact on the future of business and the planet are small- to medium-sized enterprises (SMEs)[2]. In fact, these organizations constitute a major element in the world economy[3]. However, when it comes to the role of business in addressing sustainable development, SMEs have largely been left out of the picture. Labonne (2006) compared large and small firms in their use of environmental assessment tools. He found that small firms were far less likely to examine their environmental impact, primarily because of the financial limitations and costs associated with tools designed for large firms with significant resources. Condon (2004) also noted that a lack of financial knowledge and employee resources limited SME adoption of sustainability practices. Bianchi and Noci (1998) found that SMEs tended to be reactive in adopting sustainability strategies. Unlike large firms that were more likely to engage in pre-emptive sustainability strategies, small firms tended to react only to strong pressures from external stakeholders. Hillary (2000), reviewing her edited collection of articles in her book on SMEs and the environment, concludes that SMEs are "largely ignorant" about their environmental impact and environmental regulation; "oblivious about the importance of sustainability;" "cynical about the benefits" of assessment tools designed to improve environmental performance; and "difficult to reach, mobilise, or engage" on topics related to the environment. In his review of the literature, Dressen (2009) concludes that small businesses tend to face less pressure from external stakeholders about their sustainability practices, have limited financial resources available, and perceive that engaging in sustainability practices is too complex.

In addition to this consistent list of obstacles faced by SMEs, the literature also contains a consistent primary opportunity and strength. SMEs who do become engaged in sustainability have the flexibility to quickly adopt innovative practices. In combination, this literature supports the need for a business case to convince SMEs to adopt and use sustainable business practices.

Other researchers have concluded that sustainable development tools were created with larger firms in mind and are difficult for SMEs to employ (Jones and Tilley, 2003; Rutherfoord *et al.*, 2000; Spence and Schimdpeter, 2003; Hillary, 2004; Jenkins, 2004, 2006; Fassin, 2008; Bradford and Fraser, 2008; Perrini *et al.*, 2007). While some features of sustainability strategy may be the same between large and small firms, such as the importance of ensuring "shared vision, stakeholder management, and strategic proactivity" (Aragon-Correa *et al.*, 2008), such tools tend to require more rigid business structures and more resources to devote to developing new business strategies (Bradford and Fraser, 2008; Fassin, 2008; Jenkins, 2004; Rutherfoord *et al.*, 2000; Spence and Schimdpeter, 2003; Jones and Tilley, 2003). Hillary's (2004) review of adoption of standardized tools in Europe, showed that only a "miniscule" proportion of SMEs were using these tools, and only a few of those had "patchy at best" results. Bradford and Fraser (2008) have demonstrated that SMEs need advice and support regarding sustainability strategies that are tailored to the realities of their businesses. In addition, many SMEs still list environmental issues as a low priority, expensive to address, and not financially worth investigating (Bradford and Fraser, 2008). Business structures of SMEs can also be quite diverse as they operate with very different personnel structures, budget sizes, as well as corporate strategies and missions. However, Esty and Winston (2006, p.18) emphasize that "in today's world, no company, big or small, operating locally or globally, in manufacturing or services, can afford to ignore environmental issues".

In this paper, we explore how to meaningfully engage SMEs in strategies that improve the social and environmental sustainability of their businesses, while creating economic value. We begin with the business case for sustainable development that has been offered to the business world as a whole, as well as potential outcomes. Next, we describe the unique features of SMEs that indicate the need for reframing the business case for sustainability tailored to their realities. Using arguments discussed in the literature, we then summarize the business case for sustainable development that has been specified for SMEs.

2. The business case for large firms and outcomes from sustainable development

The business case for sustainable development in large firms has evolved in the past few decades. Largely inspired by Carson's (1962) *Silent Spring*, an increasing interest about environmental issues developed in the late 1960s and early 1970s (Cole and Foster, 2001; Hoffman, 1999). Communities recognized that businesses had a role in protecting or polluting their natural environment as companies started pushing responsibility for waste elimination onto communities that did not have the political clout to push them away. In response to mounting accusations, Milton Friedman published a watershed article in 1970 in the *New York Times Magazine*, which claimed that businesses do not have the capacity or expertise to handle social or environmental problems[4]. During the past few decades, however, active debate and research has moved the role of business into a more practical position, and now many authors conclude that adopting sustainability practices is beneficial not just to society, but to businesses themselves in terms of economic performance. Companies are realizing that part of an economically successful business strategy is recognizing that all risks and opportunities have roots in social and environmental issues. Illustrating the social fairness component of sustainability, Porter and Kramer (2006, p. 83) note that "successful corporations need a healthy society [. . .] a healthy society creates expanding demand for business, as more human needs are met and aspirations grow". Porter and Kramer (among others) have noted that businesses and communities have often been falsely pitted against each other. Placing what is best for the community and the environment along side what is best for business may lead to numerous positive outcomes. Hence, we draw on concepts presented by stakeholder theory (Freeman, 1984) to frame these arguments. In the next subsections, we briefly discuss the notion of a stakeholder before presenting a range of positive outcomes that may result from engaging sustainable development.

Stakeholder concept and theory

A fundamental question when developing a strategy for social and environmental sustainability is "who is involved" and more specifically, "who benefits"? An analysis of the many stakeholders involved in a particular business is essential to implementing a successful business strategy for sustainability. According to Freeman (1984, p. 46), a stakeholder is defined as "any group or individual who can affect or is affected by the achievement of the firm's objectives". Ansoff (1965) (as cited by Roberts, 1992) introduced "stakeholder theory" because one of the ultimate objectives of an organization is to achieve the ability to maintain equilibrium between the conflicting demands and needs of its stakeholders. Stakeholder theory and its conceptual framework generated different streams of research in strategic management theoretical work (Jawahar and Mclaughlin, 2001; Jones and Wicks, 1999) as well as empirical studies and applications (Donaldson and Preston, 1995; Kassinis and Vafeas, 2002; Ogden and Watson, 1999). As such, stakeholder theory provides the "micro framework in which specific, identifiable groups" may express interest in a firm's sustainable development activities (Cormier *et al.*, 2004, p. 146)[5]. In order to achieve long-term business success, organizations must:

- address stakeholder expectations (Rowley, 1997); and
- pay "simultaneous attention to [. . .] all appropriate stakeholders" (Donaldson and Preston, 1995, p. 67).

While the debate around how to prioritize different stakeholder groups is still inconclusive to date, findings from prior research (Agle *et al.*, 1999; Harvey and Schaefer, 2001) provide enough grounds to define customers, employees and governments as the more relevant when it comes to sustainable development engagement and related issues.

Attracting profitable customers based on social or environmental issues is complex. Companies wishing to make a profit from offering green services or products must do more than merely identify a target customer. An individual's decision to make a sustainable product purchase is more complex than simply classifying customers based on simple demographic and psychographic memberships (Reinhardt, 1998; Peattie, 2001). Attracting employees who believe in the values and perceived ethical behaviour of a company is well supported by research (Hoffman, 2005). Companies with good CSR or sustainable development performance often find they are able to attract and retain higher quality employees (Albinger and Freeman, 2000; Battacharya *et al.*, 2008; Branco and Rodrigues, 2006; Marin and Ruiz, 2007). Additionally, engaging in sustainable development or other socially oriented activities could also foster and enhance much needed relationships with governments, especially in terms of public policy exposure and regulation (Patten, 1991)[6]. Hart and Milstein (2003) argue that companies that are able to identify the sustainable competencies of the future can enjoy first mover advantage by being the first to introduce a new product or service. The overall potential positive outcomes that may arise from sustainable development for large firms above are summarized in Table I.

3. Features of SMEs and framing the case for sustainable development

The differences between SMEs and larger firms emerge largely from effects caused by resource differences in revenues, budgets, and number of employees. At a macro-level, researchers have found that size matters for social and environmental performance; according to a European Union survey of over 7,000 European SMEs, the larger the company, the more frequently the company reported engaging in external socially

Outcome	Rationale
Customers	Capturing consumers' social and environmental values; however, the "why" customers are (and are not) buying green is more important to understand rather than merely identifying who and where such customers are
Employees	Attracting and retaining higher quality employees; in addition, opportunities for innovation in sustainability enhance managers' problem-solving skills and performance, and their ability to innovate, which defines firm competitive advantage
Government	Positive relationships with governments, especially in terms of public policy exposure and regulation will facilitate positive outcomes
Product and production	Three requirements for successful product differentiation are: (1) willingness to pay a premium for social/environmental benefit offered by product; (2) credible and reliable information about social/environmental performance of product; and (3) significant barriers to imitation
Finance	Ability and higher likelihood to attract investors who prioritize social and environmental performance when selecting investment funds
Strategic positioning	Enjoying first mover advantages by being first to introduce a new product or service and potentially make changes before competitors enter the market and/or leverage government regulations; another strategic advantage is the stand-alone sustainability reporting but needs to watch out for potential "greenwashing"

Table I.
Positive outcomes from sustainable development

responsible activities (Luetkenhorst, 2004). Aragon-Correa *et al.* (2008) note that this finding has been supported by other studies (Aragon-Correa, 1998; Buysse and Verbeke, 2003; Russo and Fouts, 1997; Sharma, 2000). On the other hand, Aragon-Correa *et al.* (2008, p. 98) clarified that size "is not a deterministic condition for developing the most proactive environmental strategies". In other words, it is not just size alone that determines an SME's contribution to sustainable development. Several key internal and external characteristics of SMEs may distinguish their social and environmental actions from public companies.

Ownership structure

Unlike public corporations which are beholden to shareholders, privately held SMEs are often owner operated and responsible to only a single or at most a few shareholders. The owners' values are the ones that ultimately drive the organization. Several authors have found that if individual small business owners prioritize sustainable development, the business is likely to prioritize sustainable development (Graafland *et al.*, 2003; Joyner *et al.*, 2002; Luetkenhorst, 2004; Jenkins, 2004, 2006; Beaver, 2007; Sharma and Nguan, 1999; Spence and Schimdpeter, 2003). The small size means shorter lines of communication between the top managers, shareholders and employees, which may make SMEs more nimble and able to implement changes quickly (Aragon-Correa *et al.*, 2008; Graafland *et al.*, 2003). An example of this is Dansko, a footwear company that focuses on women's products. The firm's two co-founders are able to use their values, in combination with ownership by more than 50 percent of its 146 employees to quickly implement new sustainability practices (B Corporation, 2009). King Arthur Flour, located in Vermont, uses 100 percent employee ownership as a method of keeping all of its employees informed and trained about company decisions (B Corporation, 2009), Helping owners and top managers understand and foresee business opportunities available to companies through sustainability strategies may be an effective way to attract more SMEs to use strategic sustainable development practices.

Business culture

Smaller companies may also have a less formal business culture and structure (Fassin, 2008; Jenkins, 2004) which means efforts to establish good sustainable development practices may not have the typical entry points seen in larger firms (i.e. strategy tools or audits). Researchers have found that SMEs do not tend to use formal strategy tools; even those that do use them to devise a strategic plan rarely put such plans into action (Earl, 2006; Meers and Robertson, 2007). Such findings may be due to a number of reasons, such as not having the budget or the time it takes to make such shifts in business practice. SMEs may be hesitant to allot precious time to address any issues that are not directly related to business, and sustainable development is often misperceived as being outside of core operations (Enderle, 2004; Fassin, 2008; Walker and Preuss, 2008).

Organizational and capital structures

Studies have found that SMEs are less likely to have "sophisticated divisionalised structures" (Jones and Tilley, 2003, p. 17). This means they may lack managerial resources and functional specialists, which may lead to poor management or underutilized opportunities (Tencati *et al.*, 2004). One study in The Netherlands found that small firms were not likely to use sustainable development tools designed for corporations; they were more likely to assign the task of overseeing sustainable development to a board member (Graafland *et al.*, 2003). Thus, while it should not be assumed that smaller size is in itself a barrier to adopting sustainable development practices, it is clear that strategies for sustainability must be considered on a case-by-case basis and should not be assumed to scale down to fit the needs of SMEs.

On the other hand, while SMEs may have less room in their budgets or capacity within their staff, smaller budgets may be less complex, hence involve fewer people in budgetary decisions. Aragon-Correa *et al.* (2008) note that SMEs are likely to have more simple capital structures than larger firms, which may mean there are less restrictions on access to internal financial resources. Such a financial profile may enable SMEs to be able to more nimbly adapt to new opportunities.

Employees' knowledge, values, skills and experience

The knowledge, values, skills and experiences of employees have significant impacts on the performance of SMEs, particularly with regard to social and environmental performance. Enderle (2004) emphasizes the fact that the forces driving global commerce are nothing more than the combined results of contributions made by many individuals. While the business and management literature is filled with discussions of the impact of "groupthink" (Janis, 1982) on business decisions, Enderle (2004) reminds us that groups are made up of individuals, and these individuals together determine the behaviour of a firm. The importance of individual characteristics of key employees to determining a business's approach to strategy is supported by a survey of successful SMEs in the UK. Beaver (2007, p. 16) writes that "strategy [. . .] is enacted in a highly personalized manner, and is strongly influenced by the actions, abilities, personality and success criteria of the key role players". While this may be true of large firms as well, the small size of a typical SME likely increases the relative influence of key role players.

The role of external personal relationships and social capital

While most businesses rely to a certain extent on the quality of personal relationships with customers and business partners, this is even more critical for SMEs. Without a larger budget to catch the attention of possible clients, SMEs often rely on their network of personal relationships and reputation as reliable business-people in their market and community to win customers (Jenkins, 2006; Niehm *et al.*, 2007; Perrini *et al.*, 2007). Furthermore, SMEs – especially older firms and family businesses – may benefit from large amounts of social capital. Social capital is defined as:

> [. . .] those features of social structures – such as levels of interpersonal trust and norms of reciprocity and mutual aid – which act as resources for individuals [or individual entities] and facilitate collective action (Kawachi and Berkman, 2000, p. 175)[7].

Putnam (1993) suggests that communities with high levels of social capital have lower transaction costs and a higher degree of democratic self-regulation. The implication for businesses operating in communities with higher social capital is that the cost of doing business may be less. The lower costs may be attributed to a greater sense of community among stakeholders which may lead to a greater level of trust and a lower need to create and enact costly enforcement mechanisms. These lower costs can be transferred either to the customer through lower prices or retained in the business.

Business networks

Networks can indeed play a vital role in ensuring the success of SMEs (Halila, 2007; Aragon-Correa *et al.*, 2008; Enderle, 2004). Halila (2007) notes that networks can provide SMEs with important expertise or resources, which would enable them to take risks or implement practices they might otherwise have not considered. He also suggests that networks can offer SMEs a forum for discussing new ideas, help SMEs overcome isolation, and provide the necessary social and intellectual support for implementing new strategies or activities. Hillary (2004) cited the absence of a business network as a barrier to the successful implementation of ISO 14001 (a standardized tool for implementing environmental management systems). Networks should be a key element of the development of sustainability strategies for SMEs. One of the consistent conclusions found in SMEs and sustainability literature is the lack of knowledge about sustainability practices and tools. Participation in a network of firms involved in sustainability can provide firms with the resources and expertise needed to overcome the obstacle created by a lack of knowledge.

Relationship with governments

The influence of governments in changing behaviour in SMEs appears to vary by jurisdiction. Regarding government relationships, some studies in the UK have shown that government regulations, benchmark practices and pressure from interest groups do not have a strong impact on SME behaviour (Jenkins, 2006). Aragon-Correa *et al.* (2008) describe studies in Spain which suggest that government regulations promote better CSR. In the Netherlands, however, SMEs included in a survey about environmental practices reported they would be less responsive to government regulations than they would be to public opinion and the desire to meet the demands of their host communities (Rutherfoord *et al.*, 2000). The main conclusion from this debate seems to be that the role of government is very localized in nature, and quite vulnerable to the lobbyists of larger corporations. Given the potential uncertainty of the market benefits of engaging sustainable development practices, many SMEs may not be able to take the same risks as larger corporations. While economics certainly matter, it would be considerably more difficult for SMEs to pilot projects in order to test economic waters for their ideas (Hillary, 2004).

Visibility

Another important distinction between privately held SMEs and larger, publicly traded companies concerns the media and public opinion. SMEs have significantly less visibility when compared to large firms or multinational corporations, and thus are not likely to attract the same level of attention from the cycle of shifts in public opinion and media frenzies. SMEs may have very different relationships with the public since their market impact is of a smaller scale – many SMEs operate in only one market (Jenkins, 2006) – and the public has different expectations of SMEs than of large companies. The impact of reputation or brand image regarding sustainability may be less important to SMEs (Jenkins, 2006). Unlike publicly traded firms that tend to be prominent targets (Dressen, 2009; Labonne, 2006) and may be forced to respond to shareholder demands (McWilliams *et al.*, 2006), there may be less of a clear incentive to respond to the changing values in the broader society, such as the increased demand for socially and environmentally responsible products (Luetkenhorst, 2004; Jenkins, 2004).

In other words, the threat of public outcry against an SME is much less, which reduces the motivation to mitigate such threats by adopting socially and environmentally sustainable business practices. The reverse is also true; if a large company makes a sizeable donation to a good cause, it is more likely to attract media attention (Fassin, 2008) as well as social investors (Jenkins, 2004). If an SME spends the same proportion of their budget on a good cause, the media may be unlikely to notice unless the SME pairs the gift with a communications campaign (Fassin, 2008). This is not to say there is no value in SMEs engaging charity or sustainable development practices. There are other benefits and the business case for CSR will be described in more detail below. Table II provides a synthesis of the above-discussed internal and external features of SMEs in comparison to large firms.

4. The business case for SMEs to engage in sustainable development

Before discussing the business case for SMEs, it is important to note that many SME owners may choose to use strategies for sustainable development for personal and moral reasons (Castka *et al.*, 2004). Whether they are motivated by the current trends towards sustainability in businesses or simply acting on a personal commitment to morals of their community, some SME owners will see the value – despite the difficulty to quantify it in dollar terms – of the social and environmental impacts of their business. Given that theoretical grounding of any business is to increase the monetary value of the firm, however, a clear case for how sustainable development strategies improve the economic situation of a company may help owners operationalize their values.

We acknowledge, however, that SMEs that do not use sustainability strategies could potentially still value their communities or their natural environment. Some companies may likely share a Friedmanite philosophy that if a business does well, society will benefit from the wages employees earn, the taxes businesses pay, and the services and products a business provides to a community (Friedman, 1970). This perspective,

Table II.
Features of SMEs vs large firms

Internal/external characteristics	SMEs	Large firms
Ownership structure	Often, owner-operated and fewer shareholders	Large number of "public" shareholders
Business culture	Less formal	More formal
Organizational and capital structures	Less likely to have divisional structures; capital structures are simpler	More likely to have divisional structures; capital structures are more complex
Employees' knowledge, values, skills and experience	Relative influence of key role players is higher due to the small size of SMEs	Relative influence of key role players is lower in large firms
Role of external personal relationships and social capital	Higher social capital and reliability on external personal relationships	Lower social capital and reliability on external personal relationships
Business networks	Business networks are more critical for SMEs	Business networks are important but less critical than they are for SMEs
Relationship with governments	Role of government is more localized in nature	Higher lobbying power and influence
Visibility	Less attention and exposure to media	Higher attention and attention to media

however, has been contested in recent years on the grounds that businesses must honour the contract they implicitly make with society and their host community (Ashforth and Gibbs, 1990; Deegan, 2002; Dowling and Pfeffer, 1975; Porter and Kramer, 2006). In return for political and economic stability and environmental and human resources, businesses must share the responsibility and financial cost of maintaining those resources for future generations. No matter which perspective one takes regarding this debate, the fact that there *is* a compelling business case for sustainability in SMEs means either side can benefit from engaging business strategies for sustainable development.

As with most issues concerning SMEs, the business case for sustainable development is unlikely to be the same for each business. Each company must determine its own case by learning about the social and environmental practices that are most salient for their line of business and their key stakeholders. Shorebank is a prominent example for creating its own case. This community-development financial institution uses investments by people seeking socially focused investment to fund local community redevelopment. Its conservative lending practices and involvement with the communities it serves have not only helped it avoid the financial crisis caused by sub-prime mortgages, it has also helped rescue homeowners hurt by the predatory practices that caused the crisis (Serwer, 2009).

The benefits of sustainable development business practices – be they financial or moral or both – will come at various levels and often at differing points in time. As companies select their strategies for sustainable development, they must keep in mind that while some benefits certainly may come in the short term, others may take longer. The following discussion includes possible benefits that could accrue to companies who make the concerted effort to identify the best strategies for their own businesses. Most benefits will occur with regards to stakeholders (customers and business partners, employees, and shareholders) and business practices (production, marketing, management strategy, and financial performance). However, we also acknowledge the potential business risks and challenges for SMEs that inherently come as part of engaging in sustainable development.

4.1 Stakeholders

Customers and business partners. SMEs may have two types of customers; individuals (i.e. "the public") and other businesses (including other private firms, not for profit organizations or government agencies). Engaging in sustainability practices may draw new customers from both pools as well as increase loyalty and satisfaction of existing customers. A company that can clearly communicate its goals for social and environmental impact of its product or service may be more likely to earn the trust of its community, improve community perceptions of its business, and enjoy increased number of public customers (Jenkins, 2006). Many SMEs may already engage in "silent CSR" (Luetkenhorst, 2004); they use sustainable practices without recognizing or communicating it. For example, just by being an SME, these businesses make a significant contribution the Millennium Development Goal of halving poverty levels by 2015 (Luetkenhorst, 2004; Walker and Preuss, 2008).

Proven sustainable development practices may attract larger corporations as customers, since larger firms are under increasing pressure from the public and regulators to improve the social and environmental impact of their supply chains (Clemens, 2006; Luetkenhorst, 2004). In addition to improving social and environmental performance, Walker and Preuss (2008) found that sourcing from SMEs also helps larger firms manage governance issues. Their study investigated whether the purchasing behaviour of government and healthcare agencies in the UK could promote sustainable development. Walker and Preuss (2008) found that bringing SMEs into the supply chain can help public sector firms improve their environmental performance, especially regarding the provisions of organic food and environmental services. Environmentally friendly products demanded at a larger scale, such as recycled paper and alternative fuels, were more challenging to source through SMEs because many larger companies already provide such products, and can offer a lower price due to economies of scale. However, they note that there are still many opportunities for environmental and social innovation, and the capacity of many SMEs to innovate quickly may allow them to be first movers as opportunities arise.

Some business insurers are starting to give reduced rates to companies who effectively manage environmental and social threats (Van Berckelaer, 1993, as cited in Clemens, 2006). Clemens notes that there may be two sides to such "green insurance". In order to meet environmental standards set by insurers, some companies may incur costs, which would reduce the financial benefit they may have sought by engaging sustainable practices (Clemens, 2006). On the other hand, companies that can anticipate such pressures from their insurance companies and can cost-effectively make changes in their operations could stand to benefit from these new green insurance policies.

Employees. Perhaps, one the best arguments for sustainable development in SMEs is the potential to attract and retain better employees (Jenkins, 2004; Branco and Rodrigues, 2006; Battacharya *et al.*, 2008) and improve organizational culture. SMEs are actually often lauded for their job creation (Jenkins, 2004). Studies of environmental performance among small- to medium-sized electronics companies found that intellectual capital (Hayton, 2005) or even more specifically, "green intellectual capital" (Chen, 2008) can be key to establishing a competitive advantage. Businesses with employees trained in environmental technologies and systems were better at finding cost savings from energy efficient design improvements, and as a result were more efficient than their competitors (Chen, 2008). The reverse may also be true; employees' lack of awareness or understanding of the benefits and availability of sustainable development strategies may prevent SMEs from considering, implementing, and finding success with sustainable development strategies (Hillary, 2004). Such observations are likely to be found for any new project in a company. Indeed, Barney (1991) lists lack of "imitability" as key to sustaining competitive advantage. However, protecting or increasing intellectual capital among their staff may not be a priority to an SME manager when hiring or attempting to retain employees. Knowledge about environmental or social issues in relation to food production, for example, may not seem to be an obvious benefit to a restaurant owner during the hiring process.

The importance of intellectual capital to achieving and sustaining competitive advantage may be especially salient for small firms, which may have the capacity to make changes to retain key employees with important intellectual capital (Battacharya *et al.*, 2008). Furthermore, efforts to remain on the competitive edge could promote innovation regarding social and environmental practices and keep firms ahead of their competitors (Reinhardt, 1999; Hoffman, 2005). From the perspective of doing what is best for society and the environment, SMEs who have discovered a "green advantage" may then share that with their competitors. The risk is losing their competitive advantage. However, if managed well, they could use it to keep their own firm ahead; sell rights to those products or services, license them out, or lobby local governments to require their sector to adopt those practices and enjoy first-mover advantage (Reinhardt, 1999; Hoffman, 2005).

Shareholders. In contrast to larger firms, which may have hundreds of thousands of shareholders, SMEs – especially privately held SMEs – are likely to only have a few shareholders, and in some cases only one, the owner-operator. As a result, the dynamics that are at play between the public and large corporations may not operate at the level of SMEs. The main goal of most shareholders, however, is still to see an increase in the value of their investment. Beyond the non-economic value that comes with engaging sustainability, firms that take the time to identify quality business strategies for sustainable development are expected to see financial reward in due time. The challenge will be to convince shareholders to wait long enough to see the gains that can come from engaging a mid- to long-term sustainability strategy. As noted earlier, ShoreBank is a good example to illustrate this practice. Unlike typical financial institutions that sell loans for securitization, Shorebank retains its loans on their balance sheets (Beans and Martin, 2008). This financial institution refused to change its lending and development practices even though it was losing clients to competitors offering sub-prime loans (Serwer, 2009). Retaining the sustainability focus created at its founding in 1973 helped Shorebank survive and prosper during the sub-prime financial crisis.

As will be described below, there are many easily implemented strategies that can translate into immediate cost reduction, such as improved energy efficiency or recycling.

4.2 Product

Often, the first target that comes to mind when seeking a way to improve a firm's environmental and social performance is the products or services they offer. The literature debates the efficacy of strategies that aim to attract customers based on offering products with better environmental and social profiles. Product or niche differentiation can be difficult to achieve on any basis; environmental and social profiles are no exception (Reinhardt, 1998; Peattie, 2001). However, consumer behaviour is ever-evolving, and recently some companies (e.g. Patagonia) have been successful in appealing to consumers who prioritize social and environmental impacts over cost (Chouinard, 2006).

Owing to their small size, SMEs may be flexible enough to move quickly to offer "greener" products in order to appeal to consumers who are increasingly concerned with environmental or social issues. One example is Revolution Foods, a company based in Oakland, California that provides meals to schoolchildren that are made from "local, organic ingredients whenever possible" (Kirsten Tobey, Co-Founder, Revolution Foods). Co-founders Kirsten Tobey and Kristin Richmond conducted interviews with teachers, students, families and school leaders from over 40 schools to understand the needs and demands for fresh, healthy food at school on a daily basis. They believe that providing such "food service and responsible practices go hand-in-hand" and constitute a "revolution" in the school system in general (Revolution Foods, 2010).

There may have been plenty of companies that supplied school lunch programs, but none of them were doing what Revolution Foods proposed. Indeed, if they were even to pilot a program like it, they risk cannibalizing their existing school lunch programs. Tobey's team invested in developing meals that use as many organic and locally grown ingredients as possible – a requirement that no doubt drives up the cost of their supplies. The profit margin on such a model may be much too small for a company that is already pursuing another model to produce school lunch programs. Larger companies are less likely to have the manoeuvrability to spend time evaluating how they could improve their final products or change what already seemed to please their clients.

4.3 Production

A second target is the cost savings from implementing energy efficient production. Aragon-Correa *et al.* (2008) list this strategy as one of the first that an SME should try. Research done by the Carbon Trust in the UK found that reducing energy consumption by 10-20 percent translates to the same benefit as a 5 percent increase in sales (Bradford and Fraser, 2008). Although such actions are simple and not as glamorous as more innovative sustainability strategies, the bottom line is that they do reduce costs through energy savings, and the actions of many SMEs each deciding to reduce energy consumption does make a difference (Monbiot and Prescott, 2007). Simpson *et al.* (2004) found that many SMEs in the UK were motivated to use sustainable development by reducing costs through energy efficiency, and found such savings through "efficiency drives, in meeting environmental legislation and from greater energy efficiency" (2004, p. 168).

Setting reduced energy targets can also be a way to promote innovation (Bradford and Fraser, 2008; Castka *et al.*, 2004; Porter and Kramer, 2006). Simpson *et al.*'s (2004, p. 168) UK study of SMEs found that 60 percent of companies surveyed felt that efforts to reduce energy consumption provided opportunities for innovation, and that the best candidates for cost savings are manufacturing firms:

> These companies were able to gain a competitive advantage via improved energy efficiency, reduced waste, increased recycling, increased quality, better environmental credentials, greater customer satisfaction, new business opportunities, gaining local community support, gaining increased staff commitment, positive pressure group relations, improved media coverage or a combination of these benefits.

Given the predictions that the recent increases in energy prices seen world-wide will not end anytime soon, strategies that reduce energy consumption are likely to help both a company's bottom line as well as environmental performance.

Markets. Even, established SMEs are on the lookout for new opportunities emerging in new markets in order to ensure future survival. As the importance of social and environmental preservation becomes more broadly understood in the public sphere, new markets are developing to meet the newly emerging sets of needs, wants and tastes (Monbiot and Prescott, 2007; Sand, 2001). SMEs that keep track of the trends emerging from this groundswell of interest in social and environmental sustainability may be able to identify new opportunities, and – due to their small size – may also be able to organize more quickly than larger companies to take advantage of new markets (Baron *et al.*, 2008; Esty and Winston, 2006; Jenkins, 2006). Furthermore, being able to offer sustainable products, processes or services may improve a company's positioning in existing markets (Jenkins, 2006).

Management strategy. Engaging sustainable development concepts can help companies improve their management strategies through at least two ways:

(1) acquiring competitive advantage; and

(2) managing risk.

Companies can obtain a competitive edge through achieving knowledge or skills that other companies do not have. That is, using a sustainability lens may offer a perspective on resources and opportunities that otherwise may have lain uncovered (Chen, 2008; Etzion, 2007; Porter and Kramer, 2006). Again, due to their small size, SMEs may have the chance to enjoy "first mover advantage" if they can take advantage of new opportunities arising in sustainable development before larger firms can get organized (Wicklund and Shepherd, 2003). A study in the Netherlands suggests that as sustainability strategies become one of the company's core competencies, engaging such strategies "can be a positive factor in overall strategies that rely on the 'high road' towards competitiveness" (Luetkenhorst, 2004, p. 165).

Borga *et al.* (2009) argue that a sustainability-focused strategy for small businesses can help firms attract and retain employees, build a high level of commitment with its customers, and strengthen relationships with other stakeholders such as suppliers and the community. Greyston Bakery is one example of a firm using sustainability as a strategy to create a unique niche in social products. This firm produces the "Do-Goodies" line of bakery products and has used its sustainability focus to win an exclusive supplier contract to Ben & Jerry's (B Corporation, 2009).

The sustainability lens can help firms identify new, more effective strategies that help them obtain a competitive advantage without having to stray over the line between good and bad business ethics. Indeed, a benefit to the broad scope of sustainability is that there are likely to be many effective strategies. There may be endless possibility for companies to develop individual core competencies in relation to their business and sustainability, which will help them obtain and maintain a competitive advantage in their markets.

Firm financial performance. Many studies have linked firm financial performance (FFP) to firms' performance regarding social and environmental sustainability (Castka *et al.*, 2004; Clemens, 2006; Niehm *et al.*, 2007; Orlitzky, 2001). Critics suggest that firm size may determine the financial success of adopting sustainable practices due to economies of scale, better control over external stakeholders and resources, and higher media profile (which may attract higher quality employees); larger firms that use sustainable practices will achieve higher financial returns (Orlitzky, 2001). In a meta-analysis of studies that examine the relationship between firm size and "corporate social performance" (CSP), Orlitzky (2001) found that the size of the firm does not determine whether there is a positive relationship between financial and social performance. He did not investigate whether firm size was a moderator of the relationship between financial and social performance (i.e. variations in size would impact the size of relationship between financial and social performance). However, Orlitzky (2001) posits that the size of the relationship between CSP financial and social performance is less likely to be determined by size than by the quality, mission fit and implementation of the business strategies for sustainable development that a firm pursues.

Clemens (2006) notes the lack of research regarding FFP and environmental performance for SMEs. His study of US steel yards revealed two encouraging observations:

(1) a positive relationship between environmental and financial performance for small firms; and

(2) a positive relationship between green economic incentives set by regulators and financial performance for small firms.

Niehm *et al.* (2007) found that family-owned businesses with higher reported community social responsibility enjoyed better financial performance than those with weaker support for their communities. Clemens (2006) also noted research by Christmann (2000) and Eisenhardt and Martin (2000) who identified the importance of slack time in the short term to allow firms to identify sustainable strategies and to update their practices. SMEs as well as large firms could lobby governments for support during such periods in order to promote the development of sustainable practices and position them for financial gain in the medium and long term.

4.4 Business risks and challenges

Risk management is important to any company. Managing risks in relation to direct social or environmental threats has been a recognized feature of organizational management literature for decades (Zadek, 2004). Recognizing that threats to business may emerge from more nuanced social or environmental problems or opportunities, however, is not likely to be standard procedure for most SME managers. Increasing threats from advocacy groups emerge as these groups demand that small businesses – not just media-weary giants like Nike or ExxonMobil – address their social and environmental impacts (Esty and Winston, 2006). Thanks to rapid improvements in information systems and communication technologies, "even tiny enterprises now find it hard to fly under the radar" (Esty and Winston, 2006, p. 19). Keeping track of trends in the focus of advocacy groups may help SMEs avoid attracting negative attention from such groups.

Challenges to businesses may also come from government regulations regarding pollution or production practices (Luetkenhorst, 2004). Regulators in Europe increasingly include SMEs within the scope of new legislation that require reduced negative social and environmental impacts (Castka *et al.*, 2004; Esty and Winston, 2006). Controls put in place to reduce pollution or practices with negative social impacts can lead to costly production changes for large and small firms alike (Castka *et al.*, 2004). Large corporations have created strategies for managing government involvement in their business practices; as described above, companies with greener technologies may be able to lobby governments to require that the industry adopt those practices (Kemp, 2000). The company that already has green practices may benefit from being the first mover into the new requirements by licensing their technology or simply gaining market share on the newly rearranged playing field (Kemp, 2000). On the upside, SMEs may also learn to benefit from changes in regulations by working to adjust their business practices in anticipation of such controls, and may network together to seek government support in the form of tax breaks or subsidies (Luetkenhorst, 2004). Finally, SMEs are also disadvantaged by the lack of information about the changes in the marketplace that can make the pursuit of sustainability an opportunity to become an innovator and to inspire employees (Condon, 2004).

As environmental and social concerns become more and more important to global societies, failure to recognize such issues as key business concerns could expose SMEs to business-threatening risks. Condon (2004, p. 8) concludes that:

> [...] working with SMEs continues to challenge educators and environmentalists and [research] has indicated that this will continue unless sufficient support and advice is provided to facilitate long-term behavioral change towards more sustainable practices.

We provide a visual depiction of the benefits and risks/challenges for SMEs to engage in sustainable development in Figure 1.

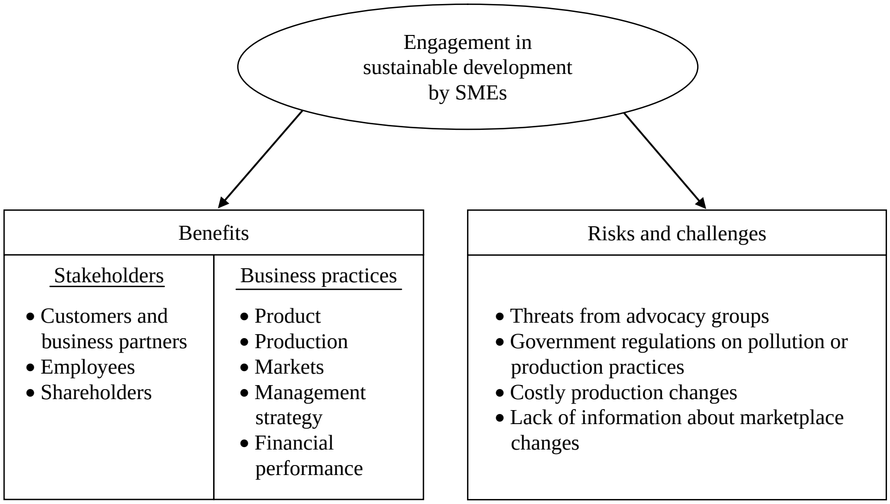

Figure 1.
The business case for SMEs to engage in sustainable development

5. Conclusion

The purpose of this paper was to review of the current debates and opportunities in business strategies for sustainable development, and apply them to the realities of business operations for SMEs. The sources used here are not exhaustive and some relevant sources may have been missed. Our main conclusions from this review are that SMEs do indeed need particular attention when it comes to business strategies for sustainable development, since the business case is not quite the same as for larger firms. Furthermore, tools that are developed to support sustainability in SMEs need to recognize that these companies have different resources and profiles than larger firms. Indeed, the scale of diversity among SMEs reflects the scale of diversity of business ideas that are put into practice across the globe. A company's orientation regarding sustainability is likely to vary significantly even from close competitors. Sustainable development as a concept captures most issues facing our societies, which means there are endless possibilities for companies to find strategies that will impact – and hopefully improve – their social and environmental performance. The best strategy for sustainability that a business can find will be one that not only can be incorporated into a company's overall business strategy, but one that advances the business strategy, and helps the company identify new opportunities for business development. In fact, this diversity of opportunities is where there is hope for turning the current world trajectory towards healthy and resilient human and natural communities.

Businesses are a sum of parts, just as a bucket of water is nothing but a collection of individual raindrops. The impact of the bucket of water gently poured on a garden is to make it grow; the impact of the collective humanity represented in any organization – for profit or not for profit, large or small, public or private – is what we see in our world today, and what we will see in our future. To say that the "business of business is business" may give individuals who work for corporations the permission to duck their heads and let "the rest of us" handle the world's problems. Such a split is a false opposition. Any business should keep an eye on what is happening in its external environment, in both the short and the long term. Engaging in strategies for sustainable development requires that businesses do nothing more than to recognize that the well-being of their community and natural resources has everything to do with the well-being of their businesses, to plan accordingly, and reap the rewards. Given that environmental and social change is inevitable, those businesses that are prepared will be those who survive and lead their industries. The next step is for SMEs to adopt sustainable business practices not just because it will drive their businesses to the leading edge, but because the planet matters to them as businesses, as individuals, and members of their community.

Notes

1. www.worldpublicopinion.org/pipa/pdf/mar07/CCGA+_ClimateChange_article.pdf
2. Definitions of SMEs vary, although most concern number of employees or budget size. Industry Canada defines an SME as any business with fewer than 500 employees (Industry Canada, 2008).
3. In Canada, small businesses (less than 100 employees) contribute an average of 30 percent of the Canadian GDP and employ 48 percent of the total labour force in the private sector while medium-sized businesses employ 16 percent (Industry Canada, 2008). This means that SMEs employ almost two-thirds (64 percent) of Canadians working in the private sector. Not all of SMEs contributions are positive, however. Rutherfoord *et al.* (2000) refer to a British study that estimates SMEs are responsible for 70 percent of industrial pollution in the UK.
4. Friedman also argued that the chief role of business in relation to social and environmental needs is to create jobs and products that would drive the economy and that asking businesses to manage social and environmental issues would expose them to an undue economic burden that could their businesses to fail.
5. It is also important to acknowledge Ullman's (1985) three-dimensional conceptual model of corporate social responsibility and sustainability grounded in stakeholder theory, which suggests that: (1) stakeholder power will drive the emphasis on meeting the intensity of stakeholder demands; (2) firm strategic posture describes the mode of response of a firm's decision makers in regards to social demands; and (3) the firm's past and current economic performance must be taken into account.
6. See Peltzman (1976) and Stigler (1971) for a more detailed discussion on the theory of economic regulation.
7. Social capital can take a long time to build. It comes from relationships that have built trust and mutual understanding over time and can be a key resource for SMEs. Hence, companies with strong support from their communities are more likely to survive times of financial strain (Niehm *et al.*, 2007).

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