MODELLING SUSTAINABILITY OF SMEs
BUSINESS IN THE NEW ECONOMIC TRANSITION

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ABSTRACT

Green management is nowadays synonym with the small medium enterprises (SMEs). It has challenged these types of companies to transform into green business and urged them to start making green products. Many entrepreneurs are aware that in order to move on, they somehow need to acquire a new way of doing business, more relevance to their future growth and existence. Organizational processes should start using green resources to comply with the green principles that stretched beyond the nature of product life cycle concerns. It now becomes critical to built-in sustainable development around the business ecosystem. The significant improvement made on the entrepreneurial activities should result in safeguarding our Mother Nature and the future generation survival. Hence, the paper intended to discuss the major influences on the SMEs to take up the green entrepreneurship. Consequently, the green economic transition also emphasized the needs to adopt green business strategy for the business competitive advantage. Overcoming the current economic setback must be in-line with the performance of a sustainable business.

Keywords: Sustainable, green, business, strategy, entrepreneurship.

Introduction

The propagation of new policies by governments, international agencies or their joined forces on a range of green initiatives has helped to re-launch global economic growth while maintaining ecosystem remained as the top priority (Bina, 2011). When Malaysia endorsed its National Green Technology Policy (NGTP) on 24 July 2009, small medium enterprises (SMEs) were relief and anxious to learn how the green economic agenda could benefit their business. This is important since failure of the world financial system revamp has prolonged the economic downturn that severely affected most business and the people (Barath, 2011). The crisis has even dragged the European Union countries into the brink of bankruptcy. Green management emerged at the right time mainly to help enterprises to focus their attention on how to “go green”. It tries to put the environmental issues as a major responsibility of every business. Enterprises responses have triggered the governments to analyze what should be provided in order to move SMEs business toward sustainable development (Schaper, 2010). In term of their operations, environmental collaboration was identified as the main relational capability for the formulation and execution of strategies (Chin et al., 2015). It could also be appropriate to look for other performance indicators to measure the business growth. Different benchmarks such as innovative and creative index might be used to quantify enterprises’ effectiveness (Seeberg & Monauni, 2011). Apart from that, it is obvious that each industry is now facing its own unique challenge due to the change and variety of green consumer expectations. Thus, the change of business strategy might lead to the increase in market shares (Clare et al., 2006). New tool to market new products like using the social media would be able to create stakeholders attention, interest, desire and action (Hassan et al., 2015). In a study conducted in Malaysia, the small medium-sized enterprises still held the rethoric that they were unlikely to cause an environmental impact (Yacob et al., 2013). Of course, such thinking is not welcome for the SMEs. SMEs need to adopt relevance strategy since their business establishment is the largest in the country. At a different rate of success, green strategy should be expected to create a huge business opportunity that warrants for the enterprises future survival.

THE ENVIRONMENTAL PRESSURE ON ENTERPRISES

“Rio+20 as a unique opportunity to make the “change-of-course” called for by business leaders at the Earth Summit in 1992.”

- Maurice F. Strong (Former Secretary-General, “Earth Summit” [1992]; UN Conference on Human Environment [1972] and Executive Director, UNEP [1972-76])

The world climate change and natural resources scarcity have challenged for a common global remedial actions (Olson, 2008). Unlike the previous catastrophes (i.e. HIV, H1N1 and tsunami), unfortunately the environmental issues have yet to find a global consensus. In other words, it is up to every nation to take the necessary actions to protect its own environmental well-being. At the end of the Rio Earth Summit in 1992, green business was identified as the answer to the global warming. The green management concept has particularly proposed the solutions of green technology, green products and green services to the world. However, it was never easy to implement a totally new thing. The Kyoto Protocol that took placed in 1997 has also failed to push green management and triple-bottom-line goals for its members. Finally though, the industrialized nations have signed a non-binding agreement at the Copenhagen Accord 2009 that aimed to reduce their green-house gases (GHG) emission. The following Table 1 extracted from the summit white paper summarized the United Nation’s early efforts to contain environmental issues that gradually pave ways for international trade and business actions on sustainable development.

Table 1: The United Nation’s Environmental Resolutions Leading toward Business Acumen

<table>
<thead>
<tr>
<th>Efforts</th>
<th>Outcomes and Resolutions</th>
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...
1. Conference on the Human Environment (1972) in Stockholm Recognizing environmental issue as an important domestic consideration


3. International Chamber of Commerce industry forum on environment and development 1991 (27-29 May) in Rio Launched of Business Charter for Sustainable development to discuss international trade and environmental issue

4. United Nations Conference on Environmental Development (UNCED) or the Earth Summit 1992 (3-14 June) in Rio (major aims to eradicate pollution, poverty, population and waste management through environmental actions) a) Adoption of two non-binding principles: (1) “Rio Declaration” – environmental policy declaration; (2) “Agenda 21” – activities (of business) to clean up environment and encourage developing countries to incorporate environmental consideration in the economic development process b) Formation of United Nation Commission on Sustainable Development to monitor the nations’ compliance to the Rio agreements c) Organization for Economic Cooperation and Development (OECD) and Secretariat of the General Agreement on Tariff and Trade (GATT) have begun focus on environmental issue as the key element in international trade


The roles of SMEs business were also found significant during the energy crisis. In the U.S. in 1974, such crisis had badly hit the economic and threatened the people’s survival. It was indeed the entrepreneurs’ willingness to reduce the energy consumption that helped eased the effects on the nation (Sears et al., 1978). Scientists and economists argued that as the planet’s major natural resources were consumed, there would be severe effects on the society and the environment (El-Kafafi & Liddle, 2011). The problem arise when big companies’ were reluctant to discuss the environmental problems they caused openly, in meetings or even in reports (Olson, 2008). These organizations tried to avoid their social responsibilities commitment due to the negative environmental impacts. Today, the SMEs could face the same issues as they are being developed. SMEs have very limited resources and at the same time have to deal with the credits availability, institutional improvement and international supports problems. They found it very challenging to manage social sustainable capacity within the start-up capital, competition, manpower skills and business facilities (Lee & Tai, 2010; Sriram & Mersha, 2010). As a result, the greenhouse gases (GHG) problem which has caused extensive environmental damages around the world might not be realistic enough to drive these enterprises to make significant changes and adopt green business. Majority companies in Europe, Northern America and a few Asian countries like Japan, Taiwan and Korea have shown a significant growing number of green business but regretfully not in Malaysia. The law has not come into force just yet. There is a big contrast with the African enterprises who despite their many shortcomings, they were very passionate and determined to take on the new business opportunities for success (Sriram & Mersha, 2010). Hence, the intervention from political or higher level authorities could provide the green awareness as needed to support the leadership, policies and commitment of the green economy. This has been proven by positive response from the many developed countries (Huhtanen, 2011).

Majority of SMEs claimed they really understood the potential risks to the environment from their processes and therefore did not have to depend on the environmental regulations (Yacob et al., 2013). Unfortunately, the lack of knowledge about sustainability issues has put business under dilemma to appreciate their new strategic roles. They could misunderstand the significance of the current issues affecting consumers. It is necessary to relate the enterprise policies with the practical implications of the institutional improvement (Lee & Tai, 2010). An enterprise now has direct obligation not only to stakeholders but must act responsively to meet the social, environmental and economic sustainability goals. A forward-moving entrepreneurs should then look into positive suggestions and integrate them within the pretext of green business policy (Davari et al., 2012). Enterprises would want to increase social survival (quality of life) by minimizing the environmental damages (pollution) through economic growth (sustainable practice) as their ultimate goals. Essential programs are designed to help achieve organizational objectives through green management system comprising of good leadership, strategies, activities and performance that enhance sustainability of business (Nguyen & Slater, 2010).

THE SUSTAINABLE BUSINESS PERFORMANCE

Proposition-1: Sustainable business performance fulfils stakeholders’ expectation.

Apart from the economic goal, a typical large company always behave more serious in its social-environmental responsibilities (Becherer & Helms, 2014). However, we felt constantly doubtful whether the same missions have also been accomplished by the small medium enterprises. Since Malaysia has been predicted to become a net oil importer by 2030 (Oh et al., 2009), the quest to stabilize energy consumption and safeguard the environment has been the most important responsibility of the government. At the United Nations Framework on Climate Change Conference in December 2009, the Prime Minister of Malaysia has pledged for an ambitious 40% carbon dioxide emission cut by 2020. However, it is regretful to say that the new economic has no specific characterization for the business communities to embark on (www.earthsummit2012.org). Government interference is required to provide a necessary framework for research, development and commercialization to support a successful green economic
A consumer behaviour study by McKinsey (2007) has identified five barriers to buying green products which included the consumers’ awareness of the products existence, the products ability to get the job done; the products demonstration of the green reputation; the products value for money, and finally the consumers’ willingness to purchase them. At the same time, when

(Huhtanen, 2011). Therefore, the growth of green business among the SMEs must protect the environmental impacts from threatening the human survival. These impacts are shown in the following Table 2.

Table 2: The Reported Impacts of the Global Economic Crisis

<table>
<thead>
<tr>
<th>Crisis</th>
<th>Reported by</th>
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<tr>
<td>1. Rising fossil-fuel energy use will lead to irreversible and potentially catastrophic climate change</td>
<td>International Energy Agency</td>
</tr>
<tr>
<td>2. 2.8 billion people survive on less than $2/day</td>
<td>United Nations</td>
</tr>
<tr>
<td>3. The 12 percent of the world’s population that lives in North America and Western Europe accounts for 60 percent of private consumption spending</td>
<td>World Watch Institute</td>
</tr>
<tr>
<td>4. Human activities have taken the planet to the edge of a massive wave of species extinctions</td>
<td>Millennium Ecosystem Assessment</td>
</tr>
<tr>
<td>5. The richest 1% of the US population control one-third of US net worth</td>
<td>Occupy Movement</td>
</tr>
</tbody>
</table>

The government of Malaysia shall ensure it moves in the right strategic direction of the economic reform and even dare to make radical changes to boost local enterprises competitiveness and sustainability. Moreover, the small medium enterprises (SMEs) which have been lauded as an engine of economic development should be ready to create most of the green jobs for many countries (Sriram & Mersha, 2010). The Secretary General of the United Nation has announced four sustainable development strands for further research (UNCSD, 2012) including the market failure (internalization of externalities), the systemic economic (structure and impact), the social goals (reconciliation with economic policy objectives) and the macroeconomic framework (dynamic goals strategy). The understanding of the real green issues will be the turning point in exploring new business opportunities and achieving sustainable business. Otherwise, enterprises that have changed in their approaches might find it difficult to develop green strategy to become green enterprises (Olson, 2008). Furthermore, Pane Haden et al. (2009) has defined green management as an organizational-wide process of applying innovation to achieve sustainability, waste reduction, social responsibility, and competitive advantage. Affected business can be revived via continuous learning and development of integrated organizational and sustainable goals and strategies. The success of a new business start-up also depends on the personality factors such as individuals’ drive, competency and availability of resources (Sriram & Mersha, 2010). Governments created microeconomic program to help micro-businesses expanded and developed with the economic growth (Abdur Rouf, 2012). However, it should only be funded to those who practiced safe and eco-friendly businesses to promote sustainable business development. Sustainable business also means that the human interaction ecosystem can be stretched beyond the green community norms and include organizations, suppliers, consumers, green technology and green products. Research claimed that consumers strongly favor self-regulation by enterprises over the imposition of control by the government. Thus, the knowledge about green products perceptions and predictions enabled top management to identify and implement better strategies that may influence and change consumers attitude (D’Souza et al., 2006). In view of this, Yacob et al. (2013) asserted that the inter-relationship between SMEs attitude and action did not translate into a greater likelihood in their environmental practices. There were lack of anxieties when handling the wastes, operations or designs issues. These companies could have been so lucky this far if the environmental management system was in place. Therefore, strategizing green business is becoming crucial to compliment the holistic knowledge of green management in the challenging business competitions. In other words, the management team will be forced to drive green awareness across the organization to fulfill stakeholders’ expectations in attaining business profits.

THE GREEN BUSINESS STRATEGY

Proposition-2: Green business strategy improves managerial decisions making process.

Enterprises in Malaysia are now facing with new business challenges due to the on-going energy crisis causing serious environmental damage. In order to maintain current levels of lifestyle, the world will look more into technology and science for the answers (Tesero, 2006). The global warming issue that triggered climate change has significantly altered the way we live our life today. As the main source of energy, oil without doubt plays a very important part in determining the socio-economic and political stability of a country. Oil helps powered the industries (to move equipment, machineries and transportation) but unfortunately many did not notice that the harmful gases released since the beginning of industrial evolution have brought astounding disaster to us. When the natural ecosystem became unstable, there would be negative interaction among all living organisms (including human being) and their surroundings. The excessive carbon equivalent (CO2-e) discharged from fossil fuels burning severely disrupted the ozone protective layer. In exchanged, the weather turned extremely hot. Consequently, environmental pollution occurrence were unbearable and instigated melting glacier, rising of sea water level, flooding, drought and finally spreading diseases around every continent; risking all life forms on the land, sea and air. On the other hand, green products will raise concerns about how true they are environmentally friendly and whether they will be freed from greenhouse gases emissions. At this point, consumers’ paradigm has to be changed considerably for survival. Green awareness must start somewhere to avoid further depletion of natural resources from conventional products consumption.

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consumers insist on products being environmentally safe, the fundamental expectation should be to satisfy them without compromising the quality or ethical rising of prices (D’Souza et al., 2006). People must think green. Even demand of food and carbon-particle free products from suppliers’ chain shall carry strict green standards. In other words, consumers’ purchase should reflect the use of green ingredients (components) and the application of clean process (clean technology) to minimize the CO2-e impact to the earth. As enterprises struggle to instill consumers’ awareness, everyone is challenged to take the first step to utilize green products. Thus, a constructive contribution to sustainable development shall be achieved (El-Kafafi & Liddle, 2011). A study across 650 multi-disciplinary articles from engineering, management and policy studies revealed some white spots in the environmental research (Baumann et al. 2002). Business should realize that all feedbacks about eco-friendly products and services will reflect the growing of consumers’ demand (Schaper, 2002). Locally though, majority of subcontracted products have conformed to the international environmental standards particularly in the electronic products assembly and original equipment manufacturing (OEM). The compliance is usually required by overseas governments in Europe and Japan who have long established green purchasing procedures. The green products identification has been enhanced with eco-labelling to inform consumers about their safe content resulting from various tests conducted. In Malaysia however, many SMEs so called “green practice” takes place in the village-industry producing food and “halal” products besides the agricultural organic sector (excluding fruits plantation that are still polluted with pesticides). Companies’ activities generally run on processes, wastes, emissions, purchasing, transportation, visual and noise disturbance; and etc. that polluted the environment (Yacob et al., 2013). The control mechanisms should go beyond waste management, design and environmental management practices to reduce the impacts. Since business survival for future generation is highly dependent on the SMEs roles, innovation capacity will also help to increase the level of stakeholders’ awareness toward green products consumption. In this case, one person can surely make a significant difference no matter how much they participate.

THE RESOURCES MANAGEMENT

Proposition-3: Resources management enhances business innovations, skills and capabilities.

Nguyen and Slater (2010) asserted that green business creation has shown exponential increase relationship between rapid technology changed and innovation rate. According to the World Energy Outlook (2009), Malaysia’s energy demand has been forecasted to double by 2030 at 216 TWh, with 10% target contribution from renewable energy or 350 MW grid-connected of power generation in 2010. Unfortunately, there has only been small initiative made to tap hydro and solar sources to replace the oil and gas depletion that is way below the target set under the 9th Malaysia Plan (2006–2010). The renewable energy sector is supposed to stimulate more green-collar jobs in commercial and business support industries. Eventually, it tries to achieve the objective of the new economic policy (Malaysian Business, Sept. 2010). In relation to this, it is understood that the investment needed to establish green technology infrastructure to generate efficient energy for is too costly, making green power-plant not a viable option to be developed across the nation. Apart from that, administrative barriers and marketing hurdles are the other serious non-economic obstacles for large-scale growth of the renewable energy sector (Lamers, 2009). Optionally, scientists from developed countries innovatively attempted on isolated green technology solar roofing system, wind-mill system and also water-wheel systems for clean electricity supply. They went further to develop hybrid and electric vehicles for automotive development even though it was found uneconomical to mass-produce such high-end products without a proper infrastructure. On the other hand, it may still not able to encourage people to buy high-technology green products at this economic juncture. Technological clairvoyance alone is far from enabling technology entrepreneurs to succeed because technology, even a good one, does not sell itself (Andersson et al., 2010). Products innovation must be well managed to induce consumers’ interest in green products. Enterprises need positive mindsets to capture green opportunities and challenges even before they get real with the business.

Nonetheless, many small medium enterprises (SMEs) think they are too small for the green changes. Karlsson and Ahlstrom (1997) emphasized that product development strategies would depend on the combination of enterprises capabilities, customers’ wants and the technology used. Today, almost all home and office products ranging from IT, audio-visual, electronic equipment and electrical appliance are fitted with green parts, components and microchips as long as they conform to the international standards on energy saving and preservation, less CO2 emission, use of recyclable material and restriction use of hazardous substances (RoHS). Owing to strict environmental control, consumable products of agricultural-based, food and medicine must also comply with biodegradation standards which break down particles naturally to prevent their wastes from causing pollution to the environment. An investigation by Nguyen and Slater (2010) discussed how business innovation in New Zealand contributes toward sustainable development across several key areas like agriculture, biotechnology, consumer products, energy and life sciences. This implies that being innovative is not an option anymore or enterprises could risk being non-competitive. By now, the enterprises should stop doing routine activities and must seize the green opportunities to double their business profits. Innovation would make it easier to obtain new product recognition in the marketplace although it would still be challenging to assume its performance acceptance (Jones et al., 2008). Product innovation should never be a hindrance to succeed in green venture. In order to keep-up with the stiff competition, enterprises need to strategize and monitor innovation programs effectively which is time and money consuming until they really see the outcomes. Developing nations formed partnerships to acquire new approaches of the science-based innovations (Teresko, 2006). The environmentally friendly strategies for green entrepreneurship required expertise, internal resources, competitiveness factors and environmental hostility (Becherer & Helms, 2014). Business achievements should be closely related to the environmental goals which could enhance the cash flow, market share, sales and earnings. Regrettably, Malaysian business is not adaptive enough toward the positive green products outlook despite the global efforts to phase-out conventional products. There are already many green business solutions available in global marketplace. They help triggered consumers about the benefits of consuming green products. Shops and supermarkets have started accommodating eco-products sections and sell a multitude of eco-friendly products of varying quality including energy saving devices, chemical free paint, books and stationaries, organic food, medicines, clothes, cook-ware, among others. If
enterprises are willing to put their creativity to work, green will become the safest products on earth that people can accept and will want to buy.

CONCLUSION

Green and eco-friendly products are not luxury anymore as they were perceived a decade ago. They have now become a way of life. The change of business directions is inevitable among developing nations. It was learnt that, as the government policies improved, entrepreneurial initiatives can also be focused to reduce the environmental impacts on the economics and societies (Sriram & Mersha 2010). The adoption of sustainable business framework can improve business efficiency and products marketability (Schaper, 2010). By adopting the way large companies dealt with the problems, the paper deduced three main variables for the SMEs’ sustainable business model namely the sustainable business performance, green business strategy and resources management. These are the major factors influencing the green business transformation process of the SMEs.

According to Albino et al. (2009), the presence of appropriate green strategy for the operations and product development would help enterprises faced the environmental challenges effectively. Noci and Verganti (1999) asserted that product innovation activities could cause a strategic implication to the SME framework that demonstrates strong determination to succeed in green business. Eventually, it will answer the green business readiness question of the SMEs. The adoption of green business model should be able to attain a sustainable and competitive business environment for the future survival of small medium enterprises (SMEs) in Malaysia. By and large, it is concluded that the small medium enterprises need the strength of their internal resources. This supposed to be unique for any individual company which accounted for a unique decision making and realistic goals. The resource are mostly related to the company’s skills and capabilities offerings in the green technology, marketing and managerial know-how in relation to the environmental issues and solutions. The more expertise there is, the better the understanding about the green strategy that can be formalized (Becherer & Helms, 2014).

Green economic becomes the new target to achieve by local and global business competitions. The stakeholders’ network of suppliers, consumers, products and technology, among others; must also show the desired results and performance of the green entrepreneurship. By adapting to the principles of sustainable development, green technology producers and manufacturers roles are both important in carrying out the green jobs particularly guided by a sound green business model. Nevertheless, Sundin (2011) stresses that sustainability studies should not be misguided by false emergence of entrepreneurship notions and consequently needs to be proven by empirical facts. Despite other solutions offered by different researchers, the dimensions factors will need further clarification. It is important to present the data collection and quantify the result at the next stage of the study.

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