

## SUSTAINABILITY STRATEGY IN SMALL AND MEDIUM-SIZED ENTERPRISE IN CHINA

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### Abstract

**Purpose-** Sustainability is increasingly gaining wide attention in the business context, but it still needs to be enhanced in some areas such as the severe environmental problem arises in the course of quick development of Small, medium-sized enterprises (SMEs). However, SMEs is an important component of the national economy, playing an important role in social economic development, sustainability is the consequence of the strategic choices for the SMEs growth. The purpose of this paper is to analyse the concept of sustainability and provide the alternative sustainability strategies solution to SMEs.

**Methodology-** the research is an explorative introductory study based on the previous literature, statistics and document on sustainability and current situation of SMEs.

**Findings-**Through analysing the concepts of sustainability and its significances for enterprises business operations, there are five main strategies for SMEs to build sustainability are identified which links with the current situations and basis of sustainability.

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**Keywords:** Small, medium-sized enterprises, SMEs, Sustainability, Strategy



## Introduction

The idea that an enterprise is responsible for better society has been discussed for decades. And there is a growing acceptance of business strategies planning and implementing is important to emphasise the relationship of economic growth, social development and environment conservation, which are regarded as the three dimensions of “sustainability”. China has made some progress in tackling the issues with sustainability by acknowledging the current development problems, and more considered at national level but not on business strategies even the researches of build sustainable state-owned enterprise are vigorously forging ahead, the concerning about sustainability in SMEs is late and inadequacy. As more of countries, SMEs is the essential part of the national economy, from the National Bureau of Statistics, in 2014, SMEs accounted for 99% of total number of enterprises, provided 80% urban employment jobs, and 75% enterprises innovations in China. But on the other hand, the sustainability with SMEs needs to rise to national and corporate attention because it is the major contributor to environment pollutions. The significance of having sustainability strategies in SMEs is not only to create internal benefits such as sales increases, profit growth, cost reduce, but also provide more job opportunities, help to realise resources conformity and achieve the coordination with large enterprises, and help to achieve the development of the whole society.

## Objectives

In order to achieve the overall purpose the following objectives are proposed:

Provide an understanding of the concepts of sustainability and sustainability issues relating to SEMs

Define the drivers of SMEs rise to sustainability strategies

Determine the sustainability strategies for SMEs

## Methodologies

The main research methods include critical literature reviews, examination of official guidelines/policy papers and government reports. A form of content and critical analysis will be undertaken on literature of sustainability, current problems about SEMs and sustainability in SEMs. In order to define the problems of SEMs and sustainability drivers, the quantitative statistical data from the government and authorities of China (e.g. the National Bureau of Statistics) will be used.

## Findings

### The core concepts of sustainability

The idea of sustainability is originally proposed from ecology, while people realised that the traditional economic development orientation pattern is to increase materials wealth and this pattern damages the ecological environment and natural resources [1]. The concept of sustainability is proposed to enhance the quality of the environment, and the human-being’s activities will not harm or not deplete the eco-environment and resources, thereby supporting

long-term ecological development [2]. It has been defined as “maintain the resilience and robustness of biological and physical systems” [3]. In 1987, World commission of Environment and Development (WCED) states the most widely accepted definition of sustainability as “Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs” [4].

The economic growth, social development and environmental conservation are the three basic requirements of sustainable development, these three elements are interrelated and commentary [5] and regarded as the common dimensions for setting strategies of sustainable development, which called the ‘triple bottom line’ by Elkington [6]. The economic sustainability means to maximise the flow of income while maintaining the stock of assets (or capital); the ecological sustainability is to protect biological and physical systems; and the social sustainability is to stabilise social and cultural systems and to minimise destructive conflicts for both intra- and inter-generational equity [7].

#### **Sustainability in SMEs business context**

Most of the Multinational corporations (MNCs), like Google, Unilever, and Lenovo already integrated sustainability into their business strategies. Based on definition of WCED and the experiences of the MNCs, sustainability strategy for SMEs can be referred as making strategic efforts to meet the needs of today’s stakeholders (customers, publics, shareholders, staffs and etc.) and without harm of the future generations. A range of organisations and researches have provided the frameworks, indicators, methods to help enterprise setting their sustainability strategies, such as ISO 26000, ISO 14001[8][9], the international standards for designing and implementing the effective social responsibility and environmental management system. The Global Reporting Initiative (GRI) – an international independent standards organisation that provides a framework to guide the enterprises to set their sustainability goals and measure performance in the sustainability dimensions. In the “G4” vision, GRI provides sustainability criteria in **Table 1** for the enterprises to select the most appropriate one for their operations.

Table 1: Sustainability guidelines of GRI															
<b>Economic</b> <ul style="list-style-type: none"> <li>Economic Performance</li> <li>Market Presence</li> <li>Indirect Economic Impacts</li> <li>Procurement Practices</li> </ul>		<b>Environmental</b> <table border="0"> <tr> <td>Materials</td> <td>• Products and Services</td> </tr> <tr> <td>• Energy</td> <td>• Compliance</td> </tr> <tr> <td>• Water</td> <td>• Transport</td> </tr> <tr> <td>• Biodiversity</td> <td>• Overall</td> </tr> <tr> <td>• Emissions</td> <td>• Supplier Environmental Assessment</td> </tr> <tr> <td>• Effluents and Waste</td> <td>• Environmental Grievance Mechanisms</td> </tr> </table>		Materials	• Products and Services	• Energy	• Compliance	• Water	• Transport	• Biodiversity	• Overall	• Emissions	• Supplier Environmental Assessment	• Effluents and Waste	• Environmental Grievance Mechanisms
Materials	• Products and Services														
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• Emissions	• Supplier Environmental Assessment														
• Effluents and Waste	• Environmental Grievance Mechanisms														
<b>Social</b>															
<b>Labor Practices and Decent Work</b> <ul style="list-style-type: none"> <li>Employment</li> <li>Labor/Management Relations</li> <li>Occupational Health and Safety</li> <li>Training and Education</li> <li>Diversity and Equal Opportunity</li> <li>Equal Remuneration for Women and Men</li> <li>Supplier Assessment for Labor Practices</li> <li>Labor Practices Grievance Mechanisms</li> </ul>	<b>Human Rights</b> <ul style="list-style-type: none"> <li>Investment</li> <li>Non-discrimination Freedom of Association and Collective Bargaining</li> <li>Child Labor</li> <li>Forced or Compulsory Labor</li> <li>Security Practices</li> <li>Indigenous Rights</li> <li>Assessment</li> <li>Supplier Human Rights Assessment</li> <li>Human Rights Grievance Mechanisms</li> </ul>	<b>Society</b> <ul style="list-style-type: none"> <li>Local Communities</li> <li>Anti-corruption</li> <li>Public Policy</li> <li>Anti-competitive Behavior</li> <li>Compliance for Impacts on Society</li> <li>Grievance Mechanisms for Impacts on Society</li> </ul>	<b>Product Responsibility</b> <ul style="list-style-type: none"> <li>Customer Health and Safety</li> <li>Product and Service Labeling</li> <li>Marketing Communications</li> <li>Customer Privacy</li> <li>Compliance</li> </ul>												

Source: GRI (2014)[10]

The standards of GRI and other organisations show the common sustainability actions for the SEMs: gain financial income or profit during in operation; consider to protect the environment, especially, the strategies should eliminate the pollution from the enterprises' operations; and take care of the employees and social publics, as provide equal opportunities and safe working environment to the employees, and improve social publics' quality of life. Some of the specific indicators may include: sales, return on investment (ROI), net profit, share price, energy usage, waste produce, air pollution, water pollution, jobs opportunities, human rights, product reasonability and etc. [11].

### Current sustainability problem of SMEs

Sustainable development has been the main concerns for the large enterprise in recent decades, but it has been ignored for SMEs, as it is known that the increase of SMEs has caused

many problems on pollution, for example, the fast development of SMEs in western China has caused resources wasting, environmental pollution and other ecological problems. The account for 50% of the industrial pollution is from SMEs and this percentage is likely to increase. The energy consumption of SMES is more than double the large enterprises, over 41% of the total industrial energy consumption in China [12]. The main external reason of this problem is the supervision on SMEs operations in the sustainable approaches from governments is inadequate, and non-standard form of sustainability for SMEs that lead to a conflict between the values and social responsibilities of SMEs and MNCs. For a long time, the one-sidedness, blindness and theoretical confusions of the understanding of SMEs result in some corporate management policy errors [13].

Lack of the awareness of sustainability is the most primary problem on the SMEs strategies setting process. The enterprises strategies are more emphasizes the economic benefits, but less embedded the environment and social performance [14]. Most of the SEMs are facing the problem of fund shortage, and the managers have heavy pressures on meeting the target economic performance. Therefore, some of the owners and managers focus solely on immediate interests and benefits, and put profitability and good business performance ahead of social responsibilities and environmental conservation in their organizational culture [15].

#### **Drivers of SMEs sustainability Strategies**

Sustainability has become a hot issue in the whole wide, more and more executives have recognised that develop and invest new sustainability strategy in protecting the environment will benefit the business performance [16]. The drivers of SMEs adopting sustainability strategies include: taking sustainability strategies will reduce the risk of fearing enterprises' reputation and attract more customers. Second, through sustainability strategies would generate internal benefit and develop the competitive advantages. The enterprise will obtain good reputation while it takes concerns on public that will build a good relationship with suppliers consumers and communities, also attract more talent staffs and motivate them to serve the enterprises. Taking this one step further, the staffs' education and training cost will be reduced, and the administration and production costs will be cut due to the staffs strictly follow the sustainability requests in all of the tasks and on-going operations [12]. Third, well comply with sustainability will avoid legal penalty and reduce the shareholders' risks. Driven by economic interests, the SMEs are taking a risky game at the environment's expense for a long time, which formed the contradictions with social environment, and those contradictions have in turn threaten the development of SMEs. According to Beijing Municipal Environmental Protection Bureau, in 2014, 650 enterprises have been penalised for falling to comply with environment protection regulations in Beijing City, and 98.5% enterprises are the small and medium-sized enterprises. At last, sustainability in SMEs is a crucial part of sustainable development of the whole society. The healthy and sustainable development of SMEs affects the nation's economic prosperity and stability.



### **Sustainability strategies for SMEs**

Based on the concepts of sustainability there are some common strategies for SMEs as: using natural resources and materials fairly and efficiently and achieving eco-environmental integrity; building a just society with spirit; achieving economic development and having openness governance; and considering both long-term and short-term value.

### **Equilibrating environmental, social and economic development**

Developing sustainability strategies for SMEs is restrained by three factors: firstly, sustainable development requests income more than cost, at least cover the cost; secondly, development should not break the social code based on traditions, ethics, religion and morals; thirdly, development should be based on constraints of the ecological environment and natural resources. The core idea of sustainability strategies planning is balancing economic, social and environmental perspectives.

### **Emphasising sustainability corporate culture**

Culture impacts are rarely considered in the decision-making process [17], therefore, promoting appropriate corporate culture in the economic, social, environmental, political and other parts of sustainability is an effective strategy for the SMEs.

### **Containing both short-term and long-term goals**

Sustainability strategies are simultaneously including the short and long-term goals [18], short goals as gaining profit growth is a part of income increasing to support improving social and environment quality. In some case, the long-term development will impact the short-term benefits, e.g. improving energy efficiency and saving resource will help to reduce production cost that will create short-time benefits. Therefore, the strategies should always consider both long-term and short-term goals [19].

### **Promoting transparency and openness governance**

Good governance promotes accountability of policies and rules, also ensures efficiency of management of human, natural, economic and financial resources. The strategies should be opened to all of the stakeholders and publics. As Johnston et al. (2007) defines there is a need to assure that socially effective processes and constituency- building take place under circumstances of political transparency and open dialogue [20].

### **Building awareness of sustainability ethic for individuals**

In the most cases, sustainability is about the personal moral view, it is over policies and regulations but indicates personal awareness. While the decision makers and individuals of the SMEs in considering their own interests, also have a duty to protect and improve social welfare at the same time. Effective participation of stakeholders, characteristics of the environment, governance, social and economic situations all are influence the sustainability strategy implementation [21].

## Conclusion

Since the term of ‘sustainability’ has been clearly defined in 1987, the research of the concept has achieved a great significance and widely accepted, but it still underemphasized in SMEs. This paper provides an overview of the scale of sustainability and real situation of SMEs sustainability under the previous literature, and lists five main sustainability strategies for the SMEs. The companies should build high social responsibilities under the requirements of sustainable development while maximising their profit, self-development of enterprises should be consistent with the sustainable development of society and economy.

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