

ARE SMALL AND MEDIUM ENTERPRISES REALLY INTERESTED IN IMPLEMENTING SUSTAINABILITY ORIENTED INNOVATION?

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Abstract

Purpose: In view of the ongoing economic transformations and growing environmental threats, one of the directions of innovation development is sustainability. In this approach, the focus is shifted from understanding innovation not only as an economic benefit, but also to increase social welfare and protect the environment. Innovations taking into account economic, social and environmental factors are referred to as Sustainability-oriented Innovation (SOI). The development of SOI for Small and Medium-sized Enterprises (SMEs) is of particular importance, as they play a key role in economic development mainly due to quantitative dominance, employment and contribution to GDP. SMEs are entities with a weaker market position than large companies, because they are not only more susceptible, but above all more exposed to changes in the environment. Literature highlights SMEs' limitations e.g. resource constraints, lack of formalized planning, difficulty to attract finance, which may prevent them from engaging proactively in the innovation process. Due to the necessity to quickly adapt to the changes taking place, these organizations are highly mobile and flexible. SMEs are not simply smaller versions of their larger counterparts (Tilley, 2000) and they will innovate differently for sustainability (Moore & Manring, 2009). The view that sustainable development is becoming one of the competitive priorities for smaller enterprises is more and more communicated. The purpose of the study was an attempt to answer the question of whether SMEs are really interested in implementing SOI into their innovative activity strategies and to identify the selected opportunities and challenges related to this process. The theoretical aspects of SOI were discussed, taking into account economic, social and environmental dimension.

Design/methodology/approach: To develop the conclusions presented in the article, data from a study conducted by the Polish Agency for Regional Development (PARP) in December 2020 using the Computer Assisted Web Interviewing (CAWI) method on a group of 370 enterprises from the SME sector (start-ups), which operated not longer than 5 years, was used. The study concerned the adaptation and identification of the surveyed enterprises with trends in various time perspectives. In addition, the study uses the results of research conducted by Longitude, a division of The Financial Times commissioned by Smurfit Kappa in January 2020 among 200 British business leaders and senior managers. The premise of the study was to assess attitudes and approaches to sustainable development in the FMCG, retail, e-commerce and consumer products sectors.

Findings: Innovations turned out to be a response to the identified trends and progressive civilization changes. Environmental and social changes made consumers change their habits and take advantage of new opportunities. In the face of exhausting resources, many entities are inclined to implement innovative solutions which, in the face of economic changes, turn out to be a necessity. Sustainable development is an increasingly growing area in which the development of new products and services is focused. The adaptation of enterprises to the identified trends in the shorter and longer term allows for the perception of new economic needs, which in turn creates new areas for the development of SOI.

Key words: Sustainability-oriented Innovation, Small and Medium Enterprises, sustainable development, innovation.

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Conceptual framework of SOI

The definition of Sustainable development was established first in the 1987 United Nations' publication "Our Common Future" and means the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). It further pointed out that "Technologies are needed that produce 'social goods', such as improved air quality or increased product life, or that resolve problems normally outside the cost calculus of individual enterprises, such as the external costs of pollution or waste disposal." Since the 1990s, innovation with the aspiration to create positive environmental impacts has been studied under the terms "eco-innovation" (Fussler & James, 1996), "environmental innovation" (Oltra & Saint Jean, 2009) and "green innovation" (Schiederig, Tietze, & Herstatt, 2012). The debate has developed to include social criteria in addition to environmental ones; and has been carried forward under the terms "sustainable development innovation" (e.g. Hall, 2002), "sustainable innovation" (e.g. Wuestenhagen, Hamschmidt, Sharma, & Starik, 2008), "sustainability-related innovation" (Wagner, 2008), "CSR-driven innovation" (Hockerts, 2009) and "sustainability-driven innovation" (Little, 2005). The notion of Sustainability-oriented Innovation (SOI) subsumes these concepts to describe the integration of "deliberate management of economic, social and ecological aspects" (Klewitz & Hansen, 2014) in innovation. Klewitz and Hansen build on the idea that innovation for sustainability is about relative improvements in comparison to a prior or other entity. The term "Sustainability-oriented Innovation (SOI)" is more suitable because it is considered as the process or direction toward sustainability which calls deliberate management (Hansen & GroBe-Dunker, 2013).

Implementing SOI requires three interrelated concepts of sustainable development: social sustainability, economic sustainability and environmental sustainability (Purvis, Mao & Robinson, 2019). In the discussion about SOI, three broad positions can be distinguished on the relationship between sustainable development and innovation (Fichter, Noack, Beucker, Bierter & Springer, 2006):

- Ecologic and ethical considerations can hinder innovation;
- Deteriorating environmental quality increases the pressure to innovate;
- The guiding principles of sustainable development generate ideas and are a source of competitive advantage.

The creation and implementation of an SOI requires strategic management to identify, create and strengthen the links between social and environmental performance and business success. Effective implementation of the principles of sustainable development requires taking actions also in the area of organization, processes and the development of new products and services. In each of these areas, the company must change its tactical approach to a strategic one that is integrated with its operations.

Opportunities and challenges for implementing SOI

As part of the analysis of the possibilities that may favor the implementation of SOI in the strategies of SMEs, there are changes that take place in the closer and more distant environment of the enterprise. They mainly concern economic, political, legal and social changes. External transformations are independent of the company and concern the general economic situation and international trends in the world, which are reflected in national regulations. The key global program (plan) of sustainable development is the United Nations 2030 Agenda for Sustainable Development (United Nations. Transforming our world: the 2030 Agenda for Sustainable Development, 2015). Agenda 2030 introduces 17 Sustainable Development Goals (SDGs), aim to tackle economic, social and environmental issues that plague the world and to promote the concept of sustainability. The concept of sustainability discussed by policy makers and decision makers, academics and experts is now part of almost all political agendas in which a variety of goals and targets have been set in order to make the world a more sustainable place for everyone. Promoting the idea of sustainable development and growing awareness of pursuing long-term goals is an opportunity for many companies to be first and build a competitive advantage based on SOI. When analyzing the challenges faced by enterprises in the context of the implementation of SOI, the observation that comes to the fore is that SMEs occupying their place in the supply chain, often as suppliers and subcontractors, increasingly feel the pressure to monitor activities in accordance with the supplier code for sustainable development.

In order to find themselves in a constantly changing world, entrepreneurs need to notice and understand the changes taking place. Especially for smaller enterprises with greater flexibility, multi-dimensional and quick adaptations can be a source of competitive advantage. One of the motivators for introducing changes in the enterprise is the knowledge of trends and translating them into proposed services, products and solutions. The study conducted by PARP (Jędrzejowski, 2020) shows that, within the current trends, the surveyed entrepreneurs identified themselves to the greatest extent with the trends related to the growing awareness of consumers. As part of the trends that are currently disseminated on the market, there is a noticeable increase in the awareness of enterprises in the economic, social and environmental dimensions. Conscious consumerism was indicated by 43% of respondents. It refers to the growing awareness of consumers and the appropriate creation of products by brands. 34% of the surveyed companies confirmed that they identify themselves in the social awareness trend, within which a conscious society is built - having knowledge and the ability to think critically. Every fourth respondent identifies himself with the Eco conscious trend, in which the public is increasingly aware of our destructive impact on the planet. This trend includes activities aimed at counteracting the advancing consumerism and materialism. The Eco conscious trend is in line with the assumptions of the Eco-Socially Conscious Consumer Behavior (ESCCB) concept. Consumer ecological behaviours are conceptually similar to social behaviours as both pertain to a wider domain – ethical behaviour (Eagle & Dahl, 2015; Kumar, Rahman, & Kazmi, 2013). Social and ecological behaviours

lead to sustainable consumer behaviours. Sustainability is a micro/macro concept that asserts the importance of sustainable development by focusing on marketing practices, and addresses the interdependence of sustainability with individuals, communities, institutions, societies, stakeholders, and consumers, including future generations (Belz & Peattie, 2012). Hence sustainable behaviour embraces a wider perspective explicating how consumption can be regulated by norms to protect the environment and conserve natural resources (Saleem, Eagle, & Low, 2018).

The cited studies show that consumers are beginning to see the far-reaching consequences of their choices. In turn, the growing social and environmental pressure of consumers translates into the actions of enterprises to create innovative solutions based on the concept of sustainable development. Moreover, a company whose mission is based on environmental values and ethical standards inspires greater trust among customers and investors, and for many of them the financial credibility of the organization depends on its social credibility. In purchasing decisions, customers are increasingly guided by the origin of products and the responsible management of suppliers. The role of stakeholders who expect smaller enterprises located in local communities to be involved in social and environmental activity should also be emphasized. Pressure from customers, investors and stakeholders is one of the key drivers of innovative actions for sustainable development.

Sustainability – the path of no return

Research carried out by Smurfit Kappa (Report, 2020) shows that 83% of the surveyed companies describe sustainability as an opportunity for the company to be seized, 72% of companies say that sustainable development is a permanent trend, while 74% of companies say that they do not it will wait for competitors to raise stakes before they can define their own benchmark for measuring success. In about one third of the surveyed companies, sustainable development is behind all research and implementation (37%) and the introduction of new products (33%). The surveyed companies also indicated the factors that have the greatest impact on their sustainable development strategies. For nearly half of the enterprises, reducing waste has become a priority in their sustainable development strategy (49%). This fact is of particular importance in the case of production companies that use more raw materials, which may or may not be renewable. The introduction of new solutions in the field of waste reduction may also contribute to obtaining significant economic benefits for SMEs. It is becoming more and more common to monitor what is happening in the supply chain in terms of involvement in the protection of biodiversity or taking pro-ecological activities. The sustainable development strategy in the surveyed enterprises is also influenced by concern for climate change (41%), and cost reduction (35%) came in third place. Almost one in three companies (27%) indicated that it is customer pressure for greener practices and products that has the greatest impact on sustainable development strategies. At the same time, the attitude of enterprises towards activities in the area of sustainable development as a long-term investment, not as a cost, draws attention. 82% of directors of the surveyed

companies agree with this statement. This approach also changes the rules of financial statements in almost three-fourths of companies (73%). Sometimes measurements can make difficult trade-offs. The introduced innovation may help to reduce waste and litter, but at the same time contribute to climate change. 42% of companies declare that trying to quantify the results of sustainable development is the biggest barrier to the implementation of sustainable practices.

In the opinion of the surveyed companies, the key point of reference in innovative activities aimed at sustainable development are the customer's feelings. Nearly three-quarters (73%) of companies say the sustainability program is changing the way they track and measure financial performance. About six out of ten companies (58%) say customer experience and/or satisfaction is their best way to measure sustainability in a company. Another important metric used to measure the return on investment from sustainable practices is the success of new, sustainable products and services. Conscious consumerism also changes the dynamics between the customer and the brand. 88% of companies say that consumers expect transparent sustainability practices, and more than three-quarters (78%) believe that their customers expect them to lead them to more sustainable practices. An important emphasis on the conclusion of the research is the fact that 63% of companies claim that customers are behind their approach to sustainable development. Half of the companies believe that greater customer awareness of companies' sustainable practices would have the best long-term impact on them. A sustainable transformation, as faced by many businesses, will go beyond harm reduction, renewal and replenishment of the planet. Introducing innovations based on sustainable development to the offer of companies will help to maintain a balance between sustainable practices and profitability.

Conclusions

The analysis of the presented opportunities and challenges allows to outline a few guidelines that should be adopted by SMEs on the way to achieving sustainable innovation. Each company should find its own way of SOI, which will be closely related to its business, market maturity, the situation in the company's environment, place in the supply chain and other factors. The research shows that companies are increasingly responsible for their impact on society and the environment. The development of SOI in SMEs can contribute to solving problems in these areas, which can directly translate into the company's position. The high awareness of young companies about the existing and emerging trends is also optimistic. Society is changing and becoming more demanding towards the organization, which translates into the need for continuous improvement of processes and products. The advantages of SMEs in this respect are greater flexibility and faster adaptation to changes, including emerging economic crises. The introduction of SOI as a permanent element of the innovation strategy may not only be a catalyst for adaptation processes to the new situation, but also increase its ability to influence the environment.

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