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IMPACT OF THE ENVIRONMENT ON SME EFFICIENCY

Abstract:

Small and medium-sized enterprises (SMEs) need to be fully aware of the factors that have a multidirectional impact on the status and further development of SMEs. The article deals with the environmental industry that affects the efficiency of SMEs. The results of the study form a theoretical basis for the formation of a methodological framework for assessing the environmental performance of SMEs in the region.

Keywords:

Environment, small business, medium-sized business, efficiency, environmental requirements.

SMEs can contribute to environmentally sustainable development, as some of them are actively involved in the production of environmentally relevant products and services. SMEs can play a significant role in promoting environmentally sustainable approaches due to their growing role in economic development and job creation.⁴³

Companies operating in the field of environmental consulting are often classified as SMEs. Some SMEs offer services in landscape planning, contaminated site investigation, reclamation and remediation of disturbed land. SMEs also often serve as sales centres for cleaner technologies and environmental protection equipment.⁴⁴

Organisations whose activities are subject to regulation must ensure compliance with established standards and improve the environmental performance of their activities. This requires them to make changes to their production process, products and services to reduce their impact on the environment. Unfortunately, smaller companies tend to be less prepared for compliance actions in terms of the necessary knowledge, skills and resources.

Above all, many SMEs are simply not aware of the legal regulations governing their operations or do not understand the meaning of these requirements. The proliferation of regulations or the adoption of numerous amendments to improve them can lead to a loss of simplicity and clarity in the system of requirements and, consequently, a loss of clarity in what compliance with the legislation consists of. Legislation that is cumbersome and difficult to understand particularly affects the level of compliance of smaller companies. According to numerous studies, small businesses simply do not have the time to keep up with the full flow of regulations issued by many government agencies.

A critical factor influencing the compliance behaviour of small businesses is the lack of competence and capacity to adopt environmentally sustainable approaches to industrial development. SMEs also have fewer financial resources to invest in organisational and technical solutions that could improve their environmental sustainability.⁴⁵

Limited resources, combined with a lack of technical knowledge and skills, certainly contribute to SMEs' scepticism about the potential benefits, economic benefits and improved reputation in the eyes of consumers associated with improved environmental performance.⁴⁶ The costs of compliance can be very high and solutions combining environmental and economic benefits may not always be found. In some cases, the situation is exacerbated by a focus on short-term economic benefits.⁴⁷

Environmentally responsible behaviour has the potential to provide a range of benefits to SMEs, including:

Organisational benefits related to improved internal procedures, information and management, which can ultimately lead to full compliance with regulatory requirements and, as a consequence, reduce the burden of oversight and control by public authorities;

Environmental benefits associated with improved environmental performance, increased energy and material efficiency, and reuse of resources and reduced pollution;

Financial benefits, e.g. related to more efficient use of energy and materials, or reduced waste generation;

Human resources benefits, such as increased motivation and morale among employees, improved skills or a better image of the company in the eyes of its staff;

⁴³ [1. Bosma N., Levie J. 2010. Global Entrepreneurship Monitor. 2009 Global Report]

⁴⁴ [7. Kerlin J.A. A comparative analysis of the global emergence of social enterprise // VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations. 2010. Vol. 21. No. 2.]

⁴⁵ [8. McMullen J.S., Bagby D., Palich L.E. Economic freedom and the motivation to engage in entrepreneurial action // Entrepreneurship Theory and Practice. 2008. Vol. 32. No. 5.]

⁴⁶ [9. Nicholls A. The legitimacy of social entrepreneurship: reflexive isomorphism in a pre-paradigmatic field // Entrepreneurship Theory and Practice. 2010. Vol. 34. No. 4.]

⁴⁷ [4. Defra (2011a), Business Perspectives on Approaches to Securing Compliance, Greenstreet Berman Ltd. report for Defra and Environment Agency, Department for Environment, Food and Rural Affairs, www.randd.defra.gov.uk]

Commercial benefits, such as new customers or business opportunities, preferred supplier status, the contribution of a positive environmental reputation to competitive market/marketing advantage, or the satisfaction of existing customers;

Stakeholder benefits, such as a positive public image, improved access to capital for environmentally-sensitive investors, or improved relations with government authorities.⁴⁸

Overcoming gaps in SMEs' environmental compliance depends on a number of critical factors, including: strengthening incentives for compliance, including clearer non-environmental benefits to increase SME motivation; sufficient knowledge about the environmental impact of the enterprise and the organizational and technical tools to reduce that impact; capacity-building in terms of resources, quality of management, stakeholder engagement.

The interactions between the various parties in such a system can be used to systematically improve the environmental performance of SMEs through such measures as: effective information flows from external stakeholders; pressure from external stakeholders to implement specific measures to reduce negative impacts or improve environmental performance in general; technical and financial assistance from external stakeholders.

Different stakeholders can put pressure on enterprises to improve their environmental performance in a variety of ways:

- Public authorities can use a combination of different regulatory instruments, including environmental permits, pollution charges, public procurement mechanisms, to incentivise improvements in environmental performance and to set appropriate targets. The effectiveness of regulatory instruments can be enhanced by adapting them to SMEs;⁴⁹

- Consumers may favour products that have a lower environmental impact throughout their life cycle;

- Investors and banks can assess the potential environmental liabilities of companies and take environmental risks into account when providing finance;

- Suppliers and intermediary clients can require their business partners to systematically apply certain mitigation measures as well as a certain level of environmental performance;

- Environmental and other investment funds, including those created with the participation of donor organizations can provide financing for certain projects, in particular for cleaner production.

Involving third parties may be more effective than direct government intervention and more readily accepted by business. However, there is a certain indifference on the part of consumers towards the environmental performance of SMEs, especially "micro-enterprises".⁵⁰

One possible solution for SMEs to overcome traditional environmental and human capacity constraints is to develop horizontal networking with other similarly situated firms. In some cases, such networking is initiated or led by governmental or 'quasi-governmental' regulatory organizations on a temporary basis, with the primary objective of improving the environmental management of local SMEs. In other cases, the initiative to develop synergies is taken by the SMEs themselves, seeking to jointly mobilize knowledge and resources, particularly when they face similar challenges or opportunities.⁵¹

The tools to improve environmental compliance and environmental performance of enterprises can be divided into two groups: tools applied voluntarily by the enterprises themselves or in response to certain regulatory requirements; and initiatives by public authorities.⁵² These instruments can be supported by stakeholder participation and market-based initiatives.

The extent to which these instruments are used depends on the level of SME motivation, awareness and capacity. As noted above, external incentives and support are usually needed to encourage SMEs to use these instruments. In this context, the first step of public authorities should be to identify incentives for SMEs and assess their capacity building needs. In order to perform this task, public authorities themselves need to acquire sufficient knowledge. The promotion of SME capacity building and support would be a logical follow-up to this activity. Given that the needs of SMEs may differ from sector to sector, it is advisable to consider sector-specific programmers.

A critical element of developing compliance support programmers is to identify effective mechanisms that do not require excessive government resources. An obvious starting point is an assessment of the capacity of government agencies to design and implement such programmers, and targeted actions to develop this capacity. Information on developed compliance support initiatives should be widely publicized. The willingness and ability of third parties to influence the behavior of SMEs will depend on their own awareness, competence and access to information on the environmental performance of SMEs and the extent of their environmental compliance.

⁴⁸ [2. Carbon Trust (2011), Green Your Business for Growth, Management Guide, Carbon Trust, www.carbontrust.co.uk/publications]

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⁵¹ [5. Defra (2011b), Micro businesses and environmental regulation, Final Report prepared by GHK Consulting Ltd. for Defra, Department for Environment, Food and Rural Affairs, www.randd.defra.gov.uk]

⁵² [6. OECD (2015a), Promoting better environmental performance of small and medium-sized enterprises in Armenia, Pilot project report, Greening Economies in the Eastern Neighbourhood programme, Organisation for Economic Co-operation and Development, Paris]

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