

READINESS OF SMEs FOR ADDRESSING THE SUSTAINABILITY CHALLENGES BY ESTABLISHING THE ENVIRONMENTAL MANAGEMENT SYSTEM: IN THE CASE OF THE SME SECTOR IN SRI LANKA

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INTRODUCTION

The Small and Medium Enterprise (SME) sector is the backbone of the economy because it empowers employment, alleviates poverty, improves output, export, and economic development in developed and developing countries. The small and medium enterprise sector (SMEs) is widely recognized as an important strategic sector for promoting economic growth and social development. It is the foremost driver of sustainable economic development in developed and developing countries (Prasanna et al., 2019). However, the involvement of SMEs in protecting and improving the environment is essential due to their manufacturing and marketing processes related to environmental issues (for energy efficiency, minimizing waste, and renewable energy). Additionally, the future contribution of SMEs to 'eco-efficiency' through innovation is expected to be significant.

The environmental management system (EMS) is a component of an organization's overall management structure that handles the immediate and long-term ecological effects of its products, services, and operations. It encompasses the organizational structure, planning activities, responsibilities, practices, procedures, processes, and resources necessary for designing, implementing, achieving, reviewing, and maintaining environmental standards and policy. According to Boiral and Sala (1998), the EMS provides an organization with a highly defined framework for developing its environmental strategy. The purpose of EMS is to integrate environmental considerations into management, serving as a guide for the company's compliance with current legislation and implementation of its environmental policy through continuous improvement. Junguitu and Allur (2019) emphasize that adopting a holistic approach to a business's environmental management entails realizing how an organization seeks to safeguard its environment is as critical as its goals.

EMS is considered a strategic sustainability management tool for small and medium-sized businesses. Many SMEs lack a formalized environmental management system (EMS) or policy (ECAP, 2011). Hillary (1999) believes SMEs are also less likely to adopt EMS due to resource constraints, perceived lack of compensatory mechanisms, and confusion or ambiguity over the implementation process. SMEs gain in various ways from the deployment of a structured EMS. According to Ferenhof et al. (2014), EMS implementation enables innovation through enhanced internal processes and procedures and subsequent (short- and long-term) performance. Thus, EMS brings economic and environmental concerns together. Further, the authors suggest that EMS enables SMEs to demonstrate compliance with or a commitment to environmental improvement in a particular setting by stimulating the control

of environmental hazards. To this aim, Hillary (1999) notes that formal EMS can result in internal (organizational, financial, and human resource) as well as external (commercial, environmental, and commitment) benefits.

According to Prasanna et al. (2019), sustainability challenges include the ability to adapt to social and economic changes, make efficient use of natural resources, conduct ethical and responsible business practices, provide high-quality products and services, and develop metrics to determine whether the firm is meeting stakeholder expectations. Further, this study defined sustainability as the ability of a business to succeed and exist in a dynamic competitive environment. The SMEs lack awareness of their environmental implications, knowledge of environmental legislation, and the capacity to address them. The further development of environmental management systems (such as EMAS or ISO 14001) will be critical in encouraging and promoting EMS use by small businesses. SME implementation of an environmental management system must design an environmental policy to represent its commitments.

Along with this, SMEs need effective identification of how the organization interacts with the environment and present possible environmental consequences to make the best management decision toward a sustainable organization. The EMS should identify the organization's applicable legal and other requirements linked with the environment. Establishing environmental objectives, targets and programs will contribute to the SME sector by monitoring and measuring the progress to meeting its objectives. When constructing an EMS in SME, it is necessary to have a person responsible for its coordination while monitoring the continuous improvement of the organization's environmental performance. Accordingly, the EMS procedure can be utilized to assess SMEs' readiness to overcome sustainability challenges.

In contrast to the readiness of SMEs, there is much less information for addressing its sustainability challenges by establishing EMS in the Sri Lankan context. Therefore, this investigation aims to explore the readiness of SMEs to address sustainability challenges by establishing the EMS.

METHODOLOGY

This is a comparative study which employed both the quantitative and qualitative approaches. The survey was conducted among the 462 SME owners. Further in-depth interviews were conducted among the 10 SME owners to understand SMEs' willingness to address sustainability challenges. The study used the purposive sampling methods for both the approaches. The interviews lasted about 50 minutes on average and were performed via face-to-face meetings and telephone conversations. Descriptive analysis was used to analyze the quantitative data, and thematic analysis was used to analyze the qualitative data.

RESULTS AND DISCUSSION

The findings are presented in five themes to assess the SMEs' readiness to address sustainability challenges by establishing an environmental management system. The organization is committed to practising ethical and ecological strategies. After transcribing and coding the data gathered from interviews with respondents, these thematic areas were

defined under environmental challenges: adapting to green techniques, reducing environmental pollution and resource degradation, adapting for waste management, and effectively utilizing resources. The environmental impact of business has been identified by 59.7% of SMEs to preserve the environment. Regarding the discussions undertaken with SMEs, it is evident that the environment has both negative and positive impacts on the business, as well as on the adaptation strategies of SMEs to address a variety of concerns and further, adapting to the environmental changes is required to manage an EMS in an organization effectively. As stated in the previous studies, the SME sector is administering an EMS system within the enterprise, as seen by the environmental management strategy adapting to operational and emergency procedures and alerting procedures.

Green techniques are vital in this sustainable domain, and consumers are more attentive to their purchasing in an environmentally friendly way. According to this study, it has been identified that green business techniques as a component of the organization's environmental management system. According to this study, SMEs have adapted to green business strategies in various contexts, such as green technologies, green packaging, and environmentally sustainable product. According to the quantitative findings, SMEs operate with a low environmental impact, as evidenced by that all the respondents stated that their business has a low environmental impact and that 82% of SME owners have strong beliefs in protecting the environment from business operations. According to the research findings, it is clear that the small and medium-sized enterprise (SME) sector strives to reduce environmental pollution and resource degradation while improving the product regularly, as confirmed by the study by Chavan (2005).

Waste management is essential to the SME sector since it contributes to sustainable development. This study has identified that current SMEs in Sri Lanka adopted some strategies for waste management. Packages of the product should be environmentally friendly. The production package accounts for over 70% of an organization's total waste (Vermier & Verbeke, 2004). As a result, SMEs have an effective waste management procedure to meet sustainability challenges. When SMEs manage the EMS, their effectiveness of managing the EMS is validated by using these types of processes. Fifty-eight percent of the respondents stated that their generated waste is not harmful to the environment, and 67 percent expressed that they do not release the wasted water to the environment.

The study's findings indicated that resource efficiency is critical for the SME sector to address sustainability challenges. Moreover, empirical results indicated that SMEs must efficiently use their resources. Accordingly, effective utilization of resources means planning the operations while ensuring that the available resources are used to their maximum potential. The SME interviewed recognized that they have policies to ensure that resources are used efficiently to address sustainable concerns. As a result, it may be argued that the SME sector requires efficient resource consumption to address sustainability challenges by adapting EMS as a policy.

CONCLUSIONS AND IMPLICATIONS

An environmental management system (EMS) is a suitable mechanism for minimizing the ecological consequences of an organization's operations. It is necessary to follow an organized strategy to develop and implement environmental protection measures. An EMS combines

environmental management into a company's everyday operations, long-term planning, and other quality management systems. Since the EMS appears as an effective tool to address environmental challenges, the willingness of SMEs to adapt to it is critical. Therefore, this study supports planning strategies in the SME sector across the EMS under the five themes. Important policy implications emerge from this study. Many SMEs lack a formalized environmental management system or policy (ECAP, 2011). Hillary (1999) expressed that SMEs are also less likely to adopt EMS due to the lack of resources, compensatory mechanisms, and ambiguity over the implementation process and its complexity. However, this study's analysis and findings revealed that SMEs are ready to operate EMS within the organization to face environmental challenges. Therefore, it is a need for higher government financial and technical support to spur the adoption of EMS certificates among SMEs. According to the findings of this study, SMEs in Sri Lanka have informally adopted and managed several components of the EMS, such as environmental policy, process, environmental impact identification, and environmental objectives. The use of a few components is still restricted. As a result, it is vital to provide SMEs with knowledge of the components of the EMS as well as management knowledge of the system.

Further, this study suggested that it is essential to introduce a simple EMS and understandable process as Hillary (1999) suggested, as EMS appears ambiguous over the implementation process and its complexity. Moreover, the study results indicated that more than 80 percent of the respondents could not manage the EMS in SMEs because of their lack of knowledge and awareness.

This study identifies some potential research directions for the future. For example, additional work is required to identify and understand the critical components relevant to the SME sector. When comparing quantitative and qualitative data, it is clear that the respondents in the quantitative study have strong beliefs about environmental preservation and are aware of environmental policies relevant to their firm, which is a significant finding. Future research might look at these five themes in greater depth to develop effective strategies for the broader entrepreneurial sector.

Keywords: EMS, SMEs, sustainability, sustainable challenges

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