



Small and medium-sized enterprises (SMEs) account for most businesses across the world, and they encounter distinctive challenges in espousing sustainability practices.

Generally, SMEs encounter challenges such as access to funding, information deficit, and regulatory hurdles.

Furthermore, there are extra obstacles for SMEs seeking to go green, especially in comprehending what methods and technologies are most suitable in a particular scenario, what are the best modes for accessing them, and how to ensure that they improve economic competitiveness.

With the Malaysian economy continuing to grow and progress, SMEs continue to be a key driver of economic advancement. By making sure that the progress is green, economies can become more competitive globally, access to export markets as well as global value chains can be improved, and standard of living and business competitiveness can be enhanced.

Green SMEs can be split into two classes; "green innovators", who are making new technologies, products, and methodologies which can have transformational effects, and "green performers", which are traditional SMEs that take actions to ensure that their operations are more resource-effective and eco-friendly to improve their competitiveness.

Green innovators play a vital part in the wider shift to greener economies.

SMEs which emphasise green production and environmental services segments, such as construction and design companies, agricultural firms, and energy solution suppliers, aid in eco-innovation across a wide gamut of sectors.

Start-up companies are especially vital for far-reaching green advancements as they frequently make the most of commercial or technological prospects that have been overlooked by more established firms, or even challenge the organisational models of prevailing companies.

Drivers of adopting green practices

For traditional SMEs, which are not related to the green economy, there are many drivers other than regulatory compliance to back the espousal of greener practices.

During the last decade, there has been intensified research into what precisely these drivers are. For example, the main drivers for Malaysian SMEs to go green encompass the following:

- Economic advantages such as effective usage of inputs and resources, more effectual manufacturing techniques, and enhanced reputation with stakeholders;
- Fiscal incentives that come in the form of access to green funding, green soft loans, and exemptions from import levies and duties on investments pertaining to the espousal of green practices;
- Management of stakeholders, who comprise internal shareholders, like owners and workers, and external shareholders, like individual consumers and government procurement organisations;
- Directives and legislation that encourage adoption of green practices, and aid capacity building;
- Knowledge and resources such as the money and time to execute practices, and awareness of likely advantages of these practices.

Challenges faced by SMEs

What encourages SMEs and their proprietors could be quite different from what encourages major companies.

Despite their heterogeneity, SMEs have specific common traits which impact their approach towards ecological concerns and green practices, in attaining as well as going beyond conformity.

Comprehending these attributes could help mould policy approaches towards greening SMEs:

- SMEs frequently do not have information regarding the costs and advantages of pertinent green practices, and might have inadequate capacities such as time, resources, proficiency to comprehend ecological requirements, or even the need to deal with ecological effects.

- SMEs might possess the inadequate capacity to execute the changes needed to enhance ecological performance, and uncertainty regarding how to ascertain the most suitable technologies and how to integrate green practices into organisational planning.
- Even though the essential payback span for fresh investments is frequently as little as two to three years (it is even a function of the cost of capital), SMEs frequently function on shorter schedules. Usually, ecological technologies involve higher costs initially with benefits delivered in the longer term.
- Access to funding is another main drawback. The most frequent ecological concerns for SMEs, like energy and resource savings, which typically do not pertain to the primary business of the firm, are only dealt with if actions drive a considerable cost decline in the short term.

This article offers government policy direction across three domains – fiscal aid, regulatory, and information – to aid Malaysian SMEs in improving their economic competitiveness as well as environmental performance.

Financial aid

Governments can directly enhance the business rationale for greener practices through the utilisation of fiscal tools. This encompasses supporting SMEs' access to green funding, backing the growth of green markets by means of green public procurement and stimulating green corporate value chains, and levying duty and tax privileges on investments in more viable equipment, among other means.

Several SMEs are ready to make investments in more energy-effective and eco-friendly practices.

However, they need dependable partners in funding their investments along with the appropriate regulatory structure. Yet, they frequently encounter hurdles in obtaining access to funding, with banks being unwilling to finance these kinds of investments and not having the specialised workforce required for assessing SME ventures.

Information sharing

Enhancing the ecological performance of a company can upgrade its fiscal performance as well.

Notably, several SME owners and supervisors are worried about the short-term overheads of improving ecological performance. They believe an integral conflict exists between safeguarding the environment, maintaining low costs, and running an effective business.

The challenge lies in persuading them that several green practices can essentially decrease costs and improve the business.

The public sector has a key part to play in synchronising and transmitting information to SMEs. The governments can utilise different tools of information for communicating with SMEs.

Signals to notify the market and enhance the business case for firms to espouse green practices are a crucial constituent for backing the greening of SMEs.

Policy and regulation

As a cohort, SMEs are extremely heterogeneous; they can be seen in almost every economic division, and hence possess very divergent degrees of ecological risks.

Even though a comparatively smaller company size signifies that company-level ecological effects tend to be lesser compared to larger firms, their per-unit ecological effect might be greater compared to larger entities, and multiple SME companies together will result in significant impact overall.

Generally, this presents a tough environmental regulatory scenario. Controlling SMEs is not easy due to their sheer number and diversity.

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Compliance with ecological guidelines is tough for them due to the dearth of awareness and resources. Regulatory tools related to the environment need to be approached from the point of view of aiding SMEs in espousing greener practices instead of penalising non-compliant actions.

In view of this, regulatory systems have to be reformulated for dealing with specific attributes of SMEs and offer incentives for firms to rise above compliance.

Staying updated about environmental stipulations might be difficult for SMEs, especially when it comes to comprehending which requirements are applicable to them.

Getting guidance or counsel regarding what they have to do to conform to the stated stipulations is tough.

SMEs frequently believe that they are not backed enough and are unjustly expected to deal with the same extents of paperwork and onuses as bigger firms. Business enterprises usually voice support for a consumer-oriented relationship among the regulators and the regulated with the main objective of compliance instead of enforcement.



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