

# A New Zealand and Australian overview of ethics and sustainability in SMEs

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**ABSTRACT.** There is a dearth of research on ethics and sustainability related to SMEs in New Zealand and Australia. This paper begins by giving a definition of SMEs in New Zealand and Australia, which both differ somewhat from international definitions. The role of SMEs in New Zealand and Australian society is discussed and a description of one study in each country covering SMEs and sustainability is presented. Both studies found that owner-managers undertake a number of triple bottom line activities, without overtly identifying these actions as sustainable practice. At the same time, both studies showed that an over-riding focus on the financial bottom-line may be a significant barrier to SMEs adopting further sustainability practices. The paper concludes with a call for additional research in the area of ethical and sustainable business practice in SMEs in Australia and New Zealand, identifying some promising areas of future investigation.

**Key words:** SMEs, New Zealand, Australia, ethics, sustainability

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## Introduction

Australia and New Zealand have a long, deep and multifaceted association which is reflected in the similarities that exist between the way that small and medium enterprises (SMEs) are investigated and classified on both sides of the Tasman Sea. Unfortunately, in both countries there is an absence of studies focused on ethics and sustainability related to SMEs. This paper begins by describing the Australian and New Zealand context. The link between ethics and sustainability is explained. A definition of SMEs in New Zealand and Australia is given, which both differ somewhat from international definitions. The role of SMEs in society is discussed and an in-depth description of one study in each country covering SMEs and sustainability is presented. The paper concludes with a call for additional research in the area and an elaboration of the authors' own research agenda.

## The Australian and New Zealand context

One reason for the close ties between Australia and New Zealand is the existence of a trans-Tasman agreement on Closer Economic Relationships (CER) which has progressively enhanced the movement of people and trade between two close geographic neighbours. There is also evidence of a shared perspective displayed via the existence of intellectual ties such as the Small Enterprise Association of Australia and New Zealand (SEAANZ) which encourages collaboration between researchers, practitioners, educators and policymakers of both countries. It is because of these close ties that this paper can treat the two countries in an amalgamated and themed discussion on ethics and sustainability, whilst still being mindful of the economic, social and geographic differences that do remain.

New Zealand is a small, economically developed nation with a population of just over four million people. Gross national income (GNI) per capita was 22nd out of 30 OECD countries in 2005 (Ministry of Social Development, 2007). By comparison, Australia is ranked 11th in similar OECD rankings (OECD, 2007) and is a much larger and drier continent with an estimated resident population of 21 283 000 as of 31 March 2008 (ABS, 2008). The New Zealand economy relies on primary industries such as farming and forestry and has branded itself internationally as 'clean and green'.

Business, particularly the tourism and dairy sectors, have tried to leverage the clean green image through their advertising, but not necessarily their practices (de Bruin & Lewis, 2005).

Australia has a greater reliance on mining as an export income earning endeavour but still possesses a significant tourism industry. This proportionately greater reliance on mining may mean that Australian SMEs are somewhat less focused than their New Zealand counterparts with regard to sustainable practices. Mercer and Marden (2006) have referred to the Australian situation in terms of sustainable development as a 'quarry economy'. However, similar strategies related to sustainability are becoming more evident with the introduction of sustainable tourism practices in Australia described as '... [a] drive to make every tourism business and traveller ecologically and culturally sensitive ...' (Industry Sustainability, 2006).

In 2003, the New Zealand Government published its policy on sustainable development (DPMC, 2003), stating that 'sustainable development must be at the core of all government policy' (10). In 2006, the government reiterated and strengthened its commitment to sustainable development, suggesting New Zealand 'aim to be the first country which is truly sustainable' (Clark, 2006). New Zealand is also a country dominated by small and medium sized enterprises (SMEs). In 2006, 96% of enterprises employed 19 or fewer people (Ministry of Economic Development, 2007). In the early 1990s Australia was considered a world leader in developing sustainable business strategies and initiatives. However, since that time little has been added to the original model and Australia is now well behind other developed countries in this regard (Dovers, 2002). This decline in focus clearly has an impact on how business views its social and environmental responsibilities.

There is an inextricable link between ethics and sustainable business practices. As May, Cheney, and Roper (2007) suggested in the introduction to their edited volume, both corporate social responsibility and sustainable business are part of a cluster of terms that includes ethical business, sustainable development, socially responsible business, green management and corporate citizenship. Foot & Ross (2004) argue that sustainability or sustainable business can be viewed as a broader concept compared to business ethics or corporate social responsibility; sustainability 'embraces a wider, time-dependent definition of a benefit to society (such as social capital) and focuses on results rather than standards of behaviour ...' (113).

As noted above, there is a dearth of research on ethics and sustainability related to SMEs in New Zealand and Australia. Perhaps the best known academic research centre dedicated to SMEs in New Zealand is the New Zealand Centre for SME Research founded at Massey

University in Wellington in 2000. Although the centre has a broad array of research topics, to date there has not been a focus on ethics and sustainability. The Ministry for Economic Development conducts an annual survey on the structure and dynamics of SMEs, examining their significance to the economy and their financial performance. The report is in its eighth edition, but does not cover ethical or sustainability practices.

In 2001, the Australian Government began measuring and recording a set of sustainability indicators for Australia, but these were not focused on SMEs (2007a). Other discontinued SME focused government studies in Australia, throughout the 1990s and up until 2004, did not contain a concerted focus on either sustainability or ethics (ABS, 2004).

Noting this general lack of Australian SME information on sustainability, the data relied upon for this overview was extracted from a recently concluded exercise to benchmark SMEs in Western Australia (Weber, Geneste, Schaper & Soontiens, 2009). In particular, we draw upon the qualitative responses from open-ended questions on success factors to scan for the presence of responses that attribute success to ethical and/or sustainable behaviours. The findings are informative and in many ways mirror the New Zealand experience. Overall it was observed that approximately 10% of survey respondents made an unaided connection between their success and behaving in an ethical manner.

For New Zealand, the data relied upon for this overview was extracted from a multi-year research programme, sponsored by the University of Waikato Management School and the Sustainable Business Network (a network of predominantly small and medium sized organisations interested in sustainability practices), which focuses on the uptake of sustainability practices by New Zealand businesses<sup>1</sup>. One of the data sets from the ongoing study is an evaluation of sustainability practices by firm size, which allows for SME-specific analysis. There has been no other similar research conducted in New Zealand, which is surprising for a country dominated by SMEs and dependent on its clean and green image. Before exploring the details of each country study, it is helpful to clarify what an SME is in New Zealand and Australia.

### Defining SMEs in New Zealand and Australia

The New Zealand Ministry of Economic Development (MED) defines a SME as an enterprise with 19 or fewer employees which is the same employment range used by the Australian Bureau of Statistics (ABS) (2007). These definitions have been criticised because they do not easily align with international definitions (Massey & Ingley, 2007). Table 1 contrasts four definitions that have been applied in the two countries.

TABLE 1: DEFINITIONS OF SMEs IN NEW ZEALAND AND AUSTRALIA

Firm categorisation	MED (2007)	Cameron and Massey (1999)	Collins, Lawrence and Roper (2007)	ABS (2007b)
Non-employing	(i.e. only employ the owners)			
Micro enterprise	–	0–5 employees	–	1–4
Small	0–19	6–49 employees	0–9 employees	5–19
Medium		50–99 employees	10–99 employees	20–199
Large	More than 99	More than 99	More than 99	More than 199

There are differences in these definitions of SMEs and arguably the profile of most businesses means that even a large firm in New Zealand or Australia would be considered small in other developed countries, such as the United States. The predominance and profile of small business is examined in the next section.

### Role of SMEs in society

'From 2001 to 2006, SMEs accounted for 59% of all new net jobs in the economy' in New Zealand (Ministry of Economic Development, 2007:5). SMEs are dominant across the New Zealand economy, particularly in the property and business services sector (98.7% of businesses) and in the finance and insurance, construction, personal and communication services (Massey & Ingley, 2007). Indeed, these enterprises are often run by a sole trader or as a micro enterprise. The MED survey on SMEs for 2006 found:

- 96% of enterprises employed 19 or fewer people;
- 87% of enterprises employed five or fewer people; and
- 64% of enterprises had no employees. (Ministry of Economic Development, 2007).

The role of SMEs in Australia is similarly pervasive with the following data drawn from surveys conducted by the ABS (2007b) finding that at the end of the 2006 financial year (June 30):

- 95.90 % of enterprises employed 19 or fewer people;
- 84.29 % of enterprises employed 4<sup>2</sup> or fewer people; and
- 59.05 % of enterprises had no employees.

From viewing both sets of data, it is clear that the predominance of very small businesses could make it difficult for government to reach and engage them to achieve policy objectives. These companies tend to be 'small, closely held firms that, while sharing some of the features of large firms, will be dissimilar in their legal structure, market scope and management practices' (Massey & Ingles, 2007:6). In addition, researchers are challenged to identify and solicit information from business owners with limited time and whose resources tend to be focused on economic survival. This may be one reason for the paucity of research on SMEs and ethics. Researchers in Western Australia report similar

challenges engaging with the small business community with a recent pilot study to benchmark SMEs (Curtin Business School, 2008). The next section is a detailed description of one multi-year study focused on the uptake of sustainability practices with SME data in New Zealand and some matching observations from the raw data collected via the Western Australian Small Business Benchmarks (WASBB) initiative (2008).

### Ethics and sustainability in New Zealand

An ongoing research project sets out to examine the nature and extent of business adoption of sustainability practices in New Zealand. In 2003, members of the Sustainable Business Network (SBN) and a matched sample of non-SBN members taken from the Kompas database, were surveyed. Surveys were mailed to 1 843 CEOs or owners of organisations. There was a 44% response rate.

With a random sample of 30 of these survey respondents, follow-up interviews and focus groups were conducted in 2004/2005. In most cases the company's managing director or CEO participated. The focus groups and semi-structured interviews were designed to discuss the survey instrument and gain a deeper understanding of sustainability practices and concepts.

In 2006, the 2003 survey respondents were re-surveyed. The survey instrument remained the same. As in 2003, the survey instrument was posted to all the members of the Sustainable Business Network plus a sample of non-SBN members from the Kompas database to enable a comparison between the two. In total 1 710 questionnaires were mailed. There was a 30% response rate.

The results were collated into three different data sets: (i) 2003 vs. 2006; (ii) SBN members vs. non-members; and (iii) comparisons by firm size (Collins, Lawrence & Roper, 2007). This paper focuses on the third data set, firm size and the quotes below are from the focus groups and interviews.

Although earlier research had been conducted on the adoption of environmental practices by New Zealand businesses (Springett, 2003), it was focused on large businesses. The Collins et al. (2007) study was the first national survey to include businesses of all sizes and collect data on environmental and social practices. By broadening the study beyond large firms, the researchers were able to consider New Zealand's unique business profile, with its predominance of small and medium enterprises. The breakdown by business size for the Collins et al. (2007) survey is:

- small (less than nine employees) – 181 respondents;
- medium (ten to 99 employees) – 208 respondents; and
- large (more than 99 employees) – 112 respondents.

The findings in 2006 were similar to the 2003 findings, where size was found to be a significant predictor of the uptake in sustainability practices. Large firms had higher

uptakes of both environmental and social practices and reported higher levels of internal and external pressure to adopt these practices. Consistent with international research (Ammenberg & Hjelm, 2003; Simpson, Taylor & Barker, 2004), small firms in New Zealand did not believe they had much of an environmental or social impact:

We have a very small staff, only 13 people on staff. So, whatever we do in the area of sustainability or social responsibility is certainly on a very small scale (Collins et al., 2007:28).

Other business managers said financial pressures prevented them from becoming more engaged in sustainability issues:

Obviously our first goal is to make our profit at the end of this financial year. So, obviously we can't afford the same things as our larger competitors can afford (Collins et al., 2007:27).

One focus group participant saw small size in a more positive way:

I think the size of organisation is a big factor. When you're a small organisation there's different things you can do as opposed to a large corporate. And still do good things, but at different levels and in different ways. So

I know when we went through a smaller phase, there was a different feel, more of a family atmosphere in the organisation. As it gets bigger and there's more business pressure. If it's going well financially, there's a lot less pressure to be able to do a few more of these things. Whereas if it's growth, growth, go, go, go, it's much harder, and people are more heads down, rather than doing things that they'd like perhaps to contribute in other ways (Collins et al., 2007:28).

Figures 1 and 2 taken from the Collins et al. (2007) report show the most common social and environmental practices segregated by firm size. For all firms, the uptake of social practices was more common than for environmental practices. Social practices mirrored company size with the smallest uptake coming from small firms.

Although SMEs did not have as high an uptake of sustainability practices as large businesses, the rate of increase from 2003 to 2006 for environmental initiatives was highest among small businesses. This was particularly true for consideration of environmental impacts (an increase of 23% from 2003 compared to 6% increase for large business), joining an environmental group or network (an increase of 20% compared to 6% for large businesses) and having a recycling programme (19% increase compared to 16% increase for large businesses).

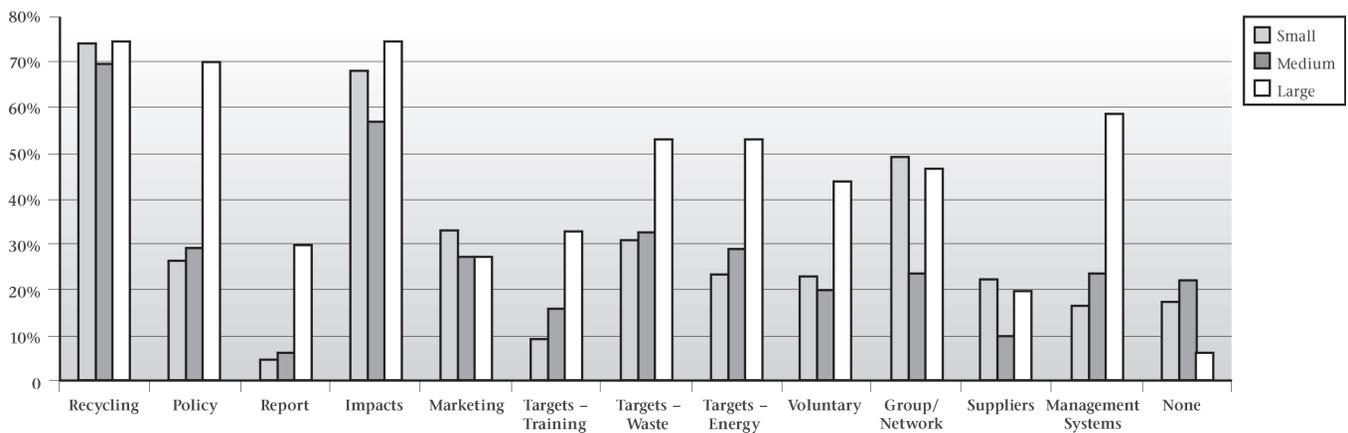


Figure 1 Environmental Practices by Firm Size 2006

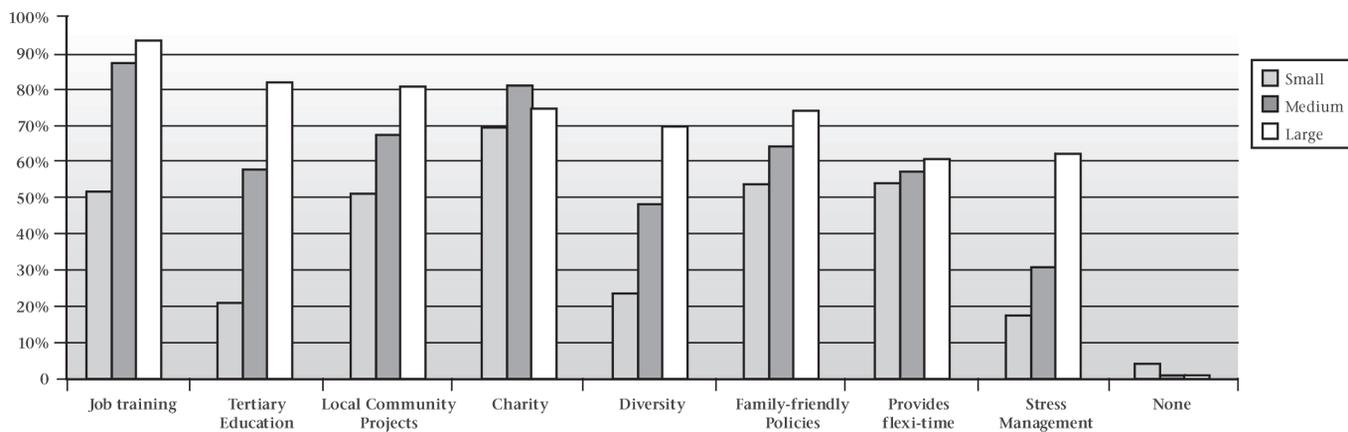


Figure 2 Social Practices by Firm Size 2006

A feasible reason for the increased uptake of environmental initiatives was small companies feeling the pressure as larger corporates try to green their supply chain. But, in fact, 61% of small businesses reported receiving no pressure to adopt environmental practices and only 18% reported pressure from their customers. Instead, 48% of small businesses reported values and beliefs of management to be a key driver and 47% cited reputation and brand.

Related to social practices, the most significant change from 2003 to 2006 was a significant increase in the philanthropic practices by only medium sized businesses. From 2003, there was a 13% increase in medium sized businesses giving to charity (compared to 3% for small and 6% for large businesses) and an 11% increase in medium sized businesses giving to local community projects (compared to 3% for small and 5% for large businesses). It is unclear why there was a significant increase for social giving only in medium sized businesses. The second round of interviews from a sample of respondents occurs in 2009 and this is one of the questions pursued by the research team.

Similar to environmental practices, SMEs reported very little internal or external pressure to adopt social practices. Internal pressure might come from stakeholders such as employees, shareholders, boards of directors and/or parent company. External pressure might come from customers, competitors, government and/or interest groups. The biggest shift from 2003 was the reported increase of pressure from employees (from 10% in 2003 to 19% in 2006) reported by small businesses. One explanation for this could be the low unemployment rate in New Zealand and the difficulty in recruiting and retaining staff. One respondent stated:

... employees see it as important – do interesting work on a reasonable salary, but actually what's more important is a good working environment. Work you're doing in the environment that you're working in, tends to be the two key drivers and what you pay people ends up about fourth or fifth on the list. But those two tend to be why people want to stay and join and they'll stay with the organisation at the end of the day.

But, overwhelmingly, the driver for the uptake of social practices was reported as the values and beliefs of managers. It is unclear what is driving the increase in values and beliefs being cited as the motivation for social practices and it is a further area of inquiry being explored in the 2009 round of interviews with survey respondents.

### **Ethics and sustainability in Australia**

WASBB data were collected via postal and online surveys between May and August 2008 from SMEs throughout Western Australia as part of a project to

create performance benchmarks for SMEs across a bank of financial and non-financial performance criteria. Questions of interest from an ethics and sustainability perspective included closed response items on environmental management issues and volunteering. In addition, we examine a range of open responses from the 12% of the participating SME owners who voluntarily attributed their success (at least in part) to environmentally and socially responsible practices. For the purpose of comparison with the New Zealand data results are reported using the same employee size ranges used by Collins et al. (2007) applied to the WASBB data (comparative-total sample N = 390):

- small (less than nine employees) – 301 respondents;
- medium (ten to 99 employees) – 89 respondents; and
- large (more than 99 employees) – two respondents.

It is important to note that SMEs in many cases will not self-identify as behaving in a sustainable fashion. Weber (2006) has observed in research conducted in Western Australia that SME rural hospitality owners do undertake a wide range of triple bottom line activities without overtly identifying these actions as sustainable practice. As with the New Zealand study, and as noted by researchers (Ammenberg & Hjelm, 2003; Simpson, Taylor & Barker, 2004), they simply believe that these are the normal frugal behaviours of good stewards of the land and community. For example, owners of a wine tourism venture in the South West of Western Australia said this of their local community direct competitors:

We don't really regard any of the other businesses in the valley as competitors, if one of our competitors attracts 500 people in a weekend it is a good thing ... (in Tassiopoulos, 2008)

Quotes such as this serve to remind us that small business owners may not overtly identify as sustainability focused; even when their attention is drawn to a sustainability agenda the owners may consider the impact of their small business as marginal.

Analysis of three questions (two related to volunteering which were identified as suggesting an ethical business stance and one question relating directly to environmental practices) revealed some enlightening findings from a small subset of responses that focused on ethical issues. Ten of the 19 participants who responded to these questions strongly disagreed with the statement that their business was a success. This perspective provides some indication that social and environmental impact was not a measure of success for those small business owners. There was a noticeable convergence between the social and environmental factors as described in Table 2, with 11 of the 19 cases answering yes to all three questions.

TABLE 2 SOCIAL AND ENVIRONMENTAL PRACTICE

Question	Q56: Do you permit your staff to volunteer for any community service during business hours?  Q57: Do you volunteer for any community service?	Q60: In the past year, have you changed your business processes and practices to reduce your environmental impact (i.e. reducing energy usage, waste and raw materials consumption).
Positive response by case number	2, 4, 5, 11, 13, 14, 28, 30, 53, 69, 74, 91, 92, 95, 108, 121, 152	2, 4, 5, 11, 14, 30, 53, 69, 95, 104, 121, 147, 152

A further indication that small business owners in Western Australia are not as aware of the impact of social and environmental practices from a sustainability perspective can be seen by the answers to the open-ended questions at the end of the WASBB questionnaire. Question 91 asked, 'In what ways do you measure or quantify your own business and personal success?' (WASBB, 2008) Respondents cited such things as 'dignity in the workplace' (47 year old female building contractor), 'respect of the community' (39 year old female construction contractor), 'reputation, integrity and honesty' (47 year old female management consultant), 'loyalty to and from workers' (39 year old female construction contractor) and 'ethical and fair treatment of all parties' (54 year old male consultant engineer) in response to the above question. Whilst respondents may not directly identify these concepts in terms of ethical or sustainable practice, they were aware that they need to behave in this manner in order to remain in business and be competitive.

### Perceived barriers

International research on SMEs has reported greater barriers to implementing sustainability practices (e.g. lack of expertise and capital) compared to larger firms (Ammenberg & Hjelm, 2003; Simpson, Taylor & Barker, 2004). However, in the Collins et al. (2007) New Zealand study, large firms were more likely to cite barriers than small and medium sized companies. Cost, management time and knowledge and skills were the three most commonly cited barriers by all sized firms, but cited more frequently by large businesses. Table 3 illustrates a breakdown of the responses from New Zealand:

TABLE 3 BARRIERS TO ADOPTING ENVIRONMENTAL AND SOCIAL PRACTICES BY FIRM SIZE

	Small	Medium	Large
Costs	40%	52%	65%
Management time	33%	42%	43%
Knowledge and skills	29%	31%	38%

One explanation could be related to the fact that large firms have more formalised processes and policies with associated costs compared to SMEs. However, large firms were also more likely to cite drivers for sustainability measures including enhanced reputation and brand (79%) and adopting practices as a way to recruit and retain employees (60%). Large businesses that were more engaged in sustainability initiatives were also more aware of the complexity of the issues, including advantages as well as obstacles to adoption.

The concept of perceived barriers to adopting environmental or social practices was not directly canvassed in the WASBB study. However, analysis of the responses to questions related to various triple bottom line practices were collected for the main WASBB report (Weber et.al, 2009). These results show that only 27% of small business owners have conducted an environmental audit with 51% engaging in any form of community volunteering (N = 344). This is somewhat indicative of a majority or at least a significant minority of SMEs not having much enthusiasm for social or environmental outcomes. This observation was supported by negatively framed comments of respondents such as 'being responsible for the financial well being of a large number of people and their families' (62 year old male equipment wholesaler); 'focus on simple and singular financial objectives' (42 year old male management consultant); 'responsibility continues nonstop all year' (66 year old male liquor retailer) and 'challenge to achieve financial independence' (65 year old male outdoor leisure equipment retailer) which all indicate that small business owners are more focused on the financial aspect of maintaining their business. It is also noted that a significant number of respondents viewed ethical and sustainable business practices as being irrelevant to their business because of the small size of their organisation.

### Conclusion

This paper reviewed the current state of knowledge of SMEs in Australia and New Zealand related to ethics and sustainability. It is a concern that the dominant aspect of the New Zealand and Australian economies – small businesses – has been the least studied. The two studies described in the overview of both countries found that managers of SMEs undertake a number of triple bottom line activities, without overtly identifying these actions as sustainable practice. At the same time, both country studies suggest that a myopic focus on the financial bottom-line may be a significant barrier for SMEs adopting further sustainability practices.

Ironically, the New Zealand Government has committed itself to achieving a sustainable economy, without undertaking the research necessary to achieve that fundamental shift or to measure its success. This

suggests that the government's policy objectives will be poorly informed and marginally effective.

Australia does have an articulated policy on ecological sustainability which was ratified by all states in 2002. Western Australia built upon this good beginning to formulate its own strategy on state sustainability in 2003, but progress beyond these policy beginnings has been limited. It would seem from anecdotal evidence within the WASBB data that the message has not penetrated to many SMEs in Western Australia and the lack of government legislation, initiatives and direction does not provide any impetus for small business to engage in ethical or sustainable business practice.

In an attempt to fill the research gap, the authors of this study will continue to research SMEs related to sustainability and ethics. In 2009 in New Zealand, follow-up interviews will be conducted with a sample of the 2006 survey respondents. In addition, the third national survey will be conducted in 2009. In light of the global economic crisis, it will be particularly important to document the sustainability practices of SMEs. We are particularly interested in what is driving charitable giving and community engagement in SMEs and pursuing the notion of values driving the uptake of sustainable practices. What influences the values of the CEOs of SMEs and do those values translate into an increase of sustainability practices?

In Australia, partners are being canvassed to replicate and extend the pilot WASBB project in the next iteration in 2010. One goal will be to bring into sharper focus some aspects of social entrepreneurship relative to financial performance. Until then, the rich data-set within the first round of WASBB suggests some interesting lines of enquiry. These include: examining linkages between economic success, personal success and triple bottom line thinking; apparent gender differences in triple bottom line objectives and attitudes; and age-related attitudes towards environmental objectives and variations between rural and urban triple bottom line performance. There is also the potential from the WASBB data to identify particular industries via the four-digit Australian and New Zealand Standard Industry Classification (ANZSIC) code to focus at an industry level on who is over and underperforming on the triple bottom line. Such revelations will no doubt raise further questions of why these differences exist and how we might identify exemplars and encourage benchmarking of ethical and environmental performance alongside traditional financial goals.

There is exciting potential for New Zealand and Australian researchers to continue to build a deeper understanding of the ethics and sustainability agenda of SMEs in the Antipodes. This sharing and comparison of research findings between the two countries holds great promise of driving policy and SME behaviour in a sector that collectively accounts for more than 96% of all businesses in the two nations.

## Notes:

<sup>1</sup> Publications related to SMEs from the Waikato Business School and Sustainable Business Network research project include: Collins, E., Lawrence, S., & Roper, J. 2007. *Sustainability Practices of New Zealand Businesses in 2006*. Waikato Management School. [Online]. Available: [www.management.ac.nz/sustainabilityreport](http://www.management.ac.nz/sustainabilityreport); Collins, E., Lawrence, S., Pavlovich, K., & Ryan, C. 2007. Business Networks and the Uptake of Sustainability Practices in Small and Medium-Sized Enterprises: The Case of New Zealand. *Journal of Cleaner Production*, 15(8&9): 729–740; Lawrence, S., Collins, E., Pavlovich, K., & Murugesu, A. 2006. Sustainability practices of SMEs: The case of New Zealand. *Business Strategy and the Environment*, 15(4): 242–257; and Lawrence, S. & Collins, E. 2004. *Sustainability Practices of New Zealand Business*. Waikato Management School. [Online]. Available: <http://www.sustainable.org.nz/cms1/index.php?page=publications>.

<sup>2</sup> There is a slight mismatch between Australian and New Zealand definitions here with the ABS including organisations with five employees in the category of small rather than micro.

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