



CFIB

Research



SMEs: The Natural Facts

Results of CFIB *Environment Survey*

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June 2001

Throughout the last decade our natural environment has grown to be one of the top concerns of governments, large corporations, small business communities and the public at large. At the base of all these entities is the care that people show for the environment and its long-term sustainability for the benefit of future generations.

Despite the strengthening awareness, information on environmental issues, especially from the small and medium-sized enterprise (SME) perspective, is scarce. The needs of small business communities, their interaction with the environment and communication of their views to governments differ from those of large companies.

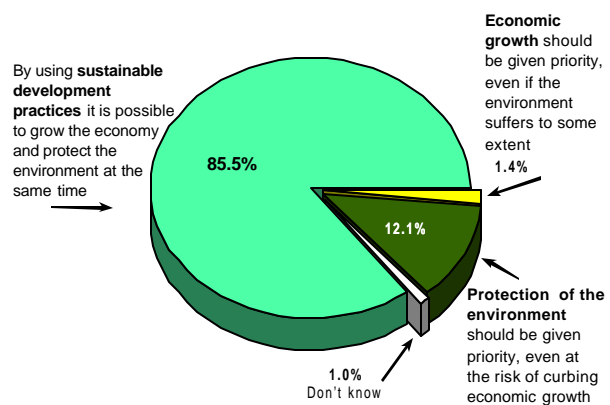
Building on previous research on the environment at the national level, CFIB's most recent effort has produced rich information on a vast array of current environmental issues. Our survey, conducted electronically during the months of September through November 2000, addressed issues related to general environmental concerns, waste management factors and formal actions taken by small businesses. Other points of focus were firms' environmental progress, motivational factors, and related regulatory aspects. The survey results reflect the views of 4,322 respondents representing all industry sectors and geographic regions throughout Canada.

SMEs are strongly committed to environmental protection, which is evident through their significant progress achieved during the past decade. While environmental regulatory approaches could have positive impacts on SMEs, all too often they trigger negative effects because they are not designed specifically for the small business community.

SMEs Favour Sustainable Development

The goodwill of SMEs in protecting the environment is proven by the fact that the vast majority of respondents, 85.5 per cent, believe sustainable development practices make it possible to grow the economy and to protect the environment at the same time. Another 12.1 per cent think that the environment should have priority even at the risk of curbing economic growth. Only 1.4 per cent of businesses consider that economic growth should be given priority even if the environment has to suffer to some extent (see Figure 1).

Figure 1
General Environmental Approaches

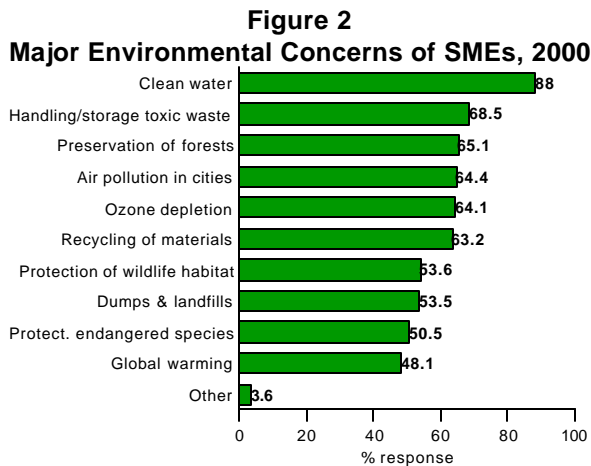


Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

SMEs believe in sustainable development practices and in treating the environment and economic growth with the same respect and importance. Therefore, any sustainable development strategies taken by governments will find an ally in the small businesses community.

Concern for the Environment

Water quality is by far the predominant environmental concern in every province and in every community, rural or urban, as indicated by 88.0 per cent of respondents (see Figure 2). The handling and storage of toxic waste comes second in importance, at 68.5 per cent. These findings are very consistent across the country, with almost no differences by size, age of firm, or industry. Firms situated in rural areas are somewhat less concerned about air pollution in cities, ozone depletion, protection of wildlife habitat and protection of endangered species.



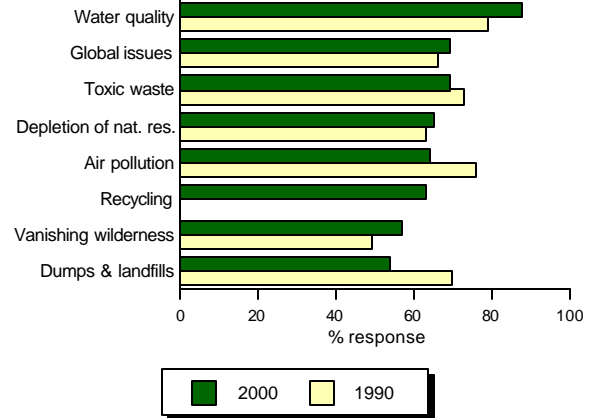
Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

By region, firms in Quebec and in the Atlantic provinces register high levels of concern over the preservation of natural resources, especially forests; while Ontario and Western Canada remain more concerned about the handling and storage of toxic waste.

Comparing these views with CFIB's research conducted a decade ago shows that the relative importance of issues has remained about the same (see Figure 3).

Respondents are highly influenced by situations in their communities and by major environmental-related events worldwide. Some concerns have grown over the past years such as water quality, vanishing wilderness, concern with global issues and depletion of natural resources. As a result, other issues, such as air pollution, dumps and landfills, and handling of toxic waste get now slightly less profile.

Figure 3
Major Environmental Concerns, 2000 and 1990*



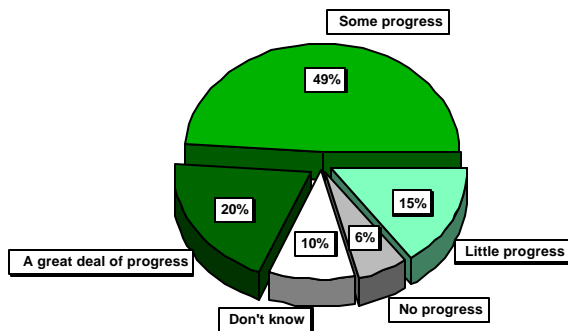
Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000 and *Environment Survey*, November 1990.

* The categories in the 2000 survey were regrouped in order to be consistent with the ones in the 1990 survey.

Progress Achieved

While attitudes are extremely important to measure, how business owners act reveals the true strength of their commitment to the issue. Here, the results look positive.

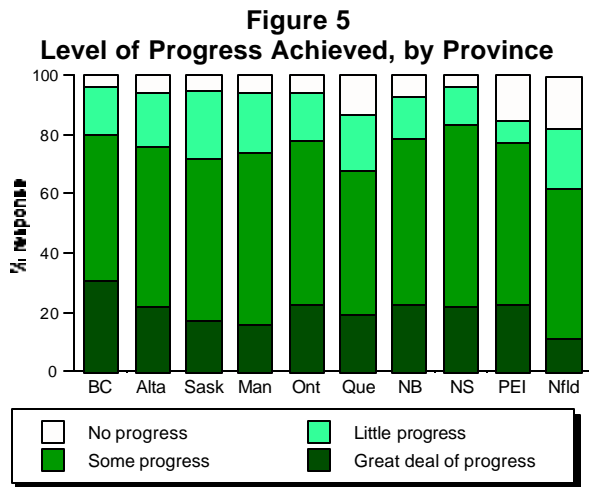
Figure 4
Progress Achieved in Dealing with Environmental Issues



Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

In fact, two thirds of small and medium-sized firms consider to have made "some progress" (49 per cent) or "a great deal of progress" (20 per cent) in dealing with environmental issues (see Figure 4). Only one in five respondents stated that they made "little progress" (15 per cent) or "no progress" (6 per cent).

Responses from business owners who knew how to measure their progress show that firms all across the country have gone a long way towards meeting their own environmental objectives (see Figure 5).

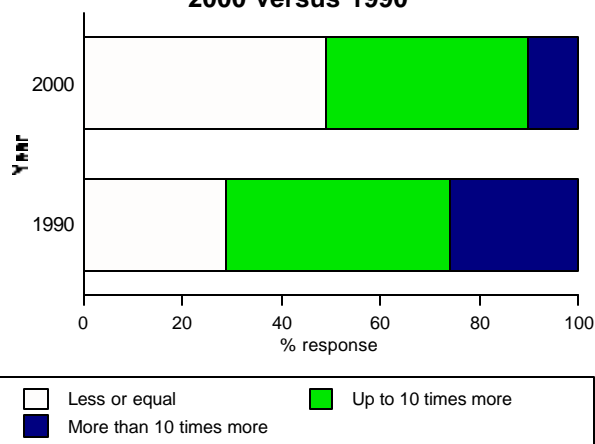


Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

Behavioural Progress

The high concern that SMEs have for the environment is also evident in the way they manage their own day-to-day affairs. In 2000, one in two small businesses (47.4 per cent of respondents) threw out less or an equal amount of garbage compared to a household. This percentage has significantly increased from 1990 when about one in three businesses, 28.1 per cent, threw out an amount of garbage less or equal to a typical household (see Figure 6).

Figure 6
Amount of Garbage Thrown Away by a Small Business Compared to a Household, 2000 versus 1990



Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000 and *Environment Survey*, November 1990.

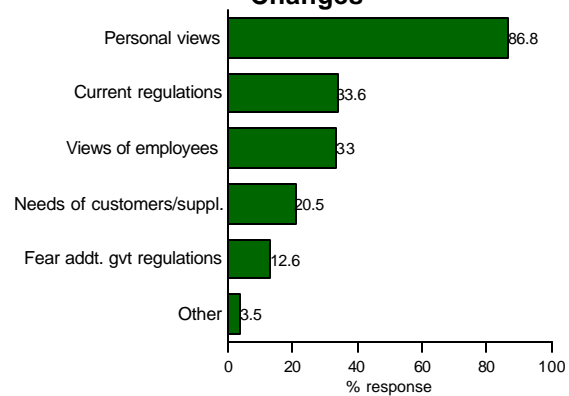
A very significant change is registered in the percentage of SMEs that throw away more than 10 times the amount of garbage thrown away by a

household. This percentage is about two and a half times less in 2000 than in 1990, 9.9 per cent of respondents, down from 25.2 per cent of firms.

Motivational Factors for Change

What motivates a small business in making progress on environmental stewardship? The answer is simple – its people. Personal views of the business owners are, by far, the leading motivational factor mentioned by 86.8 per cent of respondents. The views of the employees count for one third of small businesses, 33.0 per cent (see Figure 7). The idea that the opinions of employers and employees have a lot of influence over the way a business approaches environmental management reinforces the findings of previous CFIB research.

Figure 7
Motivational Factors for Environmental Changes



Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

Current environmental regulations were cited by about one third of firms as an additional influence on their actions. Regulations push firms to improve and to renew equipment, install pollution control devices, recycle more or make changes to products or processes. Fear of additional regulations is listed with the lowest frequency as a motivation for a business to do something about the environment.

The size of the firm influences the degree of importance each motivational factor has. In a medium-sized firm, with 20 or more employees, the personal views of the employer count less, yet the employees' views count more than in a smaller firm. Also, for a medium-sized firm, the needs of its clients are slightly more important than for a smaller business, 24.8 per cent compared to 18.2 per cent respectively.

Current environmental regulations have far more impact in triggering change in the behaviour of a 100-employee firm than in a 5-employee firm. For a five-person firm, personal views of the employer count the most. And not to be forgotten is the fact that 78.4 per cent of Canada's business population are firms employing fewer than five people. Hence, the data suggests that a regulation, no matter how well defined, would not change behaviour as much as enhancing the business owners' understanding on environmental issues. Information and education are the key strategies towards better environmental protection that governments should use when dealing with SMEs.

Regulations are not the root of improvements in environmental behaviour. In fact, among all the firms that have made progress, 47.3 per cent are not regulated by any level of government. About one third, 34.7 per cent, of the firms that have made a great deal of progress are not regulated either. Almost 50 per cent of the firms that have stated "some progress" are not regulated as well, and two-thirds of the ones that have made little progress have improved without being under any kind of environmental regulation. Hence, being regulated does not constitute a necessary condition for improvement.

Economic Aspects of Regulating

Most respondents believe that the benefits of any new rules should be measured against the costs of complying with these rules. For example, one may find that the costs of regulating exceed by far the benefits. This could undermine the public support and reduce the effectiveness of the regulations. Environmental regulations should be adopted only when the benefits exceed the costs, and do not impose higher burdens on certain groups, such as SMEs, than on others.

At the national level, 41.0 per cent of SMEs say that environmental regulations should be the subject of a cost of compliance analysis, while 21.8 per cent of firms expressed opposition to such a process. Businesses in Quebec are the ones that most favour an economic analysis of environmental regulations, with 52.5 per cent.

With respect to environmental regulations that address specific risks to people's health, 50.8 per cent of respondents are in favour of looking at all

alternatives before deciding on implementing a potentially harmful regulation for the business community even though this might have positive environmental impacts. In Quebec, the percentage of members approving a cost-benefit analysis is even higher at 63.2 per cent.

When asked how the regulations should be adopted if the risks to people's health are unclear or unproven, the responses are divided among possible solutions. Most respondents, 57.2 per cent, support regulating only to some degree until the risks are better understood. One in five respondents, 21.3 per cent, think that governments should regulate regardless, as if there are clear health risks, whereas a similar share, 19.6 per cent, believe governments should not do anything until risks will be properly understood.

Compensation given by the government to a person whose land's value has been reduced by an environmental regulation is another area of mixed views. A relatively high proportion of respondents were undecided (17.9 per cent) as to whether compensation should be paid. Of the decided respondents, six out of ten favour compensation. Moreover, the smaller or the younger the firm, the higher the support. By industry, firms in agriculture and primary sectors tend to be more in favour of compensation. Also, businesses situated in rural areas, are more likely to favour governments' approach of compensating the person whose land or property has been devalued.

Firms see the benefit of appropriate packaging regulation, but are mindful of the high-cost and sometimes limited impact of this kind of recycling program. About one in two respondents, 46.9 per cent, don't agree that producers or importers of packaged goods should pay more to support curbside packaging recycling programs. The other 39.1 per cent of firms approve this measure. The split response points out the problem of using narrowly based taxation or regulatory approaches to deal with broadly based issues.

SMEs are willing to help with recycling programs, but they should not be held to pay for more than their fair share. Smaller businesses have the same scale of impact and similar resources to households. As a result, many feel they should have access to similar recycling initiatives as households. Whereas large firms have the ability to

manage different aspects of dealing with environmental issues, by themselves, smaller businesses and households are most likely to require outside support.

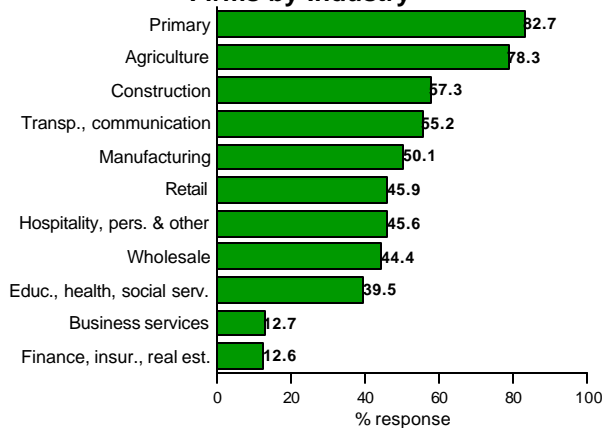
Current Regulatory Aspects

A growing proportion of CFIB's membership is exposed to environmental regulations imposed by various levels of governments. In 2000, 43.2 per cent of SMEs were subject to environmental regulations up from 31.4 per cent of members in 1990.

Nova Scotia and Saskatchewan have the highest concentration of regulated firms at 54.8 per cent and 50.6 per cent respectively. Quebec has the lowest percentage of regulated firms at 33.5 per cent.

The proportion of environmentally regulated firms varies significantly by industry. Firms in primary and agriculture sectors tend to be more regulated, 82.7 per cent and 78.3 per cent respectively. SMEs in the business and financial services are the least regulated, 12.7 per cent and 12.6 per cent correspondingly (see Figure 8). This may be due, in part, to the fact that firms in the primary sector often have the most direct relationship/impact on the environment.

Figure 8
Percentage of Environmentally Regulated Firms by Industry

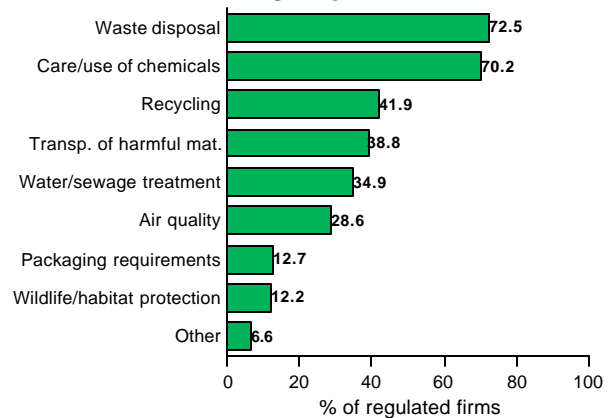


Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

Regulatory Bodies and Areas

The vast majority of regulated firms, 81.5 per cent, are under provincial/territorial government regulations. About two in three respondents, 63.2 per cent, are regulated at municipal level and one in two, 48.4 per cent, at federal level. About one third, 31.1 per cent, of regulated businesses have to comply with rules imposed by all three levels of governments. A similar share, 30.9 per cent, of regulated businesses have to satisfy two levels of regulators.

Figure 9
Types of Environmental Regulations that Affect SMEs



Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

Regulatory areas include waste disposal, care and use of chemicals, recycling of materials, transportation of harmful materials and sewer-use bylaws among others. The vast majority of respondents are under waste disposal regulations, 72.5 per cent of regulated firms, and under regulations regarding care and use of chemicals, 70.2 per cent of regulated businesses (see Figure 9).

The data indicates that smaller businesses may be over-regulated with regard to waste disposal. One in every three firms (33.8 per cent) that throws away less or an equal amount of garbage to that of a household is under waste disposal regulations. For a small business, this inequality translates into a lot of paperwork and related time used ineffectively to comply with the regulation, even though it produces an equal amount or less of waste as a typical household.

Regulatory measures can work but they have to be sensitive and geared towards industry and business type in order to be most effective.

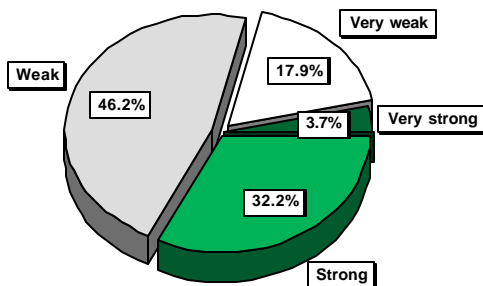
Appropriateness of Regulations

About one in two regulated businesses think that regulations are in some way inappropriate. One in five regulated firms, 20.0 per cent, consider the regulations to be too lax, and they could be tightened without any adverse effect on the business. Another 16.1 per cent of regulated firms find regulations to be too restrictive and think that regulations could be eased without negatively affecting the environment.

In some cases, regulatory approaches create imbalance among firms competing in the same sector putting some businesses at disadvantage. A share of 6.7 per cent of respondents find regulations not balanced and think that regulations are tougher on their firm compared to their competitors.

The root of a poor regulation resides primarily in a lack of understanding of the interaction between the environment and business communities. The majority of respondents, 64.1 per cent, believe that governments' understanding of SMEs is somewhat weak or very weak. Only 35.9 per cent consider government regulators to have a strong or very strong understanding of their business or industry (see Figure 10).

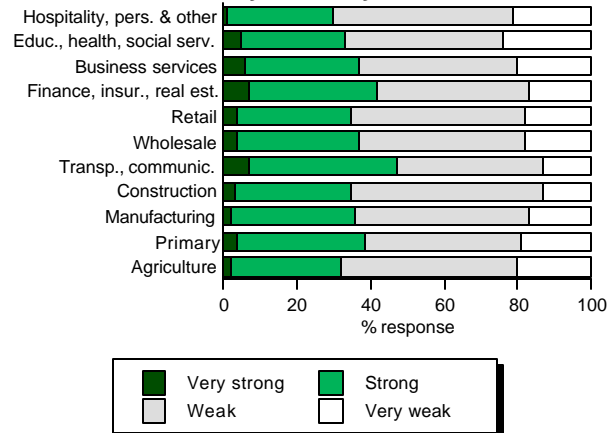
Figure 10
Governments' Understanding of SMEs' Issues



Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

The level of understanding varies by industry, but is extremely low for every sector (see Figure 11).

Figure 11
Governments' Understanding of SMEs' Issues by Industry



Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

By region, businesses in Atlantic region feel slightly better understood than firms in Western Canada. SMEs in British Columbia are more likely to categorize governments' level of understanding as very weak.

The lower the level of government understanding of business or industry issues, the less the likelihood that businesses will view regulations as adequate and, correspondingly, the higher the percentage of firms that think rules are too tight. When governments have a strong understanding of business issues faced by SMEs, regulations are more likely to be viewed as about right than when the level of understanding is very weak.

Impact of Regulations

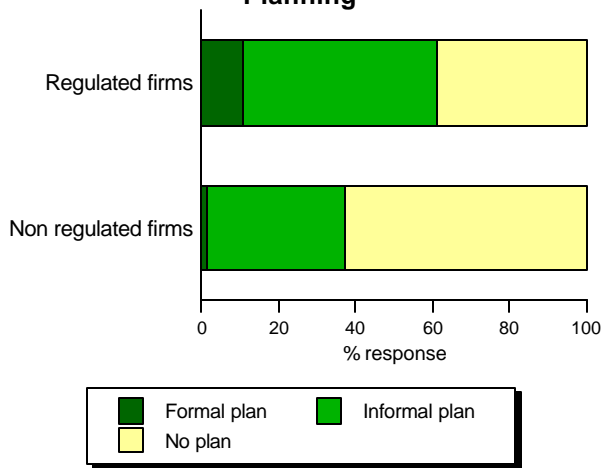
Regulations have a tremendous impact on businesses as well as on the environment. If regulations are well established, then the impact on the environment is definitely positive, while the cost impact on the business is, at worst, controllable. For one in two SMEs, 52.4 per cent, current regulations entail a manageable cost. For one in four, 29.2 per cent, regulations have a strong negative impact translating into significant costs. For one in five firms, 18.4 per cent, current regulations translate into better planning and more efficient use of resources or into an increase in sales.

The impact of regulations on business is somewhat similar regardless of the level of government imposing the regulation. However, firms regulated by federal environmental laws are slightly more likely to suffer a negative impact than firms under regulations imposed by other levels of government.

Approach to Environmental Strategy

The high concern of SMEs for the environment is, once again, proven by the action taken at management level. Almost one in two respondents, 47.8 per cent, have taken a formal or informal approach to working environmental stewardship into their business processes.

Figure 12
Steps Towards Environmental Management Planning



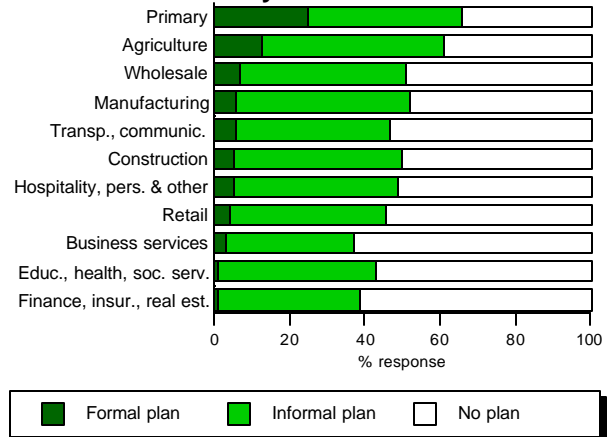
Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

Environmentally regulated firms are more active on the formal side than the non-regulated firms (see Figure 12). However, planning an environmental management approach is not mandatory. In some cases, regulated firms adopt formal or informal plans because it helps them complying with the regulation.

Regulating an industry will not necessarily persuade the businesses to take action. More than one third of regulated firms, 38.8 per cent, have no plan or strategy. In contrast, 37.5 per cent of the non-regulated firms have already adopted a formal or informal approach. As seen previously, firms will take action primarily because of their owner's beliefs or the views of the employees, not because of regulations.

The survey results show that most regulated industries have taken more steps towards adopting formal environmental plans. The primary and the agricultural sectors lead the way (see Figure 13).

Figure 13
Approach to an Environmental Strategy, by Sector



Source: Canadian Federation of Independent Business, results of *Environment Survey*, Sept.-Nov. 2000

About one in twenty firms, 4.6 per cent, have customers or suppliers asking them to put together an environmental management plan. This percentage varies by industry, regardless of size, age or province where the business is located. Firms in more regulated industries such as primary or agriculture, have more requests for putting together environmental management plans.

An important part of a long-term strategy is educating the business community on the benefit of becoming more environmentally sensitive. This sensitivity could be achieved through significant changes to the core activities or by improvements in production processes, packaging, etc. For example, the ISO 14,000 family of standards helps firms establish and achieve quality management systems in the environmental area.

The lack of knowledge from the part of SMEs is demonstrated, once again, by the fact that three-quarters of respondents, 73.3 per cent, have not heard of ISO 14,000. This represents a huge opportunity for governments to take initiative on disseminating information to small and medium-sized firms regarding non-mandatory solutions that could help improve their environmental standards.

Conclusion

SME owners are closer in their views about the environment to the individuals than to corporate Canada. They are genuinely concerned about protecting the environment. The progress achieved by the vast majority of them in the last decade is testament to their care. The beliefs and views of employers and employees are the driving force behind this progress. SMEs have made huge efforts to improve their environmental behaviour not necessarily because of governments' regulations, but rather because they felt it is a high priority. Nevertheless, the proportion of regulated firms has significantly grown in the past years.

Some regulated firms have to respect rules in areas where they have the same impact as households. This inequity impacts on their bottom lines and reduces their ability to compete in the market.

Governments should view SMEs as entities with different environmental behaviours. Regulatory authorities should become more sensitive to small and medium-sized firms, by implementing separate goals and providing resources different to that of large corporations. SMEs' goodwill and care for the environment should be reinforced by practical solutions designed to fit SMEs needs.

Dissemination of information on standards and ways to improve business operations should be widespread and targeted towards SMEs specifically. Education on environmental issues should start early and be updated with current events. This will raise the level of awareness and conduct to more informal approaches being taken by businesses.

Governments should ensure that business communities across the country have the possibility of applying good environmental behaviour. Support should come in the form of a more developed infrastructure that helps actions such as recycling of various materials. Moreover, reducing consumption and reusing articles should be given more and more importance. A recurring theme on SMEs agenda is the fact that their goodwill, especially in terms of recycling, hits the wall because of the lack of adequate recycling infrastructure available to businesses.

Governments should, by all means, encourage environmentally friendly behaviour through partnerships and incentives where desirable, and help apply and maintain sustainable economic practices in order to protect the environment and grow the economy at the same time. Most important, governments should show leadership and follow these principles themselves.

The care that small firms show for the environment and the strong impact their own beliefs can make should not be ignored or underestimated by governments when planning the most appropriate paths of action for environmental protection. Better than setting one set of complex and cumbersome rules to protect the environment, the data shows that there would be a stronger impact if governments would invest in educating and partnering with business owners to enhance their understanding and knowledge of environmental issues and management techniques. Rather than constraining small businesses act, governments should see them as an ally and engage them in innovation activities regarding environmental protection.