

## **INSTITUTIONAL CHANGE AND BUSINESS SUSTAINABILITY IN DEVELOPED COUNTRIES**

### **Keith M Melton**

*Director, Institute for Sustainable Development in Business, Nottingham Trent University, UK*

### **Neil E. Harrison**

*Sustainable Development Institute; University of Wyoming, USA*

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### **Summary**

Fostered, in part, by changes in national government policy on sustainable development and devolution of decision-making power to regions, a voluntary association of businesses and business support organisations concerned with the environmental effects of industrial activity has evolved in the East Midlands of England. Bringing together representatives of support organisations, corporations, and local and national governments, it has begun to change the perceptions of businesses in the area and its influence has grown quickly. However, this association has grown from local seeds with little formal assistance or support from governmental institutions. This case illustrates the observation of many analysts that business is beginning to recognize the need for sustainability and that governments may be most effective in encouraging these changes in strategic management by preventing official obstruction as much as by actively supporting the effort.

This paper explores the pressures on business in the context of changes in Regional Governance, taking as a case study the East Midlands Region of England, looking at developments in the supportive infrastructure. It examines the support networks in the Region, including the Regional Government Office and the East Midlands Action Group on the Environment (EMAGE), chaired by the lead author from 1997-2000. The paper also examines changes of perception amongst the business community in the

context of greater expectations by both the public and the regulatory authorities including the recently formed Environment Agency.

## 1. Introduction

Using a case study of the evolution of awareness among businesses in one region of a single developed country this article illustrates how SMEs can make a significant contribution to sustainable development. The title of this section describes the steps by which in recent years the idea of sustainable development has become institutionalized among the business community in the East Midlands Region of England. A wide variety of government and business organizations and groups have cooperated to develop a framework for business support which has had two important effects. First, it has enabled a coherent business response to key environmental problems and, second, it has stimulated increasingly significant business support for sustainable development.

These institutional developments have occurred in the context of unrelated changes in regional governance in the United Kingdom. The General Election of 1997 brought a new government to power intent on pursuing a considerably different agenda from its predecessor. Introduction of devolved powers for Scotland and Wales and the introduction of Regional Development Agencies (RDAs) have radically reformed and extended regional governance throughout the country. The RDAs and the new Regional Assemblies throughout England are increasingly expected to provide a regional voice both upwards to national government and downwards to more local levels of government. They may also in the longer term become the forerunners of more fully devolved governance for regions in England.

In the United Kingdom, sustainable development has risen on the political agenda since the introduction of the Government's White Paper on the subject. Its approbation of sustainable development legitimised the subject and provided a framework for local governments to begin to design strategies to address it. In the White Paper, the world of business was targeted to bring about improvements in business practice on environmental issues, social progress, and protection of natural resources.

This exhortation to business to take a leading role in the process of sustainable development created substantial pressure on corporate leaders. Changes in regional governance over the same period reduced the role of national government and increased local autonomy in making the public policy decisions necessary to support adoption by business of strategies for sustainable development.

This article examines the evolution of pre-existing business support networks in the East Midlands region. These include the Regional Government Office and networking arrangements of the EMAGE, which started in 1992 and which Keith Melton (lead author of this article) chaired from 1997 until September 2000, with *Business Links*, local governments and other, more diffuse, networking bodies that influence the business community. The development of the infrastructure supporting a growing business contribution to sustainable development in the East Midlands of England suggests the many and varied opportunities for substantial business participation in sustainable development that are available—in both developed countries and many

developing countries—but that, too often, are ignored.

## **2. What Theory Expects**

The literature on sustainable development is extensive and another on the role of business in sustainable development is nearly as varied. In the latter literature, there are two broad approaches. One asserts that business behaviour may be directly influenced: government can mandate specific business behaviours with product and process rules or, in the words of economics, it may “get prices right” through subsidies and taxes. For example, investment in research for eco-efficient technologies may be subsidised and harmful activities (for example, carbon dioxide emissions) taxed. A comparable but non-governmental stimulus to change business behaviour is public relations. Many large companies from Shell to Monsanto have embraced environmental accounting, ISO 14001, and “green” reporting while continuing to follow many of the standard operating practices of environmentally dangerous industries. SMEs are not expected to be as environmentally aware or as responsive as such large organizations. It is often claimed by environmentalists that these companies weigh the benefit of “green” public relations against the financial cost of marginal changes in behaviour. These companies are perceived as not committed to the wholesale internal change necessary to substantially change their environmental and social footprint.

An opposing approach is based in the belief that sustainable development is too complex to direct in such detail and demands that ideas (beliefs and perceptions) about the nature and purpose of business must be changed before businesses will be able to participate in sustainable development. Changing hearts and minds demands more than laws and marginal fiscal fixes. Only radical changes in the ideas espoused by businesses about their role in society and their responsibility for the environment will suffice.

This article shows that the second approach—“changing minds”—is possible and can be very effective, probably more effective than the ‘command and control’ approach. It examines the changes of perception among the business community of the East Midlands region of England and in particular among SMEs. These changes occurred within a context of greater expectations of business in both the public and in regulatory authorities, whose frame of reference had been changed by the introduction of a new and, on the face of it, more powerful national Environment Agency. This article also examines the strategic management framework for business in terms of the ethical imperatives that are so often identified by research as critical to long-term progress on sustainable development.

## **3. Institutional Evolution**

This section summarizes the evolution of the institutions that have raised awareness of, and promoted learning about, sustainable development among SMEs in the East Midlands of England.

### **3.1. Institutional Emergence**

In early 1992, following a conference on environmental issues in business which

targeted the SME sector in the East Midlands, a new business working group emerged in the region. It consisted of individuals representing a variety of organisations operating in the geographical area of the five counties of Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire. The body brought together representatives of government—including the Local Authorities, the Regional Government Office (GO-EM), the Inspectorate of Pollution (HMIP), the National Rivers Authority (NRA), Higher Education Institutions (HEI's)—and industry sector organisations such as the Engineering Employers Federation (EEF), the Confederation of British Industry (CBI), and Business in the Community (including its offshoot: Business in the Environment or BiE). Green business clubs and some of the key utility companies, (water, gas, and electricity) were also represented on a regional basis.

The new working group styled itself the East Midlands Advisory Group on the Environment (EMAGE) and provided a forum for discussion, primarily concerned at that point with "advising" the SME sector. It was strongly supported by DTI officers within the regional office (of the national government) that gave modest funds for publicity and information dissemination. This was the early "**VISION**": a well-informed small business sector, becoming attuned to, and responding to, environmental pressures.

The individuals participating in EMAGE saw it as part of their normal duties, since each had a job that depended to some extent on developing work, research, consultancy, regulation, or advice on environmental issues for their own organisations. To sit on a working group that brought them into contact with others of like mind and like responsibility, was valuable in itself and provided a good meeting point to avoid conflicting priorities, amongst other benefits. Many of the individuals were also linked into other networks and it quickly became a networked group of networks, a role it still performs.

The size and composition of the group was always quite fluid, with a core group of about ten people getting to most of the quarterly meetings, dropping occasionally to six or seven but mostly ranging around fifteen to eighteen strong and sometimes reaching twenty-four. One of the keywords in the title of the group, at this early stage, was "Advisory" and the perceived role of EMAGE was to disseminate information to business. This was done by arranging seminars and conferences, usually through one or more of the partner organisations, perhaps sponsored by the national government's regional office or one or more LAs, or run by the group of seven (later eight) Universities in the Region.

### **3.2. Institutional Development**

Although the role of the group was thought to be quite well understood, the effect of pressure from the national government on its regional offices to develop a regional strategy document on 'competitiveness' in business was to codify the role of EMAGE in a strategy document developed in 1996. Collaborating with GO-EM, in 1997 EMAGE members agreed the following Mission Statement:

*"To have the East Midlands recognised as a region where enhanced environmental*

*performance and competitiveness are integral to its business culture and economic activity."*

This followed a substantial piece of research supported by the Government Office and the Business Environment Association (since disbanded) and conducted by the Green Business Network at Nottingham Trent University. That study found that the level of support to the small business sector across the region was very variable. Different business support organisations including local authority economic development units (the "one-stop" Business Links, set up by the national government about three years previously) and GO-EM itself had widely varying views on the relative importance of environmental factors and economic competitiveness.

The new strategy document was presented to a wide cross-section of business support organisations at an event attended by about 150 senior government officials and executives including representatives of LAs and other regulatory bodies, universities, industry representatives from the CBI, the EEF, and the knitting industry. The assembly was addressed by the national government minister responsible for the environment. The consensus of the meeting was that the strategy was well formulated. This was the early "**STRATEGY**".

There was a strong feeling at the meeting that small businesses had moved beyond needing "awareness-raising" seminars and were now looking for some answers to the question of how to make real change in their response to environmental pressures. One key change occurred at this point, almost by affirmation of the group of people present. It was proposed by the chair of the afternoon session that the East Midlands *Advisory* Group on the Environment should change its name to the East Midlands *Action* Group on the Environment (thus, however, retaining the same acronym of EMAGE, by which the group was best known anyway). At a subsequent meeting of EMAGE this was duly done to reflect the changed priority to generating *action* amongst key businesses in the Region to improve their response to environmental pressures. This was the early "**ACTION**".

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### **Biographical Sketches**

**Keith Melton** is the founding and current Director of the Institute for Sustainable Business, a research and consultancy unit of the Nottingham Business School (at Nottingham Trent University in England) where he has taught for more than 20 years.

His research interests have focused on issues associated with environmental management, especially associated with supply chain management including a recent study investigating the greening of Supply Chain Management amongst the top 500 UK businesses. He has also undertaken significant studies into Strategic Policy issues in environmental management and has authored or co-authored more than twenty book chapters, refereed journal articles, refereed conference papers, and consultancy reports on the interaction of business and the environment.

He is actively engaged in promoting greater corporate social responsibility and social inclusion through the development of social enterprises, often through chairing conferences on eco-management and corporate consulting.

**Neil E. Harrison** was born and raised in England, and educated there and in the United States. He has earned a doctorate in International Studies from the University of Denver. In his graduate work he concentrated on development and technology studies, and his dissertation compared the formation of national policies on climate change in ten countries and the effect of those positions on the international negotiations.

Dr Harrison researches and writes on sustainable development and is especially interested in how complex systems theory can explain environmental policy and illuminate the path of sustainability. His book *Constructing Sustainable Development* (2000) showed how current thinking about sustainable development is incomplete and often dangerously misguided and how effective integrated strategies for sustainable development must emerge from a complex systems theory of social and political systems. With Dr Gary Bryner he has co-edited *Science and Politics in the International Environment* (2004) that investigates how international environmental policy emerges from the interaction of science and politics. He has published technical papers, articles, and chapters on sustainable development, technological innovation, international environmental policy, and the politics of climate change.

He has taught at three universities, most recently at the University of Wyoming, and is Executive Director of the Sustainable Development Institute (SDI), a non-profit research institute. Current research projects at SDI include the effect of institutions on resilience in social-ecological systems and how businesses may aid sustainable development while pursuing profits. Dr Harrison has consulted on many issues in Europe and North America and has traveled or worked in nearly forty countries on four continents.