

SMEs, mid-size firms can pivot nimbly to a greater cause

By Rashimah Rajah

NO ONE doubts that small and medium-size enterprises (SMEs) are an important segment of the economy. They make up more than 90 per cent of all companies, 70 per cent of jobs, and by some estimates, about 70 per cent of global gross domestic product (GDP). But little attention has gone to empowering SMEs in impacting their environment positively.

The same goes for mid-size companies that fall between SMEs and large enterprises. Don't underestimate their impact. In Canada, 1.6 per cent of all firms fall in the mid-size category, but they contribute to 12 per cent of GDP and 16 per cent of employment.

Despite the importance of SMEs and mid-size firms, they are often the most vulnerable. Even as the economy recovers from the Covid-19 pandemic, global disruptions such as the energy crisis, climate change and hyperinflation continue to rock the boat. The result is that smaller firms tend to be more disproportionately affected.

A need to pursue a greater cause

Out of 441 SMEs and mid-size companies surveyed in 2022, the top challenge (67 per

cent) revolves around survival and expansion. This global study, which I conducted with the World Economic Forum, examined companies emerging from the pandemic and how they could thrive in the future. In total, about 800 companies were surveyed in 2021 and 2022.

Other top challenges for the firms this year include talent issues (48 per cent) and maintaining a strong culture (34 per cent).

These figures are in stark contrast to how important sustainability was ranked – only 7 per cent of top executives cited it as a major challenge.

Yet, society expects companies of all sizes to pursue goals above and beyond traditional profit objectives. According to the 2022 Edelman Trust Barometer, 59 per cent of respondents believed businesses are not doing enough for climate change, and 49 per cent said businesses are not doing enough for economic inequality.

Getting out of firefighting mode

How can smaller companies pursue sustainability goals when they are in constant firefighting mode? After all, short-term survival goals are more pressing than green investments that will pay off only in the long term.

Our study reveals practical tips that lev-

erage firms' unique strengths and existing resources.

In particular, our white paper highlights the role of artificial intelligence (AI) and digital transformation. Through AI, companies can quantify the environmental impact of their goods and services from start to end. The metrics may include greenhouse-gas emissions incurred during goods transportation, energy utilised during manufacturing, and the amount of waste generated after customers dispose the goods.

With computer simulations, companies can test various options to derive greener and more efficient operations. In a project in the United Kingdom, a group of manufacturing and production SMEs worked with university researchers to identify business processes and machines that were not energy efficient.

This is one way SMEs and mid-size firms can save costs in pursuing sustainability. Resources saved can also be reinvested into other revenue-generating projects or sustainability initiatives.

Sometimes, firms do not have to go far to look for AI platforms or create them from scratch. German industrial minerals company Dorfner tapped a pre-existing AI platform for chemicals to run simulations

and is now offering a new sustainable formulation service for clients.

Going back to the people

How else can smaller firms thrive in the future? The twin transformation of digitalisation and sustainability becomes incredibly successful when there is a clear strategy and effective leadership. Authentic leaders – those who lead with vision, align with employees' values and empower them – are especially vital for change efforts.

Smaller companies could also look out for candidates who align with the company mission. As it is, they tend to be more open to hiring employees based on potential, with the notion that hard skills can be trained. In return, the firms offer creative compensation packages that include upskilling and networking opportunities.

With a shorter decision-making process and quicker communication channels, smaller companies hopefully realise that it is, in fact, easier for them to pivot and implement change. Employees are motivated to fulfil the new company objectives together with the leadership in a concerted effort. Our research has shown that they can enact transformation faster than their larger counterparts.

For context, a McKinsey report showed that companies that focus on innovation and technology during crises outperform their competitors by an average of 30 per cent.

In short, leadership, talent fit, digital transformation, and sustainability strategies should be viewed as necessities for smaller firms to be future-ready. They can take small steps by identifying existing business processes that can be improved and using their existing resources and networks to go a notch further.

Our research shows that these factors can not only help smaller companies survive in the immediate term, but also boost their prospects for long-term prosperity.

Launched in early December, the white paper *Future Readiness of SMEs and Mid-Size Companies: A Year On* is the second annual report in the *Future Readiness* series in collaboration with the World Economic Forum and the National University of Singapore (NUS). Dr Rashimah Rajah is a lecturer in the Department of Management & Organisation at the NUS Business School. The opinions here are the writer's and do not represent the views and opinions of NUS.