

Fostering sustainability through sourcing from small businesses:

Public sector perspectives

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Abstract

This article examines the opportunities for fostering sustainable development through public sector sourcing from small and medium-sized enterprises (SMEs). Buying from small businesses can make such contributions in a variety of forms, ranging from a contribution to local economic development through providing innovative green products and services, particularly in the food sector, to helping the public sector organisation to better align its operations with its community. Sourcing from small businesses does also have implications for the governance of sourcing processes and would benefit from a partnership approach. Barriers to public sector sourcing

from small businesses are discussed and suggestions made on how these can be overcome.

Key words

Sustainability, small businesses, SMEs, procurement, local government, health care

Introduction

Small and medium-sized enterprises (SMEs) play an important economic role in many industrialised countries and following the recommendation of the European Commission [1] are defined here as businesses employing less than 250 people. Of the 4.3 million enterprises in the UK, over 99% are SMEs and they generate 51% of the country's turnover. SMEs have a significant social impact too, as they account for 58% of employment in the UK [2]. The environmental impact of SMEs is equally far from insignificant, as they could be responsible for up to 70% of all industrial pollution [3]. Hence small businesses have an important role to play in striving for a more sustainable society.

However, when it comes to following these responsibilities through, SMEs demonstrate a number of idiosyncrasies (which is not surprising as defining these companies solely in terms of size hides a large divergence in terms of sector, financial performance or organisational culture [4]). On the one hand, there is evidence that few small businesses introduce formal practices to manage their sustainability impacts [5, 6]. A major reason for such a predominantly reactive approach to sustainability

challenges is a lack of human and financial resources that can be dedicated to environmental or other sustainability issues [7]. On the other hand, however, most small businesses, at least in the United Kingdom, today acknowledge that they have a significant environmental impact [7, 8], which is an improvement on the situation a decade ago when most SMEs still saw themselves as having little impact on the environment [9]. There is also evidence that some SMEs pursue environmental and social initiatives and proactively address such issues like energy consumption or waste disposal.

One way of encouraging small businesses to more systematically take up the sustainability challenge is through the supply chain. SMEs are, for example, subject to pressure from their customers to avoid certain harmful products, discontinue environmentally hazardous production processes or to get certified to an environmental management standard [10]. Sustainability and other requirements thus turn into commercial ones: the supplier has little choice but to meet these or risk losing business. In this respect the pressure emanating from large original equipment manufacturers in manufacturing or by branded retailers has received significant academic attention [11]. At the same time, some small businesses are innovative producers of novel sustainability technology or processes [12]. In supply chain terms, they could use this innovation potential to prod their customers in a more sustainable direction.

Our attention shall here focus on one specific type of supply chain, namely on the buying processes of local government and health care authorities in the United Kingdom. Their procurement is far from insignificant as the 410 local government

authorities in England and Wales have a combined purchasing spend of some £38.8 billion (\$73 billion) and the National Health Service (NHS) spends £30.1 billion (\$56 billion) on goods and services [13]. The research question this paper seeks to address is thus:

- how does collaboration with small businesses as suppliers influence the opportunities public procurement has to foster sustainable development?

This includes issues like: which goods and services are SMEs supplying that make a contribution to sustainability? What factors can enable or hamper the contribution of SMEs to sustainability? What tools could public procurers use to enhance their supply relationships with small businesses?

This paper makes three novel contributions. There are few studies of sustainable supply in the public sector, so this contributes to emerging literature [14, 15]. More specifically, this research contributes to the sustainability, supply chain management and small businesses literatures by weaving these three threads together. Finally, the research seeks to illuminate how policy makers and practitioners in the public sector might pursue sustainable development through sourcing from SMEs. The article is structured as follows. A literature review outlines the importance of local government and health care buying in the context of the United Kingdom. It also considers previous studies – both in the public and private sectors – pertinent to collaboration with small businesses and the implications of these links for sustainability. After outlining the methodology, the findings are presented. Next, the discussion reflects on the findings in the light of the themes that emerged from the literature review. Finally, the limitations of the research are considered, along with the implications for research and practice.

Literature review

The importance of local government and health care procurement

This research focuses on the two largest sub-sectors within the UK public sector in terms of procurement expenditure, namely local government authorities and health care. Local government provides a range of services to the residents of its area, including education, leisure and social services. The cost of these services is met by grants from central government (52%) as well as the taxation of local businesses (21%) and residents (27%). Local government is also a significant employer, as it employs some 2.3 million people in England and Wales [16]. Given its ubiquitous role in British society, local government has increasingly been charged with making a contribution to sustainable development. At an international level, the *Local Agenda 21* provides a framework for integrating environmental, social and economic policy [17]. At national level, the Department for Communities and Local Government developed a *National Procurement Strategy for Local Government*, which includes a number of sustainability targets local government has to meet over the period 2004 to 2006 [18]. The execution of procurement rests with the individual local authorities and often is devolved to individual departments within the Council.

The National Health Service employs over 1.3 million people and provides health care for all residents that is free of charge at the point of delivery. Purchasing and supply activities occur at a national level through the NHS Purchasing and Supply Agency (NHS PASA), at a regional level through Collaborative Procurement Hubs

and Supply Management Confederations that consist of NHS Trusts and Primary Care Trusts (normally within the same regional boundary), and at local level through NHS Trusts. The NHS particularly lends itself to consideration of sustainability issues, being concerned with the health and well-being of the nation [19]. NHS PASA has developed a sustainable development policy [20]:

“... seeking to increase awareness of sustainable development within the NHS supply chain and to ensure that wherever possible, NHS purchasing and supply activities support the achievement of sustainable development objectives, and support the improvement of the nation’s health and wellbeing.”

The potential impact of local government and health care buying on sustainability is already visible in the huge sums involved, as local government authorities annually spend some £38.8 billion (\$73 billion) and the National Health Service, NHS, £30.1 billion (\$56 billion) on goods and services [13]. Further implication for sustainability arise from the nature and range of services provided by the two sectors, such as the prevention and treatment of diseases in the case of health care or economic development, land use planning and waste disposal for local government [17]. The quality of this service provision is, of course, largely premised on the quality of purchased inputs.

Themes in the literature on small businesses and sustainability

A literature review was conducted to identify previous studies pertinent to sustainability issues around small businesses with a particular focus on their role as

members of supply networks. Relevant articles were sought through databases (e.g. Web of Science, Business Source Premier, EPSCO) with key word searches on SMEs, small businesses, sustainability, environment, collaboration, supply and purchasing. Table 1 summarizes the literature identified, which has been grouped into themes. The literature on sustainability focused on environmental performance of SMEs as well as their role in more sustainable forms of food supply. The literature on the importance of collaboration for small businesses mainly drew on a network perspective or focused on clustering of SMEs. Several studies examined government policy to support innovation and/or sustainability in SMEs, while relevant studies on innovation and SMEs were identified too.

[insert Table 1 about here]

At the broadest level, Table 1 shows that the large majority of studies have been conducted in the private sector, investigating inter-organisational relationships between SMEs or between small and large firms. There is little consideration of the perspective of public sector organisations and their collaboration with SMEs. Whilst some studies have had a public sector element, they have often investigated government programmes and policies supporting green behaviour or innovation in SMEs. No studies specifically investigated sustainable procurement and SMEs: how the public sector procures, sources and collaborates with SMEs to support sustainability. Our study therefore makes a novel contribution to the sustainability, supply chain management and small businesses literatures by bringing these three strands together. The table also indicates that the majority of studies have used a case study methodology, something we too have adopted in our research. The literature is

discussed in more detail below in sections on sustainability, collaboration and innovation.

Sustainability and SMEs

A major theme in this body of literature concerns the question whether SMEs are proactive or reactive concerning the environment. In a study of the UK screen-printing sector, it was found that SMEs were on the whole improving their environmental performance reactively to achieve legislative compliance, rather than proactively to provide a strategic competitive advantage [8]. There seems to be room for stakeholders to encourage small businesses to shift from a reactive to a proactive pattern of environmental behaviour [21]. The affordability of sustainable business practices for SMEs has been questioned [22], with the critical aspect being less the lower levels of financial resources of SMEs but the lack of managerial time to deal with these issues.

The applicability of the notion of corporate social responsibility (CSR) to small businesses has been a theme in the literature too (see for example the special issue of the *Journal of Business Ethics* [23]). In a survey of Danish SMEs, it was found that they respond to customers on social and environmental requirements in sustainable supply chains, and much less frequently apply such requirements to their own suppliers [24]. Links have been made between SMEs, social capital and the enhancement of performance through innovation programmes [25]. However, the appropriateness of CSR strategies for SMEs has been questioned too [4]; despite

SMEs making up the majority of firms CSR theories are predominantly focused at larger firms.

Other studies have revealed a collaborative approach to environmental issues between government and small businesses, in the form of programmes and initiatives supporting environmentally friendlier behaviour amongst SMEs. One study explored how SMEs can be technically supported and financially incentivised to engage with a pollution prevention agenda in Toronto [26]. This programme was successful in establishing partnerships with SMEs, three levels of government, and a third party delivery agent to achieve significant reductions in pollutants and waste generation and to promote the implementation of pollution prevention practices within SME manufacturing facilities. A study of pollution prevention in the Netherlands equally identified the importance of partnership networks for SMEs too [27], where intermediate organisations between government and SMEs again emerged as being important catalysts [28].

Several studies have examined the involvement of food producer SMEs in sustainable food supply chains. One study of a 'creative-food' economy in Toronto investigated consumer demand for fresh, ethnic and local food, and how government policies of multiculturalism and education have supported this. The findings have implications for multilevel governance in cluster formation and policy [29]. Another study investigated specialist food producers in the English/Scottish borders, and found the SMEs were not particularly sustainable and were often driven by a strong economic imperative, often having to 'dip' into various links associated with more conventional (commodity-based) food supply chains [30].

Collaboration and SMEs

In reviewing the literature on SMEs and collaboration, it is apparent that concepts of networks and clustering take a prominent place. SMEs often utilise networks – personal or business – to gather the information they need, keep abreast of changes in the economy and spot opportunities to innovate. In a survey of SMEs in the land-based transport equipment sector, it was found that weak tie networks are particularly complementary to technological innovation [31].

Issues of regional innovation and learning have attracted growing interest from economic geographers and related specialists in recent years. The advantages to be gained from localised networks and learning are claimed to be particularly important for small businesses in helping to offset size-related disadvantages of smaller firms. In a case study of SMEs in the Aberdeen oil complex, some evidence of localised collaboration amongst SMEs was found, yet the importance of extra-local networks of knowledge transfer and the unequal power relations that underpin inter-firm relations were also stressed [32]. In the computing services and research and development sectors in the UK, it has been found that horizontal local and county level clustering of SMEs contributes to employment growth [33]. By contrast, a French study of SMEs found that technological co-operation does not seem to increase the chance of success of innovative projects [34]. One explanation may lie in the perception by large companies that their exposure to risk increases through inter-organisational networking and, in particular, through having SMEs as partners in the supply chain. In

turn, SMEs may increase their own exposure to risk by becoming partners in a supply chain [35].

In some studies we see a link between collaboration and sustainability in SMEs, although these studies have not examined the public sector. Some studies have linked aspects of collaboration, such as networking with sustainability in SMEs. Effective networking supports environmental innovation amongst SMEs [36]. In a study of a Finnish metal industry network, a network view helped to illustrate how partnership between larger firms and SMEs can assist environmental management of value chains [37]. The role of stakeholders in promoting SME environmental behaviour has been highlighted too [21], including a direct role in providing SMEs with resources as well as an indirect role through encouraging SMEs to develop co-operative relationships and creating the necessary conditions for collaboration in improving their environmental performance.

Public Policy and Innovation

Several studies have investigated government policies or programmes designed to support smaller business [38]. Innovation support for SMEs is considered from the point of view of the 'needs' of SMEs in the context of a specific regional economy, such as the Lee Valley region in London [39], identifying the need for greater integration in the design and implementation of policy instruments. Some studies have revealed a collaborative approach to environmental issues between government and SMEs, in the form of programmes and initiatives supporting environmental behaviour amongst SMEs [26, 28, 38].

Finally, some studies addressed innovation, particularly its link to supply management and sustainability. Generally speaking, smaller firms have the advantages of flexibility and rapid response and are hampered in their R&D activities by the traditional disadvantages due to size limitations [40]. One study into sustainability and innovation in SMEs, reported a case study of New Leaf Paper that has innovated sustainably, building partnerships with non-profit organisations to raise end-user awareness of the benefits of using recycled paper [12]. In this area too, we see evidence of the importance of government support programmes for small businesses, as SMEs benefit from being part of government manufacturing improvement programmes in pursuing innovation [41].

The literature review has drawn out a number of relevant themes to our discussion, such as the importance of networks, clustering and local links to small businesses, the role of legislative and supply chain pressure on SMEs as major drivers for an improved sustainability performance as well as the need for public policy to contribute technological and financial support. At the same time, we could identify little in the way of existing studies investigating how public procurement might utilise SMEs to foster sustainability. In view of this knowledge lacuna, we decided to adopt an exploratory approach to our investigation, conducting case studies to scope out the area, as outlined in the methodology section.

Methodology

Since little prior research exists into the utilisation of small businesses by public sector purchasing to foster sustainable development, the qualitative research method of case studies was adopted, as this allows a greater insight into the complexities of a contemporary management phenomenon within its context [42]. Case studies were conducted in the local government and health sectors, using semi-structured interviews to collect data. The local government and health sectors were chosen because they seem to lend themselves to supporting sustainability, being broadly concerned with the well-being of local communities.

The local government and health organisations selected for case studies were chosen using reputation sampling, selecting cases that are particularly informative. More specifically, we selected cases that were generally acknowledged in initial discussions as representing best practice for a particular aspect of sustainability [43]. To encourage openness of response the names of participating organisations were anonymised. To enhance data validity and reliability, interview data were complemented with data from other sources of evidence, such as interviews with additional respondents, internal publications like procurement policy documents, and external documents.

The data gathering on local government was undertaken in three stages. During a pilot stage in autumn 2005, where the primary aim for the researchers was to become familiar with the procurement processes in local government, interviews were held at four local authorities. The second stage of the study consisted of a benchmarking

exercise, where four semi-structured interviews were conducted with organizations that have an overview over local government procurement across the UK. These interviews generated a shortlist of 16 local government authorities that were judged to be leaders in one or more aspects of integrating sustainable development issues into their procurement. These authorities were then interviewed in the third stage of the study, which began in January 2006.

Interviews were generally held with a single respondent, except for three cases where two members of the procurement team with responsibility for different aspects of sustainable development were interviewed together. The interviews lasted between one and two hours and were conducted on local authority premises, with the exception of one telephone interview. The interviews were taped and later transcribed. After the interview each respondent received a copy of the interview transcript for comments and potential points of clarification. Due to different legal systems in Scotland, Wales and Northern Ireland, the study was limited to local government in England alone. The individual case studies were anonymised by numbering them in order of interview date (e.g. DC 1 = District Council number one; CC 1 = County Council number one; LB 1 = London Borough number one).

The data gathering in the NHS took place in two stages. First, NHS Supplies Managers attending two forums on sustainable procurement were interviewed in small groups to get an initial understanding of implementing sustainable procurement in NHS Trusts. Secondly, case studies were conducted of sustainable procurement initiatives in the NHS, where several procurement staff were interviewed individually to get a fuller understanding of the enablers and barriers to implementing sustainable

procurement in NHS Trusts. The interviews lasted between one and two hours and were taped and transcribed. After the interview each respondent received a copy of the interview transcript for comments and potential points of clarification. All participants were NHS supplies managers, either working in NHS Trusts [NHS T 1 = NHS trust 1 etc] or regionally at collaborative procurement hubs [CPH 1 = Collaborative Procurement Hub 1].

The data were coded and analysed using iterative thematic analysis, a form of pattern recognition within the data, where emerging themes become the categories for analysis [44, 45]. Categories of statements were identified and refined as more data were analysed. For this paper, quotes from interviews, secondary data and examples from cases were sought that had been coded 'SMEs'. As our approach was exploratory, we sought data on the following issues, to contribute to answering our research question:

- how does collaboration with small businesses as suppliers influence the opportunities public procurement has to foster sustainable development?

This broader question includes a number of sub-questions like:

- which goods and services do SMEs supply that make a contribution to sustainability?
- how does the governance of procurement processes impact on an SME contribution to sustainable development?
- what are the benefits of SME sourcing for sustainability?
- what factors can enable or hamper the contribution of SMEs to sustainability?
- what differences exist between local government and health in relation to sourcing from SMEs?

Findings

The findings of our study into ways in which procurement in health care and local government can collaborate with small businesses in their supply chains to foster sustainable development will be presented in the next sections. Starting with the range of goods and services with sustainability implications that are procured from SMEs, the discussion will move to implications of collaboration with small businesses for the governance of sustainable procurement. Thereafter the advantages of sourcing from small businesses for addressing sustainability are discussed, as well as barriers and necessary support in public sector buying organisations. Finally differences between health care and local government in utilising small businesses for sustainability will be discussed.

Range of products and services

Local government and health care procurers increasingly tap into the potential small businesses offer to reduce the overall sustainability impact of the procuring organisation. At one District Council [DC 6] the sustainability and procurement teams started a collaboration with contract caterers, schools, nutritionalists, local suppliers and distributors to provide fresh, local and organic produce for school meals. The project also involved collaboration with the Soil Association, a UK-based campaigning and certification organisation for organic food and farming. The project, which covered 18 schools, assisted sustainable environmental objectives by reducing food miles; it also aimed at engaging the local community in sustainability issues,

through education in schools or visits to local farms. Economic objectives, such as supporting rural regeneration, were addressed through buying from local suppliers. Last but not least, better health outcomes for pupils by providing better quality meals are a sustainability issue too. This case is thus in line with previous studies identifying the potential for sustainable food supply involving small producers [29, 30].

In terms of procuring services, a District Council in the North of England [DC 4] sources catering services for public parks, Council training and other events from a social enterprise. The Council also aims to develop its links with the voluntary sector. On the environmental side, the Council is working with an environmental regeneration charity, who supply consultancy services, environmental and open-spaces services and works. A London Borough [LB 5] is working with a non-profit organisation:

“We’ve got a project called the ARC, the Appliance Reuse Centre, which is a not-for-profit organisation that collects unwanted electrical goods and redistributes them. If you are on a low income they are very, very cheap and if you are not they are more expensive, which we part-fund and work with and link into it.”

The importance of a partnership approach with non-government organisations (NGOs) has been identified previously [46]. This project is a good example of how public sector involvement with non-profit organisations can meet sustainability targets. Re-using electrical appliances diverts these from landfill – an environmental

benefit – while at the same time providing benefits to local residents – a social benefit – at no or below-market cost.

By their very nature many of these measures are small scale and hence their individual impacts are not comparable to the impact large companies can achieve.

Due to market structures many goods procured by the public sector – such as stationery, IT equipment or vehicles – tend to be supplied by large, often multinational companies. Consequently it is large companies that are at the forefront of addressing environmental challenges in goods and it their product groups that are predominantly considered by municipalities in their procurement decisions when it comes to addressing sustainability impacts of procurement [47]. Nonetheless small businesses can pursue important and often innovative approaches to more sustainable supply, which in our cases was particularly applicable to the procurement of food and services.

Governance of procurement processes

Public sector procurers increasingly work with small businesses, social enterprises and NGOs, which has implications for the governance of the procurement process.

For a start, these processes now involve a greater range of actors in managing the procurement process. A District Council [DC 4] began a cooperation with the local economic development agency when it was preparing a tender for the management of its housing stock in 2004. The local development agency was keen to get local construction SMEs involved in bidding for construction and maintenance contracts.

Later the local chapter of the Small Business Federation joined too. The collaboration

has resulted in two successful Meet-the-Buyer events so far, which are now held on an annual basis.

Similarly, in a local government authority in the South West of England [DC 6] a sustainable food procurement project was only achieved with the crucial involvement of an NGO called the Soil Association:

“There was an event for Contract Services to meet with other relevant people in the Council, and with organic food producers in the South West, who might be able to supply the public sector. And then the Soil Association said “we’ve got this project called Food for Life which is about helping the schools to take a whole-school approach to school meals and change the way that food is thought of in the school.” That’s how we got involved.”

In turn, this means that some forms of collaboration are more suitable to tapping into the sustainability potential of SMEs. The project officer at an NHS Trust claimed that the substantial progress regarding the inclusion of environmental and social factors in the purchasing process is largely due to the partnership approach with key suppliers and the increased level of trust in the supply relationship. A partnership approach is essential [NHS T1]:

“To achieve good environmental, social and economic results, it is paramount to build up the level of trust with suppliers. Without the partnership approach we would not have been where we are.”

Thus in addition to supplying more sustainable goods and services, local companies, social enterprises and NGOs can also contribute to sustainability by bringing crucial know-how and linkages to other organisations to the tackling of sustainability challenges. Such a finding is entirely in line with suggestions in the literature that SMEs may benefit from collaboration in regional clusters or networks [7, 33, 36], except here the theme of collaboration is extended to cover a wider range of actors in the supply chain. Our data show too that a partnership approach is particularly useful to fostering a supply relationship with small business and any resulting sustainability benefits.

Advantages of fostering sustainability through sourcing from SMEs

Local government and health care procurers are clearly aware of the sustainability benefits smaller businesses can bring for their organisations. Some SMEs are perceived as being able to provide innovative solutions to the sustainability challenge [NHS T3]:

“SMEs are more innovative and come up with new products, but are often taken over by big suppliers who end up deciding what you should have. We’ve got a responsibility to use the small suppliers more and break that cycle”

The perhaps most important contribution of smaller businesses to sustainable development lies in the benefits they bring in terms of a healthy local economy. These benefits are emphasised by the supplies manager at an NHS Trust [NHS T1]:

“It is a long term investment in our community. We are here to provide a service to the community, and we are responsible in our procuring methods, we can give benefits back to the community’

The procurement manager of a District Council in the South East of England [DC 1] is equally clear about the benefits supporting local businesses through procurement:

“One of the things that is always with me is: if I put a pound into [a local supplier] then it is probably going round five to seven times. That is terribly important for a local authority.”

Supporting local businesses brings direct economic benefits for the local authority such as greater income from the taxation of local businesses and through higher employment in the area a reduced expenditure on the aspects of social welfare – such as social housing – that fall into the remit of local rather than national government. Such advantages apply for healthcare too, as greater levels of employment and prosperity have been associated with better health outcomes and less demand for health services. These benefits for the local economy are particularly important for the regeneration of declining areas. An NHS Supplies manager [NHS T 1] commented:

“Being in Cornwall, it’s got European funding because it’s so deprived, although it’s a lovely place to live. That is part of our driver, we have got quite high unemployment, so buying from local suppliers is important. We’ve got poor health, there’s no doubt about that because there are areas where wages are low and people just don’t have the money to buy good food”

New forms of health care organisation may be particularly suited to fostering sustainability. NHS Foundation Trusts are a new type of NHS Trust in England and have been created to devolve decision-making from central Government control to local organisations and communities so they are more responsive to the needs and wishes of their local people [48]. Some felt Foundation Trusts were particularly well-g geared towards local suppliers, as they have control of their own budgets and are intended to respond to local community needs [NHS T9]:

“Foundation trusts are basically set up on a cooperative model whereby the idea is it’s the local community that are members. They can be concerned with local sourcing and SMEs, although we need to educate people on the agenda”

A related benefit of sourcing from local suppliers stems from their ability to reflect local priorities and resulting potential to better align the operations of the public sector organisation with local needs. Commenting specifically on buying from the voluntary sector and social enterprises, the procurement manager of a District Council [DC 4] acknowledged that:

“the voluntary sector can engage with the local community much more than we ever could.”

While some smaller businesses are able to provide environmentally friendlier or socially more responsible goods and services and contribute to sustainability innovation, all sourcing from local businesses also has a positive effect on the local

economy. The impact of sourcing from local companies is exacerbated through the trickle-down effect they have through local employment and local spending. In turn, this translates into more indirect benefits, such as a reduced expenditure on those aspects of social welfare local government is responsible for or improved local health through better access to healthier food.

Barriers to SME-related sustainability initiatives

Despite its advantages fostering sustainability through procurement from smaller companies also faces a range of barriers (for a discussion of barriers in sustainable procurement generally, rather than specifically relating to SMEs, see [14]). In our cases problems that are germane to small businesses loomed large. For example, the procurement manager of an NHS Trust [NHS T4] commented on the difficulties of buying from SMEs:

“Those SMEs that want to trade but just cannot compete are the ones we’ve got to help target, to compete on the tender . . . Some don’t target their marketing strategies at the public sector.”

Smaller businesses may also be seen as presenting a greater risk to procurement [NHS T2]:

“Buying from SMEs is a risk for buyers. We tend to take the safer option as an SME might not have the track record”

However, barriers for sourcing from smaller businesses also arise from the procurement process as such. Here it has been suggested that the public sector should bundle its contracts to achieve a greater negotiating power over suppliers. Such aggregation of demand through consortium buying is, for example, recommended in the National Procurement Strategy for Local Government as a means to make procurement more cost-effective. Other authors furthermore suggested that such aggregation of demand can encourage environmental innovation in the supply chain [47]. From the point of view of smaller businesses, however, such aggregation reduces their chances of becoming successful bidders for public sector contracts. The procurement manager of a London Borough [LB 4] was expressing such doubts:

“I know, the Efficiency Review suggested amalgamating contracts, using that as a way to achieve greater savings, but ... I wouldn't do it just for the sake of it. It obviously has to meet the needs of the users, and in a way it would be considered that that goes against supporting smaller local businesses as well.”

Barriers to involving smaller businesses in the striving for sustainable development thus fall into two major categories. On the one hand, procurement managers highlighted general small business problems, such as their lack of a track record and an inability to market their products and services effectively to public sector buyers. On the other hand, there are challenges that lurk in the procurement process as such, not least the recommendation – prevalent in the UK context – that the public sector should aggregate its spending to achieve a greater efficiency. Our research also shows, however, that at least individual procurement managers are aware of the contradictions in the recommendations and use the room for manoeuvre that is

available to them to aim for optimisation across the three aspects of sustainability and not just the economic one.

Support for SME-related sustainability initiatives

If public procurers want to take advantage of the contribution smaller businesses can make to sustainability, they could take a number of steps to support them. On the demand side, the public sector can make its demand more transparent and provide more and better targeted information on upcoming tendering opportunities. A number of local government authorities (such as DC 4, DC 5 or LB 3) now organise regular Meet-the-Buyer events, which are intended to give potential suppliers an overview over what the Council buys and allow suppliers to get to know Council buyers. Some of these events also contain workshops that provide more detailed help regarding the tendering process. One Council [DC 4] also aims to improve the information it holds on minority suppliers by mapping such suppliers on its GIS system. At present the Council is collaborating with neighbouring authorities to collect regional data on potential minority-owned, female-owned, social or voluntary enterprises in the region which would be able to supply to local government.

Building on the successful Meet-the-Buyer events, procurers should explore options for joining forces with other public sector organisations in their area. There already are examples of collaboration between local government and health on sustainable procurement. A sustainable food procurement project, for example, resulted from the collaboration of suppliers, local hospitals [NHS T1], local and district councils, regional government and national levels (Department of the Environment, Food and

Rural Affairs, Public Sector Food Procurement Initiative, Countryside Agency). One supplies manager commented [NHS T4]:

“I’d like to see a joint NHS, OGC [Office of Government Commerce], DEFRA forum on sustainable procurement. Even have a public procurement arena. Let’s get education, the prison service, MOD [Ministry of Defence], and NHS Logistics.”

On the supply side, there are public sector organisations that have started inserting community benefit clauses into certain supply contracts, under which the contractor agrees to work with local firms as subcontractors and use a certain amount of local labour. A London Borough [LB 4] tested such clauses in a construction contract and now aims to extend the approach to other contracts:

“We had some community benefit clauses put in our agency staff contract, which tries to ensure that the second tier vendors, as part of a vendor-managed service, were local agencies and that local people were then appointed through those agencies.”

More generally, working with SMEs on sustainability challenges in procurement may benefit from softening the one-sided emphasis on cost savings that currently prevails in public procurement in the UK, although the so-called Powers of Well-Being under the Local Government Act 2000 give local authorities the legal right to define the aims of their activities in wider than just monetary terms. Across the public sector there has been a move towards funding the building of schools, hospitals and roads

through Private Finance Initiatives (PFIs). The focus of PFIs on economic value by (ideally) reducing the short-term burden on the tax-payer would, however, appear to be a short-sighted one as it overlooks other ways in which suppliers, here particularly SMEs, can make to sustainable development. As such efficiency requirements emanate from central government and hence are difficult to avoid altogether, a narrow focus on exploiting existing win-win situations has become noticeable among public sector procurers [DC 2]:

“The things you can do more readily are the ones which don’t overtly cost more, because I don’t think the Council here would be prepared to spend more money to do something great for the environment unless there was some obvious spin-off, benefits for the local economy or whatever.”

Giving support to small businesses, in turn, requires that buyers and procurement managers themselves receive additional support. One area for such support is information and training on the legal situation. While earlier concerns among procurement staff that stipulating environmentally friendlier products may collide with European Union procurement directives have largely receded, a related concern over stipulating local supply in public contracts still exists. The Head of Procurement of a District Council [DC 2] attended some seminars on the subject, but his doubts regarding the legality of support for SMEs have not completely gone away:

“In terms of legality there is a bit of a dichotomy there between supporting local businesses and doing good commercial procurement in line with the EC Directives. There is quite a difficulty there, I think.”

Public procurement could use a wide range of measures to support sustainability through procurement from small businesses. These range from making its demand more transparent to potential suppliers through support via inserting local community clauses in major contracts to providing training for procurement staff on the legal status of the various tools that have been applied to support small local businesses. In sum, there currently seems quite a degree of scope for greater direct and indirect support for working towards sustainability through sourcing from small businesses.

Differences between local government and health care

The two sectors of local government and health care were selected, because they constitute the largest sub-sections of public procurement within the UK [13]. Our discussion would be incomplete, however, without at least a glance at the differences between the two sectors. A first striking difference is that local government procurement has no common format. While some councils have a centralised procurement function, more often large parts of their buying is devolved to other departments, such as social services or education. Various forms of mixed arrangements exist too. For example, a London Borough [LB 4] uses a decentralised procurement structure. Its strategic procurement unit is:

“... responsible for developing policy and guidance and providing training and support for the departments, giving advice, being involved in high-level strategic departmental contracts. We manage a number of core corporate contracts that tend to cover mainly supply products, like stationery, furniture,

etc. But the role of the unit is to be very strategic, to provide guidance to the departments, because that is where most of the procurement is actually devolved to.”

Such an arrangement contrasts with the greater degree of uniformity and coordination in health care buying at local, regional and national levels. Generally speaking, the NHS uses a mixed model, where demand is consolidated at regional and national levels to give scope for negotiating with larger suppliers. At the same time, local NHS trusts retain autonomy and have the opportunity to buy from SMEs. The lack of uniformity in local government procurement is also a consequence of the fact that it is the primary purpose of local government to deliver local services. Since its policies are determined by the Council members a different political constellation can lead to different emphases in local government policy. Such autonomy makes coordination across local authorities sometimes difficult, let alone across the public sector as a whole.

Local government buying is also more fragmented than health care buying, hence economies of scale are sometimes lost. The sustainability manager of a London Borough [LB 5] commented on these:

“I think really there needs to be stronger guidance from the Government about these issues to make these links actually happen. Because if we were told collectively that we had to buy certain things, the combined spending power of Local Authorities could then have a real impact, but because it’s all quite piecemeal sometimes that opportunity doesn’t get fully utilised.”

A further difference between local government and health procurement is that in the health sector, patient safety is prioritised in procurement decisions, which can lead to a risk averse buying culture. This can increase further the perception, already found in previous studies [35] that buying from SMEs can increase risk. These differences have a number of implications for small businesses wanting to become suppliers to the public sector. When dealing with local government, SMEs should expect a range of responses from the individual authorities both in terms of interest in working with SMEs and in fostering sustainability, whereas the response from health care buyers is likely to be more uniform. On the other hand, the focus on risk aversion in health care buying can mitigate against small businesses again.

Conclusions

The aim of this article was to examine how collaboration with small businesses as suppliers can influence the opportunities public procurement has to foster sustainable development. A first finding has been that sourcing from local small businesses can in itself make a contribution to sustainable development at a regional or local level. As the case study data presented above show, sourcing from local suppliers can improve the local economic situation, which can have follow-on benefits in terms of well-being and health of the local population. This is particularly true of economically deprived areas where public sector bodies, such as local government and health care authorities, may be the largest economic actors. Supporting local small businesses to become public sector suppliers thus makes a direct contribution to the economic and social aspects of sustainability. This finding is in line with a UK survey that found the

top goals of public sector procurement to be local economic development and the environment [49].

Public sector sourcing from SMEs can also contribute to the environmental side of sustainable development, as small companies can also be innovative providers of greener products or technology. In the case data presented above this was particularly visible in the procurement of organic food and some environmental services. Market structures in more widely discussed examples of greener supply – such as recycled paper, alternative fuels for vehicles or reduced energy consumption of IT equipment – are such that these products are today supplied by large, often multinational corporations. Correspondingly the opportunity for small businesses to undertake product-related environmental innovation is rather small. Nonetheless, the scope for such a contribution remains in the supply of services and food.

Despite its advantages, a number of barriers to sourcing from SMEs have been highlighted in our research. Smaller firms are seen by many procurement staff as presenting a greater risk than larger firms that have an established track record. Recommendations that the public sector should aggregate its demand to achieve a greater cost effectiveness could also turn into a threat to SME sourcing. Support for small businesses could thus proceed along three avenues. First, public sector contracting opportunities need to be made more transparent (for example through Meet-the-Buyer events); secondly innovative tools (such as adopting a partnership approach or inserting community benefit clauses in contracts) that are applied by a small vanguard of public procurers could be applied more widely. These two categories need to be supplemented with support for procurement staff themselves

(e.g. training on legal issues and EU procurement rules). Instances have been identified of local government and health sector procurement collaborating to involve SMEs, but our research unearthed significant differences between the two sectors too. Local government has no common procurement format and its expenditure is more fragmented, whereas there is a greater degree of coordination in the NHS. However, the health sector may be more risk averse due to prioritising patient safety.

This study has several limitations. Our research focused on examples of best practice, which hopefully will be of some relevance for those organisations beginning to engage with the sustainability agenda. Focusing on best practice does, however, not reflect the general state of affairs. Despite a wide-spread rhetoric regarding a partnership approach to public supply, the public sector as a whole may be less collaborative and more coercive than indicated here. This includes coercive pressure on small businesses to move towards environmental practices, an issue unexplored in this research. Furthermore, our study focussed on the perspective of the public sector buyers; future research should also include the perspective of SMEs supplying the public sector. Finally, this study concentrated on health sector and local government as the largest sub-sections of public procurement in the UK, but the research question is equally relevant to other parts of public sector procurement, such as the education or defence sectors.

Our study shows both a good fit with the existing literature on small businesses and sustainability and opens a few avenues for enriching that body of work. The literature review had identified the importance of networks, clustering and local links to small businesses. This theme is emphasised in our study, namely in the crucial role SMEs

can play in collaborating with public sector organisations as their suppliers. The theme of legislation and supply chain pressures as major drivers for sustainability initiatives are echoed in our study too, but they should be seen in conjunction with the economic contribution small businesses tend to make to the local economy and the ability of at least some of them to supply more sustainable goods and services. The public policy theme of providing technical and financial support for small businesses can also be extended to public procurement, as enabling SMEs to win public contracts is also an important form of public support for small business.

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Table 1. An overview of the literature on SMEs, sustainability and collaboration

| Authors | Ref no | Theme | Public sector | Private sector | Methodology |
|---|--------|---|---------------|----------------|-------------------|
| Sustainability & SMEs | | | | | |
| Biondi et al (2002) | [36] | Effective networking supports environmental innovation | | X | Case studies |
| Biondi et al (2000) | [50] | SMEs and barriers to EM systems | | X | Case study |
| Merrit (1998) | [5] | Lack of formal EM practices amongst SMEs | | X | Case study |
| Petts et al (1999) | [6] | Environmental compliance amongst SMEs | | X | Case study |
| CSR and SMEs | | | | | |
| Moore & Spence (2006) | [23] | SMEs and CSR | | X | Secondary data |
| Cooke & Wills (1999) | [25] | Social capital built through innovation programmes | | X | Survey |
| Roberts et al (2006) | [38] | Networks support CSR activities | | X | Case study |
| Jenkins (2004) | [4] | Does CSR cater for SMEs? | | X | Secondary data |
| Jorgensen & Knudsen (2006) | [24] | SMEs respond to customers on social and environmental requirements in sustainable supply chains | | X | Survey |
| Environmental performance and SMEs | | | | | |
| Worthington & Patton (2005) | [8] | Lack of strategic intent; SMEs reactive rather than proactive | | X | Case study/survey |
| Pesonen (2001) | [37] | Networks support EM | | X | Case study |
| Granek & Hassanali (2006) | [26] | Partnerships with government & third party | X | X | Case study |
| Tilley (2000) | [3] | SMEs have large environmental impact | | | |
| Crals & Vereeck (2005) | [22] | Affordability of sustainable business practices | | X | Case study |
| Taylor et al (2003) | [7] | Lack of resources to implement EM | | X | Case study |
| Bianchi & Noci (1998) | [21] | Stakeholders influence greening in SMEs | X | X | Case study |
| Sustainable food and SMEs | | | | | |
| Donald & Blay-Palmer (2006) | [29] | Governance and policy important | X | X | Case study |
| Ilbery & Maye (2005) | [30] | Economic imperative strong for SMEs | | X | Case study |
| Collaboration and SMEs Networks and SMEs | | | | | |
| Cumbers et al (2003) | [32] | Shift from regions to networks | | X | Case study |

| | | | | | |
|------------------------------------|------|---|---|---|----------------|
| Julien et al (2004) | [31] | Weak tie networks assist SMEs | | X | Survey |
| Biondi et al (2002) | [36] | Effective networking supports environmental innovation | | X | Case studies |
| Roberts et al (2006) | [38] | Networks support CSR activities | X | X | Case study |
| Regional clustering of SMEs | | | | | |
| Cumbers et al (2003) | [32] | Regional clustering | | X | Case study |
| Fingleton et al (2004) | [33] | Horizontal local clustering | | X | Secondary data |
| Smallbone et al (2003) | [51] | Interregional comparison | | X | Survey |
| Bennett et al (2001) | [52] | Location has effect on collaboration | X | X | Survey |
| North et al (2001) | [39] | Need to integrate policy to support innovation in SMEs in region | X | X | Survey |
| Keeble et al (1999) | [53] | Collective learning processes among SMEs | | X | Case study |
| Taylor et al (2003) | [7] | SMEs and environmental best practice in a region | | X | Case study |
| Policy and SMEs | | | | | |
| Donald & Blay-Palmer (2006) | [29] | Governance and policy important | X | X | Case study |
| Bianchi & Noci (1998) | [21] | Stakeholders influence greening in SMEs | X | X | Case study |
| Revell (2002) | [54] | Japanese SMEs marginalised in environmental policy networks | X | X | Interviews |
| Holt et al (2000) | [55] | Environmental business support services for SMEs | X | X | Case study |
| Hoevenagel & Wolters (2000) | [28] | Environmental policies and intermediate organisations | X | X | Case study |
| Innovation and SMEs | | | | | |
| Nelson (2004) | [12] | SMEs can innovate sustainably | | X | Case study |
| Narula (2004) | [40] | SMEs have flexibility and rapid response | | X | Survey |
| Bougrain & Haudevilla (2002) | [34] | Collaboration doesn't increase innovation | | X | Case study |
| North et al (2001) | [39] | Need to integrate policy to support innovation in SMEs in region | X | X | Survey |
| Finch (2004) | [35] | SMEs increase risk in supply chains | | X | Secondary data |
| Lagace & Bourgault (2003) | [41] | SMEs benefit from government manufacturing improvement programmes | X | X | Survey |