

# Why Should SMEs in Indonesia Have To Apply "Green Practices"?

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**Abstract - SMEs are known as the most dominant business sector in every country including Indonesia. SMEs do not only contribute to the GDB, but are also able to reduce unemployment through the employment opportunities created. However, SMEs poses various problems for the environment. This paper aims to explore the urgency of SMEs to implement "green practices". This paper is a literature review. The results of this study are that environmental damage caused by human economic activities is already at an alarming stage. SMEs as one of the business sectors that have the most number, must implement "green practices" both in production, distribution and consumption activities. By implementing "green practices" it is expected that environmental degradation can be minimized.**

**Keywords– SMEs, Green Practices, Indonesia**

## I. INTRODUCTION

Small and Medium Enterprises (SMEs) are the most dominant business sector in almost every country including Indonesia. In Indonesia, in 2015 the number of MSMEs reached 60.9 million units. SMEs are able to participate in the formation of Gross Domestic Product / GDP of 57.6%, contributions to the workforce of 96.7%, export contributions of 15.7%[1].

However, on the other hand, various problems have arisen from industrial and development activities. Examples of resource and environmental problems that occur due to human economic activities include global warming, pollution; acid deposition; overexploitation of renewable resources (forests, fish and wildlife); depletion of non-renewable resources (oil, natural gas and coal);

disposal of human and toxic waste; loss in biodiversity; and ecosystem degradation. Most natural and environmental resource problems cause three problems which are: depletion of non-renewable resources; over-exploitation of renewable resources; and environmental pollution [2]. Globally, the potential of small and medium enterprises (SMEs) to have a negative impact on the environment is very large[3]. In almost every country, SMEs have great potential to have a negative impact on the environment[4]. SMEs are responsible for 70 percent of global pollution[5].

In general, SMEs have poor awareness about compliance with environmental problems [4]. Many SME owners are unaware of the adverse effects on the environment from their economic activities [5]. Many SMEs have low knowledge about environmental issues and environmental laws and regulations [6]. The SMEs have different views, understandings and aspirations regarding environmental issues[7].

The number of SMEs is very large and the amount of waste generated by SMEs requires SMEs to be actively involved in "green practices". Through the application of "green practices" it is expected that the environment will remain sustainable and the welfare of future generations can be improved. This paper aims to explore the urgency of SMEs to implement "green practices".

## II. METHOD

This study involves a systematic review of journal articles about SMEs and the necessity of SMEs to participate in "green activities". We use reputable journals because

we believe that their findings have higher quality. We search for articles in online databases (e.g. EBSCOHost) and Google Scholar uses search terms related to SMEs (for example, SMEs, small businesses, small companies etc.) and the environment (e.g. environment, sustainability). In our review, we focus on articles that report empirical results because this allows us to explore how SMEs react to interventions and present findings that will be of practical significance (not just theoretical).

### III. RESULT AND DISCUSSION

In Indonesia, research that discusses the impact of economic activities of SMEs on environmental problems is still very minimal. In fact, between SMEs and the environment is an important issue to study. According to [8] there are four underlying causes. First, small companies make a significant contribution to the economy of each country. Second, the environmental impact of the small enterprise sector cannot be underestimated. Third, environmental management theory and environmental management generated for large companies cannot be automatically applied to small scale companies. Fourth, the literature on the environment and business tends to ignore the importance and distinctiveness of small-scale companies.

Environmental problems caused by SMEs are also no less worsening compared to large-scale companies. [9] stated that small companies have a significant negative impact on the environment. The industrial pollution generated is equivalent to 60%, but the owner / manager of a small company do not understand the importance of behavior change. Meanwhile [10] said that global pollution generated by SMEs reached 70%, but the role of SMEs in sustainable development is often ignored. [11] Also said that the large number of SMEs often caused environmental problems because many were not regulated and did not have an environmental management system. Even SMEs are often not proactive and sometimes unaware of the environmental impact of their activities.

In addition, several studies have shown that small businesses have not been involved in environmental problems. Small businesses often ignore participation to engage in debates about the need to change bad

environmental behavior in their business or affirmative action [12]. Many small businesses have not paid attention to the impact that their economic activities have on the environment. In fact, the contribution caused by SMEs to the environment is no less large compared to large-scale businesses. In the economic activities carried out (production, consumption and distribution) many SMEs have not yet carried out "green activities".

For the East Java region, for example, the number of SMEs in the province is around 12 thousand. The total SMEs, the amount of liquid waste generated reaches 70%. The huge amount of liquid waste is mostly discharged directly into the river. This is because many SMEs are not able to build a Waste Water Treatment Plant (IPAL), so that SMEs directly dispose of waste water into rivers [13].

In Indonesia, the environmental damage caused by human economic activities is already at an alarming level. Based on the results of a survey conducted by Sindo, (2018), there are 10 environmental problems faced by Indonesia, they are rubbish, flooding, polluted rivers, global warming, air pollution, damage to marine ecosystems, difficulty in clean water, forest damage, abrasion and soil pollution.

Green manufacturing requires factories to design products that allow for the reuse, recycling and recovery of parts and component materials; avoid or reduce the use of dangerous products in the production process; minimize consumption of materials and energy (Lee et al, 2012) as quoted by [15].

Activities that can be carried out by SMEs in green distribution consist of two activities; they are the use of green packaging and logistics / green transportation. The use of green packaging consists of: (1) reducing packaging size (2) using "green" packaging materials (3) working with vendors to standardize packaging (4) minimizing material usage and time to unload (5) encouraging and adopting packaging methods that refundable (6) promotes recycling and reuse programs. Whereas green logistics / transportation consists of: (1) sending directly to user sites (2) using alternative fuel vehicles (3) distributing products together, rather than in smaller groups [16].

Efforts to reduce resource consumption, including energy consumption

and negative externalities, through consumption choices / preferences will result in cost savings from 'green' behavior and will simultaneously lead to environmental benefits. If consumer preferences can encourage less energy and resource intensive consumption, through information and marketing campaigns, then environmental externalities can be corrected by consumers by being brought to the consumer utility function [17].

#### IV. CONCLUSION

Environmental damage caused by economic activities of companies both large and small scale (SME) is already at an alarming scale. SMEs can enhance their active role in protecting the environment through the adoption of "green practices". "Green Practices" can be applied to SMEs starting from manufacturing, distribution and consumption activities.

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