

Danish SMEs and sustainability during the Covid-19 crisis

Denmark's transition towards a more sustainable society is a growing ambition among politicians, citizens, and the business community. Small and medium-sized enterprises (SMEs) are a pillar of the industrial organization of Denmark, and therefore their activities and focus on sustainability are essential to advance the green agenda. The Covid-19 pandemic and lock-down that followed created new barriers in business strategy for prioritizing costly activities, such as sustainability efforts. This was perhaps especially the case for SMEs. When things became difficult to handle financially during the crisis, many SMEs strategically decided to suspend innovation activities and reduce their focus on sustainability.

To better understand to what extent SMEs maintained sustainability efforts during the crisis, the Reboot SME project undertook several rounds of surveys of more than 1950 Danish SMEs. Surveys were sent to a representative sample of SMEs in order to monitor and understand the impact of Covid-19, as well as to examine changes in strategy and activities during different periods of the Covi crisis. This data was further enriched by interviewing several SME managers about the development of their business during the crisis. One important topic in these interviews was the aim and activities undertaken by firms to achieve greater sustainability in products, services and business processes¹.

Reboot SME aims to understand the state and change in sustainability efforts of Danish SMEs. To measure this, we asked about various strategic changes in the organization during the crisis and focused on one simple question: "Given the current crisis, please assess on a scale from 1 to 5 to what extent your organization has considered or already initiated activities to make the organization more sustainable in the future?". To reinforce our findings, we also used an established sustainability scale from a research paper by de los Salmones et al. from 2005². This scale is composed of 11 broad statements for measuring how organizations change their focus on corporate social responsibility at large.

Key Points (please see diagrams below):

1. Old and young firms did not differ significantly during the crisis in their efforts to enhance sustainability focus. While Diagram 1 below seems to suggest an overrepresentation of slightly more mature firms that changed their sustainability focus, this is likely a reflection of the overall age of SMEs in Denmark. However, differences in sustainability efforts between older and younger SMEs are also understandable, since older and more established firms are more likely to have resources and organizational structures that put them in a better position to pursue a continuous focus on important strategic initiatives. Overall, it is good news for the larger green economy in Denmark that even start-ups and young firms in the early stages of business development continue their focus on sustainability (albeit at a smaller scale.) Remember, however, that we examine the *change during the crisis* and not the average level of activities and strategic initiatives for sustainability in the SMEs. Diagram 1 shows the proportion of firms in our sample relative to their age (X axes) and to what extent they have made a change in the focus on sustainability between April 2021 and Dec. 2021 (Y axes).
2. We discovered regional differences in how SMEs responded to the crisis relative to their focus on sustainability. The regional differences may, however, express the local industrial organization of sectors and types of SMEs, SME size, distribution, etc. Overall, we identify that SMEs in

¹ Please see separate document for details about the Reboot SMV methods and data.

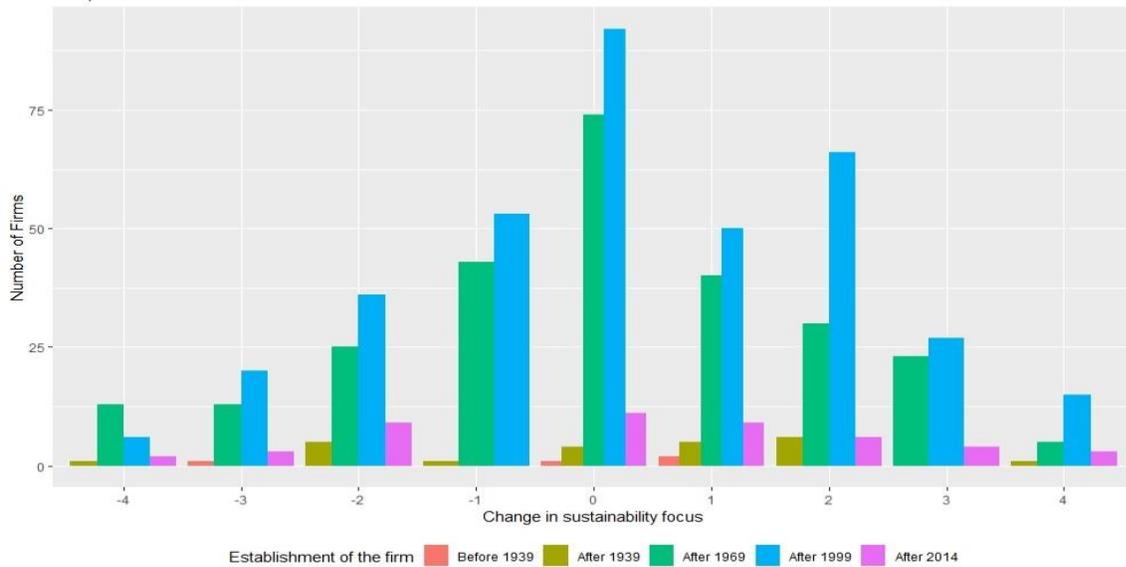
² de los Salmones, MMG, Crespo, AH & del Bosque IR (2005): Influence of corporate social responsibility on loyalty and valuation of services, Journal of Business Ethics, 61: 369-385

Syddanmark and Sjælland have done slightly worse in terms of making changes toward sustainability during the crisis than the remaining three regions. This finding calls for particular attention to the issue of continued sustainability efforts among SMEs from both public and private organizations in the two lacking regions (please see Diagram 2).

3. Diagram 3 illustrates how the proportion of the size of firms in our sample relates to change in their sustainability efforts during the Covid-19 crisis (April 2021 to Dec. 2021). We found that firm size could be a possible explanation of why SMEs changed their focus on sustainability during the Covid crisis. Our study found that large firms had almost no visible change, whereas firms below 10 employees had huge changes in both positive and negative ends of the spectrum – that is, some demonstrated considerably less focus on sustainability during the crisis while others demonstrated increasingly more focus. Factors such as industry sector (see below) and access to capital could help explain this discrepancy.
4. SMEs in different sectors also showed different levels of change during the crisis pertaining their sustainability efforts. Specifically, SMEs in sectors of knowledge work and services kept and even increased their focus on activities and strategic initiatives for sustainability, while SMEs in sectors such as public services and production (e.g., manufacturing) showed less change in the focus on sustainability. (please see Diagram 4)

Diagram 1

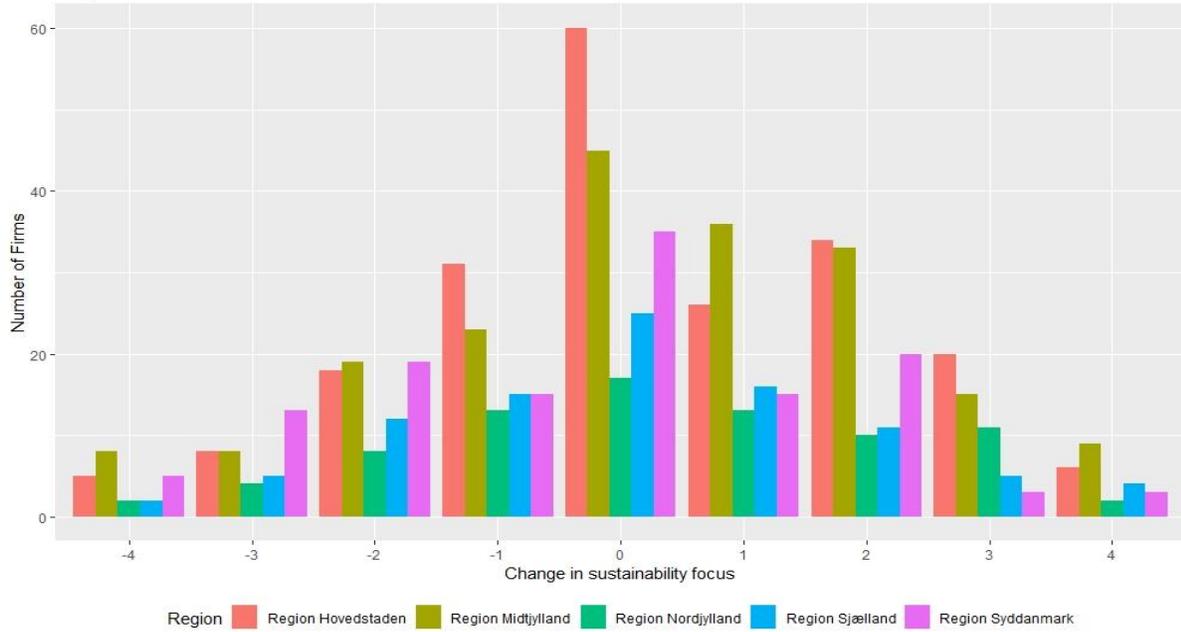
Distribution of firms among firm age according to change in sustainability focus
 Sample size: 705 firms



Source: SVM Reboot Project

Diagram 2

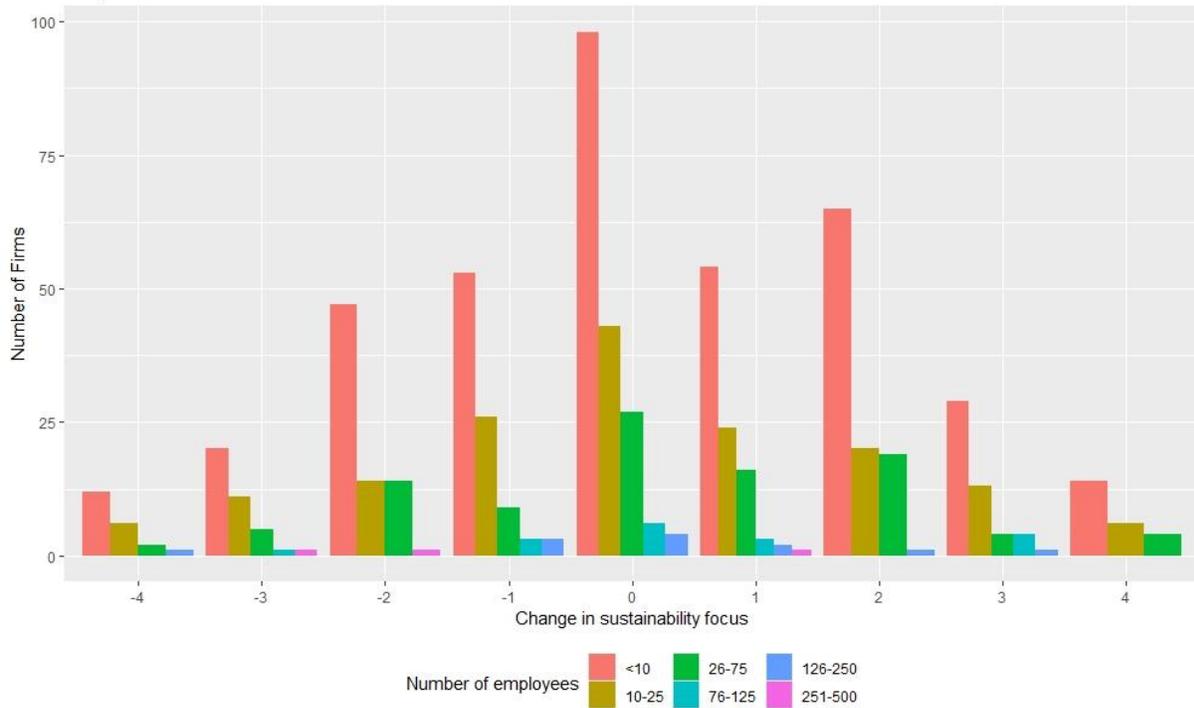
Distribution of firms among regions according to change in sustainability focus
Sample size: 707 firms



Source: SVM Reboot Project

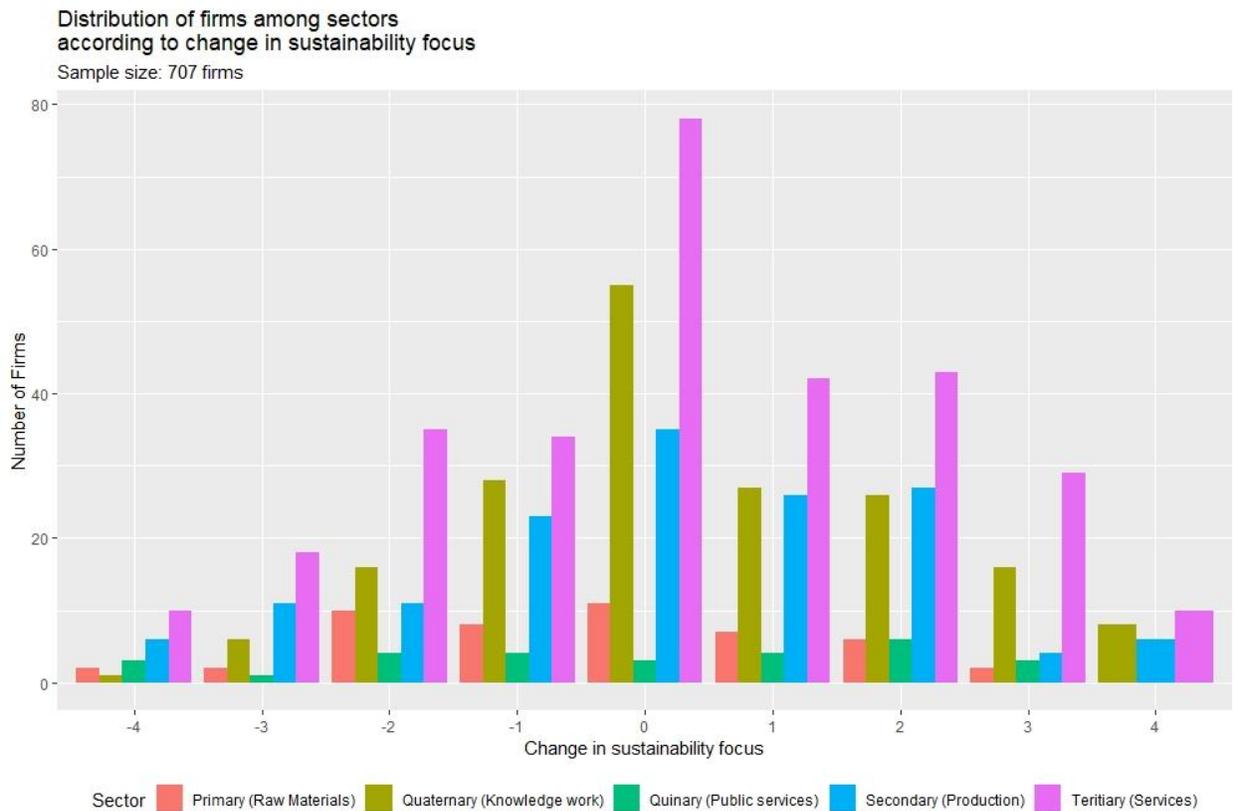
Diagram 3

Distribution of firms among firm size according to change in sustainability focus
Sample size: 687 firms



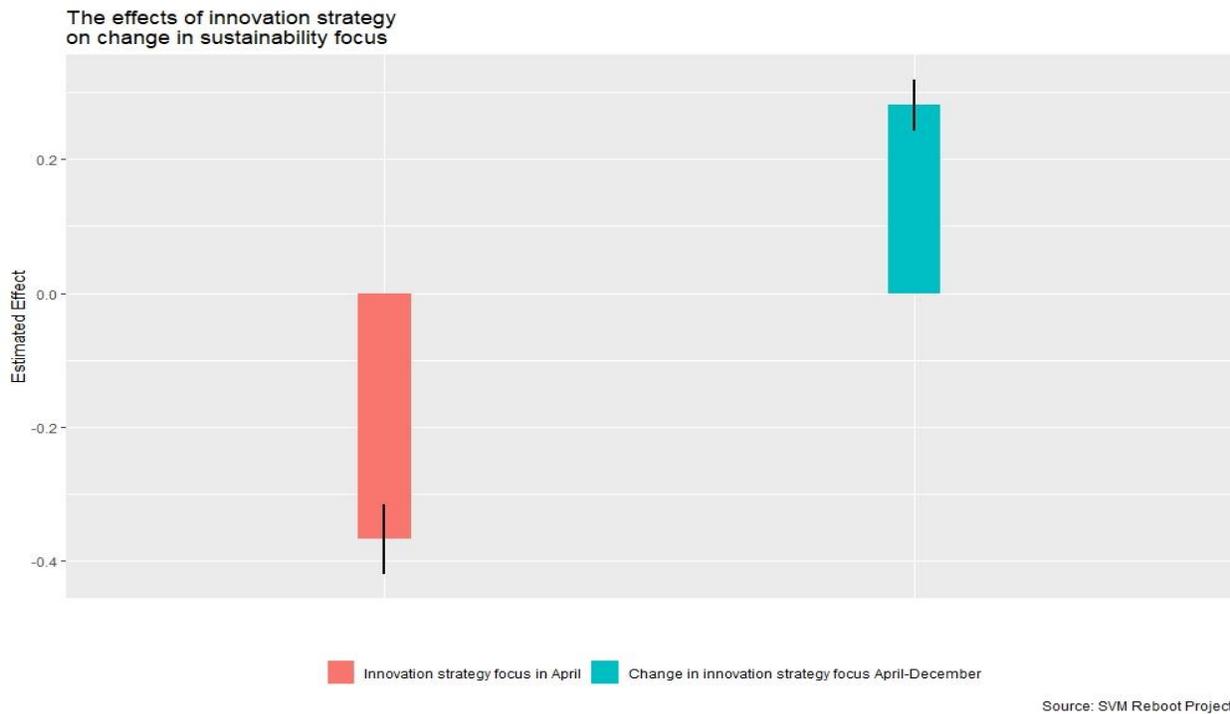
Source: SVM Reboot Project

Diagram 4



After developing these findings, we looked for stronger statistical relationships between variables in our data. We found that at the beginning of the Covi-19 crisis, the first reaction of most SMEs was to reduce investments in sustainable business practices in general. For many SMEs this meant ‘freezing’ their innovation activities. Overall, this led to a drop in their focus on sustainability. However, as the crisis continued and SMEs learned how to avoid or mitigate crisis-related effects on their daily business, we observed a change in the pattern. More SMEs began adopting an innovative approach to deal with the challenged of the Covid crisis. Those SMEs likely found loose resources that they used to jumpstart some of their innovation activities. This positive change in their innovation strategy brought along an increased focus on sustainability, also depicted in the graph (See Diagram 5). In conclusion, we found that as the crisis continued, SMEs that increased their focus on innovation also increased their focus on sustainability, suggesting that public and private investments in innovation activities are potentially playing a significant role in the transition towards a greener society.

Diagram 5



Discussion and qualitative insights

As reflected in the survey, many of the interviewed companies describe the first period of the Covid-19 crisis as being characterized by a high degree of uncertainty and caution in decision-making. The result was for businesses and customers to hold back on new engagements, slow down or even withdraw from prior arrangements.

To illustrate how SMEs have maintained or further developed sustainability efforts, a medium-sized production company located in Midtjylland provides a useful case study. The SME viewed this period of uncertainty as a window of opportunity and used the downtime to intensify work efforts toward obtaining a sustainability certification on all their products. “This is actually a great step forward. It was in the pipeline, but when Corona came, we pulled ourselves together, because we could see that this was the way to go,” stated the manager. A focus on sustainability was already part of the strategic planning before the crisis, and they knew that sustainability efforts were something they would eventually have to deal with more in-depth to meet customer demands. However, due to the uncertainties brought on by the crisis, they decided to accelerate the process and accomplish it sooner in preparation for the ‘post-corona’ period. It also served as a way to reallocate human resources to undertake the tasks related to obtaining sustainability certification, thus avoiding layoffs. Following the certification, the SME worked intensively on marketing a green and sustainable profile. Overall, the focus on sustainability has not changed their business model or production processes but has changed the communication and documentation of what they already do. Additionally, they now have an employee allocated specifically to working with sustainability issues and have decided to contract a professional communication company to further develop these efforts.

Furthermore, many of the interviewed companies report that the Covid crisis taught them to travel less. They found that online meetings can yield equally good results and foresaw this as part of a new future after Covid-19 in support of a sustainability agenda.