Injecting Politics into Business-led Sustainability Innovation: New Data from Small Businesses in Canada

Sarah Burch

Key Points

→ Canada cannot deliver on its international obligations under the Paris Agreement without meaningfully engaging its small business sector.

→ Small businesses are more than simple profit-maximizers: they are social and political actors.

→ Policies and incentives to foster sustainability should be carefully tailored to respond to the variety of drivers at each size of firm, rather than employing the same approach across the spectrum.

→ Government can accelerate small business sustainability innovation by providing information, cases and success stories; technical skills and expertise; financial support and incentives; and legitimation.

Introduction

Deeply divergent narratives exist around the policies that are most likely to deliver prosperity, security and well-being. A common characteristic of this divergence is the tension between the economy and environment: whether communities can “afford” to address climate change while still creating jobs and taking advantage of abundant natural resources.

Running parallel to this are conflicting assumptions about the urgency of responses to climate change. Is this largely a technical problem that will solve itself if businesses are left to innovate in response to market demands? Or does climate change represent the collision of market failures with fragmented governance structures and deep inertia behind carbon intensive development pathways? The former framing reflects a fundamental faith in markets and technological innovation, while the latter has emerged from critical social sciences and environmental advocacy organizations.
Canada still faces a significant gap between its international pledges and the actual measures that it has in place to address climate change. A 2017 report by the Auditor General of Canada indicated that while efforts to work collaboratively with provinces to design greenhouse gas (GHG) reduction measures had been made, Environment and Climate Change Canada had moved their focus to a 2030 target in light of evidence that it would not meet its 2020 target (Auditor General of Canada 2017). In other words, the Pan-Canadian Framework on Climate Change and Clean Growth is insufficient to deliver on Canada's promises under the United Nations Framework Convention on Climate Change and the Paris Agreement. Furthermore, the report found that sector-specific oil and gas regulations were not pursued, while other regulations were delayed, and there was a lack of publicly available information about the success or failure of regulatory measures that are currently in place (ibid.). The report did not, however, delve into the way that emissions are distributed across the private sector in Canada (i.e., among various sectors and sizes of firms), perpetuating the continued vagueness around the specific actors that must be targeted in order to meet obligations. Indeed, small businesses play key roles in the supply chains of larger firms in the transport and industrial sectors, which figure centrally in Canada's emissions landscape.

Clearly, the federal government faces a significant coordination challenge when it comes to effectively designing and implementing climate policy that supports its international stance on the issue. Beyond this, the measures themselves must target, and respond to, the specific needs of the actors that are responsible for the bulk of Canadian emissions. Small and medium-sized enterprises (SMEs) are responsible for more than 200,000,000 tonnes of GHGs per year, which is more than the emissions from Canada's oil and gas sector (Climate Smart Businesses Inc. 2018). These businesses, however, often lack the human, financial and technical resources to experiment with sustainability issues and mitigate climate change (Ervin et al. 2013). In addition, they are often excluded from major regulatory efforts (such as cap and trade systems that target large emitters) or treated as a homogenous block. Reducing emissions from SMEs is thus a complex position: while they may be more agile, free from shareholder demands and complex organizational structures and, thus, able to more

---

**About the Author**

Sarah Burch is a senior fellow with CIGI's Global Economy Program, where she is contributing to research on financing sustainable development, focused on the exploration of innovative solutions to address challenges associated with climate change and sustainability. She is part of the Sustainable Canada Dialogues initiative's network of scholars.

Sarah is a Canada Research Chair (Tier 2) in Sustainability Governance and Innovation, and assistant professor in the Department of Geography and Environmental Management, University of Waterloo, Canada. Through her research, writing and teaching, she explores transformative responses to climate change at the community scale, and innovative strategies for governing sustainability.

She is a coordinating lead author of the Earth System Governance Project’s New Directions Initiative, which is creating the Science and Implementation Plan that will inform the research of an international network of more than 3,000 environmental governance scholars over the next 10 years. She was a coordinating lead author of the Second Assessment Report of the Urban Climate Change Research Network, *Climate Change and Cities*, and was a contributing author to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (winner of the Nobel Peace Prize in 2007). Sarah holds a Ph.D. in resource management and environmental studies from the University of British Columbia (2009), was a visiting research associate at the University of Oxford’s Environmental Change Institute (2010–2013) and was awarded a Banting Fellowship for her work on sustainability innovation. Her most recent book is entitled *Understanding Climate Change: Science, Policy and Practice* (University of Toronto Press, 2014).
rapidly shift operations to align with the owner or manager’s values, SMEs are also often constrained by being tenants rather than landowners and bound by their reliance on larger firms.

Small businesses do not have the lobbying influence of their large multinational counterparts, but they are nonetheless political actors that engage in the complex and evolving project of climate change governance in Canada. This relationship is bidirectional; SMEs may engage in politics and make demands of decision makers, and at the same time, politicians and traditional governance actors also speak to the needs of businesses, while politicizing their actions and framing their desires.

This policy brief presents new data gathered through the Governing and Accelerating Transformative Entrepreneurship project based at the University of Waterloo. This data explores civil society perceptions of the role that small business can (and do) play in making progress on sustainability, as well as the role that government might play in fostering innovation in this sector.

Achieving Sustainability: The Politics of Small Business Innovation

Government’s role in entrepreneurialism was traditionally described as enabling (Thurik and Wennekers 2004), however, the depth of transformation required to pursue fundamentally sustainable development paths (and the complex interactions between multiple social priorities — such as social justice and environmental integrity — not simply economic prosperity) suggest that a more active role may be required.

Transformation has come to be defined as a deep, non-linear shift in the underlying values and logic of a system (Pelling, O’Brien and Matyas 2015), and it is moving from a descriptive idea in sustainability science to a prescriptive tool in policy and practice (Blythe et al. 2018). It is a deeply political task, and, as such, it is contested, messy and may lead to shifting allocation of power (for example, Westley et al. 2011; Blythe et al. 2018). In particular, as a system-scale process, transformation involves the active participation of (and, therefore, has implications for) a multitude of actors, ranging from government at multiple levels to civil society groups, private sector actors and researchers.

Innovation is required to trigger and accelerate desirable transformations toward sustainability. This innovation, however, is not simply technical. Indeed, some of the most persistent and intractable challenges to progress on sustainability are political, institutional and behavioural (Burch 2010; 2016; Burch et al. 2014). Small firms are an important source of these social and technical innovations, which may ripple up and down supply chains, affect consumer preferences and, ultimately, be a crucial determinant of the success or failure of sustainability policy and mitigating climate change.

Interviews with Small Businesses and Civil Society Groups in Toronto and Vancouver

Case studies were selected with the intention of representing cities that are expected to be leaders in sustainable innovation. The selection reflects the logic that cross-sector interactions and governance networks are more likely to emerge in contexts where considerable sustainability efforts have already been carried out. The selection of leading cities aims to capture development processes in settings that exhibit characteristics of partnerships and multi-actor initiatives. However, within these locations, this study focused on the activities, practices and perceptions of a previously overlooked group of actors: SMEs. Overall, the goal of the case studies was to understand what motivates SMEs to make progress on sustainability, the barriers that they face as they experiment with transformative solutions and the role that governance actors can play in accelerating sustainability transitions.

The City of Toronto has adopted the goal to be the most sustainable city in North America (City of Toronto 2017). This strategy involves specific sustainability programs directed to businesses and the non-profit sector, such as incentive programs for green roofs and energy efficiency in buildings (ibid.). These initiatives are carried out
What Do Small Businesses Need to Accelerate Progress toward Sustainable Pathways?

Perception of SMEs by Civil Society

Respondents from civil society groups, including business networks, were asked about the extent to which SMEs recognized and included sustainability-oriented practices in their organizations (and the role that government or other actors might play in supporting this process). These questions revealed a number of barriers that SMEs often confront and also highlighted the unique potential for innovation and agility in this sector.

Civil society representatives, who work with both municipalities and small businesses, argue that the role of small business in advancing green infrastructure (such as constructed wetlands and green roofs) is significant, and SMEs can influence decision making, but they are faced with a host of barriers. SMEs find it challenging to make significant changes independently, and there is not much in the way of collaboration in this specific area. They may not have access to case studies that demonstrate a road map to success, and it was not clear to respondents who would provide this. Perhaps unsurprisingly, the existence of networks is a powerful determinant of engagement on both sustainability issues and access to broader incentives, government support and expert advice.

SMEs are often stymied in their sustainability efforts because they are often tenants rather than property owners, so they lack control over some of the most important drivers of energy consumption. While incentives exist, such as those to improve the energy efficiency of buildings or vehicles, many SMEs do not know about these opportunities and are unlikely to employ someone with the time to complete the applications. Firms might eventually see savings, but if energy prices increase, then these savings disappear and the efficiency improvements may be viewed to have little benefit relative to the effort. Ultimately respondents in both cities repeatedly highlighted lack of time and money as central challenges
faced by SMEs as they explore the possibility of a sustainability transition — challenges that could be overcome by more effective delivery of incentives and engagement by property owners.

Civil society respondents were likely to perceive corporate social responsibility efforts made by larger firms as “greenwash,” while efforts by small businesses were more likely to be perceived as “authentic.” This may be the case considering the absence of any robust evidence either way, but it also reflects the particular pressures that large firms are under with regard to creating shareholder value and perhaps the broad perception that small business owners may not be solely motivated by profit. One Toronto-based civil society interviewee noted that “[publicly traded companies] have a fiduciary obligation to increase shareholder value... and ideally, if they’re enlightened, they are thinking longer term about increasing shareholder value.” Non-publicly traded companies, however, are not bound to this obligation and may be more motivated by personal values (which may not inevitably lead to more sustainable behaviour but frees those who are inclined by many constraints).

Whether a small business will engage in policy advocacy depends on the nature of the business and how heavily it is regulated. There is a general perception by sustainability-oriented business networks that businesses are inclined to care about sustainability, but there is a lack of knowledge about where to start. Interviewees indicated that smaller businesses are also more likely to make “passion-driven choices” than their larger counterparts. In contrast, larger firms are more motivated by, in the words of one civil society interviewee in Toronto, “security of supply, stakeholder pressure, concern about the future markets and emerging markets and basically because it’s a smart business decision and it may also be supported by individuals.” This sentiment was echoed by civil society respondents in both cities, who tended to view SMEs as more agile and motivated than larger firms.

This suggests that government incentives and policies should be carefully tailored to respond to the variety of sustainability drivers at each size of firm, rather than employing the same approach across the spectrum. Indeed, a firm with 97 employees is technically classified as a small firm, but its behaviour might more closely align with medium or large businesses than a very small, independently owned and operated firms with five employees.

While large corporations are often looked to for leadership on sustainability issues, some respondents indicated that the most innovative solutions might come, instead, from SMEs. For instance, one civil society respondent suggested that “a lot of the people with the big guts are starting these really interesting organizations, all the buzzwords: disruptive and circular and carbon neutral or carbon negative, but it’s great because they are showing proof of possibility and they are starting to push some of these big organizations who go...you know, we were little once and what happens if we get leapfrogged over by some of these organizations.” This indicates a tantalizing prospect for experimentation and solution generation in the small business sector, which may then ripple out to be implemented at scale in larger firms.

Policy Demands: The Role Government Can Play in Fostering SME Sustainability

Respondents from civil society, business networks and small businesses were asked about their specific needs and policy demands. Responses clustered around three themes: information, cases and success stories; technical skills and expertise; and financial support, incentives and legitimation.

While, as expected, many respondents suggested that small businesses simply did not have access to compelling and useful stories about sustainability transitions, the underlying message was that communication around these issues is scattered, contradictory and unfocused. Businesses do not have a one-stop shop for all information that is relevant to them, including provincially and federally offered incentives, concise and practical research on sustainable businesses models and the opportunities for transitions and ways to connect with like-minded organizations. Chambers of commerce, boards of trade, sustainability-oriented business networks, municipal government or a provincial ministry are all potential candidates to offer this service, but effectively collecting and delivering such diverse information (and delivering the outreach necessary to raise awareness about its existence) will require collaboration among government, civil society and experts or researchers.
Financial support is clearly a crucial accelerant of progress on sustainability in the Canadian small business sector. While government incentives, attractive tax rates and preferred access to loans are the most frequently referenced source of this support, respondents in both Toronto and Vancouver raised the importance of venture capital funds and investment more broadly. With the rise of socially responsible environmental, social and governance investing (Hebb et al. 2015), a business case can be made for directing capital toward firms that have undertaken the long-range strategic planning that often accompanies coherent and ambitious sustainability actions. Even so, one interviewee noted that Canadian investors remain particularly skeptical about the value and potential of clean technology, and so American investors were viewed as a more reliable source of funds.

One civil society organization suggested that a crucial and underexplored role of government is to legitimate the value of socially focused businesses. This can take a number of forms, from offering preferred access to government contracts and incentives to those businesses that demonstrate social and environmental benefits, to simply raising the profile of these businesses and shifting the narrative around the role of business in Canadian society. Rather than focusing on socially responsible (or impact) investing, or viewing beneficial corporations and social enterprises as aberrations or exceptions, governments can play a role in raising the expectations for Canadian small businesses and supporting the integration of socially responsible practices at the core of every business.

One pathway for doing this, as one interviewee suggested, is to advance a narrative that links the benefits of environmental actions to benefits in other social and economic domains. This requires an assessment and communication of the linkages between, for instance, the health benefits associated with encouraging employees to move away from single-occupancy vehicles and toward active transport. A small architecture firm that specializes in sustainable building solutions such as green roofs contributes to carbon reductions but also enhanced biodiversity and reduced stormwater runoff. This suggests that a broader sustainability framing (rather than narrowly focusing on climate change) may assist in the recognition of the full range of benefits associated with actions typically viewed to reside only in the environmental realm (Burch et al. 2014). TransformTO is one effort to explicitly model the actions required to reach transformative climate change targets and the additional societal benefits (and trade-offs) associated with doing so (City of Toronto 2017).

Related to the issue of financial support and incentives from government is that of financial disincentives and regulations; for example, pricing carbon to signal to SMEs the true costs of doing business, strengthening fuel efficiency standards and improving building codes. Several interviewees in both Toronto and Vancouver argued that this is a crucial role for government to play in accelerating progress on sustainability, as a price on carbon provides powerful motivation to change how business is done, while other regulations raise the floor on business operations more broadly.

SMEs are more than simple profit maximizers: they are social (Westman et al. 2019) and political actors (Westman, McKenzie and Burch, n.d.). Significant potential exists in this sector to devise and test solutions to sustainability challenges (including moving from creating a product to creating a service), but government must explore the multitude of ways that it might serve to build capacity, create incentives and raise the profile of innovations that offer social and environmental benefits.

---

**Policy Recommendations**

Carefully tailor government incentives, policies and taxes to respond to the variety of sustainability drivers in each size of firm, rather than employing the same approach across the spectrum. Smaller firms are structured differently than their medium-sized corporate counterparts and may be driven by different motivations (including community reputation, cost savings, employee retention and leadership). They face significant capacity constraints and market pressures, which could be minimized by tailored incentive programs, the provision of technical expertise and data and differential access to government contracts. In addition, however, a meaningful price on carbon and emissions control regulations that reach the small business sector also form part of a portfolio of actions that will accelerate progress.
A suite of financial support tools can be used to enhance the business case behind sustainability innovation. Sustainability innovation (ranging from zero-waste food services to energy efficient building technologies) in the small business sector can be activated and accelerated by preferred access to loans, attractive tax rates, rebates and incentives, as well as a deepened focus on socially responsible investing.

Small businesses need a “one-stop shop” for targeted and relevant advice, incentives and success stories of sustainability transitions. Communications efforts are perceived as scattered and contradictory, transferring the burden of navigating a complex landscape of incentives and advice to small businesses that are already capacity-strapped and potentially lacking motivation.

Advance a narrative that articulates the synergies between environmental, economic and social progress. Small businesses offer significant potential for the creation of sustainability solutions that also invigorate local economies, address social inequalities and create healthier, more vibrant communities. By explicitly seeking and fostering these synergies, the politically divisive domain of climate change response may be fruitfully addressed. Similarly, innovative business models, such as social enterprise and benefit corporations, illustrate these synergies, building evidence for the business case to make progress on sustainability.

Works Cited


About the International Law Research Program

The International Law Research Program (ILRP) at CIGI is an integrated multidisciplinary research program that provides leading academics, government and private sector legal experts, as well as students from Canada and abroad, with the opportunity to contribute to advancements in international law.

The ILRP strives to be the world’s leading international law research program, with recognized impact on how international law is brought to bear on significant global issues. The program’s mission is to connect knowledge, policy and practice to build the international law framework — the globalized rule of law — to support international governance of the future. Its founding belief is that better international governance, including a strengthened international law framework, can improve the lives of people everywhere, increase prosperity, ensure global sustainability, address inequality, safeguard human rights and promote a more secure world.

The ILRP focuses on the areas of international law that are most important to global innovation, prosperity and sustainability: international economic law, international intellectual property law and international environmental law. In its research, the ILRP is attentive to the emerging interactions between international and transnational law, Indigenous law and constitutional law.

About CIGI

We are the Centre for International Governance Innovation: an independent, non-partisan think tank with an objective and uniquely global perspective. Our research, opinions and public voice make a difference in today’s world by bringing clarity and innovative thinking to global policy making. By working across disciplines and in partnership with the best peers and experts, we are the benchmark for influential research and trusted analysis.

Our research programs focus on governance of the global economy, global security and politics, and international law in collaboration with a range of strategic partners and have received support from the Government of Canada, the Government of Ontario, as well as founder Jim Balsillie.

À propos du CIGI

Au Centre pour l’innovation dans la gouvernance internationale (CIGI), nous formons un groupe de réflexion indépendant et non partisan doté d’un point de vue objectif et unique de portée mondiale. Nos recherches, nos avis et nos interventions publiques ont des effets réels sur le monde d’aujourd’hui car ils apportent de la clarté et une réflexion novatrice pour l’élaboration des politiques à l’échelle internationale. En raison des travaux accomplis en collaboration et en partenariat avec des pairs et des spécialistes interdisciplinaires des plus compétents, nous sommes devenus une référence grâce à l’influence de nos recherches et à la fiabilité de nos analyses.

Nos programmes de recherche ont trait à la gouvernance dans les domaines suivants : l’économie mondiale, la sécurité et les politiques internationales, et le droit international. Nous comptons sur la collaboration de nombreux partenaires stratégiques et avons reçu le soutien des gouvernements du Canada et de l’Ontario ainsi que du fondateur du CIGI, Jim Balsillie.