

CHAPTER 1

INTRODUCTION

1.1 Background of Environmental Management for Small Business

The environmental revolution which began in the 1960s and developed rapidly in the 1980s and into 1990s put much of the blame on large business and stressed the need for change in that sector. But in the end of 1990s, attention is being increasingly turned to small enterprises to demonstrate its contribution to the ultimate aim of zero negative impact on the environment.

One thing is for sure, small business is not alone. There are hundreds of thousands to millions of small businesses across Malaysia traveling in the same road every day. Although one business operates in its own unique fashion, the environment cumulative impact of the small business sector is enormous. Furthermore, the small business sector is growing rapidly. While corporate companies has been "downsizing", the rate of small business "start-ups" has grown, and the rate for small business economical failures has declined. Local entrepreneurs and small and medium enterprises (SMEs) represent the backbone of this country's economic activity.

Environmental management is developed to find a balance between business and the natural world. It provides a way of solving environmental challenges that allows any organization including SMEs to profitably grow in harmony with nature. Thus, the environmental management actually is needed to supports the sustainable development and increase the business profit (Spence, Rutherford, Blackburn 1998). Since many of the

companies have their own and distinguish environmental management programs, the results may not be sufficient and ineffective in order to continuously meet its targets, legal and policy requirements. To overcome these problems, the environmental management system (EMS) which integrates environmental management into the organization's overall management system was introduced.

1.2 Business Activities and Environmental Management

The potential advantages associated with an effective environmental management will depend on the size of organization. Environmental management will minimize the environmental liabilities by integrating pollution prevention and waste reduction into our daily work. Many of the companies recognize that pollution is also a cost since its components are originally from raw materials. Quantities of some raw material inputs to the manufacturing process could be reduced or eliminated. Maximize the efficient use of this raw materials is also one of the environmental management to conserve the resources. Thus, environmental management is able to provide the policies and procedures in place that help company manage waste and resource more effectively and reduce costs.

Increased profits are the most important of these benefits, and may be the most surprising for those unfamiliar with environmental management which perceives the cost burden of implementation. Many companies find that an environmental management can help them reduce the quantities of materials and energy used to make products. Reducing the raw materials and energy used mean increasing in profits. Changes to product design, manufacturing processes, formulation and packaging can reduce the quantity of material inputs, wastes, byproducts and therefore costs.

Any company with the environmental management compliance will be able to demonstrate a good corporate image, satisfy investor criteria and improving access to capital such as banking loan, build awareness of environmental concern among employer and employees and gain a better understanding of the environmental impacts of business activities. Running an environmental management will help the company to prove their business' credentials as an environmentally aware operation that has made a commitment to continual environmental improvement (Hillary, 2000). The company may find it easier to raise investment from banks and other financial institutions, which are increasingly keen to see businesses controlling their environmental impact. In future, large businesses and government departments may only deal with businesses that have an EMS.

Business will be able to improve environmental performance, enhance compliance, attract new customers and markets, reducing incidents that result in liability, increased efficient operation, enhance employee morale and possibly enhance recruitment of new employees, obtaining insurance at reasonable cost, qualify for recognition or incentive programs and improving business-government relationship.

1.3 Definition of Small and Medium Enterprises (SMEs)

There is no universally agreed definition of SMEs. The lack of a universal definition for SMEs is often considered to be an obstacle for studies and research. Definitions in use today define thresholds in terms of employment, turnover and assets. The thresholds themselves, however, vary substantially between countries. Malaysian SMEs can be grouped into three categories: Micro, Small or Medium. These groupings are decided based

on either the number of people a business employs or on the total sales or revenue generated by a business in a year.

Table 1.1: Malaysian SMEs based on Number of Full-Time Employees

Size	Manufacturing (including agro-based) & Manufacturing-related services	Primary Agriculture	Services Sector (including ICT)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 and 50 employees	Between 5 and 19 employees	Between 5 and 19 employees
Medium	Medium Between 51 and 150 employees	Between 20 and 50 employees	Between 20 and 50 employees

Source: National SME Development Council (2008)

Table 1.2: Malaysian SMEs based on Annual Sales Turnover

Size	Manufacturing (including agro-based) & Manufacturing-related services	Primary Agriculture	Services Sector (including ICT)
Micro	Less than RM250,000	Less than RM200,000	Less than RM200,000
Small	Between RM250,000 and less than RM10 million	Between RM200,000 and less than RM1 million	Between RM200,000 and less than RM1 million
Medium	Between RM10 million and RM25 million	Between RM1 million and RM5 million	Between RM1 million and RM5 million

Source: National SME Development Council (2008)

1.4 Research Background

Izie Herb Enterprise started their business on January 2007 specializing in herbal products. Their basic activities start from the process of collecting the raw materials from local suppliers, importing the raw materials (powdered herbal extracts) and semi-finished products (pills and capsules) in small quantity from Indonesia and Thailand, processing and repacking it under the Izie Herb labeling and then marketing these final products to entire Malaysia.

The raw materials from Thailand will be collected at Rantau Panjang, Malaysia-Thailand border by Izie Herb Enterprise workers while the raw materials from Indonesia received through the international freight door-to-door delivering. These raw materials will be processed which includes garbling, drying, grinding and then mix it in certain amount before inserting in the capsules by Izie Herb Enterprise and contracted manufacturer.

Most of the marketing processes such as promotions are conducted via mail, leaflet distribution and newspaper advertisements. The delivering of end products is through the parcel mail such as Pos Laju or directly sent to distributors and customers nearby. This company has registered their business with Companies Commission of Malaysia (SKMM) on 7 November 2007. The registration number is KT0233114. Izie Herb Enterprise situated at Lot 479, Kampung Selising, 16810 Pasir Puteh, Kelantan.

Since their establishment in 1990, Izie Herb employed less than 10 full time workers and less than 5 part time workers at a particular moment. In the last 3 years, the total value of

goods that this company sells in a yearly basis is about RM 200,000 and the net profit is approximately RM 120,000 annually.

1.5 Issues in Izie Herb Enterprise

As mentioned earlier, Izie Herb Enterprise activities start from process of collecting the raw materials, manufacturing and marketing. These basic activities have a substantial impact on the environment. The collecting of raw materials and marketing involve the energy use on transportation which results in emission entering the environment. The manufacture of products involves extracting raw materials from the environment and processing them to produce saleable items. As a result of the production process, various forms of waste (solid, liquid and gaseous) enter the environment. In addition, the products that are produced will eventually be disposed of and enter the environment as waste.

Most large companies have some knowledge and experience of environmental management and often have the resources to employ an environmental manager or even an environmental management team. In contrast, SMEs such as Izie Herb Enterprise often lack of information on this area and responsibility for environmental issues often lies with busy staffs that also have a number of other responsibilities. They have strong interest to implement the environmental initiative but with little or no knowledge, they are not sure how and where to start it in the simplest way.

Another issue is the perception that there will be a conflict between their desire to protect the environment and their desire to run a successful business. They often have to

concentrate their efforts on matters of day-to-day survival without notice that certain activities will have the negative impacts to the environment.

1.6 Objectives

In view of the discussion above, the main objective of this study are:

- a) To identify the activities or process in Izie Herb Enterprise that can contribute to the environmental problems.
- b) To identify environmental management options to minimize these activities or process.
- c) To identify the benefits and barriers in implementing the proposed environmental management options.

1.7 Outline of Research Approach

The observation is conducted to understand the overall activities and processes involved in Izie Herb Enterprise. From this observation, the activities or processes that can contribute to the environmental problems will be identified.

The next step is taken by conducting an audit to identify quantity of waste generated, water and energy usage, and also possibility of risk issues in Izie Herb Enterprise. The audit checklist was formulated in a specific way to provide sound methodology for extracting the proper required data. Subsequently, a checklist was designed to determine the quantity of waste generated, water and energy usage, and possibility of risk issues that may arise.

By conducting this audit, it is beneficial to generate as many Environmental Management options as possible in order to minimize the usage of above parameters. Thus, each option is evaluated in terms of the benefits and their barriers such as available resources, ease of implementation, information barriers, internal attitudes and perceptions. The evaluated options were then prioritized and mechanism of implementation was then determined. Finally, further recommendations are suggested to the Izie Herb Enterprise in implementing selected Environmental Management options.