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## **CHALLENGES, CHANCES, ALTERNATIVES FOR SMES AND THE THEORY OF „DEGROWTH”<sup>1</sup>**

*WYZWANIA, MOŻLIWOŚCI, ALTERNATYWY DLA MŚP I TEORIA „DEGROWTH”*

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**Abstract.** To be successful strategic thinking from SMEs is required, they have to give appropriate answers to the changes that fit and serve the sustainable economy. It is characteristic that SMEs concentrate mainly on surviving and on daily stability, yet – despite of the frequently mentioned idea – they realize the necessity of renewal, and they are fond of innovation. The question arose: what kind of business model do we need. Future means that the reappraisal of the values based on trust, reallocation of resources, social relationships, restructuring factors of production, localization, reuse and recycling must be implemented in business strategies, showing the direction of innovation. It is important to define the role and place of the SMEs in innovation process in the context of de-growth, like innovation – imitation. Synthesis – open innovation, observation and adaptation of best practices, cooperation based on trust, participation in strategic partnerships. In the study messages of sustainable economy and ‘degrowth’ is summarized. Answers are being looked for the question: what kind of behavior and strategies are appropriate for the SMEs for successful renewal.

### **Introduction**

One of the most frequently used term in conversations about economy, development and future is sustainable economy these days. Others are the increase of competitiveness of SMEs, the improving role of knowledge, innovation and knowledge based economy, succession. A common question is the way of examination, what kind of principles and practices we should follow when we solve the problems.

After the financial and economic crisis of the first decade of the 21st century, the importance of the necessity to strengthen SMEs cannot be a manner in dispute. Capability for renewal is a precondition of viability of participants in the economy. Accelerated life, globalization, the permanent changes to be reacted are huge challenges for SMEs, but the reactions are not appropriate every time. There are multiple reasons for this, starting with the different influences due to different economic, historical, cultural past, the status of market liberalization, openness and import-dependence, the legal environment, the purchasing power, consumers’ attitudes, existence or lack of entrepreneur spirit, managerial skills, social trust, etc. Some of them are general, but there can be traceable regional differences inside one country, too. The list can be continued, but it already highlights the complexity of the question. The situation of SMEs should be examined from different aspect, discovering and understanding their behavior requires inviting scientists from different disciplines.

Sustainable economy should mean sustainable development. Three pillars of sustainability are the environment, the economy and the society. The three pillars cannot be divided, they are in very strong interaction with each other and it is a task for the scientists to examine them in different level with different approaches but in a holistic way. The three pillars of sustainability can be interpreted only with synthesis together with agriculture, too.

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Social sustainability includes the necessary food production and industrially-based energy production, and also from the farmer's point of view, compliance with the profitability criteria, and the responsibility of sustaining the environment. Without economic sustainability, environmental and social sustainability cannot be realized. Economic sustainability should include at least the simple reproduction (the necessary technical development) both on business and social level. Here all participants of agriculture and food chain should be found in their appropriate role. They produce not only value-added commercial goods, meeting the consumers directly on the market, export base, but for self-consumption, too.

A new interpretation of sustainability is the concept of "green economy", which was followed by the model of "blue economy" at the beginning of the 21<sup>st</sup> century. The "green economy" claims the preservation of environmental values by market principles. Here the consumer, the market pays the surplus expenditures coming from environment conscious business. On the other hand, the model of "blue economy" – as was declared by David C. Korten [2002] and later Günter Pauli [2010] in their studies – can be carried out by implementing effective, self-regulating processes from nature into economy. Besides the concept of local production – local consumption main principles are the local use of local resources, reduction of delivered distance and quantum without substantive limitation of consumers' demand.

Due to the energetic approach of sustainability, sustainable existence can be considered when the earned energy was created with an energy input that is not higher than the former level [Neményi 2008]. The question is how to transform these biological, physical processes into the language of economy. Beside thermodynamic questions and the law of conservation of energy, existence of humanity, knowledge, capability of reflectiveness into the future, wisdom (?) are such considerations that set economic and social sustainability into other contexts by synergy.

The ability of business participants to give appropriate answers, to adapt to the new, novel solutions that maintain both environmental and social sustainability are important from the point of view of economic sustainability. Finding these solutions under certain ecological and social circumstances belongs to the main tasks of agriculture.

The aim of the study is to highlight what kind of paradigm change is required in order that the farmers meet the criteria of sustainable development by the "degrowth" theory during agricultural production.

## **Material and methods**

The paper discusses the characteristics of the "degrowth" paradigm with content analysis, emphasizing the challenges and opportunities, which – if adapted to them – enable the SMEs to be part of sustainable economy.

## **Research results**

The "degrowth" theory – as a new paradigm change in the economy – became widely known at the very beginning of the 21<sup>st</sup> century, but was never an unknown idea in the human history. Among the roots of the movement going back to the antecedents: the Club of Rome report of 1971 entitled "Limits to Growth", suggesting "zero-growth" [WCED 1987]. Károly Polányi [2004] withdrew the direction of „austere affluence” in early 1950s. The question is: what is the future of the previously forward-looking systems (social, economic and environmental) that have been the basis of sustainable development. Are they in the direction of crash or can they be sustainable? [Ryden 2008, Mészáros 2011].

Ability to renew the economy is one – main – criteria of sustainability. That applies to all participants of the market, for all stakeholders through the product chain. According to Stuard Bray [1995] the followings are the characteristics of innovative businesses:

- openness to create new ideas, or adapting them making the best new business opportunities;
- persistent product and service innovation, development by increasing the value based quality;
- adoption of new technologies, participation in trainings (life-long-learning);
- consumers must be in the focus (needs, habit changes, etc.) through innovation processes, with market orientation;
- adaptability to changes (role of change management) [Bray 1995].

### **New paradigm, the “degrowth”**

The „degrowth” theory, along with the ecological economy, moral economy, anti-consumption, anti-capitalism is in the middle of disputes related to sustainable future [Sedlaček 2012]. Serge Latouche [2007] summarized the principles of degrowth in his book *Petit traité de la décroissance sereine* (Farewell to growth). According to these principles, population growth is not the only cause of environmental problems. We must look at the ethical and moral questions which need common society action. In the view of S. Latouche, a revolution in culture and behaviour is needed to “degrowth”. Some of the latest economic trends includes these principles already. Due to the limitation of the paper, here only the 8 “R” is mentioned: re-evaluate; reconceptualise, restructure, redistribute, relocalize, reduce, re-use, recycle.

The need for changing market competition for cooperation is not named directly. Cooperation should be exchanged for the competitive methods in the business and everyday life too. Egoism should be replaced by altruism, hedonism by selflessness, being attentive for others, ownership by distribution of property. Emphasis should go to social relations instead of consumption. Besides the reduction of consumption rational, low-key of production, standing our life a bit behind the direct economy, salutary waste of spare time is important to sustainable future. He emphasizes localization, local production – local consumption.

Konrad Lorenz [1973], in his novel *Die acht Todsünden der zivilisierten Menschheit* (*Civilized man’s eight deadly sins* – 1974) wrote about the connection between environmental, ecological and social processes and some economic consequences for business life. Overpopulation, degradation of biodiversity, decreases in agricultural and rural areas have huge effects on individual enterprises, on production structure, technology, direction of innovation etc. Pursuit for unreasonable consumption, anticipated burnout, genetical decadence, demolition of traditions, power of dogma (role and responsibility of media) and nuclear weapons belong to the 8 deadly sins. Business and society must change some moral attitudes, new missions are needed. All the thoughts and questions are beyond themselves and in strong relation with innovation, with the capability to be renewed.

### **What kind of answers are possible**

Sustainable economy requires novel (business) behavior both from the business participants as well as from the society. Individual and corporate interests are in conflict with social and global interests at several points, clash among the internal stakeholders, the conflict between the current and the future generations are such questions, that are not easy to give appropriate answers to on the level of economic systems. Examining the potential answers of SMEs by the principle of the „degrowth” theory, I highlight the followings:

1. Return to traditional values (reevaluation). In the business it is necessary to go back to the old ‘bourgeois’ values of honor, public service, the transmission of knowledge, ‘a good job well done’, frankness and mutual trust, the respects for human rights, nature and society. Business ethics should be developed by the principle of trust. It can be stated that based on some former research low level of trust is characteristic for the Hungarian SMEs, combined with the lack of willingness to cooperate in agriculture [Takács, Baranyai 2010, Baranyai et al. 2011, Takács 2012]. Trust go hand in hand with willingness to cooperate [Bakucs et al.

- 2008, Szabó 2010]. Common use of machines (machinery rings, cooperatives), producers' and marketing organizations opens the possibility for increasing the assets efficiency and for the appearance on the concentrated market. The individual benefit with lower market risk, lower needs of equipment and capital, the potential mutual assistance (i.e. life security insurance) will lead to strengthening local communities, having positive effects on moral questions.
2. Adapting the productive apparatus and social relations to changing values (restructuring). Make equitable policies in production tools, in usage of natural and social resources. One positive solution could be shared economy (i.e. machinery rings, cooperatives in agriculture).
  3. Relocalization is an economic, political and cultural issue. It does not mean the return to „self-sufficiency”. Rather the local production, local cultural life and local policy are in the focus ensuring the autonomy of local society. This leads to higher satisfaction of habitants, reduces the transaction costs by local consumption of part of the locally produced goods. There are no barriers before free flow of thoughts but the physical material flow should be reduced as low as possible. Fortunately, there are more and more positive examples for growth of local economies. For example direct marketing, short supply chains and local service nets. The free movement of ideas are not restricted but it is necessary to minimize the movement of physical resources. All production needs should be carried out at the local level [Latouche 2007]. The ‘Think global – Act local’ philosophy is equivalent to the relocalize principle.
  4. Through product innovation, when the service facilities are built up, the emphasis should go on better availability, openness to improvement (reuse). Pulling out of product life cycle is against economic growth, but the theory is not speaking about the growth. It is about the new, alternative ways of development in economy to meet requirements of sustainable globe, to avoid the depletion of (limited) resources, the over-consumption.
  5. Recycling, waste use and management besides the renewable waste usage is one focus of innovation, is part of our everyday life. The use of secondary biomass as energy source has become an everyday practice in the business and in the households.

### **Conclusions**

There is a great reservoir of answers. It is sure that we should focus on future with strategic thinking: The power of SMEs can be – besides being capable of renewing, to be adaptive and innovative – their ability and willingness to cooperate in different fields of economy. Cooperation can ensure the above mentioned “economy” along with the thoughts of “degrowth” theory. The advantages of economy of scale can be realized due to the common assets usage, and can improve efficiency ratios, both the individual and common cost efficiency. The concentration of production can also be increased by cooperation. That can be an advantage not only in competition, but by broadening the market connections and selling possibilities for individual producers. Trust between the market participants has higher role in sustainable economy. The reformation should be passed off under – market – competition that we should make the best of the possibilities based on cooperation, convincing the consumers. The way of SMEs: competing by cooperating, that is cooperation!

After this the remaining question is: „What kind of business model do we need?” The anthropocentric business behavior, the high level of trust will (can) build the image of “good reputation – trustworthy quality” (of course, value based). The “happy consumer – happy owner – happy employee” will (can) strengthen the interest and loyalty of internal stakeholders. The focus on the future, conscious work to create ability to think and work in new ways, to create novelty by sustainability and cooperation in economy and society.

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## Streszczenie

W artykule podjęto próbę określenia roli i znaczenia teorii postwzrostu w procesach zrównoważonego rozwoju. Poszukuje się odpowiedzi na pytanie: jakie zachowania i strategie są odpowiednie dla MŚP w celu skutecznego rozwoju. Firmy z sektora MŚP muszą tak jak wszystkie podmioty gospodarcze, adoptować się do zmieniających się warunków otoczenia nie tylko by przetrwać, ale także, aby rozwijać się. Jednak z jedną z charakterystycznych cech przedsiębiorstw tego sektora jest nastawienie się na przetrwanie i względna stabilność funkcjonowania. Mają one także świadomość potrzeby rozwoju i wdrażania innowacji, lecz w zdecydowanie mniejszej skali. Pojawia się pytanie: jaki model biznesu jest obecnie potrzebny. Przyszłość oznacza ponowne oszacowanie wartości opartych na zaufaniu, realokacji zasobów; relacjach społecznych, restrukturyzacji czynników produkcji, lokalizacji, ponownego wykorzystania w strategiach biznesowych, wskazując kierunek innowacji. Ważne jest określenie roli i miejsca firm z sektora MŚP w procesie innowacji w kontekście postwzrostu (degrowth), podobnie jak wskazanie kierunków wdrażania innowacji. Ważne jest określenie roli firm MŚP w implementacji innowacji. Istotne jest także zwrócenie uwagi na otwarte innowacje, obserwacja i adaptacja najlepszych praktyk, współpraca oparta na zaufaniu, udział w strategicznych partnerstwach.

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