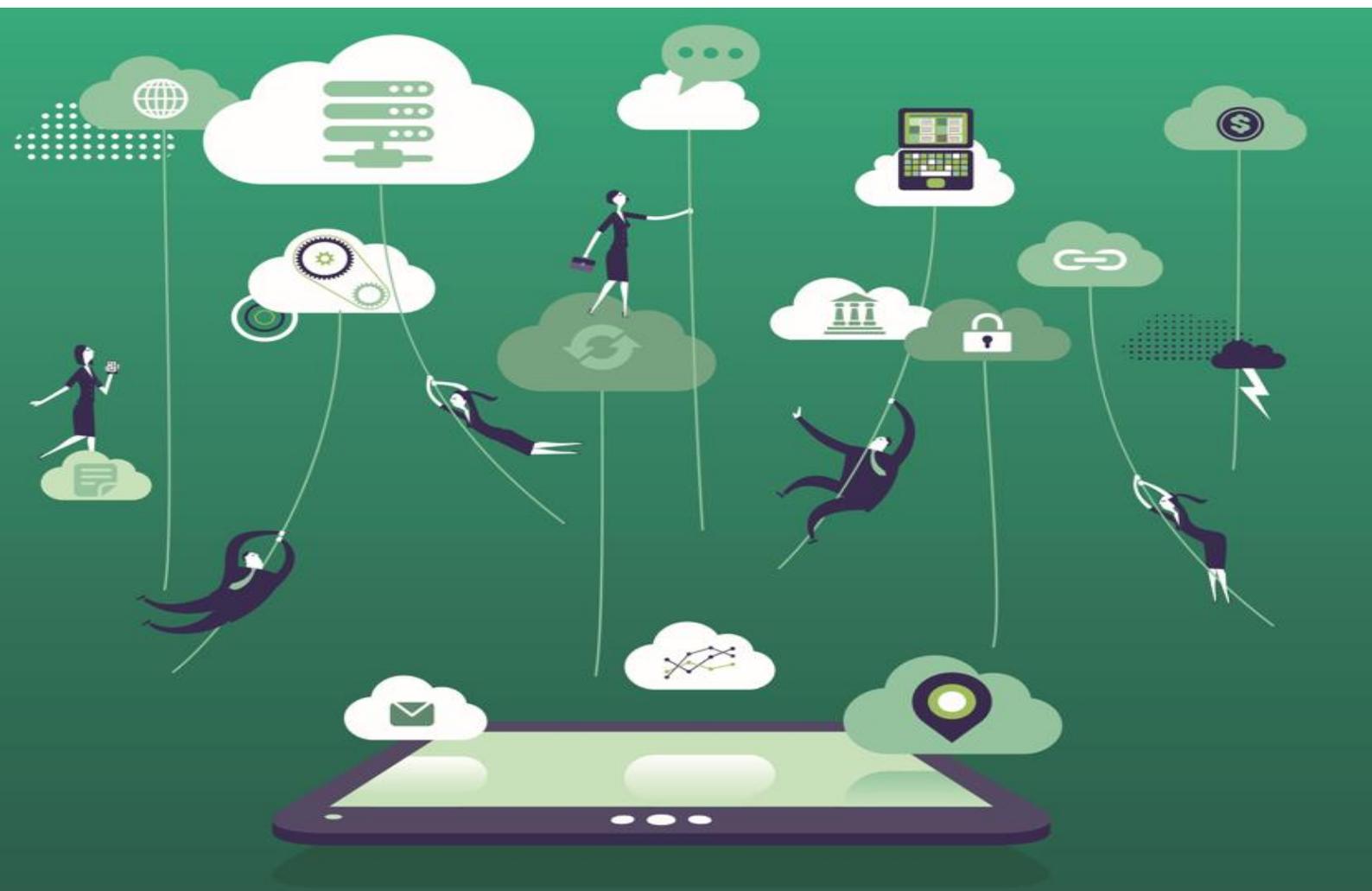


“Digital for SMEs” (D4SME) webinar on *SME Digitalisation & Sustainability: The Twin Transition*

The “Digital for SMEs” Global Initiative (D4SME) is a multi-stakeholder dialogue engaging governments, large and small businesses, industry experts and associations on how to enable all SMEs to seize the benefits of digitalisation. This initiative is led by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) in collaboration with Business at OECD.





The D4SME webinar on **SME Digitalisation & Sustainability: The Twin Transition** was held virtually on 11 May 2021. It gathered over 128 participants from 34 countries to discuss the connection between SME digitalisation, sustainability and resilience to “build back better” our economies and societies. The webinar focused on how digitalisation can enable SMEs, including ‘traditional’ ones, to be more sustainable and achieve environmental goals and what policy solutions can governments deploy in order to help SMEs improve their sustainability practices whilst simultaneously transforming digitally.

Background

The COVID-19 pandemic has accelerated the digitalisation of SMEs, enabling many to weather the storm but also opening up opportunities for greater business resilience and adoption of more sustainable business models and practices. Digitalisation can drive resource efficiency, enhance transparency around ecological practices and provide an effective channel for education amongst entrepreneurs. SMEs can accelerate their transition towards sustainable models by implementing digitally-based eco-innovations, such as, for example, carbon footprint testing technologies, the tracing of sustainable materials in supply chains through distributed ledger technology, or the use of ecological sensors connecting with IoT devices to promote ecological practices through social media. By adopting eco-innovations and developing ‘green’ products, services, practices and business models, SMEs can tap new opportunities, increasing their market share and capturing new markets.

Enabling the greening of SMEs and fostering green entrepreneurship are essential to “build back better”. Many countries have committed to ambitious policy targets for moving towards a more sustainable economy and these objectives have taken on a new urgency in the wake of the COVID-19 pandemic. Any success in achieving environmental objectives and a green transition of economies will need to involve SMEs, given their aggregate environmental footprint. Many small businesses will need to become eco-adopters. Furthermore, SMEs and start-ups across different sectors can drive substantial change through eco-innovation, addressing challenges like climate change and resource efficiency.

However, engaging in greening activities whilst simultaneously transforming digitally present challenges for SMEs. SMEs often face barriers in accessing strategic resources for the transformation, such as finance, skills knowledge and technology. Moreover, while digital technologies and practices can help SMEs become “greener”, they can also have a negative impact on the environment, such as in the form of electronic waste (E-Waste), growing energy and water use and pollutant emission from technology use. The promotion of a circular economy, in which SMEs are able to responsibly manage the lifecycles and environmental costs of using digital technology and equipment, is needed from the beginning of their digital journey.

Sustainability should be at the forefront of entrepreneur’s minds as they digitise: this is the essence of the twin transition. The conversion of digitalisation and sustainability offers a long-term objective that goes beyond the immediate response to the COVID-crisis. **Are SMEs aware of the potential of digital technologies to reduce resource-use and polluting? How can the SME resource constraints to greening and digitalisation be addressed? How can policies for digitalisation support sustainability? What are the priority areas for action to ensure that SMEs emerge from the pandemic more sustainable?**

The Panellists:



Dorothee D’Herde
Head of Sustainable Business
Vodafone

Dorothee leads the sustainable business agenda at Vodafone Group. The sustainable business team supports the delivery of Vodafone’s Purpose and its contribution to the SDGs, as well as ensuring sound responsible business practices and transparent reporting. Dorothee is also a trustee at Earthwatch Europe, an environmental charity with science at its heart. Before joining Vodafone, she spent 10 years at McKinsey & Company where she most recently was director of sustainability and social impact, overseeing the firm’s responsible business practices and its contribution to society. Dorothee joined McKinsey in 2009 as head of external relations for the Sustainability and Resource Productivity Practice. Before McKinsey, she worked in politics, public affairs and communications: for the Belgian deputy prime minister, in the European Commission’s spokesperson service and at a public affairs agency.



Ana Costa Paula
Head of Business Policy Unit
*Ministry of Economy and
Digital Transition Portugal*

Ana Costa Paula, as Head of Business Policy Unit, is responsible for fostering the creation of favourable conditions for the development of entrepreneurship, competitiveness, innovation, sustainability and internationalization of companies, focus SMEs and Digital transformation; streamline the implementation in Portugal of the Small Business Act (SBA) initiative for Europe, supporting the national SME representative, constituted under the governance of the SBA, SME Envoy. Portuguese Delegate to the OECD - Committee of Industry, Innovation and Entrepreneurship (CIIE) and Bureau member of the OECD - Committee for SME and Entrepreneurship (CSMEE). At European level, national representative in the European SME Envoys Network as Sherpa of the SME Envoy; Delegate in the working groups related to the Digitizing European Industry Initiative (DEI), Artificial Intelligence and Digital Innovation Hubs ; delegate in the Digital Europe Programme Committee, National Contact Point for the Digital Innovation Hubs, delegate at the working group on Industrial Cooperation within the Union for the Mediterranean.



Lottie Dalziel
Founder
Banish

Lottie Dalziel is the founder and CEO of Banish an online education platform and marketplace that helps Australians reduce their waste. Banish was born out of necessity when Lottie tried to reduce her own waste and found it difficult, confusing and overwhelming. Banish provides Australians with reputable and reliable information and products made from Australian small businesses that meet a strict set of criteria. In 2021, she was named as one of the Top 50 people in E-Commerce in Australia and presented a TEDx talk in 2020: The power of community in fighting climate change.



Mirta Rodriguez Pinilla
Business Unit Director
Starlab

Mirta Rodriguez Pinilla is Director of the Space Department at Starlab Barcelona SL focused on building digital solutions around remote sensing, AI and geospatial data that assist businesses in sustainable decision-making. She has over 15 years experience developing algorithms, and upscaling technologies towards market applications. She has held technical positions in various research institutes including the Physics Department at the University of Oxford and the Berlin Supercomputing Centre. During her professional career, she has worked in a variety of fields related to sustainability, agriculture, and environment, including broad experience coordinating and evaluating European wide projects.



James Ferrier
CEO & Co-Founder
BioFab

James comes to Bio Fab with an extensive background in packaging, a major market for Bio Fab's material. He's also an investor in the hemp industry – hemp hurd is the main feedstock for Bio Fab's mycocomposite. Despite his CEO title, James considers all of the core team to be leaders in the business and believes we are only at the tip of the iceberg when it comes to unlocking the potential of nature and natural products.



The panel was moderated by **Ms Lucia Cusmano**, Deputy-Head of Entrepreneurship, SMEs & Tourism Division, OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE). **Mr David Halabisky**, Economist, CFE gave the closing remarks.

Panellist Key Takeaways

- As well as accelerating the digitalisation of SMEs, the COVID-19 pandemic has also triggered renewed conditions and incentives for firms to adopt more sustainable business models and “greener” practices. The panellists emphasised that the accelerated digitalisation can contribute to strengthen SMEs resilience, but also opens up an **opportunity to use technology to accelerate their sustainable transition**.
- A poll of webinar participants revealed a general agreement that the digital and sustainable transformations of SMEs largely *overlap*, rather than happening in parallel or unfolding unrelated one from the other.
- Ms Dalziel shared this view in relation to her business experience with Banish, an online market place for Australian sustainable products. Ms Dalziel saw an increase in sales throughout the pandemic and explained that this increase was a result of an increased reliance on e-commerce, as well as an increased awareness of the consumer towards their ecological footprint. Banish exemplifies how digital tools can power SME sustainability, providing a digital platform for small firms, many from rural and remote regions to access new consumers.
- Drawing on Vodafone research, Ms D’Herde, shared that the digital transformation of firms was much faster throughout the pandemic for larger businesses. She further highlighted that firms with less than 50 employees were the least likely to prioritise sustainability. The challenge for policy makers and large firms alike is to **ensure small firms are not left behind** in the sustainable transition.
- Digital technologies have the potential to ease the adoption of the **circular economy model**. Mr Ferrier, a green entrepreneur producing ecologically friendly packaging, shared how in the manufacturing sector, for example, digital tools are able to accurately measure the carbon footprint of firms. There was a call from the audience as well as panellists for firms to continue to focus on circular economy models, **regeneration** and **net positive** rather than aiming for just net zero.
- It emerged from the discussion that it is important for SMEs to acknowledge they are part of the problem, and accordingly need to be part of the solution. Evidence shows that SMEs collectively account for 60-70% of greenhouse gas emissions and industrial waste.
- While digital tools can be a game changer for SMEs’ green transition, the **environmental footprint and energy consumption of digital technologies** should be taken into consideration, as an important dimension to assess in the digital transformation of SMEs.
- Many traditional SMEs face **resource constrains** that hold them back from undergoing a digital and sustainable transformation. These challenges include access to strategic resources, finance, skills and knowledge, size constrains and failures in the market. The discussion indicated that there is a central role for policy makers to play in enabling SMEs to overcome these barriers.
- Access to digital skills** is needed to ensure firms of all size can participate in the twin transition. A poll of webinar participants showed that skills gap is considered the greatest barrier to the twin transition for SMEs. Many SMEs do not have appropriate internal expertise and are uninformed on where to access affordable and relevant skills and training. Ms Costa Paula shared that the Portuguese government are investing in the digital upskilling and reskilling of SMEs across all components of their post-pandemic resilience plan.
- As well as access to skills, the panellists emphasised the importance of **knowledge** on sustainable practices for SMEs. Ms Dalziel called for a one-stop-shop model to provide traditional SMEs with relevant information on how to operate more sustainably, giving support to small businesses who, due to size and funding constrains, often do not have a sustainability officer like in larger firms.

- ① **Size-related constraints** are a barrier to the twin transition for many SMEs. As many small businesses often buy minimum-order quantities, it can be challenging to make a significant change to supply chain sustainability without influential purchasing power. Accordingly, there was a call for SMEs to act collectively to drive change. Mr Ferrier however argued that, as SMEs are leaner and agile, they can implement change more efficiently, and start-ups have the ability to implement sustainable practices from the beginning of their **digital** transformation.
- ① Small firms and start-ups are often drivers in eco-innovation and ‘GreenTech’, exemplified by the entrepreneurs on the panel. Although there are business opportunities for eco-innovators to respond to a new demand in the market, there are costs associated with sustainably and digitally transforming the business that deter many SMEs. Ms Dalziel shared the example of how until recently using your own sustainable packaging for postage was more expensive than the plastic satchel provided at Australian post offices. Moreover, there are other fees, such as the cost of certifications, which may deter SMEs from spending time or money to apply for such verifications.
- ① Panellists and participants alike agreed that there needs to be a **business case for SME sustainability**, with the majority of webinar attendees voting that an **increased productivity** was the driving motivation to undergo the twin transition. Ms D’Herde explained that combining environmental objectives with performance objectives produces a ‘win-win’ for a business’s sustainability transformation.
- ① Ms Rodriguez Pinilla emphasised the need to monetize sustainability for SMEs in different sectors. She highlighted that in the agricultural sector there is in fact a strong economic rationale to uptake sustainable practices, because there is consumer demand for green and sustainable products. She highlighted that when there is no business rationale, there is a place for **regulations to provide incentives**, for example as observed in the waste sector.
- ① Government regulation can act as a push for firms to use new technologies to become more sustainable, and regulatory reforms can remove existing regulatory barriers around reuse and regeneration.
- ① Policy can encourage the twin transition through the regulation of supply chains, such as by strengthening tools and framework s for transparency, which can help SMEs have better control over their supply chain due diligence. It was suggested that such policy framework would be particularly beneficial for large firms, who are often at the top of the supply chain, with important trickledown effect to smaller firms.
- ① As many OECD governments begin to emerge from the COVID-19 economic crisis, political recovery plans are focussing on the role of digital in a sustainable recovery. Participants agreed that it is important that SMEs are featured in these recovery plans in order to progress on the sustainable agendas. Ms Costa Paula shared how the Portuguese recovery and resilience plan, mirroring the European Commission’s plan, revolves around three pillars; resilience, green transition and digital transition. The Portuguese government plans to implement structural reforms to create the right regulatory and institutional frameworks to enable SMEs with their recovery.
- ① There is a role to be played by large firms in accelerating SMEs twin transition. Ms D’Herde shared how Vodafone are helping address the skills gap through knowledge sharing initiatives such as *Vhub* that offers free digital advice to SMEs. Large firms can share best practices and make a change through supplier relations. Ms Costa Paula emphasised how 26 CEOs from the ICT sector have joined the European Green Digital Coalition, to support the Green and Digital Transformation of the EU, by committing on behalf of their companies to significantly reduce their carbon footprint by 2030, become climate neutral by 2040, and support sustainability goals of other priority sectors, leading the sustainable transformation by example.
- ① The discussion throughout this webinar on SME Digitalisation & Sustainability will be reflected in the upcoming D4SME policy paper on *SME digitalisation to “build back better”*, in which the SME twin transition will be a focal research point. This D4SME policy paper will be shared with the D4SME network at the end of 2021.



For further reading



OECD SME & Entrepreneurship Outlook 2019

Reviews the latest trends in SME performance and provides a cross-country overview of business conditions and policy frameworks for SMEs and entrepreneurs, with a forward-looking perspective on emerging opportunities and challenges, including digitalisation.



Going Digital: Shaping Policies, Improving Lives

Identifies policy areas where governments can shape the digital transformation and improve lives, highlights key opportunities, challenges and related policies, and offers new analysis and recommendations for better policies in the digital age.



The Digital Transformation of SMEs

Despite potentially tremendous benefits, small and medium-sized enterprises (SMEs) lag in the digital transformation. This report looks at recent trends in SME digital uptake, including in the context of the COVID-19 crisis. It focuses on issues related to digital security, online platforms, blockchain ecosystems, and artificial intelligence. It identifies opportunities, risks of not going digital; barriers to adoption and policy actions to speed SME transformation.



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