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Green Business Environment: Normative fundamentals and policies for SMEs

Summary:

This paper aims on analysing green business normative fundamentals and policies for SMEs in level that foster green business transition of SMEs on a conceptual. Seeking consistency with The United Nations (UN) set of seventeen Sustainable Development Goals (SDG) business organizations are transforming from "doing business as usual" to sustainable business practices. Regulatory frameworks and incentives are impactful drives of green business transition when contributing to healthy business environment. Based on the overview of scientific literature on the policies and legal framework that establishes green business transition the authors aim to identify and explore presupposed aspects that foster green business transition of SMEs. The article builds on awareness of the significance of SMEs in green transition, underlines current trends in scientific research on regulatory frameworks and policies that create business environment for SMEs and reflects on the European Union`s normative regulations.

Keywords: Green business; Normative regulations; Green business policies; SMEs; The European Union

A. Introduction

Green transition as a response to environmental issues is a global challenge. Environmental risks like severe weather conditions, critical change of Earth systems, biodiversity loss and ecosystems collapse, and natural resource shortages are admitted to be the most dominant and deteriorate in their severity during the next decade (World Economic Forum, 2024). United Na-

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tions (UN) have clearly stated that for long time human activities have been main driver of climate change. The Paris agreement being legally binding international treaty aims at holding global warming to well below 2 degrees Celsius and to "pursue efforts" to limit it to 1.5 degrees Celsius (UNFCCC, 2015).

Regional contributions are key components in tackling climate change internationally. Europe has undertaken a role of being a leader for saving planet for future generations. The European Green Deal is an integral part of this EC strategy to implement the United Nation's 2030 Agenda and the sustainable development goals (European Commission, 2019). The European Green Deal embodies package of policy incentives defining the path of EU`s green transition Climate neutrality by 2050 is an ambitious goal of the European Union (EU) that commits all the EU members states under the EU Climate Law. EGD was launched by European Commission in 2019. The European Green Deal responds to climate issues by shifting EU economy from conventional to a modern, resource efficient, and competitive economy by launching multiple policies for advancement of green economic growth and EU`s commitment for decarbonization, dematerialization and decoupling of carbon emissions primary (Vela Almeida, D., 2023). The European Green Deal provides framework to ensure that EU legislative and policies are relevant for climate neutrality objective. For that reason The European Green Deal focuses on 1) EU`s climate ambition for 2030 and 2050, 2) Supplying clean, affordable and secure energy, 3) Mobilising industry for a clean and circular economy, 4) Building and renovating in an energy and resource efficient way; 5) Accelerating the shift to sustainable and smart mobility; 6) From 'Farm to Fork': designing a fair, healthy and environmentally-friendly food system, 7) Preserving and restoring ecosystems and biodiversity; 8) A zero pollution ambition for a toxic-free environment goals (European Commission, 2019). The EU Taxonomy regulation and the Corporate Sustainability Reporting Directive (CSRD) will force a rigid disclosure system that is organised to support and transition the EU economy to meet its European Green Deal objectives, including the 2050 climate-neutrality target (Cronin, M., & Doyle-Kent, M., 2022)

Green economy is a joint action on a global scale as involvement on individual level is purposeful but too weak to provide expected solutions for climate issues, resource depilation, pollution, and loss of biodiversity. Green economy is a contemporary knowledge area with rapid research growth and industrial adoption rates. Conceptually green economy stands on four fundamental pillars: environmental challenges, human well-being and equity, and economic growth. In other words, a green economy incorporates envi-

ronmental, social, and economic aspects to foster sustainable development. Thus, its topicality is rooted in both - environmental issues and the necessity of sustainable development.

Green business transition demands busineses to go through the process of change. Movement towards sutainability by adoption of green business strategies involves comprehensive shift from traditional way of doing business to doing business under green thinking paradigm. Green thinking fosters busineses to bring sustainability aspect up-front and go through change by having different view on resorses, business process, kowledge, competitiveness, innovation and other aspects of business management. Green transition for busenisses embodies change in usage of resources form non-sutainable to sustainable, but transition process its selfe largely depends on capabilities of businesses to go through the process of business transformation. Still, business organization within transition to more sistainable business are ment to strengthen their comtetitive advantage. Already decades ago, it has been stated that integration of environmental issues is the key to a comprehensive environmental strategy for business organizations, but more research is needed to determine how this integration should happen (Banerjee, S.B., 2001). Although the "business as usual" is not justifiable due to growing environmental issues, the business community faces a challenge of not losing competitiveness in this dynamic green environment.

Green transition adresses both - large corporet companies and SMEs sized companies as well. Sutainable business practices and reorientation form "business as ususal" to envirinmentally friendly business practices is vital due to support SMEs provide for corporate companies (Permatasari, P., & Gunawan, J. 2023). At the same time, scientific literature indicates, that normative regulations serve as significant drives for green transition instead of voluntary participation which remain low (Cronin, M., & Doyle-Kent, M., 2022). Although EU normative regulations set obligations for corpotae companies and listed SMEs, vast part of SMEs is mainly taking part in green transition on voluntary basis. Recognizing the significance of SMEs in fostering green transition in EU, voluntary standards (EC, 2019) are being developed to facilitate the pass of SMEs to more sustainable and that environmentaly friendly business practices.

B. Green business environment

Business performance critically depends on the business environment in which it operates. Policy makers are interested in rising competitiveness of business environments to foster prosperity of countries. Scientific litera-

ture provides extensive research on different aspects of the business environment and its evaluation instruments, for example *The Enterprise Survey* by the World Bank, *The Doing Business Report* by the World Bank, and *The Competitiveness Index* by the World economic Forum (Qiang, C. Z., et al., 2021, Liu, Q. 2021). The set of indicators used to compare development of business environments in different countries varies in their instruments in accordance with their aim. World Bank`s Doing Business Report is admitted to be based on relatively mature, stable and widely accepted indicators(Li, X., & Xiao, L., 2024). Ten indicators are used to evaluate ease of doing business - time and operation indicators (starting a business, dealing with construction permits, getting electricity, registering property, paying taxes, trading across borders) and legal score indicators (getting credit, protecting minority investors, enforcing contracts, resolving insolvency) (World Bank, 2019). Doing Business Report also measures regulation on employing workers and contracting with the government (World Bank, 2019). An environmentally friendly business environment is inevitable for transition to a green economy. Green business environment aims to establish conditions and provide support for businesses to enhance sustainable development and environmental preservation within their business operations by keeping the balance between economic prosperity and environmental depletion. Green business environment builds on a long-term competitiveness of businesses, continuous progress of society and advancement of ecological civilization (Li, X., & Xiao, L., 2024).

Under a holistic approach green economy is an ambiguous, complex system with many interconnected constitutive subsystems and associated system elements, like circular economy, sustainable development, skull development, food systems, infrastructure, policy, hydroponics, green energy, green logistics (Telukdarie, A., 2024). Nevertheless, based on extensive literature review scholars still refers to the green economy concept as "*highly controversial, partly due to its theoretical blurriness*" (Merino-Saum, A. et all, 2020). They have found 95 definitions of the green economy concept along with additional 45 definitions of the green growth concept often used interchangeably. Findings of this research suggest that definitions of green economy mainly differ by representation of the elements constituting the green economy concepts. Overall, the five (from 40) most often incorporated elements in the green economy definitions are "economy", "environment", "economic growth", "development", and "natural resources". Similarly resent research that aimed at exploration of constituent elements of the green economy by conducting bibliometric analysis, have indicated "climate change", "policy", "sustainability", "governance", and "ecosystem services" as five (from 20) most often in corporate elements in the green

economy concept (Telukdarie, A. et all, 2024). Important components of the green economy comprise low carbon technology and efficiency of natural resources, that results in accounting, conservation, and enhancement of ecosystem services (D'Amato, D. et all, 2019).

Scholars have indicated that actors who shape the concept of the green economy are scientists (scientific literature) and international organizations, and they admit differences in the green economy definition depending on geographical regions (Merino-Saum, A. et all, 2020). These authors have also observed differences between institutional and scientific definitions of the green economy. They point out that international institutions representing political arena are more focused on social issues (society, equity, employment) and they more frequently mentioned into definitions economic terms (economic growth, finance, production).

C. Green business transition and drivers of SMEs.

The term green transformation rather than the green shift is used to capture the magnitude of societal change required across critical social, economic, and political dimensions to enable sustainability and to avoid dangerous climate change. If green transformation is to succeed as a response to climate change, it must be both top-down and bottom-up. This spotlights the concept of **green thinking**. Attention of researchers has been put on investigation of green thinking from perspective of consumer behavior with the aim to provide general advice for rise of green consumption and green markets. However, management's commitment to green transition is admitted as vital factor that fosters green transformation of organizations. Green thinking drives change from both directions: 1) inner necessity of change based on leadership driven by green thinking of management, 2) other demand driven by green thinking of customers

Green entrepreneurs are admitted as key drivers in **green business transition** and "game changing agents" who are meant to abdicate doing business as usual and balance their business aims with environmental aims (O'Neill, K. & Gibbs, D., 2016). Nevertheless, entrepreneurs are not the only ones and common effort is required to facilitate change towards sustainability through enhancement of the green economy. The market, the government, the investors, the technology, the innovator, and the entrepreneur are involved in the modification of the economy (Buch-Hansen, H., & Carstensen, M. B., 2021). The market, the government, the investors, the technology, the innovator, and the entrepreneur are involved in the modification of the economy (Buch-Hansen, H., & Carstensen, M. B., 2021).

Factors that stimulate green transition are capital market acceptance and government intervention: 1) can directly stimulate the demand for green products by government procurement, 2) law requirements of renewable energy, renewable obligation; 3) taxation policies (companies must pay for extra greenhouse gas emissions). Governmental intervention has been studied on theoretical and empirical basis. Experimental research has provided evidence that because of becoming greener the profits of retailers and producers decrease first and then increase, after they receive government subsidy (Wei, D., 2020). The authors of this research conclude that the government subsidy motivates business organizations the producer to renovate green manufacturing technology, and the retailer to further promote green products.

Green business is meant to foster growth of green economy, expansion of green markets, and development of green business models (Chen, Y.-S. et all, 2023). To pursue green business strategies, business organizations should incorporate such goals into their business objectives, thus ensuring that their operations are environmentally sustainable and supportive of the broader global sustainability objectives (Teymourifar, A., & Trindade, M. A. M. 2023). Environmental shift towards greener business might be reached by organizations in eight directions: 1) green consumption and environmental labelling; 2) green contract with consumers; 3) green management modules; 4) environmental auditing; 5) scenario planning; 6) green redesign; 7) corporate consciousness; 8) environmental outreach (McGuire, D., 2010).

The extent to which business organizations are ready to improve their environmental performance is associated with corporate social responsibility of business organizations and their environmental orientation. The concept of environmental orientation is not new and well defined in scientific literature. Banerjee states that environmental orientation reflects managerial perceptions of environmental issues of a business organization and is grounded in integration and accountability in front of stakeholders (Banerjee, S.B., 2001). Banerjee highlights the significance of green marketing and the necessity of building environmental awareness of customers to establish markets for green products and services (Banerjee, S.B., 2001). Further Menguc and Ozanne defined the concept of natural entrepreneurial orientation by stating that this concept is composed of three first-order dimensions, namely entrepreneurship, corporate social responsibility (CSR), and commitment to the natural environment (Menguc, B., & Ozanne, L. K., 2005). Menguc and Ozanne admit these three capabilities are rare, valuable, and difficult to imitate and leading to competitive advantage if implemented correctly (Menguc, B., & Ozanne, L. K., 2005). According to Dean & McMullen entrepreneurs having environmental orientation play

a role in breaking down barriers to the efficient functioning of markets and eliminating the market failures which produce environmental degradation (Dean, T. J., & McMullen, J. S., 2007). The factors fostering green entrepreneurial orientation are mainly associated with actors playing a role in entrepreneurial settings. Resent comprehensive systematic review of scientific literature devoted to environmental orientation states that environmental entrepreneurial orientations is includes multiple strategic orientations that are influenced by factors from various dimensions, and it can be enhanced through micro (personality traits, perceptions and values, human and social capital, emotions, moods and feelings), meso (organizational characteristics like corporate governance, leadership, management`s awareness and pro-environmental behaviour, organizational mindfulness, entrepreneurial culture ect.), and macro-level drivers (stakeholder demands, regulatory frameworks and incentives, green economy investments and promoition instruments, collaboration and networking, open-innovation strategy ect) (Ameer, F., & Khan, N. R.,2023).

Scientific literature provides clear identification of enablers and barriers for SMEs to enhance sustainable business practices. Technological, managerial, strategic, cultural, skill, financial, supply and demand, and technological advancements are admitted as challenging for SME`s to enhance sustainable business practices. General advice from scientific literature suggests using such enablers as operational, strategic, market-related, competition-related, and adaptation related to overcome these challenges (Basit, S. A.,et al, 2024).

D. Green business policies and normative fundamentals

1. Green business policies

Green policy concepts (for example, resource efficiency policies, financial support, regulations of tax breaks, limit of emissions ect.) reflect global policy development such as the Paris Agreement, the Sustainable Development Goals. Green policies aim at creating a supportive framework for green transformation. Green policies elaborate the institutional perspective of green transformation by harmonization of economic, social, and environmental aspects into an organization.

In recent years a reasonable amount of research has been provided on green policies. A stream of literature explores green business policies in two packages – resource efficiency policies and climate mitigation policies. Resource efficiency policy package includes three instruments - resource

efficiency innovations, more efficient resource use, combination of regulations, technical standards, and planning and procurement policies to reduce resource demand. Climate mitigation policy package includes three measures for green-house emissions reduction including carbon tax, development of carbon dioxide removal technology, and emissions reductions from land-use change (Liu, Q., 2021). In scientific literature green policies have been classified on the basis of their aims: 1) renewable energy regulation, that include renewable portfolio standards, mandatory green power options, standards regarding distributed renewable generation technologies, and similar, 2) financial incentives designed to promote renewable energy technologies, 3) energy efficiency policies, which includes regulations and incentives designed to promote energy efficiency, 4) policies focuses specifically on climate change adaptation or mitigation, that include greenhouse gas registries, inventories, and targets, climate adaptation plans, and participation in regional greenhouse gas reduction agreements, 5) public benefit funds, which allocate financial resources (usually generated by fees on customer utility bills) toward energy efficiency and renewable energy programs ranging from consumer education and low-income assistance to renewable energy research and development (Woods, N. D. et all, 2023).

Green finance policies have been studies extensively as well. A lot of research is available on green credit and green bonds. Research suggests that green credit can increase the loan threshold through financing constraints and force businesses to implement green business practice, while green bonds facilitate investments in eco-projects. Mix of green binds and green credit have positive impact on green innovation of businesses (Liao, Z. et al 2024).

Environmental policies have been studied from perspective of demand and supply side. Findings suggest that significant growth in green markets is most likely to result where a combination of policy instruments directed at the supply side and demand side of the market is simultaneously implemented. How ever due to knowledge gap the ability of governments to design and implement instrument packages that include demand-side instruments and to ensure that they interact positively with supply-side instrument has been questioned (Daugbjerg, C. and Sønderskov, K.M. 2012).

The EU's environmental policies initially include traditional environmental policies such as biodiversity and water resource protection, gradually covering climate change policies related to emission reduction and renewable energy. In addition to command-based environmental policies, the EU also uses incentivized environmental regulation such as environmental taxes, emission trading rights, and environmental subsidies. Environmental regulations are developed with the aim of protecting the environment,

reducing depilation of natural resources and promotion of sustainable growth. With normative regulations restrictions and obligations are defined to facilitate pass from "doing business as usual" to green business practices.

2. Normative regulations

As normative regulations should govern business strategies of companies and motivate them to enhance sustainable development and environmentally green business models policy makers are looking forward to understand what kind of companies` behavior align with normative regulations (Bartolacci, F. et al 2020). Scholars admit that normative regulations might take a role of enablers as well as create barriers in the pass of businesses towards environmentally friendly business practices (Xiumei, X. et all, 2023.). Environmental regulatory frameworks worldwide form the structure that reveals connection of the type of normative regulations and impact of green transition of SMEs. According to research following clusters of environmental regulations are widely used: 1) Command-controlled environmental regulations, 2) Market-incentive environmental regulations, 3) Public-participative environmental regulations (Xiumei, X. et all, 2023.). These scholars have evaluated the specific regulatory effect of each cluster of regulations (see table 1.)

Table 1. Environmental regulations. Source: Xiumei, X. et all, 2023.

No.	Type	Purpose	Enforcement	Effect
1.	Command-controlled environmental regulations	Dictate the obligations to be undertaken to preserve green society. Violation results in penalties. Examples: limiting carbon emissions, water quality standards for industrial discharges, and regulations governing hazardous waste disposal.	Regulatory agencies are empowered to limit production or shut facilities.	When the government strictly ensures compliance with command-control green regulations in industrial operations, it binds SMEs to transform their operations.
2.	Market-incentive environmental regulations	A set of green policies and approaches to address environmental problems by creating financial incentives for businesses to reduce their ecological impact. Examples: emission trading systems, carbon pricing, tax credits, performance-based standards, and green procurement policies.	Provide flexibility and allow participants to find cost-effective ways to meet environmental goals	Green innovation becomes a key driver. SMEs seek the optimum benefits from the market-incentive environmental regulations.
3.	Public-participative environmental regulations	Involve inclusive decision-making processes where the public, stakeholders, and experts collaborate to shape and enforce environmental policies. The government uses multiple channels, such as self-media and litigation, to involve the public and various stakeholders in the regulatory process.	The government uses multiple channels, such as self-media and litigation, to involve the public and various stakeholders in the regulatory process. These regulations strive to balance economic development and environmental protection while considering the needs and concerns of affected communities.	As public awareness increases, SMEs view sustainability as a necessity for survival rather than a burden. Higher intensity of society's rationality for a green environment ultimately bound SMEs to acquire green technology to comply with consumer preferences for green technology transformation.

As green transformation thrives to foster green growth, building of competitive advantage in new green business environment is a challenge for business organizations. Thus, evaluation of normative regulation effects becomes important. Sholars have indicated following effects of green normative regulations having impact on SMEs: 1) the cost effect, 2) the innovation compensation effect, 3) the crowding out effect, 4) the survival of the fittest effect (Xu, Y. et al, 2024). According to this research environmental regulations tend to increase production costs as business need to ensure legal

compliance. Thus, negative impact of cost effect is exposed. Moreover, not to lose competitive advantage businesses need to invest in green innovation and thus face decrease in economic returns. To mitigate these negative effects, governments issue regulations to pursue innovation compensation effect and subsidies and support to environmental protection and energy-saving enterprises. At the same time businesses that are not affected by innovation compensation effect loose their competitive advantage and are phased out. At this moment the survival of the fittest effect is exposed as green regulations promote the development of green industries (Xu, Y. et al, 2024).

E. Conclusions

The article shows that SMEs are significant players in facilitating green transition due to their presence and support to corporate companies. Normative regulations and policies focused making impact on business behaviour of SMEs might be challenging for policy makers due to their negative effects that need to be compensated in well balanced frameworks or policies and normative regulations.

Although scientific findings suggest that more sustainable and green business practices have positive impact on SMEs financial performance in long term, SMEs still face the challenge of losing competitiveness and overcoming barriers in green transition.

The article builds on awareness of the significance of SMEs in green transition, underlines current trends in scientific research on regulatory frameworks and policies that create business environment for SMEs and reflects on the European Union`s normative regulations.

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