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Green business: potential for application as a business innovation for wealth and employment creation in Kenya

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Abstract

Kenya has one of the highest unemployment rates in the world. Available data indicate that unemployment in Kenya was 40% in 2011 up from 12.7% in 2006 (KNBS, 2011). This data is an indication of the sorry state of unemployment in Kenya. The situation is getting worse over time. To change this, businesses, government and individuals must start thinking innovatively. In order to create demand for employment, firms must be profitable and experience growth. This is wealth creation. Unfortunately, growth in many sectors of the Kenyan economy has stagnated. This has been due to suppressed demand due to rising inflation, contraction of export markets due to the economic crunch in the west and rising conditionalities being imposed on local producers aiming to export to the western markets. Schumpeter (1943) attributes profit to dynamic changes resulting from an innovation. To become profitable and hence grow, firms must become innovative. Firms can adopt green environment creatively to gain a competitive advantage. Studies have shown that firms can gain in two ways; by driving cost efficiencies and by generating top-line growth. That ultimately contributes to the bottom line. Two theories will be used to provide insights on why firms adopt environmental management practices. The economic approach describes firms' adoption behavior as driven by performance outcomes and institutional sociology

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theory through which firms respond to institutional pressures. This paper will analyze the potential contribution that adoption of green environment by businesses can have to wealth and employment creation in Kenya.
Keywords: environment, sustainable development, unemployment, innovation, organizational performance.

1. INTRODUCTION

Environmental management is the most talked about subject globally in the recent times. According to Douglas (2006), the effects of climate change, along with pollution and the depletion of non-renewable natural resources, has given rise to environmental awareness. With the rising awareness of global climate change and the resultant natural disasters, environmental protection is an issue of high topicality and relevance. According to a report by the United Nations (UN, 2007), a key global challenge in the 21st century is how to address climate change and reduce greenhouse gas emissions. Companies across all sectors try to develop products and practices which minimize environmental effect as part of social responsible practices, but also in order to establish themselves in a new niche market composed of consumers who are environmentally conscious.

The next major reason is sustainability of economic activity. A study commissioned by UNEP in 95 countries in 2005 revealed that 60% of the ecosystems supporting life on earth such as fresh water, clean air and relatively stable climate are being degraded or used unsustainably. This is a major concern to businesses. Many raw materials are sourced from the ecosystems. Destruction of the same would lead to unavailability of raw materials. Businesses can assist in protecting the environment by becoming green businesses, in other words sustainable businesses (Porritt & Winner, 1988). Sustainable businesses are economic undertakings that generate wealth and meet the needs of the current generation while saving the environment for future generations (Daft, 2008).

To create employment, businesses must thrive. This is difficult if raw materials are not available or when disasters recur affecting both the businesses and the communities they serve. There has however not been a consensus on the impact of environmental consciousness of a business on employment. Possibility that workers could be adversely affected by stringent environmental policies has led to claims of a 'job versus the environment' trade off by both business and labor leaders (Godstein, 1996). Research has however indicated that increasing spending on the environment does not cause a significant change in employment. To the contrary, more jobs are created. Godstein (1996) further argues that environmental

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protection could actually boost employment and provide a foundation for sustainable and robust economic development.

Kassinis and Soteriou (2003) found that environmental practices in the service industry are positively related to performance through the mediating effect of enhanced customer satisfaction and loyalty, which leads to growth and employment opportunities. According to Verdiem Corporation (2008), sustainability has become a major focus for businesses, as it was discovered that sustainable practices can strengthen reputation, improve employee morale, lead to cost savings and benefit the environment. Further, Hendry & Vasilind (2005) add that businesses value sustainable growth either by force of regulation, or because they see an economic opportunity in preventing pollution or recognizing the strategic importance of environmental issues.

In Kenya, businesses are slowly coming to terms with the importance of being sustainable. This has been contributed partly by the enactment of the Environmental Management and Coordination Act of 1999, concerns for image and as a response to stakeholders needs. In 2012, Safaricom Company Ltd. produced its first sustainability report (Safaricom Ltd., 2012), setting pace for other businesses to follow.

2. LITERATURE REVIEW

Several definitions for green business have been put forward. Though none is universally accepted as the best, they all have a lot in common. Smith (2003) and Friend (2009) defined green businesses' as businesses and practices that are viewed as environmentally sound, including the use of organic and natural products to build factories, tighter protection against emissions and environmentally friendly sourcing of materials. Zsolnai (2002) defines a green business as a business that has adopted the concept of environmentalism across the various functions of the business. Gilbert (2007) identifies a green business activity as any activity that is performed in a manner that has either limited negative ecological impact or directly benefits the natural environment in some way. Another definition is by Morebusiness.com (2009) who describes a green business as using less natural resources to complete the tasks needed and using sustainable methods and materials such as recycling (paper, plastic, electronics, glass and aluminum) and using sustainable products (recycled, plant-based or organically grown).

Smith and Perks (2010) categorise business functions and outlines some of the activities that can be carried out under each in making the business a green business. On manufacturing, firms should focus on profitability by using environmentally friendly

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operating processes, plant indigenous trees, foliage, use rainwater or recycled grey water to reduce ecological damage, use alternative materials and redesign operations, produce durable products from design to disposal by decreasing ecological damage to ensure sustainable development and find green alternatives for harmful products, at the same or improved level, at lower cost (Business Knowledge Source, 2009).

Other Authors have also shown how manufacturing and operations management can be carried out in a green manner. These leads to lowering of cost of production and also assist the firm gain competitive through customer loyalty. McKay (2008) says that firms can consider input costs in terms of regulations, energy use, storage and disposal, reduce raw materials, energy use and toxic waste for businesses savings, use eco-friendly materials, procedures and processes, and ensure optimal raw materials usage, recycle waste products like plastic, paper and glass to increase operating income and consider expansion of production capacity. The Author further asserts that firms can eliminate waste through efficient asset operations and choose wisely between new and costly developments and cheaper equipment alternatives so as to ensure efficient asset operation.

On the marketing and sales function, there is a general belief among researchers and environmental activists that through purchasing environmentally friendly products or green products, products with recyclable packaging or properly disposing of non-biodegradable garbage, consumers can contribute significantly to improve the quality of the environment (Abdul-Muhmin, 2007). The quality of the environment depends critically on the level of knowledge, attitudes, values and practices of consumers (Mansaray and Abijoye, 1998). Attitudes are the most consistent explanatory factor in predicting consumers' willingness to pay for green products (Chyong et al., 2006). This means that price is not the main factor in preventing consumers from purchasing green products if they are pro-environment.

Chan (2000), Chitra (2007) and Gilg et. al. (2005) argues that firms can enhance consumer environmental awareness of green products in a bid to cut a niche market. They then can satisfy customer needs for green products or provide products in a green manner to ensure business credibility. In addition, they can obtain a green reputation and brand image and attract a new and larger client base. This helps them retain customers and acquire new ones. Gilbert (2007) adds that firms can create customer awareness of personal health risks associated with not using green products. That way, they can tap to the rising upper and middle class customers who has more purchasing power and who is very conscious of the health.

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Supply chain is an important function in any undertaking. It deals with procurement of raw materials, storage and distribution. Several initiatives can be undertaken to help firms adopt green supply chain management. These not only assists the firm to lower costs, gain customers and improve image, but also avoid fines and other penalties from government regulators. Bowen et. al (2007), pointed that firms can seek for suppliers with green production processes to off set financial and environmental risk. In addition, they can apply environmentally preferable criteria in procurement processes and choose suppliers with good waste management systems and use energy-saving production methods that discharge minimum gases.

Daft (2008) says that consumers in the affluent market look back to the whole production chain and will avoid products should any player in the value addition chain be seen to have degraded the environment or violated the rights of any stakeholder. Blanchard (2008), adds that use of e-procurement can drastically lower procuring costs, an advantage that can be passed on to the customers.

3. UNEMPLOYMENT

Unemployment refers to the inability for willing workers to find gainful employment. The degree of unemployment in a nation is one indicator of the economic health of the country. Unemployment has remained one of the most persistent challenges in Kenya's socio-economic development process for most of the post-independence period. IEA (2011) argues that in Kenya, the employment challenge has been increasing with the low absorptive capacity of the formal sector vis-à-vis the relatively high level of growth of the labour force. According to a study commissioned by National Economic and Social Council (NESC, 2010) the number of Kenyans openly unemployed was 1,800,623 in 1998/99 based on the Integrated Labor Force Survey. In 2005/2006, the number was 1,856,294 based on the Integrated Household Budget Survey. The number of those considered employed was 10,525,609 in 1998/99 and 12,708,035 in 2005/2006. The above data paints a grim picture which continues to get worse over time.

IEA (2011) says that Government policy documents have, over time, explained the low levels of employment creation in Kenya in terms of low levels of economic growth. Other analysts have linked Kenya's employment challenge to high cost of labor, low labor cost competitiveness, weak productivity growth and institutional weaknesses and rigidities of the economy's labor market.

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Scholars have attributed unemployment in Kenya to several factors. To begin with is high population growth rate. The rapid population growth rate in Kenya is generating rapid growth in the labor force. Such a high population growth rate is incompatible with the available arable land in the rural areas. Hence people tend to migrate in the urban areas in search of jobs. This aggravates unemployment in the urban areas. This is a global phenomenon as indicated by Levin (1983). This problem can be overcome by reducing the high population growth rates using methods used to control population growth.

Next is use of inappropriate technology. For developing countries, this is the situation whereby industries continue using relatively capital intensive methods of production instead of labor intensive ones. This is caused by relative factor prices of capital and labor and foreign ownership of firms among others. This problem can be solved by the creation of incentives to encourage the of labor intensive techniques. Third is lack of Co-operant Factors. This is especially so in the case of capital and skilled labor, which are scarce in most developing countries. Such a problem can be solved through increased capital formation and expanded education and training.

Capacity under-utilization is another factor. Most firms tend to produce below their capacity, thereby not employing as many people as they are capable of. This arises due to lack of sufficient demand for their goods and services. It can also be as a result of monopoly practices that limit output. This can be solved by expanding markets through, for example, export promotion and control of monopoly. Entry in to new markets and growing existing markets can solve this problem.

Another significant factor is the economic conditions in the Country. According to Barowski (1984), poor economic condition in a country is a major factor in unemployment. More recently, global economic recessions have reduced the capacity of most economies to reduce unemployment. Kenya is not an exception to this. Levin (1983) adds that whenever the economy declines, youth are targeted for lay offs and getting a first job becomes difficult.

Next is seasonal nature of labor demand. Demand for labor in rural areas is mostly seasonal. This is as a result of relying on rain fed agriculture which is seasonal. The situation is made worse by the general ignorance of the existence of jobs elsewhere as well as by occupational immobility. This creates problems of underemployment and disguised unemployment. The problem can be solved by modernizing agriculture and ensuring continuous production throughout the year.

Inappropriate education system is another factor. The education system in Kenya was preparing people for jobs that were not there. Inadequate education and training over the

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years has lead to youth being less equipped with productive skills (Haora, 1980; Levin, 1983). The 8-4-4 system of education is designed to try to overcome this anomaly. It is intended to make young people self reliant. There is wide spread feeling among Kenyans that the current system has also not completely succeeded to make students self reliant.

Green business can be one of a myriad of solutions that can be innovatively used to tackle the factors leading to unemployment in Kenya. Environmental management can be used to as a strategy to differentiate a firm and its products helping it create value leading to superior performance. Such a firm would ultimately be pushed to grow by increased demand. Such growth would lead to creation of employment.

3.1 Theories of wealth creation and employment

Several theories try to explain how firms create wealth. These include the stakeholder theory, competitive advantage theory, the innovation theory,

3.1.1 Stakeholder Theory

According to Freeman (1984), a stakeholder is any group or individual who can affect or is affected by the achievement of the organization’s objectives. Friendman and Miles (2006) states that the organization itself should be thought of as grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. Freeman (1984) defines stakeholders as those groups who are vital to the survival and success of the corporation.

The theory is in part concerned with the influence of a wide range of actors in an organization’s environment on organizational performance as many researchers have argued (Donaldson and Preston, 1995; Freeman 1984; Quinn and Thomas, 1995; Mitchell et al., 1997). Unlike traditional input-output models of organization performance, stakeholder theory emphasizes the interaction between interest groups such as the organization’s employees, members of the social community, shareholders, and other allied organizations, in determining organization performance.

Some stakeholders identified by Friendman and Miles (2006) include: Customers, Employees, Local communities, Suppliers and distributors, The media, The public in general, Business partners, Future generations, Past generations (founders of organizations), Academics, Competitors, Non Governmental Organizations or activists – considered individually, Stakeholder representatives such as trade unions or trade associations of suppliers or distributors, Financiers, other than stockholders (debt holders, bondholders, creditors), Competitors, Government, regulators and policymakers.

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3.1.2 Theory of Innovation

Schumpeter (1943) attributes profit to dynamic changes resulting from an innovation. To start with he takes a capitalist closed economy which is in a stationary equilibrium. This equilibrium is characterized by what Schumpeter calls a “circular flow” which continues to repeat itself for ever. In such a static state, there is perfectly competitive equilibrium. The price of each product just equals its cost of production and there is no profit. Only exogenous factors like whether conditions can cause changes in the circular flow position. In the circular flow position goods are being produced at a constant rate. This routine work is being performed by the salaried managers. It is the entrepreneur who disturbs the channels of this circular flow by the introduction of an innovation. Thus Schumpeter assigns the role of an innovator not to the capitalist but to the entrepreneur. He emphasizes creating new value-generating activities as a means of searching for higher profits from innovation. Such value generation can be tapped from adoption of the green environment.

Firms can use the green environment creatively to gain a competitive advantage. Proto and Supino (1999) argued that the quality of the environmental information the enterprise reports about its activities might be its biggest source of competitive advantage when seeking to gain customer loyalty. Furthermore, Claver et al. (2004) state that cost savings from the reduced use of raw materials and energy and the improvement of productive processes can become competitive advantages for enterprises as well.

4. EMPIRICAL STUDIES

Hans and Steger (1990) reported the results of a study by the United States Business Round Table in 1990. The study predicted massive job losses due to the amendments to the Clean Air Act which were expected latter that year. The study had predicted loss of up to 200,000 jobs “very quickly” as plants closed doors from state to state. Due to the impression created that many jobs would be lost, the amended Act retained $ 50 million to assist affected workers when the bill takes effect. Four years latter, less than 2500 workers had applied for assistance from the fund.

In Kenya, a report by UNFCCC (2012), indicates that Mumias Sugar Company generates renewable energy through the combustion of bio-gas which is available as a waste component of factory production. The project generates 35 MW of electricity of which 10 MW are consumed by the factory itself, and the balance is sold to the national electricity grid (UNFCCC, 2012). From an emission reductions standpoint, combusting biomass for electricity generation has a dual benefit: It produces renewable energy while avoiding

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methane emissions, which would result from land filling the biomass. The project is expected to save nearly 1.3 million tones of CO2 emissions over a 10-year period (2008 - 2018). Revenues from carbon emission reductions (CERs) are a key element of the financing strategy of the renewable energy project at Mumias Sugar Company. CER income is expected to increase the project's internal rate of return by two per cent (UNEP, 2012). Mumias Sugar has entered into a ten-year agreement (2009–2019) with the Japanese Carbon Finance Company Limited (JFC), selling its CERs on a long-term basis and thereby generating significant revenue.

5. CONCLUSION

Currently, Kenya is grappling with the duo matter of environmental conservation and rising unemployment especially. As outlined in Vision 2030, employment (unemployment) is a function of economic growth. In developing nations, people tend to degrade the environment more to solve unemployment through actions like charcoal burning, and unsustainable use of other natural resources. Such action only solves the problem in the short term. In the mid to long term, it ends up being counterproductive and leads to more unemployment. The paper argues that environmental conscious firms, individuals and communities contribute in checking unemployment in the short run, mid and long term.

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