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Enhancement of the Business Environment in the Southern Mediterranean

National Seminar for Egypt

**« From Policies to Results
The “greening” of current strategies in the field of
SMEs, industry and innovation »**

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1. Introduction

Nature does not hurry. Yet everything is accomplished

Lao Tzu

Egypt's industrial competitiveness is at distress. At the first glance this can be seen in the constantly deteriorating global benchmark ranking of number 70 in 2010 to 119 in 2014 (out of approximately 140 countries) (World Economic Forum, 2014)¹. Such negative development can affect the country on various dimensions, i.e. unemployment and poverty increases, education and training is reduced, innovation capacity decreases and environmental concerns are put last on the priority list. Furthermore, new challenges such as increasing energy prices and power cuts put additional pressure on the business. While companies which struggle with survival might focus merely on short term economic results, not addressing these issues sufficiently could actually trigger a vicious cycle towards economic instability or even recession. As necessary input for improving the competitiveness of the Egyptian industry would be lacking in the short and long term, the growth and sustainability of the company would be inhibited. Therefore, structural changes need to be implemented on a macro as well as a micro level. Understanding and addressing the challenges faced in a pro-active and gradual manner could then not only reduce the risk of business failure but could actually result in new opportunities for the Egyptian industry. In this context, embracing the transition towards a Sustainable Industrial Development creates new business opportunities and provides significant benefits for the Egyptian SMEs. This report will hence focus on the aspect of the structural change, i.e. what kind of change is needed and how to implement these changes successfully in an organization.

2. The structural change process

2.1 What to change?

Sustainable industrial development means that companies are, amongst other strengths, innovative, competitive and have the potential for growth. At the bottom-line this entails that a company of any size has the ability to identify and correct its weaknesses, to react on time to outside threats and to actively pursue new opportunities for continuous success. An inwardly directed view and analysis of the company with the strong focus on economic indicators, such as profit maximization, is a necessary but not sufficient approach for the long-term survival of a company. Any organization also relies strongly on the quality and well-being of its employees and faces environmental restriction such as resource scarcity (McKinsey Global Survey, 2011)². In fact, referring to the three stages of economic competitiveness, besides the economic indicators such as financial market development and market readiness, indicators like higher education and training, goods market efficiency, and

¹ Global Competitiveness Report 2014-2015 (2014) : <http://www.weforum.org/reports/global-competitiveness-report-2014-2015>

² McKinsey Global Survey (2011), The Business of Sustainability:
http://www.mckinsey.com/insights/energy_resources_materials/the_business_of_sustainability_mckinsey_global_survey_results

technological readiness are emphasized (World Economic Forum, 2013)³. Only having these components established allows for a successful transition from an industry driven by basic requirements to one driven by efficiency enhancers. Therefore, a solutions-based approach has to be embraced for the best-practise model of a resource efficient company, which addresses economic, social and environmental issues likewise and integrates them into the business strategy (GIZ, 2013)⁴. Environmental indicators include topics such as process efficiency, innovation, energy and resource management, and accordingly standards and certifications and the maintenance of equipment. Efficiency can further be enhanced through an integrated IT infrastructure and all initiatives combined can finally lead also to higher product quality. The social dimension entails high quality and skilled human capital (for both white and blue collar employees), knowledge transfer and collaboration, and high health and safety standards. As shown in the Harvard Study from 2013, companies that have integrated these multiple indicators in their business strategy outperform their competitors in the stock market as well as in their financial performance (Eccles, R.; Iannou, I.; Serafeim, G.; 2013)⁵. Hence, evidence has shown that a multi-indicator approach has a positive effect on the competitiveness and sustainability of a company. However, challenges can be faced during the change implementation process of the organizational structure and culture. It is therefore important to initiate a change management process in the company.

2.2 How to change?

The only thing that is constant is change itself. Already the ancient Greek realized that everything is at a constant state of change, from the human body to languages up to entire cultures. As most of the change happens slowly and randomly is not detected easily and is not objected. Implementing fast changes within an organizational system however could lead to resistance and the implementation would be at risk of failing. In the case of initiating the transition towards a resource-efficient and sustainable company, structural adaptations, i.e. capacity and organizational development, need to be conducted for the people, technology and processes. This drastic change can be quite significant and can have an effect on all management and employee levels. For an impactful management approach towards change, the book 'Our Iceberg is Melting' gives 8 steps for a gradual adaption (Kotter, 2006)⁶.

1. Create sense of urgency
2. Pull together the guiding team
3. Create a change vision and strategy
4. Communicate for buy in
5. Empower other to realize the change vision
6. Produce short term wins
7. Don't let up – consolidate your success
8. Anchor change in culture

³ Global Competitiveness Report 2013-2014 (2013): http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

⁴ GIZ Survey (2013); Baseline Analysis – Awareness, Need and Demand for Resource Efficiency and Renewable Energy Solutions

⁵ Eccles, R.; Iannou, I.; Serafeim, G. (2013); The Impact of Corporate Sustainability on Organizational Processes and Performance: <http://ssrn.com/abstract=1964011>

⁶ Kotter, J. (2006); Our Iceberg Is Melting: Changing and Succeeding Under Any Conditions

After initiating the desired strategies, it is crucial to implement control mechanisms and a continuous improvement process of analysing, planning and monitoring for the successful adaptation by all stakeholders involved. This approach at its core is a Change Management Process which addresses all employees on a company level, as well as all stakeholders on a macro-level. As this is a universal model, it can be applied to organizations of all type and size, while each might face different challenges during that process.

2.3 Who needs to change?

It is a common misconception that only large and multi-national companies (MNEs) have the capacity and responsibility to embrace sustainable, and, in specific resource-efficient, practices. However, especially small and medium sized companies (SMEs) cannot afford to waste any resources as this directly affects their performance and makes them highly vulnerable to any outside threats. In fact, resource-efficient measures can be observed throughout the value chain for Egyptian companies of all sizes. Entrepreneurial companies often bring forth new and innovation solutions to challenges faced by society, such as biogas production as an alternative and renewable source of energy, bus-pooling as a more sustainable form of transportation, and hydroponic farms for the minimization of water usage. For SMEs, already small modifications in the process and technology has shown significant reduction on the resources used and hence the costs incurred, with a payback period of usually less than one year. MNEs try to further push the innovation potential to improve their resource efficiency, which usually requires higher investments but also has an immense impact on the savings achieved. It becomes apparent that involving heterogeneous companies in the change process is therefore feasible but at the same time also necessary. An integrated approach enables the resource efficiency along-side the Value Chain, thereby contributing to the sustainability of each single company up to the entire national economy.

3. Conclusion

Egypt's industrial competitiveness is at distress. This is a fact that cannot be denied. On the positive side, there lies a high potential here in Egypt to turn around the negative trend and to strengthen the economy again. In fact, as it has been shown by the success stories in Egypt, change processes have already been initiated to improve the resource-efficiency of single companies. It is, however, important to realize that change does not come over night but that it is a long-term process, which has to be managed adequately to lead to success. A stepwise implementation with short term milestones need to accompany the complete process. The benefits of these implementations are straight-forward and have a high positive impact. Communicating the successes 'Made in Egypt' to the private sector for the promotion of the idea of resource-efficiency is the next step towards the transformation to Sustainable Industrial Development. Creating the demand for sustainable measures also requires the expertise to serve it professionally and effectively. The challenge therefore is to develop and provide the necessary expertise to the companies and thereby to diffuse the successes throughout the entire Egyptian industry in a sustainable way.

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