**Application and Impact of Sustainability in MSMEs in India**

**Abstract**

India is one of the most vulnerable countries in the world to ecological changes, especially climate shifts. It is estimated that ecological degradation and resource exploitation is costing India almost 7% of its GDP – with such dire impacts, it is important for the biggest catalysts of this damage, industries and businesses, step up and lead the way for sustainable business changes. In this paper, the extent of environmental damage and possible counteractive business solutions to the same will be examined with respect to India and its fragile situation. Primary data will also be studied and analysed through surveys of businesspeople in Indian communities, in order to ascertain the current state of sustainability in Micro, Small and Medium Enterprises (MSMEs), and possible ways to increase ecologically-friendly practices.

This study uses both secondary and primary data in order to arrive at conclusions about the current and future states of Indian businesses with respect to sustainability, and survey responses directly from the communities responsible for, and having control over the sustainability of Indian industries. Therefore the research gap targeted is the current and future study of sustainability in Indian MSMEs with the included aspect of opinions and tracks assumed by Indian businesspeople.

**Objectives**

1. To examine multiple sustainability and environment preservation concepts with respect to industries and businesses.
2. To study multiple literature sources and draw out the main ecological impacts of industries in India, the rate of change of these impacts, as well as the future extension of impacts in India.
3. To know the successful case studies of Indian industries, and the less successful/urgent cases where sustainability is not being adapted but is required.
4. To study the current opinion and understanding about sustainability in business practices within Indian businessmen/women.
5. To ascertain the applications of sustainability in regards to the opinions of MSME owners in India.
6. To ascertain the future impact and requirement for sustainability, both through the eyes of MSME businesspeople and existing literature on the same.

**Introduction**

Rapid industrial development and economic growth have triggered overconsumption and overexploitation of natural resources, resulting in environmental downturn. Across the globe, manufacturing firms are witnessed the principal destroyers of natural environment and facing immense pressure from different stakeholders socially and economically to revaluate their strategic orientation and competence. Such adversities drive manufacturing firms to look forward for long term strategy called organizational sustainability.

Globally, the business sector has started to grapple with the complexities of sustainability. Sustainability perspectives seek to steer business beyond a single-minded focus on costs and profits, to larger concerns such as equity, social justice, and burden-sharing in society. From the organizational perspective, sustainability can be elaborated as meeting the needs of an organization’s direct and indirect stakeholders (such as shareholders, employees, customers, regulatory bodies and society) without compromising its ability to meet the needs of future stakeholders. Some studies suggest that few small manufacturing firms are voluntarily practicing traditional environmental techniques and sufficiently protecting the natural environment. However, small firms significantly pollute and produce around 70% of the total global pollution, overall outweighing the combined environmental impact of large firms on GHG emissions and other environmental factors.

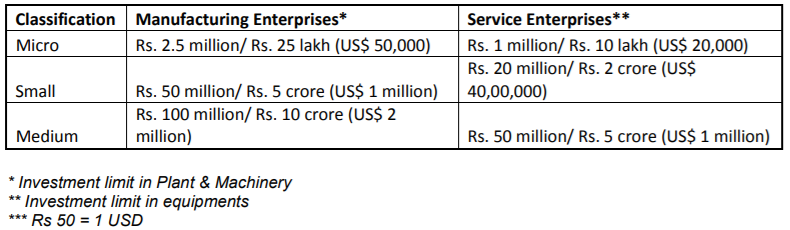
Despite immense economic importance, MSMEs contribute almost 50 percent to the total industrial pollution of India, showing scepticism when it comes to adapting policies to combat their environmental impacts. MSMEs do not have the benefit of large capital resources for investment into reducing emissions, and often lack the motivation or know-how both internally and externally to make their businesses more sustainable. However, the magnanimous task must be taken up – it is imperative that the Indian government tackle this problem before it becomes too far from control to reign in. The small enterprises of India have continually suffered the backhand of business policies, but have also benefited from them when executed in a systematic manner. Statistically speaking, these are the categories of Indian companies who contribute the most to industrial environmental degradation, and therefore require the most investment, support, and policy help. The purpose of this paper is to examine the current understanding of sustainability from the side of MSME businesses, and congregate possible solutions through data and case studies.

**Literature Review**

1. Nature and History of MSMEs in India
2. Sustainability and Business in India
3. Application of Sustainability on Indian business (circular economy, TBL, green economy, green finance)

*1. Nature and History of MSMEs in India*

MSME is the broad term used for medium and small businesses across India, standing for Micro, Small, and Medium size Enterprises, a term that covers all small businesses and defined on the basis of amount of investment into either plant and machinery, or equipment for rendering services (Ghatak, 2010). Studies estimate that MSMEs contribute to almost 29% of India’s GDP, both internationally and nationally, with small and medium size businesses that constitute the umbrella of MSMEs being the second largest employer after agriculture in India (Panigrahi, 2012). These businesses help to equalize the technological parity by industrializing rural areas in India, creating an economic chain reaction where a network of interdependent small businesses in urban and rural areas support communities (Katyal and Xaviour, 2015).



*MSMEs and their classification in India Source: Micro, small and medium enterprises (MSMEs) in India: an appraisal (2010)*

Historically, MSMEs have always played a crucial role in the Indian economy. Small Scale Industries (SSI) have historically employed a large number of the Indian workforce, and while this does have a positive impact on employment and the distribution of resources and industrialization, it limits SSIs to domestically focused business models that failed to respond well to the post reform era of globalization (Lahiri, 2012). Market conditions in India have also supported the growth of these businesses, as post 1947 policies enabled the creation of an ‘insulated’ environment that remains to this day, creating low competition both from international bodies and between domestic businesses. This has created a generally protected business area, which has also caused a lack of interest in further development and technological advancement between businesses, owing to stagnant competition (Bhavani, 2011). Research has isolated the three most important factors required for further development in MSMEs: technological development, infrastructural support, financial support. Networks and infrastructures for all three can significantly improve the chances of SSIs in the global economy, and improve general living standards and incomes of Indian citizens (Dey, 2014). Technological innovation in particular, can not only bring about better earnings and business opportunities, but also let Indian businesses hold their own both domestically and internationally (Singh, 2019).

Concepts like circular and planned economies that focus on improving the long term sustainability - both financial and environmental - of businesses have taken hold of business communities, but will take years for any similar impact on SSIs in India, due to critical elements such as technological development, MSME education, supporting infrastructure, etc. that are missing (Singh, Charaborty, and Roy, 2018). These missing pillars have contributed to a lack of acceptance and knowledge about sustainable business practices as well.

*2. Sustainability and Business in India*

Globally, the practice of inculcating sustainability in business practices has been a trend and is being accepted across countries. Sustainability in business is the ‘body of knowledge’ of different principals that guide a long term beneficial approach to business practices (Pojasek, 2007). The practice of meeting the short term demands of shareholders and stakeholders of a business has negatively affected the process of inculcating sustainability, and the failure of businesses to see the long term benefits of and cost-saving nature of sustainability (Bansal and DesJardine, 2014). Most frameworks, however, do not adequetly address, if addressed at all, the complete factors of sustainability including environmental, social, economic, people, and public. Sustainability is not just restricted to environment-friendly practices but should also inculcate people factors in terms of creating a long-term, mutually beneficial system of growth (Veleva and Ellenbecker, 2000).

On average, developing countries lose up to 6% of their GDP to environmental degradation – and this cost is at 11% for India. The shear cost on environmental degradation has made the need for change more urgent (Pritwani, 2019). 7 of the 10 most polluted cities are in India, and a majority of business leaders and owners feel little to no pressure from shareholders and stakeholders to implement any change (Porter and Derry, 2012). In terms of restrictions and legal steps, many factors support a step in the right direction but fall short in implementation – to name just a few, the 2011 step to make CSR a compulsory cost taken up, the establishment of ‘green’ stock listings, green bonds and green financing, etc. (Rajamani, 2007). Businesses that follow green restrictions, do so for abiding purposes and not for the purpose of common business decisions. Implementing sustainability policies and practices has proven to be financial viable, supportive of long term growth, and essential in risk management – still, Indian businesses, including the top 100 in Sensex and Nifty listings, have for years negated sustainability, and will continue to on lacking media and public pressure (Kumar and Best, 2006).

Studies have shown that most corporate managers do not create or implement policies to increase business sustainability, and an even lesser margin have thought about prioritizing sustainability for long term or short term development (Nambiar and Chitty, 2014). Although the concept is on the rise globally and pressure builds within India as well, as a whole, the economic, environmental, and social cases for business sustainability fall short in terms of policy frameworks within businesses (Symons and Lamberton, 2014). Organizational sustainability, defined as meeting the needs of an organization’s direct and indirect stakeholders without harming the prospects of future shareholders, is another essential pillar that once adopted, can help boost long term sustainability (Dyllick and Hockerts, 2002). A commitment to business sustainability means long term financial gain, cost saving, goodwill creation, and a stronger social standing and customer base (Gopal and Thakkar, 2015). With respect to manufacturing firms, the requirement for sustainability adoption is even stronger – because industrial production is responsible for most of India’s ground level pollution (Jayel et al. 2010). With respect to manufacturing MSMEs, the need is great, but the implementation low, as it is often very difficult for businesses to escape dependence on polluting and low-quantity resources, such as fuel, water, etc. as seen by major industrial environmental cases against MNCs such as Coca-Cola in 2012 (Singh, Chakraborty, and Roy, 2016).

*3. Application of Sustainability in Indian businesses*

With the rise of business sustainability, multiple concepts have taken hold of the business community, including circular economies, the triple bottom line approach, green financing, green bonds, etc. The concept of a Circular Economy (CE) is based on re-using used products in order to make the best of finite resources, either through up-cycling or re-cycling products (Stahel, 2016). An analysis of India’s current development path brought results that highly support taking the circular economy route – a step in its direction would bring about close to $218 billion in revenue, boost employment by an average of 5%, and reduce the country’s GHG emissions by close to 70% (Kirchherr, Reike, and Hekkert, 2017). Research has, at times, disregarded CE as a concept, popularised by the EU and having multiple different iterations. There are many limitations to it, too – including infrastructure, economic, system-based, and thermodynamic restrictions that may limit its application (Korhonen, Honkasalo, and Seppälä, 2018). The ‘take-make-dispose’ model is one that is unsustainable and will require an equivalent of 2 more planets resources by the year 2030, according to the UN (Goyal, Esposito, and Kapoor, 2018). The concept of CE is adaptable in India due to an already existing consumer mentality of less waste and less fruitless purchasing, but is dependent on government implementation and participation.

Triple bottom line (TBL) approach to accounting has gained immense traction in the past few years – the concept revolves around the measurement of a corporation’s ultimate success through not just the traditional financial bottom line, but also by its social and environmental performances (Norman and MacDonald, 2004). There are multiple possible ways to calculating a firm’s TBL – indexes, dollars, separate units of measurement. Although calculation is still a non-standardized process, TBL as a concept aims to bring about higher accountability and payment for damages done, no matter if these are people, planet, or profit related (Slaper and Hall, 2011). Research also suggests that internal policies combined with external pressure from organizations and governments is the best way to make businesses start considering the actual rather than only monetary costs of operations and decisions (Gimenez, Sierra, and Rodon, 2012). Triple bottom line, if implemented properly, can create great leaps and bounds in India, and studies have shown that many large companies have already started the process of adopting TBL accounting and standardization (Goel, 2010).

Sustainability accounting, or green finance, is another concept that has taken hold of the business community in recent years. It takes on a top-down approach that forces corporates to allocate revenue to social and environmental causes and policies as well as be mindful of both kinds of costs (Ng, 2018). Green finance includes investments into sustainable, long-term projects in industries such as the renewable energy sector (Taghizadeh-Hesary and Yoshino, 2020). In India, venture capital funding, financial institutions, financial products, etc. are just some of the mediums that can be used for green finance to be promoted within the business community (Sahoo and Nayak, 2007).

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