



# **DIMENSIONS OF SUSTAINABLE DEVELOPMENT PRACTICES AND THEIR INFLUENCE ON THE PERFORMANCE OF SMEs**

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## **Abstract**

*Businesses have prioritised sustainability development as a key aim and started a variety of sustainability strategies in order to maintain competitiveness in the market. The three major dimensions—economic, social, and environmental—have shifted into the centre of attention for an organization’s sustainable development while acting as crucial benchmarks for raising competitiveness. However prior studies have focused on developed countries and rarely considered the SME sector. Given the research gap, this paper examines the influence of different dimensions of sustainable development practices on small business performance. A sample of 197 Indian small businesses was considered and regression analysis was used. According to the survey results, SMEs implement sustainability practices related to their businesses, which improves the company’s performance. Successful businesses that go above and beyond their economic responsibilities to promote environmental projects and social well-being can achieve greater financial success. The findings of this research add to existing theories and help to establish sustainable practices in developing countries.*

Keywords: Sustainability, SME performance, Sustainable development.

## 1. Introduction

Sustainability has emerged as a key concern for the corporate world, with many developed and developing countries chastised for their responsibilities in environmental and social issues, leading to economic, social, and environmental challenges (Windolph et al., 2014). Beyond their economic responsibilities, successful businesses that promote environmental and community projects can offer greater financial success and social well-being (Zhu et al., 2019). Companies are obligated to conduct their business operations responsibly while making a profit for their shareholders (Williams & Schaefer, 2013). Frequent social and environmental crises have elevated economic, social, and environmental concerns to the top of company executives' priorities (Zhu et al., 2019). Many companies are willing to adopt the ideals and principles of sustainability and are involved in a social responsibility approach (Al-Abdin et al., 2018). These companies realize the economic, social, and environmental roles they could play in promoting more equitable wealth distribution, social equity, and environmental preservation (ElGammal et al., 2018). Larger companies were the first to embrace social responsibility because they were more visible and under pressure from their stakeholders (Y. Chang et al., 2018). While major corporations have increased their significance and visibility, small businesses are the most important type of practice, accounting for more than 95 per cent of private organizations (Mbuyisa & Leonard, 2017).

According to Junior, Best, and Cotter (2014), 93% of the world's top 250 corporations engage in corporate social responsibility (CSR) initiatives and provide information on their long-term performance. But SMEs are responsible for several social concerns in both developing and developed countries (Zhu et al., 2019). The burden for SMEs looking to implement sustainable practices remains huge (Y. Chang et al., 2018). These companies face several hurdles to succeed in a dynamic competitive climate. They must cope with limited human and financial resources and rarely perceive the benefits of CSR (Y. Chang et al., 2018). Jenkins, (2006) underlines the opportunity for SMEs to practice the opportunities and benefits provided by CSR practices; nevertheless, despite the presence of numerous sustainability strategies in such enterprises, their perception of CSR requirements is fragmented (Jenkins, 2006).

Studies indicate that the environmental dimension takes a major role in CSR representations in comparison to the social and economic dimensions (Jenkins, 2006; Ball & Craig, 2010). Managers usually link sustainable development (SD) with environmental conservation, while some social activities associated with the well-being of their employees and community are also considered (Besser, 2012). CSR policies have been attributed to greater profitability, but this has only been shown in larger and publicly traded firms (Y. Chang et al., 2018). Scholars say that CSR can harm a company's reputation by attracting criticism from shareholders who are dissatisfied with the firm's environmental sustainability practices (Graafland, 2018). The Office for National Statistics (ONS) conducted a survey in 2014 that revealed a significant sustainability implementation gap between SMEs and larger companies (Chege & Wang, 2019) as SMEs require tools that are specifically practised to their realities to implement sustainable practices. These strategies must be created with the understanding that SMEs have varying resources and profiles (Perrini et al., 2007).

Despite substantial research in social responsibility and sustainability, there is still a gap between various dimensions of sustainable development practices and their influence on the performance of SMEs, and scholarly research to explain the gap is minimal. As a result, this research aims to investigate the impact of sustainable development practices on SME performance in developing nations. This study addresses the scientific literature gap by solving the following question: what is the relationship between various dimensions of sustainable development practices and SME performance in developing countries? Which dimension of sustainable development practice has the most influence on SME performance?

## 2. Theoretical Background and Literature Review

SMEs are increasingly considered essential sources of innovative product development and new technology (Hilmersson, 2013). The ongoing challenge for business stakeholders and policymakers in the aftermath of a dynamic business climate is to identify and support the elements that inspire SMEs in economic growth. Performance improvement is the key to motivating SMEs to follow sustainability practices (Chege & Wang, 2020). SMEs that innovate are more environmentally conscious (Jenkins, 2009). According to Arnold, (2017), SD helps to develop the foundations for the organization's ability to innovate through collaboration between the practices of its stakeholders. Implementation of Sustainable practices is considered a strategy that gives a company a competitive advantage by assisting in market diversification and generating new commercial prospects (Chege et al., 2019).

Because of the diversity of their characteristics, several scholars define SMEs differently (Zeng et al., 2010). These classifications reflect each country's economic, cultural, and social tendencies, and are frequently based on size or turnover. Staff numbers, investment level, and sales volume are the acknowledged foundations for defining SMEs. SMEs are defined by the European Commission as organizations with 10-49 people, while medium-sized businesses have 50-250 employees. In India, SMEs (MSMEs) are defined based on investment and turnover. Any business with an investment in plant and machinery below 50 Crore and turnover below 250 Crore comes under the category of MSMEs in India.

The literature has extensively explored the relationship between environmental sustainability and performance (Chandrashekar et al., 2019; Graafland, 2018). Studies indicate that the environmental dimension takes a major role in CSR representations in comparison to the social and economic dimensions (Ball & Craig, 2010; Jenkins, 2006). CSR seeks to balance economic development, social equality, and environmental preservation (Vasconcellos & Id, 2018; Oke et al., 2007; Bouraoui et al., 2019). Many initiatives have evolved to contextualize firms' disclosure actions in their commitment to sustainable development. The fundamental focus of sustainability practices is on excellence, with special attention paid to employee working conditions and the quality of operational procedures related to the economic, social, and environmental components of sustainable development (Zhu et al., 2019). Social responsibility is viewed as a societal opportunity for corporations to develop to face the difficulties offered by market change (Tajeddini, 2016; Jenkins, 2009). SMEs have fewer

resources than larger corporations to establish a sustainable competitive advantage through resource allocation by the organization's strategic directions (Y. Chang et al., 2018). Organizations with a strategic focus on differentiating their offerings may be interested in allocating a portion of their resources to innovation to accomplish their differentiation goal (Hwang, 2004).

SMEs are obligated to develop by establishing environmentally and client-friendly methods (Neely & Hii, 1998). In practice, SMEs are expected to create SD-friendly products/services and processes. Collaborations with stakeholders in SD practices enable SMEs to use significant human resources that they do not have internally (Bos-Brouwers, 2010). Thus, SD practices provide economic, social, and environmental value, which gives SMEs a competitive advantage by enhancing their performance (Bocquet et al., 2015). Organizational contingencies determine organizations' responses to SD concerns, as companies are expected to handle any negative repercussions to prevent such a situation from occurring again to prevent such a situation in the future (Windolph et al., 2014). It is commonly known that environmental preservation promotes socially desirable results (Masurel, 2007). Bansal (2005) discovered a link between sustainable practices and firm performance and advocated that corporations apply the ideas of sustainable development practices to their manufacturing operations through the deployment of environmentally friendly new technologies. The researcher developed the following hypothesis based on his examination of the literature.

H1: The economic dimension of sustainable development practices has a significant effect on the performance of SMEs.

H2: The social dimension of sustainable development practices has a significant effect on the performance of SMEs.

H3: The environmental dimension of sustainable development practices has a significant effect on the performance of SMEs.

### 3. Methodology

#### 3.1 Sample and Population

This research collected empirical data through a structured questionnaire from SMEs operating in India. As it is hard to obtain data on performance and sustainability from SMEs, we relied on subjective measures instead of obtaining adequate financial data. It is also suggested that subjective measures give more valid information in developing economies like India (Rêgo et al., 2021). A questionnaire (English version) was used for data collection. A total of 304 questionnaires were circulated and 218 collected, of which 197 were usable. The profile of SMEs who participated in the survey is given in Table 1.



Table 1. Profile of the SMEs (n=197)

Factors	Frequency	Percentage %
Gender		
Male	136	70.55
Female	61	29.45
Age of firms		
10 years and less	84	42.64
11-20 years	56	28.43
21 and above years	57	28.93
Education of Owners /Managers		
Intermediate and below	78	39.59
Bachelor	69	35.02
Master and above	50	25.38

### 3.2 Measures

This research used three independent variables; Economic, Social and Environmental sustainable development practices and one dependent variable named firm performance. The scales used to measure the sustainability of SMEs were adapted from A. Y. Chang & Cheng, (2019) and for firm performance by Soundararajan et al., (2018).

The research focused on the three major dimensions of sustainable practices and their influence on the performance of SMEs. A questionnaire was developed based on previous research and shared with SME owners and managers through online platforms. A preliminary survey on 15 SMEs was conducted and the questionnaire items were validated. The variables of the study were measured on a 5-point Likert scale from 1 (strongly disagree) to 5 (strongly agree).

### 3.3 Correlation

Pearson correlation was executed in SPSSv26 and the results are shown in Table 2. We found that there is a significant positive relationship between the economic dimension of sustainable practices and firm performance ( $r = 0.440$ ). A positive and significant relationship was also found between the social dimension of sustainable practices and firm performance ( $r = 0.449$ ). There was a strong positive relationship between the environmental dimension of sustainable practices and firm performance too ( $r = 0.536$ ). There was no multi-collinearity as the correlation values of all the variables were less than 0.80.

Table 2. Correlation analysis

Variables	Cronbach's Alpha	Mean	1	2	3	4
1. AVG_ED	.837	3.934	1			
2. AVG_SD	.904	4.220	.629**	1		
3. AVG_EVD	.868	3.944	.570**	.649**	1	
4. AVG_FP	.917	4.031	.440**	.449**	.536**	1

\*\*Correlation is significant at a 0.01 level(2-tailed)

### 3.4 Regression

Simple linear regression was used to understand how each dimension of sustainable practices predicted a firm's performance. Regression analysis was executed in SPSSv26 and the results are shown in Table 3.

Table 3. Regression analysis model summary

Model	R	R Square	Adjusted R Square	t-stat	p-value
Economic dimension	.440	0.194	0.19	6.848	***
Social dimension	.449	0.201	0.197	7.013	***
Environmental dimension	.536	0.288	0.284	8.873	***

Note: Dependent Variable = Firm Performance.

In the case of the economic dimension of SD, the adjusted R square was 0.190, that is 19.0% of the variation in the dependent variable firm performance was explained by the independent variable, the economic dimension of sustainable practices ( $p < 0.01$ ). For the social dimension of sustainable practices, the adjusted R square was 0.197, that is 19.7% of the variation in firm performance was explained by the independent variable, the social dimension of sustainable practices ( $p < 0.01$ ). In the environmental dimension of sustainable practices, the adjusted R square was 0.284, that is 28.4% of the variation in dependent variable firm performance was explained by the independent variable, environment dimension of sustainable practices ( $p < 0.01$ ).

Table 4. Analysis of study hypothesis.

Hypothesis	I.V	D.V	Estimate	S. E	t-Stat	P-Value	Results
H1	E D	F. P	0.44	0.049	6.848	***	Accept
H2	S. D	F. P	0.449	0.053	7.013	***	Accept
H3	ENV.D	F. P	0.536	0.051	8.873	***	Accept

#### 4. Discussion

This study examined the relationship between various dimensions of sustainable development practices and their influence on the performance of SMEs. The study explicitly deals with the three dimensions of sustainable development practices such as economic, social, and environmental. Although several studies have investigated the relationship between sustainable development dimensions and organisational performance, it has been all mainly focused on developed countries (A. Y. Chang & Cheng, 2019), so with data on a sample of Indian SMEs, this study attempt to examine the relationship between different dimensions of sustainable development practices and firm performance.

The study found that there is a significant positive relationship between various dimensions of sustainability practices and firm performance in developing countries. According to the results, all three hypotheses were accepted. However economic dimension has the least effect on SME performance when compared with the social and environmental dimensions of sustainability practices. Both social and environmental dimensions have a strong positive relationship, where the environmental dimension has the most influence on SME performance. All these results are similar to the findings of (Al-Abdin et al., 2018; Clarkson et al., 2008; Williams & Schaefer, 2013). Moreover, our results significantly support the RBV theory, which illustrates that a company with unique and beneficial resources and talents can achieve a persistent competitive position and superior performance in a market (Barney, 2016). This study confirmed that economic, social and environmental dimensions of sustainable development practices have a significant influence on the SME performance that supported H1, H2 and H3 of our study. Sustainable development practices help the companies to achieve better performance by creatively combining diverse practices within the organization.

#### 5. Conclusion

The objective of the study was to investigate the relationship between the three dimensions of sustainable development practices consisting of economic, social, and environmental on SME performance. To test this relationship, correlation and regression analyses were applied on a sample of 197 SMEs in India. This study

confirms the significant positive influence of sustainable development dimensions on firm performance, which support the value creating theory. The results of the study also support the RBV theory, which emphasizes on the role of unique internal resources in improving the performance. Sustainability is key to a firm's success and competitiveness and has grown to a level where the absence of sustainable practices will result on a decline in the competitive position and performance of the firm. Thus, the results of this study yield theoretical and practical implications. Managers can use the findings of this study to improve their knowledge of sustainable development practices and performance in SMEs.

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