

## Chapter 72

# Fostering Environmental Performance Management within Indian SMEs

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### ABSTRACT

*Research and discussions on environmental sustainability of businesses generally focus on large corporations. Their environmental impacts are more likely to be noticed while small and medium enterprises (SME) are largely ignored. With a small scale of operations, SMEs are generally perceived to have less environmental impacts. However, as larger corporations outsource their manufacturing to SMEs the environmental burden shifts within their supply chain. This research was conducted within manufacturing SMEs in industrial markets (B2B) in Pune, India. In depth interviews with large and small firms helped develop the conceptual model and the questionnaire. Responses from 60 SMEs were analysed. The research identified factors like owner awareness, barriers and influencers to green practices and categorized environmental practices within product life cycle. The results showed that owners with high awareness levels had advanced environmental activities. The strength of barriers and influencers was established and the author makes recommendations based on these findings.*

### INTRODUCTION

Why and when should businesses be attracted towards environmental practices? Can they be encouraged to improve environmental performance? Much of current research directs such questions towards large enterprises and less towards small businesses. However, entrepreneurs operate in the same business environment as large firms and small enterprises are no less connected with the industry environment relation.

Even as the link between human activities and climate change is debated, opinion on reduction of environmental impact of industry is in agreement. From the 1972 United Nations Conference on the Human Environment at Stockholm to the more recent one on Sustainable Development in 2012, industry awareness and response has grown. Our understanding of environmental impacts has improved and the

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approaches towards mitigation have evolved. However, even as environmental sustainability gains importance, pursuing 'green' does not automatically save costs or lead to other business benefits (Reinhardt, 1999). This has slowed the diffusion within industry and particularly in small and medium enterprises (SMEs). Their resource constraints and limited managerial capabilities restrict owner attention to business operations and environmental activities within SMEs are often limited to compliance (Williamson & Lynch-Wood, 2006). In India, a complex regulatory framework and unsupportive agencies may be keeping SMEs away from a huge opportunity to improve the country's environment.

As the 'Make in India'<sup>1</sup> appeal, made by the new Indian Prime Minister, gains international attention, Indian SMEs, as suppliers in global supply chains, are expected to gain significantly in the process. The recent investments by global giants suggests a positive and growing response<sup>2</sup> towards the campaign. This impending growth in the SME sector offers compelling reason to focus on the environmental practices within the Indian SMEs and offer a facilitative atmosphere for improvement. However, extant research within SMEs is sparse as little research is published. Of this, most focus on polluting industries and technological solutions. A deeper understanding of the SME sector is needed to guide policy and regulation. To contribute to overcoming this deficiency, this author conducted a study in the Pune region, an engineering SME belt in western India.

## **INDIAN SME SECTOR AND THE ENVIRONMENT**

While SMEs have varying definitions in different countries, their characteristics are similar. Often these firms come into existence because of some particular expertise of the owner and are run single-handedly by them. Moreover, owners have low formal business experience (Deloitte, 2008). In this study the definition employed is from the 2006 Micro Small and Medium Enterprises Development Act (MSMED) of India. This defines and classifies SMEs on their investments in plant and machinery into micro, small and medium enterprises (Ministry of MSME, 2012).

Without being modest, the Indian SME sector is huge. An estimated 44.7 million units spread across a country of about 3.2 million square kilometres, inhabited by about 1.2 billion people living in 28 different states. They are significant contributors to employment, export earnings and the GDP. Their presence is a precondition for large industry, to which they serve as suppliers. This sector contributes to about 8% of the GDP, 45% of the manufactured output and 40% of exports (Special Task Force, 2010). Their sheer number alone makes offers a huge potential for improving the environment.

## **ENVIRONMENT AND THE REGULATORY FRAMEWORK IN INDIA**

The environmental regulations in India can be broadly classified into regulatory controls and liability laws. Acceptable limits of pollution are set and harmful polluting industries are closely monitored. The liability laws can impose fines or order closure of defaulting industries. The Ministry of Environment and Forest (MoEF) governs environmental regulatory mechanism in India. They are the policy-makers while the monitoring responsibility lies with the Central Pollution Control Board (CPCB). Each state has its counterpart – the State Pollution Control Boards (SPCB) - responsible for monitoring industrial performance in their own state. Depending on the industry, a firm may require annual certification and periodic audits. The MoEF has categorized industries on their potential to pollute, into Red, Orange and

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