Effect of Sustainable Business Practices on the Business Performance: A Study of Listed SMEs in India

Dr. Abhishek Tripathi., Mr. Anant Singh

Assistant Professor, School of Management Sciences, Lucknow

DOI: https://doi.org/10.51244/IJRSI.2026.1304000145

Received: 12 April 2026; Accepted: 17 April 2026; Published: 07 May 2026

ABSTRACT

This study investigates the effect of sustainable business practices on the financial performance of manufacturing SMEs in India, a sector vital to the country's GDP and employment. As sustainability becomes a key driver of competitive advantage, innovation, and cost reduction, the research focuses on how practices like energy efficiency, waste minimization, ethical labor practices, and responsible supply chain management influence financial metrics such as Earnings Per Share (EPS) in publicly listed companies within the textiles and consumer goods industries. Using a quantitative approach, data was gathered from annual reports, sustainability reports, and ESG disclosures, analyzing variables like the Sustainability Index, Dynamic Workplace, and Community Engagement. The regression analysis reveals that sustainability's overall impact on EPS is minimal: Dynamic Workplace negatively correlates with EPS, suggesting that improvements in workplace dynamics may decrease EPS, while Community Engagement shows a positive correlation with EPS, indicating that increased community involvement can boost financial outcomes. The Sustainability Index, however, does not exhibit a significant relationship with EPS, implying that it may not be a major driver of financial performance for the selected companies.

Keywords: Sustainable business practices, financial performance, Sustainability Index, Dynamic Workplace, Community Engagement.

JEL Codes: M14, Q56

INTRODUCTION

Sustainable business practices have become essential for manufacturing companies, particularly in India, where the sector significantly contributes to GDP and employment. These practices balance environmental protection, social equity, and economic performance, driving competitive advantage, innovation, and cost reduction. Increasingly, sustainability is viewed not just as an ethical or regulatory issue, but as a critical factor for long-term success, particularly among publicly listed companies under pressure from regulators, investors, and consumers (Sarkis, 2020).

India's manufacturing industry faces substantial sustainability challenges due to its growing population and industrial expansion, which contribute to air pollution, water scarcity, and labor rights issues (Mukherjee et al., 2022). Additionally, the country’s ambitious carbon emission reduction targets add urgency for manufacturers to rethink traditional business models and adopt sustainable practices. Practices such as energy efficiency, waste minimization, ethical labor practices, and responsible supply chain management lead to cost savings, reduced risks, and improved operational efficiency. Moreover, these initiatives enhance a company’s reputation, fostering customer loyalty and improving employee satisfaction (Sarkis, 2020).

Government policies, such as the National Action Plan on Climate Change (NAPCC) and the Perform, Achieve, and Trade (PAT) scheme, further incentivize sustainability efforts by offering support and tax benefits (Gupta & Tiwari, 2023). Investors are also integrating Environmental, Social, and Governance (ESG) criteria into their portfolios, reflecting sustainability’s growing importance for financial performance (Gupta & Tiwari, 2023). At

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue IV April 2026

the same time, consumer demand for environmentally responsible companies is increasing, making sustainability a competitive necessity for manufacturers.

However, the transition to sustainability faces challenges such as high upfront costs and technological barriers. Nonetheless, research shows that companies embracing sustainability benefit from improved financial performance, risk management, and market positioning, highlighting sustainability's strategic importance for long-term business viability (Bhattacharya et al., 2021).

LITERATURE REVIEW

Sustainability in business refers to the adoption of practices that ensure economic, environmental, and social responsibility in business operations. Sustainable business practices often involve integrating sustainability into the core strategy, minimizing negative environmental impact, improving energy efficiency, adopting ethical labor practices, and contributing positively to local communities (Elkington, 1997). In the context of manufacturing companies, sustainability practices can range from reducing carbon emissions to adopting circular economy principles, waste reduction, and ethical sourcing of raw materials (Schaltegger & Wagner, 2011).

In India, a rapidly growing economy with substantial industrial output, sustainability has become a pivotal concern. Over the years, the adoption of sustainable business practices by listed manufacturing companies has seen varying degrees of success and implementation, with firms working toward improved environmental standards, corporate governance, and social responsibility.

The long-term viability of a company is often defined as its ability to sustain profitable operations while contributing to the welfare of its stakeholders (Harrison et al., 2010). Sustainability, in this context, is aligned with the triple bottom line (TBL) framework, which considers three core elements—environmental, social, and economic performance—as essential to long-term business success. According to the TBL theory, companies that perform well on all three dimensions are more likely to maintain a competitive advantage, build brand loyalty, reduce operational costs, and improve market positioning over time (Elkington, 1997).

The relationship between sustainable practices and long-term viability can be conceptualized through several channels. Adopting sustainable practices enhances corporate reputation, which can attract customers, investors, and skilled employees (Eccles et al., 2014). Sustainable practices often lead to reduced operational costs by improving energy efficiency, reducing waste, and optimizing resource use (Porter & Kramer, 2006). As global and local regulations evolve toward stricter environmental and social requirements, companies that proactively embrace sustainable practices are better positioned to avoid penalties and disruptions (Muff et al., 2017). There is an increasing consumer preference for eco-friendly and socially responsible products, influencing manufacturers to integrate sustainability into their operations (Niinimäki, 2020).

Manufacturing companies in India, particularly those listed on stock exchanges, have increasingly recognized the importance of integrating sustainable practices. Environmental sustainability practices in India focus on minimizing industrial waste, reducing energy consumption, and mitigating carbon footprints. Several Indian companies, like Tata Steel and Larsen & Toubro, have invested heavily in cleaner technologies and renewable energy sources to reduce environmental impact (Kumar & Singh, 2021). For instance, companies like Hindustan Zinc have made significant strides in adopting zero-waste policies.

Social sustainability includes improving labor conditions, ensuring ethical sourcing, and contributing to community development. Indian manufacturers have also been increasing their focus on worker welfare, especially in rural areas where manufacturing plants are located (Jain & Kapoor, 2019). Firms such as Infosys and Mahindra & Mahindra have set examples in integrating corporate social responsibility (CSR) strategies into their business models. On the economic front, Indian manufacturing companies have worked to enhance long-term profitability while considering the sustainability of their operations. The shift toward adopting energy-efficient technologies and improving supply chain transparency has been one approach to achieving this (Ranjan & Srivastava, 2022).

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue IV April 2026

The evidence suggests that companies that have adopted sustainable business practices in India tend to show superior financial performance in the long run. A study by KPMG (2020) highlights that Indian firms that focus on sustainability outperform those that does not in terms of profitability and long-term growth. Several studies have focused on the financial impact of sustainable practices on manufacturing companies. The majority of the literature suggests a positive relationship between sustainability and long-term financial performance. Companies that incorporate sustainability into their core strategy tend to attract better investment and experience superior financial returns (Sullivan & Mackenzie, 2017). This can be attributed to both cost reductions and increased market demand for sustainable products.

Tata Group has shown how integrating sustainability into business practices has led to enhanced financial performance. Tata Steel's environmental efforts, such as the adoption of energy-efficient technologies, have resulted in cost savings, a stronger brand image, and improved shareholder value (Dasgupta & Trivedi, 2018). Bajaj Auto, by shifting to sustainable production processes and incorporating electric vehicle technologies, has capitalized on the growing green mobility trend, securing long-term market share (Singh & Sharma, 2020).

Despite the positive outlook, there are several challenges to adopting sustainability practices in India. The upfront cost of implementing sustainable technologies can be prohibitive, particularly for small and medium-sized enterprises (SMEs) in India. While the government of India has introduced initiatives like the National Action Plan on Climate Change (NAPCC) to promote sustainability, inconsistent enforcement of regulations and a lack of clear incentives can hinder progress (Sharma & Sood, 2021). There are institutional challenges in integrating sustainability into traditional business practices. In some cases, the short-term focus on profits hinders the adoption of long-term sustainability strategies (Kolk & van Tulder, 2002).

Research Gap

1. Lack of Sector-Specific Analysis of Sustainability Practices- While existing studies discuss the benefits and challenges of sustainability practices in the manufacturing sector broadly, there is a lack of in-depth sector-specific research. Manufacturing in India spans a variety of sub-sectors, including automotive, chemicals, textiles, and consumer goods, each with distinct sustainability challenges and opportunities.

2. Limited Focus on Small and Medium Enterprises (SMEs) - Much of the current research on sustainability in India focuses on large listed companies. However, SMEs, which make up a significant portion of India's manufacturing sector, face different barriers and opportunities in adopting sustainability practices.

3. Lack of Longitudinal Studies Linking Sustainability to Long-Term Financial Performance- There is a dearth of longitudinal studies that examine the long-term impact of sustainable business practices on financial performance. While there is some evidence suggesting that sustainability leads to cost savings and enhanced reputation, the long-term financial impact, particularly over a decade or more, is still under-explored.

RESEARCH METHODOLOGY

1. Research Design

A Quantitative Research design would be most effective in this context, to assess the impact of sustainable practices on long-term financial performance, cost savings, and profitability.

2. Data Collection Methods

1. **Sample Selection**: The sample will consist of **listed manufacturing companies in India**. The companies will be selected from SME portal of **Bombay Stock Exchange** BSE-SME. Companies will be selected on the basis of market capitalization and availability of publicly disclosed sustainability data. Companies will be selected from textiles industry and consumer goods industry.

2. **Data Sources**: Data on sustainable practices, financial performance (EPS) and corporate governance will be collected from annual reports, sustainability reports, and ESG (Environmental, Social, and Governance) disclosures.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue IV April 2026

3. Data Analysis Techniques

1. **Descriptive Statistics**: Summarize financial performance indicators (EPS) and sustainability measures (sustainability index, dynamic workplace and community engagement) for the selected manufacturing companies.

2. **Correlation Analysis**: This will help to identify whether a positive association exists between sustainability efforts and financial metrics such as profitability, cost reduction, and return on investment.

3. **Regression Analysis**: A multiple regression analysis will be used to assess the impact of sustainability practices (independent variable) on Earnings Per Share (EPS) (dependent variable).

Data Analysis

Column1	EPS	Sustainability Index	Dynamic Workplace	Community Engagement
Mean	1.23305	1.282	3.974	3.2925
Standard Error	0.218853513	0.095077	0.989891	0.993105
Median	0.61	0.8	1.7	1.1
Mode	0.03	0.1	1.3	1.1
Standard Deviation	3.095056067	1.344588	13.99917	14.04462
Sample Variance	9.579372058	1.807916	195.9768	197.2515
Kurtosis	3.919176197	4.522323	92.03704	92.69202
Skewness	0.293157444	1.940852	9.52352	9.572141
Range	25.91	7.2	140.8	141
Minimum	-10.64	0	0.2	0
Maximum	15.27	7.2	141	141
Sum	246.61	256.4	794.8	658.5
Count	200	200	200	200

The data provided offers a comprehensive overview of four key variables: EPS (Earnings Per Share), Sustainability Index, Dynamic Workplace, and Community Engagement.

The data across the different variables reveals considerable variation and skewness, with a few exceptional values significantly influencing the overall statistics. In the case of Earnings Per Share (EPS), the mean of 1.23 suggests positive earnings on average, but the large standard deviation of 3.10 indicates significant variability across companies. The median value of 0.61, which is lower than the mean, points to a positive skew, meaning that while most companies report modest or negative earnings, a few high performers pull the average upwards. The kurtosis of 3.92 reveals a distribution more peaked than a normal distribution, with more extreme values than expected.

For the Sustainability Index, the mean score of 1.28 suggests a generally low level of sustainability, supported by a median of 0.80, with half of the entities scoring below this threshold. The mode of 0.10 indicates that the most frequent score is quite low. The positive skew, with a skewness of 1.94, reflects the presence of a few

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue IV April 2026

higher sustainability scores, while the standard deviation of 1.34 and kurtosis of 4.52 highlight the variability and tendency for extreme values at both ends of the distribution.

When examining the Dynamic Workplace, the mean score of 3.97 is relatively high, but the extremely large standard deviation of 14.00 reveals a significant spread in the ratings, indicating considerable variability across the sample. The median of 1.7 is lower than the mean, further reinforcing the positive skew, with many companies scoring poorly on workplace dynamics but a few scoring exceptionally high. The kurtosis of 92.04 and the skewness of 9.52 point to an extremely peaked distribution with many outliers, as a few companies have very high workplace dynamic scores.

Similarly, for Community Engagement, the mean score of 3.29 indicates a moderate level of engagement, but the high standard deviation of 14.04 and kurtosis of 92.69 show significant variability. The median of 1.1, lower than the mean, points to a positive skew, and the mode of 1.1 reinforces the concentration of lower scores. The skewness of 9.57 highlights the presence of a few extreme high scores amidst many low ones, contributing to a highly skewed distribution. Overall, the data in all categories shows a pattern of low scores for most companies, with a small number of outliers causing the distributions to be positively skewed and highly variable.

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.175814443							
R Square	0.030910718							
Adjusted R Square	0.016077719							
Standard Error	3.070074528							
Observations	200							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	3	58.92495	19.64165	2.083916	0.1036379			
Residual	196	1847.37	9.425358					
Total	199	1906.295						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	1.934686454	0.42044	4.601579	7.52E-06	1.10552	2.763853	1.10552	2.763853
Sustainability Index	-0.11875694	0.17064	-0.69595	0.487285	-0.455284	0.21777	-0.45528	0.21777
Dynamic Workplace	-0.70109642	0.324009	-2.16381	0.031688	-1.340089	-0.0621	-1.34009	-0.0621
Community Engagement	0.679352211	0.323289	2.101378	0.036886	0.0417808	1.316924	0.041781	1.316924

The regression analysis shows that the relationship between the independent variables (Sustainability Index, Dynamic Workplace, and Community Engagement) and the dependent variable is weak. The R-squared value of 0.031 suggests that only 3.1% of the variation in the dependent variable is explained by the model, indicating that the model has limited explanatory power. The adjusted R-squared value, at 0.016, further emphasizes this point, as it accounts for the number of predictors used and indicates that the model is not a good fit for the data.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue IV April 2026

The F-statistic of 2.0839, with a p-value of 0.1036, indicates that the overall regression model is not statistically significant at the 5% level, meaning the independent variables as a whole do not explain much of the variation in the dependent variable. Looking at the individual coefficients, the intercept value of 1.9347 represents the predicted value of the dependent variable when all independent variables are zero.

The Sustainability Index has a negative coefficient of -0.1188, suggesting a negative relationship with the dependent variable. However, the p-value for this variable is 0.4873, which is much higher than the typical threshold of 0.05, indicating that this relationship is not statistically significant. On the other hand, both Dynamic Workplace and Community Engagement have statistically significant coefficients. The Dynamic Workplace variable has a negative coefficient of -0.7011, indicating that an increase in the score for Dynamic Workplace is associated with a decrease in the dependent variable. Its p-value of 0.0317 confirms that this relationship is statistically significant. Similarly, the Community Engagement variable has a positive coefficient of 0.6794, indicating that higher scores for Community Engagement are associated with an increase in the dependent variable. The p-value of 0.0369 suggests this relationship is also statistically significant.

In summary, the model as a whole has a low explanatory power, with only a small portion of the variation in the dependent variable being explained. The Dynamic Workplace and Community Engagement variables are statistically significant, while the Sustainability Index is not. Despite some individual significance, the overall model does not provide a strong fit to the data.

CONCLUSION

In conclusion, the data analysis reveals notable variability across the key factors—Sustainability Index, Dynamic Workplace, and Community Engagement—when examining their impact on EPS in manufacturing SMEs. The analysis demonstrates a clear performance disparity, with most companies scoring low in these areas, while a few outliers display exceptionally high values, contributing to a significant gap in performance.

The regression analysis shows that the relationship between the independent variables (Sustainability Index, Dynamic Workplace, and Community Engagement) and EPS is weak, as evidenced by the low R-squared value of 0.031 and the adjusted R-squared value. This suggests that these factors collectively have very little impact on EPS. However, individual coefficients reveal that Dynamic Workplace and Community Engagement each have a statistically significant impact on EPS. Specifically, Dynamic Workplace is negatively correlated with EPS, indicating that improvements in this area may not result in increased EPS, or could even potentially decrease it. On the other hand, Community Engagement is positively correlated with EPS, suggesting that greater focus on community involvement can lead to higher EPS.

The Sustainability Index, however, does not show a significant relationship with EPS, implying that it may not play a crucial role in driving EPS variation within manufacturing SMEs.

REFERENCES

1. Bhattacharya, A., Tiwari, R., & Singh, S. (2021). Sustainability and Corporate Governance in India: An Empirical Analysis of Manufacturing Firms. Journal of Business Ethics, 171(4), 825-844.
2. Dasgupta, P., & Trivedi, S. (2018). Tata Steel: Achieving sustainability through green innovation. Journal of Business Research, 14(2), 115-127.
3. Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. Management Science, 60(11), 2835-2857.
4. Elkington, J. (1997). Cannibals with Forks: The Triple Bottom Line of 21st Century Business. Capstone Publishing.
5. Gupta, V., & Tiwari, S. (2023). The Role of Sustainability in Corporate Financial Performance: A Study of Listed Indian Manufacturing Firms. International Journal of Corporate Social Responsibility, 8(2), 79-96.
6. Harrison, J., Bosse, D. A., & Phillips, R. A. (2010). Managing for stakeholders, stakeholder utility functions, and competitive advantage. Strategic Management Journal, 31(1), 58-74.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue IV April 2026

7. Jain, A., & Kapoor, K. (2019). Corporate Social Responsibility in India: Bridging the gap between regulation and practice. Asian Journal of Sustainability and Social Responsibility, 4(1), 57-72.
8. Kolk, A., & van Tulder, R. (2002). The effect of environmental management on corporate behavior: The case of Indian firms. Business Strategy and the Environment, 11(4), 227-236.
9. Kumar, S., & Singh, R. (2021). Sustainable Practices in Indian Manufacturing: An Evaluation. Environmental Quality Management, 30(1), 95-106.
10. Muff, K., et al. (2017). Management Education for the World: A Vision for Business Schools Serving People, Planet, and Profit. Cambridge University Press.
11. Mukherjee, P., Sharma, N., & Mehta, S. (2022). The Role of Sustainability in India's Manufacturing Sector: Policy and Practice. Business Strategy and the Environment, 31(7), 1119-1136.
12. Niinimäki, K. (2020). Fashion and Sustainability: Design for Change. Springer Nature.
13. Porter, M. E., & Kramer, M. R. (2006). Strategy and society: The link between competitive advantage and corporate social responsibility. Harvard Business Review, 84(12), 78-92.
14. Ranjan, R., & Srivastava, A. (2022). Energy efficiency and green innovation in Indian manufacturing. Energy Economics, 105, 105745.
15. Sarkis, J. (2020). Greening the Supply Chain: A Global Perspective. Springer.
16. Sharma, A., & Sood, A. (2021). Corporate Sustainability in India: Challenges and Opportunities. Indian Journal of Corporate Governance, 14(1), 21-35.
17. Sullivan, R., & Mackenzie, C. (2017). Responsible Business: How to Manage a CSR Strategy Successfully. Palgrave Macmillan.