

Triple Bottom Line Impact of MSMEs

Input Paper



Development Alternatives

Society for Development Alternatives

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Abstract

With increase in economic activity leading to environmental degradation and adverse social impacts, it is nearly impossible for public agencies to single-handedly take up the task of mitigating and addressing these changes. Collaborations among the government, private sector and other civil society organisations is a pressing need. This should begin with the businesses being able to measure and track the effects of their own activities on the people and the planet. Through this paper, the authors aim to bring about the need and importance of frameworks especially the **Triple Bottom Line (TBL)** Approach of measuring the economic (beyond financial), social and environmental impacts. This should be the norm for the smallest enterprise as put together these micro, small and medium enterprises (MSMEs) have larger impact than big corporates and multinationals.

1. Introduction

1.1 Environmental and Social Problems: Environment is a key pillar of sustainability, along with economic and social factors. A safe, clean and self-sufficient environment can provide human beings with all that is necessary in order to express their dignity and to live in genuine freedom and solidarity with each other.

However, with rise in economic activity, there has been increased environmental degradation and adverse social impacts. Today, we face some of the gravest challenges. Relying on “business as usual” scenarios presents clear risks as evident from the following key global trends and changes:

1.1.1 The “**climate**” situation has moved from being called “climate change” to “climate emergency” threatening to further worsen in the absence of adequate safeguards.

The Great Barrier Reef will be so degraded by warming waters that it will be unrecognizable by 2033 according to Charlie Veron, former chief scientist of the Australian Institute of Marine Science. (Mohapatra, 2013)

Amazon Rain Forest may turn into a desert: Teeming with millions of species and one-fifth of the world's fresh water, the Amazon is the world's largest tropical rainforest. However, global warming and deforestation are reversing the forest's role as a carbon sink, converting 30-60% of the rainforest. (Mohapatra, 2013)

The unprecedented fires that have raged across Australia killing people and a billion animals are a clear example of the devastation that climate change is wreaking.

1.1.2 Income inequality within and among many countries has been rising. The richest 147 billionaires in the world control about 1 percent of global wealth.¹ This has reached an extremely high level, invoking the spectre of heightened tension and social conflict.

Although, scientists, economists and governments acknowledge that imbalances in natural systems (such as fresh water shortages, energy supply limits, global climate change, and population increases) have adversely affected economic systems and human quality of life, it is not enough. This surely cannot not be tackled by public agencies alone. There is a dire need felt for big corporations and businesses to step-up and adhere to their social responsibility as businesses are both actors and recipients of change.

1.2 Social Responsibility of Businesses: The social responsibility of business refers to businesses bearing a responsibility to society and a broader set of stakeholders beyond its shareholders. This is what has come to be formally referred to as Corporate Social Responsibility (CSR). (R. Saluja, 2018)

Proponents of this requirement argue that companies play a vital role in society and therefore should contribute to growth in social issues. Opponents to these demands hold that privately run companies should not be held responsible for activities that should primarily be the domain of public agencies and private initiatives. (M. Kauffman et al, 2012). There have been long standing debates on whether it would be appropriate for corporations to expand their remit beyond shareholder value. However, an increasing number of corporations have themselves proactively begun to address larger societal challenges.

This was not a sudden shift in the approach of the private sector. During the course of history, awareness of social and environmental responsibility developed from individual, social and environmental concerns and led to the perception that collectives, such as profit-oriented businesses, also need to partake in responsible activities that do not necessarily produce profits that are visible in the short run. (M. Kauffman et al, 2012).

However, companies not only engage in CSR because of the "moral mandate" but also because there is a "business case". Jones (1995) describes the mutual benefit of CSR activities for businesses and their stakeholders. Since firms display responsibility by their CSR involvement, they are perceived as trustworthy and safe market transaction partners. An enterprise is a corporate citizen and like a citizen, it is regarded and judged by its actions in relation to the community of which it is a member as well as by its economic performance. (Ochotorena, 2018). Employees love to work for those organizations which play a vital role in sustainable activities and address the environmental and social issues competently. One can take this approach a step further and can conclude that companies not involved in CSR will not be attractive to customers, employees, suppliers and other stakeholders, because there is a lack of trust: the

¹ <https://www.vox.com/future-perfect/2019/1/22/18192774/oxfam-inequality-report-2019-davos-wealth>

company is seen as a profit-maximizing organization with little or no regard to the needs of its business partners or customers and hence unattractive to do business with.

Along with this shift, the growing understanding that mere engagement of the private sector in doing social and environmental good is not enough. It is equally important and necessary to track and measure these benefits and costs by the activities of the private sector including the entire range of enterprises from small businesses to large corporations.

Through this paper, the authors aim to bring about the need and importance of different frameworks especially the Triple Bottom Line (TBL) Approach of measuring the economic (beyond financial), social and environmental impacts of not just big corporates and multinationals but also the smaller enterprises.

2. Evolution of TBL

Through CSR, the roots of sustainable development grew in the business world. This led to the development of the Triple Bottom Line' system set in motion for business entities and organizations.

2.1 How did TBL originate?

The term 'Triple Bottom Line' was created by John Elkington in 1994. In fact, he wrote a book on the concept, entitled, "Cannibals with Forks: The Triple Bottom Line of 21st Century Business". This line of thought, then, originated a new track for business leaders to look beyond the current picture and sustain themselves for longer in the market.

2.2 What is the Triple Bottom Line (TBL)?

Triple bottom line is the accounting framework which draws the attention of business managers to incorporate social and environmental factors along with the financial aspects. When a company emphasizes on its financial value, economic standing, profits, and revenues, it must also give considerable thought to its social and environmental responsibilities. TBL essentially deals with 3Ps called People, Planet and Profit.

This advanced approach enables businesses to measure their productivity by answering the question: What impact your organization has on the people and the planet?

Twenty-five years on, it has given rise to a plethora of responsible business models, frameworks, and operational methodologies from Social Return on Investment (SROI) to Environmental, Social and Corporate Governance (ESG), as well as proving an early inspiration for the rise of the sharing and circular economies. As such, the TBL has been fundamental in the growth of the sustainability sector and the emergence

more generally of the Corporate Social Responsibility reporting culture as it has emerged as a lucrative strategy for the firms.

2.3 Why TBL is a Lucrative Strategy?

Businesses that operate using the TBL philosophy not only measure the worth of their output using these '3 Ps' but also — crucially — construct and execute their short- and long-term business goals around them too. For the businesses, TBL offers the following significant benefits:

- Raises transparency that mitigates the shareholder's concerns of concealed information
- Involves accountability of organizations' actions
- Delivers growth and better economic situations for the company
- Gives a competitive advantage over industry peers
- Strengthens the business purposes

2.4 Best Practices

Almost all the companies are now working towards adopting the TBL strategy but a few firms are exemplary for embracing it quickly. Corporations and large companies with global operations such as Unilever aims to reuse 100% of plastic packaging by 2025 and DHL aims to reach zero emission by 2050 by increasing their carbon efficiency by 50%, operating 70% of their pick-up and drop facilities using electric vehicles. Coca-Cola has set an ambitious goal for itself: Collect and recycle the equivalent of every bottle or metal can it sells by 2030. Apple achieved 100% green energy by April 2018. One major exemplar performer in Triple Bottom Line accounting in India has been ITC. Under this, it has achieved various milestones as shown in the following table.

Environment	Economic	Social
Water Positive 10 years in a row	\$ 35 billion market capitalization	Creating over 5 million sustainable livelihoods
Carbon Positive for 7 consecutive years	\$ 7 billion turnover	Strengthening the agri production base of nearly 4 lakh farmers
Solid Waste Recycling positive since last 5 years	Total Shareholder returns of 26% per annum	ITC's Primary Education initiative has educated over 3,00,000 children
ITC's Watershed Development initiative brings precious water to over 98,000 hectares of moisture-stressed areas	ITC Group provides direct employment to over 29,000 people	ITC's globally acknowledged e-Choupal initiative is the world's largest rural digital infrastructure benefitting over 4 million farmers

Environment	Economic	Social
More than 38% of ITC's total energy consumption is from renewable sources	Diversified multi-business conglomerate spanning FMCG, Hotels, Paperboards & Packaging, Agri Business and Information Technology	ITC's Women's Empowerment initiative has created nearly 40,000 sustainable livelihoods
All ITC premium luxury hotels are LEED Platinum certified		ITC's Livestock Development initiative has provided animal husbandry services for nearly 5,00,000 milch animals
ITC's Social and Farm Forestry initiative has greened over 1,38,000 hectares		

Source: ITC Portal. Figures as on October 2012

2.5 Enterprises lead to social impact

More than 1,500 C-level executives in 19 countries were surveyed by Deloitte in 2018. They presented their findings at the World Economic Forum Annual Meeting in Davos. The executives surveyed overwhelmingly (87%) believe Industry 4.0 will lead to more equality and stability. In fact, two-thirds say business will have much more influence than governments and other entities shaping the future. Yet, less than a quarter of them believe their own organizations hold much sway over key societal factors such as education, sustainability and social mobility.

It's an interesting dichotomy: business leaders who feel hopeful for the future yet powerless to help shape it. Business in general has come a long way from the "I gave at the office" days of corporate citizenship.

Green funds and schemes are gaining traction and other initiatives such as the Sustainability Reporting of the GRI are mainstreaming TBL practices in large enterprises and corporations. However, the maximum potential of a TBL framework will be seen when it becomes a norm rather than a potentially beneficial option. Supporting a movement towards a TBL framework essentially requires critical changes in the organisation of MSMEs.

According to the World Bank, among the entire gamut of economic enterprises that operate in the world, the micro, medium and small enterprises (MSMEs) contribute significantly to GDP and play a crucial role in creating employment and promoting regional economic development. Formal MSMEs contribute up to 45% of total employment and up to 33% of GDP in emerging economies. With the MSMEs becoming a key vehicle to address regional imbalances and achieve inclusive growth and poverty reduction, it is crucial to enable them to take on TBL frameworks. While, individually, MSMEs have relatively small environmental and social impacts, as a group their impacts are large. Therefore, specific indicators devised to track environmental and societal impact can help in minimizing the negative effect of the firm on the people and planet.

3. State of TBL MSMEs in India

The MSME sector in India contributes significantly to India's economic and social development. This sector consists of over 46 million units situated throughout the geographical expanse of the country, providing employment to over 100 million people, with contribution of about 38% to the nation's GDP (Balavikasa, n.d.).

3.1 Major Initiatives

The current schemes and policy infrastructure around MSMEs largely cater to the economic needs of the industries. However, pilot programmes in India and schemes and rating systems emphasizing on the environment and social management of the industries are slowly picking up pace.

- The scheme, "Financial Support to MSMEs in ZED Certification Scheme" is an initiative by the Ministry of MSME, GoI to promote Zero Effect Zero Defect (ZED) manufacturing for sustainable growth of MSMEs. In this scheme, the government provides financial assistance to MSMEs for rating and certification under the ZED model which aims to achieve high quality manufacturing that is also green. (PIB, 2017).
- The SWITCH-Asia project, "Scaling up sustainable development of MSME clusters in India" from 2012 to 2016 focused on enabling selected foundry MSME clusters in target areas in Punjab, West Bengal and Rajasthan for adoption of sustainable environment and social business practices through capacity building of BMOs, introducing aggregate reporting, establishing financial linkages, and supporting a conducive policy environment. In this project, 500 MSMEs as direct beneficiaries and 460 MSMEs as indirect beneficiaries were targeted (SWITCH-ASIA, n.d.)
- The Five- Year plan (2012-2017) "Report of the Working Group on "Effectively Integrating Industrial Growth and Environment Sustainability" emphasizes the need for Sustainable Environment Management in MSMEs in India. The report also provides recommendation to embed sustainability into their system. The report notes the increasing trend of Sustainability Reporting (SR) by the Global Reporting

Initiative (GRI), which is a reporting system on economic, environmental and social performance of an organization. The Global Reporting initiative is a network-based organization that produces comprehensive sustainability framework that is widely used around the world.

- The National Competitiveness Manufacturing Program of the Ministry of Micro, Small & Medium Enterprises enhances the manufacturing competitiveness of MSMEs through the application of various Lean Manufacturing (LM) techniques like 5S System, Visual Control, etc. by reducing waste; increasing productivity; introducing innovative practices for improving overall competitiveness; and introducing good management systems within SMEs.
- Under its Global Cleantech Innovative Programme (GCIP) (2013-2017) UNIDO for example, fostered an entrepreneurship ecosystem by identifying and supporting clean technologies entrepreneurs to accelerate the transition to an economically and environmentally sustainable future.
- Foundation for MSME Clusters (FMC) is a pioneer organization, which specializes in promotion of MSMEs through cluster and value chain led development. FMC has experience of working directly and indirectly with over 100,000 MSMEs in around 200 clusters in over 15 other countries across the globe. The FMC offers support towards addressing social, economic, and environmental aspects of MSMEs.

3.2 Gaps and Challenges

Despite the significant role played by the MSMEs in the economy of the country, the MSME sector confronts significant challenges in order to achieve sustainability. Key challenges persist in the form of lack of information and awareness, availability of consistent data, perceived resource intensity (people and finance) and skilled human resources. These challenges can be categorized under Information, Incentives and Implementation type of challenges.

3.2.1 Information: These are of two kinds. Information gap for measurement is evident from the lack of consistency in data collection across all sectors and this poses a challenge in finding a uniform framework for adoption. Without a comprehensive data set, measurement of economic, environment and social aspects become difficult. Information gap for access to finance is evident from the challenges faced with respect to the lack of availability of consistent data and a uniform framework for assessing the credit worthiness of diverse MSMEs. This poses a problem to financial institutions to lend money in order for the MSMEs to design their infrastructure around the Triple Bottom Line framework. Therefore, enterprises must be given data points on how to monitor and report their current supply chain management, in order to initiate the process towards designing a TBL framework. Guidance needs to be provided in order to capture relevant data properly and aggregating them in a sustainability report.

3.2.2 Incentives: Environmental and social improvement cannot be brought about at the cost of economic growth of an MSME. The triple bottom line can only be expected to be adopted when the MSMEs have achieved a certain level of financial stability. Fund mobilization is the chief obstacle for MSMEs to make a shift from brown economy to green and inclusive economy. Crippled with energy-intensive obsolete technologies, rigid labour laws and without sound financial backing, it becomes difficult for the MSMEs to get access to energy efficient technologies. Thus, a strong public incentive framework in for the upcoming green startups and existing brown enterprises will be required for making the shift towards a Triple Bottom Line measurement approach over the existing measurement of economic line. Supporting the MSMEs financially, through subsidies, grants and loans through well-designed government policies can enhance competitiveness in MSMEs, ensuring green and inclusive growth. Lately, it has been observed that the portrayal of a business as eco-friendly and sustainable has a positive reception by the public over its unsustainable competition. Strong customer demand for sustainable products, could compel the shareholders towards being environmentally and socially responsible service providers.

3.2.3 Implementation: The MSMEs in India do not have the expertise and skilled manpower to shift towards the Triple Line Bottom approach. Low awareness among these MSMEs about need for sustainability and the know-how on how to achieve it further hinders the process of widespread acceptance of the TBL framework. It is imperative that wide scale capacity building of MSMEs for enhancing their understanding, awareness and perception of TBL is initiated to help them realise sustainability as part of their operation and management process.

Collaborative efforts of MSMEs, with the non-for-profit organizations, the government and international organizations at the macro, meso and micro levels can play a crucial role in enabling green start-ups and existing brown enterprises in effective reporting on TBL. Non-profit organizations at the grass root level, with the better understanding of the local communities and well-connected networks, can help the local MSMEs to design an effective, sector -specific framework, without deterring the economic growth of these enterprises. Along with framework designing, partnering with corporate organizations, which can be enforced through CSR, will open multitude of avenues for the MSMEs. Instead of functioning on isolated models, combining efforts of similar MSMEs will enable uptake of TBL through cooperation and competition (Balavikasa, n.d).

4. Conclusion

Conventions, like, the Global Economy Coalition (GEC) summit, provide a platform to finding solutions to the pertaining challenges in achieving sustainability in the MSMEs.

By directly capturing the experiences and learnings of the start-ups and the established MSMEs, they help drive communication on TBL in MSMEs. These conventions, by bringing together enterprises, CSOs, government and experts in the field of finance help mobilising enterprises to initiate interventions by partnering with them (Balavikasa, n.d). Finally, proactive action towards designing a Triple Bottom Line framework for MSMEs necessarily entails mindset shifts towards sustainability, access to resources like information and finance, and capacity building.

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