

# **An Exploratory Study on Firm-Level Understandability on Sustainable Business Practices among export-oriented firms in Nepal**

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## **Abstract**

Sustainable business practices (SBPs) offer several positive outcomes for the firms and alongside firms are receiving significant level of support at policy level and operational level from different partners. Despite this, the adoption has been low and lack of understandability of SBPs among the firms has been identified as one of the probable causes for low adoption. This study makes an attempt to explore the understandability of SBPs among the export-oriented small and medium level enterprises (SMEs) in terms of “input-process-expected outcomes” model. This model simply identifies what the firms are doing, how the firms are doing, and why the firms are doing in the issue of sustainability. Through the thematic analysis of interview transcripts of six respondents in first phase and eight respondents in second phase, several insights on inputs, process and expected outcomes has emerged. These respondents were either owners or managers at senior management level and has a long experience of working in export-business. The firms have taken several initiatives in the theme of environmental sustainability, social well-being, economic development, and ethical practices with an expected outcomes as satisfying the personal values, market opportunity, premium pricing of products, competitive advantage in the foreign market etc. These findings assist the policymakers to understand the barriers to lower adoption of SBPs and take policy measures to offer appropriate support to the firms and improve the level of adoption among the SMEs.

**Keywords:** Sustainability business practices, stakeholder perspective, developing country

## **1. Introduction**

Sustainable Business Practices (SBPs)<sup>1</sup> is a relatively new concept but, is getting prominence world-wide over the last decade. More firms are adopting SBPs for their perceived contribution to the stakeholder's value (Waddock, Bodwell, and Graves 2002). The firms have been adopting SBPs with a moral argument where firms have obligation towards not just their shareholders but, to broader level stakeholders such as employees, customers, suppliers and society at large (Klein et al. 2012; Freeman and Ramakrishna Velamuri, n.d.). The other reason for adopting SBPs is with strategic argument as it positively affects firm's financial performance through enhanced firms' competitiveness (Van Beurden and Gössling 2008). The adoption of SBPs has become an eminent topic at the firm-level for its positive contribution towards employees' creativity and hence their productivity (Brammer, He, and Mellahi 2015), firm's reputation and goodwill (Holmes 1976), stronger consumer demand (Cramer 2003), enhanced firms' competitiveness (Callan and Thomas 2009), cheaper cost of capital (El Ghouli et al. 2011), reduced exposure of systematic risk (Albuquerque, Koskinen, and Zhang 2019) and firm's propensity to innovate (N. Ahmad, Li, and Tian 2019a).

For Nepal, adoption of SBPs is far more relevant as it falls in the group of countries most affected by extreme weather events (Eckstein et al. 2020), and their performance in different social

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<sup>1</sup> Sustainable business practices are also referred by different names in the literature such as: Corporate Social Responsibility (CSR) practices (Rossi et al. 2021), Environment, Social & Governance (ESG) practices (Kim and Li 2021). These terms are used interchangeably in this paper.

indicators. Nepal has suffered huge economic losses due to the extreme weather events (Ministry of Population and Environment (MoPE) 2017) and, one of the recent estimates has put that Nepal's GDP to be smaller by at least 7% by 2050 if no steps are taken (World Bank Group 2022). The country's performance in other factors is also not satisfactory. Women, in contrast to men, have faced very limited earning opportunities. Still today, it is female who should take care of family which significantly limits the time they have for job and explore better job opportunities (Bulmer, Shrestha, and Marshalian, 2020). These possible vulnerabilities and potential cost to the economy has influenced the stakeholders to take necessary measures for mitigating these risks through higher level of adoption of sustainable practices (UNDP 2021).

Several initiatives have been taken at the policy level as well. Government of Nepal (GoN) has recognized the necessity of adopting sustainable practices and has mentioned it as one of the core objectives in their policy documents. GoN, in its Nationally Determined Contributions (NDCs) document, has presented their commitment of adaptation and mitigation targets for the country covering agriculture and climate-induced disasters, and reduction of greenhouse gas (gHg) emissions (Singh and Khadka 2020). They are also committed to end all forms of child labour. Alongside the policy level effort, the works at private firm-level is equally important. The private sector has been identified as one of the key stakeholders to accept and share the responsibility of implementing sustainable practices (Rashed and Shah 2021). The private firms are developing unique business models that are in-built with social values and notion of responsibility which has also offered the private firms with an opportunity to demonstrate their commitment to ethical and sustainable practices (Scheyvens, Banks, and Hughes 2016).

Despite the policy level commitment and efforts at private firm-level, achievement is sub-par when compared against the Global peers or, against its South Asian peers. Nepal ranks 98<sup>th</sup> in the global SDG index ranking which covers 163 countries below Sri Lanka (ranked 76<sup>th</sup>), Bhutan (ranked 70<sup>th</sup>), and Maldives (ranked 67<sup>th</sup>) and, Nepal ranks 109<sup>th</sup> in gHg emissions ranking in 2018 (Sachs et al. 2022). Nepal still has 15.3% of its children between the ages of 5 and 17 engaged in child labour. Significant proportion of children specially involved in informal sector work in hazardous conditions (ILO, 2022). Still today, 14.2% less females are literate and, almost 17.3% less females are economically active when compared to male (CBS, 2023).

The adoption of SBPs by Nepalese firms is still lower considering the incentives and other support available to the firms at policy and non-policy level. For low adoption rate, several specific barriers were identified which were: i) limited capacity, ii) high upfront and transaction cost, iii) unclear project pipeline, iv) long term credit supply is constrained, v) limited credit information & rating, vi) lack of transparency on climate related disclosure (UNDP 2021). Among these barriers, the basic one is limited capacity which means a lack of common understanding on the scope of these practices, common definition as well as criteria and standard of these practices. The stakeholders including the firms should understand and appreciate better the role of sustainable business practices and collect adequate empirical evidence of their impact at multiple levels so as to realize the potential of adopting these practices (Boulouta and Pitelis 2014). Thus, there is a need to explore the level of understandability sustainable business practices at the firm-level.

Keeping in mind above thoughts, we intend to enhance the existing knowledge on sustainable business practices in the context of developing country like Nepal. Specifically, we want to explore if the firms in Nepal have limited understanding on sustainability issues, different themes of

sustainability and on business practices or processes to pursue sustainability. Hence, the research question of this proposed study is to get an overview of firm-level understandability (inputs-expected outcomes-barriers) of SBPs in Nepal. Its findings may be interesting, to managers, consultants, owners and policymakers who want to initiate these practices in developing countries or with players of this market (particularly in Nepal), and obtain insights into sustainable business practices and in the aspects necessary in the local setting, thus identifying areas for further development or mutual learning.

Our study will remain grounded in a developing country context from the stakeholder's lens. In the developing country like Nepal with low regulatory compulsion on adopting SBPs by the private firms, it might be interesting to explore the scope of understanding of knowledge and level of adoption of SBPs among the firms. The theory of firm's social responsibility lies between two extremes: on one side, sole responsibility of firm is considered to achieve highest possible profit to its shareholders (Friedman, 1970), while on another side, responsibility of firm is considered to meet the interest of wide range of actors or stakeholders i.e., managers, employees, workers, suppliers, customers, competitors and so on. Though, firms in developing countries are not compelled to adopt these practices by their own regulatory framework, they might be compelled indirectly by changes in regulatory requirements of market in developed countries. Thus, we would be studying the export-based firms of Nepal as these export firms are compelled to address sustainability issues due to regulatory changes in the market of developed country which buys from the firms in developing countries.

## **2. Literature Review and Research Question**

The World Commission of Environment and Development (WCED) (1987) has defined sustainable development as: "Development that meets the needs of the present without compromising the ability of future generations to meet their needs" (p. 8). This definition, in itself, was broad and organizations found it difficult to understand the present and future needs and what they could do to meet the needs and also achieve the objectives of multiple stakeholders (Hart, 1995; Starik and Rands, 1995). Khan (1995), thus, has proposed three central objectives i.e., social, economic, and environment aspects for sustainable development. Later, Elkington (1998) operationalized all these issues into a concept called triple bottom line (focus on business operations should not just be economic, but should also be social and environmental outcomes) which narrowed the WCED's definition.

Moser (2001) has defined SBPs by connecting it with the sustainable development. SBPs refers to those behaviors or practices of the private sector companies which will lead to net contribution of different forms of capital (i.e., economic, environmental, and social terms) associated with sustainable development. According to Skidmore (1997), SBPs broadly include all the business practices including processes and technologies that have fewer damaging effects to the environment. (Bocken, Rana, and Short 2015) has mentioned that sustainability can place businesses as a positive force which has a dual purpose of contributing to society and environment as well as generate a profit.

Sustainable development requires multi-sectoral participation i.e., both public and private sector. In the last two decade, there has been a significant rise of private sector firms voluntarily or involuntarily adopting the SBPs. UN Principles for Responsible Investment (PRI) was launched in 2006 with a commitment to incorporate sustainable business practice issues into the firms' strategy and decision making. PRI has more than 5000 signatories representing over 80 countries who has already

signed to confirm their commitment towards integrating sustainable business practices and ESG issues (Principles for Responsible Investment (PRI) 2022).

Over the last decade, both private and public sector's attention towards SBPs is increasing in the developing countries like Nepal. Several remarkable efforts have also been initiated in Nepal at national level in last decade. Since 2014, GoN has set its goal for nationally determined contribution to showcase its commitment towards the Paris agreement, National planning commission (NPC) has published sustainable development goals report on behalf of GoN and Nepal Rastra Bank (NRB) joined sustainable banking finance network (SBFN). With NRB joining SBFN, it has already issued a guideline on Environmental and Social Risk Management (ESRM) for banks and financial institutions (BFIs) in 2018 along with publication of environmental and social due diligence checklist and E&S risk rating tool to push the adoption of sustainable business practices as a necessary requirement for financing. Since 2020, through its unified directive, NRB has mandated all BFIs to follow the ESRM guideline (Sustainable Banking and Finance Network (SBFN) 2022).

There is a considerable body of research on SMEs and sustainability as indicated in the above sections, there exist relatively little research to explore the understandability about SBPs among the SMEs. Numerous studies have given much attention to identify and define the reasons why private firms initiate/implement the sustainable business practices, which is generally perceived as a set of actions of economic, social, and environmental actions that go beyond what is set by the law ((Doh and Guay 2006). Understanding the practices being implemented by the firms is necessary to ensure if these practices are perceived to be appropriate with the societal expectations of various stakeholders ((Mio, Panfilo, and Blundo 2020). The perception of sustainable business practices differs across societies or marketplaces thus it is difficult to determine what may be classified as sustainable and non-sustainable business practice (Svensson, Wood, and Callaghan 2010). Lack of common understanding of SBPs might have led to this varying perception among the stakeholders and increased education among the stakeholders will definitely play a role in bringing the expectations and perceptions about SBPs to one place (Sørensen 2002).

To explore the understandability of SBPs among the firms and explain the reasons of firms adopting SBPs, different theories might be appropriate such as shareholders theory, stakeholders' theory, legitimacy theory. Shareholder's theory has defined the sole objective of the firm is to generate profit and increasing shareholders wealth. The shareholder's theory limits the obligation of firms to the firm's shareholders only as this group of people are the investors who put their capital into the firm (Moore 1999; Pfarrer, n.d.). Stakeholder theory argues against the popular shareholder's theory and believes that the firms work in the benefit of wider stakeholders who determines the success or failure of the firm (Friedman and Miles 2002). The stakeholder's theory forwarded a basic proposition which identifies that the firm's sustainability not just depend on its successful relationship with its shareholders but, instead it is a management of successful relationship of the firm with its wider stakeholders who are stated explicitly or implicitly as related to the firm (Kent and Chan 2009). Legitimacy theory argues that firms engage in certain practices with an objective of legitimize their organization among its stakeholders (*Encyclopedia of Corporate Social Responsibility* 2013). Firms engage in environment and socially responsible practices to get approval of the stakeholders towards their organization (Archel et al. 2009).

The authors believed that the well-established "stakeholder theory" might be a most appropriate lens to evaluate the sustainability literature. According to the stakeholder's theory, firms

work to co-create values for all the stakeholders who each have a stake in the firm (Freeman, 1984; Freeman et al., 2007). A fundamental thesis of this theory is that firms and its business process should be managed in the interest of all their constituents who are simply referred to as stakeholders. So, stakeholder's theory simply widens the obligations of the firm towards the wider group of people who are vital to the existence of the firm and who might be positively or negatively affected by the actions and operations of the firm (Friedman and Miles 2002). This wider group of people include customers, owners/shareholders, local community, employees, suppliers and many more.

Stakeholders' theory, though had a limitation can offer benefits to all the stakeholders. The emergence of the theory in recent decade has been due to increasing reports of ethical misconduct, and corporate negligence with regard to natural environment. As per the proponents of the stakeholder theory, there exists a positive relationship between the firms' adoption of sustainable business practices and their financial performance. The firms don't have to view the sustainable business practices and profitability as competing goals but, in fact the firms benefit from their sustainable business practices as these practices would be recognized and rewarded by the relevant stakeholders. The stakeholder's recognition might result into stronger consumer demand or higher employee's productivity resulting into better financial performance (Cramer 2003). Husted & de Jesus Salazar (2006) identifies dual objectives of the firm i.e., profit maximization and social performance so, firms should act in a strategic manner which would enhance their social output. This enhanced social output could influence managers to respond positively and thus take an instrumental approach to social responsibility and stakeholder management.

Earlier studies on the impacts of sustainable business practices have been mixed. Renneboog et al. (2008) acknowledged an explosive growth of adoption of sustainable business practices around the world reflecting higher investor awareness to social, environmental, ethical and governance issues which also raised an issue of the impact of these practices on shareholder's value. The authors found that the investors are still not ready to accept sub-optimal financial performance to pursue social or ethical objectives.

Brammer et al. (2015) has found that firm's sustainable business practices have a positive effect on employee's creativity. This provides further evidence to support the earlier results that sustainable business practices improve employee loyalty, motivation, satisfaction and commitment. The authors argue that the level of impact on employee's creativity but, depends on firm's corporate ability which is the firms' capacity to produce and deliver its products/services. The evidence supports the view that the firms with higher ESG ratings have lower downside risk and are resilient from any market risks during time of stress. Albuquerque et al. (2020) has developed a theoretical framework that illustrate several conditions in which firms can reduce their exposure of systematic risk. CSR investments has been used for better product differentiation and portfolio diversification. There is an empirical evidence that adoption of ESG practices has reduced downside risk (Hoepner et al. 2022).

Ahmad et al. (2019) found that firm's adoption of sustainable business practices and its disclosure has positive influence on firm's propensity to innovate and will ultimately lead to increased firm profitability. Ghoul et al. (2011) found a significant effect of firm's adoption of sustainable business practices on firm's cost of capital. Luo et al. (2019) also found a significant negative effect of environmental information disclosure on debt financing costs. Every 1% increase in disclosure quality of environmental information resulted into decrease in debt financing costs by 0.31%.

Several studies have pointed that firm-level adoption of sustainable business practices has a positive impact on firm's export and hence overall country's export level. The export promotion is based on the argument that the firms' competitiveness in the international market is improved with their adoption of sustainable business practices. A study by Lu et al. (2020) has used the matched data from China Industry Performance business data, china stock market and accounting research database and explored the relationship between environmental information disclosure and enterprises export based on hackman model. The authors found that sustainable business practices can effectively promote firm's export resulting from innovation, innovation and subsidy effects.

Wang et al. (2016) has found that the strict environmental regulations can push the country towards production of green high-value-added goods which can be easily exported to international destinations leading to country's positive transformation of exports. Yang et al. (2017) has studied the impact of higher regulations on export of graphite in China. The authors found that higher environmental regulations push the firms to larger investment in research & development (R&D) in the industry which significantly improved the quality of graphite products thus, leading to increase in exports of the products from China. Li et al. (2019) has also found that environmental regulations improved the capacity of technological advancement of the new energy automobile industry which improved the quality of export products thus, leading to larger exports from the country.

Murty et al. (2006) explored this relationship with Indian Sugar Manufacturing companies by considering the firms' pollution control regulations. The authors found that for every 1 percent increase in intensive of environmental regulations, the cost to implement those measures for firms increased by 15 percent thus, affecting the export negatively. Arouri et al. (2012) argued that the firms lose their competitiveness in the international market with increased cost from strict environmental regulations. The authors studied the enterprises at Romania where they found that higher regulations may increase the cost of enterprises leading to loss of firm's competitiveness which will in turn result into decline in exports on one hand while, imports may rise on the other hand. Shi & Xu (2018) have found that higher environmental regulations negatively affect the export potential of firms specially in pollution-intensive industries.

This study to explore the understandability of SBPs among SMEs of Nepal might have a significant contribution in the existing literature for two reasons: first, despite the country being classified into most risky country in terms of effects of extreme weather events and its lower scores in different sustainability aspects, the level of adoption is still very low. Second, sustainability practices are considered a concept from developed market and is thus by definition not directly applicable in developing country like Nepal and thus, needs a separate investigation. The context for sustainable business practices is assumed to vary significantly in the context of developing country largely due to the difference in values or the institutional environment. These would probably lead to distinctions in two major forms: first, type of sustainable business practices (with some activities more prevailing than others), and second, differences in level of sustainable business practice (performance).

Nepal's export situation is in dire status. As per the latest foreign trade statistics report of FY 2078/79, the ratio of export to import of Nepal is 1:9.6 which means that for every 1-rupee worth of export from Nepal, it imports worth 9.6 rupee. In total GDP, the contribution of exports is just 4.3% compare to contribution of imports at 41.57% (Ministry of Industry 2022). The exports value has been supported by few products such as Soyabean on which Nepal has very little value addition. While the export of other products, with relatively high value addition in Nepal, has remained at the same level

or even declined in some cases. Thus, from the lens of stakeholder's theory, the adoption of sustainable business practices by Nepalese private firms can have a positive influence on the firms' performance including their financial performance which will have a positive impact on the firms' sustainability. The adoption of sustainable practices by the private firms will have a positive influence for export-oriented firms and thus, positively contributing to their exports.

### **3. Methodology**

The exploratory approach was identified as the appropriate method for our study as it allows to explore different aspects of SBPs, uncover patterns and develop ideas in the context of export-oriented firms of Nepal. Qualitative approach is considered to be the best method in these fields where earlier research is scarcely available and it provides a ground from where quantitative methods can be built on (Srnrka and Koeszegi 2007). Our study explored the firm-level understanding, their experiences, attitudes towards SBPs and exploratory research allowed us to find existing evidence on the topic and lay the ground work for future research. The authors started with the analysis of existing literature to define the research question for this exploratory study (Zikmund et al. 2013). For this type of exploratory study, different research methods were available such as in-depth interviews, focus groups, case studies, observations. Among the available options, we have used in-depth interviews with the senior level management personnel of the export-oriented firms in Nepal (Kvale 2006).

For our study, we used semi-structured in-depth interviews as it allowed us to explore multiple views and generate detailed information about the respondent's knowledge, experiences and perceptions towards the SBPs (Cassell and Symon 2006). The interview questions were developed based on the available relevant literature (Rubin and Rubin 2011). Specific prompts were used to further probe the respondents during the interview process (Yin 2009). Participants were selected using a non-probability sampling technique of 'convenience sampling' in terms of degree of accessibility to participants and the idea about SBPs assessed during initial primary level discussion. Interview participants were selected based on three criteria: 1) the participant should be a senior decision maker (i.e.: Chief Executive Officer (CEO), Founder, Owner); 2) the participant should have a long individual experience in the industry, should have an idea on SBPs; and 3) the participant should be from an enterprise which have been involved in export business.

Adoption of these practices by firms in developing country like Nepal can offer them with competitive advantage and play a role towards sustaining and expand the export market so, we have selected export-firms in the sample. The export data from Department of Customs of Government of Nepal list following products as the largest exported products of Nepal in terms of export value: Soyabean Oil, Sunflower Oil, Palm Oil, Woolen Carpet, Polyester Yarn & thread, Jute goods, Juice, Readymade garments, Cardamom, Tea, Textiles. Among these largest exported products, Soyabean Oil, Sunflower Oil, and Palm Oil are not produced in Nepal, they are imported from third-world country and with little value addition is exported to India taking the benefit of SAFTA (Kumar 2022). So, these products are excluded for consideration. Among the remaining products, Nepal Trade Integration Strategy (NTIS) 2016 has prioritized two product categories as the products with most export potential. These two categories are: 1) Agro-based products, and 2) Manufacturing products ("Nepal Trade Integration Strategy (NTIS)" 2016). The same document has listed following products in the agro-based products sector: Cardamom, Ginger, Tea, Medicinal and Aromatic plants. The products listed in the manufacturing sector includes leather, footwear, pashmina, carpets, and all fabrics,

textiles, yarn and ropes. We have made an attempt to incorporate representations from each category as our respondents.

Interviews were undertaken in two phases as used by (Lepoutre and Valente 2012). In the first stage, the interviews were conducted with six respondents and a thematic analysis of the interview script was performed to generate the initial outputs. The initial findings from the first phase of interview were presented at 1<sup>st</sup> international conference on trade openness, economic development and economic sustainability organized by Kathmandu university school of management and WTO chairs program on March, 2023. Based on the outputs of first phase of interview and feedbacks received in the conference, interview questions were restructured and refined to develop final interview questions for second phase of interviews. In the second phase of interview, we conducted interview with eight respondents. Interview was conducted in Nepali, audio recorded then, transcribed & translated later.

In-depth interviews were collected in Nepali language which was audio-recorded to ensure all the details shared by the respondents are not missed. The audio was then transcribed and translated by the researchers. There are different qualitative analysis methods to analyze these textual data i.e., content analysis, thematic analysis, narrative analysis etc. Among these available methods, we used the most appropriate one which is thematic analysis (Braun and Clarke 2006). This study has explored the understandability of SBPs' as we don't have any evidence on if firms actually know or not know about SBPs, how to adopt SBPs, expected outcomes of adopting SBPs. In this context, thematic analysis allowed us to search and generate themes from our dataset which helps to describe and interpret different aspects of the topic which is still unknown in our context. We have followed the suggested staged process for the analysis where both of us familiarized the dataset and then, started identifying the main features to generate initial codes within it from where the final themes were generated. Both the researchers independently worked to generate the codes and the emerging themes from the interview data which was then cross-referenced to each other to reduce bias in the synthesized data ((Eisenhardt 1989; Pettigrew 1990).

We have used the simple "input-process-output" model to explore the understandability as used in similar studies (Dyllick and Muff 2016). On the input side, we identify what the firms are doing? 2) Process: How the firms are doing? 3) Motive or expected outcomes: Why the firms are doing? These aspects are derived based on the "input-process-output" model, which was used by Dyllick and Muff (2016) and Munos-Torres et al., (2018). On the analysis of activities, they were reviewed against the popular categorization method i.e., Environment, Social, and Governance.

Previous research has suggested that the forces behind these sustainable practices can be categorized into two groups: morally-driven (intrinsic motivation) or to-do-the-right-thing approach and, economically-driven (extrinsic motivation) or to-do-the-mutually beneficial thing approach (Graafland and Van De Ven 2006). (Cetindamar and Husoy 2007) also found the similar result that private firms adopt responsible behavior for ethical and economic factors. The motive varies based on geographical factors i.e., European companies consider moral factors while, US companies consider economic factors (Hartman, Rubin, and Dhanda 2007). Several other studies have identified other factors such as fostering social and good work of the company (Branco and Rodrigues 2006); opinions of customers, shareholders, and employees (Baltic 2007); vulnerability to governmental scrutiny and pressure of public opinion (Gan 2006). A survey by PricewaterhouseCoopers LLP (2002) identified the main reasons for companies becoming more socially responsible as follows: enhanced reputation,



competitive advantage, cost savings, industry trends, chief executive officer/board commitment, and customer demand. Shareholder demand and access to capital were the last two reasons.

Existing literature has explored and listed different activities, practices, and processes which firms are currently adopting. (S. J. Ahmad 2006) explored sustainability activities being adopted among Pakistani business firms and found following practices adopted: financial contributions; collecting and utilizing donations for social benefit; sponsoring events; allowing employees to volunteer expertise; providing free use of company facilities; and donating surplus office equipment. (Perrini 2006) reported the ten most important sustainability practices in Italian companies. These top practices included training activities; safeguarding employee health; local community development; support of cultural activities; product safety; controlling environmental impacts of products; support of sports activities; employee services; environmental protection activities; and customer satisfaction.

#### **4. Results**

The findings that have emerged from the thematic analysis of all the interview transcripts are in-line into four themes: environment, social, governance and economic development. The findings are presented as Inputs, Process and Expected outcomes of the adoption of SBPs. Overall, the major themes revolved around the firm's aspiration for growth, its commitment to environmental responsibility, and its emphasis on employee welfare.

##### **4.1 Inputs**

A range of SBP's being adopted by the firms were mentioned by the respondents which demonstrated their understanding of the concept of SBP's and different individual small components of practices currently being adopted under three themes of Environment, social, and governance. The overall findings highlight that firms are adopting SBPs for several key reasons such as: providing employment opportunities, preserving traditional knowledge, and promoting the sustainable management of natural resources. The input mainly focuses on following aspects/theme.

**Environmental Sustainability:** The interview findings found that firms has adopted several SBPs related to sustainability of environment such as organic farming practices, waste reduction and management, and make significant reduction on the impact of these practices on the environment. The interviewees emphasized the growing need to protect the natural resources, reduce the use of harmful chemicals, and adopt business processes and practices which are environmental-friendly.

**Social empowerment and well-being:** The analysis of all the interview transcripts has generated the sub-themes such as women empowerment, improvement of labor conditions, and providing support to the local communities which all are related to the theme of social empowerment and well-being. The participants have raised this theme and sub-themes through their understanding of different initiatives adopted by the firm such as fair wages to the labor, different non-financial facilities and opportunities for the employees, and insurance coverage for employees to protect them and their family from any kind of uncertainties.

**Economic Development:** Within the theme of economic development, broader level sub-themes has been generated from the analysis of interview transcripts. The broader level sub-themes such as providing economic opportunities to the people from local communities and farmers has been generated. The respondents have quoted and emphasized the practices such as fair pricing of products, support to the local business, and continuous efforts to uplift the economic well-being of farmers and workers.

**Governance and Ethics:** The thematic analysis of all the interview transcripts have generated the sub-themes which are related to the theme of governance and ethical standards. The respondents have highlighted the importance of implementing the applicable laws, rules, and regulations of the country, maintain the transparency towards its stakeholders, and thus build trust with the stakeholders. Most of the firms were of small family-owned businesses which have no distinction between owners and the managers but, some mentioned that there is a distinction between the two parties. All the respondents have emphasized the need to adhere to the strict ethical values.

#### **4.2 Process**

The findings of the process have highlighted the initiatives, practices and processes implemented at the firm level in Nepal to address issues of sustainability. The major themes that have been generated from the thematic analysis belongs to environment, society, and governance. While the key sub-themes that have emerged include knowledge and training, harvesting and collection, legal compliance, government collaboration, sustainable practices, quality and market differentiation, local economic development, and ethical practices & monitoring. In addition, other sub-themes have also been highlighted such as efficient use of resources, plastic reduction and eco-friendly packaging, and worker welfare & social responsibility. The firms have mentioned that they are actively involved in adopting practices that leads to waste reduce, reduction of water usage, and use of less harmful chemicals during the manufacturing process. Some firms mentioned that they routinely conduct social audit of their firm through internationally accredited third-party organizations and thus they have adopted practices to meet the requirements of those audits.

**Environmental Consciousness:** From the thematic analysis, respondents have mentioned that they are conscious towards the environment and thus, they have taken several initiatives through adoption of sustainable practices and resource preservation. The respondents have mentioned that they have adopted several sustainable practices such as organic farming, initiatives to reduce the environmental impact, reduce waste and explore options on recycling. The respondents recognized that the resources available are limited and thus should be utilized efficiently and preserve them for future generations.

**Ethical considerations:** The respondents also mentioned that they make ethical considerations during business decision-making. The firms abide by the fair-trade practices and ethical sourcing of raw materials during manufacturing, processing and distribution. Most of these firms were part of fair trade international since more than a decade and this membership made them aware, educated and trained them to adopt certain fair-trade practices in their business activity. They work with those clusters of consumers who understand and value the ethical sourcing practices. Some of the firms have also mentioned that they take every possible step to avoid causing any kind of harm to animals and have voiced their concern about putting higher emphasis on other living beings than to human beings.

**Employee Well-being and Engagement:** One of the key priority themes generated from the analysis was concerned with employee well-being. Most of the firms produces hand-made products so, they are highly reliant on them. This made the firms reliant on human resources and thus, the firms take every possible action to work for better employee well-being. The firms have implemented several labor-friendly practices in their business operations such as maintain friendly and welcoming relationship with the employees, fair treatment to the employees, provide the basic amenities and competitive wages to the employees. In addition to the financial incentives, the firms have been

offering non-financial benefits to their employees such as accidental insurance, provident fund facility, educational and accommodation support/facility to the employees and their family. The respondents have also highlighted the issues of health and safety to the employees. The firms have adopted all the possible health and safety measures in their business.

**Community Engagement and Support:** Participants highlighted a range of initiatives they have taken at their firms to collaborate with the local community where they are operating. The respondents recognized that they have to support the local farmers to ensure farmers keep on producing and supplying quality produce to the firms. The kind of support provided to the farmers include offering fair prices for the produce and sometimes even premium price to encourage quality produce, investment by the firms in educating and training the farmers for better quality produce, technical support to the farmers, and investment for the improvement of infrastructure in the community. The respondents also highlighted the indirect engagement and support to the community through the initiatives of social impact. Some firms have highlighted about their certain initiatives which benefits the broader level of local community through support to the local schools, and offering scholarships which all contributed to the overall development of the region.

**Continuous Improvement and Innovation:** The respondents highlighted that they perform periodic audits from an accredited organization and have received certifications from them. The firms thus have been complying with the quality standards related to environment, society and ethical practices. Depending on the type of industry, firms have received different certifications such as organic certification, social audit certification, chemical-free certification. Continuous research to innovate the products was also highlighted specially to discover innovations in the use of byproducts, improvement of production processes, and seeking ways to address environmental challenges.

#### **4.3 Expected Outcomes**

Thematic analysis of the transcripts for expected outcomes of adoption of SBP's by firms have generated customer demand and market dynamics as the major theme. These factors have emerged as the reason why the firm's adoption of SBP's. The respondents mentioned that their customers prefer to purchase products that are environmentally friendly, produce of organic farming, and handmade products. The customers are even willing to pay premium price for these products. The certification received by the company played a major role on this regard. Customers and Market have a strong positive perception towards the products of certified companies and thus, firms are pushed to adopt the SBPs.

Several other themes that drive the firms to adopt SBPs have been generated such as changing economic situations, regulatory requirements of the importing country, sustainability issues raised and pushed by the international forums. The respondents mentioned that their products can't compete in the international market on cost or volume of production, they rather prefer to differentiate their products and focus on niche market with premium pricing. The adoption of sustainability aspects thus helps the firms to differentiate themselves from the competitors.

Firms have received support from stakeholders such as industry associations, distributors, international trade forums, and employees for adoption of SBPs at the firm-level. The respondents mentioned about their desire to make a positive impact on community and its people. It was even mentioned that they feel responsible towards the environment, and society as well as being ethically correct. Overall, the importance of customer demand, market opportunities, regulatory requirements,

stakeholder support, and personal values are found to be driving the adoption of sustainable business practices in Nepalese SMEs.

## **5. Discussion and Conclusion**

The overall themes that have emerged are environment, social, governance and economic development. The understandability of SBPs among the SME firms are assessed in terms of inputs which assess what the firms are doing currently, process which assess how the firms are doing, and expected outcomes which assess why or what factors are pushing the firms to adopt SBPs in their firms. The SBPs that the firms are currently implementing can be categorized into four major themes: Environmental sustainability, social empowerment & well-being, economic development, and governance & ethics. The practices implemented toward environmental sustainability include organic farming, waste reduction, avoid use of harmful chemicals, environment friendly packaging. The firms are found to be very conscious towards the community or society so, they offer competitive pay and other benefits to employees, premium price for farmers, support to the community through training & infrastructure. The respondents were found to be conscious towards benefit of different stakeholders and thus they want to maintain highest possible level of ethical standards in their processes. The firms find these adoptions challenging but equally rewarding as well. The adoption has offered firms with better market opportunities, easier access to market by fulfilling changing regulatory requirements, and achieve personal values.

The findings emerged from the analysis are in line with the current literature on the understandability of SBPs among the export-oriented SMEs. The understandability was explored from three aspects i.e., Inputs, Process and Outputs and the findings has supported the understanding among the SMEs in three key themes i.e., Environment, Social and Governance. Overall, the findings emerged on the inputs are consistent with the current literature. The awareness on SBPs have been increasing among the SMEs due to demand from the customers, changing regulatory practices, and also due to the firm's participation in international trade or business forums and conventions. With increasing awareness, firm-level adoption of SBPs is also increasing while the level and type of practices adopted varied depending on the type of industry and the capacity of the firm. Firms see the existing opportunities of embracing sustainability and social responsibility but, the adoption has been difficult for firms. The emerging themes that these SMEs has focused on are environmental sustainability, social empowerment, economic, cultural and ethical considerations. The firm level of understanding is evolving and they are taking efforts to align their business operations.

The findings on the process aspect have highlighted several key points that resonate with the findings of the existing literature. The SMEs have resource constraints i.e., financial and technical expertise for adoption of SBPs and despite the constraints, these SMEs acknowledge the need of adopting SBPs. In this pursuit, they acknowledge the role of innovation, niche market who value sustainability, employee engagement, community involvement and local impact. They emphasized the unique characteristics and opportunity that comes with SBP adoption and thus SMEs are actively embracing different aspects and practices towards sustainability and making meaningful contribution to environmental and social responsibility.

The findings on the expected outcomes aspect have highlighted several positive outcomes of adopting SBPs and firms are increasingly aware of these benefits. There exist a niche group of customers who wants to consume sustainable products only and are eager to pay a premium price for the product. The SMEs cater to these niche group of customers and thus offer new market opportunity

for the firms. SMEs recognize the economic benefits of adopting SBPs and along with have a positive environmental and social impact. On the social aspects, one key issue emerged was the firms support to local community, farmers and their responsibility towards their employees. This resonates with the existing literature which emphasized that SMEs are key contributor to the local economy and their potential contribution towards sustainability.

This study contributes to the existing knowledge of sustainable business practices in the context of export-oriented SMEs in developing countries like Nepal. The existing literature has identified that despite several efforts and initiatives taken by different stakeholders the level of adoption in Nepal is low and one probable cause for the gap is identified as lack of understandability at the firm level. In this context, our study contributes by providing a rich and contextualized understanding of the export-based SMEs reflecting their understanding in terms of three aspects: inputs which defines what the firms are doing, process which defines how the firms are doing, and expected outcomes which defines why the firms are doing. The authors have established different initiatives being adopted by the firms under three major themes of environment, society, economic development, and ethical practices.

Findings of the study has highlighted different practices that are currently adopted by the firms under the theme of environment which includes organic farming, waste reduction etc., ethical theme included practices such as fair-trade practices, ethical sourcing of raw materials etc., employee development included competitive financial and non-financial benefits to the employees, training & other support to grow them etc., theme of community engagement included the continuous & priority support to the local community through training, financial & infrastructure support. These findings aligned with the stakeholder's theory as the firms are found to be working for co-creation of values for all the stakeholders i.e., employees, community, suppliers, customers etc. along with the better returns for the owners.

We conclude that export-oriented SMEs based in Nepal are aware about different sustainability issues and they mostly understand these issues on the theme of environment, social and governance. Firms thus have initiated many different initiatives with the support of different stakeholders such as audit and accreditation providers and even without the support of any kind. They recognized that the adoption was challenging but despite that they are aware about different opportunities and positive outcomes of this adoption. The expected positive outcomes of this adoption are better market opportunity, premium pricing for the product, get competitive advantage, and lower regulatory hindrances at the destination. These findings suggest that the firms have some level of understandability of SBPs which contradicts with the earlier finding that the lack of understandability of SBP's among the firms as one of the barriers of low adoption of SBP's. The barrier probably is limited education about SBP's and its varying aspects among the stakeholders.

## **6. Limitations and future directions**

Despite the contributions made by this study, it has several limitations as well. First, sample size of the study was limited with respondents belonging to export-oriented SME's which means the diverse perspectives of SME's might not have been captured and may not be generalized to the entire SME's. Second, the thematic analysis conducted based on interview transcripts relies on interviewer's interpretation. Though analysis was done by two researchers independently and significant reliability was achieved before going ahead with the conclusion, interviewer's perspective and preconceived notions might have influenced the analysis. Third, the thematic analysis performed does not compare

the findings with any kind of industry standards in SBPs so, there isn't any analysis of themes departing or aligning with prevailing practices. Lastly, SBP's are continuously evolving thus, analysis done without considering temporal perspective of SME's understandability of SME's have certain limitations. These potential criticisms have been acknowledged to ensure a comprehensive understanding of SME's understandability of SBPs and encourage further research on the topic addressing these limitations.

Future studies may potentially attempt to increase the sample size and incorporate diverse and wider group of respondents from different industries, regions, and sizes. This wider coverage of respondents would allow to provide understandability of SBP's among general SME's. The study could be made more reliable and valid with the use of standardized research instruments which will allow for robust comparison and analysis across all SME's. The use of control or comparison groups in this type of study can further facilitate the evaluation of understandability of SBP's among different SME's which could further deepen the understanding and learning. Furthermore, a use of longitudinal study design would allow to capture the temporal understanding of SBP's among the SME's as well as use of mixed method (qualitative and quantitative methods) can further enhance the knowledge on the subject.

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The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reporting in this paper.

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