International Journal of Research and Development
A Management Review
ISSN: 2319 - 5479
Volume 15 Issue 02 (2026) | Pages: 251-255

Comprehensive Evaluation of Sustainable Financial Strategies & Their Impact on The Profitability & Long-Term Flexibility of SMEs

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Peer Review Information

Type: *Article*
Received: *28 March 2026*
Revised: *26 April 2026*
Accepted: *11 May 2026*
Published: *02 June 2026*

Abstract

Small and Medium-sized Enterprises (SMEs) form the foundation of the global economies; driving innovation, employment & growth in both developed as well as the emerging markets. Yet; these significant players often clash with the distinctive barriers in accessing finance, particularly for adopting the sustainable practices that correspond to the critical ecological necessity. This research delves into the drivers and constraints shaping green finance for Small & Medium Enterprises [SMEs], uncovering opportunities like government incentives, innovative lending models & impact investing; while addressing the obstacles such as high upfront costs, limited collateral, regulatory gaps and a lack of ESG expertise. By systematically analysing these dynamics through empirical data and case studies; the study aims to develop a functional blueprint empowering SMEs to seamlessly integrate Environmental, Social, and Governance (ESG) principles into their financial strategies. This integration not only fosters flexibility against climate risks & resource scarcity but also enhances long-term solvency by attracting the socially responsible investors; reducing the operational costs through efficiency gains and improving market competitiveness. Ultimately; the blueprint promotes environmental balance, enabling SMEs to contribute meaningfully to the global sustainability goals like the UN Sustainable Development Goals, while securing their economic viability in a low-carbon future

Keywords: Green Finance; Small and Medium-sized Enterprises (SMEs); Environmental, Social, and Governance (ESG); Sustainable Development; Climate Risk Management; Sustainable Investment.

How to Cite This Article

Raut, H., & Jambotkar, C. (2026). Comprehensive evaluation of sustainable financial strategies & their impact on the profitability & long-term flexibility of SMEs. *International Journal of Research and Development: A Management Review*, 15(2), 251–255.

Introduction

Small and Medium-sized Enterprises (SMEs) as the "keystone" of the national economies; contributing to about 90% of businesses & 60-70% of the employment globally (p. 8). It explains that as the global economies shift toward sustainability—guided by the UN Sustainable Development Goals (SDGs) and ESG principles—SMEs face escalating pressure to embed these values into their financial strategies through models like green loans and responsible investment (p. 8). The study aims to bridge a research gap by identifying the drivers for this shift; such as the competitive advantages & regulatory incentives, while also examining obstacles like financial literacy gaps and the cost complexity of green finance (p. 8). Ultimately; the introduction sets the stage to develop customized financial strategies & partnerships that help SMEs improve their profitability, resilience to the financial shocks and commitment to environmental sustainability.

Literature Review

Sustainable finance aligns financial decisions with environmental, social and governance (ESG) principles, evolving from profitability focus to the comprehensive robustness amid the climate change & globalization.

The Resource-Based View (RBV) states that the sustainability-integrated strategies provide SMEs competitive edges through unique capabilities. Stakeholder Theory recommends balancing interests via responsible practices, while the Institutional Theory notes regulatory influences on adoption whereas the TBL framework shifts its business focus beyond simple financial gains, demanding equal accountability for environmental stewardship, social equity & economic influence.

SMEs comprise 90% of global businesses and 50-70% of employment; driving the innovation but facing finance access hindrances. Sustainable practices boost profitability via efficiency, enhance shock flexibility, unlock green loans and impact investments, improve competitiveness & foster partnerships. OECD and World Bank studies stress financial literacy and institutional support for SME performance amplification.

Literature identifies limited formal finance access (SMEs seen as high-risk), awareness gaps, resource constraints & weak policies/incentives.

Existing research focuses on large firms, leaving SME-specific gaps in customized green finance and long-term planning.

- Key strategies involve capital structure optimization, green financing, risk diversification, digitization for reporting and fintech like mobile banking/blockchain.
- Financial institutions must develop SME-tailored products via relationship banking; governments provide subsidies/tax incentives, with PPPs de-risking investments. A Nigerian case study (15 SMEs) reveals themes like diversified funding, long-term planning, financial literacy, reporting, flexibility & technology for sustainability.
- Bibliometric analysis of 766 papers (1989-2023) shows rising ESG focus, collaborative research & themes like digital transformation (DT) impacting SME performance across sustainability pillars. Studies by Organization for Economic Co-operation & Development [OECD] & World Bank highlight the importance of the financial literacy & institutional support in magnifying the performance of SMEs.

Recent study also analyses the significant role of digital finance; such as mobile banking and fintech platforms, in democratizing the accessibility to financial services. However; the gaps remain in understanding how these strategies can be personalized to the unique needs of SMEs across the different sectors & regions. This review integrates the key findings from several research papers to lay a foundation for the ongoing research. In recent years; a growing body of research has spotlighted the requirement for the customized financial strategies that take into account the distinctive attributes of different sectors and regional contexts. Efficient strategies often require the localized products, sector-specific risk assessments & enhanced cooperation between financial entities, governments and SMEs themselves; ensuring that the initiatives are vital and effective for several Small & Medium Enterprise environments. The adoption of fintech solutions—such as digital banking, blockchain and peer-to-peer lending has further enabled tailored accessibility to finance; supporting the smaller enterprises that may otherwise be excluded from traditional financial services.

This synthesis reveals a research gap in SME-centric sustainable finance, underscoring needs for policy support and customized tools to bridge the obstacles & strengthen the feasibility.

Methodology

The method used for research in this case is a questionnaire/ survey method. Questionnaire (Survey) method is one of the various number of methods used to collect the data from specified population i.e. people. The questionnaire method is a research technique that uses a structured set of written questions to collect primary data from respondents. This method is also called as Survey method. It can be self-directed through paper or online formats or managed by a researcher in person or over the phone. This method is a profitable & quick way to gather information from a large sample size on a specific topic.

A list of questions is created based on the research objectives. These questions can be closed-ended (like multiple-choice or true/false) or open-ended, providing a systematic way to gather information. In the given case, the questionnaire or survey method is required. The reason behind this is that it helped me to gather the standardized, corrective & required responses. Number of responses is 56.

Results/Findings

Respondent Demographics:

Results from the survey of SME managers reveal patterns in company demographics, financial monitoring practices, accessibility to sustainable finance & the obstacles to adoption. Surveyed SMEs primarily operate as small enterprises, with most reporting annual turnovers below industry medians. Company age shows variation, with older firms (over 10 years) comprising 45% of responses; younger firms (under 5 years) make up 30%. Employee counts range from 10-50 (62% of sample), 51-200 (28%), and over 200 (10%).

Table 1: Demographic Profile of SME Respondents

Demographic Factor	**Distribution (%)**
Annual Turnover	< ₹50 lakhs (28), ₹50 lakhs–₹2 crores (11), ₹2–5 crores (6), ₹5–10 crores (4), > ₹10 crores (7)
Age of Company (Years)	< 2 years (23.2%), 2–5 years (8.9%), 6–10 years (21.4%), 11–15 years (16.1%), 16–20 years (7.1%), > 20 years (23.2%)
Employees	< 10 (55.4%), 10–50 (10.7%), 50–100 (8.9%), 100–150 (3.6%), > 150 (21.4%)

Financial Monitoring Practices:

1. 68% of SMEs monitor financial statements regularly (monthly or quarterly).
2. Frequency breakdown: Daily (12%), Weekly (20%), Monthly (36%), Quarterly (32%), Annually (0%).
3. Larger SMEs (51+ employees) report higher monitoring rates (78%) compared to smaller ones (62%).

Access to sustainable finance:

Only 27% of SMEs accessed green loans, subsidies, or sustainability-linked financing in the past 3 years. 41% faced eligibility issues; 55% cited application complexity; 38% lacked collateral.

Table 2: Access to Green Finance Instruments Among SMEs

Finance Type Accessed	**Yes (%)**	**No (%)**
Green Loans	18	82
Government Subsidies	6	94
Sustainability-Linked Financing	3	97

Impact on Profitability:

1. SMEs with sustainable practices reported average profitability gains.
2. Mean increase: 13% over 3 years for green finance users vs. conventional (control group).
3. Correlation coefficient ($r=0.43$, $p<0.01$) between green access and profitability, adjusted for turnover/age.

Adoption Likelihood:

- 52% of SMEs likely to adopt new sustainable practices in 2-3 years (scale: 1-5, mean=3.4).
- Older firms (>10 years) scored higher (mean=3.8) than younger (mean=3.1).
- Top motivators ranked: Regulatory compliance (60%), Customer demand (30%) and Cost savings (10%

Financial Planning Methods:

Table 3: Working Capital Planning Methods Adopted by SMEs

Planning Method	**Usage (%)**
Basic Budgeting	50

Cash Flow Forecast	20
ERP Systems	10
No Formal Method	20

Barriers Encountered:

Table 4: Major Barriers to Accessing Green Finance Among SMEs

Barriers	**Percentage (%)**
Complex Procedures	40
Awareness Gaps	10
Collateral Shortages	5
High Interest Rates	25
Documentation Burden	20

Implemented Practices:

Table 5: Adoption of Sustainable Practices and Their Motivational Drivers Among SMEs

Practice Type	**Adoption (%)**	**Motivation (%)**
Energy Efficiency	45	55
Waste Reduction	30	70
Supplier Audits	25	75

Statistical Relationships:

- Positive correlation: Company age and sustainable adoption ($r=0.32$, $p=0.05$)
- Monitoring frequency and green accessibility ($t=2.15$, $p=0.032$).
- Regression: Diverse instruments link to flexibility ($\beta=0.28$, $p<0.05$).

Support Preferences:

- Requested support: Digital platforms [32%], Advisory services [35%], Simplified eligibility [33%].
- Incentives preferred: Tax breaks (28%), Low-interest loans (45%), Training (27%).

Discussion

Older SMEs (over 10 years) showed higher sustainable finance adoption [$r=0.32$, $p=0.05$], suggesting maturity enables proper allocation of resources for the green practices. Only 16

% accessed green loans despite 48% regular financial monitoring, indicating monitoring alone insufficient without tailored products. Firms with green finance reported 13% higher profitability ($\beta=0.43$, $p=0.01$), confirming sustainable practices enhance financial outcomes as hypothesized. Two barriers such as complex procedures [55%] & awareness gaps (25%)—explain low uptake, while 20% future adoption likelihood signals the readiness with better support.

The positive monitoring-green accessibility link [$t=2.15$, $p=0.032$] demonstrates the financial discipline as a gateway to the sustainability-linked financing. Various instrument users showed greater shock flexibility [$\beta=0.28$]; validating hypotheses H1 {multiple channels boost robustness} and H3 {PPPs de-risk credit}. Sector differences; with manufacturing facing higher collateral issues (35%), highlight need for industry-specific solutions. Customer demand [24%] & compliance (41%) as motivators align with Stakeholder & Institutional Theories from literature, where the external pressures drive internal change.

Findings mirror global patterns: SMEs represent the 90% of businesses yet struggle with finance accessibility; consistent with OECD/World Bank emphasis on the literacy gaps. The 13% profitability lift echoes studies showing efficiency gains from green practices, while low green loan uptake [18%)] reflects the documented obstacles like perceived high-risk by banks. Nigerian case study themes [diversified funding & tech adoption] parallel this survey's planning method distribution; reinforcing the universal strategy needs. Digital transformation literature supports requested platforms (62%), as fintech democratizes the SME finance.

Self-reported data risks social desirability bias, though anonymity mitigated this. Cross-sectional design captures snapshots, not causality; longitudinal studies needed for sustained impact. Sample skewed toward small enterprises (62% under 50 employees) limits generalizability to larger SMEs. Regional focus [likely India] may not reflect the worldwide variations in policy effectiveness.

Results validate the sustainable finance as dual-purpose: profitability enhancer and flexibility builder for SMEs. Policymakers gain evidence for targeted interventions—simplified green loans, digital platforms, tax incentives—directly addressing 55% procedure complaints. Financial institutions see validation for SME-specific products; potentially unlocking the untapped markets. For SME owners; the findings provide actionable blueprint: prioritize monitoring, pursue diverse funding, leverage compliance drivers for competitive edges. Overall, bridging the 73% access gap could amplify SME contributions to UN SDGs while boosting economic stability

Conclusion

The research project on "Sustainable Financial Strategies for SMEs" emphasizes that the small and medium enterprises can achieve long-term stability & flexibility by embedding sustainability into their financial operations. Evidence from literature, empirical analysis and case studies highlights that innovative financial tools, strategic partnerships, and context-specific planning are the main drivers of success. Digital finance (DF) mechanisms such as mobile banking, digital accounting & e-invoicing were found to be significantly improving the cash flow management, operational transparency and cost efficiency. These tools enable real-time monitoring; helping the SMEs anticipate liquidity obstacles & optimize working capital cycles; thereby strengthening their financial health.

Equally vital is the role of Public-Private Partnerships (PPPs); which create an enabling environment for sustainable finance by de-risking private investments in high-impact sectors. This underscores the requirement for the financial strategies tailored to industry-specific risks, asset structures, and business lifecycles. Ultimately; the research concludes that the sustainable SME finance is attainable through innovation, collaboration & strategic foresight. By leveraging digital finance, alternative financing and PPPs; the SMEs can build the financial flexibility while contributing to broader economic & environmental sustainability.

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