

# Sustainable Governance And Cooperative Federalism: Fostering Innovation And Growth In India's Entrepreneurial Ecosystem



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## Abstract

This paper explores the role of federal governance in fostering sustainable entrepreneurship in India. With a focus on the relationship between the Union and State governments, the paper examines how India's federal system enables businesses to align with national sustainability goals while adapting to local conditions. The paper discusses the growing importance of green enterprises, social enterprises, and inclusive business models in addressing India's environmental, social, and economic challenges. By analysing the strategic role of SMEs in driving sustainable growth, the paper highlights the critical contribution of small and medium-sized enterprises (SMEs) to both economic development and environmental sustainability. The paper also investigates federal policies that support sustainable business practices, such as corporate social responsibility (CSR) mandates, green energy incentives, and inclusive innovation schemes. Through case studies of successful SMEs that have integrated sustainability into their operations, the paper provides practical insights into how businesses can contribute to sustainable development. Further, the paper examines how Centre-State dynamics affect policy decisions on business ethics and CSR, emphasizing the need for greater coordination between the Centre and States to create a cohesive framework for promoting sustainable entrepreneurship. The S.R. Bommai jurisprudence and other judicial interpretations are explored to understand their role in shaping a cooperative federal environment for sustainable economic development. In conclusion, the paper argues that strengthening cooperative federalism and fostering collaboration between the Centre and States will be key to driving India's green economy, ensuring that entrepreneurial ecosystems thrive while contributing to both economic prosperity and sustainability.

**Keywords:** Sustainable Entrepreneurship; Federal Governance; Corporate Social Responsibility (CSR); Green Business Models; Small and Medium-Sized Enterprises (SMEs)

## 1. Introduction

India being a country of extreme diversity and a fast-growing economy has a set of challenges and opportunities in the development of its economy as well as sustainable development. The entrepreneurship environment in the country is affected by one of the most important factors, which includes the system of governance, especially the federal system. The system of federal governance in India separates authority between the Union Government and State Governments, which enables balancing the national interests and the autonomy of the region (Sen, Kar, & Sahu, 2014). The implications of this structure on entrepreneurship are immense, especially sustainable entrepreneurship, which is expected to realise long-term economic growth and relatively solve social and environmental issues (Tillin, 2021).

The form of governance plays a key role in the creation of the environment where businesses can be run, especially in terms of supporting those ventures that would not only aim at making financial gains but also contribute to a positive social and environmental change (Sipakoly, 2024). Sustainable entrepreneurship became one of the major topics in India because of increasing demand on the country

on sustainable business models that can be used to achieve economic prosperity and environmental sustainability. Green entrepreneurship provides a new method of businesses to get involved in environmental matters and develop new growth opportunities (Bhatnagar et al., 2022). Mathur and Tandon (2016) argue that the emergence of green entrepreneurship among millennials indicates the increased change in attitudes of businesses towards more sustainable and responsible development (Mitra and Schmidpeter, 2016).

The federal system of India gives the state the freedom to enact localistic policies that meet the regional interests such as that of sustainable business practices. Though national policies may tend to offer the overall basis of encouraging entrepreneurship, the state governments have much influence over local economic policies that may or may not promote the development of sustainable businesses. State capability to create and implement policies that facilitate local levels of entrepreneurship is paramount in promoting sustainable economic growth of the country. According to Raju and Damarla (2025), sustainable entrepreneurship is crucial to inclusive growth, especially in a fast-growing economy such as India,

where the issue of regional disparities has been a problem (Azmat, 2013).

Centre-State relations that affect business innovation and sustainability are of special interest in the intersection of federalism and entrepreneurship. On the one hand, the Centre-State governance defines the strategy of the state policies including environmental regulations, industrialisation, and innovations. States, on the other hand, can make these policies relevant to local realities, which makes the relationship between the Centre and states dynamic and sometimes complex. This is further complicated in the Start-Up India initiative that was aimed at promoting entrepreneurship in the nation. Although the central government is a key stakeholder in this initiative, the state governments are also essential participants in the establishment and results of these programs at the local level (Karambe, 2024).

Sustainable entrepreneurship in India does not only entail ensuring that the businesses that are started are economically viable but also making sure that they are socially and environmentally sustainable (Ramesh, 2020). In the article by Khokhawala and Iyer (2022), the authors address the development of social enterprises in India based on the economic, social, and environmental consequences of their activities. These goals can be mixed to make sustainable entrepreneurship an effective instrument in solving the most acute problems in India, including poverty, inequality, and ecological destruction (Vig, 2023). Such businesses, however, require appropriate governance frameworks to succeed (Régnier, 2023). As Shastri and Singh (2023) argue, the changing Indian federalism and especially cooperation, competition, and coordination among different government tiers contribute greatly to the growth or hindrance of such enterprises.

Although federalism has the potential of promoting innovation and sustainable business operations, the challenges are in terms of coordinating the efforts of the Centre and the States. This coordination is necessary in the formulation of policies that will facilitate inclusive growth and in the promotion of both economically and socially responsible businesses. Abhyankar (2014) recommends that the

Indian government has gone a long way in enhancing innovation by initiating policies, but these policies ought to be incorporated with the federal structure to have the policies effectively implemented.

The federal system used in India has both benefits in the form of local autonomy but does have some problems in governance and entrepreneurship. Dewal (2016) examines the contribution of governance to entrepreneurship particularly in states as Gujarat and Bihar where specific political and governance models have had an impact on the development of entrepreneurship. Smitha (2016) highlights the importance of urban governance in creating entrepreneurial urbanism, and it is becoming a popular idea in the emerging urban centres of India. This is why governance structures are significant in developing entrepreneurial practices that can spur sustainable development. With a comparative analysis of the scenario in India and Uganda, Fan (2019) demonstrates how the governance structures are important in the success of the social enterprises in each country. This analogy assists in emphasising the issues of Indian governance in supporting social entrepreneurship particularly within the framework of the federal system of India.

Finally, Pal (2022) also provides a detailed analysis of the cooperative and competitive federalism in India and their effects on the entrepreneurial venture. The paper through the analysis of the relationship between the Centre and States demonstrates the importance of federal collaboration in making sure that a sustainable and inclusive economy exists.

The primary goal of the paper is to learn how the Centre-State system of government and constitutional procedures in India can be exploited to help innovate and be sustainable in the world of business. It will critically examine how the federal system can assist green business, social business and small and medium size business (SMEs) that will result in sustainable development. The paper will also examine how federalism in India can be applied to create a favourable environment in business enterprises that do not only generate economic value but also have significant roles to play with regard to social and environmental well-being.

## 2. The Role of Federal Governance in Shaping Entrepreneurial Ecosystems

The federal system of governance in India has a central role in the creation of its entrepreneurial ecosystem, both as a source of opportunities and challenges to promote sustainable economic growth and innovation. Table 1 outlines the different roles of the Centre, States and local institutions in ensuring the sustainability of entrepreneurship.

**Table 1: Roles of Central and State Governments in Promoting Sustainable Entrepreneurship**

Level of Government	Key Functions	Policy Instruments
Central Government	National policy formulation, setting sustainability standards, and fiscal support	MSMED Act, Start-Up India, National Clean Energy Fund, CSR mandates
State Governments	Policy adaptation, regional implementation, regulatory support	State MSME policies, renewable energy policies, startup incentives

Local Institutions	Ground-level execution, capacity building and monitoring	Incubation centres, skilling programs, local enterprise support
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The decentralisation of powers between the Union (central) government and the governments of the separate States provides the autonomy within the regions, which allows states to formulate policies based on local economic, social and environmental factors. This ability assists not only in solving the problems of the regions but also promotes the unity of the nation, providing an environment where entrepreneurship will have an opportunity to flourish in a variety of settings.

This segment will discuss the role of the federal system of India in the regional development, encouraging the business world, and ensuring sustainability in the country between national coordination and regional freedom.

## 2.1 Overview of India's Federal System and Its Impact on Regional Development

The federal system in India has been defined by the Constitution that divides the objects of governance into three lists, the Union List, the State List and the Concurrent List. The issues of national concern in the Union List include defence, foreign affairs and trade compared to the issues such as education, agriculture and policing in the State List. The Concurrent List is made up of issues where the Union and the State Governments can make legislation. This segregation is done to ensure that the two levels of government are able to focus on their areas of interest and the Concurrent List assists in the coordination of the efforts in the scenario where they are needed.

The system of federalism provides the states with the much-desired polity of developing policies and programs to meet their socio-economic needs. This is crucial in the growth of an area and entrepreneurship as the economic conditions of each state are very diverse. On the example, Karnataka has been on the forefront of developing technology based entrepreneurship as compared to Kerala who have been performing well in the promotion of social entrepreneurship and eco-tourism. These incidences indicate that states are able to leverage their advantages to establish business ecosystems that are not only able to satisfy the economic needs but also the regional endowments.

States are free to introduce region-focused policies to suit the local business environment to enable it to foster innovative and sustainable entrepreneurship. States play a major role in the entrepreneurial environment in India by virtue that they are given the liberty to concentrate on their individual economic demands. According to Bhagavatula, Mudambi, and Murmann (2019), states that have developed specific policies are more likely to assist the business in the new industry, e.g., information technology in Bengaluru or organic agriculture in Sikkim, which

results in sustainable growth and the prosperity of the regional economy.

## 2.2 Balancing National Unity and Regional Autonomy for Sustainable Growth

The aspect of Indian federalism that should be considered critical is the equilibrium between national unity and local autonomy. Though states are rather powerful in designing and implementing policies, the Union government guarantees that the national priorities are adhered to throughout the country. Such a balance is critical towards a sustainable economic growth that is equitable and efficient. The Union government can help bring coherence to the state level to align state-level activities with the overarching economic and environmental objectives to guarantee an integrated approach to sustainability.

As an illustration, the national policies like the National Action Plan on Climate Change (NAPCC) give guidelines on environmental sustainability and these guidelines are to be adhered to by the states. Nevertheless, it is up to every state to put these policies into practice, depending on the local circumstances. Gujarat, with its solar energy, and Kerala, with its eco-tourism, are good examples of how states can own national objectives and adjust them to the local context (Dutta and Shahani, 2013). Regional autonomy on the other hand enables the states to encourage business models that are best suited to the resources available to them. States with Maharashtra being industrialists, Tamil Nadu has been an inclusive growth state with policies that are pro-women entrepreneurship and micro-enterprises. This flexibility allows states to work with national policies and regulations to suit their socio-economic conditions, to achieve an inclusive and sustainable economic growth.

Although there are advantages of regional autonomy, there exist issues of balancing between the interests of national development and the interests of the state. Unequal development of the infrastructure, economic potential, and access to resources among states may cause imbalances in growth and cause competitive advantages. In response to this, more efforts should be coordinated between the Centre and the states to secure equitable growth and that sustainable business practices are embraced in the various regions.

## 2.3 Promoting Innovation and Sustainability Through Federal Governance

Indian federal forms of governance provide the possibility to facilitate innovation and sustainability by means of decentralizing its policies and experimenting with its states. The flexibility of the states to localize national policies opens a fertile

ground to new business solutions that would lead to the sustainable growth. This decentralization will enable the states to test their entrepreneurial models, including green technologies, renewable energy projects, and sustainable agricultural practices.

Start-Up India is a national policy which gives funding, incubation centres and tax breaks to entrepreneurs across India. However, its use at the level of the state makes it very successful. The case of Maharashtra, in which start-up centres are in Mumbai and Pune, or Telangana, in which it supports innovative business, is the illustration of how regional administration can help in innovation and entrepreneurship (Sahu and Kar, 2024). These states offer incentives and support mechanisms that help business people navigate through the regulatory environment, expand their businesses and incorporate sustainability in their business.

Moreover, the federalism encourages the inter-state competition to lure business and investment thereby developing new and sustainable business models. Examples of other regions are the states that have managed to create favourable conditions to either social entrepreneurship or digital governance, as Gangadhara et al. (2025) observe. Sikkim and its focus on organic agriculture and Rajasthan and its focus on solar energy have proven that state-based innovations may be useful in the broader national sustainability agenda.

In addition, cooperative federalism offers that states will work together to achieve the national objectives, yet they will be independent. The success of green entrepreneurship and eco-tourism programs in these states as Uttarakhand and Himachal Pradesh is one of the confirmations of the fact that the federal system of governance might be capable of integrating local and national priorities in terms of sustainable development (Sahu and Kar, 2024). Through the cooperation, the states will be able to enact new solutions which will help in curbing the issue of climate change, resource depletion and social disparity.

The Indian federalism is one of the factors that play a hand in assisting in the establishment of entrepreneurial ecosystems that causes regional freedom and national cohesion simultaneously. The liberty provided to states to develop policies that best fit their individual needs has allowed entrepreneurship to be successful in most fields such as technology and green business models. The federal government in India has allowed economic development and sustainable development through a balance between centralisation of policy and regional innovation. Decentralised governance results that the states can experiment and implement new business models and this also results in a dynamic and sustainable entrepreneurial environment throughout the country.

### 3. Sustainable Entrepreneurship and Innovation in India: Bridging Governance and Business

The idea of sustainable entrepreneurship in India is one that has received much attention, particularly when the country is witnessing an increased number of environmental and social-related issues. Entrepreneurship is an important factor in solving these issues, but the economic growth is achieved, which is crucial to the further development of the country. The other concept that entrepreneurs in India are adopting is the idea of sustainable business models that concentrate on social responsibility and environmental sustainability and in most cases, they are relying on innovation and technology to build businesses. This section explains the meaning and definition of sustainable entrepreneurship, case studies of green and social enterprises, role of innovation and technology in enhancing sustainable business models and government policies that are most significant in promoting sustainability of entrepreneurship and inclusive innovation.

#### 3.1 Definition and Scope of Sustainable Entrepreneurship in the Indian Context

The concept of sustainable entrepreneurship is the business practice that does not just aim at financial success but also ensuring that it has a positive impact on the society and the environment. The concept of sustainable entrepreneurship in an Indian setting presupposes its own set of peculiarities, the country is the swifter developing, there is a range of socioeconomic statuses, and a burning environmental issue. Entrepreneurs in India are coming up with business models that are founded on environmental stewardship, social inclusivity, and economic profitability, which are key pillars of the Triple Bottom Line approach (Bargavi et al., 2025; Bocken et al., 2014).

Sustainable entrepreneurship in India is one of such industries which include various industries, including renewable energy, eco-tourism, sustainable agriculture, green technology and social enterprises. Organic farming and sustainable farming practices have been witnessed in the large agricultural sector in India especially, and there are companies that sell green inputs and environmentally friendly farming practices. In addition, it is extended to social enterprises that seek to address the issue of poverty, education, healthcare, and waste management founded on business activities that advance the best interests of the community and environmental conservation.

Indian entrepreneurs are beginning to focus more on the concept of inclusive innovation, which suggests that their services and products can be consumed by the marginalised groups, and help the economic empowerment. Thus, sustainable entrepreneurship in India plays a critical role in addressing the environmental issues of the country and advancing

the social development agenda and offering people jobs in the rural and urban areas.

### 3.2 Case Studies of Green and Social Enterprises in India Supported by Federal Policies

There have also been a number of successful green and social businesses that have come up in India and they have been able to embrace sustainability in their business models, which are sponsored by the federal government and innovative entrepreneurship. These companies can be viewed as a lesson of how companies can be profitable and at the same time, protect the environment and benefit the society (Nosratabadi et al., 2019).

This is the case of a social enterprise like Selco India that provides solar energy solutions to the poor rural population. The focus of the company towards the renewable energy has seen the rural population being able to access clean and affordable energy, which has improved their living standards and reduced their carbon footprint. This green business model is supported by the government policies, including the National Solar Mission, where the creation of solar energy technologies and their subsequent application in the country are promoted (Mondal et al., 2024).

The other example is Agastya International Foundation, a social venture, which works with poor children and teachers to be innovative and creatively address issues with the help of science and technology. The foundation facilitates innovation and entrepreneurship among the rural youths in India in order to find a solution to a local problem locally. The federal government policies such as Start-Up India initiative have been crucial in providing financial support and ecosystem that supports such social enterprises that combine education, innovation, and entrepreneurship to bring about long-term social change (Haldar, 2021).

Such case studies demonstrate how the government promotes green entrepreneurship and social innovation and how the federal frameworks have a potent impact in ensuring a shift towards economic and social sustainability.

### 3.3 Role of Innovation and Technology in Advancing Sustainable Business Models in India

The role of technology and innovation in sustainable business model development in India is very critical. The changes in technology have become important in identifying sustainable entrepreneurship as the country attempts to resolve its environmental problems and strive to develop economically. The new solutions in renewable energy, waste management, and environmentally friendly constructions are transforming the manner businesses are carried out and their impacts on the environment.

The renewable energy innovations such as solar and wind power are one of the best contributions

towards the sustainability goals in India. Energy efficient technology in companies in India has been increasing not only because of their concern towards environment but also because of their economic sustainability. Companies are minimizing their carbon footprint through the use of energy saving appliances, solar panels and wind turbines, and are maximizing their profitability through cost reduction (Hota, Mitra, and Qureshi, 2019). This type of innovation can be implemented in such a country as India, where the issue of energy deficiency exists, and the necessity to seek solutions to clean energy grows (Sobko et al., 2024).

Sustainability is also being experienced in India where entrepreneurship is being digitalised. One of them is the optimisation of resource consumption, the improvement of the operational efficiency, and management of the supply chain with the help of mobile applications and big data. The country is being enabled by digital platforms to engage farmers with suppliers of organic fertilisers or environmentally friendly farming tools making the farming activities more environmentally friendly. Besides, the Internet of Things (IoT) technology is improving water management and waste disposal that makes urban development more sustainable.

The manufacturing sector can be offered circular economy models and 3D printing technologies, which will allow businesses to reduce wastes and recycle materials besides pursuing a more sustainable approach towards production. The inventions play a significant role in sustainable entrepreneurship in India since these inventions not only help firms reduce their costs but also their effect on the environment.

### 3.4 Government Policies Promoting Green Entrepreneurship and Inclusive Innovation

Indian government has established a number of policies to promote green entrepreneurship and inclusive innovation. The policies will be designed to support businesses, which are sustainability-oriented, create social value, and contribute to the creation of inclusive economic growth.

Some of the prominent policies that have contributed towards the promotion of the use of clean energy and energy efficient technologies in the industries include the National Clean Energy Fund (NCEF) and the Perform, Achieve and Trade (PAT) Scheme. The other federal initiative to promote entrepreneurship and innovation is the Atal Innovation Mission (AIM), which focuses on business models that are sustainable, which incorporates social welfare and environmental custodianship.

Furthermore, Stand-Up India Scheme is to promote the entrepreneurship of women and the Scheduled Castes (SCs) and the Scheduled Tribes (STs). The scheme encourages application of inclusive business models whose goal is sustainability and social

entrepreneurship through assistance to tap into financial resources and mentorship.

In addition, the Startup India Initiative provides tax benefits, financial support and simplification of regulations to entrepreneurs to support innovation and the growth of sustainable business models. The policies come handy in developing an ecosystem where the green businesses and social enterprises can thrive and contribute to the Sustainable Development Goals of India.

#### 4. Centre-State Relations: Implications for Sustainable Economic Development

The Centre-State relations in India are critical towards the sustainable economic growth of the country, particularly in the aspect of providing a business environment that could contribute to sustainability. Federal structure, separating powers between the Union (central) government and the individual State governments, enables national coherence as well as regional autonomy, which is essential in facilitating or suppressing the implementation of green business models, corporate social responsibility (CSR), and business ethics. This part discusses the implication of these relations to sustainable development, how Centre-State Dynamics affects policymaking and the promotion of business ethics and CSR with the help of legal regulations.

##### 4.1 The Significance of Centre-State Relations in Shaping Sustainable Business Environments

The federal system in India permits a compromise between national unity and regional autonomy, which impacts the business environment greatly. The Centre has national policies which give general guidelines particularly concerning the environment, labour laws and economic sustainability which states have the freedom to apply and adapt the policies to local requirements. This decentralisation promotes the states to develop business conditions that would respond to their own economic and environmental objectives (Patnaik, 2018).

An example is the states of Gujarat and Maharashtra that have established business-friendly policies to promote other industries such as renewable energy and technology. On the other hand, there are states such as Kerala and Tamil Nadu that are more concerned with sustainable agriculture and eco-tourism which are more socially responsible and environmentally sustainable. The state governments are very critical in implementing the policies as the federal policies such as the National Action Plan on Climate Change (NAPCC) only establish the broad framework, but it is the state governments that make sure that the policies are contextually relevant.

The Centre-State relationship also allows regional adjustment of national programs, including the Start-Up India Scheme that provides incentives to innovative and sustainable businesses. Although the

infrastructure and funding are done by the Union Government, state governments develop local ecosystems to assist these start-ups, such as regulatory structures, incubators, and local investment.

##### 4.2 How Centre-State Dynamics Affect Policy Decisions Regarding Business Ethics, CSR, and Sustainability

Business ethics, corporate social responsibility (CSR), and sustainability in India have much to do with the interaction of the Centre and the States. The Union Government lays down national ethical standards of conduct in business like the Companies Act, 2013, which compels corporations to set aside a share of profits in CSR activities. But the capacity of the states to enact and put these laws into practice is different depending on their economic priorities and administrative capabilities.

Although the Centre is the source of the general regulatory framework of business ethics and CSR, the local implementation is the role of states. The enforcing system of CSR obligation is strong in some states such as Delhi and Maharashtra having state-level audit and monitoring systems, which have been motivating businesses to adopt ethical and sustainable practices. Conversely, the weaker governance systems of states may not be capable of enforcing such policies efficiently, and this can create a difference in CSR practice on the national level (Chopra, 2017).

Besides, regional policies may facilitate or hinder the process of sustainability and ethical business conduct. As an example, one state can focus on the environment and introduce more strict waste management and energy efficiency policies, whereas another one may prioritise economic development, creating conflicting priorities (Nayak, 2017). The necessity of cooperative federalism is thus paramount, in which the Centre and the States put their goals on the same path to devise a common strategy on sustainable development and business ethics.

##### 4.3 Federal Intervention in Fostering or Hindering Business Ethics and CSR through Legal and Regulatory Frameworks

Legal and regulatory interventions play a vital role in enhancing or preventing the development of business ethics and CSR by the federal intervention. Businesses are subject to legal obligations in their home countries to embrace ethical practices and give back to the society via CSR (National laws e.g. the Companies Act). Meanwhile, states can also enforce these laws and make sure that the businesses meet the standards of the nation and cater to the needs of the regions as well.

As an example, the CSR requirement by the Centre can motivate businesses to take part in the welfare activities of the community but it is the State

Governments, which are in charge of supervision and ensuring that the businesses comply with the requirements. CSR projects in the state such as Himachal Pradesh with a high environmental protection agenda, have been more inclined towards environmental friendly operations and sustainable agriculture whereas in industrial states, such as Gujarat, CSR activities may be more inclined to education and health.

The legal frameworks that have been developed at the federal level are designed to make sure that the companies conduct their activities in an ethical and socially responsible framework. Nevertheless, the difference in the application of these laws depending on the region may boost or worsen their efficacy, imposing a necessity to have enhanced coordination between the Centre and States so that the businesses could observe the standards of national sustainability and CSR in all regions.

#### **4.4 Examination of the S.R. Bommai Jurisprudence in Shaping a Cooperative Federal Environment for Sustainable Growth**

S.R. Bommai case is of great importance in the development of the cooperative nature of Centre-State relations in India especially on matters concerning governance and policy implementation. The ruling of the Supreme Court underlines that there should be a balance between the unity and the autonomy of the regions in the country, and it is significant in the context of sustainable economic development. The decision upheld the idea that the States must be allowed to formulate their policies, particularly those pertaining to economic growth and social wellbeing, to the extent that is not limited by the Constitution.

This is the model of cooperative federalism required in the formation of mutual collaboration between the Centre and the States to produce the sustainable growth. The case of S.R. Bommai led to a more cooperative outlook between the two levels of government and the policies were promoted which would allow the states to bring national directions to local demands, yet without losing national cohesion. This is particularly so in the case of encouraging green entrepreneurship and inclusive business culture, as it allows the states to resolve their local problems through the assistance of certain innovative and sustainable business approaches that cannot conflict with the national interests.

The evolution of the process of cooperative federalism in the S.R. Bommai judgment is a factor that has seen the business thrive in a dynamic enough environment to meet the national sustainability goals, and the regional priorities. This makes it easier to have a scenario whereby businesses can operate with more confidence because they are guaranteed of government support in its efforts to achieve economic growth, environmental conservation and social equity.

The relations between Centre and State in India are highly dynamic and they are significant in ensuring sustainable and economically viable business environment. The federal type of structure provides the chance of regional independence of the national level, which is required to form business ethics, CSR, and sustainable development. The connections between the national policies and the implementation in the state can either facilitate or eliminate implementation of sustainable business practices. The S.R. Bommai case has given a cooperative model of federalism that is significant in ensuring that the centre and the states work together to achieve national goals of sustainable growth. This model will be a good platform where business will thrive so as to serve the common good, environment and the Indian economy.

#### **5. Promoting Green and Inclusive Enterprises: Policy and Federal Synergy**

Green and inclusive enterprises are novel phenomena in India which are deemed as important aspects of sustainable development. These companies are not merely seeking monetary gains but also they are aimed at addressing the pressing social and environmental issues, which will bring about the welfare of society in the long run. The state-level entrepreneurship synergy and the federal intervention become extremely critical to enhance the growth of environmentally friendly, socially responsible, and economically viable business. In this section of the paper, the authors take into account the role of the green, social, and inclusive businesses in India, the interaction between the federal policies and the state-level entrepreneurship, and the ways in which the constitutional mechanisms in India contribute to the inclusive growth. Moreover, recommendations regarding the means of strengthening federal coordination aimed at facilitating the development of green business activities and inclusive enterprise are provided as well.

##### **5.1 Green, Social, and Inclusive Enterprises in India and Their Impact on Sustainable Development**

Green enterprises refer to businesses in India that put into consideration environmental sustainability in their operation, and social enterprises refer to businesses that seek to address acute issues of the society through market solutions. The inclusive enterprises are oriented toward the economic empowerment of the marginalized populations so that the development of the business would be inclusive to everyone in the society. These impacts of these businesses on sustainable development are enormous as they provide environmental solutions, social justice, and economic opportunities to the less fortunate in the society (Comin et al., 2020).

Green businesses would be best demonstrated in the renewable energy sector in which the enterprises are reducing the use of fossil fuel and creating jobs and clean energy more affordable to the rural population. India has been brought into a more sustainable energy future with the advent of solar and wind energy projects that are government sponsored like the National Solar Mission. The businesses also contribute to curbing the climate change by cutting down carbon emission.

In the social front, inclusive enterprises have been instrumental in improving healthcare, education and financial services access to underserved communities. The access inequalities to medical services are being reduced in an example such as the business of low-cost healthcare in rural India. Likewise, the women empowerment programs using inclusive agriculture programs in which women have

an opportunity to buy organic food at low costs to lessen poverty and promote sustainable agricultural practices. These businesses have not just made it possible to guarantee that they support the SDGs, but to inclusive economic growth by creating jobs and empowering the marginalized communities.

These are the green innovation and social empowerment businesses that focus on the significance of entrepreneurship in the achievement of sustainable development. As indicated in figure 1, the sustainable development of India lies on the interdependence of the relationship of Inclusive Growth and Green Enterprises and Social Enterprises. Each of the pillars is relevant to the growth of the economy, social equity and environmental responsibility that ensure the long-term development of the country.



**Figure 1: Foundations of National Development: The interdependent role of Inclusive Growth, Green Enterprises, and Social Enterprises in driving sustainable development**

## 5.2 The Relationship Between Federal Interventions and State-Level Entrepreneurship in Sustainability

The partnership between the federal interventions and the state-level entrepreneurship will play a vital role in creating sustainable business practices in India. The federal policies define the general structure of sustainable development that determines the national agenda of issues related to climate change, green technology, and social welfare. These policies are however custom made at the state level and applied according to regional demands.

On the federal level, federal programs such as the National Solar Mission and Startup India offer the much-needed financial assistance, policy guidelines, and incentives to green and sustainable enterprises. However, these policies and the creation of a business-friendly environment to promote sustainable businesses are the functions of states.

Other places like Maharashtra, Tamil Nadu and Gujarat have been on the forefront in renewable energy, eco-tourism and inclusive entrepreneurship and this has been an example to other regions.

The federal policies play a vital role in availing the funding and the regulations that are required in development of green businesses. Nevertheless, states are free to implement these national mechanisms to fit the local conditions, which prompts businesses to take region-specific approaches to sustainability. The example of states that have active environmental policies like the promotion of solar energy or organic farming is the way in which local government can support the federal policies and be on the forefront in the process of sustainable economic development.

### 5.3 The Role of India's Constitutional Mechanisms in Supporting Inclusive Growth and Overcoming Regional Disparities

The Constitutional mechanisms in India have the basis of inclusive growth and solving the regional disparity. The Directive Principles of State Policy help the government to advance social welfare and economic justice as well as promote the policies that can help marginalized communities and minimize inequality. This is the framework in which the policies supporting inclusive business practices are developed to make sure that the economic growth is inclusive and that the entire population benefits. States are also empowered by the Constitution and the federal system to develop region-specific policies to enhance inclusive development and solve local inequalities. As an illustration, the Finance Commission distributes funds to states according to their development requirements so that economically disadvantaged states can invest in infrastructure, education, and healthcare that are essential in establishing inclusive entrepreneurship. States which have given priority to women entrepreneurs, SC/ST communities, and youth employment have managed to establish sustainable businesses that empower disadvantaged communities and also promote economic growth. In addition, the federal type of India allows states to practice policies to support the inclusion of business activities, such as the programs of entrepreneurship to marginalized people (Kumar, 2019). Uttarakhand states are such an example that have been able to encourage the eco-tourism and sustainable agriculture through provision of training, financial resources and market opportunities to the local entrepreneurs. Even these efforts are not only good in the context of developing the area, but they also fill the development gap between the urban and rural areas.

### 6. Strategic Management for Sustainable Growth in the Indian Context

Small and medium-sized enterprises (SMEs) have been an extension of the Indian economic development since they have been instrumental in generating employment, innovation, and development in the GDP. The economy of this country is mainly driven by the SMEs that helps in the establishment of sustainable business models and regional economies. The federal system of government that enables autonomy of states enables the state to develop regionally specific strategies that would lead to sustainable growth. The current part deals with the strategic significance of SMEs in India,

federal policy that supports the businesses and how states autonomy can develop long term business strategies. There are also case studies of successful SMEs which have been able to incorporate sustainability in their business models to show the best practices.

#### 6.1 The Strategic Role of SMEs in India's Economic Development

The Indian economy highly depends on SMEs. They also provide a massive percentage in terms of employment with nearly forty percent of the GDP of the country and they are also employing millions of workers both in the urban and rural regions. The SMEs are also engaged in the export business in India that is very significant in strengthening the country in the global economy. However, SMEs are increasingly contributing to sustainable growth besides its financial contribution.

Indian SMEs have been particularly well placed to adopt sustainable business practices. Their size, adaptability and innovativeness make SMEs more flexible and adaptable and can easily embrace green technologies, socially inclusive practices, and resource efficient solutions that the large corporations may not. This is attributed to the fact that innovativeness and efficiency of SMEs enable them to compete in the international sphere and enhance the sustainable development in the local communities. Their success is not only associated with profitability, but also their ability to enable the environmental sustainability and social inclusiveness, which also contributes to the fact that sustainable business models are essential to the Indian economic strategy.

In addition to this, the SMEs contribute to the economic growth of the area as they provide employment opportunities in the localities especially in the rural and underdeveloped areas. By introducing the component of sustainability in its business models SMEs will be able to have sustainable growth in their businesses that will guarantee the success of their economies and the environmental stewardship they instil.

#### 6.2 Federal Policies Supporting SMEs and Sustainable Growth Models

The federal government of India has been making significant contribution towards the encouragement of SMEs and policies have been formulated to promote entrepreneurship, innovation and sustainable practices. Table 2 displays key federal and state initiatives that facilitate sustainable growth by SMEs.

Table 2: Federal Policies Supporting SMEs and Sustainable Growth in India

Policy / Scheme	Level	Focus Area

MSMED Act	Central	Legal framework for SME growth
Start-Up India	Central	Innovation, funding, incubation
Make in India	Central	Sustainable manufacturing
State Startup Policies	State	Regional entrepreneurship
Renewable Energy Policies	State	Green enterprises

The national policies, like the Micro, Small and Medium Enterprises Development (MSMED) Act have put legal framework that can facilitate the growth and development of the SMEs. These policies allow access to financial aid, subsidies and technology upgrades in order to promote innovation and sustainable development.

Another important federal policy that has a direct positive impact on SMEs is the Make in India program that aims to promote local production. This initiative focuses on sustainable production, resource-efficiency, and application of green technologies to small and medium enterprises to enable them to incorporate sustainability into their business.

In addition, there are federal programs of green entrepreneurship and innovation, such as the National Clean Energy Fund (NCEF) and Start-Up India. Green SMEs can scale their operations and become participants in the green economy easier because the Start-Up India Scheme offers tax incentives, financial support, and access to venture capital with fewer obstacles, e.g.

Though the federal policies offer a general guideline on the development of sustainable business models, their success largely relies on the manner in which the state governments can implement and adjust the policies to fit the regional environments. Thus, state-level actions are very important in enhancing sustainability in the local SME sectors.

### 6.3 How State-Level Autonomy Can Drive Regionally Tailored Sustainable Business Strategies

Indian federal system offers a lot of freedom to the states in the development of those policies that are consistent with the regional development goals. This state level autonomy enables formulation of region specific strategies that help in the formation of sustainable business models in line with the local environmental and social needs. Using the example of the states that have large amounts of natural resources such as solar energy or wind energy, they can afford to work on renewable energy projects and

create green jobs and make the environment sustainable.

Other states such as Gujarat, Rajasthan and Tamil Nadu have been at the forefront in embracing solar energy and wind power with specific policies to promote investment of sustainable energy solutions by the local businesses. These states have come up with subsidies, tax breaks and regulatory frameworks that support SMEs to use clean technologies and work towards the sustainable development agenda.

Likewise, the eco-tourism and sustainable agriculture are the two regional economic pillars in Kerala and Uttarakhand. Sustainability has been incorporated in the economic planning of these states, which have developed incentives to social enterprises and SMEs that deal with organic farming and community-based tourism. By establishing regional policy innovation, state governments may persuade SMEs to embrace business practices that lead to environmental friendliness and social inclusiveness in such a way that the gains of sustainable growth are experienced at local level.

### 6.4 Case Studies of SMEs that Have Successfully Integrated Sustainability into Their Business Models

Several SMEs in India have managed to incorporate sustainability in their business model and it provides a good insight into how small and medium-sized businesses can play a part in ensuring sustainable growth and at the same time be financially sustainable.

Selco India is one such example; it is a social enterprise that offers solar energy solutions to the rural Indian underserved populations. Through the provision of cheap solar panels and machinery, Selco not only contribute to the elimination of reliance on fossil fuels but also offers the rural population clean energy so that they can enhance their quality of life. The popularity of the company is directly connected with its capability to combine social impact with business profitability, which proves that SMEs may

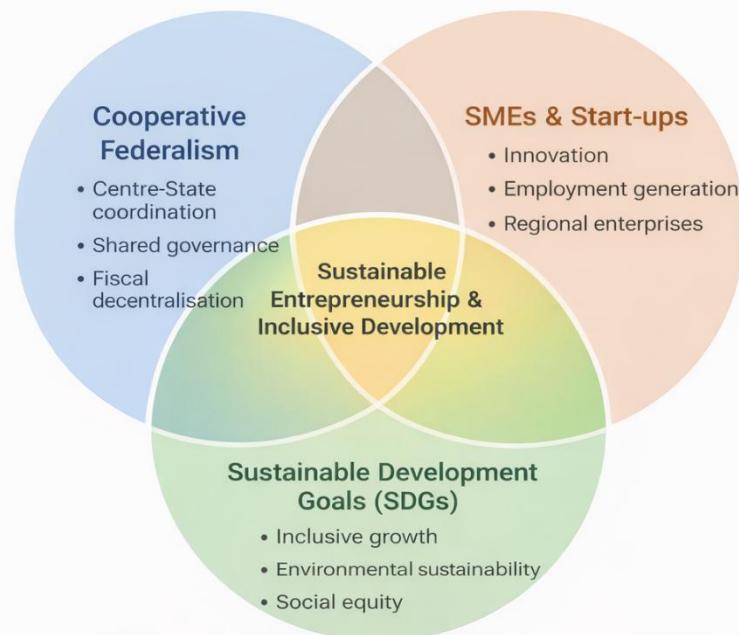
lead to environmental sustainability as well as provide economic opportunities.

Another captivating case of the organization that cares about innovation and entrepreneurship among the rural population is Agastya International Foundation that offers a practical education in the field of science. Agastya creates a social innovation ecosystem by empowering young people to create their own solutions to the local problems by giving them the tools and knowledge to do so. Not only is this project skill developing to the underserved communities but also inclusive growth; in this respect, the benefits of sustainable development are felt by all the members of the society.

The last example, Amul, the dairy cooperative is a good example of an SME that has incorporated sustainability in its business operations. The cooperative pays farmers the right prices and its focus on sustainable farming methods in the dairy industry has helped the cooperative to remain a market leader in the Indian dairy industry. Amul has been a model of inclusive and eco-friendly business due to the focus it has been on sustainable farming and neighbourhood well-being.

These case studies show that the SMEs in India will be capable of integrating the sustainability in their operations, which not only has positive impacts on the environment and the society, but also on the economic growth.

India has SMEs which are strategically placed to achieve sustainable growth by integrating green business practices, social responsibility and economic innovation in their businesses. The federal policies and the autonomy at the state level have offered a setting within which the SMEs can thrive, as far as the development of the region and the sustainable development objectives are concerned. The federal incentives and the innovations at the state level will help Indian SMEs become the agents of sustainable entrepreneurship and a more inclusive and greener economy using regionally specific business strategies. The collaboration and collective action will enable India to achieve the potential of SMEs in the context of sustainable development, which will be good to the economy, the society, and the environment. Table 2 shows the interrelationships between cooperative federalism, SMEs and sustainable development.



**Figure 2. Interlinkages between Cooperative Federalism, SMEs, and Sustainable Development**

## 7. Business Ethics, Corporate Social Responsibility, and Federal Governance

The importance of business ethics and corporate social responsibility (CSR) has become an essential part of business functioning in terms of ensuring sustainable development and returning a part of it to the society and the environment. The federal government in India will play a key role in formulation of policies and structures that enhance ethical business practices and in favour of the CSR programs in India. The governing system in India is supported by the Centre-State relationship which enables the national and regional approaches to the

promotion of corporate responsibility, ethical behaviour and sustainable growth. This part looks at the role of the federal government in impacting ethical business practices and CSR in India, the constitutional policies concerning the promotion of such values, the federal attempts to impact businesses to implement CSR strategies that would be in line with Sustainable Development Goals (SDGs), and real-life examples of CSR-oriented businesses.

### 7.1 The Role of Federal Governance in Shaping Ethical Business Practices and CSR in India

In India, federal administration is an imperative force in impacting business ethics and CSR. The Union Government plays a significant role in regulating the business operations at the national level whereas the State Governments ensure that the policy is modified to suit the local economic, social, and environmental factors. It is this dual controlling system that ensures that national coherence and regional flexibility is maintained and that a conducive environment is created within which businesses can conduct their operations in an ethical manner to advance the social good.

The general ethical principles of businesses are set by the Union Government, and the primary ways of its implementation are laws and policies, with the Companies Act, 2013, where some companies are to distribute part of their profits on CSR activities. They are national standards, which are later translated and applied at the state level at which the local governments play a critical role in application and facilitation of business practices that promote ethical conduct and social responsibility.

In addition, the federal policies have a tendency to provide incentives to companies to integrate sustainable practices and adopt CSR strategies. Indicatively, the business efforts like the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business provide businesses with the impetus to be responsible in which they are not only interested in economic performance but also pertinent to the environmental and social implications of their business operations.

## 7.2 Constitutional Provisions for Encouraging Ethical Business Conduct and CSR at Both the Union and State Levels

This is through the provision of the Constitution of India, which provides a method of improving business ethics, and corporate social responsibility, through its Directive Principles of State Policy (DPSP). The values also assist the government in developing the policies that offer social justice, economic equity and environmental protection that offer businesses with a platform to act ethically. As an example, the government is mandated by Article 38 of the Constitution to strive to promote the welfare of the people by eliminating inequalities in income and wealth that can be linked to CSR practices which would reduce the social disparity.

At the Union level, the Companies Act, 2013 will ensure that companies whose profits are of a certain size will be compelled to allocate at least 2% of their profits to the CSR activities. This provision is in accordance with the sustainability development goals of India to guarantee that ethical business practices are controlled and the companies are encouraged to help in protecting the environment, in education, in health and in poverty eradication in India. This legal framework also provides requests with the guidelines of disclosures and reporting on

CSR activities which brings transparency and responsibility in the corporate world.

The policies and regulations enacted by the regional governments can be done at the State level, which are not only aligned to national CSR objectives, but also take into account national needs. Such states as Tamil Nadu or Kerala have, indicatively, developed state-specific CSR programs that help the social enterprises in the localities, environmental-friendly operations, and community welfare initiatives. These local development programs enable the companies to donate to the local development but at the same time, achieve national goals of sustainable development.

## 7.3 Analysis of Federal Initiatives Encouraging Businesses to Adopt CSR Strategies Aligned with Sustainable Development Goals (SDGs)

In India, there are several federal initiatives that are directed at encouraging businesses to use CSR strategies to meet the Sustainable Development Goals (SDGs). The government has been keen on the integration of CSR with SDGs in such a way as to ensure that the businesses participate in the globalization of issues like poverty, inequality, climatic change and economic development.

Such initiatives include the National CSR Policy which outlines what companies are expected to do to meet the SDGs through their CSR programs. The policy also encourages corporations to engage in activities that not only increase their bottom line but also contribute to society and environment which match those of the SDGs of UN to the objective of the businesses. Using the example of businesses, it is being encouraged to invest in renewable energy and water efficiency, education, and access to healthcare, which is associated with SDGs and affordable clean energy (SDG 7), quality education (SDG 4), and climate action (SDG 13).

Furthermore, there are also federal projects like National Corporate Social Responsibility (CSR) Fund that have been set up to ensure that business actively contribute to the SDGs projects. Not only do these initiatives make businesses adopt socially responsible operations, but they also create a teamwork platform on which the Centre and States work together to ensure the CSR operations are oriented towards the national and global sustainability goals.

## 7.4 Examples of Ethical Businesses and CSR-Driven Enterprises in India

Some companies in India have managed to tie ethical behaviour and CSR with their business strategies, which has led to sustainable development as well as tackling the problems affecting the society. These corporations have established some of the best business ethics standards and have turned into an example to other companies.

Tata group which is among the largest conglomerates in India is a pioneer in incorporating ethical business

practices and CSR in its operations. The Tata Group has been practicing corporate governance, employee welfare, and sustainable development that have seen the organization being an exemplar to businesses globally. The CSR activities of the company are education programs, water conservation, and healthcare initiatives that are aligned with SDGs and help in the social and environmental well-being.

The other case is Infosys, a multinational company in the field of IT services, which has concentrated its CSR activities towards education, sustainability, and the community. Infosys has undertaken several programs, which will enhance the quality education in the rural setting, encourage green technology by its energy-efficient campus, and also investing in healthcare projects. These initiatives are correlated with SDG 4 (quality education) and SDG 13 (climate action).

Likewise, Amul, which is a dairy cooperative, aims at empowering the local farmers and ensuring inclusive growth by its operations. The CSR related programs of Amul are fair pricing of farmers, healthy and nutritional programs and sustainability of dairy farming practices which directly relate to SDG 2 (zero hunger) and SDG 12 (responsible consumption and production).

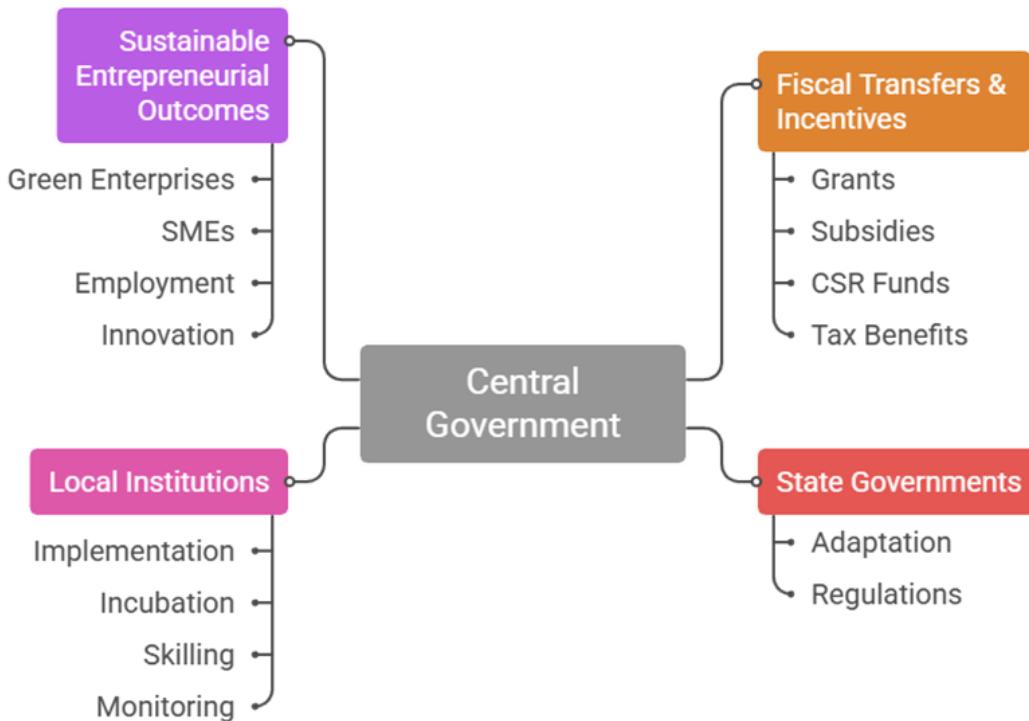
These examples demonstrate how companies in India are incorporating ethical conduct and CSR in their business models, which has a tremendous effect on sustainable development and guarantees their personal growth and prosperity.

#### **8. Strengthening Cooperative Federalism for a Sustainable Entrepreneurial Ecosystem**

Cooperative federalism is a conceptualization that lays emphasis on the mutual relationship between the Union (central) government and the States in the formulation of the public policy. This model can be especially productive in the framework of

sustainable entrepreneurship where both levels of the government may collaborate to develop the environment promoting innovation, responsible business, and long-term development. Cooperative federalism supports the Centre to establish national standards, and the States are free to adapt policies to their local situations. This synergy makes sure that sustainable business models are not only facilitated on the national level, but they are also adopted successfully in various regions to deal with the local challenges and opportunities.

Among the major ways in which cooperative federalism would contribute to sustainable entrepreneurship is by strengthening the relationship between the Union and States to facilitate the process of streamlining policies that would contribute towards socially responsible entrepreneurship. The central government is critical in identifying the national sustainability targets, including climate action, the adoption of renewable energy, and corporate social responsibility (CSR). These goals are however operationalised at state level to suit the local conditions. The better communication and coordination between the Centre and the States is done, the easier it becomes to make sure that the federal policies are in line with the regional priorities. As an example, the green policies can be adjusted to support renewable energy projects in States that have large amounts of natural resources, whereas in others, the emphasis can be placed on social entrepreneurship or inclusive growth. A better integrated federal framework will result in an integrated strategy that balances national interests with regional demands such that both the environmental and social objectives will be achieved throughout India. Figure 3 shows the multi-level governance structure that the cooperative federalism can be used to promote sustainable entrepreneurship.



**Figure 3. Illustrates how central policies, fiscal incentives, state-level adaptation, and local institutional implementation collectively generate sustainable entrepreneurial outcomes**

Juridical interpretations e.g. the State of NCT of Delhi v. The case of Union of India has also contributed greatly to the development of federal coordination in India. In this instance, the Supreme Court decided on the complicated nature of the relationship between the Delhi government and the Union and reiterated on the independence of the local governments to govern some areas of governance. These court awards can affect the way the Union and States interact especially in the aspect of applying sustainability policies. The focus of cooperative

federalism provided by the court may influence future relations between the Centre and States to make sure that the innovations on sustainable entrepreneurship on the state level are observed and facilitated, whereas the national sense of policy enforcement remains.

The potential of cooperative federalism in the promotion of innovative business models have to be fully exploited by some institutional reforms. Table 3 summarizes the major policy suggestions that can be made to enhance cooperative federalism.

**Table 3: Policy Recommendations for Strengthening Cooperative Federalism**

Policy Area	Recommendation	Expected Outcome
Federal Coordination	Strengthen Centre-State dialogue	Policy coherence
Fiscal Transfers	Flexible sustainability-linked grants	Regional innovation
SME Support	Green incentives and incubation	Sustainable enterprises
Governance	Inter-governmental platforms	Effective implementation

To begin with, the federal system should be made more flexible so that it could quickly adjust the national policies to the local conditions. It is important to decentralise the decision making processes and allow states to formulate policies that meet their economic situation. Moreover, the institutional mechanisms must be enhanced at both Centre and State levels to enhance the information sharing, resources allocation, and policy implementation. As an illustration, an inter-governmental platform with specific focus on sustainable entrepreneurship policies can be created where best practices of effective state-level policies may be disseminated and nationalized.

Also, more financial and technical assistance is to be provided to states that are interested in adopting new green business models or inclusive business programs. This may be in the form of grant schemes, subsidies or tax incentives to encourage the uptake of sustainable practices by the states. The capacity building at the state level is needed to increase the effectiveness of these initiatives to make local governments implement sustainability policies and promote the development of green SMEs.

In conclusion, to create a long-term entrepreneurial ecosystem in India, cooperative federalism needs to be strengthened. India can ensure sustainable entrepreneurship to encourage economic growth,

social inclusion and environmental responsibility through improvement of better coordination between the Centre and the States, harmonization of policy frameworks with regional priorities and institutional reforms. The right coordination of the federal level and the judicial orientation will help India to reach the full potential of the entrepreneurial environment and make sustainability the part of the economic development strategy.

### 9. Conclusion

The unique federal system of India is a key aspect that affects the entrepreneurial ecosystem by offering national integration as well as local adaptability. This has been attained by the collaboration of the Centre and the States to offer a favourable environment that promotes sustainable entrepreneurship that helps to sustain green, social and inclusive business in various regions of the country. The fact is that these businesses are also capable of generating economic value, as well as social equity and environmental sustainability. The federal interventions along with the entrepreneurship on the state level enable the businesses to be creative and evolve within the context of the sustainable development goals (SDGs). The Centre activities in putting in place national policies and structures such as CSR requirements, clean energy goals and sustainable business policies offer a harmonious way which businesses can follow. However, these policies are modified on the state level to meet the local demands according to which the companies can meet the needs of the region and help to achieve the greater national sustainability objectives. States have the liberty of experimenting with new models and providing the incentives needed by the businesses that will help in the sustainability. However, the federal coordination still desires to streamline policies, to ensure that policies get implemented effectively and the businesses use sustainable business models. India will be in a position to release the power of entrepreneurship and be on the frontline to create a sustainable and inclusive economy through empowerment of cooperative federalism, information sharing, and financial support of green businesses. In these efforts, the entrepreneurial ecosystem in India can contribute greatly to the overall growth of the country and remedy the world issue of climate change and social inequality.

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