



A STUDY OF INDIAN CSR PRACTICES IN SMALL AND MEDIUM ENTERPRISES

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Abstract: *The objective of this study is to know the CSR practices in Indian SMEs. The research for this paper will be carried out by studying various articles, Literatures available in various journals, books, manuscripts and websites. This study act as a bridge between ancient and modern way of implementing CSR practices in India, it also guides various researchers, academician, thinkers and various organizations that how of CSR act as a strategic tool for SMEs which help to create corporate image, brand building, increase sales, better relationship with stakeholders. The paper concludes with the scope for further research that there is a need to undertake more research on the particular drivers of CSR that promote good practice, the incentives that seem to be able to stimulate CSR activity and the innovative use of voluntary agreements that can promote good practice. This essentially requires more research around the business case for CSR especially in context to SMEs.*

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1.1 CSR PRACTICES IN INDIA

The business environment has undergone vast changes in the recent years in terms of both the nature of competition and the wave of globalization that has been sweeping across markets. Companies are expanding their boundaries from the country of their origin to the evolving markets in the developing countries which have been sometimes referred to as emerging markets. The current trend of globalization has brought a realization among the firms that in order to compete effectively in a competitive environment; they need clearly defined business practices with a sound focus on the public interest in the markets **(Gray, 2001)**.

The concept of Corporate Social Responsibility (CSR) is not new in India. It emerged from the ‘**Vedic period**’ when history was not recorded in India. In that period, Kings had an obligation towards society and merchants displayed their own business responsibility by building places of worship, education, inns and wells. Although the core function of business was to create wealth for society and was based on an economic structure, the business community with their rulers believed in the philosophy of “Sarva loka hitam” which means “the well-being of all stakeholders **(Sengupta, 2012)**. India through its vast natural resources and huge manpower potential has secured a prominent place in the world corporate ladder. The country is growing enormously in terms of capitalization, and opportunities. This growth has resulted in new challenges particularly in the field of Corporate Social Responsibility and its pursuance **(Nash, 2012)**. Long-established industrial dynasties, such as the Birlas and the Tatas, concepts of nation-building and trusteeship have been alive in their operations decades long before CSR become a popular cause. Alongside there are the leading Indian companies with strong international shareholdings, such as Hero Motors, HLL (Hindustan Lever Ltd), ITC, and Maruti Udyog, where local dynamics fuse with the business standards of the parent or partner. Another tradition emerges from the public sector enterprises, such as BHEL (Bharat Heavy Electricals Ltd), HDFC (Housing Development Finance Corporation), NTPC (National Thermal Power Corporation), and ONGC (Oil and Natural Gas Corporation), where social obligations remain an integral part of their business despite the march of privatization. There is the new generation of enterprises that has surged on the back of knowledge based globalization, such as Dr Reddy’s, Infosys, Ranbaxy, and Wipro, where less



emphasis is on minimizing negative impacts and more on maximizing the positive spill-over effects of corporate development (**Kumar, 2004**).

Business is an inseparable and embedded part of the society. In addition to its economic role in society, business also has several other roles and responsibilities towards society, viz. responsible conduct of business activities while pursuing economic gains; the social and environmental responsibilities of the business towards its stakeholders; and business's contributions that would benefit the society at large (**Harish, 2012**). Companies are beginning to realize the fact that in order to gain strategic initiative and to ensure continued existence, business practices may have to be moulded from the normal practice of solely focusing on profits to factor in public goodwill and responsible business etiquettes (**Raynard and Forstater, 2001**). India's recent economic progress has not only increased pressure on the environment, but also generated social tension by increasing the gap between India's middle class and the poor. Consequently, it has become even more important for corporations to consider their broader impact on society. The traditional ethos of maximizing shareholder value without regard towards the stakeholders is an outdated notion in today's global environment. Corporate Social Responsibility (CSR) has a powerful potential to make positive contributions to addressing the needs of disadvantaged communities in developing countries. CSR issues can become complex when they acquire an international dimension (**Harish, 2012**). Corporate Social Responsibility practices in India sets a pragmatic level of grassroots growth through coalition and partnerships with sustainable progress approaches. At the heart of the elucidation lies inherent coming together of all stakeholders in shaping up a divergent route for a fair as well as just social order. These represent the soul of a national survey conducted in India on corporate responsibility practices (**Nash, 2012**). Social responsibility should not be considered as an exclusive domain of the government and passive philanthropy no longer constitutes social responsibility.

In 2009, the government made it mandatory for all public sector oil companies to spend 2 per cent of their net profits on Corporate Social Responsibility. Besides the private sector, the government is also ensuring that the public sector companies participate actively in CSR initiatives. The Department of Public Enterprises (DPE) has prepared guidelines for central public sector enterprises to take up important Corporate Social Responsibility projects to be



funded by 2-5 per cent of the company's net profits. Government of India is all set to make CSR a statutory requirement for all companies by extension of above Companies bill, that would mandate companies with a turnover of Rs 1,000crores or net profit of Rs 5crores or more should allocate two per cent of their net profit towards CSR activities (**Gupta and Bagg, 2011; Berad, 2011**). There should be transparency in disclosure for both financial and non financial information and better understanding from the investors. The holistic stakeholder approach to Corporate Social Responsibility activities should gain ground. Also Indian corporate social policies should be incorporated with the global public policies. International agencies should be given a chance to play a cross country sharing experience (**Fernando 2011**). Emerging markets like India have drawn the attention of large MNCs for the potential of market growth. These markets are untapped and give entirely new domain for operations. However many MNCs also take the markets for granted and exploit the laxity in the norms of operations to their advantage. The lack of concern for the local community, the consumers and the environment by these corporations has created large scale public debate and action. It is important in this context to understand that the sustainable business growth is associated with care for the community and markets the corporations operate in.

1.2 SMEs IN INDIA

Small & Medium Enterprises (SMEs) play a major role in global economic growth in terms of their contribution to industrial employment, output and exports. This sector has emerged as a dynamic and vibrant sector of the economy (**Vadera and Kulshreshtha, 2010**) and occupies a place of strategic importance in the Indian economy as well. Many researcher focuses on the contribution of SME's towards employment generation which is significant because they tend to use more labour intensive production processes than large enterprises, boosting employment, leading to more equitable income distribution, provide livelihood opportunities through simple, value adding processing activities in agriculturally based economies (**Leutkenhorst, 2004**). India over a period since its independence has slowly and steadily accelerated its economic growth. Policy reforms, removal of License Raj, industrial reforms and other initiatives taken by the government led to the overall economic transformation of the country (**Europe-SME India Business Council**). The development of this sector came about primarily due to the vision of our late Prime Minister Jawaharlal Nehru who sought to develop core industry and have a supporting sector in the form of



small scale enterprises (**Suresh and Mohideen, 2012**). However, since the early 1990s, Indian SMEs have been exposed to intense competition due to the accelerated process of globalization. Therefore, the survival as well as growth of SMEs is under strain. However, globalization has also brought, in its wake, newer opportunities for SMEs. The statistics indicate that India with the population of over 1.2 billion people represents 17.31 per cent of the world's populations and over 60 per cent of country's population is the youth and over 40 per cent of the total population falls in the employable population, this makes the SMEs to be the biggest asset for the country. India's GDP stands at US \$4.06 trillion as compared to US GDP which stands at US \$14.72 trillion. Also the GDP has witnessed a healthy growth rate of 8.2 per cent and is projected to grow at over 9 per cent annually. With this growth rate, India would not take even 40 more years to achieve the GDP figure at par with US and China (**Europe-SME India Business Council**). The SME's alone contribute to 7% of India's GDP. As per the Third All India Census of Small Scale industries conducted in 2004, the SME's have increased from about 80,000 units in the 1940's to about 10.52 million units. Their total employment is about 25 million and they produce about 7500 products including high technology products. In the sports goods and garments sector their contribution to exports is as high as 90 per cent to 100 per cent. They constitute 90 per cent of the industrial units in the country and also contribute to about 35 per cent of India's exports (**Pandey, 2007**).

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as:

Table: 1.2(1) (MSMED) Act, 2006

Manufacturing Enterprises – Investment in Plant & Machinery		
Description	INR	USD(\$)
Micro Enterprises	Up to Rs. 25Lakhs	Up to \$ 62,500
Small Enterprises	above Rs. 25 Lakhs & up to Rs. 5 Crores	above \$ 62,500 & up to \$ 1.25 million
Medium Enterprises	above Rs. 5 Crores & up to Rs. 10 Crores	above \$ 1.25 million & up to \$ 2.5 million
Service Enterprises – Investment in Equipments		
Description	INR	USD(\$)
Micro Enterprises	Up to Rs. 10Lakhs	Up to \$ 25,000
Small Enterprises	above Rs. 10 Lakhs & up to Rs. 2 Crores	above \$ 25,000 & up to \$ 0.5 million
Medium Enterprises	above Rs. 2 Crores & up to Rs. 5 Crores	above \$ 0.5 million & up to \$ 1.5 million



According to the biennial HSBC research, the number of Indian SMEs conducting international business activities may surge to 56 per cent in 2013 from the current 31 per cent, primarily driven by increasing interest among domestic small players to expand business overseas. Around 24 per cent SMEs across India are eyeing offshore expansion in the next two years, states the research **(Bandopadhyay, 2011)**. The SMEs sector has grown rapidly over the years. The number of small-scale units has increased from an estimated 6.79 million units in the year 1990-91 to over 13 million in the year 2007-08. SME's Contribution towards Gross Domestic Product in 2011 was 17 per cent which is expected to increase to 22 per cent by 2012 **(Rajamohan and Dhuriaraj, 2012)**. The Small and Medium Enterprises' (SMEs) contribution to Indian GDP is expected to increase to 22 per cent by 2020 **(Indian Express 2011)** and can become the second largest in the world, ahead of the United States, by 2050, and the third largest after China and the United States by 2032 **(Jeswal, 2012)**.

1.3 CSR PRACTICES IN INDIAN SMEs:

Small and Medium enterprises (SMEs) play an indispensable role in triggering economic growth and equitable development, particularly in developing countries. Their business activity is generally performed closer to the stakeholders, allowing them to be the firsthand recipients of expressed needs. Therefore by sheer proximity, SMEs are continuously confronted to participate actively in the development of their environment and act ethically **(UNIDO Survey Report, 2008)**. The concept of CSR has extended to SMEs as well. This sector was never taken into account for deliberations and conventional approach to CSR is generally assumed to be the part of large companies **(Moon, 2011)**. It is a well known fact that SMEs produce large proportion of country's output, provides huge employment and generate substantial revenues to the government not only in developed countries but developing countries as well. Small to medium-sized enterprises account for about 90 per cent of businesses worldwide and are responsible for around 50 to 60 per cent of employment. They, potentially have a significant impact on social welfare **(Aras and Crowther, 2010)**. As the SMEs also include stakeholders and an impact on the society, it is necessary to understand the role of SMEs in CSR activities. However, it is difficult to enroll the concept for SMEs as they face challenges of survival, time and resource constraints, fear of additional regulations and no systematic incentives. General problems like lack of



information, getting trained employees, and getting support from related officials are other limiting factors for SMEs to get involved in CSR activities. However, there are several benefits available to SMEs like small number of employees with quick communication and decision making, unique selling propositions and competitive benefits through their products and services, cost and efficiency savings. According to a study by the European Commission in 2007 ('Corporate Social Responsibility in SMEs - SMEs Good practice'), CSR can positively influence SMEs' competitiveness in numerous ways. SMEs can provide with improved products, high customer loyalty, motivated employees, innovative and creative employees, cost savings, increased profitability due to optimum resource utilization, enhanced networking with business partners and improved company image **(Moon, 2011)**.

The term SME is of relatively recent origin in the Indian context. SMEs were referred to as small scale industry or SSI. The SSI was officially created in the 1950s. Since 1954, the Government of India has consciously nurtured, promoted and developed SSIs through specific policies as a part of overall industrial development strategy **(Prasad, 2008)**. Over the last decade, a number of these enterprises needed to compete in global markets as part of supply chains. The evolution and growth of CSR in large corporations in India have been well documented **(Kumar et al., 2001; British Council et al., 2002; BCCI, 2007)**. In recent years, CSR in SMEs in India has been gaining increased attention from practitioners, NGOs and international agencies, but not significantly from scholars. In a comparative study conducted on CSR practices of Dutch Multinationals and SMEs operating in India, it was found that while large multinationals had formulated a CSR policy, which they make public; CSR is not at all institutionalized in SMEs. The reasons attributed to the lack of institutionalization of CSR include limited resources to do CSR, lack of pressure from the customer or NGOs to do CSR and finally, the inability to see any direct benefit in doing CSR **(CREM, 2004)**.

Corporate Philanthropy is widely prevalent in the SME sector in India. Their significant contributions to the health, education, religious institutions and temples cannot be undermined. Most SME owners significantly complement the work of the Government and the NGO's in the towns/villages/cities they operate in. In an exploratory study conducted on CSR in SME's done in the Pune Industrial belt by the NGO Business Community Foundation, it was found that the general impression among SME's is that following mandatory Government laws makes them socially responsible. A lot of SME's are of the opinion that



philanthropy and CSR are one and the same. Since many of the SME's are at a stage where they are struggling to establish themselves and do not have the manpower or resources to address these issues and they tend to ignore them. **(Revenkar, 2004)**. Various agencies such as ASSOCHAM, Business World FICCI promote the understanding and practice of corporate responsibility issues in India by providing various awards and appreciation to SMEs to promote CSR practices such as *Business World FICCI-SEDF CSR 2010 Award for the SMEs and innovation categories to Elin Appliances Pvt. Ltd., Jaipur Rugs Co. Pvt. Ltd., NTF Industries Pvt. Ltd., Smart Aqua Technologies Pvt. Ltd., Vajja Technologies Pvt. Ltd.* another agency ASSOCHAM CSR 2011 Award to **Elin Appliances, LPTI (Partners in Change)**. Another study conducted in northern India industrial cluster, observed that since most SMEs were led by owners, the value system and philosophy of the owner played a significant role in determining the CSR practices. Many of the SMEs are unable to see any clear benefits by following or practicing CSR, very few companies had social reports, codes of conduct or stated ethical practices. But the study points that many of the SMEs are involved in some kind of developmental activities. Many of the CEOs of these SMEs were members of Rotary or Lions Clubs and supported various developmental activities initiated by these clubs. One of the unique characteristics of SMEs is that their functioning is centered on the role of the owner who in most cases heads the organization and their CSR policies are centered around his/her knowledge, values and interests. Apart from following prescribed government norms, very few of them followed ethical codes as they did not have the resources to follow or implement them. Moreover, SMEs did not give much priority for CSR or ethical code of conduct as they were tied down by various constraints ranging from finance, counseling, information technology and marketing. There is a need to popularize the concept of CSR among SMEs and the benefits it can bring for them **(Kumar, 2004)**. Business is an inseparable and embedded part of the society. In addition to its economic role in society, business also has several other roles and responsibilities towards society, viz. responsible conduct of business activities while pursuing economic gains; the social and environmental responsibilities of the business towards its stakeholders; and business's contributions that would benefit the society at large **(Margolis and Walsh, 2001)**. The business environment has undergone vast changes in the recent years in terms of both the nature of competition and the wave of globalization that has been sweeping across markets. Companies are



beginning to realize the fact that in order to gain strategic initiative and to ensure continued existence, business practices may have to be moulded from the normal practice of solely focusing on profits to factor in public goodwill and responsible business etiquettes (**Reynard and Forstater, 2002**).

1.4 CONCLUSION

At the root of many of the obstacles facing SMEs is the lack of expertise amongst their own staff and the lack of expertise from the consultancy sector in many areas. A major priority for pushing CSR further down supply chains is therefore to train more people with the skills to deal with CSR issues and practices. It is to be suggested that SMEs can take help from other organizations within the cluster, which are ready to support responsible business objectives. These organizations offer extra resource; opportunity and numbers to help small enterprises get involved in these activities. Working closely with the large brand name companies, business associations and NGOs, governments, CII, ASSOCHAM, EDI, India CSR, GRI could establish a number of training institutes both at the regional level as well as more local levels. However, such training institutes should not only be training people with the skills to become future CSR managers. They can also be involved in the training of government officials, trade unionists, workers, NGOs and local communities in order to spread the benefits of CSR more widely. Much of the assistance that SMEs can expect to get in the future will come from other businesses, civil society and government. The training of a wide range of stakeholders is likely to be beneficial to SMEs therefore. The establishment of training institutes at a number of levels could also be linked to an accreditation and certification programme for CSR managers, procurement managers, human resource managers and others. It may well be that international agencies and governments, working with existing CSR experts in the region could develop some type of institution for CSR managers, linked to high quality training and assessment methodologies in the longer term. Mandatory regulations will not improve the situation of companies, but simply add to burdensome red tape faced by them. Mandatory regulations would increase costs and damage competitiveness especially so far SMEs, which are constantly strangled with oppressive, intrusive and unnecessary regulations. The emphasis on a voluntary CSR could be an opportunity if it leads to the re-channelizing of corporate power to address the systematic problems of the global economy.



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