



**A COMPREHENSIVE STUDY ON CORPORATE SOCIAL
RESPONSIBILITY IN SMALL AND MEDIUM
ENTERPRISES (SMES) IN INDIA**

Dr. Priyanka Kumari

Research Guide JJT University, Rajasthan

Abstract

The outlook of Corporate Social Responsibility has changed over the years depending upon changing social, legal and business environment. It includes many aspects which come under the fulfilment of CSR like charity, development of educational institutions, hospitals and temples, ethical functioning, respect to human rights and inclusive development which requires the companies to produce qualitative products up to the mark of international standards, adherence of laws relating to the business, etc. Small and Medium Enterprises (SMEs) have played a crucial role in India's economic growth. Employing close to 40% of India's workforce and contributing 45% to India's manufacturing output, SMEs play a critical role in generating millions of jobs, especially at the low-skill level. The country's 1.3 million SMEs account for 40% of India's total exports. SMEs have a much wider spread; hence a wider reaches across communities. It is estimated that SMEs account for almost 90% of industrial units in India and 40% of value addition in the manufacturing sector. It can thus be said that the Small and Medium Enterprises play a pivotal role in ensuring overall development of a country. But when it comes to the question of shouldering corporate social responsibility (CSR) only a handful of small firms are seen successful. The paper examines the current status of the contributions of SMEs in societal development and benefits of CSR to SMEs.

Keywords - CSR, SME, MSME, Indian Economy and Business Environment.

Introduction

India is a country of SMEs, we need to make the small beautiful in India too. It is imperative that India works towards making the smaller enterprises CSR compliant. Employing close to 40% of India's workforce and contributing 45% to India's manufacturing output, SMEs play a critical role in generating millions of jobs, especially at the low-skill level. The country's 1.3 million SMEs account for 40% of India's total exports. SMEs have a much wider spread, hence a wider reach across communities. We can extrapolate and comfortably say, that the geographical reach through SMEs is vastly higher than through the larger enterprises. SMEs are equally responsible towards making living conditions better for their employees and their families. What SMEs do not realise is that CSR is the only way through which the company

can achieve a balance of economic, environmental and social goals. As we move ahead in the 21st century – India can achieve its dreams, and turn its burgeoning young population into an asset only if each company big or small takes on responsibility for social, educational and environmental upliftment at large. This will go a long way in creating harmony between workers and the management, while at the same time addressing the expectations of all stakeholders in business.

Objectives

1. To analyse the current status and role of SMEs in carrying out Corporate Social Responsibility (CSR) initiatives.
2. To identify the benefits that SMEs gain out of the CSR initiatives.

Scope of the Study

The present study takes into account the current business and legal environment in India around CSR, evaluates the current practices and trend in the industry around CSR with specific focus on SMEs. Additionally with the help of secondary data analysis the paper lists down the benefits for SMEs for adopting a comprehensive CSR program.

Research Methodology

The research paper is based on collection and analysis of the secondary data. Secondary data is collected and analysed from the different sources, journals, Government of India reports, Annual report of CRISIL etc.

Review of Literature

According to Jenkins (2009), by adopting a CSR strategy, a SME can develop innovative products and services and thus take advantage of new and emerging markets. Several academic studies highlight the fact that responsible behavior brings financial advantages such as a reduction of costs and increased efficiency (Jenkins, 2009; Russo & Tencati, 2009). In effect, by implementing more careful management practices and measures or using substitute products which are less harmful to the planet, a SME can reduce wastage and secure a reduction in costs or outlay (Reynaud & Mathieu, 2005). CSR can be a catalyst for increased motivation and productivity amongst a company's workforce (Saulquin & Schier, 2007; Berger-Douce, 2008). At the same time, awareness and understanding of the challenges and issues involved in CSR can actually form a very good basis for competitive differentiation and ultimately contribute towards the improvement of company image. CSR can be viewed as a method of achieving company objectives and this can have a very helpful knock-on effect in communications with stakeholders – particularly company clients and commercial partners – the upshot of which will be enhanced corporate image and reputation (Collins et al., 2007).



Discussion on Corporate Social responsibility in India

SME Definition:

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

Manufacturing Enterprises: The manufacturing enterprise are defined in terms of investment in Plant and Machinery

Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed 10 lakh rupees:
Small Enterprises	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 core rupees

SMEs play a critical role in generating millions of jobs, especially at the low-skill level. It is imperative that India works towards making the smaller enterprises CSR compliant. Employing close to 40% of India's workforce and contributing 45% to India's manufacturing output, SMEs play a critical role in generating millions of jobs, especially at the low-skill level. The country's 1.3 million SMEs account for 40% of India's total exports.

Performance of SSI/MSME, Employment and investments

S. No.	Year	Total working enterprises (in lakh)	Employment (in lakh)	Market value of fixed asset (In INR crore)
1	2006-07	361.76	805.23	8,68,543.79
2	2007-08*	377.36	842	9,20,459.84
3	2008-09*	393.7	880.84	9,77,114.72

4	2009-10*	410.8	921.79	10,38,546.08
5	2010-11*	428.73	965.15	11,05,934.09
6	2011-12*	447.64	1,011.69	11,82,757.64
7	2012-13*	467.54	1,061.40	12,68,763.67
8	2013-14*	488.46	1,114.29	13,63,700.54
9	2014-15*	510.57	1,171.32	14,71,912.94

*projected

Source: Annual report 2015 – 16, from Government of India, Ministry of Micro, Small and Medium Enterprises

CSR Definition: According to the UNIDO, The United Nations Industrial Development Organization, “Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders.”

As we move ahead in the 21st century – India can achieve its dreams, and turn its burgeoning young population into an asset only if each company big or small takes on responsibility for social, educational and environmental upliftment at large. This will go a long way in creating harmony between workers and the management, while at the same time addressing the expectations of all stakeholders in business.

An analysis of the current environment and trend

Moving from voluntary to mandatory: The pure voluntary flavour of Indian CSR has recently been blended with a mandatory element in it. Unlike in some other countries such as Australia, Denmark, France, Holland, Norway, and Sweden, where only the CSR reporting is mandatory, India is now the only country in the world where both reporting and spending has become mandatory. The government of India made it mandatory for companies to undertake CSR activities under the Companies Act, 2013. The concept of CSR is defined in clause 135 of the Act, and it is applicable to companies which have an annual turnover of Rs 1,000 crore or more, or a net worth of Rs 500 crore or more, or a net profit of Rs 5 crore or more.

Under this clause, these companies are supposed to set aside at least 2% of their average profit in the last three years for CSR activities.



Providing clarity: The law has listed out a wide spectrum of activities under CSR, which cover activities such as promotion of education, gender equity and women's empowerment, combating HIV/AIDS, malaria and other diseases, eradication of extreme poverty, contribution to the Prime Minister's National Relief Fund and other central funds, social business projects, reduction in child mortality, improving maternal health, environmental sustainability and employment enhancing vocational skills among others.

The companies can carry out these activities by collaborating either with a NGO, or through their own trusts and foundations or by pooling their resources with another company. The law also entails setting up of a CSR committee which shall be responsible for decisions on CSR expenditure and type of activities to be undertaken. This committee shall consist of three or more directors, with at least one independent director whose presence will ensure a certain amount of democracy and diversity in the decision-making process.

The law is very significant, because India is at the threshold of demographic dividend, and there is an urgent need for the creation of human and physical capital to reap its rewards. Investment in education, health, skill development and social infrastructure will enhance capabilities of the youth by improving their nutritional, skill and educational level, which in turn will better their employment prospects.

Why is the CSR clause of the new Companies Act, 2013 so critical for SMEs?

By requiring companies, with a minimum net profit of 5 crore INR, to spend on CSR activities, the Companies Act, 2013 is likely to bring in many SMEs into the CSR fold. This will usher in a fresh set of challenges to a sector that is increasingly being asked by its B2B customers to comply with environmental and social standards, while remaining competitive in terms of price and quality. Thus, SMEs will have to quickly learn to be compliant with these diverse set of requirements and it is hoped that this handbook will facilitate their ability to comply with the CSR clause of the Companies Act, 2013.

The positive trend

Over 8,000 large companies complying to Corporate Social Responsibility (CSR) has been a remarkable policy adoption by the Indian Government. This move has put India in league with countries like Sweden, Mauritius and Norway who have robust policies on CSR for industries. But where India lags behind these countries is that the Companies Act does not successfully bring CSR into the mainstream.

The reporting of CSR spending is growing faster in India than anywhere else in the world. After the new companies act made it mandatory for companies to spend under CSR, India's

total CSR reporting increased by 27% in 2015, the maximum among 45 countries surveyed by international audit firm KPMG.

Out of the total outlay of Rs 6,490 crore towards CSR in India for 2015, companies have spent Rs 5,115 crore. The health sector accounts for 20% of the spending followed by education with 19%. Maharashtra has 205 projects under CSR, the maximum among Indian states, followed by Karnataka (152), West Bengal (123) and Tamil Nadu (122). The laggards in spending under CSR are some public sector undertakings, says the survey.

The performance of Indian origin companies is far ahead compared to foreign-based companies operating in India. While companies based in India have a target of Rs 5,779.68 crore for 2015, they have spent Rs 4,708 crore. But out of the target of Rs 710.12 crore for foreign-based companies, only Rs 406.17 crore has been spent. Among Indian companies, the private sector has performed better than the public sector. Against the prescribed amount of Rs 2,306 crore, PSUs spent Rs 1,628 crore (71%).

SMEs were more compliant to CSR mandate in FY15

Spending profile (% of profit)	% of companies (segmented on annual sales turnover)		
	Rs 100 - 500 cr	Rs 500 - 10000 cr	More than Rs 10000 cr
2% or more	53%	50%	31%
1.5% or more	62%	59%	47%
<1.5%	38%	41%	53%
<1%	26%	29%	26%

Source: The CRISIL CSR year book, 2016

According to Crisil Foundation analysis for FY15, out of 3,855 BSE listed companies 1,024 qualified to spend on CSR. Of the lot, however, only 50% met the 2% bar. The companies cumulatively spent about Rs.6,800 crore, or 1.35% of their profit. Of the 1,024 companies surveyed, 425 were firms with a turnover of Rs.100 crore to Rs.500 crore. And 53% of them spent 2% or more of their net profit on CSR. There were 518 mid-size companies (Rs.500 crore to Rs.10,000 crore) and 50% of them met the 2% spending requirement. But only 31% of the 81 large companies, which had a turnover of over Rs.10, 000 crore, met or exceeded the recommended limit.



As the table shows above that smaller companies were relatively more enthusiastic on spending on CSR initiatives compared with their larger counterparts in FY2015. Clearly they are not sort on society building motivation. This also reflects the broad basing of CSR activity in India Inc.

Discussion on the advantages of CSR implementation for SMEs

Compliance to CSR will ensure that the bulk of SMEs undertake the steps to help produce quality products and derive customer satisfaction, thereby improving the overall environmental and social surrounding of each one of them.



CSR initiatives will begin to result in higher motivation and loyalty among employees. This in turn will lead to better production efficiencies, lower employee turnover, and eventually lower costs for companies. Very soon, organisations will see an increased sales turnover due to the competitive advantage derived from a good CSR policy.

CSR in business improves the trust, confidence and understanding among its customers, because the responsible companies are always cautious about sales service, which is the best tool to gain customers' satisfaction for SMEs. On the other hand, employees' trust on organization results in employees' retention, less absenteeism and reduced turnover.

The main benefits are associated with image, reputation, brands, costs, risk reduction and opportunities for developing better business. There are many examples of good CSR practices in the region, but this report highlights initiatives that address some of the problems of implementing CSR identified. Most of the SMEs are not much familiar with the concept of CSR particularly in India. In developing countries SMEs are not properly engaged in CSR practices. Entrepreneurs are not well educated and trained. That is why they are not using the CSR practices accordingly. Although some of them are spending a portion of their profits for the betterment of their society as well as employees in the name of charity, donations, and welfare fund. These are mostly used in none financial areas and are not properly advertised,

that's why not giving much benefits to firms. So by properly engaging in CSR activities and giving its awareness to the public, SMEs can gain many benefits from CSR. A company with good reputation attracts more stakeholders, customers, employees, and suppliers. Customers are willing to pay even more for products of a firm with good improve the skills and competencies of their work force by providing them training and education. SMEs which are not properly engaged in CSR practices are suggested to implement these practices in order to achieve remarkable organizational benefits.

Conclusion

With a changing global economic landscape and the rising aspirations of the middle class in India, it is high time, SMEs begin to change themselves and factor in an attitudinal change towards the society and environment and do their bit in the progressive change required to turn India to a better place in the near future. SMEs should remember, if the society and environment around them fails, businesses will fail too. They should also consider CSR as minimising negative impact and creating positive impact in what they do every day of the week. If they begin documenting this, CSR will happen not just automatically, but within their existing resources!

SMEs must adopt CSR for innovation, creativity, and flexibility which enable them to respond more quickly to structural changes and to adapt the dynamic demand patterns of consumers. The government must look into policies and legislations for the benefits of SMEs adapting CSR and take up initiatives aimed at encouraging SME involvement in CSR. Moreover for SMEs to fully utilize its potential, it is essential that the entrepreneurs along with the government support take necessary steps for further development. The SMEs of yesterday are the large corporate's of today and could be MNCs of tomorrow. Thus, the banks and other agencies should take pride while servicing the SMEs as they are playing an instrumental role in the formation of MNCs of tomorrow. Thus, corporate social responsibility is not just the responsibility of big giants but also of small and medium enterprises too. Unless they come and shoulder their responsibility towards the society in a big way large Multi National Corporations cannot do much because they constitute a very small percentage in the economy and large number of enterprises come in SME sector.

References

http://ec.europa.eu/enterprise/policies/sustainablebusiness/corporate-social-responsibility/index_en.htm

Brundtland Commission's Report, 1987

[http://www.unido.org/what-we-do/trade/csr/whatis-csr.html#pp1\[g1\]/0/](http://www.unido.org/what-we-do/trade/csr/whatis-csr.html#pp1[g1]/0/)



http://www.business-standard.com/content/b2b-chemicals/csr-an-equal-responsibility-of-smes-114032700292_1.html

<http://www.msme.gov.in/WriteReadData/DocumentFile/MEME%20ANNUAL%20REPORT%202015-16%20ENG.pdf>

<http://www.theguardian.com/sustainable-business/india-csr-law-debate-business-ngo>

<http://indiacr.in/address-by-the-president-of-india-pranab-mukherjee-at-the-national-summit-on-csr/>

<http://timesofindia.indiatimes.com/business/India-leads-in-CSR-spending-growth/articleshow/51173712.cms>

<http://www.livemint.com/Companies/FnLArasuogVLagHMzAFjTK/IT-firms-CSR-spending-rose-nearly-five-times-in-FY15.html#>

<http://www.livemint.com/Companies/Q1JNnu3VBmUsQjNg8XlffK/SMEs-were-more-compliant-to-CSR-mandate-in-FY15-Crisil-Foun.html>

<http://www.crisil.com/pdf/corporate/The-CRISIL-CSR-yearbook-20Jan2016.pdf>

http://dcmsme.gov.in/ssiindia/defination_msme.htm

Jenkins, H. (2006). Small Business Champions for Corporate Social Responsibility. *Journal of Business Ethics*, 67, 241-256. <http://dx.doi.org/10.1007/s10551-006-9182-6>

Perrini, F., Russo, A., & Tencati, A. (2007). CSR Strategies of SMEs and Large Firms. Evidence from Italy. *Journal of Business Ethics*, 74(3), 285-300. <http://dx.doi.org/10.1007/s10551-006-9235-x>

Mathieu, A., & Reynaud, E. (2005). Les bénéfices de la responsabilité sociale de l'entreprise pour les PME: entre réduction des coûts et légitimité. *Revue d'Economie Méditerranéenne*, Octobre, 22p.

Saulquin, J-Y., & Schier, G. (2007). Des perceptions managériales aux pratiques RSE: une étude exploratoire. *Gestion 2000*, 24(6), 181-195.

Collins, E., Lawrence, S., Pavlovich, K., & Ryan, C. (2007). Business networks and the uptake of sustainability practices: the case of New Zealand. *Journal of Cleaner Production*, 15(8-9), 729-740. <http://dx.doi.org/10.1016/j.jclepro.2006.06.020>

Chahal, H., & Sharma, R. D. 2006. "Implications of Corporate Social Responsibility on Marketing Performance: A Conceptual Framework." *Journal of Services Research*, vol. 6, no. 1, pp. 205-216.