



Corporate Social Responsibility and SMEs in India

*Parameshwara ** Dr. A.Raghurama

* Assistant professor, Department of Commerce, Mangalore University, Mangalagangotri-574199

** Professor, Department of Commerce, Mangalore University, Mangalagangotri-574199

ABSTRACT

In India the concept of Corporate Social Responsibility is changed over the years depending upon the changes in social, political, economical, cultural and legal environments. It includes many aspects which come under the fulfilment of CSR like charity, philanthropy, national economic development, development of educational institutions, hospitals, and temples by establishment of trusts by the business, development of public sector undertaking, ethical functioning, respect to human rights, workers welfare and rights, activities for social and inclusive development and globalisation and economic liberalization which requires the companies to produce qualitative products up to the mark of international standards, adherence to the law relating to the business.etc. Globalisation and liberalization needs the business to follow the responsibility of the society for the survival. Business must be ethical and must have concern to the societal environment. Corporate should design the CSR which should be beneficial to both the Business and the society. The success of the policy of CSR is depends upon the spending and the area of responsibility taken and effective monitoring. SMEs must adopt CSR for the benefit of Improved products and/or production processes, resulting in a better customer satisfaction and loyalty, Higher motivation and loyalty of employees, resulting in a higher creativity and innovativeness, Better position at the labour market and better networking with business partners and authorities including better access to public funds due to a better company image Cost savings and increased profitability due to a more efficient deployment of human and production resources and increased turnover/sales due to a competitive advantage and which will give opportunity for the SMEs to involve in societal developmental activities. The government must to look into policies and legislations for the benefits of SMEs adapting CSR and take up initiatives aimed at encouraging SME involvement in CSR. This paper will highlight the contributions of SMEs in societal development and benefits of CSR to SMEs.

Keywords : CSR, SMEs, Society and Business Environment

Introduction:

In India the concept of Corporate Social Responsibility is changed over the years depending upon the changes in social, political, economical, cultural and legal environments. It includes many aspects which come under the fulfilment of CSR like charity, philanthropy, national economic development, development of educational institutions, hospitals, and temples by establishment of trusts by the business, development of public sector undertaking, ethical functioning, respect to human rights, workers welfare and rights, activities for social and inclusive development and globalisation and economic liberalization which requires the companies to produce qualitative products up to the mark of international standards, adherence to the law relating to the business.etc. Globalisation and liberalization needs the business to follow the responsibility of the society for the survival. Business must be ethical and must have concern to the societal environment. Corporate should design the CSR which should be beneficial to both the Business and the society. The success of the policy of CSR is depends upon the spending and the area of responsibility taken and effective monitoring. SMEs must adopt CSR for the benefit of Improved products and/or production processes, resulting in a better customer satisfaction and loyalty, Higher motivation and loyalty of employees, resulting in a higher creativity and innovativeness, Better position at the labour market and better networking with business partners and authorities including better access to public funds due to a better company image Cost savings and increased profitability due to a more efficient deployment of human and production resources and increased turnover/sales due to a competitive advantage and which will give opportunity for

the SMEs to involve in societal developmental activities. The government must to look into policies and legislations for the benefits of SMEs adapting CSR and take up initiatives aimed at encouraging SME involvement in CSR.

Corporate Social Responsibility has become an increasingly important part of the business environment. The past twenty years have seen a radical change in the private sector's relationship both with the state and civil society. Key drivers of this change have been the globalization of trade, the increased size and influence of companies, the repositioning of government and the rise in strategic importance of stakeholder relationships, knowledge and brand reputation. All these factors have changed the basis on which private enterprise is expected to contribute to the public good. Meanwhile, the relationship between companies and civil society organisations has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society. Corporate Social Responsibility (CSR), defined in terms of the responsiveness of businesses to stakeholders' legal, ethical, social and environmental expectations, is one outcome of these developments. CSR has generally been a pragmatic response to consumer and civil society pressures. Accusations by governments and civil society alike, of environmental pollution, human rights abuses, and exploitation of labour in supply chains, has pressured companies into becoming more environmentally and socially responsible. However, companies have quickly recognised the strategic value of being more responsible and are beginning to align products and business relationships, in particular through their supply chains, accordingly.

SMEs sector was never taken into account for deliberations and conventional approach to CSR. It is generally assumed to be the part of large companies. 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 percent of businesses worldwide and are responsible for around 50 to 60 percent of employment. They, potentially have a significant impact on social welfare. 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. Thus, it is advisable for the government to look into policies and legislations for the benefits of SMEs adapting CSR and take up initiatives aimed at encouraging SME involvement in CSR which should be easily accessible and relevant.

Growth and Performance of Micro, Small & Medium Enterprises (MSMEs)

The micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 595 lakh persons in over 261 lakh enterprises throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to High-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide good opportunities for both self-employment and wage employment.

Sl. No.	Year	Total Working MSMEs	Employment	Fixed Investment	Production (Current Prices)	Exports
		(Lakh numbers)	(Lakh persons)	(Rs. crore)		
1	2001-02	105.21	249.33	154349	282270	71244
		(4.07)	(4.44)	(5.11)	(8.03)	(2.07)
2	2002-03	109.49	260.21	162317	314850	86013
		(4.07)	(4.36)	(5.16)	(11.54)	(20.73)
3	2003-04	113.95	271.42	170219	364547	97644
		(4.07)	(4.31)	(4.87)	(15.78)	(13.52)
4	2004-05	118.59	282.57	178699	429796	124417
		(4.07)	(4.11)	(4.98)	(17.90)	(27.42)

5	2005-06	123.42	294.91	188113	497842	150242
		(4.07)	(4.37)	(5.27)	(15.83)	(20.76)
6	2006-07	261.12	595.66	500758	709398	182538
		(111.57)	(101.98)	(166.20)	(42.49)	(21.50)
7	2007-08	272.79	626.34	558190	790759	202017
		(4.47)	(5.15)	(11.47)	(11.47)	(10.67)
8	2008-09	285.16	659.35	621753	880805	N.A.
		(4.53)	(5.27)	(11.39)	(11.39)	
9*	2009-10	298.08	695.38	693835	982919	N.A.
		(4.53)	(5.46)	(11.59)	(11.59)	
10#	2010-11	311.52	732.17	773487	1095758	N.A.
		(4.51)	(5.29)	(11.48)	(11.48)	

Source: MSME annual report 2011-12

The figures in brackets show the percentage growth over the previous year. The data for the period up to 2005-06 is Small Scale Industries (SSI). Subsequent to 2005-06, data with reference to Micro, Small and Medium Enterprises are being compiled. The growth for the year 2010-11 is based on the average growth rate for the previous three years.

*: Provisional, #: Projected, N. A: Not Available.

The above table explains the annual growth of working MSMEs, employment generated, investment, production and exports in India from 2001-02 to 2010-11. The data up to the year 2005-06 represents the SSIs and from the year 2006-07 the data related to MSMEs which includes manufacturing and service enterprises. It is clear from the above data that in the year 2001-02 there are 105.21 lakh units which created employment opportunities for 249.22 lakh persons with fixed investment of Rs 154349 crore. Total production was worth Rs282270 crore and contribution to the India exports to the extent of Rs 71244 crore. There is a steady growth up to the year 2005-06. After the passing of the MSMEs Act 2005-06, more number of micro small and medium enterprises was included in the Act. Hence there is increase in the number of enterprises, employment, investment, production and export contribution. In the year 2006-07, there was an increase to the extent of 11.57% (261.12 lakh enterprises) in MSMEs, employment generation by 101.98% (595.66 lakh persons), investment by 166.20% (Rs500758 crore), production by 42.49% (Rs709398 crore) and export by 21.50% (Rs182538 crore) from the previous year 2005-06. From the year 2006-07 again there is a constant growth in enterprises 4 to 4.5%, employment by 5 to 5.5%, investment by 11 to 11.5%, production by 11 to 11.5%. Corporate Social Responsibility by SMEs

"The fact that small businesses have a heightened requirement for good, multi-skilled employees, strong personal relationships and successful local engagement means that small firms can be a good environment for corporate social responsibility to flourish." (Draper, S (2000) Corporate Nirvana. Is the Future Socially Responsible? London, Industrial Society)

Developing countries requires, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector, in which SMEs play a central part.

- SMEs tend to employ more labour-intensive production processes than large enterprises. Accordingly, they con-

tribute significantly to the provision of productive employment opportunities, the generation of income and ultimately, the reduction of poverty. It is through the promotion of small enterprises that individual countries and the international community at large can make progress towards reaching the global target of halving poverty levels by the year 2015.

- Countries with a high share of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This in turn is a key contribution to ensuring long-term social stability by reducing ex-post redistribution pressure and by reducing economic disparities between urban and rural areas.
- SMEs are the key to the transition of agriculture-led to industrial economies as they provide simple opportunities for processing activities which can generate sustainable livelihoods. In this context, the predominant role of women is of particular importance.
- SMEs are a seedbed for entrepreneurship development, innovation and risk taking behaviour and provide the foundation for long-term growth dynamics and the transition towards larger enterprises.
- SMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked. Such linkages are of increasing importance also for the attraction of foreign investment. Investing transnational corporations seek reliable domestic suppliers for their supply chains. There is thus a premium on the existence of domestic supporting industries in the competition for foreign investors.
- SMEs, as amply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner.

Promoting CSR and SMEs

- Understanding CSR: The lessons and approaches of CSR cannot be simply transferred to SMEs. Many of the concerns underlying calls for CSR do not apply to SMEs, which lack the power to influence governments, dictate standards, or move across national boundaries in search of lighter regulation. At the same time, many SMEs already practise some kind of 'silent social responsibility'. SMEs generally have a greater understanding of local cultural and political contexts, more links with local civil society and a greater commitment to operating in a specific area. Family-owned companies in particular often exhibit strong ethical and philanthropic approaches. SMEs need to give a voice to their 'silent' social and environmental responsibility.
- Benefits to SMEs: Benefits might include better alignment with consumer concerns, partnership opportunities with transnational companies, improvements in productivity and improved capacity for learning and innovation. However, these benefits will not be significant for every company. In the case of SMEs in developing countries, upgrading the quality of their technology, management, and marketing, are likely to be equally pressing concerns, which need to be addressed in parallel with social and environmental impacts. CSR boosterism in the form of donor led initiatives to promote SME-CSR would be misplaced except in industries and sectors.
- Integration of core business strategy: CSR has gained prominence against a backdrop of relative economic stability and growth. However, the trend of global economic cycle's means that this pattern of growth will at some point slowdown and possibly goes into recession. If any downturn is compounded by global insecurity as a result of increased political conflict, the further development of CSR may be seriously challenged. Where CSR is in-

tegrated within the core business strategy, it is likely to remain strong, whereas, CSR as a philanthropic add-on is vulnerable to cost cutting. Ultimately, the long-term success of CSR will be based on its ability to be positioned within the core of business strategy and development, thereby becoming part of 'business as usual'.

- Requirement of the global economy: The global economy emphasizes the importance of responsible business practices among global firms and their suppliers, including SMEs that form part of the supply/value chain. There are risks for enterprises that do not adhere to socially responsible ways of doing business, including practices related to managing environmental impacts, compliance with labour standards, and the like. Global firms are beginning to encourage, if not, to mandate the adoption of responsible business practices among their suppliers especially in developing economies. There are benefits in terms of increased access to business opportunities offered by global firms. There are also costs especially on the part of SMEs that still lack the resources needed to meet the new market standards for doing business.
- Meeting the needs of large firms: SMEs have problems meeting the quality, quantity and reliability standards of large firms. These problems are due to the constraints faced by SMEs in improving their competitiveness: weak access to capital, technology, markets, and cheaper inputs; inadequate infrastructure; regulatory barriers; governance gaps; and burdensome taxation. Many micro enterprises have gone informal to escape the excessive regulations of the labour market because they are unable to comply with basic labour standards and minimum wage requirements.
- Sustainability and competitiveness of large firms: Global competition is pushing companies to go beyond their boundaries in search of solutions to their business problems. Thus, large firms nowadays outsource certain activities that can be more efficiently produced by other smaller firms. SMEs are potential solution providers to large firms. Firms believe that improving the competitiveness of SMEs would improve the competitiveness of large firms. CSR initiatives in SMEs are still modest and building initiatives probably needs an advocacy to increase involvement.

Conclusions :

SMEs must adopt CSR for the benefit of Improved products and/or production processes, resulting in a better customer satisfaction and loyalty, Higher motivation and loyalty of employees, resulting in a higher creativity and innovativeness, Better position at the labour market and better networking with business partners and authorities including better access to public funds due to a better company image Cost savings and increased profitability due to a more efficient deployment of human and production resources and increased turnover/sales due to a competitive advantage and which will give opportunity for the SMEs to involve in societal developmental activities. The government must to look into policies and legislations for the benefits of SMEs adapting CSR and take up initiatives aimed at encouraging SME involvement in CSR. It is clear from the data given in this paper which highlights the contribution of SMEs in the form employment, investment, production and export which will definitely contribute the socio economic development of the country. On the other side government encourages the SMEs through various schemes and financial assistance through banks and financial institutions. RBI reports on banking highlights the contributions of SMEs to Non-performing assets (NPAs). Entrepreneurs should not forget that they are using the public money which is hard earned and they have the responsibility of repaying societies money along with all other elements of corporate social responsibility.

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