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## Role of CSR in Micro, Small and Medium Enterprises

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### **Abstract:**

*The objective of the study is to know the Role of CSR in MSMEs. The research for this paper will be carried out by studying various articles, Literatures available in various journals, books, manuscripts and websites. The extant literature on CSR and ethics suggest that there is a need for a greater understanding about MSMEs. The role of MSMEs in the economic growth and development of emerging countries like India is significant. Given the geographical diversity of India and its high reliance on agriculture, MSMEs are the life line of the economic development and growth in future. This paper attempts to outline the state of the SME sector in India. It conclude 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. The paper attempts to outline the state of the SME sector in India.*

**Key words:** CSR, Micro, Small and Medium Enterprises

## **Introduction:**

The ongoing debate in Western economies regarding the role of corporate in widening the gap between the rich and the poor, exemplified by the Occupy Wall Street movement, has brought focus on 'Corporate Social Responsibility' in public discourse in India. Corporate Social Responsibility (CSR) has been in news in India for last few months, since passage of Company Bill 2012 in Lok Sabha in December 2012. The term "Corporate Social Responsibility came into common use during late 1960's and early 1970's globally.

CSR in India is several decades old, where large corporate houses have been role models in adopting the local society they depend on for land, labor and some other resources. However, CSR has remained an elusive practice adopted only by a limited number of large corporate, and in yet to become a mainstream initiative even along large companies. In this context, MSMEs in India have a key role to play, in bridging the social divide while building a prosperous India. Some CSR initiatives that any MSMEs can strive to achieve include simply conducting its business in an ethical manner: paying all taxes and duties, providing a healthy working environment, adhering to basic social security regulations such as minimum wages, ESI, PF, etc, shunning cash-based transactions, and avoiding corrupt practices to solicit business- each of these will contribute to much more equitable society that what we have currently inherited. MSMEs are the bulwark of the economy, accounting for more that 45 percent of industrial output, and more that 40 percent of India's exports. A widespread adoption of ethical business practice3s among MSMEs can have far-reaching implications of the country. It may not be always cost-effective for and MSMEs to source all its resource requirements-manpower, basic raw material, components, etc-from the local vicinity. However, building a relationship with the3 local community by co-opting them in some form would

definitely help the enterprise in the long run. Entrepreneurs must realize that they are utilizing a fair share of local resources such as land, water, power, etc, and should strive to return the favor to the local community. While adopting schools or hospitals could be possible only for large corporate, MSMEs could meet their CSR goals through providing local employment, developing local vendors for supplies, using local agricultural produce or farm waste, etc. Many entrepreneurs interpret CSR initiative as charity; however, this isn't a sustainable model, as such initiatives would suffer at the slightest pressure on the profitability of the enterprise. Entrepreneurs should recognize that CSR is their inalienable responsibility for the society, and strive to interweave CSR initiatives with their regulate business goals

The establishment and nurturing of Micro Small and Medium Enterprises (MSMEs) is a resourceful input leading to the rapid development of economic and social prospects. MSMEs could be the steroid which the Indian economy needs at this moment. As global competitiveness the concept of Corporate Social Responsibility (CSR) is proposed as an impressive strategy to rejuvenate Micro Small and Medium Enterprises (MSMEs) operations and competitiveness. The outcomes of CSR activities can help to a greater extent in improving the survival rate of MSMEs and may offer great opportunities for business competitiveness, locally and globally. It helps in creating and developing the entrepreneurial foundation of the nations by supporting the enterprises through supply of raw materials and a range of components required for the production. Sustainable entrepreneurship is incomplete and inequitable without being given a standing ovation of the small and medium enterprises as engines of inclusive growth and development.

## **Micro, Medium & Small Scale Industry:**

SMEs are defined in different ways in different parts of the world. Some define them in terms of assets, while others use employment, shareholder funds of sales as criteria>some others use a combination of revenue and employment as a hybrid criterion. 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:

- (A) Manufacturing Enterprises- the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries( Development and regulation) ACT.1951) or employing Plant and machinery in the process of value addition to the final product having a distinct name or character or use. The manufacturing Enterprise and defined in terms of investment in Plant & machinery.
- (B) Service Enterprises- The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under:

<b>Manufacturing Sector</b>	
<b>Enterprises</b>	<b>Investment in plant &amp; machinery</b>
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
<b>Service Sector</b>	
<b>Enterprises</b>	<b>Investment in equipments</b>
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees

Medium Enterprises	More than two crore rupees but does not exceed five core rupees
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### **MSMEs in India:**

The Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship. They also play a key role in the development of the economy with their effective, efficiently, flexible and innovative entrepreneurial spirit. The MSME sector contributes significantly to country's manufacturing output, employment and exports and is credited with generating the highest employment growth as well as accounting for major share of industrial production and exports. MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSMEs sector is much higher than that of large enterprises. MSMEs constitute more than 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, MSMEs play an essential role in the overall industrial economy of the country. In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas,

reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute a=enormously to socioeconomic development of the country.

Key highlights of the MSMEs Sector:

- MSMW account for about 45% of India's manufacturing output.
- MSMEs account for about 40% of India's total exports.
- The sector is projected to employ about 73 mn people in more than 31mn units spread across the country.
- MSMEs manufacture more than 6,000 products ranging from traditional to high tech items.
- For FY11 total production coming from the MSME sector was projected.
- For FY11, total production coming from the MSMEs sector was projected at ` 10,957.6 bn, an increase of more than 11% over the previous year.

The Indian MSME growth model has captured the imagination of economic strategists and policy makers around the world. Over the last two decades, the Indian MSME sector has grown exponentially in terms industrial output, exports, innovation and employment generations, fuelled by globalization, liberal domestic economic policies and increasing accent on Public Private Partnerships. Today, many developing countries around the world have benchmarked the Indian MSME sector as the key model for their own small sector development initiatives. Several key factors have influenced the shaping of this growth model:1) Indian MSMEs account for over 40 percent of the country's industrial output, exports and employment. The sector commands a strong presence across India , accounting for the bulk of every stats industrial output employment generations.2) The MSMEs sector is a key GDP growth driver, having 30 million enterprises, crating some 1.3 million jobs every year and producing over 8,000 quality products for Indian

and international markets.3) The sector comprises a wide range of enterprises, many of which are competing with large enterprises in sectors like auto components, agribusiness, etc., on the plank of quality and innovations.4) Today, Indian MSMEs are driving a gamut of R&D and innovation initiatives in both traditional and emerging business sectors, besides furthering the country's green agenda and manufacturing growth.5) The sector is a nursery for highly innovative, knowledge-driven startups. Young Indian entrepreneurs are continually arriving on the scene with well-chiseled plans to establish globally competitive business.

Despite of playing a key role in development of Indian economy by MSMEs there are still nearly 2.5 lakh sick MSMEs units in the country. The number of sick micro, small and medium enterprises in the country rose substantially after the revision in the definition of sickness by Reserve Bank in November 2012. The number of sick micro, small and medium enterprises (MSMEs) in March 2013 was 248890. The number of sick MSMEs in March 2013 has increased from 88,635 in March 2012 on account of revision of definition of sickness made by RBI.” The outstanding credit to MSME sector in respect of scheduled commercial banks was ` 8,55,658 crore in March 2013.

### **Corporate Social Responsibility (CSR):**

While there may be no single universally accepted definition of CSR, each definition that currently exists underpins the impact that businesses have on society at large and the societal expectations of them. Although the roots of CSR lie in philanthropic activities (such as donations, charity, relief work, etc.) of corporations, globally, the concept of CSR has evolved and now encompasses all related concepts such as triple bottom line, corporate citizenship, philanthropy, strategic philanthropy, shared value, corporate sustainability and

business responsibility. Corporate Social Responsibility (CSR) has been defined vaguely in many ways . There is no one definition. CSR has been called as Corporate Conscience, Social Performance, Sustainable Responsible Business and Responsible Business. It has been referred by some as “the businesses are managed to bring about an overall positive impact on the communities, cultures, societies and environments in which they operate.

The EC Defines CSR as “the responsibility of enterprises for their impacts on society”. To completely meet their social responsibility, enterprises” should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders”.

According to UNIDO, “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 as company achieves a balance of economic, environmental and social imperatives, while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity sponsorships or philanthropy. Even though the latter can also make valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen is brand.

Corporate Social Responsibility (CSR) is becoming an increasingly important activity to businesses nationally and internationally. As globalization accelerates and large corporations serve as global providers, these corporations have progressively recognizes the benefits of providing CSR programs in their various locations. CSR activities are now being undertaken throughout the globe. This allows the company to assess their responsibility in their eyes. The



question to assert is if they have a responsibility that goes beyond economic and legal concerns. If the firm comes to the conclusion that they do not have any further responsibility than economic and legal concerns this will be the last stop and thus the expectations found earlier will not be met.

### **Key Issues in CSR**

1. Labour Rights: Child labour, forced labor, right to organize , safety and health
2. Environmental condition: water & air emissions, climate change.
3. Human rights: co-operation with paramilitary forces, complicity in extra-judicial killings.
4. Poverty Alleviation: job creation, public revenues, skills and technology.

### **Objectives of Corporate Social Responsibility**

1. Through this mechanism, the organization monitors whether they are adhering to: The law, Ethical standards and International norms.
2. The business should embrace the responsibility for the impact of their activities on: the environment, customers, and employees, communities, stakeholders and all other people in their sphere of operations.
3. It is the responsibility of business to proactively promote public interest through encouraging the community growth and development, elimination and harmful practices. It is the deliberate inclusion of public interest into the organizations decision making an honoring the bottom line people, planet and profit.
4. Corporate social responsibility” implies that companies or firms are more than economic units”. The company

should be very active in solving the problems of the community in which it is based.

### **The Importance of Corporate Social Responsibility for MSMEs:**

Small to medium-sized enterprises account for about 90 percent of businesses worldwide and are responsible for 50-60 percent of employment. As such, they play a fundamental role in society and can potentially have a huge impact on social welfare.

It is surprising, therefore, that corporate social responsibility (CSR) initiatives, so far, have tended to focus on large companies and multinationals. As SMEs have stakeholders and an impact on society the concept of CR is just as valid for small companies, as for large companies.

Many SMES may be doing CSR in some way or form, but don't call it "CSR" as such. For example, they may provide excellent goods and services; they may be great employers, engaging with their employees and other stakeholders; they may be alert to health and safety issues in workplace and for customers, or they may be attempting to operate sustainably and minimize their use of natural resources. All of these things are examples of socially responsible behavior but are not labeled as such by many small and medium sized businesses. Staffing is often a critical element in the success of a small business. It is true in any business but employees in a small business are often a critical resource for the business's success and prosperity. As such, many small and medium-sized businesses place emphasis on increasing employee skills and work on motivating and building staff morale.

Much of SMEs social, community and environmental initiatives are therefore driven by , or focused on employee engagement and development. Small and Medium Enterprises (SMEs) lay and indispensable role in triggering economic growth and equitable development, particularly in developing

countries It is a well known fact that SMEs produce large proportion of country's output, provides huge employment and generate substantial revenues to government not only in developed countries but developing countries as well. As the SMEs also include stake holders 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. CSR 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 in 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. In an exploratory study conducted on CSR in SMEs done in the Pune Industrial belt by NGO Business Community Foundation, it was found that the general impression among SMEs is that following mandatory Government laws makes them socially responsible .A lot of SMEs are of the opinion that Philanthropy and CSR are one and the same.

In the last decade, the government is actively promoting cluster development as strategy to grow SMEs. In 2007,

UNIDO along with the Swiss Development corporation has embarked on a thematic co-operation to identify and disseminate good practices and operational suggestions to improve the participation of the SMES in the CSR movement. The sports good cluster in the State of Punjab had a multi-stakeholder engagement on CSR in 2008. In a study conducted by the UNIDO(2008) on CSR perceptions and activities in SMEs in five industrial clusters in India, it was found that regardless of geographical region they hailed from, SMES tended to behave similarly towards CSR. Many of them considered 'taking care of their employees internally; and 'being involved in community welfare' as their CSR responsibility. The influence of the personal values of the entrepreneurs in determining the choice of CSR activities found support. The Position of the SME in the value chain and the financial side seems to positively impact the nature of CSR activities undertaken. When markets and large buyers put pressure on the SMEs activities like worker education, health and safety compliance are undertaken which in the normal course of business would be unlikely to occur.

In the case of clusters, the role of cluster with CSR activities assumes significance. The leather cluster is plagued by pollution. The operations in leather tanning- washing, stripping, bleaching, chrome tanning and basification- involve the use of very toxic chemicals and its effluents tend to pollute ground water. Collective CSR efforts will include effluent treatment plants. The adoption of common effluent treatment plants and eco-friendly technologies has not become very widespread due to lack of awareness among small firms and also partly due to lack of enforcement of environmental laws amongst small players. (EXIM, 2000).

## **Barriers:**

Barriers for SMEs for becoming involved in corporate social responsibility include:

- The cost of implementing CSR activities when survival is often the generates economic imperative;
- Time and resource constraints which may mean a lack of affordable external support and resources;
- A lack of awareness of the business benefits with no/little understanding of the business for small and medium-sized enterprises;
- The fact that existing CSR tolls and guidelines are mainly geared towards large business;
- No systematic incentives or frameworks for SMEs to engage with this concept and
- Fear of additional regulatory and bureaucratic burdens.

## **Conclusion:**

One of the problems that SMEs face when seeking to address CSP. Issues are that many of the tolls are designed for big business. Initiatives aimed at encouraging SMW involvement in CSR need to be easily accessible and relevant. The advice needs to be tailored to them with easy-to-use tools and case studies that make it real and provide encouragement to SMEs. IF small businesses can see examples of Specific initiatives that have increased profitability and improved the business they will be more likely themselves to adopt CSR strategies. Information should be made available through channels known and trusted any SMEs including industry associations. At the root of many of the obstacles facing SMEs is the lack of expertise amongst tier 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.

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