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Dr. M Renuka Devi
Associate Professor
Department of Corporate
Secretaryship, PSG College of
Arts and Science, Coimbatore,
Tamil Nadu, India

Corporate social responsibility in small and medium enterprises: Benefits and challenges

Dr. M Renuka Devi

Abstract

Corporate social responsibility (CSR) is a business management concept that originated in the early 1930s after the Wall Street crash of 1929 exposed corporate irresponsibility in large organisations. Since then, social responsibility has continued to be the focus of business operations and a popular topic of investigation for practitioners and academics from a range of disciplines. Whilst the initial interpretation of CSR has been modified and refined since it was first used, the significance of this multidimensional concept for the small and medium enterprise (SME) sector has continued to be overshadowed by its application to large and multinational organisations.

Small and Medium Enterprises (SMEs) have played a crucial role in India's economic growth. With over 30 million units, SMEs accounted for 17 percent of the country's GDP in 2011 and employs around 60 million people, the second largest workforce in the country after the agricultural sector. SMEs always represent the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for the import of capital goods, labour intensive mode of production, non-concentration of economic power in the hands of few and discouraging monopolistic practices. In this paper the implications of CSR and its linkages with SME sector have been discussed. Unlike large scale organizations, SMEs have many constraints e.g. financial limitations, less government support and lack of knowledge. So they are not much familiar with the concept of CSR and its advantages.

Keywords: CSR for SME's, CSR practice in SME, SME 's initiatives

Introduction

In recent years, Corporate Social Responsibility (CSR) has been increased significantly and it is now viewed as at its most predominant representing an important topic for research. Current corporate scandals have attracted the attention of public and highlighted once more the importance of CSR. In developing countries research on CSR in SMEs is quite meager. Small and medium enterprises (SMEs) have been identified as an important strategic sector for promoting growth and social development of countries. Over the years, SMEs have gained a great reputation as a main source of employment, income generation, poverty alleviation and regional development. Small and medium-sized enterprises (SMEs) consist of more than 90% of enterprises and 50-60% of employment worldwide. SMEs' involvement in national and regional economic development and GDP growth is highly acknowledged. Participation of CSR in SMEs in developing as well as developed countries has been seen as more ad hoc in nature without any involvement of particular CSR departments and environmental and social sustainability reports generation as expected in large firms.

It includes many aspects which come under the fulfillment 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. SMEs have a crucial role in the Indian industrial sector and have become the engine of economic growth in India with their efficient, flexible and innovative entrepreneurial spirit. The dynamic role of SMEs in developing countries positions them as engines through which the growth objectives of developing countries can be achieved – a role that has long been recognized. Today, small and medium industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment.

Correspondence

Dr. M Renuka Devi
Associate Professor
Department of Corporate
Secretaryship, PSG College of
Arts and Science, Coimbatore,
Tamil Nadu, India

But the importance of SMEs in economic growth and development process is even more than their strength in number. SMEs are the mainstay of developing economies, particularly in terms of employment and development impacts. In many sectors, their cumulative social and environmental impacts are greater than those of large enterprises. Overall SMEs are found to be helping hand for employment growth, innovation and overall economy of not only in single country but also in international businesses. It is concluded that it's not possible for developing economies to ignore the role of SMEs. SMEs have proved all over the world by taking its position for economic development. SMEs are particularly important in supporting economic growth and livelihoods in developing countries, as they tend to use more labor-intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution; provide livelihood opportunities through simple, value adding processing activities in agriculturally-based economies; nurture entrepreneurship; and support the building up of systemic productive capacities and the creation of resilient economic systems, through linkages between small and large enterprises.

Objectives

- The CSR policy of the Company is formulated for determining the guidelines for contributing towards the sustainable development of the society and environment as a whole.
- The CSR committee is entrusted with the responsibility for carrying out the CSR activity of the Company

CSR for Small and Medium Enterprises (SMEs)

Corporate Social Responsibility (CSR) is very vital for Small- and Medium-sized Enterprises. The developments during the last two decades have changed the outlines of what is acceptable to the society in context of International trade. The social responsibility has grown to be a commonly debated issue that has attracted considerable media attention during the last decade. The benefit or harm of products and services, their environmental impact and the producer's relationship with the workforce and with local communities are open to inspection particularly since last six-seven years. The European Observatory of SMEs states that mostly in a small company implementation of CSR is done on an occasional basis, and not tied to business strategy. And of course, a big step in this approach is making CSR a major part of the core decision making process at senior levels. In developing countries it has been noted that research on CSR in SMEs is quite meager. People are not much aware of the concept of CSR, even though they have adopted ways and means of being responsible to community and society. As discussed with some executives of SMEs in Pakistan, they

are not properly aware of CSR, but they are giving donations to hospitals and schools and also engaged in making their business environment friendly.

The distinctive feature of Small and Medium Enterprises (SMEs) are less capital investment and high labour absorption which has created unprecedented importance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises, the sector has the credit of being the second highest in employment, which stands next to agricultural sector. SMEs constitute about 90% of the industrial units in the country and also contributes to about 35% of India's exports. In India, SMEs form the backbone of industry. There are to date more than 12.34 million SME units contributing 6 percent to the GDP of India. SMEs development agencies such as Small Business Administration (SBA) of the US, Small Business Service (SBS) of United Kingdom and SIDO (Small Industries Development Organization) in India are the intermediaries set up by the Government. Some of the important organizations that are associated with SMEs in India are: National Small Industries Corporation Ltd. (NSIC), Small Industries Development Bank of India (SIDBI), Confederation of Indian Industry (CII), Laghu Udyog Bharti (LUB) and Small Entrepreneurs Promotion and Training Institute (SEPTI) (Ghatak, 2009).

To promote and develop the MSMEs, the government has implemented several schemes/programmes to cater to the needs of the sector. India offers attractive incentives to small enterprises but these measures backfire beyond a specified level leading to loss in valued benefits. SMEs lack export competitiveness due to product reservation, regulatory policies at the entry and exit stages, lack of sufficient finance at affordable interest rates, rigid labour markets and infrastructure issues like power tariff and lack of export infrastructure. However, the contribution of SME's towards employment generation is significant because they use more labour intensive production processes than large enterprises, leading to increase in employment and more equitable income distribution. SMEs are facing challenges that hinder their growth and competitiveness. According to the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as:

1. **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). The manufacturing enterprises are defined in terms of investment in plant & machinery.
2. **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Classification Manufacturing Enterprise

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Less than Rs.25 lakhs	Less than Rs. 10 lakhs
Small	Over Rs.25 lakhs but not exceeding Rs.5 crores	Over Rs.10 lakhs but not exceeding Rs.2 crores
Medium	Over Rs.5 crores but less than Rs. 10 crores	Over Rs.2 crores but not exceeding Rs.5crores

Small and medium enterprises are the backbone of industrial development. They always represent the socioeconomic policies of the Government of India which emphasized judicious use of foreign exchange for the import of capital

goods, labour intensive mode of production, non-concentration of economic power in the hands of few, discouraging monopolistic practices and finally effective

contribution to foreign exchange earning of the nation with low import-intensive operations.

CSR Practices in SMEs

The business activities of SMEs are performed in proximity to the locals. This enables them to be aware of community needs, manage expectations and develop CSR programs appropriately. Now that the CSR clause in the Companies Act, 2013 covers companies that have a net profit of five crore INR and above, it is expected that while micro-enterprises will not qualify, many small and medium enterprises (SMEs) will. SMEs are being treated separately in this handbook because of their distinct features. The CSR activities of these enterprises are driven by the personal interests of promoters who hold a significant financial stake in the business. They tend to be in clusters and engaged in similar business activities. While the quantum of revenue available for CSR with individual SMEs is expected to be small, all eligible companies in a specific geographical cluster, who single handed as well as collectively impact the same community, can pool their resources to create a sizeable CSR fund.

SMEs in India have participated in CSR activities but these efforts have not been optimally delivered. One possible reason can be the fact that CSR activities depend on the profits of an SME and any fluctuations in profits can adversely affect their capability to continue their contribution for CSR. Another reason can be the limited human resources available to SMEs which may also result in the lack of a professional approach. With the introduction of the new Companies Act, 2013, the SME's approach to CSR has to be modified while keeping operational costs low. One viable alternative is to pool resources with other SMEs in the cluster and create joint CSR programs managed by a single entity. This collaboration can be formed within the units in a cluster as they interact with the same communities and have already established associations that cater to the business needs of the units.

Corporate Social Responsibility and UNIDO

The United Nations Industrial Development Organization (UNIDO) has for many years been at the forefront of supporting the development of SMEs in developing countries and has recognized the increasing influence that TNCs now have on that development. UNIDO's SME Branch has therefore initiated study in order to provide a strategic analysis of:

1. The current state and future directions of CSR globally;
2. The implications of CSR for SME development;
3. Strategies to support SMEs in responding to the demands of CSR;
4. CSR approaches that support the role of small businesses in development.

SMES Contribution to CSR Initiative

This section analyses the option of undertaking collaborative CSR activities by SMEs. This collaboration can also be used by other companies to maximise the impact of their CSR initiatives while reducing the operational costs for fund management.

Benefits of SME'S

The business benefits that businesses including SME earn from CSR activities and they include;

Enhanced brand image and reputation

A company considered socially responsible can benefit - both by its enhanced reputation with the public, as well as its reputation within the business community, increasing a company's ability to attract capital and trading partners. In business, excellent employee-customer-community relations enhance the firm's brand and reputation which in turn support the organization to realize its goals on customer acquisition and retention and cost management among others.

Increased sales and customer loyalty

A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must first satisfy customers' key buying criteria - such as price, quality, appearance, taste, availability, safety and convenience. Studies also show a growing desire to buy based on other value-based criteria, such as "10% of proceeds shall go to Charity" products with smaller environmental impact, and absence of genetically modified materials or ingredients like "100% Organic".

Easier access to capital

Social businesses combine a social, ethical or environmental mission with the entrepreneurial flair and innovation of a business perspective. There is a growing trend of financiers deploying venture capital financing models to fund non-profits events/social enterprises/activities that deliver high social impact or a strong social causes for its existence. To effectively maximize the fund's capital to deliver social impact, this breed of financiers are attracted to successful financing social enterprises that shows growth and financial sustainability. It is clear that companies addressing ethical, social, and environmental responsibilities have rapidly growing access to capital that might not otherwise have been available.

Improved financial performance

Several studies across the world have shown that CSR activities positively contribute to the financial performance of businesses. It has been proved that "stakeholder balanced" companies enjoyed higher growth rates when compared to companies that focused only on shareholders and profit maximization. The improved financial performance arises from the broader business benefits such as improved image that increases sales and other internal policies that lead to sustainable cost management.

Conclusion

Since SMEs contribute significantly to the economy and are geographically widely spread in a country like India, their adoption of CSR and ethical practices is crucial to a balanced development. There is a paucity of academic research in this area. In a vast country like India, comprising of 28 states which are economically at different stages of development, a study of the CSR practices in SMEs could be a valuable exercise for policy makers.

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