

# Corporate Social Responsibility and the Role of SME's in India

Dr. Manish Sood

*Assistant Professor,*

*Department of Humanities and Management,  
National Institute of Technology (NIT), Jalandhar*

**Abstract - The concept of Corporate Social Responsibility has changed over the years depending upon the changes in social, political, economical and legal environments. 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. Small and Medium Enterprises (SMEs) have played a crucial role in India's economic growth. With over 30 million units, SMEs accounted for 17 per cent 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. The small scale industry accounts for 40% of gross industrial value addition and 50% of total manufacturing exports. 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 present paper is an endeavor to examine the contributions of SMEs in societal development and benefits of CSR to SMEs.**

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

## I. INTRODUCTION

The concept of Corporate Social Responsibility has changed over the years depending upon the changes in social, political, economical and legal environments. 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. With over 30 million units, SMEs accounted for 17 per cent of the country's GDP in 2011 and employs around 60 million people, the second largest workforce in the country after the agricultural sector. It is estimated that SMEs account for almost 90% of industrial units in India and 45% of value addition in the manufacturing sector. More than 3.2 million small units are spread all over the country producing about 8000 items, from very basic to highly sophisticated products. This significant contribution of SMEs to the economy is a result of increasing focus of industrial bodies, associations and policymakers towards the development of SMEs.

## II. CSR FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

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 (2001), the sector has the credit of being the second highest in employment, which stands next to agricultural sector. Pandey (2007), states that 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 per cent to the GDP of India (Sridharan, 2006). 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 (Chandra, 2004). 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). 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.

To promote and develop the MSMEs, the government has implemented several schemes/programmes to cater to the needs of the sector (Rai, 2009). India offers attractive incentives to small enterprises but these measures backfire beyond a specified level leading to loss in valued benefits (Little et al, 1987; Mitra and Pingali, 1999). 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 (Das et al, 2007). However, in developing countries, as some authors argue (Leutkenhorst, 2004) 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 (Partha Sarathi, 2007). 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.

Table1: Classification of MSMEs

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

\* Investment Limit in Plant & Machinery

\*\* Investment Limit in Equipments.

Small and medium enterprises are the backbone of industrial development. They always represent the socio-economic 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. Thus keeping in view the importance of SMEs in Indian economy, the present study has been focused on a detailed analysis of the role and significance of SMEs towards economic development of the country during the post-liberalization period i.e. from 2000-01 to 2011-12. The study also examines the contributions of SMEs in societal development and benefits of CSR to SMEs.

The present study is exclusively based on secondary data. The relevant data has been collected from the Annual Reports of the Ministry of MSMEs, Handbook of Statistics on Indian Economy, etc. The period of study is confined to 12 years time period i.e. from 2000-01 to 2011-12. The study is further divided into two periods, namely period I i.e. from 2000-01 to 2005-06, called as early phase of the Post-liberalization and period II i.e. from 2006-07 to 2011-12, called as lateral phase of Post-liberalization period. Moreover, the performance of SMEs in terms of critical economic parameters such as the number of units, gross output, fixed investment, employment and exports has also been analyzed. The secondary data has been analyzed with the help of various statistical techniques such as mean, standard deviation, exponential growth, range, coefficient of variation and student't' test.

### III. SMEs CONTRIBUTION TO INDIAN ECONOMY

The SME sector is a significant contributor to the Indian economy and its contribution towards economic development is highly remarkable in comparison to any other sector of the economy. Its role towards investment, employment generation, export, GDP, industrial production etc. in every area is highly significant. Annual report of the Ministry of MSME (2010-11) shows 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 59 million people in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the Micro, Small and Medium enterprises in India. The Government of India since 1951 through its various policy initiative and different incentives has always encouraged and supported the SME's. Since 2005, the Government of India has marked 3,000 SME clusters of artisan-specific, village and small enterprises in the country and has shortlisted 1,150 such clusters for improvement and intervention.

Table 2: Performance of Small Scale Sector since Liberalisation: Data analysis

Macro-economic parameters	Early Phase of Post-Liberalisation [2000-01 to 2005-06]					Lateral Phase of Post-Liberalisation [2006-07 to 2011-12]					't' value
	Mean	Sum	Stand. Deviat.	Expon Growth	COV %	Mean	Sum	Stand. Deviat.	Expon Growth	COV %	
Total SSI Units (in Lakhs)	112	672	8.35	3.99%	7.46	403	2420	32.15	4.26%	7.97	21.48*
Fixed Investment (Rs. Crores)	166757	1000542	15367.7	4.93%	9.22	1009758	6058552	114469.3	6.02%	11.3	17.88*
Gross Output (Rs. Crores)	358433	2150602	91324.3	13.23%	25.4	1581006	9486038	180340.4	6.10%	11.4	14.81*
Employment (Lakh Person)	266.19	1597	20.95	4.21%	7.87	904.84	5429	77.48	4.58%	8.56	19.49*
Exports (Rs. Crores)	99892	599357	31814.2	16.09%	31.8	414296	2485781	144528.8	19.42%	34.9	5.20*

Note: \* Denotes significant at 1% level.

Source: Annual Reports, Ministry of Micro, Small and Medium Enterprises (MSMEs).

The performance of the Indian small scale sector in terms of critical macro-parameters such as, gross output, fixed investment, number of units, employment and exports during the post-liberalisation period (2000-01 to 2011-12) has been exhibited in table 1.2. There were 112 lakh average SME units working in the country during 2000-05 registering an exponential growth of 3.99% which further increased to 403 lakh mean units registering a growth of 4.26% during the lateral-phase (2006-12). The contribution of production by the SME sector was also appreciable in liberalisation-phase and has opened new avenues to entrepreneurs for wide scope of innovation in technology and development. The total investment in SMEs has registered a growth of 4.93% in the early-phase which further increased to 6.02% during 2006-2012. This is mainly due to its various advantages in comparison to other sectors and the closeness of Indian economy towards SMEs environment, like cheap local resources, local talent, high demand, etc. Moreover socio-economic policies adopted since the industries development & regulation Act, 1951 have also laid more stress on SMEs sectors as a vehicle to develop the Indian economy.

The SME sector also contributes significantly towards the annual exports and employment of the country. This sector plays a major role in India's present export performance. 45%-50% of the Indian exports are contributed by the SME sector. Direct exports from the sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. The table depicts that annual exports from SME sector have registered an exponential growth of 16.09% during 2000-05 which further increased to 19.42% during the lateral phase (2006-11). Thus, exports from SMEs have shown tremendous growth rates in last decade. The product groups which dominate the exports from SMEs sector include sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products.

The table further reveals the mean value of employment provided by the SME sector to be 266.19 lakh persons registering a growth of 4.21% during 2000-05 and thereby increased to 904.84 lakh persons at an exponential growth rate of 4.58% during the lateral phase (2006-11). Thus, SMEs in India creates largest employment opportunities for the Indian population, next only to agriculture. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons. It is revealed that the food processing industry is ranked first in generating employment. The next two industries are non-metallic mineral products and metal products. Apart from this Chemicals & allied products, Machinery and machine tools except Electricals, Wood products, Basic Metal Industries, Paper products & printing, Repair services and Rubber & plastic products have also contributed to generate the employment in SMEs. The table also depicts computed 't' values of various macro-economic parameters i.e., exports, fixed investment, output, and employment at 1% level of significance i.e. 3.169 and it was found that computed 't' value of all macro-

aggregates was much higher, which thereby indicates a statistically significant difference in the mean contribution of critical economic variables during the early and lateral phase of the liberalisation period. Thus, the success of SME sector can be judged from the fact that despite being characterised by low exponential growth in output during the lateral phase, SMEs not only help to create employment opportunities, but also generates income, investment and savings in the economy.

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 can play a big role in helping the society by boosting their CSR initiatives. They can take variety of steps like conservation of natural resources, protection of environment, steps for eradication of illiteracy, adult education, spreading awareness in rural areas about health care etc. 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. Small and Medium Enterprises often face stiff competition from the large corporations when it comes to bagging fresh orders or retaining their existing clients. 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. As a result, a growing number of small and medium sized companies are laying emphasis on their CSR activities.

#### IV. CONCLUSION

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

- [1] Chandra, S., "Small Industries Development Organization (SIDO) in Global perspective", *Laghu Udyog Samachar: Journal of Small Scale Industries*, 28-29(12-2), pp 249-253, 2004.
- [2] Das, B., Shil, N.C., and Pramanik, A., Strengthening SMEs to make export competitive, Munich Personal RePec Archive. <http://mpra.ub.uni-muenchen.de/7800/>, 2007.
- [3] Development Commissioner of MSME, "MSMEs in India: Performance", Ministry of MSME, Government of India, available at <http://www.dcmsme.gov.in/ssiindia/performance.htm>, 2001.
- [4] Ghatak, S., Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal, [http://zunia.org/upload/media/knowledge/Small and Medium Enterprises in India 125967510.pdf](http://zunia.org/upload/media/knowledge/Small%20and%20Medium%20Enterprises%20in%20India%20125967510.pdf), 2009.
- [5] Leutkenhorst, 'Corporate Social Responsibility and the Development Agenda: The case for actively involving small and medium enterprises', *Intereconomics*, May/June 2004.
- [6] Little, I. M.D., Mazumdar, D., and Page, Jr., J.W., "Small manufacturing enterprises: A comparative analysis of India and other economies", New York: Oxford University Press, 1987.
- [7] Mitra, R., and Pingali, V., "Analysis of growth stages in small firms: A case study of automobile ancillaries in India", *Journal of Small Business Management*, 37(3), pp 62-76, 1999.
- [8] Pandey, A.P., "Indian SME's and their uniqueness in the country", MPRA paper no. 6086 (<http://mpra.ub.uni-muenchen.de/6086/>), 2007.
- [9] Sridharan, R., 'Small Ain't Beautiful: A Survey of India's SMEs', *Business Today*, 15: 18, September 10, pp. 99-110, 2006.
- [10] Partha Sarathi, B., 'State Government's Proactiveness must for Growth of SMEs, DNA Money, Indore', [www.dnaindia.com](http://www.dnaindia.com), 2007.