Strategic Corporate Social Responsibility Initiatives of MSME: A Study of Selected Units

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Abstract

The corporate social responsibility emerged as a business management concept in 1930. Since then, social responsibility is a popular topic of investigation for practitioners and academics from all the disciplines and has continued to be the focus of business operations. Corporate social responsibility is one of the important aspects of civilized society in which every individual is continuously receiving different experiences from the society. It is our responsibility to give back to the society, which has given us a priceless treasure throughout our life. Corporate social responsibility is the important role of every industry, no matter how big or small it is, as industry is a group of people working for some common cause. Comparatively less attention is being given to CSR in relation to SME’s in recent years. The knowledge of social activities in this sector, particularly in Kurukshetra has remained unexplored and amorphous. This paper examines how small-to-medium sized enterprises (SMEs) understand and implement corporate social responsibility (CSR). Eight depth interviews with practitioners from SMEs were conducted. The most salient stakeholder groups for SMEs in are employees, customers and community members. The findings suggest that practitioners understand CSR in terms of stakeholder engagement. The findings also suggest that SMEs use different tools to communicate CSR-related messages to different stakeholder groups. The effective policy with employees is one-to-one communication and an open door policy. While the direct corporate involvement in community initiatives is an appropriate policy for societal stakeholders. The finding of the paper suggest for the development of corporate branding strategies in the SME sector.

Keywords: - Corporate Social Responsibility, Small and medium enterprises

Introduction

The words “corporate” “social” and “responsibility” suggests that, CSR covers the responsibilities that companies or corporations have towards the societies within which they are based and operate. From a practical perspective, CSR involves a business identifying its stakeholder groups and incorporating their needs and values within the strategic and day to-day decision-making process (University of Miami, 2007, p. 1).

There are many definitions given by researchers and some of them are described in the paper to study the concept of CSR. Corporate Social Responsibility is the managerial obligation to take action to protect and to improve both the welfare of society as a whole and the interest of organizations (Davis and Blomstrom 1975). The social responsibility of business encompasses the economic, legal, ethical and discretionary
expectations that society has of organizations at a given point in time (Carol 1979). Corporate Social Performance is a business organizations configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firms societal relationships (Wood 1991). Good corporate citizenship can be defined as understanding and managing a company’s wider influences on society for the benefit of the company and the society as a whole [Marsden and Andriof (1998) quoted in Andriof Marsden (2000)].

Corporate social responsibility (CSR) continues to receive attention from several disciplines including organizational behavior, general management, accounting, marketing and corporate communication. Social responsibility is a popular topic of investigation for practitioners and academics from all the disciplines and has continued to be the focus of business operations. One approach has been to equate CSR with stakeholder management or engagement, although previously scholars adopting this perspective have focused largely on external rather than internal stakeholders (Aupperle, Carroll, and Hatfield, 1985; Becker-Olsen, Cudmore, and Hill, 2006; Bhattacharya and Sen, 2004; Creyer and Ross, 1997; Ellen, Webb, and Mohr, 2006; Godfrey, 2005; Lichtenstein, Drumwright, and Braig, 2004; Luo and Bhattacharya, 2006). A number of studies have documented benefits related to external stakeholders who can accrue from adopting a CSR approach (e.g., Maignan, Ferrell, and Hult, 1999). Such benefits include the enhancement of corporate reputation (Fombrun and Shanley, 1990), gaining a competitive advantage (Wether and Chandler, 2005) and improving financial performance (Hull and Rothenberg, 2008; Waddock and Graves, 1997).

CSR is to understand that how a business can positively interact with all their stakeholders. The business has to interact with market place (consumers, suppliers, and investors), peoples (employees, environment) and community. By implementing CSR, the company will insure worker rights and benefits, there will be no need to create a collective labor agreement and maintain the existence of a trade union. Workers are one of the inner circle stakeholders, and the other stakeholders which are divided in to internal and external stakeholder. Specifically for the worker, human resource management handles the CSR implementations, seen as aiming to provide those facilities and benefits for worker that are not regulated by law, working agreement and or a collective agreement. CSR which promised protection from protests against the industries, it itself became and establish industries in the market place.

CSR not only drawing the corporate magnate into its circumference, but is also luring educationist, social activists, reformist, from all over the world to delve deeper into it. Changing market scenario, globalization, Ethical consumerism all are adding heat the CSR concept. More and more organizations are showing their commitment towards CSR either for enhancing their corporate image or to be in competition.
A brief description of CSR is as shown in the following figure:

**FIGURE 1.1** Brief overview of corporate social responsibility (CSR)
Small and Medium enterprises

Definitions of SME’s:-

SME’s are different and defined differently in every part of the world. It is defined as terms of asset, shareholder funds or sales as criteria and some use it as employment. It is also used as a combination of revenue and employment as a combination norm. In India the definition of SME has been caused a lot of arguments or disagreements. In fact, the term, the term SSI (Small Scale Industry) is more commonly used to refer to SME’s. A clear definition is required by the government of India to provide clarity in this sector. According to the definition given in 2005, the Small enterprise was stretched to include a two category classification:-

a. Enterprises engaged in production/Manufacturing of goods for any industry

b. Enterprises engaged in rendering/providing of services.

Manufacturing Enterprise: Enterprises in the production/manufacturing sector are defined in terms of investment in plant and Machinery (excluding land & buildings) and further classified into:-

<table>
<thead>
<tr>
<th>Micro Enterprises</th>
<th>Investment up to Rs. 2.5 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Enterprises</td>
<td>Investment between Rs. 2.5 million &amp; Rs. 50 million</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Investment between Rs. 50 million &amp; Rs. 100 million</td>
</tr>
</tbody>
</table>

Service enterprises: Service Enterprise is defined in terms of their investment in equipment (excluding land & buildings) and further classified into:

<table>
<thead>
<tr>
<th>Micro Enterprises</th>
<th>Investment up to Rs. 1 million</th>
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</thead>
<tbody>
<tr>
<td>Small Enterprises</td>
<td>Investment above Rs. 1 million &amp; up to Rs. 20 million</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Investment above Rs. 20 million &amp; but below Rs. 50 million</td>
</tr>
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Literature Review

According to Sandeep Gupta, there are no homogenous definitions of the term corporate responsibility, given by the respondent. Majority distinguishes taking care of the labour’ as an enterprise internal action and externally infer as involving in community welfare. Some MSME states that due to lack of resources they do not get involved in the CSR initiatives.

In 2009, Gyorgy Malovics, examine the structure differences of SMEs from large companies should be considered in the relating empirical work and the social role and responsibility of SMEs can be understood in the light of Social Capital theory.

Lakweetpun Suprawan 2009, examine how small to medium sized enterprise (SMEs) understood and implement CSR. They suggest that SMEs use different tool to communicate CSR-related message to different stakeholder group. This suggests that SME owners and managers should invest in the development of relationships with primary stakeholders if they wish to build a reputation for CSR.

Puli Subramanyam show the contribution of Five year plans towards development of MSME. The Government of India, in May 1986, launched the Small Industries Development Fund with 2500crores. The Fund, under the Industrial Development Bank of India, provides assistance...
for the development, expansion, diversification and also rehabilitation of small units.

Based on Nooteboom’s (1994) identified characteristic of intertwined ownership and management in small businesses, several academics (Holliday 1995; Spence 1999; Tilley 2000) have explored the influence of SME owner-managers on their business activities including participation in socially responsible activities. Tilley (2000) mentions that SMEs are not ‘little big firms’ and therefore such businesses are not always motivated by the same things as their larger counterparts. In addition to size, SMEs differ in their orientation to legal form, sector, national context, historical development and institutional structures (Spence 999; Spence & Rutherford 2003). Whilst a common mistake in CSR studies is to compare entrepreneurial small firms with normal small firms (Spence 2007), SMEs are not always profit driven like other businesses (Goffee & Scase 1995).

Objectives and Methodology

The main objective/aim is to identify the existence and extent of CSR initiatives and activities in the Micro, Small and Medium enterprises in Kurukshetra region. The main purpose is descriptive with little consideration to exploratory study as well. The research is carried out to contribute the knowledge of the actual state of affairs in the business sector in Kurukshetra regarding CSR activities and foster understanding of developments taking place in this particular field. The main objective of the research is the deeper analysis of CSR programs undertaken in MSME’s. It also seeks to analyze the relationship between the respondents’ opinions with reference to level, extent and nature of activities/initiatives undertaken by the MSME’s in Kurukshetra region. Main objective of the research including a deeper analysis were following:

- How SME’s understood and implement the Corporate Social Responsibility.
- Analyze the relationship between the respondents’ opinions with reference to level, extent and nature of activities/initiatives undertaken by the MSME’s.

To achieve the objectives a sample of micro, small and medium enterprises has been taken from Kurukshetra. Information has been collected from respondents by using well designed questionnaire. Taking into consideration similar surveys conducted in Kurukshetra region, professional experience and wit, the questionnaire template containing a complete set of relevant questions was prepared in easy to distribute format. One questionnaire was sent to an SME company, completed by an owner of the company and returned to the author. Then appropriateness of individual questions and questionnaire as a whole was discussed with him. Based on discussion some reasonable changes are made in the questionnaire such as rewording of the questions, adding some relevant questions etc. The data and information of all the companies were scrutinized, logically sorted out and finally well-arranged in a proper format. The data is reviewed and finally resulting conclusions were made.

Findings

The research survey being conducted with the SME’s of Kurukshetra region has revealed the following observations with regard to the objectives being kept in mind:-
1) Corporate Social Responsibility (CSR) - Meaning
When we interviewed for a particular definition of CSR, the surveyed Micro, Small and Medium enterprises identified “taking care of labor” as the most dominant answer, which was closely followed by the “better goodwill helping to strengthen contacts” and another popular definition was “useful guideline for responsible governance”.
It is viewed that all the SME’s surveyed views CSR as a “requirement for working for global brands” was very minimal. When we interviewed for a particular definition of CSR we traced a definition “taking care of labor” and most of the small firms referred it to making timely wage payment, awarding bonus, providing workers with interest free loans and sometimes just providing basic minimum wages. But for the micro units, it is little bit different. They imply to provide provision of workers with tea and snacks in addition to paying timely wages and personal loans. The definition of CSR varies across different countries and enterprises. We can also notice that the interviewed SME’s rarely expressed the implementation of CSR was imposed by immediate and remote business environment. The CSR is a voluntary action. Therefore, we continue to look at the motivating factors that entice their implementation.

2) Stretching CSR activity: Financial losses
The economic performance of the enterprise and many corporate social responsibilities (CSR) are closely linked to each other. They practically unanimously expressed a strong “yes”, when questioned if they would continue CSR spending despite their enterprise is incurring a loss. Reason behind this is that many entrepreneurs expressed sense of obligations towards their employees and community and through their contributions attempt to compensate for external affairs. Yet what extend will the intensity of contribution even to charities, withstands a test of time is unclear, since it was not tested in the survey. Even within one SME category we get the evidence that contributions type and their scale will dually change and vary from enterprise to enterprise. Some of the firms affirmed that even when their businesses are running in losses they predominately continue their religious contributions. Significant number of entrepreneurs confirmed having done so in past. Despite in a loss situation some form of Corporate Social Responsibility (CSR) activities can work because of their commitments to orphanages, educational assistance and religious sponsored activities. The Micro, Small and Medium enterprises said that they are savvy business people and can compensate their incomes from another source and therefore claimed that their giving will not be affected since their personal values religious faith and social behavior will remain unchanged. With the justification that “there are always people who are less fortunate who need assistance” some entrepreneurs indicated that they would conduct CSR activities and contribute financially regardless of the financial situation of the company. Entrepreneurs intricate that they will continue their contribution mainly to charities, development of social environment and improvement of employees’ relations. Since last three
years these enterprises did not face financial decline, still these answers remains hypothetical.

3) Individual CSR- non-motivators
The Micro and Small enterprise couldn’t indulge too much in the CSR initiatives. They highlighted that due to the lack of financial resource, lack of manpower and other such resources they couldn’t indulge in CSR activities. However the medium enterprises which are not insufficient with regard to the resources, it is due to the fact that too much involvement in CSR issues leads to diversion from the main activity. As far as external factors are related it is believed by some SME’s that the CSR issues are not important for business growth. Yet there is another opinion that “nobody else is doing, why should we do?”

4) Drivers of CSR
The primacy of entrepreneur’s personal values over business gains driving the Corporate Social responsibility priorities, especially the external ones, is being emphasized by the motivation to drive any CSR which is perceived as a moral obligation of an individual towards its employees or community often represented by charities. Only in case of internal Corporate Social responsibility the employees have played a driving role. To the most part it is the entrepreneur who decides on the type and scope of activity, whose values are nurtured by religious faith. Certain external actions have been encouraged by business organizations such as Rotary or the Lions Club. The driving force remains in the hands of the entrepreneur, despite the variety of influences, who selects and determines the implementation of Corporate Social responsibility (CSR).

5) Outside external agencies involvement and argument for it
There was no involvement of any outside external agency which motivated the SME’s to involve in Corporate Social Responsibility (CSR) initiatives. It was brought forth in lime light by the survey. However there is certain external pressure that influences the entrepreneurs to get involved in CSR initiatives. As “larger contract volume and long agreement duration” is one of them and it is followed by the lucrative incentives to get “funding for technology upgrade” has been motivated entrepreneur to get involved in CSR.

6) Individual CSR motivator to engage in external and internal activity
As the Micro, Small and Medium enterprise has developed their own approach. They have been proved that CSR agenda acts as a motivator to the entrepreneurs internally and externally due to the religious sensitivities of the entrepreneurs. There is another reason for the motivation is care towards the labor welfare.

7) CSR activity- return on investment
Improvement in business performance and looking in orders with international buyers can be gained by using internal CSR initiatives. As emotional, returns are required in external charity driven CSR activities. Across all Small and Medium enterprises entrepreneurs rarely associated CSR activities as investment that seeks direct business return, yet when analyzed further, they were clearly apparent.

An internal CSR initiative focuses on welfare of labor, with which the entrepreneurs can seek a better
relationship and increased loyalty. In some Micro, Small and Medium enterprises the return from such investment is in the form of greater sense of duty, improved work quality as well as increased labor retentions. On the other hand external CSR seeks predominantly personal emotional return of “having done well” due to the high charity contributions. Only few entrepreneurs consciously seek to positions themselves as community leaders or strengthen the positioning of their company or brand.

To the most pert CSR activities are implemented discretely, we call them silent, particularly when the entrepreneur does not seek directly relatable business benefits in return.

8) CSR initiatives and their preferences

Corporate Social Responsibility (CSR) will be outlined in three categories of activities based on our demarcation of CSR. SME actions benefiting the outside environment referred to here as external CSR as well as the actions conducted within the enterprise, referred to internal CSR. Finally we distinguish activities conducted jointly with either other firms or with the support of various organizations which will be outlined under collective CSR.

I. Internal

Inward looking CSR activities aim to strengthen the organization mainly for the benefits of its labor force and the working environment. There is a slightly little difference across all Micro, Small and Medium enterprises the categories and resources spent on each. It is influenced by the industrial sector as well as the size of the firm, which often implies its position in the products value chain. The informal relationship between the employer and the labor is the most important part of the CSR activities ride than any policies or systems.

In a broader sense internal CSR activities focus on labor welfare, includes fair and timely payment to workers, bonus and gifts and monetary aids for family events, financial saving schemes and interest free loans, provision of food and accommodation to residential employees, and last but not least uniforms and protective gear. Particularly in terms of labor welfare, medium sized enterprise, provides a facility of job contract in local language, fixed working hours, display all policies in visible areas to all, job security guarantees, leave encashment and respect of gender related issues.

In terms of contributions to health care, extends to provide free medical help, subsidized private health insurance, maternity benefits, healthy work environment, protective gear and accessibility to first aid kits, health club membership; as well as substance abuse counseling and training on health related issues. In some cases these services have been extended to employees’ children and next of kin, hence despite their internal focus they equally impact the outside community.

It is noteworthy that in the Kurukshetra region expenditures...
in respect to the environment such as cleaner production and recycling are nominal. A minor portion of total CSR spending is invested in employees’ education. The employee education includes training and upgrading workers skill-level in terms of their technical and business skills. Transparency, focusing improvements of record keeping, accounting and financial communication with employees, is only visible in four MSME”s.

II. External

Outward looking CSR focuses on activities directed towards the benefit of the community at large in which the enterprise operates. Due to the religious sentiments donations are made on charity, the contributions take a various forms. Entrepreneurs are the key drivers and thus want to express their larger responsibility toward the community where these entrepreneurs act as a common/known figure and therefore cannot deny/refuse help from the community. The charity donations include and lead to the contribution to religious organizations, various houses for children and disabled and hospitals. Interestingly micro enterprises opt for non-monetary contribution in form of food, blanket or time and medium sized enterprises prefer money and in-kind donations. For the health purposes, enterprises subsidies access to health services, organized blood drives, donated medical aids and equipment to hospitals and clinics. Some Micro, Small and Medium enterprises have also established hospital trusts and even SME-level health plans. The benefits of these health services is benefited beyond the close community, particularly during health camps organized in neighboring villages. Some SME’s in Kurukshetra region are not responsive towards the protection and safeguarding of the community environment. But some of them are concerned for the environment protection. They also participate and promote campaign such as “say no to plastic” which also has got support and restrictions. Contribution towards education is not apparent in each enterprise. Just too a few these funds flow to skills development institutions or for construction of schools and cultural centers. Frequently enterprise leader establish NGOs to run schools and training institutions, which not only benefit the sector but also the community. While the community welfare is limited in SME’s.

9) Behavioral preference

Socially responsible behavior, through the eyes of an entrepreneur is intrinsically inwards looking where most expenditure are directed towards the labor welfare. Individually external CSR implemented focuses on charity donations. The collective CSR agenda is influenced by the environment in which
the enterprise operates prevalence of potential partners and exiting trust relationship between preferences, which they would consider collaborating with on any future CSR activities, the following result emerged:

- Some appreciation was slowed towards the services rendered by the NGO’s by some interviewed SME’s and few other manufacturing units were largely contributing towards religious organization.
- Less preference is given to the local government.
- Many of the entrepreneurs are found to be the member of the social clubs i.e. rotary club, lions club etc. and even if they personally don’t have time to actively involved in these while their family members, usually their wives would.

10) Reasons for the selection of outside agency

Trust is the main reason for the existence of cooperation between enterprises and local social institutions. Therefore in surveyed Micro, Small and Medium enterprises where successful collective initiatives were launched, trust was present. It was found in surveys that trust cannot be enforced from the outside but it is built on successful precedent cases. However while initiating a collective action, entrepreneur’s endorsements is required to ensure success. Trust was only incontestable with religious organization, validating the preference for such organizations as the ideal development partner in 4 out of 7 Micro, Small & Medium Enterprises. On the other hand lack of trust was often used an argument for not dealing with an external organization.

11) Collective

The supportive organizations and cluster firms are considered as a collective firm. SME’s are involved in collective CSR activities, and contribute towards their own caste through welfare organizations that assist in girl marriages, education and health care. The SME’s organize health drives in the nearby villages or tree plantation initiatives in association with NGO’s, social and charitable clubs such as rotary and lions club. Similarly, some SME’s prefer to associate with religious organization to which they also contribute most of their charitable donations.

Medium size units are more active in CSR activities. As they contribute in terms of volume mostly towards their own caste. The majority of their monetary contribution goes to charitable trust and hospitals. However, the type of collective activities performed by the MSMEs at various levels depends on their financial strength. As the micro enterprises are financially weak, so they create their activities mainly on their nearby community relatives and their religious faith. On the other hand small and medium scale enterprise is more financially stronger to afford more collective CSR activities despite this they contribute a small percentage of their turnover. So they focus on giving back to society, religious sentiments, occasionally seeking positive opinion is doing good or even fame.

12) Economic size and CSR activity of enterprises
Across most Micro, Small & Medium Enterprises the CSR contributions are utilized pronominally on enterprise internal activities. Without differentiating between what types of activity is done the amount of spending on CSR increases with increase in the size of the enterprise. However average spending in terms percentage of turnover or investments, shows a reverse trend, and it is highest with the micro enterprises. Looking on the different kinds of the contribution the enterprises stands in the following order:

- **Financial Contribution:** Majority of the surveyed Micro enterprises self-reported that their contribution varies from 0.02% - 0.04%; Small enterprises 0.03% - 0.05% and as reported by Medium enterprises 0.03%-0.05% depending on the investments and financial gains of the current year.

- **In-kind Contribution:** The surveyed Micro, Small and Medium enterprises revealed that in terms of in-kind contribution a share of their earnings is spent on distribution of blankets, clothes to the poor, food items etc. However, all the contributions done depend purely on the investments and financial gains of the current year.

- **Time Contributions:** The Micro, Small and Medium enterprises stated that due to prior engagements and due to meeting schedules, their contribution with regard to time spent on CSR activities limits to two hours per week to two hours per month.

**Conclusion**

Small and Medium enterprises contribute about 90% of the business worldwide. They employ over 50% of the world’s workforce. In India, micro and small enterprises in agriculture, industry and service sector have a key role in equitable distribution of national income, value addition, employment generation, export earnings, regional dispersal of industries, productive utilization of entrepreneurial skill and capital. Through analysis of research we conclude that the owners of the SME’s are not aware about the meaning of CSR. Through research and analysis this paper brings forth the following understandings:

- Training and development of employees and transparency in working is least preferred in SME’s. Across all Micro, Small and Medium enterprises, internal CSR activities are discernible by some preferences, such as labor welfare, health care as well as environment.
- There is no homogenous definition for CSR in SME’s. The respondents have given a homogenous definition of the term Enterprise Social Responsibility. Majority of the SME’s distinguishes “taking care of the labor” as enterprise internal CSR initiatives. As the external CSR activities are dominated by charity donations and significantly behind health, and environment in the Community in uniform distribution followed by education as well as creation of social environment, which is not that emphasized. SMEs will continue their CSR activities, despite any negative changes in their company performance. Essentially SMEs will not abandon their
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The Micro Small & Medium Enterprises developed their own approach, and prove that CSR agenda acts as a motivator internally and externally due to the religious sensitivities of the Entrepreneurs and due to the care towards the labor welfare.

Interviewed Micro Small & Medium Enterprises SMEs focus predominantly on individual and internal CSR activities where they also contribute most of their resources. For numerous reasons collective CSR is rare, and in selecting partners SMEs predominantly choose religious originations. Level of trust facilitates the implementation of external and collective CSR activities. Trust alone does not guarantee effective implementation of set activities or directly translate into mutual benefits. Absolute monetary contribution towards CSR tends to increase with the size of the enterprise. However as percentage of turnover/investments, the larger the enterprise the smaller its contribution towards CSR, essentially pegged below 1% of turnover.

The Micro Small & Medium Enterprises stated that due to lack of resources and due to the diversion from main activity they do not get too involved in the CSR initiatives. So they prefer to get the collaboration of MGO’s and welfare clubs. Collective CSR activities were initiated by the financially stronger enterprises in the SME, and cooperated with the NGO/Local Charity institutions in their implementation.

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