Sustainable CSR for Micro, Small and Medium Enterprises

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Abstract
Corporate Social Responsibility (CSR) is used as a competitive tool in developing economies and it is a reality which faces strong criticism from the Micro, Small and Medium Enterprises (MSMEs) –business units of small net worth with two striking characteristics –supported and managed by single individuals or his family members and operate in a ‘cluster’. MSMEs grow and flourish in a unique business environment while parameters for effective CSR remains the same for MSME’s and large corporations. Since MSME’s need to compete with the large corporations, CSR adoption is not a choice and therefore the current paper argues that policy makers should consider and create provisions to support, ‘collective corporate social responsibilities, (CCSR) through which a group of MSMEs with similar sustainability needs support and take up socially responsible activities, as a unit. The clusters provide a conducive opportunity to MSME’s to adopt social responsibilities collectively, which will serve the needs of the various stakeholders like workers, community, environment, customers etc. This concept of ‘CCSR’ adheres and corroborates to all the Carroll’s (1991) [1], 4 stages of CSR Pyramid. The results substantiate the earlier work suggesting that the western institutional and management models exported to other regions of the world are not always very successful (Wohlgemuth, Carlsson & Kifle ed, 1998) [2] and understanding and practice of CSR should be socio-culturally framed (Sundar 2000) [3].

Keywords: Micro Small and Medium Enterprises, Corporate Social Responsibility, India

Introduction
The business world is inter-linked along with a clear distinction between the developed and the developing economic structures with the standards and norms being set by the former and the tireless attempts made by the latter to cope up and meet the established norms leading to a state of flux. Changes observed in the organizational structure of the developed western economies and societies affect the developing countries as well. The new form of development marked since mid-1970s represents a transition for a new phase of capitalist development where organization of production is changing from mass consumption to customized products,
employment in the services sector is becoming increasingly important, management of firms is becoming less hierarchical, the welfare state is being redefined and national states are increasingly taking decisions in a context of globalization (Amin 1994) [4]. The hold of governing agencies and policies has been decreasing giving way to business to contribute in the process of development. This leads to a number of issues and dilemmas which throw up challenges and opportunities for business both in the developing and the developed world.

Therefore, the development process which involves activities by government or business units need to be in sync with the historical and cultural make-up of the country. The current paper attempts to look as corporate social responsibility (CSR), as a developmental activity by businesses in India in light with the manners and ways in which business activities are run and managed in India. It proposes a conceptual model through which CSR can be better engaged by micro, small and medium enterprises (MSMEs) in India.

**Theoretical Foundations**

**SME Contribution to Indian Economy:** Post deregulation, India has three broad categories of business establishments - state firms, Multinational Companies (MNCs) and family-managed Indian business. Issues of coping up and matching the governance patterns of the three are considerably unique and necessary to understand before their role in the process of economic development can be defined. Among the family-owned business a large segment is occupied by the small and medium scale enterprises (SMEs).

SMEs are increasingly playing a significant role in the economic and social development of the nation. As compared to corporate enterprises, SME’s contribute more extensively as they have a share of 40% in terms of volume, 80% in terms of employment, 60% in terms of exports and 92% in terms of number of enterprises. These figures are indicative of the economic significance of SME’s. (OECD) [5]

The Small and Medium Enterprises (SME’s) alone contribute 7% to India’s GDP. As per the Third All India Census of Small Scale industries conducted in 2004, the SME’s have increased from about 80,000 units in the 1940’s to about 10.52 million units. Their total employment is about 25 million and they produce about 7500 products including high technology products. In the sports goods and garments sector their contribution to exports is as high as 90% to 100%. They constitute 90% of the industrial units in the country and also contribute to about 35% of India’s exports (Pandey, 2007) [6]. The performance of the Indian small scale sector in terms of critical economic parameters such as number of units, production, employment and export during the last decade is indicated in Table 1.

The SME category has a typical competitive advantage in the Indian industry in terms of the market it controls globally and its ability to make customized goods even in a small volume and yet maintain low fixed and overhead costs. The SMEs have thus over a period of time developed a specialization and have evolved as ‘clusters’.
### Table 1 Performance of Small Scale Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>No of Units (Million Nos)</th>
<th>Production (Billion Rs) (at current prices)</th>
<th>Employment (Million nos)</th>
<th>Exports (Billion Rs) (at current prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 – 01</td>
<td>3.37</td>
<td>6454.96</td>
<td>18.56</td>
<td>599.78</td>
</tr>
<tr>
<td>2001 – 02</td>
<td>3.46</td>
<td>6905.22</td>
<td>19.22</td>
<td>712.44</td>
</tr>
<tr>
<td>2002 – 03</td>
<td>3.67</td>
<td>8243.63</td>
<td>20.07</td>
<td>861.03</td>
</tr>
<tr>
<td>2003 – 04</td>
<td>3.83</td>
<td>9323.54</td>
<td>20.9</td>
<td>N.A.</td>
</tr>
<tr>
<td>2004 – 05</td>
<td>4</td>
<td>10600.87</td>
<td>21.78</td>
<td>N.A.</td>
</tr>
<tr>
<td>2005 – 06</td>
<td>4.18</td>
<td>1213.8</td>
<td>22.78</td>
<td>N.A.</td>
</tr>
<tr>
<td>2006 – 07</td>
<td>4.37</td>
<td>14019.39</td>
<td>22.17</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

(Source: Pandey 2007) [6]

**SME and Cluster Development:** Globalization has led to the influx of large corporations in developing nations and small and medium enterprises which are integral to the nature of local economies often find it difficult to survive against the large firms due to their size (UNIDO, 2001). Individual SME’s find it hard to achieve economies of scale in procurement of raw material and other resources, adoption of internal functions like technology adoption or up-dation, training programmes for skill enhancement or division of labour. But UNIDO (2004) [7] asserts that SME’s needn’t be looked as individual units as that is isolation of the firm. Cooperation among SME’s offers a solution to their diminutive size. Porter (1998) [8], defines clusters as ‘geographic concentrations of interconnected companies and institutions in a similar field. It extends downstream to channels and customers and laterally to manufacturers of complementary products ad to companies in industries related by skills, technologies or common inputs.’ Literature offers several evidences of successful working of SME’s as clusters from both the developed and developing world (Goodman, Bamford, and Saynor, 1989 [9]; Pyke, Beccattini and Sengenberger, 1990 [10]; Sengenberger, Loveman, and Piore, 1990 [11]; UNCTAD, 1994 [12]).

**Understanding CSR:** CSR as a concept has undergone drastic changes in nomenclature, varying orientation of the term and has also undergone significant evolutionary development. CSR in theory and practice falls within the realms of various fields of study like sociology, social work, economics public administration, environmental studies and academics. The diverse and prolific contributions from the various fields has not only enriched but has also led to controversies and confusions. As Votaw and Sethi (1973) [13] puts it, “the term (social responsibility) is a brilliant one, it something but not always the same thing, to everybody. To some it means socially responsible behavior in an ethical sense; to still others the meaning transmitted is that of ‘responsible for’ in a casual mode; many simply equate it with ‘charitable contributions’, some take it to mean socially conscious or ‘aware’, many of those who embrace it most fervently see
it as a mere synonym for ‘legitimacy’, in the context of ‘belonging’ or being proper or valid, a few see it as a sort of fiduciary duty imposing higher standards of behavior on businessmen at large”.

The term CSR has been defined differently and variedly over a period of time and has had various shades of understanding across commercial activities in different geographic locations. Therefore, CSR lacks any definitive and tight definition primarily because this concept has evolved differently and has had varied forms of existence in different places and business activities. Carroll (1999, 1998) [14]; [15] was a seminal contributor to “modern” CSR theory with later contributors including authors such as Jenkins (2006, 2004) [16]; [17], Fuller and Tian (2006) [18], Maignan, Ferrell, and Ferrell (2005) [19], Matten and Crane (2005) [20], Maignan and Ferrell (2001) [21]. The broad understanding is that it is the scope and the kind of social and environmental obligations which corporations may consider while executing and operating their routine business practices (Shamir, 2005) [22].

The following definition by Lord Holme and Richard Watts, is most widely accepted and suits the context of our study most appropriately, "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large", in ‘Making Good Business Sense’ report at the World Business Council for Sustainable Development website.

For the purpose of this study the understanding of the concept of CSR will be based on the Carroll’s pyramid of Social Responsibility where he elaborates of four distinct stages of business – Economic, Legal, Ethical and Philanthropy. (Carroll, A. 1991) Economic component included the responsibility that the business should perform in such a manner that it maximizes earning per share and remains as profitable as possible so as to maintain its competitive position and high level of operating efficiency. The legal responsibility demands that the conduct of business be such that it conforms to the expectations of the government and law, comply with the federal, state and local regulations, be a law abiding corporate citizen such it the firm fulfills its legal obligations. The responsibilities at the ethical stage is adherence to normative rules of justice and fairness which may not have been codified as law but are yet expected or prohibited by society. This would include an ethical treatment of the various stakeholders. The philanthropic responsibilities include being a good corporate citizen such that the business gives back to society and the various stakeholders. This incorporates engagement into activities and programmes that include and lead to human welfare and goodwill. Philanthropy is the most discretionary function of business though the expectations from society are always there. Through this model, we shall understand the business activities and strategies of the SMEs operating in India and explain our model of Collective Corporate Social Responsibility (CCSR) as applicable to SME's in India.
CSR – the SME Way

The core of CSR is managing the triple bottom line and be able to integrate and balance between economic, environmental and social issues going above legal requirements. It is interesting to note that SMEs operate and function with very limited resources and most often have limited vision in terms of organizational goals which is primarily focused upon profit generation. They are generally believed to heavily emphasize economic imperatives rather than social goals mainly because of their survival strategy and their relatively limited financial base and are competing against the fund-rich well established MNCs making the standing fairly lop-sided and unequal. But today, corporate responsibility is not merely an issue for large MNCs but also for SMEs with limited resources and less market power. The reason why CSR becomes pressing for the SMEs is also because it is well accepted as a tool for competitive advantage leading to sustainable development and poverty reduction in the world. From the management side, the corporate responsibility can be seen as a market requirement and used as a marketing tool for competitive advantage. A strategic approach to corporate responsibility which makes it helpful is the fact that it increases the accountability of positions which is well demanded in SMEs. The idea of corporate responsibility development is demonstrated by a model showing the steps towards an integrated triple bottom line (Jenkins, 2006). Through his study, he provides an insight into corporate responsibility in a SME and links it to value-based management and quality management to the process of developing a sustainable business approach.
Research Gap
The large body of knowledge on CSR so far developed has improved our understanding of the integration of CSR with other corporate strategies; further necessary work is still being done by both academics and practitioners. In particular, SMEs’ CSR has received relatively little attention and there is a small body of literature on SME experiences in industrialized countries and a very limited amount of literature in developing countries (Spence, 1999 [23]; Spence et al., 2000 [24]; Spence and Schmidpeter, 2003 [25]; Spence and Lozano, 2000[26]; Spence and Rutherfoord, 2003 [27]. Such a knowledge gap is critical, as small businesses remain the dominant organizational form within the member countries of the OECD – Organisation for Economic Cooperation and Development (Spence and Rutherfoord, 2003). According to several authors, research on the relationship between CSR and SMEs differs significantly from the research on enterprises: “Business ethicists must acknowledge that the large multinational firm is not a standard business form against which other types are benchmarked” (Spence and Rutherfoord, 2003).
Obviously a number of characteristics distinguish SMEs from their larger counterparts. Size represents but one criterion; others include legal form, sector, orientation towards profit, national context, historical development and institutional structures (Spence, 1999; Spence and Rutherfoord, 2003).

Therefore, given the above differences between large firms and SMEs, further research is required to define whether or not also a different theoretical perspective should be embraced to explain the CSR and SMEs relationship and to address future empirical research. Recent research focuses on social capital. “Whereas physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them” (Putnam, 2000) [28], “that can improve the efficiency of society by facilitating coordinated actions” (Putnam, 1993)[29]. Moreover, “stocks of social capital, such as trusts, norms, and networks, tend to be self-reinforcing and cumulative. Virtuous circles result in social equilibria with high levels of co-operation, trust, reciprocity, civic engagement, and collective well-being. These traits define the civic community. Conversely, the absence of these traits in the un-civic community is also self-reinforcing” (Putnam, 1993). The intangible assets of reputation, trust, legitimacy and consensus are all aspects of social capital (Spence et al., 2003, 2004), the basis of the long-term performance of SMEs and especially SMEs embedded into the local community in which they operate. This literature provides a clear direction for further research in CSR: to provide SMEs with guidance and tools to implement and report on their CSR policies, processes and performance effectively, based on their social capital.

Results and Conclusions
What needs to be scrutinised closely is the suitability of CSR models developed in the west and their implementation in other parts of the world, especially the developing eastern nations? There are studies providing links that the western institutional and management models exported to other regions of the world are not always very successful (Wohlgemuth, Carlsson & Kifle ed, 1998). Research also indicates that the understanding and practice of CSR is socio-culturally framed (Sundar 2000).

At one extreme CSR participation by SMEs has been viewed as an extension of profit-making activities and, at the other extreme, involvement in CSR with community stakeholders, has been understood as a purely altruistic activity. Despite this varying and conflicting conclusions very little of mainstream literature and research focused upon how regions other than the west engage in CSR.

It is important to note that Jenkins (2006), ‘business opportunity’ model fits the existence and operation of the SME in the west as it operates in an environment where the focus of small-scale business has elevated to quality management and value-based management. In India the SMEs operate in an environment where the notion of quality management is still distant except to the ones catering to the export demand where emphasis on quality is stringent but due price competitive advantage and lack of competition, involving into CSR as a competitive tool the motivation for involving in CSR is absent. The majority of the SMEs caters to the local market
and can make a difference to the development process in case they take up social responsibilities.

Since the growth and development of SMEs indicate that cluster making is the key which provides a unique sectoral advantage, involvement in CSR will also be more effective if the SMEs take up collective and group CSR leading to what may probably be an innovation in CSR and get to known as ‘Cluster Social Responsibility’ or “Collective Corporate Social Responsibility’ (CCSR). We’d employ Carroll’s Model to explain the stage-wise rationale for ‘Cluster Social Responsibility’ or “Collective Corporate Social Responsibility’ (CCSR).

**Understanding CCSR through Carroll’s Stages of CSR**

**Stage 1:** The economic responsibility of business in case of SMEs is met and fulfilled because they operate as a group and are therefore able to employ and utilize the resources most efficiently. They tap local and indigenous resources from the immediate environment where they flourish and adapt to the demands and the needs to the local environment as well. Therefore with such heavy dependence and utilization of the local resources, the cause for giving back to society gets further strengthened. So, the entire cluster operating in a region must contribute for the basic cause of sustenance and the individual unit (a single SME) may not be able to do much.

**Stage 2:** The legal demands and the laws of the land apply equally and have a similar impact on all the units operating in the region because they belong to a similar type. The legal structure and policies need to be adhered to ensure smooth business operations. Therefore, as a cluster the SMEs would hold a stronger position in ensuring that the laws and policies designed and enforced are conducive for the development of the cluster in the region.

**Stage 3:** The ethical stage of social responsibility holds the faith that business should be conducted ethically and the policies and codes of the enterprise should be ‘fair and just’ (Crane and Mathen, 2007)[30]. The internal and external CSR aimed at direct stakeholders like employees, suppliers etc. would hold consequence when the entire cluster as a whole evolves and adopts socially responsible behavior. The impact of the stakeholder would be more effective and sustainable because a collective decision to be socially responsible towards direct stakeholders would lead to evolution of an ethical environment which would soon be normative leading to a better and healthy work environment.

**Stage 4:** An individual small scale unit may find it difficult to turn into a good corporate citizen and match the performance by the MNCs. But if all the SMEs operating as a cluster join hands to work for socially beneficial causes, it shall in the long run result into collective good which will provide growth and development opportunities.

We propose the following model for *Cluster Social Responsibility or Collective Corporate Social Responsibility*. 


CSR as a concept is relatively new in developing countries like India where philanthropy and donations were considered as an extension of the business activity and were not a part of strategy and competitive survival for most business establishments. This form of CSR started off as a response by multinationals to remedy the effects of their extraction activities on the local communities. In countries like India where business activities have a long historical and cultural traditions, welfare activities are often informal and linked to cultural local traits. Traditional values such as people/employees being treated as ends in them, as well as values like sharing and consensus are still strongly manifested in business life. While many systems and practices which have a historical ethical existence are embedded in the daily activities and are loosely in use but have not been consciously evolved due to which the capacity to benchmark them is still at very early stages.

Analysis of the role and positioning of welfare activities conducted by SMEs in India and the manner in which CSR is understood and followed internationally by the large corporations around the world reflects a huge variance. The MNC’s generally hold a stakeholder view while considering and implementing their CSR strategies while the SMEs may consider a social capital view while working on their CSR plans. A dialogue between the SMEs and the MNCs would cultivate better opportunities and environment for furthering the CSR activities in the developing world mitigating challenges both.

**Implications of the Study**

MSMEs need to be sustainable and with CSR turning into a competitive tool and the focus of Indian policy makers shifting towards a mandatory CSR compliance, *Cluster Social Responsibility or Collective Corporate Social Responsibility* may help MSME’s make a mark stand up the pressures from policy and industry quarters.
References