

CORPORATE SOCIAL RESPONSIBILITY IN MICRO, SMALL AND MEDIUM ENTERPRISES – A STUDY ON THE AWARENESS AND PRACTICE IN MANGALORE

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ABSTRACT

Background: Organizations are increasingly realizing that corporate social responsibility (CSR) is no longer a collection of discreet practices or occasional gestures motivated by marketing or public relations. Business organizations cannot pay lip service to CSR as they did in the past as it has become a process from the concept and creates value that can be used as a competitive tool.

Aim: The objective of the paper is to explore the attitude towards CSR and understand the CSR initiatives of small and medium enterprises (SMEs).

Methodology: Descriptive study was conducted in Mangalore, Karnataka. Data was collected from the managers or proprietors of micro, small and medium enterprises.

Results: Awareness SMEs is inadequate and their CSR policies are mostly limited to occupational safety. As large number of individuals depend on SMEs for employment, promoting awareness regarding CSR, at least work related policies becomes highly essential in the years to come.

Key words: Corporate social responsibility, awareness, CSR initiatives, growth

Companies are now expected to act responsibly, be accountable and benefit society as a whole. This is the new agenda of corporate social and environmental responsibility (CSER) or corporate citizenship. CSR has become important for profit oriented companies and compels them to incorporate the expectations of multiple stakeholders. The principles of sustainable development and the 3P triangle of people-planet-profit could allow firms to analyze the consequences of their actions in terms of resource consumption, waste production, pollutant emissions, and also to study the social implications of their activities for their stakeholders.

CSR is regarded as the province of large corporations due to the sheer size of turnover and profits that they make. Differences in their scale, nature and spheres of operation will influence how different companies contribute to social and environmental goals and the challenges they face. Due to small scale of operation, lack of access to resources, and lower visibility, small enterprises are less likely to participate in CSR initiatives. Many small and medium enterprises (SME) may lack the knowledge on the term "CSR" and may evade their responsibility sighting their problems and weaknesses as the inhibiting force. But their close relations with various stakeholders especially employees, suppliers, customers and local community justifies a responsible approach even from SMEs.

Although SME sector accounts for about 45 per cent of the manufacturing output and 40 percent of the total exports of India and employs about 42 million persons throughout the country (MSME,2009), when it comes to the question of shouldering CSR, only a handful of small firms are seen successful. Local issues of social importance can be effectively dealt by SMEs, especially in developing countries, through initiatives such as supporting local social activists or non government organizations.

A study undertaken in Pune in India found that that the general impression among SME's is that following mandatory Government laws makes them socially responsible. But many of them were involved in some development activity or the other. Since many of the SME's are at a stage where they are struggling to establish themselves and do not have the manpower or resources to address these issues, they tend to ignore them. (Revenkar, 2004).

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Most of the SMEs CSR policies are centred on the owner's knowledge, values and interests. They are unable to see any benefits from CSR practices. However, many of them are engaged in some kind of development activities. Few of SMEs had social reports, code of conduct or stated ethical practices. There is a need to popularize the concept of CSR among SMEs (Kumar, 2004). Export oriented SMEs were found to comply with codes of conduct and certifications on the ethical practices whereas domestic market oriented SMEs hardly had any such code of conduct. This implies that the reality of codes and standards in India as it exists now covers a very small fraction of the Indian market (Sood & Arora, 2006).

Smaller firms often have inadequate resources that may make it unviable for them to engage in CSR initiatives and may not get the same kind of recognition for their CSR initiatives as large companies. Where firms with larger-scale operations are able to better allocate and more efficiently exploit their resources to offer specialized CSR initiatives without incurring high additional costs, firms with smaller scale operations cannot replicate these advantages (Jones, 1999).

Objectives of the study :

This study was undertaken to know and ascertain CSR practices and social performance of selected business units in Mangalore and to explore awareness and the attitude of managers or proprietors of SMEs regarding the concept of CSR and their obligations to the society. Secondary objective was to bring out the importance given to different stakeholder groups in their CSR initiatives, and to assess the policy framework adopted by the company to meet its social obligations.

Methods and materials :

This study explores the attitudes towards CSR, and describes the policies formulated by companies and their CSR initiatives. Primary data was collected using a researcher administered questionnaire and unstructured interview with managers, proprietors and partners of SMEs from different industries. The questionnaire elicited responses on attitude towards CSR, main stakeholders to whom the company is accountable, formulation of CSR policy and its reporting and communication, workplace policy, environmental policy, market place policy, community policies and community related CSR practices. Secondary data was collected from company websites, product brochures, journals, magazines, newspapers, annual reports and other publications.

The study surveyed 20 companies, out of which 6 medium scale enterprises and 14 were micro and small enterprises. The respondents worked in senior level managers or partners or proprietors in case of small and tiny enterprises and were aware of CSR practices of their company. The sample size of the respondents was 25. Of the total number of respondents questioned, 3 were from micro-businesses, 10 were from small businesses and twelve respondents were from medium enterprises. This study was carried out in the year 2008-2009.

Results :

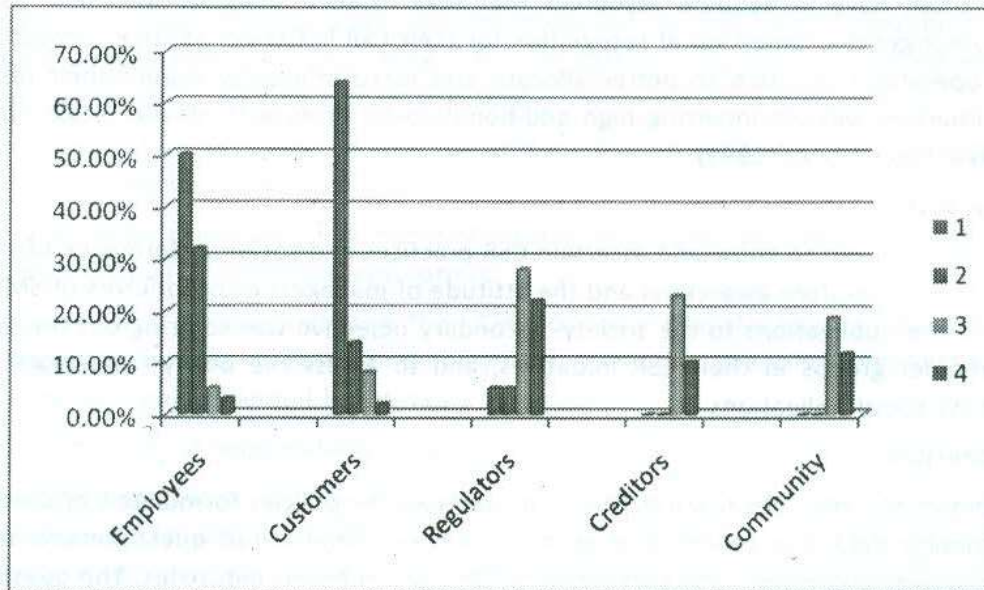
Corporate social responsibility has gained importance in recent years owing to economic stability and growth. However, global financial meltdown and recession has limited the further development of CSR especially philanthropic activities. This study was initiated in the period of economic uncertainty, hence the results may be different from that of growth period.

Awareness of the concept of CSR : Awareness of small and medium enterprises (SMEs) about CSR is poor. Majority of SMEs are not familiar with the concept (52%). Few respondents said that it has little relevance to them as the company didn't pollute the environment. Some of them opined that their company is a proprietorship and CSR should not be applied to them. These responses reflect their typical mindset where making profit is given highest priority than other goals. Just over 15% respondents mentioned their responsibilities to labour or their workforce as an element of responsible corporate citizenship in terms of welfare measures and social security benefits. The evidence shows that their awareness is limited to 'giving something back to community', 'taking care of employee needs', 'moral duty', 'human responsibility', 'service to people'. SMEs stressed the need to operate successfully and profit was viewed as essential for the survival of a business organization and also for the support of all non-economic activities.

Relative importance of stakeholders to the company :

Customers were given the first preference by 64% of respondents and employees were given the second preference by 32% of respondents (Figure 1). Fifty percent of respondents gave first importance to employees and fourteen percent of respondents viewed customers as second priority. Regulators and creditors were given third choice by 28% and 23% respondents respectively. Community interests were given third priority by 18 % respondents. Twenty two per cent of respondents ranked regulators as fourth priority.

Figure 1. Ranking of stakeholders by importance to the company



Formulation of CSR policy :

There was evidence that occupational health and safety was given highest importance by most of the companies surveyed especially from the manufacturing, construction and processing sectors (68.18%). Workers rights policy was taken as essential by 45.4% of companies although they didn't have a written policy in this regard. Environment policy was also considered to be critical by companies and 50 % of the companies had formulated policies on environment. Table 1 shows the policies formulated regarding different aspects of CSR by surveyed companies. SMEs had few written and formal policies but mostly unwritten and informal policies relating to different aspects of social responsibility of business depending on their industrial sector. Important stakeholders' were not usually consulted while formulating these policies. These are undertaken by the proprietors or partners or promoters and the policies were not available for public access.

Table 1. Formulation of CSR policies by companies

CSR Policy	% of companies with policies
Occupational Health and Safety	68.18
Community Development	13.6
Workers Rights	45.4
Environment	50
Social welfare	40.9
Anti-discrimination	27.3
Human Rights	13.6
Education	36.3

Workplace policies :

Majority of the companies encouraged employees to develop job related skills and long term careers. Seventy six per cent respondents agreed that their company provided training to employees to acquire job related skills. Long term career development was practiced by 60% companies although they had minimal form of career development plans. Almost 76 % of companies have taken adequate steps against all forms of discrimination against women, ethnic groups, and disabled people. Sixty four per cent of SMEs consulted employees on important issues. Majority of companies had health, welfare and safety arrangements at workplace (72%).

Table 2. Workplace policies

Workplace policy	Yes	No
The company encourages employees to develop a. real skills	19	1
b. long-term careers	15	3
The company takes adequate steps against all forms of discrimination in the workplace	19	2
The company consults with employees on important issues	16	2
The company has suitable arrangements for health, safety and welfare	18	1

Note: N=25. Responses do not always tally as some respondents declined to answer some questions.

Environmental policies :

Majority of respondents felt that environment should be safeguarded against pollution and depletion of natural resources. Sixty four per cent of companies agreed that they had undertaken various activities to protect the environment. Energy conservation was given the priority among environmental issues by 80% of respondents followed by waste minimization and recycling (72%). Pollution prevention and protection of natural environment was not given importance by SMEs which may be due to lack of resources and capability. 16 out of 25 respondents and nearly all the manufacturing companies stated that their environmental responsibility was to minimize pollution to the surrounding community, and to proper disposal of waste. Some companies mentioned the need to develop less polluting machinery and production processes. Table 3 provides more data on environmental policy.

Table 3. Environmental policies

Environment policy	Yes	No
The company has undertaken various activities to protect the environment	16	2
The company has tried to reduce its environmental impact in terms of a) Energy conservation	20	0
b) Waste minimization and recycling	18	5
c) Pollution prevention (emission to air, water, noise and effluent discharges)	13	6
d) Protection of natural environment	14	5

Note: N=25. Responses do not always tally as some respondents declined to answer some questions.

Marketplace policies :

The study reveals that nearly 84% of the companies strongly agreed and had policies in place to ensure honesty in its contracts with suppliers and customers. SMEs were practicing honesty in all its contracts although written policy regarding the same didn't exist. Fifty six per cent of companies opined that honesty in advertising is essential, although small and tiny enterprises didn't advertise their products extensively as they relied on word-of-mouth and recommendation by existing customers to prospects. Regarding clear communication and providing accurate information, 80 % of respondents acknowledged the importance of being honest to customers in terms of information regarding products/ services. Eighty four per cent of respondents agreed that they pay suppliers invoices promptly all the time. The studied companies seem to have a process to ensure feedback from suppliers and customers. Even SMEs stressed the need and importance of such feedback for their higher profitability and success. Many of them had unwritten policies to avail feedback from customers and suppliers. Almost 84% of companies had obtained feedback from customers and 68% of them had accessed feedback from suppliers.

Table 4. Marketplace policies

Marketing policies	Yes	No
the company has a policy to ensure honesty in all its: a. contracts	21	0
advertising	14	1
the company provides clear information about products and services	20	0
the company ensure timely payment of suppliers invoices	21	0
the company has a process to ensure effective feedback a. /with customers	21	0
With suppliers	17	0

Note: N=25. Responses do not always tally as some respondents declined to answer some questions and some had neutral opinion

Community related policies and practices :

The study explores the policies related to the community such as providing training opportunities to the local community, and purchasing raw materials, components and semi finished products from the local suppliers. SMEs did not involve in training local community, may be due to resource constraints and lack of expertise. Twenty five per cent of respondents disagreed that it's the responsibility of enterprises to provide training to locals. Large companies acknowledged their responsibility to provide training to local community but to limited extent. Government owned companies had related policies and had facilities and resources earmarked for training local people. Thirty two per cent of companies had provided training to people from local community. Regarding buying inputs, SMEs tend to buy from local suppliers if such inputs were available locally (72%).

CSR initiatives taken by the companies :

The questionnaire interrogated respondents on the types of socially responsible behaviour in which their organizations. Donating money for charities (76%) and for natural disasters (64%) seems to be the most common CSR practice adopted by the surveyed companies. Majority of them didn't encourage employee involvement in community causes (92%), and supporting community with company sponsored projects (84%). Only 20 % of respondents had partnership with women or minority owned companies. Working with schools, colleges and universities and sponsoring educational expenses of less privileged section of the society were practiced by 16 % of companies and only 32% of companies had sponsored community events.

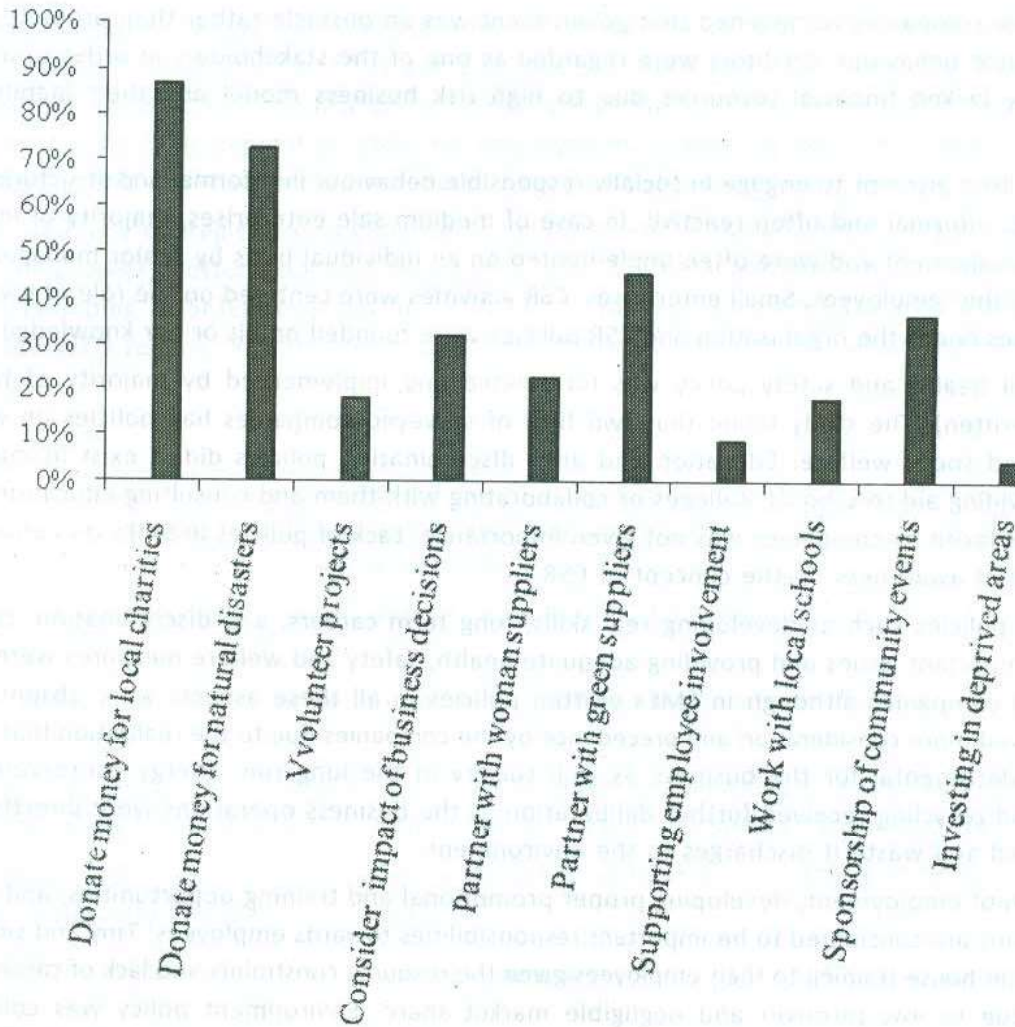


Figure 2. Community related CSR initiatives

Discussion :

The study findings are in accordance with the previous research studies especially awareness regarding CSR which is considered to be philanthropy and not as a business strategy mainly among SMEs. The idea of social responsibility is vague among SMEs which is evidenced by low participation of in CSR activities in Mangalore. SMEs justified their lack of awareness and initiatives by stressing their need to survive and make profits rather than involve in CSR actions. Working environment of SMEs is hardly conducive to CSR activities and short term survival is given the highest priority.

The study reveals that ethical orientation of SMEs appears to be a product of the ethical orientation of its owner. CSR actions were largely driven by the personal, religious, cultural and philanthropic values and beliefs of owners and senior managers and accordingly uncoordinated and unplanned.

Customers are clearly the most important stakeholders for the survey respondents, followed by employees, regulators, community and creditors in that order. Customers were given the priority by the companies surveyed which is a welcome change and supports the prevailing notion of customer supremacy. With the advent of buyers market in India, and the significance of marketing concept guiding the companies, this finding is not a surprise. SMEs, especially those having ISO certification recognized the crucial role of customers in deciding the success of companies. Employees were given second priority by the surveyed companies and most of the companies had CSR policies related to the workers. Regulator, as a stakeholder, was not given much importance by respondents; instead they followed guidelines and regulations of the government in order to get the license and to operate

the business. Few companies complained that government was an obstacle rather than promoter to engage in a social responsible behaviour. Creditors were regarded as one of the stakeholders in order to avail soft loans on time as they lacked financial resources due to high risk business model and their inability to provide collateral.

SMEs made little attempt to engage in socially responsible behaviour in a formal and structured manner and is largely ad hoc, informal and often reactive. In case of medium sale enterprises, majority of initiatives came from the top management and were often implemented on an individual basis by senior managers without the participation of other employees. Small enterprises' CSR activities were centered on the role of owner or partner who in most cases heads the organization and CSR policies were founded on his or her knowledge and interests.

Occupational health and safety policy was formulated and implemented by majority of the companies (written or unwritten). The study found that two fifth of surveyed companies had policies on worker' rights, environment, and social welfare. Education and anti- discrimination policies didn't exist in majority of SME companies. Providing aid to schools, colleges or collaborating with them and consulting educational institutions on the problems faced by companies was not given importance. Lack of policies in SMEs on various dimensions reflects the lack of awareness on the concept of CSR.

Work place policies such as developing real skills, long term careers, anti-discrimination, consulting with employees on important issues and providing adequate health, safety and welfare measures were implemented in the surveyed companies although in SMEs written policies in all these aspects were absent. Environment protection received more consideration and precedence by the companies due to the realization that environmental degradation is detrimental for the business as well society in the long run. Energy conservation and waste minimization and recycling received further deliberation as the business operations were directly linked to the energy consumed and waste it discharges to the environment.

The creation of employment, developing proper promotional and training opportunities, and ensuring good working conditions are considered to be important responsibilities towards employees. Tiny and small enterprises couldn't provide in-house training to their employees given the resource constraints and lack of career advancement opportunities due to low turnover and negligible market share. Environment policy was considered to be important and companies have initiated various activities to protect the environment, energy conservation and have implemented energy saving mechanisms in their factory premises. Protection of natural environment and prevention of pollution was not considered as vital by majority of the companies.

The study found that donation for charities and for calamities dominated the CSR initiatives taken by the companies. This resembles CSR as a philanthropic activity rather than commitment of businesses beyond economic and legal obligations. Companies had agreements with environmentally friendly suppliers which reflect their concern for environment protection. Sponsoring events like sports was practiced by a large number of companies. But the involvement in other areas like supporting community with company projects, partnering with women suppliers, encouraging employee involvement in community activities, and education initiatives were considered less significant by the surveyed companies. SMEs abstained from these activities due to lack of awareness, will power, skills and shortage of resources. The study shows the lip service made to local community by the respondent companies by refraining from greater involvement in community development activities. Employee involvement in community causes, investment in deprived areas, company sponsored community projects and education related practices were not prevalent in most of the companies

Conclusion :

It has been advocated that small businesses lack resources to undertake CSR initiatives and hence, they should not come under the purview of social responsibility. Contrary to such belief, all companies, whether small or large have social obligations and they can't forsake stakeholders' interests to achieve economic goals. Business organizations cannot pay lip service to CSR as they did in the past as it has become a process from the concept and creates value that can be used as a competitive tool.

There is urgent need to remove such misconceptions through awareness programmes and popularize the concept of CSR among SMEs. Government has a role to play in popularizing CSR practices and calls for the need of developing something called CSR certification and creating incentives for businesses which follow CSR practices. As large number of individuals depend on SMEs for employment, promoting awareness regarding CSR, at least work related policies and anti-discrimination policies, becomes highly essential in the years to come.

CSR can be used as a strategic tool to enhance competitiveness of SMEs by improving products, motivation and loyalty of employees, better publicity, networking with business partners and increased turnover. The traditional understanding of SMEs regarding the CSR has to be changed under the new era of globalization, liberalization, and WTO regime. Responsible business culture has to be fostered which ultimately improves its competitiveness.

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