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IMPLEMENTATION OF CSR IN SMEs: AN INDIAN CASE STUDY PERSPECTIVE

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ABSTRACT

The paper presents three main strengths. First, it contributes to fill a gap in the literature as only few studies recognize link between CSR and SMEs.[1-4]. Thus the focus of this paper is to investigate the relationship between CSR and SMEs and unearth the efficient approach to implement CSR in SMEs. Second, since case studies can be very effective to study complex themes, the case of an Indian SME is discussed to give better insights of the drivers, barriers and benefits the case study organization has gained over the period of time of implementation of CSR activities. Finally, the paper results can be used by SME managers interested in transferring socially responsible practices in their respective companies.

KEYWORDS: Corporate Social Responsibility, CSR, SMEs, ISO 26000

1. INTRODUCTION

Over the last decade, governments have joined other stakeholders in assuming a relevant role as drivers of CSR, working together with intergovernmental organizations and recognizing that public policies are key in encouraging a greater sense of CSR[5]. Likewise, Indian government has passed a law effective from April 1st, 2014 which has been defined under section 135 of the companies act, 2013, where, every company with a net worth of rupees 500 crore, or turnover of rupees 1,000 crore, or a minimum net profit of rupees 5 crore, is bounded to form a CSR committee of the board consisting of 3 or more directors, out of which one shall be an independent director and required to spent at least 2 per cent of their three-year average annual net profit for CSR activities[6]. The calculated net profit would not include any profit from its overseas branches and any dividend received from other companies in India. The law is also implied to foreign companies doing business in India, either by themselves or by agent or even by electronic means[7]. According to the act every company has to put out its CSR policy in public domain and the policies should be kept out from the normal business activities and contains a list of projects or programmes which company is going to implement in the following year.

As the companies act covers the companies which have a net profit of rupees 5 crore and above, therefore some small and medium enterprises (SMEs) would also be expected to pursue the law. The estimated revenue from individual SME [8] is likely to be very small for contribution into CSR fund but collective impact of all eligible companies of specific
geographical cluster can be colossal. The collaboration of SMEs would reduce the operational
cost for fund management and CSR initiatives can be
done on a large scale and can also be sustained for a
longer period of time.

1.1 Overview of SMEs:

Small and medium-sized enterprises (SMEs) play a vital role in an economy of a nation[9]. They
are the backbone of an economy and essential source
of employment. Unlike large enterprises[3, 10-11],
SMEs are able to handle crises by various financial
aids from stakeholders like government and public
due to easy accessibility[12]. SMEs are essential to the
innovative progress of the economy, especially playing
highly significant roles at the early stages of
developing industries[13]. SMEs act as a source of
creating employment, as a source of innovation,
generating exporting opportunities and a source of
future successful large enterprises[14].

1.2 Definition of SMEs:

The Micro, Small and Medium Enterprise
Development Act 2006 (MSMED Act) of the
Government of India provides the definition of the
MSME sector. This classification uses the investment
metric (Table 1) to define MSMEs because investment
in plant and machinery can be measured and verifie

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1.3 Role of SMEs in Indian Economy:

In India, Micro, Small and Medium Enterprises (MSME) contribute nearly 8 percent of the
country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. Taking into
account, their presence forms the major source for employment, entrepreneurship and innovation. The
diffused wide network increases the accessibility and helps in fulfilling the requirements of local and global
markets. In order to achieve the world class recognition the SMEs have to become conscious about
their stakeholders and their influence on the business operations while integrating the social, economic and
environmental concerns. CSR should not be mystified as an overhead rather it should be an “attitude”
towards a better world.

As Schumacher argued in his book “Small is Beautiful; A study of economics as if people mattered”
that modern economy is unsustainable due to misuse of non renewable resources and also emphasized on
"the aim should be to obtain the maximum amount of well being with the minimum amount of
consumption.”

1.4 Corporate Social Responsibility or
Enterprise Social Responsibility?

It has been debated a lot of times that CSR
terminology is not valid for small and medium
enterprises[4] and only meant for large corporations.
To validate this, firstly literal meaning of corporate
and enterprise has to be observed. The word
“corporation” derives from corpus, the Latin word for
body, or a "body of people,"A corporation is a
company or group of people authorized to act as a
single entity (legally a person) and recognized as such
in law and an Enterprise is any organization,
including businesses, non-profits, and government
agencies, as defined by Wikipedia, 2014. Therefore
Enterprises and corporations can be used
interchangeably with only one major difference, i.e.
corporation has legal definition and is always traded
publicly on the stock market while an enterprise is
not restricted to a legal definition and may be private
or have only private stock offerings to few people.
Many people use the term enterprise to refer to
starting business ventures or new businesses that are
trying to enter a market. So whether it is small or large, social responsibility is expected to be done according to their organizational level.

2. LITERATURE REVIEW

For the first time in the year 1976, Fisher et al recognized the connection between the CSR and small business and hence can be called as the pioneer of this linkage [15]. In 1980, Wilson came up with the perception of managers of small business about CSR where it was found out that there is lack of time and resources which stops them to get engaged in CSR activities and therefore could not compete with the large companies [16]. Till the new millennium scholarly [17-24] were finding what is the perception of managers about the CSR. However, majority of research on CSR in SME is done in 2006 by many academicians [4, 25-32] in different countries but the most important feature which was discussed was that the small companies are expected to follow social responsibility norms as they have huge reach in the global market, have the highest market share and employ the highest number of people locally. The SMEs are easily connected to the local people and can solve the basic problems easily without much paper work and in a fast manner. The conclusion came with the finding that the SMEs engage in CSR activities almost every day but not in organized way rather they don’t even know what CSR actually means but they keep on doing it as a philanthropy or as a charity or religiously or as a compliance. Therefore there came the need of the strategic planning for the SMEs to do CSR and many academies came with different prospects like “how” and “with what impact” SMEs should engage with CSR whereas Yves Fassin totally contradicted the formalization of CSR in SMEs because the solution for large companies cannot be imposed on the small companies and there appeared an inconsistent behavior of SMEs while communicating with the CSR activities of large companies as a part of their supply chain [34]. Yves also believed that social reporting cannot assess the responsible behaviour of SMEs but behave responsibly with right attitude without formalization.

Therefore, various certifications came into existence which was applicable to all the organizations whether big, small or global or local which encouraged companies to be socially responsible to recuperate their impact on employees, communities and environment. ISO (International Organization for Standardization) 26000 was released in November 2010 which provided international standard guidelines for the social responsibility to be followed by the companies leading to sustainable development. O Perera in 2008 worked on the project where she mapped the relevance of ISO26000 to SMEs by doing a survey globally and found out ISO 26000 can be used as a guide to introduce the agenda of social responsibility in the SMEs [35]. Subsequently, in a special report these findings were then refined and a draft was produced from the Draft International Standard [36] which marked an important action as one of the biggest, formal and multi-stakeholder process in the history of the standardization. ISO 26000 became the global standard for all the types of organization esp. in reference to the SMEs as they constitute almost 97% of global enterprises and presented a challenge in the sustainable development.

In 2010, Preuss and perschke analyzed the CSR strategy and performance of a medium sized company and found that CSR features present in medium sized firm evolve and change resembling the large firms as a transit phase whilst preserving some similarity with the small enterprises [37].

Year 2011 again marked a difference in bringing many perspective of the CSR in SMES while it became prominent that the cluster approach can be used to bring out the best and effectiveness of the execution of the CSR policies and activities [38]. Ma mentioned few conceptual models to perform CSR in SMEs [39]. A lot of work is done onwards by the academicians where they kept on finding the drivers and barriers to engage in CSR in SMEs [40-42]. The focus of CSR is now shifting towards the small companies present in developing countries which directly or indirectly linked to big global companies through supply chain [43].

3. PURPOSE

To understand the concept and scope of Corporate Social Responsibility (CSR) in Small and Medium enterprises (SMEs) in India and getting an insight in CSR through the case study of Norex Flavours Private Limited.

4. OBJECTIVES

- To understand the concept of CSR with regard to SMEs.
- To know how Norex Flavours Private Limited (NFPL) has fulfilled its responsibility towards all stakeholders; what specific activities, programs and strategies it has set, devised and implemented for the same.
- To study the issues and challenges of CSR in SMEs.
- To identify the efficient ways to implement CSR in SMEs.
5. RESEARCH METHODOLOGY

According to the objectives, the suitable research design is descriptive research design\(^3\), as this will bring greater accuracy and in depth analysis. Several authors (e.g., [11–13]) have proposed case studies as a means to improve the mainstreaming of CSR. However, few case study researches have been conducted on CSR in SMEs[11, 44]. In this paper, a case study has been developed based on the semi-structured interview of the managing director of the company. Other secondary sources like websites, news, and books have been used.

6. CASE STUDY- NOREX FLAVOURS PRIVATE LIMITED (NFPL)

6.1 Brief Profile of the Company:-

NFPL chosen as a case is an SME which was founded in 1994, is a renowned manufacturer and exporter of a wide range of essential oil & aromatic chemicals. An ISO 9001:2008 company, NFPL is a manufacturer & exporter of essential oils & aroma chemicals. With over a decade twenty years of industry experience, innovative practices & workforce, it serves to provide its customers with high quality products at competitive prices. Since inception the company has established a remarkable reputation for excellence & authority in the industry for high quality products and valued services. With a team of around 50 people which administers the amenities prudently and make sure that its clients get finest quality products. Being an ISO 9001:2008 certified firm, it commits towards fulfilling commitment and has brought a respectable niche in this domain for delivering excellence in their product range. The company is situated in close proximity to the fertile fields near Delhi from where the raw material is obtained easily.

The company has been able to place itself at this remarkable milestone by means of its strong financial base, sophisticated production amenities and its professional's collaborative interaction with farmers. The company's clientele includes the top five fragrances & flavour processing firms and major MNC's in the world. This has been due the ground-breaking approach of the company towards delivering the top-notch qualitative products to its respectable patrons.

NFPL has a highly developed infrastructure sufficed with most advanced tools to ensure easy handling of the complicated reaction processes. Its high degree of integration at different stages of production permits it to keep up consistently optimum grade innovation & improvement in the quality of product range. NFPL has achieved affiliation from the host of firms like prominent FFAI, CHEMEXCIL & IFEAT and EOAI. NFPL has registered strong presence all across the world with the assurance of its highest business ethics in compliance with the flexibility & commitments to suffice the requirements of its highly respected clientele. The high qualitative products offered by it are highly demanded in USA, Europe, Africa, Australia, Latin America, UK, Africa and Asia.

Objective of the company:-

To achieve organizational goals with sustainable future incorporating CSR strategies in their mission and vision.

CSR Perception:-

Mr. Vaibhav Agrawal, Managing Director of the NFPL, believes that social responsibility is a “Commitment beyond Business”-“Organization prospers in symbiosis with community” -Nilanshu Agarwal, Managing Director, NFPL.

Although a small company, NFPL is socially focused and has committed both physical and financial resources to a variety projects. Central to NFPL’s ethos it is believed that as organisations grows in size and scale, it must play an active role in public welfare. Their accountability must go beyond business interests. Towards society at large and in transforming communities they operate in. From the very beginning, the company has endeavored to make a positive contribution to the underprivileged communities by supporting a wide range of socio-economic, educational and environment initiatives.

6.2 CSR Activities of NFPL:-

As the future leaders of tomorrow, NFPL recognized the need to invest in the development of the farmers in the village and providing support to their family and children. It was set up in response to the increase demand of the Menthol oil in the global markets and the research on the issues faced by the farmers in growing the crop on their land. NFPL CSR programmes focus on creating sustainable development and livelihood for local communities. NFPL spends 1% of their profit after tax on several CSR activities.

6.3 Focus areas for the carrying out CSR Activities are - Education, Environment and Farmers welfare.

1. Pollution Control: As certified by ISO 14001:2004, NFPL follow an Environment management system, and takes various initiatives for the Conservation of the Natural Resources, Minimizing the Waste Generation, Recycling and Reusing the material and developing various Eco-friendly processes and systems, thereby addressing the major part of the triple bottom line i.e. Planet. All these initiatives help in preserving the long-term health of the people and the ecosystems along with building strong relationships with the local communities.

\(^3\) http://study.com/academy/lesson/descriptive-research-design-definition-examples-types.html
2. **Education:** NFPL Family has established an English Medium School, named Blue Birds International School, providing good quality English Medium education to rural and local students at a nominal fee. Apart from theoretical subjects, various cultural, sports, and other co-curricular activities are taught to students, empowering them with a vision to shape their best talent. As of 2013, NFPL is educating more than 1500 students in the school.

3. **Farmers Welfare:** Mentha Crop has been grown in the field from years and is vital in providing livelihood to more than 2 million farmers in the local area. NFPL engages with various farmers welfare programmes like distribution of free and certified menthol plant roots, creating awareness about the usefulness of the mint crop business and educating farmers about the better agricultural practices of collection and storing etc.

![Figure 1: Air handling system to control pollution](image1)

![Figure 2: Livelihood to Local poor farmers](image2)

**6.4 Drivers:**

1. **Trust/Ethical values in the roots of the organizational goal**
   Mr. Nilanshu believes that the company has a main motive of producing business and profits over time but not by doing negative things to people, environment or the communities.

2. **Demand from the stakeholders**
   Increasing interest of the buyers in the business affairs and obligation to pay a certain amount of the transaction money in the welfare of the society led the company to actively engage in CSR activities. Moreover, it helps in maintaining an atmosphere of trust and confidence in the supply chain and hence creating shared value.

3. **Supply Chain Rationalization**
   Repeated Business, longer term shared goals

4. **Sustainable Development**
   The General Manager felt that the company had to be positively accepted by the local farmers and should keep contributing to the business for a prolonged time.

**6.5 Barriers:**

1. **Lack of Support of the Government**
   According to the manager of the company, the company doesn’t receive any aid from the government either in monetary form or tax savings.

2. **Lack of time of Implementation**
   As Mr. Nilanshu stated, it became very hectic to look after both the business and the CSR activities, therefore activities are implemented in the absence of him or with lower efficiency. The original amount allocated doesn’t reach to the end user and is mis-utilized in fake activities.

3. **Lack of interest of the farmers**
   Due to the artificial oil trading in the market, the growth of the mint oil business declined and farmers started losing interest in growing mint crops. So the company officials provided booklets explaining the importance of the mint crop in the livelihood of the farmers but due to low literacy rate and poverty, farmers did not show much interest in the booklets and changed their crop to some vegetables. Therefore company professionals changed the whole process while re-examining the necessities and provisions. Finally new route was followed where the company officials went directly to the homes of the farmers and convinced them about the importance of mint crop and also provided various trainings on the plantation, irrigation and harvesting of the crop.
6.6 Benefits:-
1. Increased Business due to foreign investments
2. Improved Brand Image
3. Highest Competitive advantage at the local and global level
4. Efficient and motivated Employees & Farmers
5. Improved Environment: Improved air and water Quality

7. ANALYSIS AND FINDINGS
The company present in the small town Mandi Dhanaura is contributing its chiefly in education, environment and communities. Although there could be many other areas which require attention eg: Better Healthcare of the farmers and children. Major certification like ISO 9001:2008, ISO 14001:2004 and CSR activities are listed on their websites and reports and is easily visible to all stakeholders. It means that the company follows the CSR agenda and is accountable for its activities.

8. SIGNIFICANCE OF THE STUDY
Through this study the SMEs can take motivation and start implementing the CSR activities. Also, various efficient ways can be chosen for easy and rapid response. After the globalization of market, SMEs have got many opportunities to work in integration with large-scale organizations. They cannot exploit these opportunities and sustain their competitiveness[10], if they focus only on certain aspects of their functioning and work in isolation. For sustaining their competitiveness, they have to benchmark their assets, processes and performance with respect to the best in industry[45] and follow a holistic approach including social responsibility behaviour. Therefore most of the promising SMEs are putting emphasis on their CSR activities. However, there is lot of cost involved and lack of human resources; it becomes quite challenging to implement the CSR activities. In view of that, it is required to bring about swift change with the least financial investment and time, Spence and Rutherford [46] proposed four “frames” -profit-maximization priority, subsistence priority, enlightened self-interest and social priority, of perceiving the social perspective of the small business. Additionally, also highlighted that for influencing ethics in smaller firms, the owner has to change his standard image and move beyond the notion of profit making and rational economic entrepreneur.

To facilitate this some steps can be followed.

1. Learn the fundamentals of CSR: Learn from Best Practice Organizations and Industry Experts
   SMEs don’t need to spend in monetary terms initially. They should gain some knowledge about the development of powerful policies and strategies which can get aligned with their own goals. Pursuing the best practices of the experts can be very useful and can help in getting with CSR.

2. Prepare a separate budget for funding the CSR initiatives
   A separate budget can help in making sure that where to utilize the funds especially for CSR activities and latent expenditures can be avoided.

3. Select the appropriate initiative
   “One fit for all” theory is not validated in this context. SMEs can follow any initiative which is best suitable for their business operation rather copying anything from the large corporations. If a firm deals with technology then it can select an NGO to teach them basic computer knowledge or provide them with their old hardware and software’s.

4. Engage with Key stakeholders groups: Suppliers, customers, employees, banks, investors, shareholders
   By engaging in corporate social responsibility (CSR) activities, companies can not only generate favorable stakeholder attitudes and better support behaviors (e.g. purchase, seeking employment, investing in the company), but also, over the long run, build corporate image, strengthen stakeholder-company relationships, and enhance stakeholders’ advocacy behaviors[47]. Also employees can play a major role as they can be encouraged to donate money or can be asked to offer aid in form of products which are new or old as a support to the firm.

   Customers should be made aware of the quality checks and certification standards for better buying behaviour and branding of the products.

   Banks and institutional investors especially engaged in policies like sustainable consumption of energy and natural resources, education, anti-tobacco campaigns, safety and healthcare in workplace, ecosystem protection often carry out social responsible initiatives (SRI)[48].

5. Local Cluster Development by Creating shared value opportunities[49]
   Essentially, health of the communities and competitiveness of a company are closely intertwined.

   A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens. Hence the concept of
shared value which focuses on the connections between societal and economic progress has to be followed by enabling local clusters development, by reconceiving products and market, by redefining productivity in the value chain. H von Weltzien Høivik and D Shankar(2011) examined some clusters in Europe and proposed a network model(cluster approach) which helps the SMEs to uptake CSR activities and also lead to innovation through cooperation and competition. Moreover, particular challenges faced by the SMEs can also be minimized by being part of a cluster[38].

With the help of experts, a common goal can be achieved. It can save time, money and other resources.

7. Tools Aimed at Developing CSR in SMEs in developing countries4
UNIDO has developed a successful tool for SMEs in developing countries like India which is based on Triple Bottom Line (TBL) approach. The TBL approach is used to find the social and environmental standards compatible with the business operations, measuring and reporting corporate performance. Confederation of Indian industry (CII) has launched new services for Micro, Small, Medium Enterprises (MSMEs) of southern region.

8. Senior Expert Advisory service (SEAS) aim at providing mentoring and handholding to MSMEs to improve their competitiveness. Business Mentoring Services (BMS) aim at providing mentoring services, in partnership with Coaching India Foundation who are widely regarded as pioneers of Executive & Business in the country5.

9. CONCLUSION
Through this study it can be found out that social responsible SMEs are mostly engaged in exports, or linked to international supply chains, related to environmental affecting products or have social and global investors or have owners who think of the sustainable future. The study establishes the link between the performances of the company with the happiness of the workers who are working on daily wages. There is no need for the highly specialized tools to implement for the the social responsible behaviour rather small policies in favor of the community can bring the most of it through better reputation and goodwill. Competition can be freeze with the better reputation globally and locally by following the responsible behaviour and fulfilling the expectations of the local people and the global investors. Those companies which can comply with the global demands get the huge profits and do not get left out from the sight in the market. To the extent the company behaves responsible for its own benefit following the compliances and give better state to their workers, suppliers, community or other stakeholders, it brings harmony and maintain balance between all of them and thereby leading to the sustainable development.

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