

# Corporate Social Responsibility by Small and Medium Enterprises in India

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## Abstract:

This paper is an exploratory study on Corporate Social Responsibility (CSR) by Small and Medium Enterprises (SMEs) in India in terms of the nature of their CSR-related practices and disclosures. For analysis, the SME sample was taken to be the SMEs listed on the BSE SME and NSE EMERGE. The official website and annual report 2018-19 of the listed SMEs were searched for mentions of CSR-related information. The findings indicate that despite the majority of SMEs stating that they were not mandated to perform CSR, a number of SMEs have considered CSR-related aspects in some form, however their disclosure practices for CSR-related information vary. In addition, a number of SMEs mandated to perform CSR have in some cases followed more stringent CSR practices and disclosures than required by law. In overall, there is an indication that a number of SMEs have a favourable perception towards the importance and need of CSR by businesses, despite CSR not being commonly associated with SMEs. The CSR practices by SMEs in India have not often been in the focus. However, cumulatively SMEs comprise a significant part of the Indian economy and hence the nature of their CSR activities is important for consideration.

**Keywords:** Corporate Social Responsibility, CSR, Small and Medium Enterprises, CSR Practices, CSR Disclosures

## Introduction:

### Corporate Social Responsibility (CSR) in India:

CSR has been a practiced by some Indian businesses since a long period of time. The motivations of firms in India to practice CSR include both moral and economic factors (Dhanesh, 2014).

CSR activities are now an aspect of many businesses in India as there is both a growing awareness of their responsibility towards the society and a legal mandate to engage in CSR activities for a prescribed class of businesses. The number of companies engaging in CSR activities in India has seen a consistent rise in the period from 2014 to 2018 as indicated by Table 1.

**Table 1:** The number of companies engaging in CSR in India and their percentage growth for the corresponding period

Period	Number of companies engaging in CSR	Percentage Growth
2014-15	16548	-
2015-16	18290	10.53%
2016-17	19539	6.83%
2017-18	21937	12.27%

**Source:** Data of number of companies engaging in CSR from the National CSR Data Portal (Ministry of Corporate Affairs, Government of India)

In general, CSR activities can be undertaken by a wide variety of companies in terms of their size, but the CSR activities by the Small and Medium Enterprises (SMEs) are not often in the limelight as it is considered that the CSR efforts by them will usually be relatively constrained by their smaller size and thus resources individually as compared to the larger corporations (Smith,

2013). However, when considered together, the SMEs often comprise a significant size of the global economy (Mousiolis et al., 2014) and even the Indian economy (Jain, 2014).

SME's play a vital role in the economy of many nations and play a significant role in providing employment opportunities. In addition, individual SMEs may be dispersed in areas that otherwise lack the presence of big businesses (Jain, 2014) and in some cases even have more local-level connect with their area of operation as compared to the larger corporations which may accordingly influence their CSR activities (Mousiolis et al., 2014).

Hence, given their importance and their large prevalence in economies, the nature of CSR activities by SMEs is significant for consideration. SMEs may be defined in a variety of ways on the basis of various parameters such as on the basis of their turnover, capital investment or paid-up capital, etc., and in terms of the commonly used definitions, SMEs constitute a significant part of the Indian economy.

The Government of India defines Micro, Small and Medium Enterprises (MSMEs) by the Micro, Small and Medium Enterprise Development (MSMED) Act, 2006 and by it broadly, till July 2020 (PTI, 2020), MSMEs included manufacturing enterprises with an investment in plant and machinery less than 10 *crore* Indian Rupees (100 million Indian Rupees) and for service enterprises with investment in equipment lesser than 5 *crore* Indian Rupees (50 million Indian Rupees). (Ministry of MSME, n.d)

It is mentioned in a journal of the Ministry of MSME, Government of India that there are an overall 63 million MSMEs in India that constitute 45% of the industrial production and 30.5% of the service sector in the Indian economy (Arora, 2019). The large presence of SMEs in the Indian economy is indicative that the CSR practices that are undertaken by them are worth consideration.

According to a report in 2018, smaller companies, which here include those having a net turnover lesser than 500 *crore* Indian Rupees (5 billion Indian Rupees), comprised of 47% of the total number of companies engaging in CSR and 15.9% of the total CSR expenditure. (CRISIL Foundation, 2019)

Some SMEs in India have engaged in CSR voluntarily over the years, and the activities of some have even been recognized by awards such as the Federation of Indian Chambers of Commerce and Industry (FICCI) CSR awards for Small and Medium Enterprises (SMEs). The FICCI CSR awards for SMEs considered all companies having an annual turnover lesser than 200 *crore* Indian Rupees (2 billion Indian Rupees) and the list of winners of FICCI CSR awards (FICCI, n.d) for SMEs indicates that SMEs have been awarded for their CSR activities even in years before CSR was mandated for some class of companies in 2014.

In recent years, some SMEs have been mandated to follow the CSR rules due to some of them falling under the class of companies specified by Section 135 of the Companies Act, 2013. According to Section 135, any company in India, that satisfies one of the conditions of having a turnover greater than 1000 *crore* Indian Rupees (10 billion Indian Rupees), net worth greater than 500 *crore* Indian Rupees (5 billion Indian Rupees) or profits greater than 5 *crore* Indian Rupees (0.5 million Indian Rupees) have to follow certain CSR practices. (Ministry of Corporate Affairs, n.d)

The companies mandated to practice CSR by Section 135 have to follow certain procedures such as constituting a CSR Committee to formulate and monitor a CSR Policy and also make a minimum amount of expenditure on CSR. This framework has also been voluntarily practiced by some SMEs performing CSR.

In contemporary times, there has been a growing realization that CSR is needed not just due to the moral and ethical obligation of firms, but is a need for the long-term sustenance of the firm. SMEs and large businesses are not identical in a general sense, however they both still have incentives to engage in CSR activities. (Smith, 2013)

## Literature Review:

Mousiolis et al. (2014) have noted that a lot of research has focused on CSR by large corporations instead of Small and Medium Enterprises (SMEs) despite their significant role in the economy of both developed and developing countries. They note that motives and strategies concerning CSR are different for larger corporations such as multinational corporations (MNCs) as compared to the SMEs. They concluded that while SMEs are limited by factors such as resources when compared to MNCs, they also have unique aspects which favour them when compared to the larger organizations. The favourable aspects include the possibility of faster and less rigid decision-making which often are more focused on issues in the immediate environment of the SME in comparison to MNCs global perspective of decision-making. (Mousiolis et al., 2014)

Nair and Sodhi (2012) have noted that SMEs have a wide variety of incentives to practice CSR that also includes the consciousness of the smaller SMEs on their moral obligations. They analysed CSR by SMEs in India with the analysis of the business case studies of 5 SMEs in India. They noted that the majority of these SMEs implemented CSR directly through a foundation and financed their CSR expenditure through both their operating profits and external funds such as donations. The major hindrance in pursuing CSR was cited to be the non-availability of projects that can be continued sustainably in the long-run after initially commencing the project due to various reasons including financial constraints and the lack of the government's focus on CSR by SMEs in India. They noted that there is a lack of disclosure of CSR activities by SMEs in India due to factors such as the lack of awareness of internationally recognised reporting forums and frameworks. (Nair and Sodhi, 2012)

Sanjanwala et al. (2019) noted that the CSR provisions of the Companies Act, 2013 could be applicable on certain SMEs in India that meet the specified conditions. It is also noted that due to their limited resources some SMEs have tried to comply with the provisions to perform CSR by collaborating with other SMEs to jointly use their combined resources for their CSR activities within an area. It also noted that SMEs could also use a permitted external non-profit organization to handle their CSR activities so that they can focus on their primary business activities. (Sanjanwala et al., 2019)

Ziek (2009) analysed CSR communication by firms in the United States. The study looked at various ways the firms disseminated information related to CSR through the internet including the Annual Report. The study noted that CSR communication was largely seen in the larger organizations by revenue. The CSR related information was largely disseminated as philanthropy information by firms. They also noted that CSR communication practices are largely overlooked and can be researched further.

Parker et al (2015) noted that literature on CSR by SMEs has not often focused on the manner that the CSR-related information is communicated by the SMEs through the various available mediums including through their own webpage and hence studied a particular aspect of it pertaining to the disclosure of the SMEs perceived association of CSR with various stakeholders on their website. The nature and depth of detail of CSR-related information disclosures on the websites was found to be highly diverse.

Dincer and Dincer(2010) analysed the CSR disclosures of SMEs in Turkey thorough the internet. The sample was taken to be the SMEs with an official website that were listed as a member of a certain web-portal. It was found that a very few SMEs had made a dedicated page on their website to disclose their CSR-related information.

### **Research Objectives:**

The large prevalence of SMEs in the Indian economy is indicative that their CSR practices are relevant for consideration. The objective of this paper is an exploratory study on CSR by SMEs in India in terms of their various CSR practices along with analysing the overall practices of their CSR-related information disclosures. This paper will also attempt by this to infer the perception of the SMEs towards CSR by businesses.

### **Research Methodology:**

To analyse the nature of CSR by Small and Medium Enterprises (SME), the SMEs listed in the BSE SME and National Stock Exchange (NSE) SME EMERGE as on November 2019, were considered. The BSE SME and NSE EMERGE requirements for listing include various regulatory requirements for the SMEs including the condition to be an incorporated company and to have a post-issue paid-up capital equal or lesser than 25 crore Indian Rupees (250 million Indian Rupees) in terms of their face value. (BSE SME, n.d; NSE EMERGE, n.d) These sample of SMEs were chosen for analysis as there are some public disclosure requirements for these SMEs due to being listed publicly. For example, a SME listed on the BSE SME has to maintain an official website and make reports periodically. (BSE SME, n.d) This enhances the possibility of obtaining the relevant data relating to CSR. The total sample size of SMEs for consideration by this was 495 listed SMEs.

The sample of SMEs were searched for any mentions of CSR, including both voluntary CSR or CSR mandated by Section 135 of the Companies Act, 2013 on the SME's official website and their Annual Report. For further detailed analysis, only the data given through the company's Annual Report 2018-19 was considered. The type of disclosures relating to CSR made in the Annual Report was also studied to analyse how SMEs reported their CSR-related information.

### **Findings:**

The majority of the sample of SMEs had stated in their Annual Report 2018-19 that they were not covered by Section 135 of the Companies Act, 2013 and hence were not mandated to perform CSR activities. Despite this statement in their Annual Report with regards to CSR, some of these SMEs had still uploaded a CSR policy or else had some mention of CSR activities on their official company website. The CSR activities mentioned on the website included a wide variety of activities such as the organizing of health-care camps and conducting activities related to environment protection. Such SMEs amounted to roughly 10% of the sample of SMEs, however the feasibility of any further detailed analysis is limited due to a lack of additional data and non-standard disclosure practices. There was a lack of disclosure of the actual CSR activities conducted by many SMEs that had only uploaded a CSR Policy and also a lack of disclosure of other relevant information such as the amount of CSR expenditure made by SMEs that had mentioned the CSR activities performed by them on their website.

Nevertheless, this is still indicative that CSR is perceived to be important by a significant number of SMEs that it has still been considered in some form by these SMEs despite not being compulsorily required by the law.

In addition, at least 12.32% of the SMEs had made some disclosures relating to CSR in their latest Annual Report with regard to either mandatory or voluntary compliance.

In the case of companies declaring to perform CSR activities voluntarily, a few SMEs had also made detailed or partial disclosures in their Annual Report as would have been required in the case for companies mandated to perform CSR activities. They amounted to 2.42% of the SMEs and a majority of such disclosures in the Annual Report were only regarding the constitution of the CSR Committee by the SME.

The format prescribed for the reporting of the CSR activities of the companies mandated to perform CSR was notified by the Ministry of Corporate Affairs, Government of India in 2014. It includes various required disclosures including some such as the CSR Committee member composition, prescribed and actual amount of CSR expenditure, and various other details about the expenditure made including the sector, mode of implementation etc. (Ministry of Corporate Affairs, 2014)

Table 2 summarises the nature of some disclosures made by the SMEs in their Annual Report 2018-19 concerning their CSR initiatives for that period. As shown in the table the common disclosures made by those SMEs include aspects prescribed by the framework for SMEs mandated to perform CSR, along with additional disclosures of some aspects that are not specifically prescribed by that framework.

**Table 2:** The nature of common disclosures made by SMEs declaring to perform CSR activities in the Annual Report 2018-19:

The CSR Disclosure made in the Annual Report	Constitution of CSR Committee	Amount of CSR Expenditure	Number of CSR Committee meetings	Attendance of CSR Committee members in its meetings	The sector towards which CSR expenditure is directed	Mode of implementation of CSR activities
Percentage of total sample of SMEs <sup>a</sup>	12.12%	9.90%	7.07%	4.65%	7.47%	8.48%

<sup>a</sup> = Including both the SMEs performing CSR voluntary and SMEs mandated to perform CSR.

**Source:** Compilation of the nature of the various disclosures made by the listed SMEs in their Annual Report 2018-19

The amount of CSR expenditure was reported by 9.90% of the sample of SMEs. Amongst the companies disclosing the relevant details, the SMEs had an average CSR expenditure equal to 2% of their past three-year profits on CSR activities. This is the same percentage as prescribed by Section 135 of the Companies Act, 2013 indicating it is used as a benchmark for CSR expenditure by many SMEs. However, a few had spent lesser than their desired or prescribed CSR expenditure and had mostly cited that they were unable to identify suitable projects or else had suffered a loss in the year CSR activities were to be undertaken.

An overall 12.12% companies had disclosed in their latest Annual Report that they have a CSR Committee that comprised of on an average 3 directors of which on average 1 member was an Independent Director. This is the same as the mandated CSR Committee composition as per Section 135 of the Companies Act, 2013. In addition, 5.86% of the sample of SMEs had gone a step ahead and had made an independent director as the chairperson of the CSR Committee.

A few SME had also made further disclosures regarding the number of meetings and attendance of the committee members. An overall 7.07% of the sample of SMEs disclosed the number of meetings held by their CSR Committee and 4.65% further disclosed the attendance of the CSR Committee members in the meetings held by the committee. On average, the SMEs that made the disclosures regarding the number of meetings had held a CSR Committee meeting twice a year.

The areas of spending that were disclosed by the SMEs were relating to a wide range of areas including rural development, social development, animal welfare, etc. This information was disclosed by 7.47% of the sample of SMEs and the common areas of spending that that the individual SMEs had directed most of their CSR expenditure included areas relating to education and health-care.

The mode of implementation for the majority of the activities under their CSR program was disclosed by 8.48% of the sample of SMEs. With regard to this, 2.83% of the sample of SMEs disclosed that they implement their CSR program directly such as by themselves setting up and running schools. In addition, 0.81% of the sample of SMEs had disclosed that they had set up their own foundation to conduct their CSR activities. However, the majority of SMEs had disclosed to have implemented their CSR through an implementing agency such as a suitable non-profit organization or by donating money to dedicated government funds. 4.85% of the sample of SMEs had disclosed that they had implemented their CSR activities through an implementing agency or else by donating to a government fund.

The location of the CSR activities conducted by the individual SME's was also mentioned by some SMEs and were dispersed in various areas in India and a few stated that they conduct CSR activities across the whole country.

**Conclusion:**

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The findings indicate that a number of SMEs have recognised the need for business enterprises to engage in CSR activities.

A few SMEs have stated in their Annual Report 2018-19 that they were mandated to perform CSR as per Section 135 of the Companies Act, 2013 due to meeting its specified conditions. Despite only a relatively few SMEs stating that they were mandated to perform CSR activities, a number of SMEs have shown indications of having considered CSR in some form such as by having formulated a CSR Policy and displaying it on their official website. In addition, a few SMEs have also clearly stated they voluntarily practice CSR in their Annual Report.

For the SMEs that made disclosures of some aspect of CSR in their Annual Report, the most common disclosure made is of constituting a CSR Committee and the names of the committee members. The other disclosures commonly made by such SMEs are mostly influenced by the framework of CSR reporting notified by the Ministry of Corporate Affairs, Government of India for companies mandated to perform CSR and includes the prescribed and actual amount of CSR expenditure and mode of implementation of the CSR activities.

A number of SMEs including some which were mandated to perform CSR have in some cases gone beyond just complying with the basic legal requirements and made greater disclosure such as by stating the attendance of the individual CSR committee members in the meetings of the CSR Committee and followed more stringent practices such as by having an independent director as the chairperson of the CSR Committee.

A limitation faced by this study is the non-standard and partial disclosures made by many SMEs. A number of SMEs did not disclose any aspect of their CSR program through their Annual Report in a standard form but had indications on their official website of having considered CSR in some form. Furthermore, given the lack of standard disclosure practices, it is likely that some SMEs that may have also considered CSR have not disclosed this on their official website too. In addition, there were also cases of non-standard and partial disclosures made by SMEs voluntarily disclosing CSR-related information in their Annual Report that added complexity to the process of collating the data.

Nevertheless, it is seen that a number of SMEs have considered CSR in some form despite the majority of them not being mandated to do so by law. In addition, the presence of SMEs disclosing to practice CSR voluntarily and some SMEs following more stringent practices is an indication that a number of SMEs have a favourable perception towards the importance and need of CSR by businesses

SMEs are not typically associated with CSR, however there are positive indications that they are a number of SMEs in India aware of the need for CSR by business organizations in the contemporary world.

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