Chapter 2

Definitions

2.1 Small and Medium Enterprises in India

With the growth of the service sector in India, which contributes 63% of GDP of India, there was a need to change the term Small Scale Industries. With the new Act of Micro, Small and Medium (MSMED) Act 2006, the formal definition of SME which along with manufacturing sector was also included for service sector enterprises and same SSI term was changed to SME (Small and Medium Scales Enterprises).

"Enterprise" means an industrial undertaking or a business concern or any other establishment engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act 1951. Central Government by notification classifies association of persons, cooperative society, partnership firm, company or undertaking, by whatever name called. In the manufacturing sector, the definition of micro, small and medium scale enterprises as published by ministry of law and justice has been changed by amending The Micro, Small and Medium Enterprises Development Act, 2006 are as follows. (Annexure Attached).

The RBI Credit Policy 2005-06 embodies significant initiatives encouraging commercial banks to establish a mechanism for better coordination between their branches and SIDBI. The statement envisaged a scheme for strategic alliance covering a gamut of issues relating to rechristening the existing SIDBI's branches as Small Enterprise
Chapter 2
Definitions

Financial Centers (SEFCs) and their taking up of co-financing with the commercial bank branches. (Kulkarni, 2008)

Micro enterprise: where the investment in plant and machinery does not exceed Rs. 25 lacs.

A small enterprise: where the investment in plant and machinery is more than Rs. 25 lacs but does not exceed Rs. 25 crores.

Medium Enterprise: where the investment in plant and machinery is more than Rs. 5 crores but does not exceed Rs. 10 crores.

The cost excludes that of land, building and items specified by the Ministry of Small Scale Industries vide its notification SO722 (E) dated Oct.5. 2006).

In the case of enterprises engaged in providing or rendering of services. This included:

1. Small road and transport operators that can own a fleet of vehicles not exceeding ten in number

2. Small business, whose original cost price of the equipment used for the purpose of business, does not exceed Rs.20 lacs.

3. Professional and self-employed persons, whose borrowing limits do not exceed Rs.10 lacs, of which not more than Rs.2 lacs should be for working capital requirement.

4. Professionally qualified medical practitioners setting up practice in semi-urban and rural areas, whose borrowing limits should not exceed Rs.15 lacs with a sub-ceiling of Rs. 3 lacs for working capital requirement.
Definition of SMEs in service sector is as follows:

1. A Micro enterprise is an enterprise where the investment in equipment does not exceed Rs.10 lacs.

2. A Small enterprise is an enterprise where the investment in equipment is more than Rs.10 lacs, but does not exceed Rs.2 crores.

3. A medium enterprise is an enterprise where investment in equipment is more than Rs. 2 crores, but does not exceed Rs.5 crores.

For calculating investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items that may be specified, shall be excluded. (Ministry of Small Scale Industries vide its notification SO722 (E) dated Oct. 5, 2006).

2.2 International Definitions of SME

2.2 Definition in European Union

The definition of SMEs around the world is based on three criteria i.e. Investment, Turnover and number of people employed in the enterprise. In some countries like U.K. there is a combination of the two factors i.e. turnover as well as number of employees employed. Some of the international definitions are listed below:

Definition of SME in European Union is different from the Indian definition where instead of number of employees and turnover or balance sheet, investment in plant and machinery is taken into consideration.
Table 2.1 Criteria for SMEs in EU

<table>
<thead>
<tr>
<th>Enterprise category</th>
<th>Headcount</th>
<th>Turnover</th>
<th>Or Balance sheet to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>medium-sized</td>
<td>&lt; 250</td>
<td>≤ € 50 million</td>
<td>≤ € 43 million</td>
</tr>
<tr>
<td>small</td>
<td>&lt; 50</td>
<td>≤ € 10 million</td>
<td>≤ € 10 million</td>
</tr>
<tr>
<td>micro</td>
<td>&lt; 10</td>
<td>≤ € 2 million</td>
<td>≤ € 2 million</td>
</tr>
</tbody>
</table>

Source: http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm

For classifying any undertaking as medium, small or micro, the following two criteria are important. First, is head count, mainly as the table above shows greater than 250 headcount means it is a medium size enterprise. Head count will include temporary or permanent employees, it will also include owner of the enterprise or the partner but will not include any student working as an apprentice. Second criteria will be either turnover or balance sheet figures. While calculating turnover, the total value of sale of product and services will be taken into account for a particular financial year and deducting from it the total rebate or concession which will be so received by the enterprise.

For calculating turnover, value-added tax and other indirect tax are not taken into consideration. Balance sheet means value of total assets of the enterprise. An enterprise will be classified as medium enterprise if the headcount is more than 250 and either turnover of greater than or equal to Euro 50 million or balance sheet figure of assets is greater than or equal to Euro 43 million. Any one is considered to classify an enterprise as medium, small or micro. The undertaking can be proprietorship, partnership or a company but it should be engaged in economic activity, (EC 2003).
Chapter 2 Definitions

In Malaysia, small enterprises have turnover between RM. 2,50,000/- to RM. 1 million and medium enterprises are those that have a turnover ranging between RM. 1 million and RM. 25 million the average employee strength for small is 50 and for medium it should 150 employees.

In China, small enterprises are defined as those that employ 50 to 100 people and medium enterprises employ 101 to 150 people.

In U.K. sec.247 and 249 of Companies Act 1985 defines a small enterprise as a unit that has turnover of around £5.6 million and employs around 50 people. A medium-sized enterprise has a turnover of not more than £ 22.8 million and employs 250 employees.

Canada defines micro enterprise as a business with fewer than 5 employees. Small businesses such as these have around 50 to 100 employees depending on service or manufacturing respectively. A firm that has around 500 employees is classified as a medium sized business.

In Japan, for the manufacturing sector, SME means a unit employing less than 300 people and have an invested capital of less than 100 million yen. In the service sector, SMEs in Japan are defined as those units that employ less than 50 people or have an invested capital of around 10 million yen.

In the United States of America, an SME means a unit consisting of 1,500 employees and has turnover of $ 0.75 to 29 million, depending upon the type of business. (The SME Whitebook, 2009)
2.3 Definitions of CSR

CSR means different things to different people. There is no universally accepted definition of CSR, and academicians and professionals try to explain the term differently.

In 2003, Lunheim stated that the corporate social responsibility (CSR) agenda suffers from lack of a clear definition and seems to be a loosely defined umbrella embracing a vast array of concepts traditionally framed as environmental concerns, public relations, corporate philanthropy, human resource management and community relations. The earliest modern contribution to the CSR concept came in the 1950s, when in 1953, Bowen provided the first CSR definition: “Obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” Bowen talked about businessmen’s conscience rather than social contribution of the businesses.

In 1960, Davis gave a definition of CSR as “decisions and actions taken for the reasons at least partially beyond the firm’s direct economic or technical interest.” where he laid more emphasis on business allocating resources beyond their economic or technical interest.

In 1992, Eells said “CSR refers to the problems that arise when corporate enterprise casts its show on the social scene and the ethical principles that ought to govern the relationship between the corporation and society.”
In 1971, the Committee for Economic Development used a “three concentric circles” approach for defining CSR. The inner circle includes basic economic functions - growth, products, jobs, products, jobs. The intermediate circle suggested that the economic functions must be exercised with a sensitive awareness of changing social values and priorities. The outer circle outlined newly emerging and still amorphous responsibilities that businesses should assume to become more actively involved in improving the social environment.

In 1973, Davis defined CSR as “the firm’s considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social [and environmental] benefits along with the traditional economic gains which the firm seeks.”

In 1980, Norwegian Prime Minister Gro Harlem Brudtland defined CSR as used by the World Business Council for Sustainable Development, “Meeting the needs of the present without compromising the ability of future generation to meet their own needs”.

In 1984, Drucker pointed out the positive relationships between social responsibility and business opportunities in terms of market opportunities, productivity, human competence and improvement of the competitive context i.e. the quality of the business environment where companies operate.
In 1990, Jones defined CSR as a paradigm that encompasses not only the final result of a process, but also a process itself, to include in all decision making, and which needs to be evaluated and measured.

In 1991, Dunfee, said “today CSR is focused on a ‘stakeholder model’, which varies according to the company’s context of reference, but is dynamically linked to the different categories of stakeholders.

In 1991, Carroll, came out with very a wholesome definition of CSR where he very clearly differentiated between legal responsibility of the businesses versus philanthropic responsibility and very strongly brought out the difference between the two.

**Figure 2.1 Pyramid of CSR**

Carroll in 1991 talked about four responsibilities of businesses, starting with economic responsibility to be profitable and ensure return to shareholders and employment to the
employees of the organization. The next level is legal responsibility i.e. to obey the law. The third level ethical responsibility which talks about the ethical decision making while running the enterprise and at the top most level comes philanthropic responsibility which mean to be good corporate by contributing to the society and taking up social issues and become good corporate citizen of the country.

The EU’s Green paper on CSR defines CSR as “concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (Green Paper Promoting a European Framework for Corporate Social Responsibility, 2001).

The G-8 Evian Summit 2003 stated “consistent with the outcomes of the World Summit on Sustainable Development, we support voluntary efforts to enhance corporate, social and environmental responsibility. We will work with all interested countries on initiatives that support sustainable economic growth, including the creation of an environment in which business can act responsibly. We also welcome voluntary initiatives by companies that promote corporate social and environmental responsibility, such as the OECD Guidelines for Multinational Enterprises and the UN Global Compact principles consistent with their economic interest. We encourage companies to work with other parties to complement and foster the implementation of existing instruments, such as the OECD Guidelines and the ILO 1998 Declaration on Fundamental Principles and Rights at Work”.
In 2003, Mallenbaker, asserts that ‘CSR is about how companies manage the business
processes to produce an overall positive impact on society’.

In 2004, Castka defined CSR as “a concept to run organizations profitably yet in a
socially responsible way in order to achieve business sustainability and stakeholder
satisfaction.”

CSR has been defined by Philip Kotler and Nancy Lee in 2005 as “CSR is a commitment
to improve community wellbeing through discretionary business practices and
contribution of corporate resources.” As per this definition, CSR practices undertaken by
corporates should be voluntary and if there is any act mandated by the law, it will not fall
in the category of CSR.

Porter et al in 2006 stated of the definition offered by Brudtland as “this definition is very
relevant in the recent business scenario where we are having serious environmental issues
faced by the whole world. Most of the businesses are operating by consuming natural
resources like oil and gas, water, wood, as if they are never going to end. If they continue
acting in such an irresponsible manner there is a threat of resource constraint on the
future generation to come”.

28