Chapter 7

Conclusion and Recommendation

7.1 Major Findings

The major findings from the research are as follows:

Most of the enterprises have undertaken CSR quite recently (60% of the sample in the last three years). The feelings and values of the owners were the primary reason for undertaking CSR (43%). Further, in majority of the sample (72%) the entrepreneur was the decision maker on the kind of CSR activities to be undertaken. While employees were involved to a small extent in the selection of CSR activities (20%), they were involved to a larger extent in implementing the CSR activities (38%). The amount of money spent on CSR activities was in the range of less than 1 lakh (44%) followed by 1 lakh to 5 lakhs (36%). Here the type of firm and amount of money spent on CSR are related to each other. It was found that Proprietorship firms allocated less than 1 lakh while a higher percentage of partnership firms and Private limited companies devote more than 5 lakhs on CSR. Moreover Proprietorship firms have a lower turnover than private limited companies and partnership firms and this may be the reason why they allocate lesser amount to CSR.

Majority of the SME’s were focused on carrying out internal CSR (80%). Less than half the sample (46%) also focused on external CSR and one third of the sample said they
focused on environmental CSR. Within internal CSR, the enterprises focused more on medical assistance followed by training and development of their employees. In external CSR, the focus was more general in nature with various activities like working with local schools, old age homes, orphanages volunteer work etc. being undertaken. Environmental CSR as understood by the sample was to do with reduction of waste and better utilization of energy. Whether the SME was of the polluting or non polluting type did not impact the kind of environmental CSR activity undertaken by them. Similarly whether the SME was located in an SEZ or not did not have an impact on the kind of environmental CSR activity carried out.

Almost half the sample (42%) responded by saying that budget allocation for CSR activities was ad hoc in nature.

The entrepreneurs agree that internal CSR is better than external CSR (Mean 2.68 on 5 point rating scale) and also view CSR as a tool for improving long run profitability of the company (2.59). Further entrepreneurs from Maharashtra feel more strongly that society expects more from business than efficient production of goods and services. Entrepreneurs from Maharashtra feel more strongly that CSR activities give business a competitive advantage.

A factor analysis revealed two underlying dimensions that govern CSR among entrepreneurs: Factor one was social consciousness among entrepreneurs. This factor is the motivating dimension for entrepreneurs. Factor two is impediments faced by entrepreneur when they undertake CSR. This factor is the barrier that entrepreneurs need to overcome in order to have better focus on CSR activities.
7.2 Recommendations

CSR is now an integral part of corporate strategy. The core stakeholder ecosystem of today’s businesses includes investors, employees, customers, government, suppliers and society in general. Businesses seek to undertake socially meaningful activities not just to create a positive impact on the society but also influence the perception of the other stakeholders. Long term investors like to know that they have invested in the companies which will benefit from the goodwill of the society at large. Employees feel motivated to work for companies which are caring about the society. Large corporates globally and in India have managers and programs assigned specially for CSR activities. There are various reporting initiatives and awards relating to CSR initiatives of large corporates.

There is a need for specific SME knowledge on CSR engagement, that can contribute to the development of an understanding of how to effectively promote CSR among SMEs, and to develop relevant programs and policies, and, hence, to benefit from the huge potential for CSR development (Morsing, 2006).

There is research done on large businesses and their CSR practices but very little research has been done on CSR within the SME sector which contribute to more than 7% of India’s GDP.

It is estimated that India had about 134 lakh SME units in 2007-08, creating an employment of 322 lakh workers and 39% of India’s gross industrial value added has been attributed to SME sector. Given the importance of the SME sector to the Indian economy, this thesis has sought to study CSR practices among the SME sector in India with special emphasis on Maharashtra and Gujarat. The key findings from the study are
that SMEs contribute to the society mainly in the form of Philanthropy and for carrying out social programs on their own without having tie-up with professionally managed NGOs. There is direct co-relation between the turnover of the SMEs and the amount they spend on CSR. Based on the findings of the study, conclusions and recommendation are as follows.

1. **SMEs should increase the scope of what they consider to be CSR and go beyond philanthropic activities.**

The data collection from the survey showed that about 2/3rd of SMEs undertook activities which probably may not be considered as “CSR activities” according to the modern concept of CSR. They fall in the category of philanthropy and sponsoring. In many cases, the SME entrepreneur donates funds to religious or community organizations which they may be affiliated to. SMEs generally do not carry out this donation activities in a strategic way and often have no relation with their enterprise’s core business (Agarwal, 2008).

SMEs need to involve themselves in a more in-depth manner so that they may determine the success of CSR activities based on objectives defined by them. The CSR activities undertaken by them should be strategic and in line of the business carried out. In doing so, the entrepreneurs will be able to provide their knowhow, abilities, initiative taking and drive. SMEs can take up issues like education to orphans, reducing global warming by reducing environmental pollution, encouraging health check up camps etc. For example Arvind Eye Hospital on weekly basis carries out more than 20 camps in villages around Madurai, which are sponsored by local business organizations.
II State can encourage expenditure on CSR activities by giving exemption on the amount spent.

The amount spent by companies on CSR activities are generally shown as expenditure and thus allowed as deduction under Income Tax Act. Section 37 of Income Tax Act requires that the expenditure should be ‘wholly and exclusively’ laid out for the purpose of business (Agarwal, 2008). Many cases have been filed by the companies for allowing the money spent by them on CSR as deduction. In some cases it was allowed as deduction if the expenditure made was directly or indirectly but was for the benefit of business. In many cases, if the companies have spent the allocated money for the sole purpose of social cause it was not allowed as deduction. Big companies have resources to go to the courts and fight it out. But SMEs generally neither have the resources not the inclination to get involved in such kind of undefined territories so there is a need for government initiative not only to allow deductions if the amount is spent on social activities and general welfare of the society but also to give tax breaks for the expenditure made on CSR activities and make it very transparent.

Governments in many countries resort to tax incentives in the time of crisis or in the times when natural calamities have hit the country to encourage donations. eg. When Hurricane Katrina hit US, the US government gave one of the biggest temporary tax breaks in the history. A recent survey in the US by the Association of Fundraising Professionals has confirmed the view that tax rebates prompts more donation (www.afpnet.org) Related with this research, tax breaks will help more spending for social causes.
III Professionally Managing CSR activities by SME’s

It was found in this study that most of the SMEs allocated budget for CSR on an ad-hoc basis. There is a need to have a system to arrive at the money spent on CSR. The recent trend is that large corporates are tying up with well established NGO’s like CRY, etc. Thermax Ltd. and Bennett & Coleman have tied up with Akanksha for carrying out their CSR activities professionally. This study shows that as of now, most of the SMEs would like to carry out CSR activities on their own without joining any NGOs. There is a great scope for NGO’s to tap this sector of SMEs for creating a better impact of social projects and for better utilization of resources for the social cause.

IV SMEs should lay more emphasis on external CSR activities.

More than 80% of the SMEs are undertaking internal CSR activities. SMEs are undertaking Internal CSR more as a human resource department in a small enterprise which undertakes issues related to employees welfare. As per Maslow’s motivation theory, they are now contributing to the social need of the enterprises, SMEs need to move to the next need and that is the self actualization need of the enterprise by shifting their focus from employee’s welfare to society’s welfare. Greater number of entrepreneurs needs to undertake external CSR as this creates the required impact outside of the enterprises periphery. While internal CSR initiatives are useful from the point of view of positive change to employee’s issues, it must be noted that in most instances internal CSR initiatives are undertaken by the entrepreneur with commercial motives in mind, for instance, reducing alcoholism among employees. These initiatives result in benefits to the entrepreneur in terms of lower absenteeism, higher productivity, reduced
industrial accidents. Moreover, the amount he has spends on these initiatives is also allowed as deduction under Income Tax Act. But when an entrepreneur carries out external CSR initiatives, he has an opportunity to create a positive impact on the society at large. When the society benefits by the activities of the SME, a symbiotic relationship is created between the stakeholders and the entrepreneur where both have a positive and favorable disposition towards each other. In this way, the entrepreneur acts as a catalyst for the betterment of the society and the economy at large.

V Support mechanisms for entrepreneurs undertaking CSR:

Currently there exists negligible government or institutional support systems to encourage SMEs who wish to undertake CSR activities. Entrepreneurs of SME units initiate CSR activities purely on the basis of their own motivation and beliefs. Some of the support mechanism could be:-

a. As the SME section of business in the community Ireland website offers relevant information and support for SMEs and SME representative organizations interested in developing their corporate responsibility agenda. These resource centers provide business cases for corporate responsibility in SMEs, the toolkit for measuring and reporting CSR performances in SMEs, best practices case studies in Ireland and Europe. (Ec.Europa.eu). Something on these lines can be developed by the Indian Government to provide systematic information on CSR among SMEs and to give them motivation to undertake more CSR activities.
b. Tax incentive: Government should provide special tax breaks as incentive for SME units spending funds on CSR activities even if the activities undertaken may not relate to their business.

c. Institutional support: National trade bodies such as CII (Confederation of Indian industries), and FICCI (Federation of Indian Chamber of Commerce and Industry) have CSR committees on activities relating to CSR which is dominated by large companies and therefore focused on large companies. CII, FICCI, SFCs, SIDCs, FSSI these influential and powerful apex trade bodies should evolve special programs to encourage and facilitate CSR among SMEs. This could include CSR awareness campaigners among their SME members, CSR implementation training and information resources on CSR, opportunities and best practices.

d. Awards and ranking for CSR among SMEs hardly exist, although awards such as Golden Peacock exist, but mostly for large companies. Recently HSBC with TERI (The Energy and Resources Institute) gave HSBC Living Business SME Awards, recognizing the social commitments of SMEs. There were 42 nominations. The First prize went to Marco Food Products for its building a school imparting free education to underprivileged children of Ratnagiri District (www.dare.co.in). More of such initiatives for acknowledging the efforts undertaken by SMEs need to be developed so that there are some examples set in the business world.
VII Introduction of CSR in academic syllabus:

Currently there is negligible focus on CSR as part of the teaching curriculum of the bachelors’ and masters level education. SME entrepreneurs have been conducting CSR activities purely on the basis of their own religious, community or social beliefs of obligations. Their approach is often not methodical. By introducing CSR as an academic topic especially at the engineering, commerce and business school level, future SMEs and corporate managers will become conscious about the need and benefits of CSR, and also become trained in developing and managing CSR projects which create optimal value to the society. The results of the study also show that 62% of the SMEs have graduate entrepreneurs and 26% have post graduate degree.

7.3 Limitation of Study

The present study has the traditional limitation as with any survey research method, such as potential bias in selection of the samples. However this was minimized through proper selection of the sample in the development of measures and scales and in the interview process.

Based on the different data collection methods, there would have different advantages and disadvantages. The scope of this study is limited by the following factors.

1. This study is restricted to western India and data has been collected from the state of Gujarat and Maharashtra alone because of time and place constraints.
2. This study has taken SMEs which operate in the manufacturing sector. It has not taken into account SMEs which are in services.

7.4 Future Research

In this study attempt has been made to understand the attitude of entrepreneurs running SMEs towards CSR activities and factors affecting selection of CSR activities. It also tries to find out what are the most favorite CSR activities among SMEs. There is a scope of further studying how SMEs should be motivated to spend more on their CSR activities. There is also a great possibility to study how to encourage SMEs to have tie ups with professionally run NGOs in order to be more effective in their CSR activities. Further research can be done in the future in the following areas:

1. Comparison of CSR activities undertaken by SMEs in manufacturing vs. SMEs in services.

2. A region-wise comparison of CSR activities undertaken by SMEs (north, south, east and west).

3. Does the gender of the entrepreneur have any influence on selection of CSR activities and budget allocation?

4. Whether the religious nature of the entrepreneur has any influence over CSR activities undertaken and amount spent on it.