

# MSME Social Responsibility in India: Changing Perspectives

*ISED Discussion Paper*

by  
ISED Small Enterprise Observatory  
*jointly with*  
ISED Centre for Responsible Business



**Institute of Small Enterprises and Development**

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## Preface

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‘Responsible business’, as an essentially global concept, need to gain immediate acceptability as we desire, among SMEs in India. However, it provides an opportunity for having a closer look at the way business is done, as also opportunities and constraints attached to global value chains. While the role of the individual firm in this regard may be limited, at the cluster level, many things can be done.

For MSMEs need to be sustainable, and with CSR turning into a competitive tool, and the focus of Indian policy makers shifting towards a mandatory CSR compliance, Cluster Social Responsibility or Collective Corporate Social Responsibility may help MSMEs make a mark stand up the pressures from policy and industry quarters. Besides, for the planners and the policy makers, its gives an opportunity for a look back on the qualitative aspects of enterprise development, rather than on sheer numbers.. The purpose of this Discussion Paper is to bring to light some of the least known aspects of the subject. It is also meant to initiate a wider discussion on the subject so that it may contribute to public policy and strategies.

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This paper is the outcome of a project at the Institute of Small Enterprise and Development. The study was initiated by the ISED Center for Responsible Business, jointly with the ISED Small Enterprise Observatory. The support extended by the research team of the two centers is gratefully acknowledged.

Cochin  
February 23, 2017

P.M.Mathew

# MSME Social Responsibility in India: Changing Perspectives

## Abstract

Responsible business practices have gained an unprecedented role and relevance in modern business. For the planners and the policy makers, it gives an opportunity for a look back on the qualitative aspects of enterprise development, rather than confining on sheer numbers. 'Responsible business', as an essentially global concept, need to gain stronger and deeper attention in India for a variety of reasons. It provides an opportunity for having a closer look at the way business is done, as also opportunities and constraints attached to global value chains. While the role of the individual firm in this regard may be limited, at the cluster level, the potential is much greater. However, following the announcement of the 'National Voluntary Guidelines', much has not happened on the practical side in order to nurture a culture of 'responsible business' among MSMEs in the country. There is the imperative for developing a practical approach, which will enable the Indian MSMEs to perform better in the global value chains.

Key words: Responsible Business, global value chains, MSMEs

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## 1.0. Introduction

Promotion of micro, small and medium enterprises (MSMEs), in India, is a subject inextricably linked with the objectives of social policy. Therefore, irrespective of the changes in the Industrial Policy from time to time, the thrust given to MSMEs has remained intact. Alternatively speaking, the MSME role in the Indian economy has been considered essentially as a social responsibility role. Unlike in India, the 'social responsibility' role of SMEs is a more recent subject in the semantics and agenda of development policy in many other countries. Though promotion of SMEs is central to the welfare agenda of countries, the argument that they need to play a proactive role on the social responsibility front, is a new thinking. The dimensions of this thinking were originally elaborated by the ISED in the Indian context in 2007, through the International Conference on 'SME Social Responsibility and the Opportunities at the Bottom of the Pyramid'. Following that, a lot of changes have happened both in the thinking and practice on the subject over time. The purpose of the following pages is a discussion on that.

## 2.0. Dual Perspective

Let us examine the concept of 'SME Social Responsibility' from the dual perspective on that. The dual perspective arises from the following two angles: First, traditionally, it has been viewed that SMEs have a social role. More recently, they are perceived and expected to play an additional role as well. Accordingly, there are two positions that distinguish the SME role in society today : 1. SMEs, structurally and functionally, have an overall responsible role in society; and 2. SMEs need to be responsible in their performance. The first can be described as a passive role, whereas, the second one is an active role.

Following the first logic, two specific roles were perceived to be performed by the SMEs: 1.) employment promotion; and 2.) balanced regional development.

### 2.1. Employment

The employment role is essentially a macroeconomic role. Naturally, there is also a fallacy attached to it. The fallacy relates to the two mechanical association of SME births with employment creation, which, in the real world, is not often true.

### 2.2. Balanced Regional Development

The arguments relating to for balanced regional development also, sometimes, involves such a fallacy. The fallacy is that industrial location in a particular region brings in dispersal of income and employment in that locality, which in many cases, is proved wrong.

While the above two premises look at the macro level role of MSMEs, from the point of view of development strategy, it has some limitations. The major limitation relates to the changing role of government in enterprise promotion. While the government's role in enterprise promotion has significantly come down, a logic of internalised social responsibility by enterprises themselves need to be articulated. The modern approach to SME social responsibility speaks of that. It speaks of the way business work, along with the role they perform as a community.

## 3.0. Conceptual Framework

There has been an enhanced thrust on 'inclusive business' in many countries of the world today. The thrust on inclusiveness emerges from the enhanced realization that, the present pace of economic growth in countries, and the world over, excludes and sidelines a large number of

people and their interests from the mainstream. However, who constitute these majority participants of business and what are their interests? There need to be a logical basis for meeting such interests and aspirations. That obviously, needs to be the “triple-bottom-line”. The three types of sustainability lead us to a framework within which businesses are bound to work. This framework, not only needs to be objective, but should capture the ground realities prevailing in India.

The discussion on ‘responsible business’ in the context of large firms is essentially against the background of the Stakeholder Theory. Social capital’ forms the basis for such discussions relating to SMEs. There are two imperatives of inclusive development, as it relates to SMEs : (1) to create conditions for SMEs to sprout and grow ; and (2) to ensure such conditions by which the SMEs, as a matter of choice, adopt socially acceptable practices. Both from the point of view of a ‘responsible business’ agenda, as also from the angle of economic decentralization and empowerment, there is a convergence of initiatives on the enterprise development front. Therefore, from the angle of the way MSMEs are viewed, as also according to how MSMEs view their social role, it is sensible to discuss a ‘responsible business’ agenda. The following discussion looks into the perspectives on responsible business, as it impacts on the MSME sector.

The guiding principle of firm behaviour according to the neo classical economic theory, is profit maximizing behaviour. Its discussion on ‘scale of production’ is strictly in terms of tapping the opportunities of profit maximization. On the other hand, Development Economics, implicitly discusses the welfare implications of small scale production, in terms of its employment contribution, as also its contribution to balanced regional development. In none of these approaches, the concept of ‘responsible business’ figure in, as it is something that is external to the basic model of production planning. ‘Responsible business’ discusses the way profits are earned. It is something more than the legal commitments implied in production and profit maximization. Being meticulous on this process of earning profits, implies a business: the so called business case. Therefore, both for small and large businesses, establishing a business case relating to RB practices, implies opportunities of gaining future profits as well.

What is the objective setting within which SMEs, individually and collectively, shape their behaviour patterns? Their behaviour pattern is the outcome of the business culture itself. The business culture, emerges as the outcome of the interplay of various internal and external influences. As on today, globalization is the largest single external influence on business culture which is relevant to the context of SMEs. This influence is essentially through

the impact on the flow of information. The consumers, and the community as a whole, are increasingly aware of the consequences of a particular business behaviour. The SMEs, logically, have to adapt to such changing environment.

Beyond this conventional wisdom and thrust, there is a special context in which ‘responsible business’ practices need to be discussed: the emerging global economic crisis. Globalization is in a new phase today. The experience of the ‘Great Depression’ of the 1930s, as well as of the ‘Asian Crisis’, tells us that SMEs were the greatest victims of such economic upheavals. Especially under a situation of economic crisis, there is a significant relevance for public policy to focus on the SME sector, essentially from two angles: (a) a social cause; and (b) an economic rationale. Given the significant vulnerability of SMEs to an economic shock, the most immediate impact would be on its employment promotion and poverty reduction roles. Therefore, public policy will have to address this issue through measures such as, greater credit availability, provision of critical raw materials, infrastructure etc.

As per the economic rationale, the atomic SMEs form the base of the enterprise system. Naturally, a widespread fall in business confidence at this base level would have a significant impact on the general level of business confidence in the system. Therefore, even a relatively small effort to maintain the level of confidence through public investment that are supportive to the cause of SMEs, are likely to have a high beneficial effect on the economy .

#### 4.0. The So-called ‘SME Agenda’

What is common for the development agenda of countries around the world since about the third quarter of the 20<sup>th</sup> century, is a sub-sectoral agenda on SMEs. Several inspiring factors, ranging from donor programmes, down to community concerns at the grass root level, have contributed to this. At the international level, this agenda involves three variants: i) SME development **per se**; ii) SMEs-in the-community; and iii) SME ‘responsible business’. A discussion on the key elements of these agendas is crucial for an understanding of their wider policy implications.

##### 4.1. SME Development Agenda

In many developing countries, the role of SMEs is visualized as an engine of incomes, employment and balanced regional development, which are woven into the larger macro level development policy. The traditional concept of an SME, is of an entity which is confined to the limited immediate market, and having limited firm size, and technology which is characterized by smaller capital-output ratios.