

# Cut to the Chase

## Social Responsibility for SMEs

The ongoing debate in Western economies regarding the role of corporates in widening the gap between the rich and the poor, exemplified by the Occupy Wall Street movement, has brought focus on 'Corporate Social Responsibility' in public discourse in India. CSR in India is several decades old, where large corporate houses have been role models in adopting the local society they depend on for land, labour and some other resources. However, CSR has remained an elusive practice, adopted only by a limited number of large corporates, and is yet to become a mainstream initiative even among large companies. In this context, SMEs in India have a key role to play, in bridging the social divide while building a prosperous India.

### BUSINESS WITH ETHICS

Some CSR initiatives that any SME can strive to achieve include simply conducting its business in an ethical manner; paying all taxes and duties, providing a healthy working environment, adhering to basic social security regulations such as minimum wages, ESI, PF, etc, shunning cash-based transactions, and avoiding corrupt practices to solicit business – each of these will contribute to a much more equitable society than what we have currently inherited. SMEs are the bulwark of the economy, accounting for more than 45 per cent of industrial output, and more than 40 per cent of India's exports. A widespread adoption of ethical business practices among SMEs can have far-reaching implications for the country.

### LOCAL COMMUNITIES

It may not be always cost-effective for an SME to source all its resource requirements – manpower, basic raw material, components, etc – from the local vicinity. However, building a relationship with the local community by co-

opting them in some form would definitely help the enterprise in the long run.

Entrepreneurs must realise that they are utilising a fair share of local resources such as land, water, power, etc, and should strive to return the favour to the local community. While adopting schools or hospitals could be possible only for large corporates, SMEs could meet their CSR goals through providing local employment, developing

local vendors for supplies, using local agricultural produce or farm waste, etc.

Many entrepreneurs interpret CSR initiative as charity; however, this isn't a sustainable model, as such initiatives would suffer at the slightest pressure on the profitability of the enterprise. Entrepreneurs should recognise that CSR is their inalienable responsibility for the society, and strive to interweave CSR initiatives with their regular business goals.

N. MUTHURAMAN

(The author is ex-Director Ratings, CRISIL and Co-founder, RiverBridge Investment Advisors.)  
<http://ChaseCut.blogspot.com>

