



## **ICT Development and Business Social Responsibility in Indian MSMEs**

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### **Abstract**

Information and Communication Technology had a great impact in all aspects of life such as economy, businesses and enterprises. The global economy is currently undergoing fundamental transformation in which ICT plays a key role. Usage of these Information Communication technologies is revolutionizing the rules of business, resulting in structural transformation of enterprises. Modern businesses are not possible without help of Information Communication technology. It provides a significant impact on the operations of Micro Small and Medium scale Business. It is claimed to be essential for the survival and growth of economies in general. MSMEs are drawing attention in developed countries, developing countries as well as in transition countries. It is generally recognized that MSMEs play a vital role in the revitalization and development of national economy in many countries and particular in the context of India. MSME sector in India promotes economic and social development and creates social responsibility by providing opportunities for employment. Linking the technological development in MSMEs such as role of entrepreneur, government policies, organizational culture, with the ICT tools, the Indian government explored multi development in welfare of the Indian people.

**Keywords:** MSME, ICT

### **Introduction**

MSME is the abbreviation for Micro Small and Medium Enterprises. These enterprises can be rightly called as the backbone of the India. The MSME sector in India is growing at an exceptionally fast rate due to which it is proving to be beneficial to the Indian Economy [1].

Following are some of the current figures related to the MSME sector in India:

- The contribution of the MSME sector to the entire output of the country is 40%.
- Currently, there are over 11 million MSME units in India that produces more than 8000 products.
- 90% of the Industrial Units in India belong to the MSME sector.
- MSME units contribute 35% to the Indian Industrial Export.

Following are some of the factors that have contributed to the growth of MSME sector in India:

- The advancement in technology tools like ICT has also contributed highly to the MSME sector [2].
- MSME units in India are being funded by foreign and local fund provider
- Online business directories and trade portals contains a rich database of manufacturers, sellers and buyers.
- Maintenance of MSMEs requires minimal investment
- MSME units are now being funded by many government and private banks.
- MSME sectors are the greatest contributors of domestic production as well as the export earnings. Many major mergers have taken place recently [3].

**Social Responsibility in India** refers to changes of the cultural norms over time. Business responsibility refers to way that businesses are managed to bring about an overall positive impact on the communities, cultures, societies and environments in which they operate. The fundamentals of social responsibility rest on the fact that not only public policy but even business people should be responsible enough to address social issues. Thus companies should deal with the challenges and issues looked after to a certain extent by the states.

Among other countries India has one of the oldest traditions of Business Social Responsibility(BSR). But BSR practices are regularly not practiced or done only in namesake especially by MNCs with no cultural and emotional attachments to India. Much has been done in recent years to make Indian Entrepreneurs aware of social responsibility as an important segment of their business activity but BSR in India has yet to receive widespread recognition. If this goal has to be realized then the BSR approach of corporate has to be in line with their attitudes towards mainstream business- companies setting clear objectives, undertaking potential investments, measuring and reporting performance publicly.

### Definition of MSMEs

MSME's are the engines of growth of any country's economy. They are an essential source of a country's jobs, create entrepreneurial spirit and jobs in a country and are crucial for fostering competitiveness and employment. According to the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as:

MANUFACTURING SECTOR		SERVICE SECTOR	
Enterprises	Investment in Plant & Machinery	Enterprises	Investment in Equipments
Micro	Less than Rs.25 Lakhs	Micro	Less than Rs.10 Lakhs
Small	Rs.25 Lakhs to 5 Crore	Small	Rs.10 Lakhs to 2 Crore
Medium	5 Crore to 20 Crore	Medium	2 Crore to 5 Crore

### Definition of Social Responsibility

WBCSD (2001), *Corporate Social Responsibility: Making Good Business Sense*. WBCSD. Washington,

*"The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."* (World Business Council for Sustainable Development)

EU Green Paper (2001), *Promoting a European Framework for Corporate Social Responsibility*. Brussels, Commission of the European Communities.

*"Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders."* (The European Commission)

BSR – Online Introduction to BSR

*"Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business."* (Business for Social Responsibility)

## **Social Responsibility in India**

Politicians from Gandhi onwards have stressed the role of business in development. As early as 1965 Prime Minister Lal Bahadur Shastri chaired a seminar for policy-makers, business leaders, thinkers and trade union leaders, which called for regular stakeholder dialogue, social accountability, openness and transparency, social audits and corporate governance.

Mohan, A (2001) Corporate Citizenship: perspectives from India, Warwick Business School, Warwick.

The tradition of business involvement in social issues is reflected both in the family businesses which dominate the national industrial scene and the social economy sector. Businesses of every size have always seen social reform as part of their role in nation building. Often this is linked with local commitment and religious affiliation. Indian Corporate Social Responsibility has traditionally been a matter of classical paternalistic philanthropy: financially supporting schools, hospitals, and cultural institutions. However, far from being an add-on motivated by altruism and personal glory, the philanthropic drive has been driven by business necessity. With minimal state welfare and infrastructure provision in many areas, companies had to ensure that their workforce had adequate housing, healthcare and education.

One of the most celebrated companies in Indian BSR is the Tata Group. Its BSR practice started by providing employee accident compensation for its workers and funding higher education scholarships. This broadened to supporting the development of institutes for education and research institutes ranging from cancer to the performing arts. In the towns and villages near its steel plant in Bihar, Tata has a long-standing and comprehensive community development and social welfare programme which includes education, healthcare and infrastructure development

India, like many other developing nations is rolling back its regulation and involvement in the economy in order to court foreign investment. With its sizeable skilled labour force India appears to be a winner from globalization. It is one of the world's fastest-growing economies and its share of foreign direct investment and world exports is rising. While India, along with China, is still home to the majority of the world's poor, the share of the population below the poverty line is falling.<sup>53</sup> Globalization has given rise to a number of trends in Indian BSR

‘Western style’ BSR is becoming increasingly influential. This is a move away from philanthropy towards measuring, managing and improving all aspects of companies’ environmental, social and economic impact. This trend is seen to be embodied in formalized codes of conduct and guidelines that are increasingly becoming part of the terms of business for companies that trade with TNCs.

The rise in power of global civil society and the internationalizing of civil society campaigns and lobbying has disturbed the comfortable relations between Indian NGOs and businesses, with more critical voices coming forward to highlight poor corporate performance

Intense competition in the global market place is constraining the ability of many companies to do anything more than what is strictly necessitated by regulation, and many are being forced to restructure in ways that challenge their commitment to BSR. Center for Social Markets (2001) BSR Perspectives from Indian Business.

While the commitment to *be mindful of its social and moral responsibilities to consumers, employees, shareholders, society and the local community* is enshrined in the Articles of Association of the Tata Group companies, the pressure of competition is undermining its traditional BSR practices. It is considering cutting its workforce and associated social provisions by half. However the company does not want to lose its good reputation or loyal workforce and is looking for ways of restructuring without withdrawing support from the 21 schools, 23,474 homes and healthcare for 600,000 people, which are currently dependent on Tata’s social programmes. Possible alternatives include sub-contracting, or even handing over the responsibility and ownership for the running of schools, hospitals and other infrastructure developments, to the local state. Companies, NGOs, regulators and an increasing number of organizations in India specializing in BSR are trying to develop an appropriate model of BSR, which builds on the best of Indian business practices and Western ideas of the triple bottom line while at the same time responding to the need for greater competitiveness. Sources: The EU-India BSR project is a useful source of information on BSR in India.

### **Business Social Responsibility and MSMEs**

BSR is clearly affecting MSMEs in developing countries through direct supply chain relationships, as well as the development of legislation, and international standardization and certification. BSR represents not just a change to the commercial environment in which individual MSMEs operate but also needs to be considered in terms of its *net effect* on

society. If BSR, as some critics believe, introduces social and environmental clauses resulting in protectionism by the backdoor, imposes inappropriate cultural standards or unreasonably bureaucratic monitoring demands on small businesses, the net effect on the communities concerned will be a reduction in welfare. On the other hand, BSR offers opportunities for greater market access, cost savings, productivity and innovation to MSMEs, as well as broader social benefits such as education and community development.

Thus the interaction between BSR and MSMEs in developing countries is an important issue, not only for the MSMEs and those supporting their development, but also for all the actors driving BSR forward: TNCs, civil society organizations (CSOs), governments, and multilateral bodies like the EU and UN, which have incorporated BSR within their strategies. It is critical that SMEs in the South are able to go beyond a compliance-based reactive mode to BSR to engage in the ongoing development of what effective, appropriate BSR means at all levels. BSR approaches are increasingly being seen alongside other development interventions, as a key way in which donor countries can assist in the development process. Without the incorporation of MSMEs into the global 'social' value chain, the aim of BSR to contribute to International Development Targets will not be met.

### **The Four Phases of BSR Development in India**

The history of BSR in India has its four phases which run parallel to India's historical development and has resulted in different approaches towards BSR. However the phases are not static and the features of each phase may overlap other phases.

**The First Phase** – 1850 - 19th century

**The Second Phase** –Before 1960

**The Third Phase** - 1960–80

**The Fourth Phase** - 1980 until the present

### **Current State of BSR in India**

Companies have specialized BSR teams that formulate policies, strategies and goals for their BSR programs and set aside budgets to fund them. These programs are often determined by social philosophy which have clear objectives and are well defined and are aligned with the mainstream business. The programs are put into practice by the employees who are crucial to this process. BSR programs ranges from community development to development in education, environment and healthcare etc.

Many of the companies are helping other peoples by providing them good standard of living. Also, corporate increasingly join hands with non-governmental organizations (NGOs) and use their expertise in devising programs which address wider social problems.

BSR has gone through many phases in India. The ability to make a significant difference in the society and improve the overall quality of life has clearly been proven by the corporates.

### **Law**

Under the Companies Act, 2013, any company having a net worth of rupees 500 crore or more or a turnover of rupees 1,000 crore or more or a net profit of rupees 5 crore or more should mandatorily spend at least 2% of last 3 years average net profits on BSR activities as specified in Schedule VII of the Companies Act, 2013 and as amended from time to time. The rules came into effect from 1 April 2014.

### **The Importance of MSMEs in Development**

For developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector, in which MSMEs play a central part.

MSMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment. However, their importance in the development process goes beyond their strength in number. There is a rich body of research on the development contribution of small enterprises. While not entirely without some controversial areas, there would appear to be widespread consensus on the following points:

1] MSMEs (partly because of the industrial sub-sectors and product groups covered by them) tend to employ more labour-intensive production processes than large enterprises. Accordingly, they contribute significantly to the provision of productive employment opportunities, the generation of income and ultimately, the reduction of poverty. It is through the promotion of small enterprises that individual countries and the international community at large can make progress towards reaching the global target of halving poverty levels by the year 2015.

2] There is ample empirical evidence that countries with a high share of micro and small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This in turn is a key contribution to ensuring

long-term social stability by reducing ex-post redistributive pressure and by reducing economic disparities between urban and rural areas.

3] MSMEs are key to the transition of agriculture-led to industrial economies as they provide simple opportunities for processing activities which can generate sustainable livelihoods. In this context, the predominant role of women is of particular importance.

4] MSMEs are a seedbed for entrepreneurship development, innovation and risk taking behavior and provide the foundation for long-term growth dynamics and the transition towards larger enterprises.

5] MSMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked.

6] Such linkages are of increasing importance also for the attraction of foreign investment. Investing transnational corporations seek reliable domestic suppliers for their supply chains. There is thus a premium on the existence of domestic supporting industries in the competition for foreign investors.

7] MSMEs, as amply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner.

### **Information Communication Technological Development in MSMEs**

Technology development is a catalyst not only for growth among India's micro, small and medium enterprises (MSMEs), but for the growth of the Indian economy as a whole. Many stakeholders, including the Government of India, technology companies and MSME leaders, recognize that roadblocks relating to infrastructure, technology and skilled labour must be eliminated to sustain the growth of MSMEs and ensure their continued contribution to India's industrial production, economic growth and employment. In India, medium-sized and large businesses are adopting technology in major ways, even ahead of their counterparts in Western markets, particularly with respect to mobile technology. India's widespread adoption of mobile solutions create a major opportunity for other countries to learn from the India experience and find new ways to "leapfrog" traditional communication means and use the mobile channel to reach huge populations on key issues of social and economic importance. Despite India's global technology "case study" and best practices, today small business in India is simply not realising the full potential technology can bring as a game-changer to the old ways of doing things in their businesses. Although technology adoption

considerably increased during the implementation of the Government of India's 11th Five Year Plan – with its focus on creating a technology infrastructure and rolling out technology-driven services – the use of technology in MSMEs remains limited. As a result, there is a clear and deeply-felt need to accelerate the pace of technology adoption in the small business community and disseminate technology across the bottom of the pyramid – and among India's MSMEs specifically – dramatically during the implementation phase of the 12th Five Year Plan [4]. Majority of micro and small businesses has a low awareness of and engagement with technology. Three business types emerged during the qualitative sessions: “tech non-adopters”, “tech aspirers”, and “moderate tech adopters”. Tech nonadopters – or “technology laggards” – do not employ technology to any great extent and rely mostly on manual methods. They tend to be older manufacturing, established businesses who practice “old school” business development and management. Tech aspirers represent a mix of service and manufacturing units but tend to be on the smaller size. The business attitude among this group is “ambitious but cautious”, as this group is usually comprised of new entrepreneurs with younger, more inexperienced management. While tech aspirers have a much higher awareness of the benefits of technology than non-adopters, they also exhibit low engagement and only adopt technology solutions when they are tried and tested by others. The final group – moderate tech adopters – is the most technology-savvy of the sampling and uses technology to keep ahead of trends and interact with clients in various aspects of their business, although not always consistently and without struggle. These businesses are mostly found in the services sector. Moderate tech adopters have an evolved understanding and use of technology but this clearly remains at the nascent stage. Although all three types acknowledge the benefits of using technology, most businesses appear to be applying technology to a limited extent in business operations. Free and guided associations of technology remain in the “functional realm” where technology is viewed as a means to save time and effort. Software usage is basic and dependent on popular products and established brands. Internet and mobile telephone solutions, while used for personal purposes, are surprisingly not employed equally across the business as they are in business owners' personal lives. Moreover, there is little customization of solutions to meet specific business needs [5]. In order to enable SMEs tide-over the problems of technological backwardness and enhance their access to new technologies, it is imperative to offer them a conducive environment, which in the present context of globalization, calls for approach with knowledge playing a predominant role. There is a need to understand and assess the real needs of the SMEs and accordingly devise

approaches that ensure their sustainable growth. The need today is also to leverage on modern technologies to harness human capabilities through the process of increased communication, cooperation and linkages, both within the enterprise as well as across enterprises and knowledge-producing organizations [6].

### **Top Barriers to Information Communication Technology Development Among India's Micro Medium and Small Business**

Applying the findings from the qualitative stage of the research, the research's quantitative assessment into the reluctance to invest in and adopt technology uncovered five top barriers: (i) cost, (ii) lack of skilled manpower, (iii) low awareness of the benefits of technology, (iv) security and privacy, and (v) poor infrastructure. Cost is the top barrier. Micro and small businesses are not yet convinced about the return on investment in technology adoption. Forty-five percent of respondents highlighted cost as the biggest obstacle. Demonstrating the value add for the business is critical and should be done using cost-benefit analyses and simple comparisons of growth between traditional operations versus IT-based approaches.

Government and other institutional schemes are benefitting small businesses, but there is a broad lack of awareness of existing resources: Businesses who utilised the numerous government and other stakeholder schemes benefited extremely well from them. At the same time, there appears to be a very low awareness of these programmes among small businesses.

Recognition of specific programmes was as low as 1-4 % among the sample interviewed and only as high as 32%. All stakeholders, including the Government of India, training institutions and the private sector, must work together to assess why existing communications about available resources are not reaching the end-user and develop new ways to promote the existing programmes among small business owners.

Case studies and testimonials are incredibly important in communicating the benefit of technology adoption: Other small businesses have tremendous influence in helping reluctant business owners "get over the hump" and invest in technology. Specifically, 68% say they adopted technology solutions only after seeing other businesses using it to their benefit. Furthermore, 36% of all survey respondents said that hearing from other small businesses about their experiences with technology would be helpful. Government, small

business organisations and even private sector communities need to roll out engaging case studies and tap into relevant “influencers” when communicating the value of technology adoption. One way to do this is to generate real small business “success stories” to communicate in local communities. Share best practices and engage the community: Small business kiosks, incubators, hubs, clusters, business associations, and support centres, such as the country-wide network of Development Institutes, established by the Ministry of Micro, Small and Medium Enterprises, could be more active in bringing small business together to leverage skills, ensure resources are user-friendly and help answer IT questions throughout the growth cycle of micro and small businesses. Timing is important: Moderate tech adopters tended to embrace technology either in beginning stages of forming a company (60%) or when starting to expand (20%). Supporting organisations must “meet the business at its comfort level” – that is, when and where they are mentally and financially open to adopting and investing in technology. Intuit has some additional ideas on specific solutions for both government and private sector that could leverage the open “entry points” for small businesses. Technology adoption must be easier, more affordable, and implemented from a local perspective: Just less than 40% of moderate tech adopters went forward with IT plans because a credit or upgrade made the implementation affordable. Affordable solutions such as easy installments, credit options, and pay-as-you-go options can provide sustainable solutions toward addressing cost concerns. Additionally, software should be easy to use and offered in local languages to breakdown the perceived complexity of IT. Provide long-term support: It is essential to offer sustained IT support that meets the needs of the end-user, from a variety of sources including in-person support. Coupling these with user-friendly solutions and baseline IT training will go a long way in helping small business overcome the hurdles to technology adoption. Despite a government that has committed its support, and a community of training institutions, education organisations, and a private sector serving the market, India’s MSMEs have not – for the most part – adopted technology in their business operations. Changing this equation will require the Indian government, the private sector, training organisations and other key stakeholders to increase efforts to understand the barriers to technology adoption [6].

## **Conclusion**

The Small and Medium enterprises play a vital role in the Indian economic structure due to its significant contribution in terms of output, exports and employment. But still most

of MSMEs in India lacks in their technological infrastructure and are technically backward. In order to enable MSMEs tide-over the problems of technological backwardness and enhance their access to new technologies, it is imperative to offer them a conducive environment, which in the present context of globalization, calls for approach with knowledge playing a predominant role. There is a need to understand and assess the real needs of the MSMEs and accordingly devise approaches that ensure their sustainable growth. The need today is also to leverage on modern technologies to harness human capabilities through the process of increased communication, cooperation and linkages, both within the enterprise as well as across enterprises and knowledge-producing organizations.

Overall, there seems to be a general awareness of BSR as a business issue, and that it is of relevance to MSMEs. Many of the main BSR issues are seen to be important, in particular environmental concerns (pollution and waste), transparency and accountability. Although there is a low level of awareness of emerging international initiatives such as the UN Global Compact, a number of national and industry-specific initiatives are under way, in particular concerning codes of conduct. There is a general concern about the threats BSR may pose in creating a barrier to markets and the burden of compliance and monitoring. However, there were perceived to be a number of opportunities presented by BSR, including access to markets and better alignment to consumer concerns. In all, there seems to be a perception that BSR issues pose both threats and opportunities that will require a heightened awareness and careful management among industry associations and individual companies alike.

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