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Corporate Social Responsibility Practices of Small and Medium Enterprises in Tirunelveli District, Tamil Nadu: An Empirical Investigation

Dr. K. Muthuvel

Assistant Professor, Department of Commerce, Sri Paramakalyani College, Alwarkurichi, Tamil Nadu

muthuvel.commerce@gmail.com

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Abstract: Corporate Social Responsibility (CSR) has evolved from a voluntary philanthropic impulse to a statutory obligation for qualifying companies under the Companies Act 2013, which mandates CSR expenditure of at least 2% of average net profits for companies meeting prescribed size thresholds. While large corporations' CSR practices have been extensively studied, the CSR behaviour of Small and Medium Enterprises (SMEs) — which constitute 95% of Indian businesses and employ over 110 million people — remains poorly understood, particularly in non-metropolitan, semi-industrial districts. This paper empirically investigates the CSR practices, motivations, and challenges of SMEs operating in Tirunelveli district, Tamil Nadu, a region characterised by significant activity in leather, textile, and agro-processing industries. A structured questionnaire-based survey was administered to 150 SME owner-managers across three industrial clusters in Tirunelveli district. Results reveal that 43.3% of surveyed SMEs engage in some form of CSR activity, predominantly philanthropic (donations to temples, schools, and disaster relief funds) rather than strategic or stakeholder-integrated. Awareness of the Companies Act 2013 CSR mandate was high (78.7%) but most SMEs were exempt from the statutory requirement and viewed CSR as beyond their immediate resource capacity. Key barriers included lack of dedicated CSR personnel, absence of CSR implementation knowledge, and perceived primacy of business survival and growth. The study argues for a differentiated CSR policy framework for SMEs and recommends industry association-led CSR capacity-building programmes.

Keywords: *CSR, Small and Medium Enterprises, Companies Act 2013, Tamil Nadu, Tirunelveli, SME CSR Barriers*

1. Introduction

Corporate Social Responsibility has undergone a significant transformation in the Indian policy landscape following the enactment of Section 135 of the Companies Act, 2013. For the first time, the statute mandated that companies meeting prescribed thresholds of net worth (Rs. 500 crore or more), turnover (Rs. 1,000 crore or more), or net profit (Rs. 5 crore or more) spend at least 2% of their three-year average net profit on CSR activities specified in Schedule VII of the Act. India became the first country globally to legislatively mandate CSR expenditure. While this has driven significant increases in measurable CSR spending among large corporations — from approximately Rs. 10,000 crore in 2014–15 to over Rs. 25,000 crore in 2021–22 — the CSR practices of the vast majority of Indian businesses, which fall below the statutory threshold, remain largely unstudied.

Small and Medium Enterprises (SMEs), defined by the Ministry of Micro, Small and Medium Enterprises on the basis of investment and turnover criteria, constitute the backbone of the Indian economy: they account for approximately 30% of GDP, 45% of merchandise exports, and employ over 110 million people across 63.4 million

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enterprises. SMEs are typically embedded in local communities in ways that large corporations are not — they hire local labour, procure from local suppliers, and are visible participants in local civic life. Their CSR behaviour, however informal or implicit, therefore has significant implications for local community well-being, environmental impact, and labour standards.

Tirunelveli district in southern Tamil Nadu presents an interesting case study for SME CSR analysis. The district hosts significant clusters of leather goods manufacturing (particularly in Vaniyambadi and Ambur industrial areas), textile and garment production, and agro-processing activities including cashew and rice processing. These industries are associated with substantial environmental impacts (leather tanning effluents, water consumption) and labour challenges (piece-rate work, informal employment), making CSR and sustainability practices particularly relevant. Yet empirical data on CSR awareness and practice among Tirunelveli SMEs is absent from the published literature.

This study directly addresses this gap by surveying 150 SME owner-managers across three industrial clusters in Tirunelveli district to assess CSR awareness levels, the nature and extent of CSR practices, the motivations behind CSR engagement (or non-engagement), and the structural barriers limiting more systematic CSR adoption. The findings are intended to inform industry association programmes, district administration initiatives, and national policy on SME sustainability governance.

2. Methodology

A quantitative survey design was employed. The study population comprised owner-managers of Small and Medium Enterprises registered under the MSME Development Act, 2006 and operating in three industrial clusters in Tirunelveli district: the Tirunelveli industrial estate (manufacturing cluster), the Palayamkottai commercial cluster, and the Sankarankovil agro-processing cluster. The sampling frame was the Tirunelveli District Industries Centre's MSME registration database, from which 150 enterprises were selected using stratified random sampling, stratified by enterprise size category (small: 50, medium: 50) and industry type (manufacturing: 75, trading and services: 75).

A structured 32-item questionnaire was developed drawing on established CSR scales from Carroll's (1991) four-part CSR model (economic, legal, ethical, philanthropic responsibilities) and validated scales from Indian SME CSR studies conducted in other regions. The questionnaire covered: (i) enterprise profile and background; (ii) awareness of Companies Act 2013 CSR mandate and Schedule VII; (iii) current CSR activities and annual expenditure estimates; (iv) motivations for CSR engagement (both intrinsic and extrinsic); (v) barriers to CSR engagement; and (vi) preferred support mechanisms for CSR capacity building. The questionnaire was pretested with 15 non-sample SME owners and refined based on feedback before final administration. Data collection was conducted personally by the researcher between February and April 2024.

Data were analysed using SPSS version 22.0. Frequency distributions and percentages described CSR participation rates and activity types. Chi-square tests examined associations between enterprise characteristics (size, industry type, ownership structure) and CSR engagement. Mean scores for motivational and barrier items were computed and ranked. Content analysis was applied to open-ended items on preferred CSR activities and support mechanisms. The study adhered to standard research ethics; all participants were informed of the study's academic purpose and confidentiality of responses.

3. Results and Findings

Of the 150 SME owner-managers surveyed, 65 (43.3%) reported engaging in at least one form of CSR-related activity in the preceding financial year. The dominant form of CSR was philanthropic giving: 72.3% of

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CSR-active enterprises reported donations to religious institutions (temples, churches, mosques), schools, and natural disaster relief funds. Strategic CSR activities — defined as initiatives aligned with core business operations and community needs simultaneously, such as apprenticeship programmes, supplier development, or environmental management — were reported by only 12.3% of CSR-active enterprises. Environmental CSR practices (waste management, energy efficiency, effluent treatment) were found in 24.6% of manufacturing SMEs, largely driven by regulatory compliance requirements rather than voluntary sustainability commitment.

Awareness of the Companies Act 2013 CSR mandate was high at 78.7% of respondents, significantly higher than levels typically reported in studies of similar SME samples in other Indian regions. However, 86.7% of respondents stated that their enterprise fell below the statutory threshold and was therefore not mandatorily required to implement CSR. Among the 20 enterprises (13.3%) meeting or approaching the threshold, only 11 (55%) had a documented CSR plan. Annual CSR expenditure among CSR-active enterprises ranged from Rs. 5,000 to Rs. 3,50,000, with a median expenditure of Rs. 28,000, representing a median of 0.3% of reported annual profits — well below the statutory 2% benchmark applicable to qualifying companies.

The top five ranked motivations for CSR engagement were: personal or religious values of the owner (mean score 4.2/5), desire to improve community goodwill and reputation (4.0/5), employee welfare concerns (3.7/5), response to community requests or social pressure (3.4/5), and awareness of business sustainability benefits (2.9/5). The top barriers to CSR engagement were: lack of dedicated personnel (mean score 4.4/5), resource constraints in a competitive market (4.2/5), lack of knowledge on how to implement effective CSR (3.9/5), absence of tax incentives for SME CSR beyond existing deduction provisions (3.7/5), and perception that CSR is only relevant for large corporations (3.4/5).

4. Discussion

The 43.3% CSR participation rate among Tirunelveli SMEs is broadly consistent with findings from comparable SME surveys in Maharashtra and Rajasthan but lower than rates reported from more developed industrial clusters in Gujarat and Karnataka, suggesting a regional dimension to SME CSR development linked to local business culture, industrial maturity, and infrastructure for civil society engagement. The predominance of philanthropic over strategic CSR among participating enterprises mirrors patterns documented in SME CSR literature globally, where limited management capacity and short time horizons constrain the adoption of more integrated, multi-stakeholder CSR approaches.

The striking finding that personal and religious values rank as the primary motivation for SME CSR engagement — above business reputation or regulatory pressure — aligns with qualitative research on owner-managed firm CSR in South Asian contexts and suggests that values-based appeals in CSR education and capacity-building programmes may be more effective than regulatory or business-case-oriented framing for this population. This has implications for how district industries centres and industry associations design SME CSR awareness campaigns.

The identified barriers — particularly lack of dedicated personnel and implementation knowledge — point to a structural challenge inherent in expecting SMEs to develop CSR programmes using internal resources designed for core business operations. Cluster-level or industry association-level CSR coordination platforms, in which a shared CSR manager or NGO partner supports multiple SMEs in identifying community needs and implementing programmes collectively, represent a viable structural solution that has been piloted successfully in some industrial clusters in Kerala and Tamil Nadu's Coimbatore district.

5. Conclusion

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This study demonstrates that a significant minority of Tirunelveli SMEs engage in CSR, predominantly through philanthropic activities driven by owner values rather than strategic business considerations. The Companies Act 2013 mandate, while well-known among SME owners, has limited direct impact on non-qualifying enterprises, leaving the majority of Indian businesses' social and environmental conduct subject only to voluntary impulse and market pressures.

Recommendations include: (i) establishing an MSME CSR cluster platform in Tirunelveli with support from the District Industries Centre and Tamil Nadu SIDCO to enable collective CSR planning and implementation; (ii) designing a differentiated voluntary CSR reporting framework for SMEs with simplified disclosure requirements; (iii) providing enhanced tax deductions for SME CSR expenditures to create financial incentives for voluntary participation; (iv) integrating CSR competency modules into MSME training programmes offered by the Small Industries Development Bank of India (SIDBI) and Entrepreneurship Development Institutes; and (v) recognising SME CSR excellence through an annual district-level award to create aspirational incentives and showcase best practices.

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