

**Corporate Entrepreneurship/Intrapreneurship
and
Entrepreneurial Corporate Culture**



Utama
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Corporate Social Responsibility Engagement among Small and Medium Enterprises

Sri Astuti Pratminingsih, Meriza Hendri
Widyatama University, Bandung, West Java, Indonesia

Abstract

The main objective of this paper is to examine the engagement of small and medium enterprises in corporate social responsibility program. Small and medium enterprises represent the largest proportion of established business in Indonesia. Therefore, the role of small and medium enterprises towards the nation's growth with respect to the economy, employment as well as Gross Domestic Product is very important. The research investigates the attention paid by small and medium enterprises to CSR issues, social activities promoted by the companies, and the motivation to adopt CRS behavior. The respondents are randomly chosen from the small and medium enterprise in Bandung. The finding reveals that small and medium enterprises attention to CSR issues and adoption of CSR behavior is quite high.

Keywords: Corporate Social Responsibility, small business enterprise

1. Introduction

In the last decade, CSR became a big issue in Indonesia and business has come under increasing pressure to demonstrably engage in CSR activities and higher education institution responded it by conducting empirical researches on this issue (Lako, Andreas, 2010). Previously, CSR activities tend to be conducted primarily in large scale corporations (Koestoer, 2007). But, recognition of the growing significance of the small and medium enterprises sector and its vital role in economy growth has led to an emphasis on their social and environment impact (Mankelaw, 2006) The tendency for CSR research to be conducted primarily in large scale corporation ignores the fact that most of the work force is employed by small and medium companies (Thomson, J. K., Smith, H. L., 1991) therefore the implementation of CSR in small and medium enterprises including micro business is of central importance, as the vital role in economic development and employment (European Commission, 2002).

SMEs in Indonesia just like in other countries also play a vital role in Indonesian economy and considered to be the backbone of economy growth. There is no universal definition of SMEs that is widely acknowledged, the definition varies from country to another but its often based on employment, assets or combination of the two (Mutla and Brakel, 2006). In Indonesia, SMEs are defined as firms employing full-times employee less than 100 people with annual sales turnover not exceeding one billion rupiah

(Department of Cooperative and Industry, 2008). As reported by the Ministry of Cooperatives and Small and Medium Enterprises in 2008, the number of small business were 50,697,679 units (98.91% of total business) involving 83,647,711 workers (89% of total workers in industry sector). However, its contribution to the nation's GDP and export values has been minimal compare with its number of business units and workers involved. In Indonesia Small and Medium Enterprises usually are the partners of CSR program of larger companies. However, implicitly Small and medium companies participation in CSR is quite significant though it could be that the owners' of the companies did not realize it as CSR.

2. Relevant Theories

2.1 Corporate Social Responsibility

Various definition have been given which consider that the company must responds to a series of demands that go beyond legal requirements. Corporate social responsibility, corporate governance, corporate citizenship becomes more or less synonyms for the emerging effort to determine the meaning of ethical business (Lunhaim, 2003). Wineberg and Rudolph (2004) defined CSR as The contribution that a company makes in society through its core business activities, its social investment and philanthropy programs, and its engagement in public policy. The World Bank (2004) proposed a definition: Corporate social responsibility is the commitment of business to contribute to sustainable economic

development-working with employees, their families, the local community, and society at large to improve the quality of life, in ways that are good for business and good for development. Mallenbaker (2003) asserts that corporate social responsibility is about how companies manage the business process to produce an overall positive impact on society. Based on these definitions, it can be stated generally speaking that CSR is about business-stakeholders interface.

In order to promote the idea of corporate citizenship and socially responsible behavior, the European Commission (2001) proposes a framework; according to this approach, CSR has two dimensions which are:

- The internal dimension- within the company socially responsible practices primarily involve employees and relate to issues such as investing in human capital, health and safety, and managing change, while environmentally responsible practices relate mainly to the management of natural resources used in the production;
- The external dimension- CSR extends beyond the doors of the company into the local community and involves a wide range of stakeholders in addition to employees and shareholders such as business partners and suppliers, customers, public authorities and NGOs representing local communities, as well as the environment, protection of the human rights along the whole supply chain and global environmental concerns.

Similar with European Commission, Canadian Business for Social Responsibility (2003) argued that corporate social responsibility issues is crucial for business and provide practical corporate social responsibility initiatives for small business. The initiatives are likely to be of interest to personnel in larger firms as well: improving the environment, improving human resources management practices, promoting diversity and human rights, and helping community (CBCR, 2003).

Therefore, in order to respond in an adequate way to the pressures coming from the society of which companies form integral part, firms should pursue economic, social and environmental goals on the basis of a coordinated approach (Bertens, 2000). Companies should integrate social and environmental concerns into their business strategies, their management tools and their

activities (Keraff, 1998). That means going beyond compliance and investing more into human, social and environmental capital.

2.2 Factors Influencing Corporate Social Responsibility

A variety factors are cited as being important in building the current momentum behind corporate social responsibility. Koestoer (2007) suggests that the external and internal drivers have influenced the increasing business focus on corporate social responsibility. The internal drivers include internal management within the companies; many aspects of it are reflecting internal values of the companies. The external drivers include: government related issues, customer/community behavior, influences of civil organization, trust and Young (2002) argues that there are five factors influence the increasing development of CSR, namely greater stakeholders awareness of corporate ethical, social and environmental behavior, direct stakeholders pressure, investors pressure, peer pressure and increase of social responsibility.

The Green Paper identifies four factors, which lie behind the growing success of corporate social responsibility:

1. The new concerns and expectations of citizens, consumers, public authorities and investors in the context of globalization and large scale industrial change.
2. Social criteria, which are increasingly influencing the investment decisions of individuals and institutions both as consumers and as investors.
3. Increased concern about the damage caused by economic activity to the environment.
4. Transparency of business activities brought about by media and modern information and communication technologies.

2.3 Benefits of Social Responsibility Commitment

The company social responsibility commitment has long term benefit. The company invests in developing environment-friendly product, society will reward it with positive benefits (Kotler, 2005). Research shows that consumers prefer to buy products from, and invest in shares of companies that look after the environment and behave like good corporate citizens (Kotler, 2005). Anderson (1999) maintains that the social responsibility of companies increases their visibility and places

them in a more favorable position in the eyes of society in general, and keeps old customers and gains new ones, thus improving the viability of the trading system. Further more Briyane (2003) states that companies can establish a unique brand name and corporate image by contributing to the solution of social problems. That corporate image will be considered a rare, non substitutable and inimitable resource that will form the basis of competitive advantage in the market in terms of cost saving and differentiation (Kotler, 2005).

2.4 Principles for Corporate Social Responsibility Success

Pierce and Doh (2005) argued that there are five principles that are central to successful corporate social responsibility initiatives. The principles are:

1. Pursue a long term durable mission. Companies make the greatest social contribution when they can identify an important, long standing policy challenge and participate in its solution over the long term.
2. Leverage core capabilities: Contribute “What We Do”. Companies maximize the benefits of their corporate contributions when they leverage core capabilities and contribute products and services that are based on expertise used in, or generated by, their normal operations. Such contributions create a mutually beneficial relationship between the partners; the social purpose initiatives receive the maximum gains, while the company minimizes cost and diversions.
3. Contribute specialized services to a large scale undertaking. Companies have the greatest social impact when they make specialized contributions to large scale cooperative efforts. Those that contribute to initiatives in which other private, public or nonprofit organizations are also active have an impact that goes beyond their limited contributions.
4. Obtain government support or minimize interference. Government support for corporate participation in corporate social responsibility or at least its willingness to remove barriers- can have an important positive influence. Tax incentives, liability protection, and other forms of direct and indirect support for business help to foster

business participation and contribute to success of corporate social responsibility.

5. Assemble and value the total package of benefits. Companies gain the greatest benefits from their social contributions when they put a price on the total benefit package. The valuation should include both the social contributions delivered and the reputations effects that solidify or enhance the company’s position among its constituencies. As Alsop (2004) states that positive reputation- by consumers, suppliers, employees, regulators, interest group and other stakeholders is driven by genuine commitment rather than episodic or sporadic interest.

When corporate social responsibility initiatives include most or all these elements, companies can indeed maximize the impact of their social contribution while advancing broader strategic goals (Pierce & Doh, 2005).

Companies in Indonesia are often constrained in implementing CSR due to: 1) limited resources with expertise on CSR practices; 2) Companies structure does not accommodate CSR function; 3) Local management feel uncomfortable with the term CSR, which sound burdening; 4) Lack of training from the government on CSR practice.

2.5 Small Business and Corporate Social Responsibility in Indonesia

Small and Medium Enterprises (SMEs) as part of business world must also bring CSR into their business activities. CSR engagement is considered to be a mean for SMEs to improved efficiency and closer to customers and supplier relationship (McGregor.R.C ,2004).

The reason of small scale sector growth according to Sumitro (2003) is that the firms has the ability to exploit market niches, to concentrate on activities not characterized by economies of scale, to serve particular markets not of commercial interest to larger firms and to produce goods not easily adopted to mass production technologies.

Regarding to corporate responsibility toward the stakeholders, the small business which usually managed by the family can be considered from two perspectives. The first one associates the small business characteristics and behavior such as nepotism, putting the good of the family before that of company, lack of discipline about benefits and results,

secretiveness, and difficulties in adapting to the market (Deniz & Suarez, 2005). All this may lead small business functioning badly in fulfilling the primary social responsibility (Mork & Young, 2003). The second perspective of small business social responsibility that associates with values like product quality, respect for, and protection of the employees, involvement with community, family sacrifice to support the companies financially, concern for reputation, respect for tradition and family values (Deniz & Suarez, 2005). These characteristics suggest that the small business behave according to a broad vision of corporate social responsibility in term of our discussion above.

Previously the research on corporate social responsibility focused on large scale sector only small number of research study in small and medium scale sector. The reasons underlying the limited research are: (1) small business are perceived by the public and the owner-managers to lack sufficient resources for implementing social responsibility agenda; (2) research methodologies are created for large scale corporations are not readily adaptable to small business; (3) information is more available and accessible on firm performance and social activities in publicly traded large scale corporations; and (4) large corporations have greater public visibility which generates more interest in theories and research about their corporate social responsibility (Kenner & Smith, 1991). But the recognition of the growing significance of the small business sector and their irreplaceable role in local communities (European Commission, 2001; UNIDO, 2002) has led to an emphasis on their social and environmental impact.

3. Design, Model, and Implementation

The primary objective of the survey was to gather descriptive data and information on the Corporate Social Responsibility awareness and attitude to it shown by small business in Bandung (West Java). More specifically, the work aimed to focus the following topics:

1. the motivation paid by companies to Corporate Social Responsibility issues;
2. the social activity promoted by companies within Corporate Social Responsibility;
3. difficulties and obstacles in implementing Corporate Social Responsibility;
4. the factor which could lead to greater attention to the issue.

The approach taken to investigate these aspects was to select a sample of what might be thought as small scale companies. The sample was chosen randomly.

To conduct a survey a structured questionnaire was formulated, based on the current literature (Canadian Business for Social Responsibility 2003, European Commission, 2001). This questionnaire was made up of two parts: 1. A group of four questions on company data (e.g. number of employees, sector, years of operation, generation of owner), 2. Twenty closed-ended questions regarding CSR initiative.

Fifty questionnaires were sent to small business companies and 46 completed questionnaires were returned.

4. Results and Discussion

4.1 Validity and Reliability

The construct were assessed for reliability using Cronbach's alpha. The alpha measures was 0.944, this value is greater than the minimum of 0.7 required for constructs to be deemed reliable (as suggested by Nazir, 2006). The validity of the construct was measured by checking the square root of the average variance for each construct. The value of all constructs are above 0.3, those values indicated that the constructs are valid as suggested by Nazir (2006).

4.2 Demography

The respondents of this study consist of 50 small business managers. But the questionnaires returned consist of 46 questionnaires. The characteristics of 46 respondents indicated that 60% were male and 40% were female. The age of the respondents were categorized as follows: 19% were between 20 and 30 years old, 53% were between 31 and 40 years old and 28% were above 40 years old. Based on the education background, the respondents can be classified as follows: 24% are graduated from vocational study (D3), Bachelor of Business is 22% and 54% are graduated from high school.

4.3 Corporate Social Responsibility Implementation

Generally speaking, companies attention to corporate social responsibility issues and adoption of social responsible behavior seem quite high especially involved in increasing quality of life of local community. On the other hand, these companies are not heavily engaged

in environmentally responsible business practice.

4.3.1 Motivation for implementing CSR

From the study it was found that 50.5% of the respondents said that caring for customers and the community the motivation for implementing CSR. They believed that customers and community are the key stakeholders and companies should make contribution in increasing the welfare of the community. 45.5% of the respondent argued that the motivation to implement CSR were for increasing the image of the companies. 4% of the respondent stated companies should balanced the economic and social obligation, this value reflected from their motivation in conducting CSR “profit through caring”.

4.3.2 CSR Dimension

The result of the survey concerning the dimensions of corporate social responsibility is:

a. Respect for Business Ethics

Respect for business ethics is a significant indicator of company commitment toward corporate social responsibility. The result of the survey was illustrated in Table 1.

Table 1. Ethical Dimensions (%)

Item	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Base on code of ethic	24	48	15	13	0
Respect business ethic	57	13	0	0	0
Transparency	15	41	17	26	0
Supplier evaluation	20	28	52	0	0

Most of the companies accepted that they should respect the business ethics and operate base on this ethics. However, they were not really agreed on transparency of the business (46%). This condition can be understood, because they are family business in and as mention before small business behavior frequently managed on closed management and nepotism.

b. Human Resource Practice and Human Right

Managing human resources appropriately is a must for the companies to survive. Table 2

illustrated the human resource dimensions among small business.

Table 2. Human Resource Dimensions (%)

Item	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Continuous training	33	30	30	7	0
Equal opportunity	50	24	11	15	0
Work safety	52	33	15	0	0
No discrimination	37	35	28	0	0
Wage rate as regulated	20	24	57	0	0
Increase quality of life	33	35	24	9	0
Respect for human rights	43	46	9	2	0

60% of the companies treat their employees well. They showed their commitment in a variety of ways such as remuneration, training, equality, safety in work place. Having loyal and long term employees seems to be a requisite for any successful company. Most of the companies are committed to recruiting the local community as their employees or business partner so that they can increase their quality of life (78%). Majority of the companies 89% respect the human rights. On the other hand, only 44% of the companies show their commitment in compensation. This result shows inconsistency between what they claimed and the reality. But from the small and medium enterprises characteristics this condition can be understood as the companies experienced capital/financial constraint.

c. Community Involvement

In terms of community involvement, it is found that the respondents mostly active in community initiative namely encouraging employees to be involve in social activities and give donation (96%) as depicted in table 3.

Table3. Community Involvement Dimensions (%)

Item	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Community Involvement	65	13	9	13	0
Social activity	39	46	9	7	0
Donation	50	46	2	2	0
Employee involvement	50	46	2	2	0

The company provides an opportunity for the company and its employees to participate in and often facilitate a range of local activities for example support sport, culture and youth. The company also engaged in social activity (85%) and charitable work with local community (78%). The companies seem to be aware that they are integral to the society.

d. Environment

Despite the importance of the environmental issues, small business were not put the issues on top priority though they try to behave environmentally friendly such as reducing the pollution, and recycling. 79% of the respondent claimed that they did some activities in pollution prevention as the regulation require. Only 25% of the companies provide training for the employee participation in sustainable development.

Table 4. Environmental Dimensions (%)

Item	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Maintain the environment	17	50	33	0	0
Minimize pollution	46	33	22	0	0
Recycling program	9	26	41	24	0
environment training	11	15	41	33	0

The findings of this study showed that small business companies beginning to move toward corporate social activities. Majority of the companies believe that their involvement in corporate social responsibility will increase in the future due to the change in business environment (tougher government control, community and media pressure).

All the companies stated that they could not have implemented corporate social responsibility any sooner for a number of difference reasons including: the lack of financial resources, the time it took to learn about corporate social responsibility, and the lack of consumer interest. If consumers are not demanding that the company address its social and environmental impacts, there is little impetus for them to do so.

5. Conclusions

In conclusion, the survey has provided very interesting information. In general, small business showed a positive attitude toward corporate social responsibility. Despite an unclear definition of corporate social responsibility, companies seem to be engaged in socially responsible activities in various ways: involve in social issues, donation, human resource management which promote equality, respecting human rights and increasing quality of life. However the implementation of corporate social responsibility in small business still inadequate. This suggests the need for government and other stakeholders to develop and implement policies that encourage more involvement of the companies in corporate social responsibility activities.

Awareness of social responsibility initiative should be increased by focusing on low cost corporate social responsibility initiatives. One resounding theme among small business is the lack of resources available for corporate social responsible activities, most notably time and money. They need tools and resources that are quick to implement, easy to use and flexible in form and function.

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