

## CORPORATE SOCIAL RESPONSIBILITY (CSR) AS AN EMPOWERMENT EFFORT FOR SMALL MEDIUM ENTERPRISES IN INDONESIA

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### ABSTRACT

*CSR in a narrow point of view is defined as a matter of social responsibility of the corporation toward stakeholders both internal and external. Whilst in the width term CSR is related closely to aim for achieving sustainable economic activity. Above all, the sustainable economic activity is not merely related to social responsibility, but also depend on corporate accountability over people, nationally and internationally. There are so many definitions of Corporate Social Responsibility (CSR) even though CSR just become hot issue in the recent years. Literature overview on CSR indicates that this concept of CSR is quite dynamic. The concept was born upon the basic thought that public policy decision is not only government's responsibility, but also becomes corporate responsibility especially on related social issues.*

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**Keywords :** Corporate Social Responsibility

### A. Introduction

The reality of marginalizing Small Medium Enterprise (SME) is the daily facts we can find every time. We often find the businesses of SME are breathless when they face tight business competition. The practitioners of SME obviously need a partisanship which is not merely limited to political commitment, but they are waiting the transformation of rhetorical on SME empowerment toward reality.

After the economic crisis striking Indonesia, SME seemed to get attention immediately. Then the businesses of SME surely welcomed it happily. Moreover, when Santa Clauses came to offer helps, both in subsidized cheap credit and cooperation offer through exploitative partnership pattern, they always received gladly. Besides, actually, in worse global economic situation or commonly known as "Black Swan" in the first quarter of 2007, it encouraged the states to protect domestic markets by applying the measures to secure their trades that led to protectionism. As a matter of fact, as reflected in 1990s, the contribution of small enterprise sector to GDP was only 38.9% even though this sector was able to absorb 88.3% of labor force. In addition, the number of small enterprise units with the sales unit below IDR 1 billion a year reached 99% of total business units in this country or 34 million units. 54% of small enterprise units is in agricultural sector, 23% in trade sector, and 10.6% in manufacture units.<sup>1</sup>

The crisis in foreign exchange seemed to be the important moment of the reversal of pendulum swing from the domination of big businesses to the increasing role of Small Medium Enterprise (SME). It is stated in the Notification Letter of Bank of Indonesia No. 26/I/UKK dated May 29, 1993 that one of the indications to provide the description in the profile of small enterprise is: "Small Medium Enterprise is an enterprise having total asset less than IDR 600,000,000 (six hundred million rupiah) excluding lands and occupied houses".

However, in Act No. 9 of 1995 on Small Enterprise Empowerment, it defines that small enterprise is a business entity having net asset less than IDR 200,000,000 (exclude lands and buildings) and sales turnover less than IDR 1 billion a year. Various definitions on small medium enterprise are one of the factors that makes this sector marginalized. Marginalization of SME is actually ironic since, as the author mentioned above, the sector of small medium enterprise can contribute 38% of Gross Domestic Product (GDP).

Stepping on the periodization of the 2000s with slowing growth in economy and social unrest due to the high number of unemployment, the government through the Act No. 40 of 2007 on Limited Liability tries to include the aspects of social responsibility for companies (Corporate Social Responsibility / CSR), which is set out in Chapter V and includes an article, Article 74 of the Social and Environmental Responsibility. According to the assumption of the authors, the inclusion of social care aspects in the law is a government response to inequality in the distribution of the economic pie in addition to narrow the economic disparities between the macro-scale enterprises and micro-scale enterprises.

By looking at the conditions that allow it to sustain the growth and rise of processing industrial sectors or healthy small and medium industries without having to depend on the economy broke down as a result of overly strong influence of global financial markets has started to become one of the engines of national economic growth, so presumably the urgent theme to put forward is: Corporate Social responsibility (CSR): an attempt to empower small and medium enterprises.

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<sup>1</sup> *Business News*, "Tak Seluruh Potensi Ekonomi Rusak Berat" Juni 2010, hlm 4

## B. Problems

1. What are Corporate Social Responsibility (CSR) and Small-Medium Enterprise Empowerment?
2. How is the implementation of CSR to Small and Medium Enterprises?

## C. Discussion.

### 1. Corporate Social Responsibility (CSR)

The foundation of philosophy as a fundamental concept of CSR is guided by moral arguments. No company lives in a vacuum space and isolated life. Companies live together in an environment and they can live and grow due to the communities in which they live. The communities in which they live provide common infrastructures for the life of the company, such as in the form of roads, electricity, transportation and legal instruments (judges, prosecutors and police). This is proven by the community to pay taxes to the government. In addition, the community has shown their fundamental obligation for the existence of the company in its environment by accepting the existence of the company well. Evidently, the community willingly purchase or use the services and goods sold by the company, while they are also willing to provide labor.

Especially for Indonesia, which has Pancasila as the basic philosophy of life of the nation, it is clearly required that each company also has a concern for the community in which the company lives. Therefore, Pancasila requires every individual and legal entities to carry out their fundamental obligation which is public human rights (community) in return for the enforcement of public rights by the State through the establishment of various public policies in various forms of legislation.<sup>2</sup>

Although until recently the definition of CSR has not met uniformity, but it is certain that the one intended by lawmakers on "social and environmental responsibility" is as stated in the complete content of Article 74, namely:<sup>3</sup>

- (1) Limited Liability Company conducting its business activities in the field and/or related to the natural resources is required to implement Social and Environmental Responsibility.
- (2) Social and Environmental Responsibility as referred to in paragraph (1) is an obligation of Limited Liability Company budgeted and calculated as the cost of the Company and the implementation is carried out by considering suitability and properness.
- (3) Limited Liability Company who does not execute the obligations referred to in paragraph (1) is subject to sanctions in accordance with the provisions of the legislation.
- (4) Further provisions on Social and Environmental Responsibility are set by the Government Regulation. In relation with the above explanation on article 74 of Act No. 40 on Limited Liability Company mentioned above, it can be understood positively, namely: Corporate Social Responsibility by the Limited Liability Company Law has been defined as a statutory obligation not as a mere moral obligation implemented voluntarily. This fact has been widely seen in the awareness of companies, both in financial sector (particularly in state financial institutions) and in other sectors.

### 2. The Substance of SME Empowerment

Real empowerment refers to the ability of people to obtain and utilize access to and control over important resources. Of course, empowerment efforts cannot be separated from human development perspective, that human development is the aspects of self-recognition, confidence, independence, ability to work together and tolerant of each other, to realize their potencies. In the manual of small and medium enterprise program, entrepreneurs are considered useful when they have been able to improve socio-economic welfare by improving the quality of human resources (HR), an increase in the ability of capital, business development, and institutional development of joint venture by applying the principles of mutual assistance, self-reliance and participation.<sup>4</sup> Like the previous programs carried out, public participation is limited at the level of implementation. At the most vital stage, the policy arrangement, the businesses of SME are rarely involved. Therefore, the creative power within people is not developed and should receive decisions made by "outsiders". Referring to Paul's conceptualization, participation is an active process in which the subjects, SME society relatively get benefit from the sustainability of development projects. That is because the SME community involvement as the subject takes place from the decision-making stage, the application of the decision, the enjoyment of the results, to the evaluation.<sup>5</sup>

Meanwhile, Midgley,<sup>6</sup> for example, argues that participation in the passive form is a type of pseudo participation or manipulative because the State serves as the chief protagonist and approves bureaucracy as major decision makers. Thus, through the hands of bureaucracy, hegemonic power gets legitimacy to intervene, for example, gives political content to the operational of public economic empowerment program. Actually, the empowerment points that focus on SMEs only in terms of capital seem to be a simplification effort. Indeed, as evidenced by many studies, capital occupies its own importance as a barrier of SME expansion. However, capital is just one of SME empowerment points. Like Friedmann, he emphasized that household puts three kinds of powers, i.e. social, politic and psychology. Social forces refer to the access to certain production basis, for example: information,

<sup>2</sup> Sutan Remy Sjahdeni, "Corporate Social Responsibility", *dalam Jurnal Hukum Bisnis*, Vol 26-No.3 tahun 2007

<sup>3</sup> Undang-Undang No. 40 Tahun 2007 tentang Perseroan Terbatas

<sup>4</sup> Indra Ismawan, "Sukses di Era Ekonomi Liberal" PT Gramedia Widiasarana Indonesia, Jakarta, 2001, hal.6

<sup>5</sup> Samuel Paul, "Community Participation in Development Project" 1997:24

<sup>6</sup> James Midgley, "Community Participation: Histoty, Concepts and Controversies", *dalam James Midgley et.al, Community Participation, Social Development and the State*, 1986, 38-44

knowledge and skills as well as participation in social organizations and financial resources. When the household economy improves access to the basics of production, the ability to set goals will also increase.<sup>7</sup>

Out of capital dimensions, many problems convolute SMEs. Upgrading technical and managerial capabilities have always been the classical problems. The problems can be understood as the ones that must be solved in an ongoing program, not sporadically. From the political side, the position of SMEs is more often the object to launch mega - projects worth trillions of dollars. It has reflected their helplessness because they are not involved in the grand design formulation of policies.

In addition to the empowerment of the optic of political acceptability to participate in the formulation of policy format, SMEs also need access to information. Too many SMEs are not familiar with the programs formulated from the top, so they do not get sufficient opportunity to use them. The conditions of access to unequal information of this kind create conducive atmosphere for the development of the broker layer, i.e. those who are closer to policy makers and take advantage of the closeness for the activity which is characterized by merely seeking the rent. The brokers get much more benefit from the empowerment programs of SME sector.

### 3. Implementation of CSR to SMEs

Banking credit growth from 2010 to early 2011 was 24 % (data from the Bank of Indonesia) is expected to be one of stimulus sources for the rise of small and medium enterprises (SMEs) as a driver of the national economy through the provision of more competitive investments funds and working capital and quick service.

The awakening of investment in SME sector, in addition to the real sector and the tradable sector, supported by competitive funding system is highly required. Considering the growth of the investments, it will have positive effects for many things such as the building of new plants, the expansion of existing plants, new technology procurement, opening new lands, hiring new workers and creating new products. In fact, increased economic growth supported by SME sector, in turn, can contribute to securing healthy balance of payments, balance of trade and current account balance. The author's assumption is that, from the financial perspective, SME sector is expected to be a reliable source of domestic funding as an accelerator for investment in industrial sector.

Monetary and policy banking should be able to respond to business investment plans in the field of SME with good prospects in order that they do not rely on credit from bank. On the other hand, the Bank of Indonesia is expected to restructure its policy instruments to encourage venture capital companies, one of which is SMEs, to live again in accordance with the primary mission to support the financing of creative SMEs based on Information Technology (IT) and financing business start-up for new entrepreneurs.<sup>8</sup> As performed by a company in the motor vehicle sector, in this regard is PT. Astra which implemented its CSR, it leads to middle economic empowerment, but not oriented in a charity but focused more on the strategic program for the welfare of society. One of the programs was to implement IGA (Income Generating Activities) by providing working capital for catfish cultivation. Besides, it was accompanied by the training of making 'handy - craft' to the SMEs managed by the youth club of Danau Indah Village in Cikarang, West Java.<sup>9</sup>

In addition, there were also companies that responded to the government's policy to assist the creative SMEs based on technology. It was PT. Telkom, the Regional Division of Central Java/ Yogyakarta in cooperation with Karanganyar government for implementing the one of its CSR programs, which launched a program that could make Karanganyar District into Cyber City by giving the website for RT / RW Online program. The program is expected to be the social media for the communities and Local Government in carrying out development programs.<sup>10</sup> To popularize internet, the impact was expected not only to science, but it will also develop in economic sector. Therefore, one of the targets were employers, especially SMEs, which were expected (the SMEs) to be invited to take the advantage of e - commerce, i.e. using online businesses and do internet marketing which was believed to be a major impact on small medium enterprises.

### D. Conclusion

Within the framework of national economic development, the role of Small and Medium Enterprises is absolutely required, especially in order to modernize the economy and strengthening the structure of the national economy. In order to provide legal certainty for the empowerment of SMEs in Indonesia, it was launched Act No. 9 of 1995 on Small Enterprises Empowerment with various rules of procedure. However, sometimes with different exposure such as the global economy in the strategy implementation of empowering SME sector tends to be marginalized, especially in the protectionism aspect of SME that can actually withstand the erosion of crisis storm that leads to the national economy. Unfavorable policy in managing the field of SME is very detrimental to the national economy. Therefore, in 2007, the Indonesian government reinforced the level of concern for SMEs, with the launch of Act No. 40 of 2007 on Limited Liability Company including the elements of social responsibility and environmental awareness. Since the launch of the Law, the turn in the swing of pendulum of macro-scale companies into micro scale companies started to be clearly seen.

<sup>7</sup> Jhon Friedmann, "Empowerment: The Politic of Alternative Development, Chicago: University of Chicago Press, 1993: 32-33

<sup>8</sup> Fauzi Aziz, "Momentum Kebangkitan Industri manufaktur", dalam Bisnis Indonesia, Januari, 2011, hal 45

<sup>9</sup> \_\_\_\_\_, "CSR Astra Honda Motor dari Pendidikan hingga Lingkungan, Bisnis Indonesia, Edisi Weekend No.265.Desember, 2011, hal 27

<sup>10</sup> \_\_\_\_\_, "Salurkan CSR,Telkom Luncurkan Progam RT/RW Online', Suara Merdeka, Januari 2012, hal 15

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