

## Conference Paper

# An Exploratory Study of Corporate Social Responsibility (CSR) Partnership Programs for Empowering Small Medium Enterprise (SMEs)

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**Abstract**

CSR (Corporate Social Responsibility) has grown rapidly over the past twenty years. Besides being based on social activities (charity), companies also develop CSR activities in the form of partnerships. The implementation of interdependence between the company and the community is realized in the form of a partnership between companies and CSR-targeted SMEs. This study aimed to determine the field of cooperation, patterns of cooperation and partnership mechanisms between companies and SMEs through CSR activities in East Java. The results illustrated that most corporations partner with SMEs in the field of production. The results can be used to create a model for the empowerment of SMEs through CSR activities by considering environmental, culture and economic conditions that affect the empowerment of SMEs.

**Keywords:** Corporate Social Responsibility (CSR) and partnerships, empowerment of SMEs

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Published: 14 July 2021

Publishing services provided by  
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Selection and Peer-review under the responsibility of the IRCEB Conference Committee.

## 1. Introduction

Awareness of the importance of a harmonious relationship between a company or industry and its strategic environment today has become an important part of the growth and development of a company. Fundamentally, a good relationship must be put on the principles of symbioticism, mutual understanding and mutual benefit. In principle, companies that apply business ethics will get positive appreciation from stockholders and stakeholders. This thinking is in line with the concept of the stakeholder theory which explains that the company is not only responsible for the stockholders, but also for the stakeholders (Jalal, 2009).

Nurmansyah (2006) argues that although the main objective of a company is to seek maximum profit, a company cannot be separated from society. Especially at this time when society is focused on the adverse impacts of the business community (Ahmad, at. Al. 2003). Therefore, the business world today no longer only pays attention to

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the company's financial performance, but includes financial, social, and environmental aspects which are commonly referred to as the Triple bottom line. CSR is a company's commitment to build a better quality of life together with related parties, one of which is the community who owns a business (UKM).

Small and Medium Enterprises (SMEs) have an important role in economic development, especially during the current global financial crisis, this important role has encouraged many countries, including Indonesia, to continue to strive to develop SMEs. There are at least three reasons that underlie developing countries view the importance of the existence of SMEs, namely first because the performance of SMEs tends to be better in terms of producing a productive workforce. Second, as part of their dynamic, SMEs often achieve increased productivity through investment and technological changes. Third is because it is often believed that SMEs have an advantage in terms of flexibility over large enterprises (Berry, et al, 2001).

Furthermore, small businesses and household businesses in Indonesia have played an important role in absorbing labor, increasing the number of business units, and supporting household income (Kuncoro, 2000). Therefore, the development of Small and Medium Enterprises (UKM) can contribute to economic diversification and structural changes as a precondition for long-term stable and sustainable economic growth. In addition, the level of job creation is higher in Small and Medium Enterprises (SMEs) than in large companies

Facilitation from the company through this CSR activity is a contribution due to various limitations that the government cannot afford. With the development of SMEs, it is hoped that they will be able to increase the economy and absorb jobs. Since the promulgation of Law No. 40 of 2007 regarding Limited Liability Companies, in particular Article 74 which states that companies are required to implement CSR. If not, the company will be subject to sanctions in accordance with statutory regulations.

Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises also forms the legal basis for implementing CSR in Indonesia. Based on these provisions, State-Owned Enterprises can provide financing from the allowance for a portion of the annual profit allocated to Micro and Small Enterprises. The maximum amount of allowance for profit for program funding is 2% of net income for the Partnership Program and a maximum of 2% for the Community Development Program. CSR activities have been implemented in East Java, although there is no implementation model that can be disseminated.

Seeing the great potential of implementing CSR in East Java, of course this is an opportunity for the government to empower SMEs in East Java. In addition, with the

existence of CSR the company will contribute to society in the form and amount that is tailored to the interests and capabilities of the company.

The general objective in this study is to determine the empowerment of SMEs through the Corporate Social Responsibility (CSR) partnership program in East Java. While the specific objectives include:

1. Knowing the field of cooperation between corporations implementing CSR and SMEs in East Java.
2. Knowing the pattern of cooperation between corporations implementing CSR and SMEs in East Java.
3. Knowing the mechanism for implementing business cooperation between corporations implementing CSR and SMEs in East Java

## 2. Method

This research uses descriptive exploratory research, where data analysis is carried out only to the level of description, namely analyzing and presenting the data systematically so that it is easy to understand. According to Arikunto (2002), descriptive exploratory research aims to describe the state of a phenomenon, where in this study it does not use a hypothesis but only describes the description of a variable, symptom or condition. The process of implementing descriptive exploratory research tries to explore widely the causes of the phenomena and conditions of the problems that occur at that time. The situation described in this study is how to obtain a picture of the empowerment of Small and Medium Enterprises (UKM) within the framework of Corporate Social Responsibility (CSR) in East Java. Based on this technique (taking into account the homogeneity of the population) a sample of 15 districts / cities was determined.

## 3. Results

### 3.1. Field of Cooperation

Partnership cooperation is carried out in various fields. Most of the corporations entered into partnerships with MSEs in the production sector (49.76%), second in line to marketing of production products (22.01%). The third place is cooperation in the field of labor (16.27%), followed by finance (8.13%).

### 3.2. Cooperation Patterns of Corporate Partnerships with SMEs

These cooperation patterns reflect the business fields being developed. Most of the MSEs (40.78%) entered into a partnership scheme with corporations in the form of a plasma nucleus scheme. This pattern has been widely developed in agriculture on a large scale (plantation, forestry). The subcontract pattern that has been implemented by sample corporations in East Java is 27.97%. Meanwhile, 25.34% of the corporations engaged in general trading patterns.

### 3.3. Business Cooperation Implementation Mechanism

Based on the data recapitulation, it is concluded that the partnership pattern that has been established between corporations and MSEs so far is the initial partnership pattern (47.97%) and the partnership between (52.03%), the final partnership pattern has not been identified.

## 4. Discussion

### 4.1. Field of Development Conducted by Corporations

Most of the UEP development fields are in the production sector and partly in the marketing sector. In essence, the partnership pattern is a division of roles in efforts to improve efficiency and effectiveness. For corporations engaged in agribusiness, partnerships in the production sector are very important, because they require assets in the form of very large land, and a lot of manpower. It is impossible for the corporation to fulfill this independently. For example, companies in the field of tobacco exporters (the case of PT. Mayang Sari in Jember, Yulius in Bojonegoro, PTPN 12 in Banyuwangi). Shrimp exporting company (case in Sidoarjo). For corporations engaged in manufacturing, mining and chemicals, the role of partner MSEs is positioned as marketers for domestic marketing (for corporations) and one city scale for SMEs.

### 4.2. Cooperation Patterns of Corporate Partnerships with SMEs

These cooperation patterns reflect the business fields being developed. Most of the corporations undertake a partnership scheme with MSEs in the form of a plasma nucleus scheme. The core pattern of plasma is a partnership relationship between small businesses (UK) or small and medium enterprises (UKM) and large businesses

in which large enterprises act as the nucleus, and MSEs as plasma. This pattern has been widely developed in agriculture on a large scale (plantation, forestry). An example of this partnership is the Peoples' Intensification Sugarcane Core Company (PIR) scheme. The core company (sugarcane factory) provides land, production facilities, technical guidance, management, accommodates, processes and markets the products, in addition, the core company continues to produce the company's needs.

Meanwhile, the group of business partners meets the needs of the company in accordance with agreed terms so that the results created must have competitive power and high selling value. During its development, the plasma nucleus pattern in East Java has changed according to the business sector being developed. Corporations do not fully facilitate as the PIR concept in forestry. In general, farmers prepare their own land and labor, while the means of production (mainly fertilizers and seeds), technical guidance, management, processing and marketing of their products are handled by the corporation. This pattern is referred to as the sub-contracting pattern that has been implemented by sample corporations in East Java, totaling 27.7%. Meanwhile, 28.38% of corporations carry out general trading patterns (the case of marketing Pertamina lubricants; trading in agricultural products).

### **4.3. Business Cooperation Implementation Mechanism**

The partnership pattern between is more common than the initial partnership pattern, indicating that in the partnership process there has been participation from the MSEs in the form of capital participation in the form of production facilities, for example agricultural land, production facilities and labor. Investment in shares is still considered a burden for MSEs, because the latent problem in MSEs is a lack of capital and access to business information.

The description above indicates that partnerships still need to be improved both on the initiative of corporations and micro and small enterprises. It is proven that the partnership has been able to significantly improve the performance of both parties. Furthermore, it is hoped that the existing partnership will increase the independence of MSEs so that the bargaining position becomes equal to that of a corporation. At this stage the partnership pattern leads to the final partnership in the form of equity participation from MSEs in the corporation

The mechanism for implementing business cooperation between SMEs and corporations includes partnership cooperation procedures (identification of SMEs by partners, selection of SMEs by partners, making MoUs), Integrated Mentoring programs, training

programs. The procedure for implementing partnership business cooperation between SMEs and corporations includes: identification of SMEs by partners, namely the process of determining or establishing the identity of colleagues who will be partners for cooperation based on certain criteria; Selection of UKM by partners is a process to determine partners based on the criteria set at the time of identification, and the making of the MoU is a work contract agreement that contains the rights and obligations of each party working together.

The failure of the corporate sector in its role as the pillars of the national economy in the past, like it or not, has made UKM a new *prima donna* that deserves to be a central issue by various circles and research centers. Is it appropriate for SMEs to become the pillars of the national economy, which means taking on the role that has been held in the past by the corporate sector?

As has been written in the previous section, during the Indonesian economic crisis, SMEs have indeed been able to prove themselves as "saviors" of the national economy. In addition to the amount of foreign exchange that was able to contribute to the state, this sector was significantly able to prevent a wave of layoffs (layoffs) as a result of the monetary crisis. Even though we cannot close our eyes that there are so many SMEs who have also become victims of the crisis.

Whatever the form of schemes or financing schemes for SMEs, without being accompanied by managerial reform and market assistance, will only add to the series of stories of failure of various SME empowerment programs. It is like, no matter how much water we pour into a leaky kettle, there will be no water left if the leak is not fixed (patched) first. This means that no matter how much SMEs get financing stimulants, it will not produce significant benefits, as long as it is not followed by improvements to the institutional system and management of the SMEs themselves. Repair the container first (the institution) before pouring the water (capital stimulant)

## 5. Conclusions and Recommendations

### 5.1. Conclusions

#### 5.1.1. Field of Development Conducted by Corporations.

The most dominant field of guidance carried out by companies that do CSR is in the production sector, then the second position is in the field of marketing guidance and followed by finance.

### 5.1.2. Partnership Cooperation Patterns with SMEs

Most of the cooperation patterns of corporations and SMEs are cooperating with nucleus-plasma partnerships, some of which are carried out with subcontracting patterns and general trading patterns.

### 5.1.3. Implementation Mechanism of Partnership Cooperation with SMEs.

The partnership cooperation pattern is dominated by the partnership between then followed by the initial partnership. In this study, the final partnership pattern between corporations and SMEs was not found. While the mechanism for implementing business cooperation between SMEs and corporations includes partnership cooperation procedures (identification of SMEs by partners, selection of SMEs by partners, making MoUs), Integrated Mentoring programs, training programs.

## 5.2. Recommendations

1. Creating a conducive atmosphere that allows SMEs to optimize their potential, so that partnerships that are established with corporations implementing CSR are carried out continuously by promoting the nuances of equality and raising each other.
2. Giving awards to partners who have good performance, are specific, and have high value for the benefit of partners in partnership. This award is an important part of efforts to foster partnerships among corporations implementing CSR with SMEs in East Java

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