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Research Article

EFFECTIVENESS OF CORPORATE SOCIAL RESPONSIBILITY (CSR) TO THE DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (SMEs)

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ABSTRACT

The Company always runs its business and deals with the community, both the surrounding community and the wider community, both the community in a general sense and the business community, including Micro, Small and Medium Enterprises (MSMEs). In the concept of Corporate Social Responsibility (CSR) communities (including MSMEs) are the stakeholders of the company. SMEs as stakeholders of large-scale companies still need to be empowered. Large-scale companies, including companies that work in the field of cigarettes have a social responsibility to participate in empowering SMEs. Therefore, in this research sought solutions or answers about CSR implementation for large-scale cigarette companies in the empowerment of SMEs, implementation constraints UMKM empowerment through CSR program, and model of empowering UMKM right and fair through CSR program. This research uses empirical juridical approach method; the data used are primary and secondary data. Implementation of CSR programs for companies in the empowerment of UMKM has not been done. Implementation of CSR programs is still limited to the empowerment of surrounding communities in the social and environmental fields. Obstacles implementation CSR programs in the empowerment of SMEs consist of constraints that are internal and external. The right model of MSME empowerment for the company through CSR program is with partnership program that is by providing capital assistance with low interest rate and given directly by the company without the mediation of government or non-governmental organization (NGO).

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INTRODUCTION

Based on data from the Central Bureau of Statistics (BPS) of Indonesia, the number of large entrepreneurs is only 0.2% while the Small, Medium and cooperative businesses reach 99.8%. This means that the number of small, medium and cooperative businesses reaches almost 500 times the number of large businesses. The problem is small business contribution to GDP, only 39.8%, while large businesses reach 60.2%.

Against economic growth, small and medium enterprises and cooperatives only contributed 16.4% while big business was 83.6%. Based on market share control, small, medium and cooperative businesses only control 20% market share (80% by big business). It shows two things at once, namely super strong big business sector and very weak Small Business sector. The hope is to increase the production of small, medium and cooperative businesses with a higher rate of growth than the regional productivity growth rate, or by 6-8% per annum, there will be a permanent absorption of permanent workers in small,

medium and cooperative enterprises, along with increasing labor, by 5-10% per year. Small and medium enterprises in practice desperately need support from various parties in the business and development. The parties are government, private and universities. The role of government, private and universities is expected to improve the competitiveness of ukm. Government support is a liability, and is part of the government's work program. Private support is a form of corporate social responsibility to the community. While the college has a role that is not less important in applying the findings and research, both in terms of technology and management.

In the model proposed by [Andriany, et al \(2017\)](#), at the level of implementation, the empowerment of the poor gradually consists of activities: (1) Opening access to micro capital by involving professional financial institutions so that the management of funds is in line with sound funding principles namely the principle of market economy with market interest rate, (2) Improving individual ability in poor family through

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joint efforts based on partnership capable of growing new productive enterprises based on group business, (3) Preparing, developing and empowering community institutional capacity at the kelurahan level to be able to coordinate and empower communities in implementing development programs, (4) Establish partnerships between Small Businesses and CSR programs from a number of large companies. This model requires corporate involvement in community empowerment, especially small and medium enterprises.

In practice, the government, private and state-owned companies have contributed a lot in the development of small and medium enterprises. The program can be technical guidance, integrated marketing, and capital assistance. This study aims to assess the effectiveness of the implementation of SME's development programs undertaken by agencies.

Theoretical Framework

Corporate Social Responsibility (CSR) is closely related to the concept of business ethics (business ethics) in which to provide justification as a form of commitment from business entities to the community. In the book [Howard R. Bowen \(1953\)](#) "Social Responsibilities of the Businessman" quoted from the Ministry of SOEs Republic of Indonesia in 2010, the concept of CSR began to be introduced in the business world. To date there are many definitions of CSR due to the absence of a CSR definition agreement. It can be concluded, however, that the current definition of CSR leads to a common concept of Triple Bottom Line (Profit, People and Planet), which means that corporate social responsibility programs are directed to economic, social and environmental issues.

The World Business Council and Sustainable Development (1998) defines clearly that CSR is a form of commitment by business entities on how to contribute to sustainable economic development. In detail, WBCSD gives details of the contribution form that corporations can perform their CSR actions by helping employees, family employees, local communities and the community at large to develop their quality of life in line with business benefits and community development.

Researchers on CSR, [Carroll \(1979\)](#) describes CSR as a combination of several aspects of different corporate responsibilities: economic, legal, ethical and contribution to some social issues. Thus the corporate social responsibility program must be able to answer a few questions, first have the companies' responsibilities run by not just fulfilling the economic and legal responsibilities? Second, which areas outside the economy and the law is also a concern in corporate CSR programs such as social aspects? Third, is the company just being reactive or pro-active in CSR issues. Some considerations of companies doing CSR program is related to several things that are:

1. Legal aspect is to meet the regulations, laws and rules governing it.
2. Social investment is for the purpose of imaging with the goal of a positive image.
3. Corporate strategy that is CSR as part of company's business strategy for example in Public Relation strategy.

4. Risk Management strategy that aims to reduce and avoid social conflict.

The company must have interest, interest and oration in connection with the implementation of its CSR program. However, stakeholder interests must also be taken into account in creating CSR and CSR programs. [Hess \(2011\)](#), mentioned that CSR reports should consider the wishes of stakeholders. There are three elements according to Hess that should be a reference company: pay attention to the desire of stakeholders, the dialogue between stakeholders, and develop strategies to determine which decisions are made due to various stakeholder interests. [Hess \(2011\)](#) provides an example of the issue of social responsibility that is in the interest of stakeholders as in the table below:

Table 1 Stakeholders Issue

Stakeholders Group	Focus Issue
Consumen	<ul style="list-style-type: none"> • Product safety and content • Customer complaints and lawsuits • Advertising practices • Customer concern on the trade-off between product/service price and environmental and social issues
Community	<ul style="list-style-type: none"> • Charitable contributions • Local employment • Environmental impact of activities • Political activity
Employee	<ul style="list-style-type: none"> • Regulatory compliance • Wages (compared to industry and community standards) • Health and safety of the workers • Benefit (pensions, child care, health insurance, etc) • Training and advancement of workers • Gender and race issues
Environment	<ul style="list-style-type: none"> • Compliance with regulatory standards • Emission and use of hazardous materials • Waste reduction and recycling programs in the company
Shareholders	<ul style="list-style-type: none"> • Environmentally —friendly packaging • Financial returns • Accurate and timely disclosure of operations and performance • Corporate governance, including executive compensation • Shareholder proxies
Suplier	<ul style="list-style-type: none"> • Supplier's social and environmental performance • Standards for selecting and monitoring suppliers
Franchises	<ul style="list-style-type: none"> • Policies on issues such as termination, renewal, encroachment, use of advertising fees, etc • Training • Communication of franchisor's strategy

Source: Hess (2011)

[Kolk \(2004\)](#) argues that in general the sustainability report should focus on health and safety issues, relationships with employees, philanthropy and charity. The company should cover several issues in its CSR report: environmental performance, economic and social development, employment, contribution to government, stakeholder relations, and supply chain management. Social issues will continue to grow along with the dynamics that occur in social life. These social issues evolved as a manifestation of a change in the way of life of society that must be responded by the company. The excesses of the company's inability to grasp the social issues that develop in society will have an impact on the friction / clashes

that occur in the community's social life. Especially in the context of the ongoing global economic crisis, labor issues, government and corporate communications, and even the employment relations within the company itself can be disrupted from social issues in society.

Implementation program CSR is the realization and actualization of the company's efforts to stay close to the community. According to Mapisangka (2009), CSR is essentially an important element in a sustainability framework covering economic, environmental and socio-cultural aspects that is an important process in managing the costs and benefits of business activities with stakeholders both internally (workers, shareholders and growers capital), as well as external (institutional, general arrangements, community members, civil society groups and other companies).

RESEARCH METHODOLOGY

The approach used in this research is qualitative approach; where data collection is done by interview, group discussion (FGD) and brainstorming. The data analysis is done descriptively qualitative and secondary data through literature search. The object of the study is the state-owned enterprises that undertook the SME's development program: PT. Pertamina (state oil company in Indonesia) and PT Bank Sumut (Bank Company in North Sumatra).

FINDINGS AND DISCUSSION

Corporate Social Responsibility (CSR) PT. Bank Sumut

From FGD conducted with PT. Bank SUMUT, it can be seen that the SME's empowerment program that is provided, among others:

1. Marketing and business networks, with the aim that SME's are able to master, manage and develop the market, include SME's in promotional events such as bazaars, trade promotions and others.
2. Business financing, with the aim of strengthening the capital structure of SME's and improving access to financing sources such as the provision of People's Business Loans
3. Improving the quality of human resources or SME's professionalism through internships and training
4. Business development services, with the aim of assisting SME's in addressing market imperfections, limited access to information and technology
5. Increase technology mastery, with the aim of improving SME's efficiency, productivity and competitiveness
6. Improving the mastery of information, so SME's able to see, assess and understand the developments and changes that occur in the environment and quickly respond to anticipate every change
7. To develop SME's, it is necessary to do an integral coaching to form the soul and work ethic of entrepreneurship. Simply put, entrepreneurship can be defined as someone or they who establish and manage their own business activities and create jobs for others.
8. To establish an entrepreneurial ethos, it is necessary to combine actors (entrepreneurs) with their business environment. This concept is better known as "Competency-based economics through formation of entrepreneurs". There are 3 main factors that influence

the entrepreneur, namely: 1) ability (knowledge, experience, skill, and character), 2) resources (capital and network) and 3) motivation.

9. PT. Bank of North Sumatra is very concerned about the development of SME's, so many programs are rolled out to support the success and enhancement of SME's competitiveness.
10. Every year PT. Bank Sumut held an exhibition of SME's products under its guidance. This activity becomes a promotional event for SME's so that it is widely known.
11. PT. Bank Sumut also fosters an entrepreneurial spirit, so SME's actors are not easily succumbed to the difficulties that often approach SME's.

As in previous research, Andriany *et al* (2017) some of SME's problems include: 1) marketing difficulties, 2) financial / capital constraints, 3) limited human resources, 4) raw material problems, 5) technological limitations, 6) product quality The low one. If SME's perpetrators are not able to respond to this, then in a short time they will be desperate to face this problem. This is what underlies the importance of building an entrepreneurial spirit for SME's actors. With the ability, knowledge, and availability of resources, SME's is the most powerful business to the crisis. Because they produce on a small scale, they will not be too affected by the monetary crisis.

Corporate Social Responsibility (CSR) PT. Pertamina

PT. Pertamina as a long-standing BUMN also provides CSR programs that focus on SME's development. Pertamina through the Community Development Partnership Program (PKBL) as Small Business Development Program and empowerment of environmental conditions financed by SOEs. For those who have business have the right to apply for assistance through this project or PKBL Program. This program is a revolving loan funding program that is not a grant. Form of partnership program in the form of:

1. Lending: Loans for working capital and or for the purchase of capital goods such as machinery and production equipment, production aids and so on which can increase the production and sales of the partner's products. Grants in the form of: 1) Improving the quality control of production, 2) Improving the fulfillment of technology standardization and 3) Improving the design and build.
2. The marketing assistance of the assisted partner products, in the form of sales of the assisted partner products, promoting the products of the assisted partners through exhibition activities or the provision of showrooms, training and apprenticeship, the term or period of coaching for the assisted partners can be carried on till the partners are properly guided to be tough, independent and bankable (can be loaned).
3. Monitoring activities carried out to partners who have been running for 6 months in receiving credit assistance. In the implementation of monitoring, PKBL appointed two officers in a monitoring team and prepared monitoring and monitoring monitoring forms with the aim of obtaining objective assessment information and realities. The purpose of this monitoring is to know the loan usage in accordance with the agreement, to know the smoothness of loan installment payment, to know the

development of sales turnover, to know the development of administration, the development of marketing, the development of labor, the development of business type and the development of the asset.

The program has been effective, marked by the monitoring and evaluation, to know the success or failure of the program. This is preceded by the determination of program targets, performance indicators are clearly defined. In terms of program implementation, the program gives do technical guidance, so the ukm development program can actually run effectively.

The problems of developing and empowering SME's in Indonesia, not only because of capital problems, but many internal and external factors that need to be improved so that SME's development and empowerment goals can work well and succeed.

External factors that need to be developed to help further accelerate the SME's are the participation of large companies. This is accompanied by a new paradigm within the company that the company as part of society in general or community / community companies need to help each other with other companies, especially SME's. So, companies not only pursue profit, but also must be involved in fulfilling the welfare of the community, and participate actively in preserving the environment.

Large-scale companies that implement CSR, especially in the economic field are still very limited, *let alone* the economic field related to SME's empowerment. However, there are still other large companies, although the percentage is not significant have implemented CSR by providing assistance to SME's.

Assistance provided is not done through government or NGO involvement, but directly by the company itself. Models of empowerment conducted by large-scale cigarette companies that have established a foundation and the company itself does some.

Based on the results of the research can be seen that the form of assistance of large companies to micro, small and medium enterprises can be done / given through the aid of equipment, assistance in the form of grants money, assistance in the form of capital loans with small interest, assistance in the form of management training, assistance in the form of marketing training, in the form of production process training, assistance in the form of experts and assistance in the form of apprenticeship. However, all SME's hope that assistance is provided in the form of loans in the form of capital loans with mild interest, and other alternatives.

SME's argues that the assistance of large corporations through CSR programs to micro, small and medium enterprises is done quite directly, not necessarily involving government or non-governmental organizations (NGOs). The government is expected to participate in organizing or giving direction to large companies operating in a region so that large companies are required to assist micro, small and medium entrepreneurs called SME's. One form of assistance that can be given a large company that is by disbursing low interest capital loans. The goal is to help SME actors advance their efforts.

The District Government through the Cooperative and Small-Scale Industry Office has implemented the program, by disbursing capital assistance to small entrepreneurs. Although still limited, lending is expected to be an example for big companies to be concerned about SME's. All companies are required to implement such programs, whether they are direct assistance from corporate social responsibility (CSR) or community development (CD), or whatever the name may be, which is important for the community, while for SMEs who get capital assistance, as well as possible. The disbursement of funds was granted after SME's successfully passed the election feasibility stage.

SME's development should be followed by government policy to regenerate production activities based on people's economy and export-oriented. Free trade in addition to providing opportunities for SME's to expand the market as well as a challenge that needs to watch out for, because the competition will be more stringent, not only with competitors in the country but also have to deal with outside competitors. Therefore, SME's should strive to strengthen itself. One way that is considered to be quite effective is by forging partnerships with other SME's, both with SME's of the same kind, as well as with SME's engaged in the downstream sector or upstream sector as well as partnerships with large companies. Empirical facts show that in addition to quality problems, SME's weaknesses have also lack access to market information, technology and capital, so SME's are unable to meet market demand. With the synergy between SME's, it is expected that UMKM will be stronger and able to compete not only in domestic market but also in global market.

The partnership model with SME's already exists but is still a small part. SME's are generally not well-patterned, and are temporary or occasional. The main objective of this integrated SME's partnership model is to assist the various problems faced by SME's in the areas of marketing, production processes, raw materials, etc., while financing / capitalization issues are assumed to be handled more specifically through the business financing model. Integrated partnership identification and analysis rests on how to link SME's interrelationships or interrelationships between SME's with large businesses can be effective in the sense of mutual benefit of each of the parties concerned. In terms of marketing SME's can market products and possibly services as end products or intermediate products that will still be processed by other business units.

CONLUSSION AND RECOMMENDATION

From the results of the above research can be concluded that: (1) Knowledge of the importance of CSR has not been widely used or implemented by large companies. Implementation of CSR by large companies is highly dependent on the consideration of the benefits or not for companies and stakeholders. Some large companies impose incidental CSR. (2) Understanding CSR in the economic field is still limited to the economic empowerment of surrounding communities and has not yet led to empowerment to fellow entrepreneurs (especially SME's). It is still very rare that large companies are involved in SME's empowerment efforts. (3) The appropriate empowerment model for SME's is a partnership model with a policy of needing a capital assistance facility with a low

interest rate and directly conducted by a large company, without involving government or NGOs.

The government cannot be alone in developing SME's. The involvement of various stakeholders, including large companies in SME's development becomes very important. The presence and concern of large corporations through CSR programs has proven to be of great help in SME's development in many countries of the world.

The development of partnership program with CSR pattern can be done in various patterns, such as community development, capacity building, product promotion, and even capital strengthening for Micro and Small Enterprises. In order to accelerate the CSR program, several efforts that need to be undertaken are: 1) The government should issue policies to encourage CSR programs for SME's development, either in the form of law (UU), Presidential Regulation or Ministerial Regulation and at least must regulate: (a) Objectives and Objectives of CSR; (b) Determination of the amount of CSR; (c) Rights and Obligations of Large Companies; (d) SME's Rights and Responsibilities; (e) Use of CSR and (f) The Role of Central and Regional Governments; 2) Every policy issued is guided and executed with full commitment and consistent from the central to the regional level; 3) For large companies that contribute and great achievements and good in strengthening SME's should be rewarded or rewarded so as to foster the spirit and area for other large companies that show less achievement.

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