

CSR in Indonesian SMEs: An Institution and Resource Based Analysis

Melia Famiola, Sri Hartati and Amilia Wulansari

School of Business and Management, Institut Teknologi Bandung, Bandung, Indonesia

Abstract: This study explores the antecedent motivation of CSR engagement among Small and Medium Enterprises (SMEs) in Indonesia by using institutional and resources-based approach. Collecting data through interview and observation, this study found that SME engagement CSR is driven by normative aspect of owner's belief and understanding the cultural tradition of Indonesia. It also indicate the organizational capability is not in place of their CSR decision making and seen that owner's personal values are translated directly into corporate values.

Key words: Corporate social responsibility, small and medium enterprises, institutional theory, resource-based theory, SME

INTRODUCTION

In the last few years, the involvement and awareness of businesses in social activities have been increasing. It is not only in large corporations, small business is also now brought corporate social responsibility into their business practices. It is an interesting phenomenon within very few research exploring the CSR practices in small and medium enterprises (SMEs) (Davies and Crane, 2010).

Drawing from Campbell (2007), the probability of SMEs engagement in social initiatives may be low due to their financial situation. He revealed that only a company with good financial aspect will engage in social initiatives. Meanwhile, the majority of SMEs is still struggling with their financial management. Nevertheless, some of them are now also seen engage in CSR. Therefore, we rise in research questions: why they also engage in CSR and what are their CSR motivations?

This study is driven by an assumption that economic issue may not the main factor of SMEs CSR initiatives but more because of some social factors. Studies in organizational behavior highlight two main reasons of business engage on particular aspect: economic and social aspect. This study will focus on explore the social motivation by employ institutional theory (Campbell, 2006; Marquis *et al.*, 2007; Scott, 2008) and resource base theory (Russo and Fouts, 1997).

The institutional theory provides an understanding of any external factors that affect business engagement in and becomes isomorphic to particular practices (Campbell, 2007; Marquis *et al.*, 2007; Scott, 2008; Russo and Fouts, 1997; Kostova *et al.*, 2008; Tolbert and Zucker, 1983). Meanwhile, resource-based theory explores internal factor

of a company affect to their decision on engaging in particular sustainability. Using two approaches, we believe this study will contribute to both in theoretical development and practical issues. Theoretically this study uses multi perspective on understanding small business's CSR practices, particularly their strategy to combine the external pressure and internal capacities in interpreting the important to engage in CSR. Limited empirical research had employed multi perspective approaches in understanding small business behavior, particularly to understand their sustainable behavior. In term of practical contribution we believe by understanding the characteristic of SME's sustainable behavior, both government and a wide range of society could generate efforts behavioral intervention to encourage sustainable practices for small business and become new culture of the business environment, particularly in Indonesia.

In order to achieve these research goals, this study is structured as follow. We begin our discussion by explaining our study approaches and framework. It is then followed by methodology we use to gain data and analysis the data.

Conceptual framework

Institutional theory: Institutional theory is an approach that is used to understand motives behind of business behavior within an operational region or area with clear geographical boundaries (Meyer and Rowan, 1977; Muthuri and Gilbert, 2011). Yet despite the fact that business CSR initiatives are heavily determined by a broad of political and economic institutions in a country (Campbell, 2007). Few studies have used this approach to examine business CSR behavior, particularly to its practices in small business.

Institutional theory argues that organizations operating in a same environment will face similar pressures that affect to their operational decision and policies, so they may potentially adopt similar practices to respond to the pressure (Tolbert and Zucker, 1983; Meyer and Rowan, 1977; Thornton and Ocasio, 2008). Principally, every idea and decision made by an organization may have a social meaning that is affected by the institutional contexts where it is operation. It could be in a form of public opinion, norms and values in society, rules, regulation and political interest of the local government as well as introduced knowledge from the education system (Muthuri and Gilbert, 2011). The rationale behind an organization's choice to adopt an endorsed practice is due to a strategic interest in gaining legitimacy. Therefore, creating an isomorphism among organizations in the same or similar fields (Kostova *et al.*, 2008; Meyer and Rowan, 1977; Muthuri and Gilbert, 2011).

This study employs (Scott, 2008) organizational institutional theories. Scott (2008) explains three institutional factors that may affect to different model of isomorphism that contains a specific set of legal invokes a different motivation and level of adoption describing different models of isomorphism of cultural factors in a given nation: regulatory, cognitive and normative. Regulatory pillar is the existing elements of an institutional environments reflected by law, rules, sanctions and government regulations in which the organization operates. The high pressure of this element creates coercive isomorphism. Cognitive pillar reflects the wide shape of knowledge in the community and ways people in the country behave and interpret particular phenomena. Pressure from cognitive elements in the host countries will create mimetic isomorphism. This isomorphism occurs as a form of organization's responses due to an uncertainty. Organizations adopt a pattern of practice from other successful organizations which are considered succeeded in interpreting the need for local community. The last is a normative pillar, it reflects values, beliefs, norms and assumptions that guide individual behavior in the country (Scott, 2008). This pillar could create normative isomorphism that occurs when organizations adopt particular patterns in order to be considered appropriate in the environment in which they operate (Muthuri and Gilbert, 2011; Kostova and Roth, 2002).

Resource-based theory: Resource-based theory presents a concept that competitive advantage of a corporation is generated from inside of the organization (Russo and Fouts, 1997; Peteraf, 1993; Russo and Fouts, 1997). The company's capabilities and competencies are called as

corporate assets. Barney (1986) revealed four factors could bring organization's assets contribute their competitive advantage. First, to the extent of the asset is considered valuable for the company. The measurement is when the company delivers the asset into its value chain and look at it as strategic ways to increase values for consumers. Second, rarely, it means that not many companies do the similar actions or have the asset. Third, costly to imitate, aligning to the criteria number two-rarely a company's valuable asset may difficult to be copied by its competitors. Fourth, the asset is well organized to capture the values.

In the resource-based view, corporate assets are classified into two; tangible and intangible assets. Tangible assets include company's financial reserves and physical resources such as plant, equipment and stocks of raw materials. While, intangible assets include reputation, technology and human resources; the latter include culture, the training and expertise of employees and their commitment and loyalty (Scott, 2008; Russo and Fouts, 1997; Thornton and Ocasio, 2008). From the two assets, creating intangible assets as a competitive advantage of a company may generate long time or sustainable competitive advantage of the company.

Integration of institution and resource based approach of this study: Considering the two above theory approaches in an understanding of business behavior we argue that the complexity of SMEs decisions to adopt a particular social and environmental practice may be affected by the combination of internal and external influences of their organization: local institutional pressure and resources based factors of the companies. Moreover, Barney (1986) and Peteraf (1993) argued that corporate resource becomes valuable if the external factors are brought into resource base picture. In other words, companies interpret the external pressures into their resources capacities and decide to what extent they could grab the opportunity to contribute to their competitive advantage. In the case of SMEs we argue that the descendant factors of SMEs CSR behavior may initiate due to external influences before its translated using their internal capacities. So, the selected CSR program may be a win-win solution between the external pressure organizational internal capacities. So, even though the pressure of external social factors is high, if the company does not view as important factors to improve their capacities and link it with their resources, so their engagement in CSR may be low.

In this respect, we argue that local institutional factors may become initial factors of SMEs CSR behavior.

It should adapt to the company's resource capacities or competencies before arriving at SMEs CSR choices. In other words, there is a diffusion of external pressure and internal condition of SMEs. These study intents to expose how the diffusion of external pressure to internal SMEs capacities as their CSR initiatives.

MATERIALS AND METHODS

Data gathering and sampling data: The data is collected from 11 SMEs, that we divided into four business groups: agriculture, craft, fashion and food. Those selected SMEs are SMEs which stated themselves as social responsibility businesses and exposed their CSR initiatives in publics. The majority of sample SMEs is located in Jakarta and West Java Province. We focus on our exploration for SMEs which had exposed their CSR activities both in mass media and their corporate website.

To ensure our research was conducted using appropriate data and information, the data were collected into two ways. First, secondary data were collected from company documents; publications that recorded a company's social and environmental activities. Second, in-depth interviews were conducted with SME owners. These were semi-structured interviews that used open-ended questions. Semi-structured interviews provide the investigator with a wide range of respondent information that may emerge during the interview (Creswell, 2003). Every interviewee was provided with a brief description of the research background and questions. Third, observations were used to record information that may not have been captured through the interviews and documents during data collection. Observations assist to identify social situations related to the research purpose. This study took an unstructured (open-ended) approach to observation (Teddlie and Tashakkori, 2009). We used research notes to record any important observations related to this study (Table 1).

Data analysis: All interview results were translated into transcripts. The transcripts were read several time

and done cross-check analysis with notes taken during observations. The similarities and differences of the information were identified to gain a comprehensive understanding of the phenomenon and become the construction of the study (Miles and Huberman, 1994). Some specific contexts were noted and identified some themes and pattern in data (Wynsberghe and Khan, 2007). The coded was made and data was categorized based on particular themes (Miles and Huberman, 1994).

RESULTS AND DISCUSSION

Institutional motives for SME's CSR motives: From the three aspects of Indonesian institution, It seen that SME CSR motivations are more determined by cultural aspects then the role of government regulation, particularly the effect of the SME's owner religious teaching.

"In Islam, helping people and our society is the responsibility of everybody. God will reward us for very our cent of the money we share to poor people. Our charity is also a form of our thanks to the God that our business has growth".

"You may know a sunnah said that the best of people are those that bring the most benefit to the rest of mankind. Our charity is a part of how to implementing this religious order". "The charity, we do is shared from 2.5% of our profit as requested by Islamic value, it is for us a taken for granted since we believe more percent (blessing) will share by Allah, if we could follow the role".

Although, religious factors have a powerful influence on SME owner's social interests, some interviewees also highlighted that the importance of their engagement in social initiatives was due to the connections between religious values and Indonesia's traditions of gotong royong and teposiliro. Gotong royong refers to a collaborative effort to gain mutual benefits and prosperity.

Teposiliro refers to understanding differences and having empathy for others as the following statements shows: "Yes, the value of gotong royong in our traditional culture influent much how important to share

Table 1: Studied sample of CSR initiatives

SMEs initial	Industry/Product	CSR activities
Agri 1	Agriculture	Empower the local community for mushroom cultivation
Agri 2	Organic Farming	Empower local farmers and facilitate young start-ups for doing research in agriculture
Craft 1	Bed covers	Training and entrepreneurial skill for orphan
Craft 2	Cosmetic soap from cow's milk	Empower and educate cow farmers as suppliers of milk products and creating best quality cow milk production
Fashion 1	Muslim fashion	Pilgrimages for unlucky people, blood donations Empower a community to sell their products
Fashion 2	Male fashion	Empower a community for being entrepreneur
Fashion 3	Fashion	Empower the community with education and entrepreneurial skills
Food 1	Indonesian traditional restaurant	Scholarship for children and orphan services
Food 2	Cookies and bakery	Providing prosthetic limbs for people with disabilities
Food 3	Cookies	Using reused bottle packaging for making craft by involving local communities
Food 4	Tofu	Environmental management and charity for local people

with others. Even though, it is implementing in a different form. Before our ancestor does gotong royong to build their public facility but now we could participate in helping unlucky people in our surrounding to get their well-being". "I think both teposeliro and gotong royong connect to our religion's teaching that encourages us to be aware and give benefit to people in our resounding. In other words, the majority of interviewees agreed that the fit between Indonesia's culture factors (normative and cognitive institution) had driven SME interests in social issues.

Resource-based factor of SME's CSR: According to the owner of SMEs, there is serious consideration of their selected CSR initiatives in term of the financial aspect. The majority of SMEs owner argued that adjustments resulted from the amount of profit realized; most had established their budget for social initiatives by sharing around 2.5% of their total profit every year. A 2.5% profit share for social programs is part of Islamic business practice: In Islamic value, every Muslim has to share 2.5% of their income for zakat (charity) to unlucky people. For us it is translated by understanding to share 2.5% of our total profit for charity programs. The policy is not only for our main business but also requested to all our franchises".

"Yes, of cause financial issues become our consideration in deciding our CSR activities but they are not very crucial aspect. We have the commitment to share 2.5% of our profit to the charity". "For me business is not just to pursuit the profit but it should provide benefit for others, particularly for people in our surrounding. So financial factor is not the main issue".

In other words, SME's CSR initiatives are underpinned by owner effective commitment to perform the business according to their values and belief, particularly influenced by their religious values. Because of the strength of religious influence in owner's CSR decision making, the majority of them is also not thinking CSR as their company's image development and maintaining. "We do not want to expose our CSR to public openly we just worry it is could be riya, it is not correct according to Islamic values".

"Getting positive image from society and contributing a positive effect to our selling are good but that is not our main purpose. In terms of image we will be happy if people recognize our product because of its quality, then our company's social initiatives".

"I think the positive image of our initiatives is not by purpose, I do not have the intention to do our CSR action because of image but I know that our today business image also contributed from many factors including from

our CSR initiative, we also invite consumer to share their kindness for doing charity through our charity program. For example, our blood donor program does not only involve people from internal organization but also outsiders".

In addition, this study also found that majority SMEs owner argues that their CSR should involve employee participation. Most of them believe that employees have to understand that they have worked not only for the company and their own personal benefits but also for other people. Some of the companies even mentioned that their CSR programs were done by their own employees. "I think employee may also engage in our CSR program, they may know that the CSR also part of their contribution". "The involvement of employees in CSR is important in order to they could perceive the value of the organization. Moreover, we develop our CSR based on the employee suggestion. I found employee happiness to involve in CSR activities".

Generally, there are three aspects of intangible issues become SME's CSR concerns. First, the satisfaction of the owners that they perform their business according to their belief and values, particularly doing business according to their religious teaching. Second, positive image of their business from their potential consumer's perspectives. Even though they do not direct their CSR initiatives to develop their positive image but they realize that the positive image contributes to their selling. Third, employee participation, the majority of the owners believes by involving employees in their CSR, it could develop a sense of satisfaction in the employees since they are doing good things.

In other words, there is not special plan in term of developing a corporate image by using CSR initiatives in these small businesses as normally developed by large companies. The majority of business owners considers the good image as a side effect of their positive initiatives but not by designed.

CONCLUSION

According to above analysis this study found an indication that external normative aspect of owners is translated as organization values that is why there are not many serious adaptations of the values to resource based capacity of the companies. For example majority of SMEs, owners describe that their company's CSR as a reflection of their religious teaching. In other words, institutional aspect tends to be adopted as values of the organization with a minor adaptation with organizational capacity. Therefore, financial issues are just a minor of SMEs concern on determining their CSR initiatives.

This study argues that with around 85% of Muslim of Indonesian citizenship, Islamic values had given much influent to the SMEs character in Indonesia, particularly in their way to understand their role in society. It is seen from the comment of the business owners that they share 2.5% of their profit for their company CSR initiatives. This argument links to the Islamic values that Muslim must share 2.5% of their income to the poor or charity activities. It is quite different with what occurs in large business in which institutional process should adapt with the company capacity.

Based on this finding we argue that Campbell (2007) proposition that economic factor will be the main aspect why a corporation engages in CSR initiatives, is not completely correct in term of this case. Owner values and believe become main issues of SMEs CSR engagement. Their commitment to adopt their religious values as their corporate values become the main factor why and how firm social responsibility is defined.

This study also argues that the consistent of religious values and the tradition of local heritage are also a reasonable factor why doing CSR important for the companies studied. The two different values strengthen each other to drive SMEs CSR interest. It is also the reason why CSR is not addressed to be a tool to develop and manage firm's image.

Interestingly, some SMEs consider the important of employee's involvement in CSR and become a tool to introduce and distributed their corporate values. We Argue this may be an interesting fact of the implementation of the concept people-organization fit (Cha *et al.*, 014). People-organization fit argues that employee work motivation increase when the perceive a value congruent between their and organization's values (Kim, 2006; Leung and Chaturvedi, 2011). Moreover, the perceive value congruent could also affect to employee satisfaction and intention to stay (Leung and Chaturvedi, 2011).

This phenomenon may be an interesting future research topic, how the employee perceive of value congruent to their organization mediating by CSR initiatives, particularly in SMEs, since one of the main problems of SMEs is high of employee turnover (Huang and Brown, 1999).

As a conclusion, this study had delivered some important fact of CSR motivation in SMEs. This study found that values of owners that affected directed by their belief (religion) and supported by a consistency of the values with the local traditional culture play an important role in these businesses understanding of their responsibility and behave in the society. So, we believe that social responsibility behaves able to endorse to

SMEs without strict regulation as long as the local values are in place as universal ethics for every person including the business operating in the area.

REFERENCES

- Barney, J.B., 1986. Strategic factor markets: Expectations, luck and business strategy. *Manage. Sci.*, 32: 1231-1241.
- Campbell, J.L., 2006. Institutional analysis and the paradox of corporate social responsibility. *Am. Behav. Sci.*, 49: 925-938.
- Campbell, J.L., 2007. Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Acad. Manage. Rev.*, 32: 946-967.
- Cha, J., Y.K. Chang and T.Y. Kim, 2014. Person-organization fit on prosocial identity: Implications on employee outcomes. *J. Bus. Ethics*, 123: 57-69.
- Creswell, J.W., 2003. *Research Design: Qualitative, Quantitative and Mixed Methods Approaches*. 2nd Edn., Sage Publications, Inc., Thousand Oaks, California, ISBN: 0761924426.
- Davies, I.A. and A. Crane, 2010. Corporate social responsibility in small-and medium-size enterprises: Investigating employee engagement in fair trade companies. *Bus. Ethics Eur. Rev.*, 19: 126-139.
- Huang, X. and A. Brown, 1999. An analysis and classification of problems in small business. *Intl. Small Bus. J.*, 18: 73-85.
- Kim, B.Y., 2006. Managing workforce diversity: Developing a learning organization. *J. Hum. Resour. Hospitality Tourism*, 5: 69-90.
- Kostova, T. and K. Roth, 2002. Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Acade. Manage. J.*, 45: 215-233.
- Kostova, T., K. Roth and M.T. Dacin, 2008. Institutional theory in the study of multinational corporations: A critique and new directions. *Acade. Manage. Rev.*, 33: 994-1006.
- Leung, A. and S. Chaturvedi, 2011. Linking the fits, fitting the links: Connecting different types of PO fit to attitudinal outcomes. *J. Vocational Behav.*, 79: 391-402.
- Marquis, C., M.A. Glynn and G.F. Davis, 2007. Community isomorphism and corporate social action. *Acad. Manage. Rev.*, 32: 925-945.
- Meyer, J.W. and B. Rowan, 1977. Institutionalized organizations: Formal structure as myth and ceremony. *Am. J. Sociol.*, 80: 340-363.

- Miles, M. and A.M. Huberman, 1994. *Qualitative Data Analysis: An Expanded Sourcebook*. 2nd Edn., Sage Publications, Thousand Oaks, CA., USA., ISBN-13: 9780803946538, Pages: 338.
- Muthuri, J.N. and V. Gilbert, 2011. An institutional analysis of corporate social responsibility in Kenya. *J. Bus. Ethics*, 98: 467-483.
- Peteraf, M.A., 1993. The cornerstones of competitive advantage: A resource-based view. *Strat. Manage. J.*, 14: 179-191.
- Russo, M.V. and P.A. Fouts, 1997. A resource-based perspective on corporate environmental performance and profitability. *Acad. Manage. J.*, 40: 534-559.
- Scott, W.R., 2008. *Institution and Organisation*. Sage Publication, Thousand Oaks, California.
- Teddlie, C. and A. Tashakkori, 2009. *Foundation of Mixed Methods Research: Integrating Quantitative and Qualitative Approach in the Social and Behaviour Sciences*. Sage Publications, California, USA., ISBN:978-0-7619-3011-2.
- Thornton, P.H. and W. Ocasio, 2008. Institutional Logics. In: *The Sage Handbook of Organizational Institutionalism*, Greenwood, R., C. Oliver, R. Suddaby and K. Sahlin (Eds.). Sage Publication, London, England, ISBN:978-1-4129-3123-6, pp: 99-128.
- Tolbert, P.S. and L.G. Zucker, 1983. Institutional sources of change in the formal structure of organizations: The diffusion of civil service reform, 1880-1935. *Admin. Sci. Q.*, 28: 22-39.
- Wynsberghe, R.V. and S. Khan, 2007. Redefining case study. *Intl. J. Qual. Methods*, 6: 80-94.