

# **How Small Medium Enterprises Become Sustainable in the Global Business? (Stakeholder Approach to Business Responsibility of Indonesian SMEs Practices)**

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## **Abstract**

Business responsible practice for SMEs cannot be applied optimally regarding with usefulness and most of them only have a small scope. SMEs operation tend to encourage development of ethical and social rather than economic consideration. This situation cause SMEs cannot play powerful role in the level of across border nation on global scale. This study employs stakeholder theory in understanding the importance of managing good relationship which is useful in establishing network capital for SMEs in practicing business responsibility that emphasizes on calculative, economic, rational and professional principles. This study aim to analysis the fact in real life by using a model of business responsibility practice. The finding of this study shows that the practice of business responsibility has been applied by SMEs because there is a demand from important stakeholders like buyers, suppliers, customers, community and employees. This demand cannot be separated from demand environmental friendly business in the international market. The result of this study emphasize the strategic and legitimacy aspects are important in maintaining sustainability of business in international/global markets.

***Keywords:*** Business responsibility, Stakeholder, SMEs

## **1. Introduction**

The concept of business responsibility has begun since 1970 with the emergence of Corporate Social Responsibility/CSR (Elkington,1998), then followed by the Corporate Sustainability/CS (Katsoulakos et al,2007; Munkelien et al,2010) and today it has been discussed in the broader field, Global Corporate Citizen/GCC (Ning 2014, Hoivik and Shankar 2011). Globalization has encouraged the development of these concepts, which means that the concept of business responsibility enters the global scope of the application. It can be said business actors are required for moving from doing the CSR to the business being responsible to maintain sustainability.

Business responsibility movement is still a mainstream issue in various organizations. This movement has been able to influence the mindset of businesses to see the effect of the company to the public and other stakeholders as the core of the company's operations, not only in the scope of local and regional, but also to the global level. The core of the global corporate citizen is to support the "fair globalization" and active participation in the development of an area where the company operates. Fair globalization requires productive and equitable markets and how to play fair in which all countries have equal access. The principle of shared responsibility emerges between countries and corporations to help the country and people who are not able to participate and enjoy the benefits of globalization. At the local level, the company can participate by responding to critical social issues such as regional development, education, health, products, services and knowledge.

In the large company, the concept of business responsibility has been applied, although there are various constraints faced, particularly the benefit aspect. The key to success in implementing responsibility movement is to build and maintain relationships with stakeholder. There are several studies with stakeholder theme such as Rowley (1997), Perrini et al (2007) and Rolof (2008). Rowley (1997) showed that balancing the interest of stakeholders becomes strongly important since the manager is the central figure of stakeholder approach and the emergence of the stakeholder network. Perrine et al (2007) conducted a study using 3.680 companies in Italy can prove that large firms are more likely to identify relevant stakeholders and meet their requirements through specific and formal strategies. Rolof (2008) find that stakeholder management as a fundamental pragmatic concept. To obtain an effective an organization, the main key is to build a good relationship with stakeholders in order to achieve organizational goals. Stakeholder management is a systematic approach to organize the relationship between business doers and society

In the context of SME's, debate on the pros and cons of interest still continues to this day, especially regarding with the usefulness to SMEs practicing business responsibility, where most of them only have a small business scope, move in the local market and with small capital. Several empirical studies such as Lozano (2006), Morillo and Lozano (2006) and Perrine et al, (2007), Kechiche and Soparnot (2012) and Demuijnck and Ngnodjom, (2013) examine how SMEs implementing business responsibility showed that how SMEs provide an assessment of the application of social responsibility as an informal CSR, CSR minimalist, low commitment and small benefits. Studies concerning the implementation of business responsibility movement that indicate the need for further empirical studies conducted by Morillo and Lozano (2006) and Cachet and Vo (2012) find two important question: 1) how can the business responsibility of CSR-SMEs implemented nationally be extended to the international level/global?, whether business responsibility can be applied at the level of

Small-Medium with source limitations?. Another research question propose by Sangeetha and Men (2011) and Perrini (2006) state that the theory of social capital is more appropriate for SMEs, and stakeholder theory is more suitable for large companies?. The latest study from Kechiche and Soparnot (2012) propose another question whether the implementation of CSR in SMEs should be the same with the large business?.

This study empirically investigates the application of the concept of business responsibility to the SMEs can be a driving force for the creation of the corporate sustainability towards the Global Corporate Citizen .When compared with previous studies, this paper has several novelties as follows. First, most previous studies adopting the social capital theory (ethical, charity, poverty alleviation, social). While in this study, use stakeholder theory. Second, previous studies use quantatif data, this study analyzes through exploratory method. Finally, this study propose a conceptual model and combine with the empirical research.

The rest of the paper will be organized as follows: section 2 will then provide literature review, followed by methodology and empirical result on section 3 and 4. Summary of the result will be provided in section 5.

## **2. Literature Review:**

### ***2.1. Business Responsibility Movement: The Concepts***

The concept of business responsibility is one of concepts that aim to create the situation of win-win solution between the company and its stakeholders and the environment in which it operates. Two important concepts that are currently widely adopted by large companies are Corporate Social Responsibility and Corporate Sustainability. Along with the development of globalization, the concept of business responsibility starts to enter the scope of global application, meaning that all business doers have the same opportunity to be able to expand their business to the global level. The concept that refers to the principles of the global state is known as the Global Corporate Citizen.

The concept of CSR has been developed in a long time. Various definitions of CSR concept are proposed by experts, it is just that there are differences in the essence of CSR, giving rise to debates in the understanding of CSR. In a global context, the term of CSR from Elkington (1998) became increasingly popular. Elkington (1998), organizes CSR into three focus known as triple bottom line (profit, planet and people). Some of the CSR programs based on this principle are usually in the form of greening the environment, water supply and improvement housing. Further several expert define variety CSR concept based on their empirical research requirement as follow: 1) Carrol (2006) explains the concept of CSR that

covers three responsibilities, namely economy (make profit), the legal responsibility (obey the law) and ethical responsibility (be ethical) as well as philanthropic responsibilities (be a good citizen). 2) The World Business Council For Sustainable Development, define CSR is sustained commitment from business to behave ethically and contribute to economic development while improving the quality of life of employees and their families, as well as the local community and society at large (Asongu,2007). 3)According to European Commission, CSR is a concept whereby companies integrate attention to economic, social and environment to their business operations and in their interaction with stakeholders based on the principle of voluntarism (Maten and Moon, 2005; Welford, 2005). In an empirical study, Mahyuni (2013) defines CSR as corporate responsibility to conduct a business in an economically viable, socially responsible, culturally acceptable and environmentally friendly manner. Regarding with all concepts, the bottom line of CSR that are carried out on the basis of concern and responsibility will give confidence of the public towards the company and products. Public appreciation impacts on financial performance via higher turnover as the result of people's preferences to buy products from companies that have the value of caring.

Corporate Sustainability (CS) is company activity associated with a variety of ways to ensure continuity of relationships with stakeholders and continue to encourage companies to be able to run their business operations. CS is a form of support for sustainable development and maintaining the stability of the performance and viability of the company in the long run. According to Katsoulakos et al (2007), corporate sustainability answers the needs of stakeholders to maintain, support and improve resource. Katsoulakos et al (2007) states the company's sustainability performance can be measured by three sizes, namely economic, social and environment impacts. The latest reference from Munkelien et al (2010) describes the relationship between CSR and sustainability development by looking at the economic, environment and social performances together in one area that shows the level of sustainability.

The concept of Global Corporate Citizen (GCC) essentially exceeds the CSR and CS, focusing more on the broader scope of "the global space" (Hoivik and Mele,2009). Furthermore, this concept emphasizes that business leadership process focuses on how the company's influence on society and other stakeholders as the core of the company's operations on the global. GCC concept was first introduced in 2002 on "The World Economic Forum," which was followed by 46 CEOs of leading multinational companies in the world. They agreed to sign the treaty of "Global Corporate Citizenship". This concept became very popular applied to various large companies. GCC is a widely development of CSR and SC encouraged by the initiative of the United Nations (Katsoulukos et al,2007), that is a global

influence and the millennium development goals. The objective and principles for corporate to behave responsibly in the fields of: human rights, labor standards, environment, anti-corruption and economic responsibility. Important dimension of the GCC is to support "fair globalization" and active participation in the development of an area where the company operates. Fair market globalization requires productive and equitable as well as fair play where all countries have equal access. The principle of share responsibility between the state and corporations appear to help the country and people who are not able to participate and enjoy the benefits of globalization. At the local level, the company can participate in the community in which it operates by responding to critical social issues such as regional development, education, health, products, services, knowledge etc.

Of the three concepts mentioned before, this study define business responsibility as enterprises responsibility to conduct a business in an economically viable, socially responsible, culturally acceptable and environmentally friendly manner in order to maintain sustainable through building good relationship with stakeholder.

## ***2.2. Stakeholder Approach: Managing Relationship with Stakeholders***

Stakeholder management is a systematic approach to organizing the relationship between business and society. In the process of globalization, companies tend to interact with heterogeneous parties. Therefore, companies find it difficult to adapt and often there is a difference in expectations between the company and stakeholder. In such a situation, it is important for stakeholder management to find out the change in the expectations of stakeholders of the company and have an early detection of conflicts that are difficult to solve by the company. Stakeholder management is fundamental as a pragmatic concept. In order for an organization to be effective, the main key is to build a good relationship with stakeholders in order to achieve the goal of organization.

The role of the manager in balancing the interests of stakeholders becomes strongly important since the manager is the central figure of the stakeholder approach. It is not easy to balancing stakeholder interests especially with the emergence of the stakeholder network (Rowley,1997) and multi-stakeholder networks (Roloff, 2008). The willingness of companies to meet the demands of stakeholders depends on two factors: density and centrality of the network (Rowley (1997). Rowley (1997) states "companies would not engage with single stakeholder groups in symmetric communication process, but simply adjust their public relation approach to what the managers perceive as the most common stakeholder demand". So, collaboration and partnership are the keys to success in stakeholder networks. According to Roloff (2008), this situation also applies to the multi-stakeholder networks.

In managing relationships with stakeholders, it is important to recognize the position and role of the company. Company need to identify the relevant stakeholders of the company. Mitchell et al (1997) defines the principle of "Who and What Really Count" by taking into account the stakeholders through three attributes, namely power, legitimacy and urgency. Broadly speaking, stakeholder theory states that the organization has a relationship with the interested parties that affect the survival of the company. Maintaining relationships with stakeholders and balancing interests of these groups becomes important factors. Theory of stakeholders by Donalson and Peterson (1995) and Freeman (2004) emphasizes that "stakeholder theory is managerial in the broad sense of that term." Therefore, the manager as the central figure needs to take decisions in building good relationships with stakeholders. Since the decision is made by manager, stakeholders can find out how managers distribute limited resources to stakeholders, this process is known as balancing stakeholder interest. Balancing stakeholder interest is not an easy thing, Reynolds (2006) states "Balancing stakeholder interests is a process of assessing, weighing and addressing the competing claims of those have a stake in the action of the organization".

Stakeholder approach to understand the practice of business responsibility in SMEs is to look at from the perspective of economic theory (unique resources and survival challenge). Several empirical studies such as: Williamson (2006), Den and Cowley (2012), Campin, (2013,) investigate CSR-SMEs relationship showed they are more aligned to the fundamental social capital theory, which explore building relationships and networking with a range of stakeholders, not judged by their stake in the business but the social capital. Research question from Beckman (2009) and Sangeetha and Men (2011) stated that stakeholder approach needs to be supported by the capabilities of SMEs to build capital to access network resources and knowledge owned by the stakeholders. Network capital consists of the strategic and calculative relations and networks held by firms " (Huggins,2009). Then, Huggins (2010) emphasizes that the concept of network capital can be used to access the available resources between the company and other parties/partners based on logical, professional, strategic, and calculative principles.

In summary, the current literature suggests that it is important to manage stakeholder for SMEs in supporting the practice of business responsibility. Building a good relationship is one effort in managing the relationship with stakeholders. SMEs can utilize network built with stakeholders in order to overcome the limitations of the resource and knowledge owned. Therefore, the network built can become the capital for SMEs in support of business responsibility practices that take into account the following aspects: calculative, rational, economic and professional.

### **2.3. Business Responsibility and SMEs**

The application of the concept of business responsibility at this point is always associated in the context of a large company. This concept can be a strategic tool to improve the competitiveness of SME's (Vilanova et al, 2009). Yet, this concept able to be explained specifically by certain facts and figures, because it takes time to be realized, at least SMEs have been introduced to the importance of implementing business responsibility in order to be able to increase their business, not only on national but also at the international/global scale, thus becoming a part of a global corporate citizen. Business responsibility practices can affect the competitiveness of SMEs through: 1)improvement of products and production to better customer satisfaction and loyalty (Kechiche and Soparnot, 2012), 2) high motivation and loyalty employee, publicity; the increased word of mouth and better position in the labor market (Morillo and Lozano, 2006), 3) better network with business partners, increased profits due to more efficient deployment of human resources and the use of production resources; as well as increased sales turnover Torugsa et al, (2012). Furthermore, Perrini (2006) states that the implementation of CSR in SMEs offers for greater market access, productivity as well as broader social benefits such as education and community development. Specifically, Hoivik and Shankar (2011) propose two important reasons why business responsibility should take into account by SMEs, namely entrepreneurial nature and drives innovation, and these can have a major strategic impact on business.

In summary, the current literature suggests the driver of business responsibility practice, it is important to integrate the role of manager in the daily activities of the business, so that awareness, information and commitment, learning experience can be built. Through increased awareness on the part of the manager/owner, the application of business responsibility of SMEs in internal scope can boost performance, innovation and productivity. In terms of external factors, SMEs can meet the demands of various stakeholder groups: customers, investors, local community, employee, manager, government and academician. Prior attempts at investigating the drivers of CSR practice have paid attention of manager that can influence decisions relating to responsible business practice.

### **3. Methodology**

There are two methodologies use in this study, first, literature study to build business responsibility-SMEs modeling, second, exploratory method using in-depth face-to-face interview. to get more complex and detailed issues needed.

### 3.1. Literature study

To respond to the development of business responsibility activities, the concept of stakeholder approach is important to be applied as it has entered the global scope, whereas the one that affects the continuity of the company is a multi-stakeholder with extensive networking. The propose model is built upon several of previous models of: Donalson and Peterson (1995), Rowley (1997) and Pederson (2010).

Stakeholder modeling from Donalson and Peterson (1995) is based on the argument that all individuals and groups have the legitimacy to participate in the company and the company is benefited from stakeholders (Figure 1). In this model, there is no special priority in which all stakeholders have equal access and position and each will get benefit.

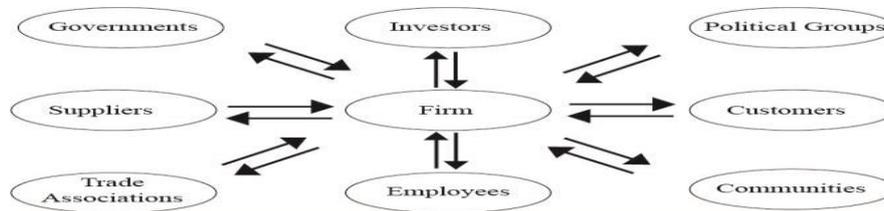


Figure 1: Stakeholder Modeling

Source: Donalson and Peterson (1995:80)

Modeling of Rowley (1997) as in the study conducted by Beckman et al (2009) in Chile explores the importance of utilize network. He states that "the ability to manage relationships with multiple stakeholders and perception of authenticity also critical to the success of CSR in Chile". The willingness of companies to meet the demands of stakeholders depends on two factors: density and centrality of the network (Rowley,1997), through the network density and centrality largely determine whether CSR efforts will be authentic (Rowley,1997:901). Network modeling of Rowley (Figure 2), looks at the aspect of networking effect built by stakeholders where the stakeholders have a direct relationship between one and the other. Yet, the nature of the relation of stakeholder behavior still affects the company.

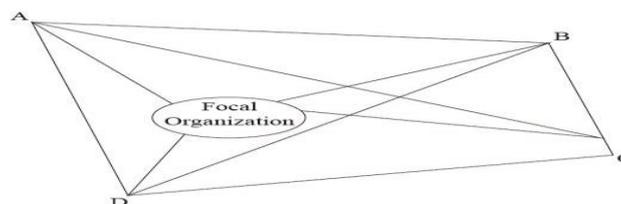


Figure 2: Stakeholder Networking Model

Source: Rowley (1997:901)

Pederson modeling (2010) is the right model to be used as a reference in balancing the interests of stakeholders (Figure 3). This model can explain that a manager who implements social responsibility, if he can manage good relationship with multi-stakeholders, it is possible to develop and market high quality products, ensure a comfortable working environment and reduce negative environmental impacts. Managing external stakeholders is that "environmentally friendly" SMEs business gives positive impact on communities, customers, government and employee.

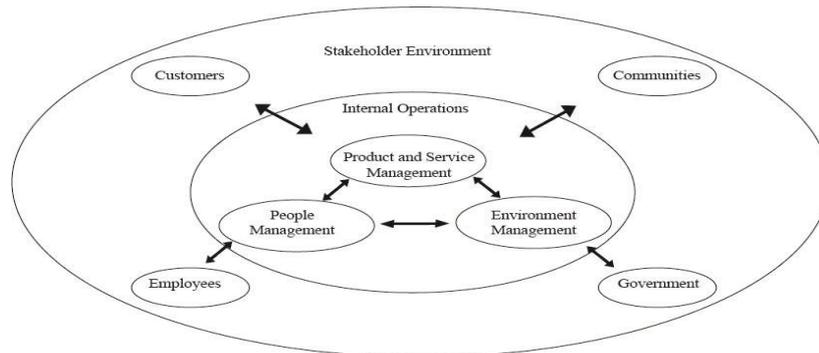


Figure 3: Pederson's CSR Model

Source:, Pederson (2010:155)

Of the third modeling, this paper proposes conceptual model that can be applied in the context of the implementation of business responsibility (blending of the three concepts of Corporate Social Responsibility/SCR - Corporate Sustainability/CS - Global Corporate Citizen/GCC). This model fulfill requirement of SMEs in Indonesia which is currently facing the phenomenon of "growing interest in entering international/global market" (Wismiarsi,2009). Modeling proposed takes into account important aspects, namely SMEs engages in international/global business are demanded to start to realize the impact of applying business practices responsibility. With the limitations of the resources owned as well as to be able to successfully support business responsibility practices need to understand the importance of to build relationships with stakeholders in order to take advantage of network capital of relationship with stakeholders. Aspects of centrality and density as well as the multiple stakeholders faced by owner/managers of SMEs should be an important consideration for managing how the relationship built can provide economic, rational and investment benefits of network resources owned by stakeholders as a partner of the business activity.

Modeling of business responsibility proposed is an appropriate model to be used as a reference in balancing the interests of stakeholders associated with business responsibility practices in Indonesia (Figure 4). This model can explain that internally managing

relationships with stakeholders by the owners/managers who implement business responsibility, if they have developed and marketed high quality products, ensured a comfortable working environment, and reduced negative environmental impacts. Managing relationships with external stakeholders in the context of business responsibility is when a company delivers products that satisfy consumers, employ disabled people/unemployment, build good relationships with suppliers on the basis of a win-win solution, collaborate with agencies and universities in order to encourage innovation and build networking with the government in order to overcome limitations in terms of regulation, bureaucracy, and information international market opportunities. By doing these things, managers can be convinced that the company would be a good corporate citizen in a broad scope to be global corporate citizen that creates value for the company, the community and society

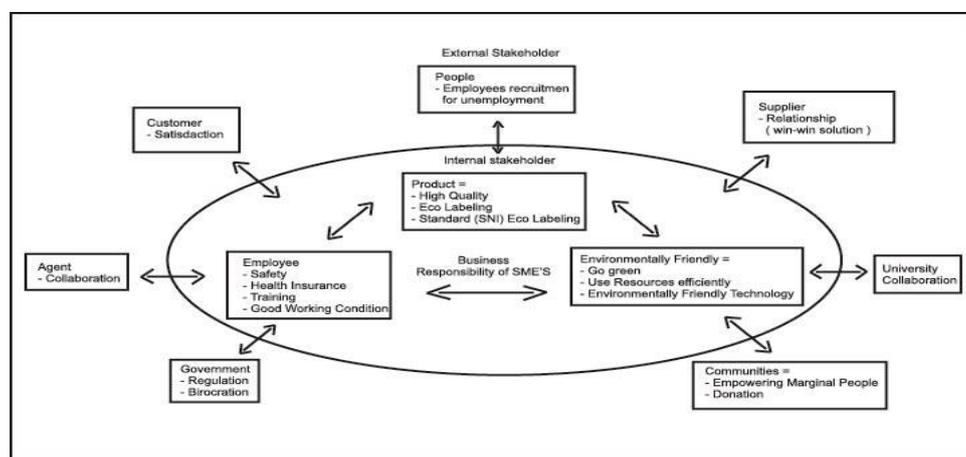


Figure 4: Proposed Model For Business Responsibility for SMEs

Source: Author

### 3.2. Exploratory study

Further step to assess the propose model is the application concept of business responsibility in SMEs, the evidence in this study was collected using in-depth face-to-face interview to get more complex and detailed issues needed. This study uses an open-ended question. Interview was conducted toward 30 owners/managers of the Small Medium Enterprises that conduct international activities (export) in the three provinces: West Java (Garut, Cirebon, Tasikmalaya, Garut, Bandung Regency), Jakarta (Klender – East Jakarta) and Banten (Tangerang) selected on the basis of preliminary observations in August 2013. The interview period was between June 20, 2014 until July 4, 2014. Duration of interview was about 30 to 60 minutes.

Samples were taken from four industries, namely handicrafts, furniture, fashion and agribusiness. The details are as follows: 12 companies of the craft industry, 5 of the furniture

industry, 9 of the fashion industry and 4 of agribusiness industry (food and drinks). Results of interview were processed into transcripts and matrix to summarize the questions (open-ended questionnaire). The questions posed were: 1) how far the owners/managers understand the concept of business responsibility; 2) The reasons for applying business responsibility; 3) forms of the implementation of business responsibility.

#### **4. Result and Discussion**

The purpose of this study is to explore the practice of business responsibility in SMEs in three provinces (West Java, Jakarta, Banten) seen from perception of the owners/managers. This study is intended to respond to the empirical study of Sen and Cowley (2012) and Campin (2013) which call for more studies investigating from the perspective of stakeholder theory. In-depth interviews (open ended question) provide opportunities for researchers to understand the perception of the owners/managers to obtain detailed information of things that encourage the practice of business responsibility in SMEs.

The propose model emphasis on building good relationship with stakeholder to be able to take advantage of network resources that may become capital for SMEs. Therefore, the owners/managers of SMEs can apply business practices responsibility that is needed to support international/global activities. A highly demanding market against business practices of environmentally friendly (Ecodesign, Go-green and Ecolabeling) encourages business doers to see the benefits of building relationships with stakeholders on economic, rational and investment aspects. Interviews with 30 the owners/managers of SMEs can record the perceptions and motivations for SMEs engagement in business responsibility practices.

##### ***Managing the internal stakeholders***

For SMEs, the engagement of business responsibility practice with the internal stakeholders can be associated with the operational aspects of the managed in the company. Business responsibility practices in the context of SMEs in terms of operations the company has done as follow: develop and market products that are safe and quality, adjust to ISO standard, ensure a comfortable working environment for employees and provide good training, reduce the negative impact on the environment, care for the efficient utilization of natural resources, use environmentally friendly technologies and go-green.

In connection with the practice of the internal operation, in general, the application of business responsibility had done by the owners/managers of SMEs. High demand of buyers and consumers in the global market/international for quality and design of products has prompted SMEs doers to improve an optimum operational aspect (production). Interviews

showed that several SMEs actors mainly engaged in handicraft and furniture industry had begun to apply environmental concepts in design considerations, known as eco-design. This was done in response to international issues such as green design to produce innovative products called green product. Consumers in the European market at the moment enjoy classical furniture and handicraft products. Producing products that are environmentally friendly and aesthetic makes product designs produced by SMEs to be considered to have a competitive advantage. From the findings of the interview, it was revealed that the sustainability of the business of export activity could last more than 10 years because the practices of business responsibility had become an important part in the daily activities of their production.

Next, regarding to the aspect of relationship with the employee, owners/managers of SMEs had attempted to provide a comfortable working environment. Most of SMEs working environment were adjacent to residence because human resources are generally met from the surrounding environment. To improve the design of existing products, there were even owners manager who employ consultants from the academy of Art & Design to provide training to employees. Maintaining good relations with employees, among others by improving skills and knowledge, brings positive impact of producing quality products and encourages creative innovation. Regarding to this matter, two respondents who had successfully worked on the export market state:

*"...In order to survive in the international market, SME's doers should strive to produce quality products with unique and attractive design, offering competitive prices ...".*

*"... For SME,s doers who had just entered the international market, to be able to compete they have to be innovative, creative and have a good track ..."*

Business responsibility is said to be implemented in SMEs if the owners/managers consciously attempt to reduce the negative impact on the environment, care for the efficient utilization of natural resources and use friendly technology. Although not all owners/managers consciously comply with the business responsibility issues, the international market that demands products that pay attention to environmental balance had been understood and their effort received appreciation from the buyer. Among them is a businessman of batik from Tasikmalaya who states:

*"...Our company tries to use technology appropriately in order to be able to develop attractive, unique and original product design yet still accommodate the global nuances. For example, we create global motifs using mollusk motif in batik, making batik more attractive... In addition, we also use natural dyes from the leaves of guava etc .....* "

## ***Managing the External Stakeholders***

Managing relationships with external stakeholders in the context of business responsibility is done if SMEs produce products that satisfy consumers, employ disabled people/unemployment, and establish a good relationship with suppliers. Also, collaborate with agencies, associations and universities in order to encourage innovation and build networking with the government to overcome the limitations in terms of regulation, bureaucracy, and information on the international market opportunities.

One of the important stakeholders to whom good relationship should be built are buyers/agents for the majority of SMEs in Indonesia does not export directly but through intermediaries such as traders, exporting companies, and trading houses. Support from buyers is by getting information related to issues regarding green products, eco-design, requirements of eco-labeling, and compliance of EPTIK (Professional Ethics of Information and Communication Technology). Most employers of SMEs reveal that design development was carried out together with the buyer in order to meet the requirements of eco-labeling and EPTIK. Buyers from some countries such as in Europe and America were very concerned with the issue of green product, so these ideas were included when developing the design of the product.

Other stakeholders that can support the implementation of business responsibility practices are partners associated with the supply chain including the suppliers of raw materials, so SME's doers obtain raw materials at affordable prices. There were some SME doers stated that building network with suppliers of raw materials is essential in order not to affect the production process. The high price of raw materials is a problem that is often encountered due to impartiality of government through policies to tap the export of raw materials such as rattan, leather and metal. In addition, the uncertainty of raw materials is often be taken advantage by those who are not responsible for the resulting scarcity. This means that the success of actors SMEs in utilizing good relations with stakeholders in order to access to scarce resources can be complied without sacrificing harmful production process.

Accommodating the community interests of SMEs through group gatherings and associations is important to be able to share knowledge to improve skills, especially in meeting the issues related to the welfare of the surrounding community. One of the SMEs doers engaged in handicraft industry in Tangerang successfully doing business internationally (export) for 10 years revealed:

*"... I run this business because of the help of some colleagues who had formerly doing business in the creative industries of rattan ... so I always try to build a business*

*relationship with the principle of mutual support. In the present situation many entrepreneurs around my area went bankrupt... I try to help them by utilizing idle employees to fulfill orders of increasing buyers from different countries such as the Netherlands, Japan, Africa and Malaysia"....*

Another success story from SMEs owner:

*"Saung Ujo is one of SME successfully penetrates international markets through the export of angklung (traditional music instrument made of bamboo), ... providing the opportunity for other entrepreneurs who have not had the experience in exporting to be dare selling angklung abroad".*

Applying business practices responsibility is one reason why SMEs maintain legitimacy by providing support to the programs of local government and local society. Business responsibility practices generally done are giving donations to commemorate Independence Day, contributing for religious ceremony and providing assistance for the supply of sports facilities. All the works done by the owners of the business is not other than to maintain sustainability in harmony with the environment. Building relationships with other stakeholders is important to provide support to government programs such as: 1) to avoid the disposal of hazardous waste into the river, 2) not to burning arbitrarily 3) to plant around the business environment for reforestation. Collaboration with the government also plays an important role for SMEs to overcome bureaucratic and cumbersome regulations such as Eco-labeling and EPTIK.

Business responsibility practices for strategic reasons were also found in this study, all owners/managers SMEs agree that giving satisfaction to the consumer is a competitive advantage. Buyers' perception of the products of Indonesian handicraft and furniture is still positive because they still believe in the business process that is environmental friendly. If compared, products of Vietnam and China are more concerned with low price and low quality. One important aspect to build competitive advantage is creativity. One businessman who produces bags and shoes revealed that the ability to be creative in producing exclusive, attractive and innovative designs led to success because his products were demanded by consumers in Europe such as France. The importance of paying attention to creativity was also stated by one of the SME entrepreneurs of fashion as follows:

*"...I am demanded to creatively and aggressively develop new products that are not easily imitated. Even if other companies imitate, the imitated goods are already outdated. It is one of my tips I can continue to deliver innovative products to address unfair competition ..."*

The findings of the study revealed that most owners/manager, especially SMEs engaged in handicraft and furniture industry had begun to apply environmental concepts in design considerations, known as ecodesign. This was done in response to international issues such as green design to produce innovative products of green products. Consumers in European

market at the moment enjoy classical furniture and handicraft products because European countries are being encouraged to "go green".

Based on exploratory studies, findings indicate that important managing internal stakeholders had been practiced which is associated with the company's operational activities such as producing products that are safe, environmentally friendly and harmless, using natural raw materials, empowering employees to always provide training to improve the design and quality of the product. In terms of managing with important external stakeholders, business responsibility practices were carried out through a variety of activities such as: maintaining legitimacy to build good relations with the community and local government through various activities of donation/aid as well as providing employment opportunities in communities around the company. Collaboration with buyers and universities had provided benefits to encourage innovations that are environmentally friendly products. Building a good relationship with the government as one of the key stakeholders to provide positive benefits was mainly related to regulatory compliance relating to the marketing of products to international markets such as eligibility Ecolabelling, Sucofindo and EPTIK that becomes a great obstacle in most SMEs that go international/global.

Based on the discussion above, two initial concepts are proposed:1) business responsibility is possible to be applied to SMEs, since the beginning of the business yet to be developed into large business.2) building a network with stakeholders on the basis of the principle of relationship requires management in order to succeed. The main stakeholders who can be business partners among others are governments, trade associations, large companies, agents, suppliers, buyers, and other parties interested in the development of enterprises. The important thing done the owners/managers of SMEs is managing with stakeholders to maintain the viability of the company in international activities

## **5. Conclusion**

The development of business responsibility movement that combines the concept of CSR, CS and GCC has encouraged businesses to develop their business with more ethical and high morality. Vital essences of this concept are: sustainable empowerment, strategic reasons, employee participation, the build of a good relationship with environmental activists and policy makers in the field of environmental management. Strong business program responsibility is the one that is easily seen and remembered by the community.

The challenge ahead is how SMEs involve in applying the concept of business responsibility. The importance of SMEs in applying this concept is to strengthen the

sustainability of the business so that it can be a large-class business and could have global careers. Through the application of the concept of business responsibility, SMEs can be the economy sustenance of a country at the grassroots level, such as reducing unemployment, increasing entrepreneurship, and reducing poverty in rural areas. To be able to develop SMEs that are concerned with business responsibility, development of a grand design models that needs to be developed so that it can be used as a reference for implementing real programs.

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