

EXPLORING THE DETERMINANT FACTORS OF BUSINESS RESPONSIBILITY PRACTICES OF SMALL MEDIUM ENTERPRISES

Ginta Ginting

Department of Management, Faculty of Economics, Universitas Terbuka Indonesia

ginta@ecampus.ut.ac.id and gintaginting3@gmail.com

Abstract

For small and medium businesses, it is not easy to be able to apply business responsibility and this matter still leaves the debate about the pros and cons emergence. This study explored the extent to which the doers of SMEs applying this concept. The study involved 65 Small and Medium Enterprise (SME) doers using qualitative study. The findings of this study indicate that the doers of SMEs regard business responsibility as a multidimensional concept. In running business, they need to consider the benefits to society/community and refer to the ethical aspects of the right business. Facts on the ground revealed was that the SME doers realize the business should be beneficial for the environment, so that the economic and social aspects will not be overlapping. Building relationships with stakeholders is an important factor that is also explored in the research. Interesting finding was that the SME doers have not been optimally be able to build a good relationship with external stakeholders regarding the involvement of marginalized people and build collaborations with educational institutions to develop innovation. The results can be used as a basis for the development of quantitative research in the future in order to gain insight of how the SME doers in general understand the essence of business responsibility by utilizing network resources owned by stakeholders.

Keywords: business responsibility, the SME doers, Corporate Social Responsibility, stakeholders, relationship

1. Introduction

The application of the concept of today's business responsibility is always associated in the context of large companies. This concept can be a strategic tool to improve the competitiveness of SMEs (Vilanova et al, 2009). Although the specifics cannot be explained by facts and fixed numbers, because it takes time to be realized, at least SMEs have been introduced on the importance of applying business responsibility so that they can develop the business both nationally and internationally/globally so it can be part of global corporate citizen. Business responsibility practices can affect the competitiveness of SMEs through: improvement of the product, resulting in better customer satisfaction and loyalty; high motivation and employee loyalty, publicity; increasing word of mouth; a better position in the labor market; better network with business partners, increasing profits due to a more efficient deployment of the use of human resources and production resources; as well as increasing sales turnover (Kechiche and Soparnot, 2012; Morillo and Lozano, 2006; Torugsa et al, 2012; Williamson et al, 2006).

Although it still needs time, the application of business responsibility in the SMEs should be encouraged. The role SMEs cannot be ignored because it is an important sector in improving

world economy and plays a major role in the national economy of a country. In the "Report on Support To SMEs in the Global Economy" (Dalberg 2011:7), small and medium enterprises are the backbone of the global economy, for example more than 95% are members of the OECD (The Organization of Economic and Cooperation) and make a major contribution in creating work, innovation, and economic growth. By applying the concept of business responsibility, SMEs can play a more forceful in the welfare of society at a global-scaled across border nation level so as to create community sustainability. Hoivik and Shankar (2011:176) states "A growing number of enterprises including SMEs are developing their business worldwide as they take advantage of market liberalization and trade integration". Specifically, Hoivik and Shankar (2011: 176) state two important reasons why the business responsibility should apply to SMEs, namely entrepreneurial nature and drive innovation that impact strategic business. In the international/global context, innovation can be done through open innovation in collaboration with external networks such as universities and private consultants (Hemert, 2013). Furthermore, Perrini (2006: 309) states the application of CSR in SMEs offer greater access to the market and productivity and provide benefits in education and community development.

This study empirically investigates the determinant factors of business responsibility practices of SMEs and simultaneously answers the research gap namely the on-going debate on the pros and cons of the importance of application for SMEs. On the one hand, some experts considered that the application of business responsibility for SMEs will provide great benefits because most of them only have a small business scope, move in the local market and with small capital. Several empirical studies such as Morillo and Lozano (2006); 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) whether business responsibility can be applied at the level of Small-Medium with source limitations? 2) How can the business responsibility of CSR-SMEs implemented nationally be extended to the international level/global? The latest study from Kechiche and Soparnot (2012) proposes another question whether the implementation of CSR in SMEs should be the same with the large business?

2. Business Responsibility Movement: Moving Toward Global Corporate Citizen

The concept of business responsibility has been started since 1970 with the propose of Corporate Social Responsibility/CSR (Elkington, 1998), followed by Corporate Sustainability/CS (Katsoulakos et al, 2007; Munkelien et al, 2010) and at the moment has entered the broader realm, namely Global Corporate Citizen (GCC) (Hoivik and Shankar 2011). Globalization has encouraged the development of these concepts, which means that the concept of business responsibility enters the scope of the application that are global. All businesses become part of a global corporate citizen. Ning (2014: 1479) states that "The social responsibility of enterprise has become a kind of global movement and the world trend, and is deeply improved at present" Similarly, Hoivik and Shankar (2011: 180) state that at this time businesses are required to move towards responsible business in order 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 at the core of the company's operations, not only in the local and regional scope but also the global level. The core of the global corporate citizen is to support "fair globalization" and active participation in the development of an area where companies operate. Fair globalization requires a productive and equitable markets and how to play fair in which all nations have equal access. The principal of share responsibility emerges between the state and corporations to help countries and communities that 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.

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 proposed by Elkington (1998) became increasingly popular. Elkington (1998) organizes CSR into three focus known as the 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 housing improvement. Furthermore, several experts define the variety of CSR concept based on their empirical research requirement as follow: 1) Carrol (2006) explains the concept of CSR that covers three responsibilities items, 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 as 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 the European Commission, CSR is a concept whereby companies integrate attention to economic, social and environment to review 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 is 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 that 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 sustainability especially in the global market.

3. Case Study of Indonesian Small Medium Industries(SMIs)

Small and medium enterprises (SMEs) are important sectors in improving world economy and play major role in the national economy of a country. SME's in Indonesia are known as the Micro, Small and Medium Enterprises (MSMEs). The number of MSMEs in Indonesia is more than 90% for the entire sectors. MSMEs which includes the industry-based business units that carry out the production process known as the Small and Medium Industries (SMIs). The number of SMIs in Indonesia is estimated to reach 16.1% of total SMEs (Tambunan 2008: 54). SMIs are business group with a workforce of 5 to 99 people and a sales turnover between IDR 200 Million up to IDR 50 billion, which is owned by Indonesian people (Directoral General of SMIs- the Ministry of Industry "SMI Profile " 2009: 1). Data from the Ministry of Industry showed that there was an increase in the number of SMIs from the year 2009-2011 (Ministry of Industry "Strategic Plan: from 2010 to 2014" 2011: 18). Judging from the business units, in 2011 the number of SMIs reached 3,982,429 million, while the number of large industries ranging from 3,002 business units. Labor can be absorbed in SMIs until 2011 is large enough with 8,268,588 people (small industries) and 247 610 people (medium industries), compared with large industry that can absorb about 6,156,057 people. In terms of its contribution to the economic, value donated by SMIs in 2011 was 33% (IDR 489.81 trillion) compared to large industrial contribution that was equal to IDR 973,53 trillion. From these data, it is known that the contribution of SMIs can be increased so as to contribute optimally in supporting the Indonesian economy.

Trade liberalization and globalization of the market that drives the implementation of the Asian Economic Community in 2016 this became a good momentum for Small and Medium Industries (SMIs) to engage in international business, for example through exports. Within a decade, the number of SMIs that export showed a tendency to increase along with the development of ICT (Information Communication Technology). However, for SMIs, business in the international markets poses significant challenges because the competitiveness is still low. Therefore, SMIs should be encouraged to implement responsible business practices in order to strengthen the competitive advantage.

This study attempts to explore more a deep insight of business practice of the owners/managers integrated which is in the daily activities of their businesses, especially in conducting international business (export). Allegations raised in this study were whether the owners/managers of SMIs consciously applying responsible business to stakeholders (internal and external) that will encourage the improvement of performance, innovation and productivity.

4. Research Methodology

This study uses an exploratory study with open-ended questions. Interview was conducted toward 65 owners/managers of the Small Medium Industries that conduct international activities (export) in the three provinces: West Java (Garut City, Cirebon City, Tasikmalaya City, and Bandung Regency), Jakarta (Klender - East Jakarta) and Banten (Tangerang City) selected on the basis of preliminary observations in August 2014. The interview period was between August 10, 2015 until September 10, 2015. Duration of the interview was about 30 to 60 minutes.

Samples were taken from four industries, namely handicrafts, furniture, fashion and agribusiness. The details are as follows: 28 companies of the craft industry, 10 of the furniture industry, 19 of the fashion industry and 8 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. *Question 1:* How do SMI doers assess business responsibility
2. *Question 2:* How do SME doers participate in applying *business responsibility*?
3. *Question 3:* How to manage relationship with stakeholders.

5. Result and Discussion

5.1. Assessment of SMI doers about Business Responsibility

To get authentic facts on the ground to determine the extent to which SMIs doers understand the concept of business responsibility, two questions were posed to the respondents, namely: 1) To which extent do you understand the terms of business responsibility? 2) Do you feel that the economic objectives of the business conflict with moral obligation? And if there's, how do you manage it? The findings can be summarized as follows (table 1). The purpose of these research questions is to investigate the SMI doers' assessment regarding business responsibility. Interesting finding of this question is that most of SMI doers stated that the activity of social, responsible business is an expression of ethical behavior and socially the business should provide benefits for the society/community and follow social norms. The respond of SMI doers in implementing responsible business is supported by an awareness of the social aspects of doing

business in conjunction with the economic and legal aspects. Furthermore, SMI doers stated that they did not feel any conflict between the objectives of economic and social obligations/moral. The point is, businesses built should be able to provide benefits to the environment.

Table 1: Research Question 1

Research Question (RQ)	Sub- RQ	Findings
How SME doers provide an assessment on business responsibility?	To which extent do you understand the terms of business responsibility? Indicators: - Social norms - Appreciation - Business reputation - Ethical business - Community members	- SME doers assessed that socially responsible business activities is the expression of ethical behavior (71%) - SME doers acknowledged that businesses managed should provide benefits to society/community (63%). - Following the social norms (60%)
	Do you feel that the economic objectives of business conflict with moral obligation?	- SME doers did not feel any conflict between the economic objectives of business with moral obligation (71%)

The essence of the findings of this study indicated that the SMI doers consciously willing to apply for responsible business because they consider both economic and social aspects. So, it can be stated that the findings in this study support the theories/concepts and empirical studies expressed by some experts, particularly the results of empirical studies by Morillo and Lozano (2006) which states that SMEs view the implementation of business responsibility as participation to fulfill the responsibility towards communities such as consumers who buy or use the products/services produced. The study's findings also support the findings of some researchers (Sen and Cowley 2012; Campin, 2013, Williamson, 2006) that invest relationship of CSR-SMEs using the fundamental theory of Social Capital Theory. This theory is set forth to build relationships and network with various stakeholders on the basis of social connection.

5.2. Participation of SMI Doers in Implementing Business Responsibility

The findings in the field of participation of SMI doers in implementing business responsibility can be seen as follows (Table 2). The purpose of these research questions were to investigate the extent of the participation of SMEs in implementing business responsibility. The findings of the research showed that the form of participation conducted was aimed more to the interests of the community and can provide benefits to employees of that company's stakeholders. Furthermore, in terms of budget management, the important finding of this study was that SME doers were not specifically budgeted the cost to run business responsibility program. Budget used was be very tentative and depended on the company's ability to achieve business performance. These findings indicated that SMI doers will increase business responsibility program if company's financial condition is in a good position. That is, the application of business responsibility programs does not become the strategic orientation of future business development incorporated into sub-charges on business planning. The study's findings support the theory and concepts put forward by some experts namely: 1) Perrini (2006: 309) which states that the implementation of CSR on SMEs offers greater access to employees, markets, productivity and provides benefits in education and community development, 2) Mitchell et al (1997) which states that a company

needs to identify relevant stakeholders of the company based on the principle of "Who and What Really Count" to see stakeholders through three attributes, namely power, legitimacy and urgency.

Table 2: Research Question 2

Research Question (RQ)	Sub- RQ	Finding
How do SME doers participate in the implementation of business responsibility?	How are the participation forms in implementing business responsibility in general? Indicators: - Charity - Sponsorship - Benefits for employees - Product discount - fundraising - personal social activity of the SMI owners - Environmental awareness	- Participation of the business responsibility activities was aimed to the society community (charity) (77%) - Participation of the business responsibility activities was aimed to sponsorship and fundraising (60%) - Participation of the business responsibility was also aimed to the provision of benefits for employees and environmental awareness (51%)
	How is the management of budget for business responsibility programs?	- The budget of business responsibility is adjusted to companies' ability and is not based on strategic orientation (69%) - Participation of SMEs to business responsibility activities depends on business performance.

5.3. Building Relationship with Stakeholders

The findings in the field about building relationships with stakeholders as part of measures to implement the business strategy optimally responsibility can be seen as follows (Table 3). The purpose of these research questions were to investigate the extent to which the SME doers to manage relationships with internal and external stakeholders. Concerning with internal stakeholders related to the research findings indicate that there are three important things into consideration for the SME doers in building relationships with employees, namely: providing a good working environment, providing bonus allowance and health facilities. Interesting findings showed that providing insurance (health and accident) do not become a major aspect for SMEs in building the relationship with employees. In relation to producing quality products that have a competitive advantage, the facts showed that the development of products that are supported by the aspect of creative, innovative and unique design is an important factor for the SME doers to produce quality products that have a competitive advantage. But the efficient use of raw materials is not a top priority. Furthermore, in response to environmental issues, the eligibility of ecolabeling become a major concern of SMI doers followed by the use of natural raw materials and processing of certificate (EPTIK). However, the processing of ISO/SNI is still not a top priority in considering environmental issues and in effort to expand the international market.

Table 3: Research Question 3

Research Question (RQ)	Sub- RQ	Temuan
Managing Internal Stakeholder?	How far is the concern of SME doers in providing comfortable working environment for employees? <ul style="list-style-type: none"> - Providing health facilities - Applying working security procedure - Health insurance - Training - Promotion - Allowances and bonus - Good working environment condition (room layout, air circulation and lighting) 	<ul style="list-style-type: none"> - Building relationship is stressed more to the provision of a good working environment regarding room layout, lighting and air circulation (86%). - Provision of allowances or health facilities becomes the concern of SME doers in their effort in building relationship with their employees (74%). - Providing insurance (health and accident) does not become the main aspect in building relationship with employees (20%)
	How do SME doers produce quality product with competitive advantages?	<ul style="list-style-type: none"> - Product development supported by creative, innovative, and unique design aspects become important factor for SME doers in producing quality product (80%) - The use of efficient raw material does not become the main priority in producing quality product (75%)
	How do SME doers consider environmental issues to extend their marketing strategy?	<ul style="list-style-type: none"> - Eligibility of ecolabeling become a major concern for SMEs to consider environmental issues in an effort to expand into international markets (89%). - The use of natural raw materials and processing of certificate (EPTIK) also become another important concern to meet environmental issues in an effort to expand into international markets (74%) - Handling of ISO/SNI (Indonesian National Standard) is not a top priority in considering environmental issues. (51%)
RQ D; Managing External Stakeholder	How do you manage your relationship with stakeholders?	<ul style="list-style-type: none"> - Produce products/services that satisfy consumers and comply with government regulations is a priority (89%). - Involving marginalized people and build collaborations with educational institutions to develop innovative service products is not a top priority (21%).

In essence, based on the findings of the study, it can be said that SME doers have applied optimum business responsibility. It means managing relationships with employees is an important factor to empower employees so that internal resources of companies can be optimized. Facts on the ground support the concepts, theories and empirical studies conducted by several experts such as: 1) The results of empirical study by Vazquez and Hernandez (2012) state that clear information on the promotion, dissemination, spending time and resources to the owner of the company is very important to raise awareness, information, and educate employees. 2) Perrini & Tencati (2007) states the manager's role in encouraging the adoption of CSR practices is essential, therefore a challenge for SME owners/managers is to think about how they can encourage and integrate CSR into business routines (internal operation). 3) Hoivik and Shankar (2011) state two important reasons why the business responsibility needs to be applied to SMEs, namely entrepreneurial nature and drive innovation which have strategic impact in business.

In building relationships with stakeholders, facts on the ground indicate that the products/services that satisfy consumers and comply with government regulations is a priority in building relationships with external stakeholders. However, involving marginalized people and building collaborations with educational institutions to develop innovative service products is not a top priority in building relationships with external stakeholders. The findings of this study support the empirical study of several experts, namely: 1) The theory of stakeholders from Donaldson and Peterson 1995 and Freeman in 2004 which states "stakeholder theory is managerial in the broad sense of that term." Therefore, the manager as a central figure needs to take a decision in establishing good relationships with stakeholders. Since the decision is made by manager, stakeholders can figure out how manager distribute limited resource to stakeholders, this process is known as balancing stakeholder interests. Balancing the interests of stakeholders is not an easy thing, Reynolds et. al.(2006) states "Balancing stakeholder interest is a process of assessing, weighing and addressing the competing claims of Reviews those have a stake in the action of the organization".

However, the findings of this study did not fully support empirical studies of Munkelien and Vilka (2010) who conducted a study on SMEs which has been applied in various countries, such as Austria, Germany, Norway and Romania. The research findings demonstrate that the practice of CSR through various activities as follows: using natural products, producing products for the disabled, sorting recycling, providing jobs to the unemployed and organizing training course on environmental issues. According to Hoivik dan Mele (2009), several CSR practices that have been conducted are trying to provide job opportunity for "unemployable, creating safe working environment and providing social protection to workers; hiring "marginalized people"; applying Code of Conduct Compulsary on Supply Chain, committing to environment protection; involving in solidarity action and involving in social and ethical activities.

6. Conclusion and Further Research

Generally, SMI doers have understood the essence of business responsibility, however the implementation will be different depending on their ability. For SMI doers, building a good relationship with stakeholders are beneficial for all to be able to utilize resources that they have, so that business responsibility can be apply optimally by all the limitation that they have. To support international business, SMI doers have to have a high commitment to fulfill all the requirements such as Ecolabelling, EPTIK certificate, and SNI. Further research should study the suitable forms of relationship for SME doers, particularly with primary stakeholder namely: buyers, government, suppliers, education institutions, and agents related to the implementation of business responsibility. In addition, this study result can be used as the basis of further research development using quantitative method to gain insight of how SMI doers generally understand the essence of business responsibility by optimizing the sources owned by network resources of stakeholders.

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