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Modelling Business Responsibility of SMEs: A Study Based on the Stakeholder Approach

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ABSTRACT

This study applies the stakeholder theory in understanding the importance of managing good relationships between stakeholders which are useful in establishing network capital for SMEs in practising business responsibility that puts emphasis on calculative, economic, rational and professional factors. This study aims to advance our understanding of how SMEs practise business responsibility by referring to the proposed model. This study was conducted to bridge the gap between the research approach that has been widely used by social capital theory and the stakeholder approach. An exploratory case study research methodology was applied to investigate the research problem. Data was collected from 30 semi-structured open ended interviews with owner-managers of SMES in Java Island, Indonesia. Findings of this study indicated that business responsibility relies on SMEs because there is a demand from important and primary stakeholders such as buyers, suppliers and customers for economic objectives. The results of this study showed the importance of strategic and legitimacy aspects in maintaining sustainability of small and medium business.

Keywords: Business responsibility, stakeholder, SMEs

INTRODUCTION

The concept of business responsibility began in 1970 with the emergence of Corporate Social Responsibility or CSR (Elkington, 1998; Maten & Moon, 2005; Welford, 2005; Carrol, 2006; Asongu, 2007; Mahyuni, 2013), followed by Corporate Sustainability or CS (Katssoulakos & Yanis, 2007; Munkelien et al., 2010), and today, it is discussed in a broader field - Global Corporate Citizen or GCC (Katsoulukos & Yanis, 2007; Hoivik et al., 2009; Hoivik & Shankar, 2011; Ning-ning, 2014). Basically, an enterprise' responsibility can be defined using the three concepts utilised to conduct

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businesses - in an economically viable, socially responsible, culturally acceptable and environmentally friendly manner in order to maintain sustainability by building a good relationship with stakeholders. The business responsibility movement is still a mainstream issue in various organisations. This movement has influenced the mind-set of businesses to see the effects that companies have on the public and other stakeholders as the core of the company's operations, not only in the scope of local and regional, but also at the global levels.

In the context of Small and Medium Enterprises (SMEs), debates focusing on the pros and cons of interest still continue to this day, especially regarding the usefulness of SMEs practising business responsibility, where most of them only have a small scope of operation in the local market and a small capital. Among the empirical studies conducted in this field, Morillo and Lozano (2006), Perrine et al. (2007), Kechiche and Soparnot (2012) and Demuijnck and Ngnodjom, (2013) stand out in investigating how SMEs that were implementing business responsibility carried out 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 (see Morillo & Lozano, 2006; Cachet & Vo, 2012) which indicated the need for further empirical studies highlighted two important questions: 1) Can business responsibility of CSR-SMEs implemented nationally be extended to the international/global level? 2) Can business responsibility be applied by SMEs with limited resources? Another research question posed by Perrini (2006) and Sangeetha and Pria (2011) is: which theory of social capital is more appropriate for SMEs and which stakeholder theory is more suitable for large companies? The latest study by Kechiche and Soparnot (2012) posed another question: should the implementation of CSR in SMEs be the same with the large businesses?

Business responsibility practices can affect the competitiveness of SMEs through: 1) high motivation and loyal employees' publicity, effective word-of-mouth of the company's product and services and better position in the labour market (Morillo & Lozano, 2006), 2) improvement of products and production to better customer satisfaction and loyalty (Kechiche & Soparnot, 2012), 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 greater market access, productivity, and broader social benefits such as education and community development. More specifically, Hoivik and Shankar (2011) proposed two important reasons why business responsibility should be taken into account by SMEs, particularly entrepreneurial nature and drives innovation, as these can have major strategic impacts on their businesses.

The stakeholder approach to understanding the practice of business responsibility in SMEs is to look at it from

the perspective of economic theory (unique resources and survival challenge). Several empirical studies such as those by Williamson et al., (2006), Den and James (2012), and Campin et al., (2013) investigating the CSR-SMEs relationship showed that they are more aligned to the fundamental social capital theory, which explores building relationships and networking with a range of stakeholders, and not judged by their stake in the business but the social capital. The research question posed by Beckman et al. (2009) and Sangeetha and Pria (2011) highlights 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). The network capital consists of strategic and calculative relations and networks held by firms (Huggins, 2009). Huggins (2010) emphasises 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 the Indonesian context, SMEs have not yet fully concerned themselves about business responsibility, because business responsibility is mostly active in the local/national markets. However, SMEs which are beginning to expand their markets through exports are required to meet the demand of primary stakeholders such as buyers, government, suppliers, agents and customers. In general, the demands of stakeholders are as follows: internationalisation, standardisation of product, most of the SMEs financing being not feasible to offer credit, quality standards, innovation, an increase in capacity of human resources as well as the various rules imposed on the products to enter the world market (Wengel & Rodriguez, 2006; Tambunan, 2007; OECD, 2009)

Based on the earlier explanation, the research question posed in this study was how business responsibility is perceived by SMEs and which stakeholders influence business responsibility participation. When compared with previous studies, this paper has several differences in that it bridges the research gap. First, larger companies have already incorporated business responsibility in their strategic plan as an essential element for long term sustainability, while SMEs participating in business responsibility remain undefined (Jamali, 2008). Second, most previous studies adopted the social capital theory and among them, Gibson (2000) were primarily concerned with significance of relationship as a resource for social action; Jamali (2008) stated that organisations participate in social activities with the aim of increasing social capital, whereas this study used the stakeholder theory putting emphasis on economic aspects rather than social. In the earlier studies, Mitchell et al. (1997) stated the stakeholder salience model and ranked business stakeholder on the basis of their power, urgency and legitimacy. Freeman (1984) stated that stakeholders are groups on which the organisation is dependent for its continued survival. Huggins (2010) emphasised 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. While the previous studies had used quantitative data (Perini 2006; Morillo & Lozano 2006 & Campin et al., 2013) data in this study were analysed through an exploratory method which is appropriate for the focus of the research area which was little understood. Finally, this study proposed a conceptual model and combined it with the empirical research.

The rest of the paper is organised in the following manner: Section 2 provides a conceptual model. This is followed by a discussion of the research methodology and empirical results in Section 3 and 4 respectively.

THE PROPOSED CONCEPTUAL MODEL

In order to respond to the development of business responsibility activities, the concept of stakeholder approach is important as it has entered the global arena, whereas the one that affects the continuity of the company is a multi-stakeholder approach with extensive networking. The proposed model is built on several previous models developed by Donalson and Peterson (1995), Rowley (1997) and Pederson (2010).

The stakeholder modelling developed by 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 benefits from stakeholders (see Figure 1). In this model, there is no special priority as all stakeholders have equal access and position and each will get benefit. The network modelling developed by Rowley (see Figure 2) looks at the aspect of networking effect built by stakeholders where they have a direct a relationship with one another. Yet, the nature of the relationship between the stakeholders still affects the company. Pederson modelling (2010) is the right model to be used as a reference in balancing the interests of stakeholders (see Figure 3). This model explain that it is possible to develop marketable high quality products, ensure a comfortable working environment and reduce negative environmental impacts if a manager implements social responsibility and manages to attain good relationships with multi-stakeholders. In other words, managing external stakeholders means "environmentally friendly" SMEs business give positive impacts on communities, customers, government and employees.

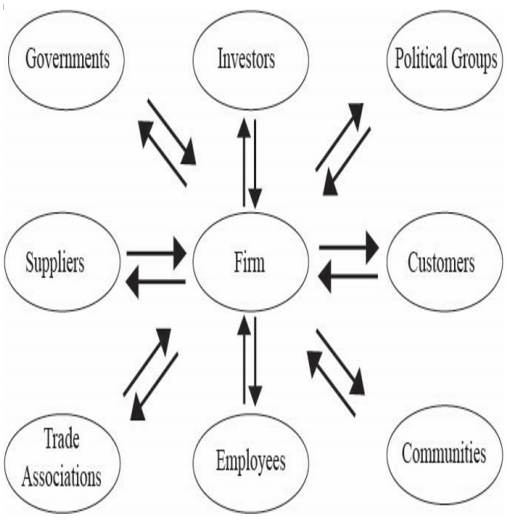

Figure 1. Stakeholder Modelling
(Source: Donalson & Peterson,1995, p. 80)

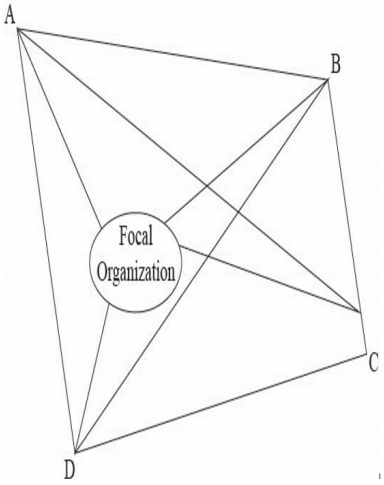

Figure 2. Stakeholder Networking Model
(Source: Rowley,1997, p. 901)

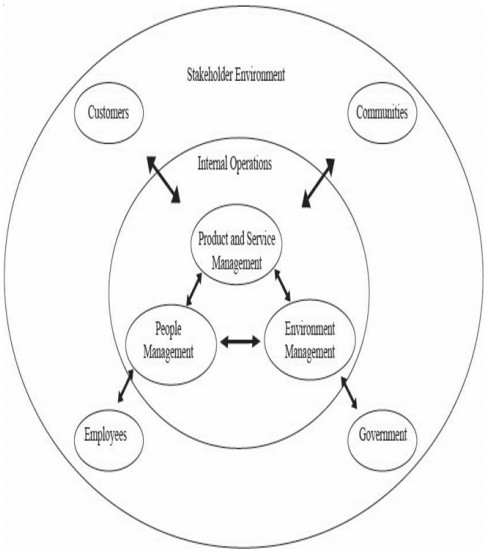

Figure 3. Pederson's CSR Model
(Source: Pederson, 2010, p. 155)

Pertaining to the third model, this paper proposes a conceptual model that can be applied in the context of the implementation of business responsibility (blending the three concepts of Corporate Social Responsibility/SCR, Corporate Sustainability/CS and Global Corporate Citizen/GCC). This model fulfils the requirement of SMEs in Indonesia which are currently facing the phenomenon of "growing interest in entering the international/global market" (Wismiarsi et al., 2009). The proposed model takes into account important aspects, namely SMEs engaging in international/global business start to realise the impact of applying business practices responsibly. With limited resources owned and the ability to successfully support business responsibility practices, it is necessary to understand the importance of building relationships with stakeholders to take full advantage of the network capital of relationship with them. Meanwhile, the aspects of centrality and density as well as the multiple stakeholders faced by owners/managers of SMEs should be important considerations in ensuring the relationships built could provide economic, rational and investment benefits of the network resources owned by stakeholders as a partner of the business activities.

The model of the 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 (see Figure 4).

This model could be used to explain that owners/managers internally managing the relationships with stakeholders in implementing business responsibility would 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 involves a company to deliver products that satisfy consumers and employ disabled people, build good relationships with suppliers on the basis of a win-win solution, collaborate with agencies and universities in order to encourage innovations and build networking with the government in order to overcome limitations in terms of regulation, bureaucracy, and information of international market opportunities. By doing all these, managers can be convinced that the company would be a good corporate citizen. In a broader scope, it would be a global corporate citizen that creates value for the company, the community and the society.

METHODOLOGY

Further step to assess the proposed model involves the application of the concept of business responsibility in SMEs. For this purpose, data were collected using in-depth face-to-face interviews to obtain more complex and detailed issues required for this study. This study used open-ended

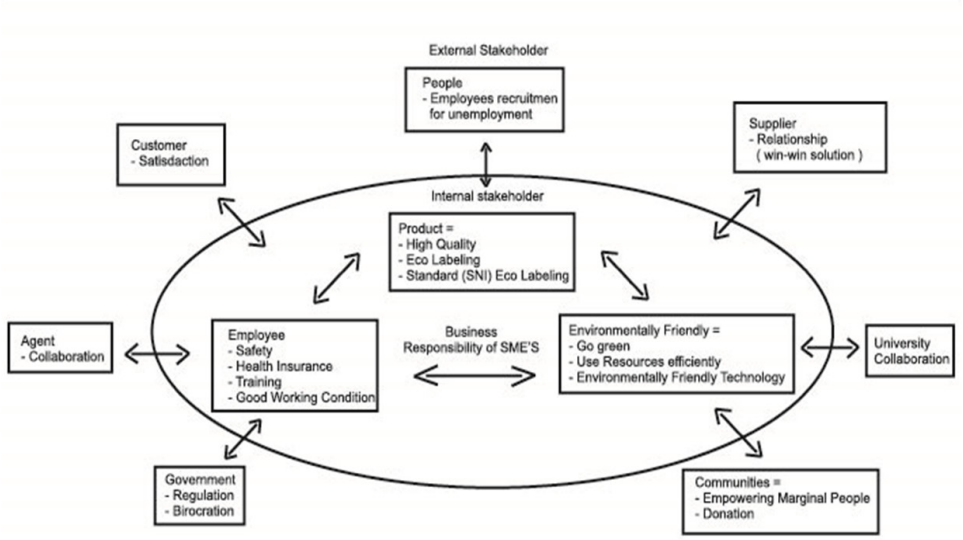

Figure 4. Proposed Model for Business Responsibility for SMEs (Source: Author)

Table 1
Target Population

No	Industry	DKI Jakarta	Banten	West Java	Population SMEs	Sample
1.	Garment- Fashion	20	13	25	58	9
2.	Handicraft	27	32	51	110	12
4.	Agrobusiness	34	18	32	84	4
5.	Furniture	15	13	35	63	5
	Total	96	76	143	315	30

questions. Interviews were conducted with 30 business owners/managers of the Small Medium Enterprises (SMEs) that are involved in international/global activities (exports) in the three provinces: West Java (Garut, Cirebon, Tasikmalaya, and Bandung Regency), Jakarta (Klender – East Jakarta) and Banten (Tangerang). The reason for selecting the four industrial sectors in three areas, namely Jakarta, Banten and West Java is based on the consideration that the entrepreneurs of SMEs in these industries are doing business internationally as well as being the primary national exporters. Selection of the area is considered due to the presence of a number of export-oriented SME representatives in the group of some industries, namely handicraft, furniture, agrobusiness, garment and fashion. It is different from SMEs in other provinces in Indonesia. All three provinces constitute the target of the Indonesian government to encourage SMEs to enter international markets (export). Based on data from the Ministry of Industry (2012), the target population of SMEs in these three areas is as follows:

Research using judgment sampling involved as many as 30 SMEs, which is about 10 % of the population, and they were interviewed to obtain comprehensive information. Selection was done based on proportion of the number of SMEs as follows:

1. Sample DKI Jakarta
   = 96/315
   = 31% X 30 SMEs
   = 9 SMEs
2. Sample Banten
   = 76/35
   = 24% X 30 SMEs
   =7 SMEs
3. Sample West Java
   = 143/315
   = 45% X 30 SMEs
   = 14 SMEs

The minimum sample size was 30 respondents as a consideration when collecting data in the field having problems . The interview period was between June 20 and July 4 2014. Each interview lasted for about 30 to 60 minutes.

Samples were taken from four industries, namely handicraft, furniture, fashion and agribusiness: there were 12 companies from the handicraft industry, five companies representing the furniture industry, nine companies from the fashion industry and four companies representing the agribusiness industry (food and drinks). Although the samples were taken from different industries and were different in size (number), all four of the industries are categorised as belonging to the creative industry sector. This sector has similar characteristics where a large number of its business actors are challenged to do several things such as innovation, international standardisation especially in terms of product quality, creativity and environmental issues.

Results of the interview were translated into transcripts and a matrix to summarise the questions (open-ended questionnaire). The

questions sought information in relation to: 1) how business responsibility is perceived by SMEs; 2) which stakeholders influence business responsibility participation.

RESULTS AND DISCUSSION

The purpose of this study was to investigate the practice of business responsibility among SMEs in the three selected provinces (West Java, Jakarta and Banten) from the perspective of the owners/managers. This study was a response to the empirical studies by Den and James (2012) and Campin et al., (2013), which called for more research investigating the perspective of the stakeholder theory. In-depth interviews (open-ended questions) provided the opportunities for researchers to understand the perception of the owners/managers and to obtain detailed information about factors that encourage the practice of business responsibility in SMEs. Interviews with the 30 owners/managers of SMEs were used to determine their perceptions and motivations for SMEs engagement in business responsibility practices.

The model used was based on responses to the research questions related to how business responsibility is perceived by SMEs and which stakeholders influence participation of business responsibility. Research questions were summarised in a model that can describe the extent to which the role of stakeholders supports SMEs practising business responsibility. Proposed modelling emphasised the importance of internally and externally balancing the interest of the stakeholders associated with business responsibility practices. Practising business responsibility for SMEs means that SMEs have to build good relationships with internal stakeholders such as employees, market high quality products and ensure a comfortable working environment. Managing good relationships with external stakeholders can be observed from the business interests of the consumer, government, suppliers, agents, buyers, community and universities.

Managing internal stakeholders

For SMEs, the engagement of business responsibility practices with the internal stakeholders can be associated with the operational aspects of management. In relation to the practice of the internal operation, the application of business responsibility is generally undertaken by the owners/managers of SMEs. Buyers' and consumers' high demands in the global/international market for quality and design of products have prompted SMEs to improve their optimum operational aspect (production). The understanding of business responsibility in the SMEs sub-sector is not uniform. Mostly, SMEs from the handicraft and furniture industry are aware of their social responsibility along with the economic and legal aspects. The SMEs from fashion and the agrobusiness industry are more aware of the short-term economic perspective, that is, the economic conditions that are important for SMEs to survive and participate in business responsibility.

Specifically, the interviews carried out in this study indicated that several SMEs agents,

mainly those who engage in the handicraft and furniture industries, have begun to apply environmental concepts known as eco-design in their design considerations. This is in response to international issues, such as green design which aims to produce innovative products called green products. At the moment, consumers in the European market enjoy traditional and classic furniture and handicraft products. Products that are environmentally friendly and that have the aesthetic values produced by SMEs have a competitive advantage. Based on the findings from the interviews, the sustainability of the export business activity could last more than 10 years because the business responsibility practices have become an important part of the daily activities of their production.

Next, regarding the relationships with the employees, owners/managers of SMEs have attempted to provide a comfortable working environment. Most SMEs' working environments are adjacent to residences because human resources are generally recruited from the surrounding areas. To improve the design of existing products, there are owners/managers who have recruited consultants from the Academy of Art & Design to provide training to their employees. Thus, maintaining good relations with employees among others, by improving their skills and knowledge, will bring positive impacts on the production of quality products and encourage creative innovation. In relation to this matter, two respondents from the handicraft and furniture industries who have successfully worked on the export market stated:

> *"…In order to survive in the international market, SME agents should strive to produce quality products with unique and attractive design, offering competitive prices …".*
>
> *"... For SME agents who have 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 negative impacts on the environment, place emphasis on efficient utilisation of natural resources and use friendly technology. Although not all owners/managers have consciously complied with the business responsibility issues, the international market that demands products which pay attention to the importance of environmental balance has been understood and the SMEs' efforts receive appreciation from the buyers. Among them is a businessman of *batik* (handicraft) from Tasikmalaya who stated:

> *"…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 External Stakeholders

Managing the relationships with external stakeholders in the context of business responsibility involves SMEs producing products that satisfy consumers, employ disabled people, and establish good relationships with their suppliers. These are in addition to collaborating with agencies, associations and universities in order to encourage innovation and buildingnetwork with the government to overcome the limitations in terms of regulation, bureaucracy, and information on the international market opportunities.

In relation to the influence of stakeholders in practising business responsibility in SMEs, the majority of the respondents rated building relationships with primary stakeholders (customers, supplier, agent, buyer, government) higher than that with community stakeholders. Mostly SMEs from the handicraft, fashion and furniture industries stated that quality service, buyer satisfaction, profit making are of significant value. However, SMEs from the agroindustry stated that taking responsibility for the society and environment is important to balance stakeholder interests. Some of the SMEs from the furniture industry mentioned that they have limited interactions with the community as their buyers and customers are mainly business oriented.

In general, one of the important stakeholders with whom good relationships should be built is buyers or agents. This is due to the fact that the majority of SMEs in Indonesia do not export directly but through intermediaries such as traders, exporting companies, and trading houses. The support from buyers is obtained by getting information related to issues concerning green products, eco-design, requirements of eco-labelling, and compliance with EPTIK (Professional Ethics of Information and Communication Technology). Most owners of SMEs revealed that design development was carried out together with buyers in order to meet the requirements of eco-labelling and EPTIK. Buyers from some countries in Europe and America are very concerned with the issue of green products, so these ideas were taken into consideration when developing designs for the products.

Other stakeholders who support the implementation of business responsibility practices are partners associated with the supply chain including the suppliers of raw material so that SME agents can obtain raw materials at affordable prices. Some of the SME agents stated that building network with suppliers of raw materials is essential so that the production process will not be affected. For the SMEs, accommodating the community interests through group gatherings and associations is important so as to share knowledge and to improve skills, especially in dealing with the many issues related to the welfare of the surrounding community. One of the SMEs engaged in the handicraft industry in Tangerang, which has successfully been doing business internationally (export) for 10 years, revealed:

> *"... I run this business because of the help of some colleagues who have been 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 utilising idle employees to fulfil orders from increasing number buyers from different countries such as the Netherlands, Japan, Africa and Malaysia"....

Hence, applying business practices responsibility is one reason why SMEs maintain legitimacy by providing support to the programmes involving both local government and local society. Business responsibility practices are generally undertaken to give donations to commemorate Independence Day, contribute to religious ceremonies and provide assistance for the supply of sports facilities. All the works undertaken by business owners are not other than maintaining sustainability in harmony with the environment. Similarly, building good relationships with other stakeholders is important to provide support to government programmes and avoid the irresponsible disposal of hazardous wastes into rivers, and burning arbitrarily and to plant around the business environment for reforestation. Collaboration with the government is also important for SMEs to overcome bureaucratic and cumbersome regulations such asEco-labelling and EPTIK.

This study also found business responsibility practices implemented for strategic reasons. The owners/managers SMEs especially in the handicraft and furniture industries agreed that providing satisfaction to their customers is a competitive advantage. Buyers' perception of Indonesian handicraft and furniture products is still positive because they believe in the business process that is environmental friendly. In comparison, products from Vietnam and China are more concerned with low price and low quality.

The most crucial finding in this study, based on the research question, was that SMEs are always profit driven. The economic interest of owners as definitive stakeholders (Mitchell et al., 1997) possessing all three attributes (power, legitimacy and urgency) was found to be the priority of the respondents. Data analysis indicated that relationship building (primarily with customers, employees, buyers and agents) is more crucial than being responsible to the community. From the stakeholder perspective, the findings of this research are consistent with Roloff's (2008) and Reynolds et al.'s (2006) theories.

In terms of influencing stakeholders on SMEs business responsibility practices, the SMEs' owners/managers have consistently identified their stakeholders which include customers, buyers, agents, government and employees. However, communities are not considered as stakeholders who influence business responsibility decisions. This finding closely aligns with the fundamental stakeholder theory (Mitchell, 1997; Freeman, 2004)

CONCLUSION

Based on the exploratory studies, the findings indicate that managing internal stakeholders has been practiced, and this is associated with the company's operational activities such as producing products that are safe, environmentally friendly and harmless using natural raw materials and empowering employees by constantly providing them with the necessary training to improve design and quality of the products. In terms of managing important external stakeholders, business responsibility practices have been carried out through a variety of activities such as maintaining legitimacy to build good relations with the community and local government through various donations/aids as well as through providing employment opportunities to the surrounding communities. Meanwhile, collaboration with buyers and universities has benefitted the SMEs in terms of encouraging innovations and products that are environmentally friendly. Building a good relationship with the government is one of the key factors to provide positive benefits, particularly in relation to regulatory compliance related to marketing of products to international markets such as eligibility of Eco-labelling, Sucofindo and EPTIK that have become great obstacles for most SMEs to go international.

Based on the discussion above, two initial concepts are proposed: 1) business responsibility can be applied to SMEs from the start of the business right through its development into a large business; and 2) building network with stakeholders on the basis of the principle of relationship requires a good management in order to achieve success. The main stakeholders who can be business partners among others are the governments, trade associations, large companies, agents, suppliers, buyers, and any other parties who are interested in the development of enterprises. One important thing that owners/managers of SMEs need to do is manage their stakeholders so as to maintain the viability of the company in international activities

The challenge that lies ahead is on how the SMEs will evolve 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 turn into a large-scale business offering global careers. Through the application of the concept of business responsibility, SMEs can be the economic 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, an effective design model needs to be developed so that it can be used as a reference for the implementation of real programmes.

The dynamic challenge for SMEs is to deal with international market to justify the importance of building good attitude towards business responsibility practices. The proposed model may still be valid to some extent where SMEs have the power in terms of resources. For future research, the advanced perception

of business responsibility can be seen beyond the traditional model of stakeholder theory which considers SMEs like in large organizations.

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