



Challenges and Benefits of Implementing Corporate Social Responsibility in MSMEs

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ABSTRACT

The growth of the tourism sector in Bali has a positive impact on the development of MSMEs. MSME players also need to apply the concept of sustainability in their operational activities to support sustainable tourism, one of which is through Corporate Social Responsibility (CSR) practices. This research explores in depth the perceptions of MSME owners towards CSR practices and the benefits obtained from CSR practices. This study also analyzes the challenges faced by MSMEs in implementing CSR. This study is qualitative research using the interview method in data collection. Interviews were conducted with two food and beverage MSME owners in Denpasar City. The results show that MSME owners need to understand the concept of sustainability fully. However, they have awareness regarding the impact of business operations on stakeholders. However, small business owners have several challenges, such as limited resources and finances, so they have yet to focus on CSR activities. The findings imply the critical role of academics and government in assisting MSME owners in adopting the concept of sustainability in their business practices.



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INTRODUCTION

A competitive business environment encourages every business to adapt and continuously improve performance. Sustainability practices are one of the activities to improve the image and reputation of companies, including micro, small, and medium scale enterprises or what are usually called MSMEs. MSMEs have an essential role in supporting the development of the country's economy. Currently, sustainability practices are not only aimed at large businesses but are also being introduced to small businesses (Rustiarini, Bhegawati, & Mendra, 2023), such as MSMEs.

MSMEs play a significant role in the Indonesian economy. Data from the Coordinating Ministry for Economic Affairs notes that the number of MSMEs in Indonesia is quite large, namely 99% of the total business units in Indonesia. The existence of MSMEs contributes to gross domestic income of 60.5% so that they can become a critical engine for the country's economy. Also, MSMEs have a social role, namely providing employment opportunities to absorb 96.9% of the workforce (Ekon.go.id, 2022). The

existence of MSMEs can overcome unemployment and reduce poverty (Arifin et al., 2021; Nursini, 2020). MSMEs in Indonesia have several characteristics, such as being managed by business owners (individuals or families), not having a formal management system, having limited resources and funds, and tending to focus on efforts to maintain survival rather than strategic planning (Dixit & Priya, 2023). These characteristics will determine the involvement of small businesses in sustainability practices.

MSMEs need to apply the concept of sustainability to support sustainability performance. Sustainability is the foundation for business actors to balance achieving economic (financial), social, and environmental aspects. The concept of sustainability can be classified into three aspects, namely economic, social, and environmental performance (Matos et al., 2019; Rezaee, 2016; Souza et al., 2015). Economic performance reflects the company's ability to survive today and develop. Economic performance can be measured in profitability, productivity, efficiency, investment, or market value. Social performance refers to business practices that are fair and beneficial to organizations and society. This performance focuses on overcoming social issues, such as unemployment, wages, poverty, and discrimination in the world of work. Meanwhile, environmental performance reflects the company's efforts to overcome environmental problems due to the company's operational activities (Rustiarini, Bhegawati, Mendra, et al., 2023).

However, CSR practices in small businesses have several internal and external challenges. Several scientific literature reveal that the internal obstacles often encountered are a lack of awareness of the importance of sustainable practices, not understanding the benefits of sustainable practices, limited resources, and finances (Auer & Jarmai, 2018; Lewis, 2015; Neto et al., 2017). Meanwhile, external obstacles include the lack of strict regulations and the need for assistance from regulators to implement sustainable practices (Neto et al., 2017).

The research aims to explore in depth the perceptions of MSME owners towards CSR practices and the benefits obtained from CSR practices. This study also analyzes the challenges faced by MSMEs in implementing CSR. The research results strengthen the Stakeholder Theory, which emphasizes the importance of every business actor achieving a balance of economic, social, and environmental performance. Practically, the results of this study provide insight and input to every business actor, including tiny businesses, to implement sustainable practices in their business processes to gain long-term economic benefits.

LITERATURE REVIEW

Referring to Stakeholder Theory, a business entity's economic value-creation activities must be in harmony with the interests of all stakeholders, such as customers, suppliers, employees, investors, and local communities (Freeman et al., 2021). This theory suggests that companies should not only be oriented toward achieving commercial goals but also implement prosocial values and help preserve the environment (Kautonen et al., 2020). Sustainable business practices are seen to increase the organization's legitimacy in the eyes of stakeholders. One of the efforts of MSME actors to implement the concept of sustainability is through corporate social responsibility (CSR) programs. CSR is a form of responsibility of business actors to align the company's interests with society and the environment the business is in (Dincer & Dincer, 2013). CSR can also be considered a form of commitment from business actors to integrate economic, social, and environmental aspects (Budanti & Rustiarini, 2024; Jaramillo et al., 2019), including MSMEs.

The literature examining CSR practices in MSMEs could be more extensive. Some academics focus on the factors that influence CSR practices and their impact on large companies (Aqueveque et al., 2018; Brío & Bolaños, 2018; Miller et al., 2020; Rothenhoefer, 2019). Not many studies examine CSR practices in small and medium enterprises. Small businesses absorb many local workers and use natural resources as raw materials. Also, the production process in small businesses produces waste that can pollute the environment (Rustiarini et al., 2022; Rustiarini, Bhegawati, Mendra, et al., 2023).

In developing countries, small businesses become supporters of large companies. Large companies employ small businesses as suppliers in producing products and components for the large company. Thus, small businesses are directly involved in large companies' supply chains. Small businesses' collective existence significantly impacts economic activity, uses many natural resources, and contributes to the social environment (Rustiarini, Bhagawati, & Mendra, 2023). This condition impacts these large companies' sustainability performance (economic, environmental, social). This activity causes small businesses to contribute to economic and social security in the local area (Hörisch et al., 2014). Therefore, small businesses must not ignore the concept of sustainability in their business activities.

RESEARCH METHOD

This research is qualitative research using phenomenological studies. This method is used so that researchers understand the central phenomenon of an object. This research explores the motivations and challenges small businesses face in CSR practices. The research location is ABC and XYZ MSMEs located in Denpasar, Bali. These two MSMEs operate in the food and beverage sector, developing for over five years. This MSME has also proven capable of surviving the COVID-19 pandemic, which destroyed Bali's economy for approximately three years. These MSMEs also support the tourism sector in Bali, especially in meeting tourists' food and drink needs. This MSME was chosen because it has implemented corporate social responsibility practices for the last two years.

The data collection technique used in this research was in-depth and unstructured interviews. An unstructured interview allows participants to openly express views on a subject without being limited to specific answer choices. (Chauhan, 2022). Interviews were conducted with MSME owners. In small businesses, the owner is the primary decision maker, often the sole decision maker. In the context of CSR, business owners make decisions regarding CSR practices as a manifestation of business ethics in the business world. Knowing the understanding and perception of MSME owners regarding sustainable practices will help explain the benefits and challenges small businesses face in sustainable practices.

The research was conducted in October and November 2023. Interviews were conducted at different times with an average duration of 45 minutes. The questions asked relate to the understanding and perceptions of MSME owners regarding sustainability practices. The research process includes presentation, interpretation, and conclusion.

RESULTS AND DISCUSSION

Currently, CSR practices are more than just dominated by large companies. CSR practices have been on the agenda of many small businesses. Individually, small businesses have small business sizes and economic power. Nevertheless, small businesses collectively contribute significantly to state income and can even become the backbone of the Indonesian economy. Apart from that, the government makes small business development an effort to alleviate poverty in Indonesia (Kontan.co.id, 2022).

Since 2016, ABC MSMEs have continued to develop until now. MSMEs were also maintained even though the Covid-19 pandemic hit it. This condition must be distinct from ABC MSME owners' efforts to maintain product quality to provide customer satisfaction.

“In maintaining the existence of our business, we constantly innovate following market developments and always strive to upgrade the quality of human resources and maintain the quality of the materials we use. However, customer satisfaction is essential in our business.”

To maintain the existence of MSMEs, MSME owners also try to apply the concept of sustainability even though they need to understand the concept of CSR itself. However, MSME owners feel that CSR practices are the right thing to do. In this way, MSME owners participate in social responsibility

programs without pressure from external parties. This thought was expressed by the owner of MSME ABC as follows.

“Our view regarding the implementation of CSR carried out by MSMEs is that it benefits both parties, entrepreneurs and consumers; this program is beneficial for developing MSMEs for long-term business strategies”.

In this study, although MSME owners still need to understand the benefits of CSR activities fully, owners have awareness regarding the impact of business operations on stakeholders. In this way, the owner also strives to minimize the negative impact of every business decision. This awareness motivates ABC MSME owners to divert organizational resources to social activities.

“Social performance reflects the business owner's efforts to fulfill his social responsibilities through a social mission aligned with society's needs. MSME actors contribute to overcoming social issues, mainly by providing employment opportunities. The existence of MSMEs can absorb local workers, thereby reducing unemployment and improving the community's economy”.

This statement is in line with the results of previous research, which revealed that sustainable practices such as green innovation are one of the strategies for MSMEs to win global competition (Rustiarini et al., 2022) and improve the performance of MSMEs (Achi et al., 2022; Novitasari & Tarigan, 2022; Przychodzen et al., 2020).

Even though several empirical studies reveal several benefits, XYZ MSME owners still need to consider implementing a CSR program because they assume it will not necessarily provide financial returns for the organization.

“I am unsure whether this CSR program will provide direct financial benefits. We find it difficult to see any direct benefits from our social activities. As we know, CSR programs require much money, and we have limited funds. So, we need to calculate this CSR program's costs vs. economic benefits”.

This statement is relevant to several pieces of literature that find that few small business actors know the benefits of CSR activities. Since most MSME business actors are still oriented towards fulfilling economic interests only (Kautonen et al., 2020), small business actors will expect economic benefits from implementing CSR. As a result, CSR programs have a lower priority than market-oriented activities (Dixit & Priya, 2023). In the case of MSMEs in India, MSME actors predominantly focus on achieving economic performance rather than social performance (Vyas & Jain, 2020). As stated by the owners of ABC and XYZ MSMEs, there are several challenges in implementing CSR programs.

“We have many challenges in implementing CSR. First, we do not have the specialized expertise or resources to understand CSR practices well. Second, CSR practices require significant funds while we focus on developing the business. So, CSR is not a priority in our operational activities. In addition, there are no regulations requiring small businesses to conduct CSR.”

This reality is in line with literature studies, which reveal that the low level of CSR practices in small businesses is due to limited financial resources, making it challenging to finance the implementation of social and environmental activities (Dincer & Dincer, 2013). This condition causes them not to commit to engaging in CSR practices. Other research has found several dark sides to sustainability practices for MSME performance. MSME players who excessively focus on social goals cause these MSMEs to experience financial problems in the following period (Muñoz et al., 2018).

Also, small businesses need more access to resources and information related to sustainability practices (Dixit & Priya, 2023). As a result, they cannot collect information regarding the benefits of good CSR

practices and sustainable development. Most MSMEs must understand that CSR practices can increase a company's legitimacy and competitiveness through socially and environmentally oriented activities. The results also show that the low awareness of MSME owners in adopting CSR practices is due to the absence of regulations related to this program. Therefore, cooperation between MSME business actors and the government is needed to provide an understanding of CSR to all existing MSME business actors.

CONCLUSION

MSMEs are critical engines in the development of the Indonesian economy. The large number of MSMEs not only contributes to increasing a country's economic growth but also impacts the social and environmental sectors. Therefore, MSMEs need to apply the concept of sustainability, including a balance of economic, social, and environmental performance. This research explores in depth the perceptions of MSME owners towards CSR practices and the benefits obtained from CSR practices. The study results show that MSME owners need to understand the concept of sustainability fully. However, they have awareness regarding the impact of business operations on stakeholders. This condition is in line with Stakeholder Theory, which states that a business entity's economic value-creation activities must be in harmony with the interests of all stakeholders. This awareness motivates ABC MSME owners to divert organizational resources to social activities. However, small business owners have several challenges, such as limited resources and finances, so they have yet to focus on CSR activities.

Thus, this study implies that business people must increase awareness and gain additional knowledge regarding sustainability or CSR practices. This fact indicates the vital role of academics and government in assisting MSME owners in adopting the CSR concept in their business practices. Moreover, the MSME sector will boost the tourism sector. Thus, implementing the concept of sustainability in the MSME sector will also support sustainable tourism practices in Bali.

The limitation is that this study needs to apply triangulation techniques to check the validity of the data obtained in the research. Researchers need help tracing supporting documents for CSR practices by MSME owners. Future researchers should triangulate the data to ensure that the data obtained is valid.

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