

THE ENVIRONMENTAL DEVELOPMENT MODEL FOR POVERTY ERADICATION THROUGH CORPORATE SOCIAL RESPONSIBILITY (CSR) PROGRAM

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Abstract

This study aims to examine a further role of CSR program (Integrated movement for Health, Economics, Education, Infrastructure, Environment) and state-owned enterprises funds to eradicate poverty. The purpose of this study is to identify the poor that is empowered through partnership program of CSR. The population is the entire population of a village with dominant poor. The sample in this study is the poor in 32 villages with 100 people. The sampling is taken by purposive sampling and the data are collected through questionnaires and interviews. Based on the findings, it shows that the implementation of CSR and state-owned enterprises (SOEs) are still not optimal. There must be coordination between the official, and a state-owned company that support CSR; colleges and communities that receive assistance. Moreover, there are still many irregularities in help, so the success of the program has not been measured well. The findings recommend that the improvements in the implementation of CSR program should be carried out holistically with various parties ranging from mapping and business potential of the poor in each village, the program proposal, training and mentoring by universities. This model is expected to accelerate the success of CSR programs to decrease the level of poverty.

Keywords: CSR, Company, Poverty Alleviation.

Introduction

Corporate Social Responsibility (CSR), also known as corporate citizenship, responsible business, corporate responsibility and social performance, is a form of company regulation that is integrated into business and organization model (Wood, 1991). CSR represents inter-organizational activities and status associated with the social obligations of the company and stakeholders (Luo and Bhattacharya, 2006; Mc Williams and Siegel 2010). The benefits of CSR for business organizations is the ability to determine a high price on the product, a good image of business, an exciting investment and improvement of employee satisfaction and business performance (Carmeli et al., 2007; Maignan and Ferrell 2001). One of the CSR programs in

Indonesia is the issuance of Law No. 19 of 2003 on State own Enterprises (SOEs) as the manifestation of concern for social economic growth and surrounding environment condition by pioneering PKBL partnership program as part of the *corporate action*. The Small Business Partnership Program aims to improve the ability of small businesses to be responsible and self-reliant through support for the capital and training of professionals and skilled human resources in order to support marketing and business continuity in the future. CSR is used to improve the quality of life in Indonesia through the development of public infrastructure. From 1989 to 2009, the state has disbursed Rp. 9.693 trillion for CSR programs with the number of trained partners as much as 653,552 units. This budget is divided into 2 (two) parts: loan funds, and *cap building*. The distribution of the funds partnerships program (CSR) during 2004-2009 is to trade sector 38%, industrial sector 22%, animal husbandry and fisheries 10%, plantation and agriculture 9%, service sector 19%, and other sectors 2%. It is estimated that funding of CSR of SOEs reach Rp18.4 trillion during 2011. During 2010, the value of the distribution of the Partnership Program and Community Development (CSR) reaches around Rp14.8 trillion for 33 provinces with established partners to reach 750,000 partners of 141 SOEs. For this reason, it can be inferred that there is contribution of SOEs to the improvement of people's welfare of the low-economic group and job vacation. Therefore, the improvement of economic growth as the presence of CSR program has great potential to become one of the bridges to foster prosperity of the nation. In the future, it is necessary to formulate regulation, consolidation, coordination, and dissemination of a more integrated CSR program.

However, on the other hand, SMEs of Indonesia also face problems in the implementation of PKBL partnership program with state-owned companies which lead into bad stuck loans by the end of 2004 to reach 26.96% or Rp 535.75 billion. This is due to no coordination among SOEs, the ministry of cooperatives and SMEs, and Provincial SMEs and cooperatives. The handling of SMEs is only focused on business management issues (entrepreneurship), capital and marketing. Meanwhile, the problems of technology, innovation and relationships with private companies/state are still weak.

The study conducted by Romijn and Albaladejo in Siyamtinah (2010) finds that some internal and external factors are factors which significantly become determinant

of innovation capabilities. Based on the conditions of the problems above, it is necessary to identify the current pattern of SOEs partnership (CSR programs) in enhancing the performance of SMEs in the city of Semarang in order to grow and develop job vacancy and eradicate poverty. The purpose of this study is to identify the role of companies through CSR (*Integrated movement for Health, Economics, Education, Infrastructure, Environment*) in reducing the level of poverty in Semarang.

LITERATURE REVIEW

Corporate Social Responsibility (CSR)

CSR (Corporate Social Responsibility) is an action or a concept that is done by the company (according to the ability of the company) as a form of their responsibilities towards society or environment in which they operate. The examples of such responsibilities are diverse, started from conducting activities that can improve people's welfare and improvement of the environment, providing scholarships for poor children, funding for the maintenance of public facilities, donations to village or community facilities to be useful for many people, especially people who are in the vicinity where the company is located. Corporate Social Responsibility (CSR) is a phenomenon of corporate strategy that accommodates the needs and interests of its stakeholders. CSR arises since the era in which awareness of the long-term sustainability of the company is more important than profitability. The business community through *The World Business Council for Sustainable Development (WBCSD)* defines CSR as The world's commitment to the continuous effort to act ethically, operate legally, and contribute to economic improvement, along with the improved quality of life of employees and their families at the same time and also improve the quality of the local community and society in general. While *European Union (EU)* defines CSR as a concept, which states that the company is responsible for the effect emerged on all relevant *stakeholders*. CSR is a sustainable commitment of business to behave fairly and responsibly and improve the quality of life of employees and their families and local communities in general. In accordance with the definitions, *Business for Social Responsibility* provides a broader and depth definition. According to *Business for Social Responsibility*, CSR is to conduct business in a

manner that meets or exceeds expectations for ethical, legal, commercial and public expectations of society or business. CSR is more than just a separated practice or response at any time, as well as initiatives that are driven by profits marketing, public relations, or any business advantages. CSR is more to a whole series of policies, practices and programs that are integrated into the overall business operations and decision-making process that is supported and directed by the top management. In addition, in Indonesia there are various definitions of CSR, including that issued by Indonesian CSR and BWI (*The Business Watch Indonesia*). Indonesian CSR defines CSR as the earnest efforts of business entities to minimize the negative impacts and maximize the positive ones of operations to all stakeholders in the realm of economic, social, and environment to achieve sustainable development goals. In line with the Indonesian CSR, in its paper, the Business Watch Indonesia defines CSR as the company's commitment to the ethical behavior. The ethical behavior in question here is fair and responsible for the *stakeholders*; and contributes to the society. Thus, CSR also means reducing the negative impact on society and seek for a positive impact on it. According to the explanation of Article 15b, Law of the Republic of Indonesia Number 25 of 2007 on Investment, *Corporate social responsibility* is the responsibility within all companies to keep creating harmonious and balance relationships, and in accordance with environment, values, norms, and local culture. Meanwhile, according to Article 1 paragraph 3 of the Law of the Republic of Indonesia Number 40 of 2007 on Limited Liability Companies, "social and environmental responsibility is a commitment of the Company to participate in the sustainable economic development to improve the quality of life and environment to be beneficial, both for the company itself, the local community and society in general.

Law No. 40 of 2007 on Limited Liability Company (article 74), or Act No. 25 of 2007 on investment (Articles 17, 25, and 34) requires companies and investors to perform corporate social responsibility activities. Moreover, investors who seek for un-renewable natural resources must allocate funds gradually for location recovery that meets the standards of environmental eligibility. The clear limits on the amount of the budget are figured out in the regulation of the Minister of State-own Enterprises No. 4 of 2007 which states that 2% of company profit must be set aside for the PKBL program (the Partnership and Community Development Program). Apparently, the

provision of 2% of this profit is also a general limitation on the practical level for companies that implement CSR programs. In essence, PKBL program is one form of implementations of CSR. However, practically, PKBL is more focused on lending or micro-credit to potential small entrepreneurs, e.g., the provision of loan funds to the community of leather craftsmen. Obviously, this should become a hook for small entrepreneurs to thrive so as to return the loans along with the benefits for their business.

Partnership

Strategic alliance is a means for companies to internalize the competence or transfer of *knowledge* from partner companies. *Knowledge* transfer depends on how easy knowledge can be transferred, interpreted and absorbed (Hamel et al., 1989). In this process, Hedlund and Zander (in Simonin, 1999) emphasize the need to consider the sharper impact of *knowledge*, in particular ambiguity, i.e., resistance to clear communication, the existence in the context of and a specific nature. Reed and DeFillippi (1990) explain that there are strong barriers or obstacles to begin imitation from competitors' inability to understand competencies as competitive advantage sources.

There are several factors that determine the level of multiple ambiguities of *knowledge* transfer in strategic alliances. These factors are: *tacitness*, specific assets (*specificity*), complexity, experience, *protectiveness*, and organizational cultures differences among partners. Reed and DeFillippi (1990) define *tacitness* as accumulation that cannot be codified and implicit in expertise and learning outcomes through *learning-by-doing*. *Tacit knowledge* cannot be communicated and divided, it is profoundly individual, deeply rooted and there is an individual's involvement in a particular context (Nonaka, in Simonin, 1999). Specificity includes assets that are specific to the transaction costs. These attributes are explicit indicators of the level of *protectiveness* expectation of the informants' base *knowledge*. The different cultures among partners include differences in organizational culture (Tyebjee, in Simonin, 1999). The differences in organizational culture show the level of inequality among business practices, institutional and organizational culture heritages of partners. Killing (1982) also states that organizational differences affect the transfer of *knowledge*.

Previous research

The study conducted by Freel (1998) on small and medium scale enterprises in the United Kingdom, by taking a sample of 238 small and medium scale enterprises finds several factors that hamper SMEs to innovate their products. Knight (1996), in his study, figures out several factors becoming obstacles of innovation of large companies in Canada. In his study, Knight (1996) also compares several factors inhibiting innovation among companies in Canada, USA and New Zealand. It also analyzes several government incentives that can encourage innovation. Badlwin (1995) states that there are various kinds of obstacles faced by small-scale enterprises, they are: the failure of management, problems in the qualification of human resources, the use of modern technology and limited financial resources.

Romijn and Albaladejo (1999) in their empirical study in 50 small and medium enterprises in the United Kingdom (companies with number of employees less than 250 people), conclude that internal factors, such as level of educational experience and owner of the company, research and development institutions, technical skills of the employees as well as investment in training and human resource development are the determinants of organizational innovation. In this study, it is also found that external factors, such as financial support from the government for Research and Development, communication and interaction with external parties (*customers, suppliers, competitors, financial institutions, R&D institutions, Industry associations*) are determinant factors of organizational innovation capabilities.

The study conducted by Zulaikha and Fredianto (2003) about the correlation of external environment, strategic orientation and performance of SMEs in Semarang concludes that the willingness of firms to innovate and be pro-active positively correlates to the dimensions of company performance (growth). Courage to take risks is associated with the negative growth. The sample taken is as many as 89 SMEs in Semarang and analyzed by using multiple regression.

The study conducted by Siyamtinah (2005) about the obstacles in the process of partnership between SMEs which are inside and outside the LIK in Semarang by taking a sample of 141 SMEs concludes that from 7 variables that are tested, six variables have no significant differences in partnerships between SMEs that are inside and outside LIK. One variable that has a significant difference is the variable of *specificity*.

RESEARCH METHODS

Population and Sample

The population of this study is all people in the village with the number of the poor of 129. The sample of this study is 32 villages with 100 respondents. Clearly, the respondents in this study include:

1. The development Planning Board of Semarang city; consists of 10 people.
2. Companies that provide environmental development assistance (CSR); 10 companies.

Data Collection Technique

Data are collected through primary and secondary data. The primary data are obtained through a questionnaire distributed to people who have obtained business assistance of the company's CSR program; it includes their profiles, conditions and quality of human resources. Questionnaires and personal interviews are conducted with The development Planning Board of Semarang and head of the company that has provided support of CSR.

Research variables and Indicators

The variables and indicators of this study include characteristics of: gender, age, marital status, number of dependents, education, hours of work, type of merchandise, job history, the involvement of other workers (including family; source, origin and amount of venture capital at the beginning; the estimated value of merchandise and equipment; net income average/month; obstacles in business management, capital access and partnerships. It also includes the variable of human resources with the indicators: Total HR of men and women, community work, skills possessed, motivation to self-development, desire to do business, figure of model, training followed, skills taught, role of villages / districts in improving the skills of citizens, human resource strengths and weaknesses, opportunities and constraints, facilities and infrastructure owned by the region, the existence of institutions, institutional effectiveness of the village, the role of community and village officials in developing the potential of the region. The variable of partnerships with companies (CSR) includes forms of partnerships, criteria and mechanisms support of CSR, number of assistance, guidance, monitoring and evaluation performed, business development for the Community, barriers and constraints of partnership (community development)

FINDINGS AND DISCUSSION

The Description of Respondents

Table 1. Gender

Gender	Percentage
Male	50%
Female	50%
Totals	100%

Table 2. Education

Education	Percentage
Elementary Level	24%
Junior high school	26%
Senior high school	38%
Undergraduate Level	12%
Totals	100%

Table 3. Profession

Profession	Percentage
Traders	62%
Entrepreneur	21 %
Housewives	17%
Totals	100%

Table 4. Business

Business Field	Percentage
Foods	64%
Service	19%
Batik	17%
Totals	100%

Table 5. Before CSR

Before CSR	Percentage
Personal Capital	72%
Banks	17%
Cooperative	11%
Totals	100%

Table 6. Incomes

Incomes	Percentage
Rp. 500 thousands to Rp. 3 millions	83%

lower than Rp. 500 thousands	17%
Totals	100%

Table 7. The barriers

The barriers	Percentage
Lack of capital	10%
Marketing	6%
Facility	9%
Material, competitor and costumer	13%
no barriers	62%
Totals	100%

Table 8. Potentials

Potentials	Percentage
Do not have any skill before	85%
Have skill in making batik	10%
Have skill in sewing	5%
Totals	100%

Table 9. The level of Motivation

Level	Percentage
High	90%
Medium	6%
Low	4%
Totals	100%

Table 10. Perception about Future Development

Perception	Percentage
Optimistic	92%
Doubtful	8%
Totals	100%

Table 11. Figures

Figures	Percentage
Head of RT/RW	65%
Islamic chaplain	25%
Village chief	15%
Totals	100%

Table 12. Weaknesses

Weaknesses	Percentage
Lack of capital	91%

Lack of interest and motivation	9%
Totals	100%

Based on the process of CSR partnership program, most of the partnership provided by companies / institutions which give CSR is actualized by training, tool provisions, seeds, livestock and financial form. The mechanism of giving CSR provided by the company is based on the data of poverty in every sub-district of Semarang. The total number of poor people in the middle Semarang is 19.392 people, northern Semarang is 55.458 people, eastern Semarang is 26.534 people, Gayamsari is 25.563 people, Genuk is 29.859 people, Pedurungan is 22.743 people, Southern Semarang is 20.710 people, Candisari is 26.675 people, Gajahmungkur is 15.612 people, Tembalang is 46.374 people, Banyumanik is 20.473 people, Gunungpati is 23.603 people, Western Semarang is 52.805 people, Mijen is 18.694 people, Ngaliyan is 28.044 people and Tugu is 15.859 people. While the complete mechanism of distribution is described through this flowchart below:

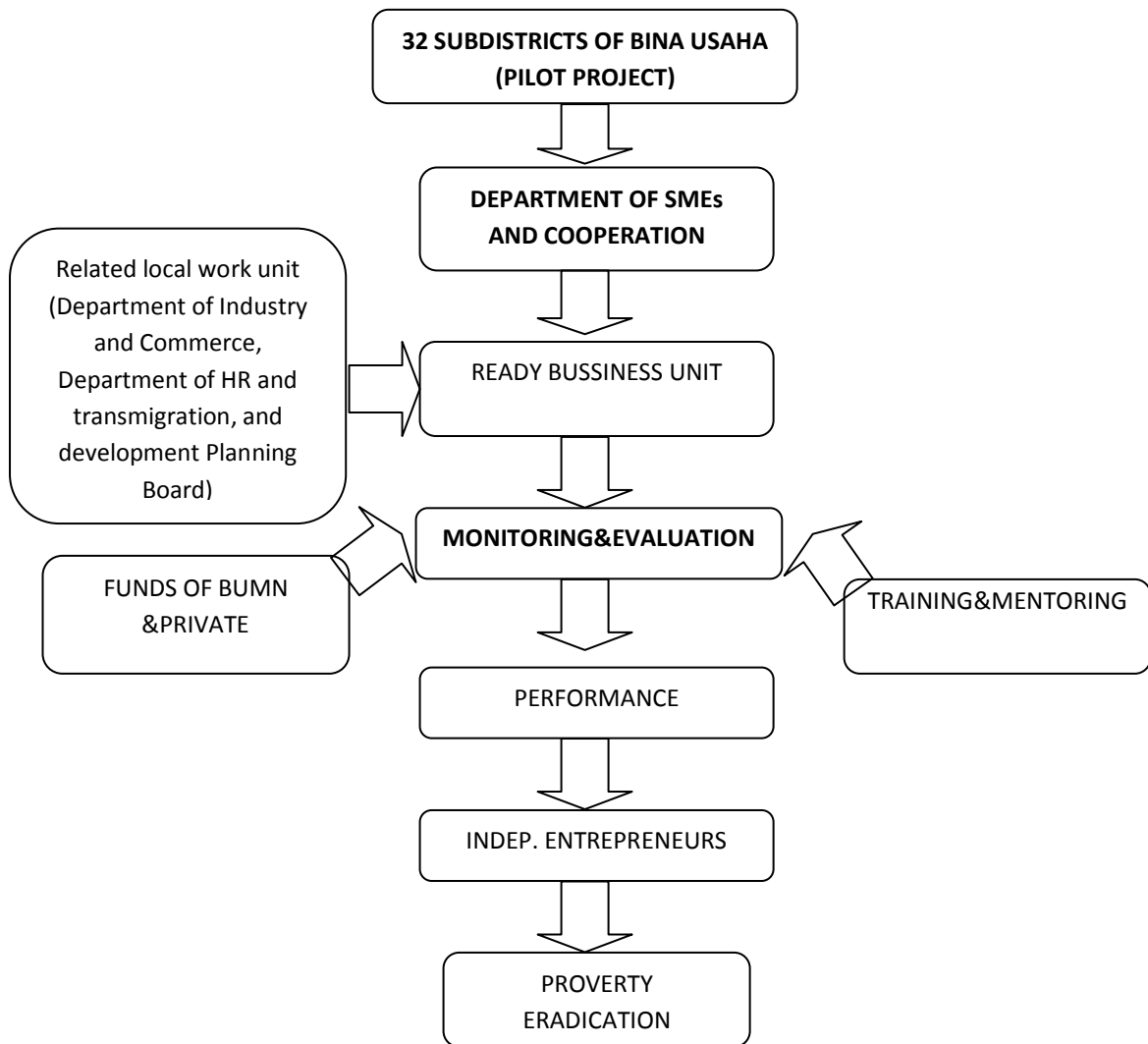


Figure 1

PARTNERSHIP MECHANISM OF GERDU KEMPLING PROGRAM

The analysis result of data about optimizing business partnership and CSR program in accordance with decreasing poverty in Semarang shows that it covers two forms, the first is programs of environmental development, business development, human development; and the second is *State-Owned Enterprises (SOEs)*. In accordance with decreasing level of poverty in Semarang nowadays (26.41%), the government of Semarang has planned to arrange an integrated program to overcome the problems of poverty, health, economic, education, infrastructure, and environment. In 2011, there are 32 sub-districts which become pilot project of CSR program, including sub-districts of Bulu Lor and Tanjung Emas harbour Semarang, Genuk Subdistricts, and Tugu

Subdistrict. Along with the program of environmental development, this study tries to identify kinds of business which can be empowered through partnership program of Environmental Partnership by taking sample of people in sub-districts of Bulu Lor and Tanjung Emas harbour Semarang, Genuk Subdistricts, and Tugu Subdistrict. Considering that this program is started in 2011, so, most of the business activity which will be funded by *State-Owned Enterprises (SOEs)* through CSR program has not run optimally yet. The result of data collection conducted by the government taken from the sub-districts where many poor people located, concludes that it allocates 32 sub-districts as pilot project of the CSR in 2011, 48 sub-districts in 2012 and 2013, 32 sub-districts in 2014 and 17 sub-districts in 2015. Then, the identification of one of the programs of CSR, business development, is conducted by the Department of SME and Cooperative to recommend several kinds of business which are appropriate to be funded and developed. The total number and kind of business are recommended to get finance through CSR program and involve high educational institution to conduct business training and mentoring. Monitoring and Evaluating are conducted by all parties of the government of Semarang, CSR Fund Provider and higher education to make sure that the business which is funded runs well. The business which is successful and developed will lead to independent entrepreneurs, so that in the future it can be developed further through the program of *State-Owned Enterprises (SOEs)*, so that it will affect poverty decrease (2% per year).

Based on the concept of partnership, this study identifies further optimizing partnership between *State-Owned Enterprises (SOEs)* and Small enterprises, especially those related to institutional matters and optimal mechanism in order to improve the performance of SME in Semarang. Some of the factors may be considered to be barriers of this partnership and the performance of SME. Some of the institutions which have given training to them are the Department of Service Industry and Commerce, The Department of SME and Cooperative (perum peruri, Pelindo), Jamsostek, Jasa Raharja, Pegadaian and Pertamina, Perum Peruri. The fund donated to the SME is about Rp. 5 -30 millions. This capital help is very beneficial for developing SME business, because one of the weaknesses of them is that they get difficulties to afford capital since they do not have assurance and it is not *bankable*. The quantity of returning SME lending is considered to be quite good which is reflected from 89.8% of

them are not jammed credit, while only 10.2% of them are jammed. In relation with improving the quality of SME management, so it has been conducted several trainings as an effort to improve skills and knowledge of SME. While the trainings which have been conducted are: entrepreneurship, marketing, operational and finance.

Partnership Mechanism

There are two ways of distribution mechanism of capital help and CSR development through PKBL program nowadays. They are *State-Owned Enterprises (SOEs)* and SME partnership in corporation with cooperative and SME department and the development Planning Board of Semarang for selecting appropriate SME for being helped (recommendation) including administration and collateral requirements. The second mechanism is managed by CSR of *State-Owned Enterprises (SOEs)* and SME partnership directly and independently whether it is for funded SME criteria, administration requirements and loan collateral without involving Cooperative and SME department. Research data shows that 229 SMES developed by *State-Owned Enterprises (SOEs)* which is not through cooperative and SME department in 2011, 152 belong to stuck category (66.4 %), 63 is not smooth category (27.5%) and 14 belong to hesitant category (6.1%). Then, there are 62 SMEs developed by *State-Owned Enterprises (SOEs)* through cooperative and SME department. 22 SME belong to stuck category (35.5%), 4 SME are not smooth category (6.5%) and 36 SME belong to smooth category (58.1%). The implication of this mechanism indicates that the involvement of cooperative and SME department in PKBL program between SME and CSR of *State-Owned Enterprises (SOEs)* is very important to help monitoring the benefits of capital help for SME improvement in Semarang. Besides the mechanism of capital help distribution, the weakness of *State-Owned Enterprises (SOEs)* partnership mechanism has not been able to map SME which is still in small range, it only covers SME which has been ready to be patented its products and ready to be helped to market its products in international market (export). Thus, the mapping of SME which is not able to be partnered with big company and SME which has been ready to be partnered with big company through subcontract system and public trade system is the same. The other weakness is that the role of *kadin* (the head of the the development Planning Board of Semarang and *State-Owned Enterprises*) has not become integral parts

of SME development system in Semarang and CSR program runs almost separately in giving SME development in Semarang and poor villages through CSR program. University roles are still only to conduct training and management advocacy of business which is temporal without monitoring, so that, program optimization of CSR program based CSR capital has not been optimal.

Based on the mechanism above, this study tries to find out the mechanism which is integrated and holistic between government of Semarang city (the development Planning Board), *State-Owned Enterprises (SOEs)* and company which donates CSR, SME stakeholders, Village officials, Universities in Semarang in order to be able to support the optimization of CSR program in Semarang to eradicate poverty. This mechanism involves cohesiveness of stakeholders of SME development in Semarang. Based on partnership mechanism of Semarang government, CSR of *State-Owned Enterprises (SOEs)* needs optimization of partnership based on holistic approach which involves the whole stake holders suitable with each competence. The support from CSR Company, CSR of *State-Owned Enterprises (SOEs)* through PKBL program is to make CSR program (*Integrated movement for Health, Economics, Education, Infrastructure, Environment*) program to be able to eradicate poverty. The first step of Semarang government to conduct mapping and data base collection for priority of poor people in each village in Semarang including business unit is proper to develop. Then, the mapping result is coordinated with universities throughout Semarang to create recommendations for business development to the companies and *State-Owned Enterprises (SOEs)* through CSR program. If the recommendations are agreed by companies and *State-Owned Enterprises (SOEs)*, then universities and the development Planning Board of Semarang should conduct training, monitoring and business development. The result of business development can be coordinated with companies and *State-Owned Enterprises (SOEs)* which donate CSR help. The purpose of monitoring and advocacy is to solve donation usage which is not used properly. The help distribution is based on priority scale on mapping result towards poor villages in Semarang. With holistic coordination, CSR program will be able to foster society's prosperity especially to eradicate poverty in Semarang City.

Conclusion

This study shows that CSR program conducted by Semarang government needs

to be coordinated holistically with universities, companies and *State-Owned Enterprises* (SOEs) which donate CSR help, and helped village with its society. Good coordination will decrease the cheating on the help of distribution and will be more effective and efficient. Although it still has many disadvantages, it is hoped that it can help people prosperity because of CSR help. It needs 3-5 years since the program launched to see the result of poverty eradication.

Based on the result of the research, to optimize business partnership and CSR BUMN (State-owned enterprises) through PKBL program in order to decrease poverty in Semarang encompasses two designs of programs such as environment, business, and community development, and partner building (SOEs).

Future Research Agenda

In this research, the Upcoming Research Agenda are as follows: 1) The need to examine to what extent does The Ministry of Trading Indonesia play role on the SMEs Development system in Semarang so the public welfare may increase. 2) The need to multiply the number of respondents by expanding the coverage area in Semarang. 3) Incorporating other variable that influence on the implementation of CSR Program such as psychological variable, in order to know the perception and the behavior of CSR executant.

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