Program Kemitraan - Fostering Micro Small Enterprises in Makassar Indonesia: An Exploration of the State-Owned Enterprise Partnership Program

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Abstract

This study investigates the Program Kemitraan dan Bina Lingkungan, the Indonesian Government’s state-owned enterprise (SOE) partnership program (PP) and its social and economic impacts for its beneficiaries and their communities. The SOEs consider the PP as part of their SOE corporate social responsibility and its practices have evolved over time. The PP is grounded in the Indonesian cultural principle of “gotong royong” (helping one another). The program supervisors see its objective as supporting MiSEs to become strong, skilful and bankable.

The study was conducted in Makassar, South Sulawesi, Indonesia and the primary subjects of the study were program beneficiaries using qualitative case study research methodology. The research had elements of a program evaluation therefore functional analysis and realistic evaluation was used. The study went beyond program evaluation to explore the changes to beneficiaries’ social and economic wellbeing, their acquisition of entrepreneurial skills and the impact of the PP in the community.

The study found that the PP has an impact on beneficiaries’ business operations, increasing sales, turnover and profit. The ability to help their communities was another indicator of success for some beneficiaries. The partnership program is significantly informed by word of mouth. This creates an immediate level of trust that focuses not only on financial collateral but also on building up trust at the personal level. At the cultural level, the program is supported by what the ethnic groups in Makassar refer to as “siri” (the concept of shame and dignity) whereby the trust shown in you by someone else must be fulfilled.

The study also found that the program was implemented well by the SOE’s program supervisors and fulfilled its objectives of helping and supporting MiSEs for nearly all the beneficiaries studied. It aided business success but also improved beneficiaries’ entrepreneurial skills, networking and knowledge. On the other hand, unsuccessful stories are also presented to see how SOEs manage and solve the problems. The study offers an insight into how the model of a voluntary CSR program in the West has been transformed in Indonesia into a mandatory program that has significantly changed many people’s lives.

Key words: Corporate Social Responsibility, Micro Small Enterprises, Microfinance, Social Entrepreneurship, State-Owned Enterprises, Partnership Program.
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<tbody>
<tr>
<td>BDB</td>
<td>Bank Dagang Bali</td>
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<tr>
<td>BKD</td>
<td>Badan Kredit Desa</td>
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<tr>
<td>BPS</td>
<td>Badan Pusat Statistik</td>
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<tr>
<td>BRI</td>
<td>Bank Rakyat Indonesia</td>
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<tr>
<td>BUMN</td>
<td>Badan Usaha Milik Negara</td>
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<tr>
<td>CED</td>
<td>Committee for Economic Development</td>
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<tr>
<td>CSA</td>
<td>Corporate social activity</td>
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<td>CSP</td>
<td>Corporate social performance</td>
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<td>CSR</td>
<td>Corporate social responsibility</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GR</td>
<td><em>Gotong Royong</em></td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td>ICSD</td>
<td>Indonesia Center for Sustainable Development</td>
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<tr>
<td>IGGI</td>
<td>International Governmental Group on Indonesia</td>
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<tr>
<td>LKM</td>
<td>Lembaga Keuangan Mikro</td>
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<tr>
<td>MB</td>
<td>Medium business</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>MFI</td>
<td>Microfinance institutions</td>
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<tr>
<td>MiSE</td>
<td>Micro and small Enterprises</td>
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<td>MSME</td>
<td>Micro Small and Medium Enterprises</td>
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<tr>
<td>PBSP</td>
<td>Philippine Business for Social Progress</td>
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<tr>
<td>PERUM</td>
<td>Perusahaan Umum</td>
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<tr>
<td>PKBL</td>
<td>Program Kemitraan dan Bina Lingkungan</td>
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<tr>
<td>PP</td>
<td>Partnership Program</td>
</tr>
<tr>
<td>PTPN</td>
<td>PT Perkebunan Nusantara</td>
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<tr>
<td>SB</td>
<td>Small business</td>
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<tr>
<td>SE</td>
<td>Social entrepreneurship</td>
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<td>SOE</td>
<td>State-owned Enterprises</td>
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<td>SR</td>
<td>Social responsibility</td>
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<tr>
<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
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IMF : International Monetary Fund
MiB : Micro business
MSME : Micro small and medium enterprise
NGO : Non-government organization
PMA : Penanaman Modal Asing
PT : Perseroan Terbatas
SME : Small and medium enterprises
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Completing this research project is a miracle for me. Therefore, I would like to take the opportunity to acknowledge those who have supported me throughout my study and contributed towards this thesis. Without them, it would definitely not have been possible.

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Statement of Original Authorship

I hereby declare that this submission is my own work and that to be the best of my knowledge and belief. This work has not previously been submitted for a degree or diploma in any university. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

Signature : 

Date : 23 June 2014
Program Kemitraan - Fostering Micro Small Enterprise in Makassar Indonesia: An Exploration of State Owned Enterprise’s Partnership Program

Chapter 1 Introduction
Chapter 2 CSR in Indonesian Context: Voluntary is Mandatory A Literature Review
Chapter 3 Indonesian State-Owned Enterprises and the SOE Partnership Program
Chapter 4 Research Methodology
Chapter 5 Partnership Program Implementation in “Kota Daeng” Makassar of South Sulawesi Indonesia
Chapter 6 Charity Vs Alms Data Analysis and Findings 1
Chapter 7 To Improve Is To Change Data Analysis and Findings 2
Chapter 8 What Have We Learnt? Summary And Integration Of Findings

Dissertation Map
Chapter 1
Introduction

1.1 Overview

Program Kemitraan dan Bina Lingkungan (Partnership and Community Development Program) is a state-owned enterprise (SOE) Partnership Program (PP) in Indonesia. This research project explores the program and investigates the ways in which it is embedded in corporate social responsibility (CSR) and Indonesian culture. The research focuses on the micro small enterprises (MiSEs) that are the beneficiaries of this program. The research involves the concepts of CSR, microfinance and social entrepreneurship.

Micro, small and medium enterprises have different abbreviations in some countries and institutions. The European commission is using SME (Commission, 2005) and MSME is used by the World Bank and in some countries (Bank, 2010; Saha, 2011). Indonesian government is using ‘Mi’ for micro enterprise, ‘SE’ for small enterprise, and ‘ME’ for medium enterprise (DEPKOP, 2013). MiSE is used in this research because it focuses only on micro and small enterprises.

This study examines the impacts and challenges of the PP in the context of SOEs’ participation in it as part of their CSR. The study also examines the advantages of the program for MiSEs as the program beneficiaries and for the community around them as well as the SOEs themselves.

There is scant research set either in Indonesia or other countries that examines in-depth the impact of this type of program and how participation in such a program can change the MiSE status from un-bankable to bankable. As a result, the questions and issues related to this type of program have remained largely unexplored.

MiSEs play an important role in the Indonesian economy; regardless of their limitations in capital, consumers and suppliers (Turner, 2003), MiSEs help to reduce unemployment and poverty in society. Realising this, the Indonesian Government created a mandatory program requiring SOEs to help MiSEs by putting aside 1-3% of their profit each year through the PP. The program specialises in supporting and fostering MiSEs (Nugroho & Randy, 2008).

The concept of CSR in relation to MiSEs has continued to be a popular topic of exploration since the early 19th century, and it has gained momentum in recent years as academics and practitioners started recognising the social and environmental impacts of MiSEs on society (Jenkins, 2006; Sen & Cowley, 2013). In the present study, a research
framework is used as guidance to evaluate and analyse the impact of the PP on beneficiaries’ social and economic wellbeing (knowledge, skills, networking, and families) and the community around them.

The title of this study is: “Program Kemitraan - Fostering Micro Small Enterprise in Makassar Indonesia: An Exploration of the State-Owned Enterprise Partnership Program”. As the title indicates, this research explores SOEs’ CSR in the form of supporting MiSEs in Makassar South Sulawesi of Indonesia through the PP.

The terms “beneficiary” and MiSE are used interchangeably throughout the thesis because MiSEs that have joined the PP will automatically become a beneficiary of the program. Figure 1.1 presents the structure of this chapter. The chapter map is produced by using mind mapping software.

![Chapter 1 Map](image)

**Figure 1.1: Chapter map**

1.2 Background

Micro, small and medium enterprises are a vital part of the Indonesian economy. According to the Ministry of Cooperatives and Small and Medium Enterprises, MiSEs are the biggest business drivers in the Indonesian economy, constituting 99.99% of the total number of entrepreneurs in the country in 2011 (DEPKOP, 2013). We can see this in Table 1.1 adapted from the ministry report. MiSEs are to be found in agriculture, livestock, forestry and fisheries, trade, hotels and restaurants, transport and communications, manufacturing and services.

MiSEs are an integral part of Indonesian business, with the position, potential and strategic role to create a more balanced national economy. MiSEs have also been recognised as playing a role in reducing the rate of poverty and unemployment in the
country. Supporting the economic activity of MiSEs is an effective strategy to reduce the growing number of the unemployed.

Supporting MiSEs is one strategy to boost the development of the Indonesian economy. By providing employment, MiSEs can assist the government to succeed in poverty alleviation and unemployment reduction efforts. In addition to absorbing the workforce in large numbers, MiSEs have also been proved to be resilient as they withstood the economic crisis that hit Indonesia in 1997 and 1998.

An effective MiSE development strategy must consider the limitations that exist on the MiSE scale of activity, such as the limited number of consumers. Another common limitation is the lack of clear division of tasks between the areas of administration and operations, which arises because most MiSEs are managed by individuals who are also the owners of the company, and because MiSEs typically utilise the labour of family and close relatives. Lack of access to formal credit institutions (such as banks), the lack of legal status, and low level of educational resources are among other MiSE limitations.

As there are a large number of MiSEs and their role in the structure of the national economy is so significant, the support and development of MiSEs warrants serious efforts in order to rapidly grow a stronger economy. Another relevant fact is that very few micro-enterprises develop into a small business and few small businesses develop into a medium-sized enterprise (Tambunan, 2009). These conditions are caused by a variety of obstacles, derived from both the internal and external conditions of MiSEs.

MiSEs also absorb many employees, accounting for 97% of the total national employees in 2011 and 2012. Micro businesses were the dominant business in employing staff, followed by small enterprises. Large companies employed 2,891,224 people, representing only 2.76% of the total employment. The data in the table is produced by Indonesian Ministry of Cooperatives and SMEs. Their data was collected from survey conducted by BPS.
Table 1.1: Development of micro, small, medium and large enterprises 2011–2012
(DEPKOP, 2013)

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<td>54,559,969</td>
<td>55,856,176</td>
<td>1,296,207</td>
</tr>
<tr>
<td></td>
<td>- Small Enterprise</td>
<td>602,195</td>
<td>629,418</td>
<td>27,223</td>
</tr>
<tr>
<td></td>
<td>- Medium Enterprise</td>
<td>44,280</td>
<td>48,997</td>
<td>4,717</td>
</tr>
<tr>
<td></td>
<td>B. Large Enterprise</td>
<td>4,952</td>
<td>4,968</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>BUSINESS UNIT EMPLOYEES (A+B)</td>
<td>104,613,681</td>
<td>110,808,154</td>
<td>6,194,473</td>
</tr>
<tr>
<td></td>
<td>A. Micro, Small and Medium Enterprise</td>
<td>101,722,458</td>
<td>107,657,509</td>
<td>5,935,051</td>
</tr>
<tr>
<td></td>
<td>- Micro Enterprise</td>
<td>94,957,797</td>
<td>99,859,517</td>
<td>4,901,720</td>
</tr>
<tr>
<td></td>
<td>- Small Enterprise</td>
<td>3,919,992</td>
<td>4,535,970</td>
<td>615,977</td>
</tr>
<tr>
<td></td>
<td>- Medium Enterprise</td>
<td>2,844,669</td>
<td>3,262,023</td>
<td>417,354</td>
</tr>
<tr>
<td></td>
<td>B. Large Enterprise</td>
<td>2,891,224</td>
<td>3,150,645</td>
<td>259,422</td>
</tr>
</tbody>
</table>

In response to the above issues, the Indonesian Government through the Ministry of State-Owned Enterprises has required each SOE to help MiSEs by setting aside a portion of their profits each year. The portion to be set aside is as much as 1-3% of their net profits. Only SOEs that generate profits can set aside funds to help MiSEs.

*Program Kemitraan* is focused on helping MiSEs by providing revolving funds with very low interest. Funds are loaned to MiSEs at interest of 6% per year. The amount of money that can be distributed is from Rp. 5 million (about US$ 500) up to a maximum of Rp. 50 million (about US$5000) per business beneficiary. It operates as microfinance. The community development component of the program is designed to help local communities in the areas in which the SOEs operate. It is a charitable activity and is linked to Public/Community Relations without any element of microfinance. Examples of community development assistance include support to build places of worship, procure computers for schools, and distribute relief in the case of a natural disaster.

SOEs are major players in Indonesia's economy. SOEs are businesses that are wholly or partly owned by the state (BUMN, 2007). SOEs are characterised by two essential elements: government (public) ownership, and business (enterprise) activities. Under the rubric of CSR, Indonesia is using SOEs to build up the MiSE sector.

There are many different ways to implement a CSR program, such as by scholarships, aid to the poor and agricultural extension, which focus on providing assistance to individuals or communities directly. Assistance to micro and small
businesses can drive the local economy by developing a value-added economy and providing jobs in the communities that exist around the particular business. Giving assistance to micro and small businesses is expected to provide economic benefits for society, so that unemployment can be reduced as much as possible in order to improve the welfare of the people of Indonesia.

The legal requirements of CSR in Indonesia are set out in Article 33 of the National Constitution 1945 (Paragraphs (2) and (3)): “Production branches significant to the state and anything controlling the life of many people shall be controlled by the state” and “Soil and water and natural wealth contained therein shall be controlled by the state and used for the welfare of the people to the utmost” (Syahriza, 2010). These principles are applied through the Regulations of the Minister of State-Owned Enterprises, State Number: PER-05/MBU/2007 on the “Partnership and Community Development Program” and Minister of SOEs’ Letter Number: SE-14 /MBU/2008 on “Optimising Loan Funds on Partnership Program through Partnership”.

The PP implements the goals of CSR for SOEs through an obligation set out in Law No. 25 of 2007 on Investment. Article 15 (b) states that “Every investor is obliged to implement corporate social responsibility”. Indonesia is believed to be one of the first countries in the world legislate CSR and introduce regulations on CSR (Rosser & Edwin, 2010; Waagstein, 2011).

Regarding the implementation of the PP, Article 2 and Article 88 of Law No.19/2003 concerning SOEs stipulate participation in the program as follows:

1. Article 2 paragraph (1) letter e: One of the founding SOE intents and purposes is also to actively provide guidance and assistance to the economically weak businesses, cooperatives, and community.

2. Article 88 paragraphs (1): Enterprises can set aside some net profit for the purposes of fostering small business / cooperatives and community development around the state.

3. Article 88 paragraphs (2): Further provisions regarding the provision and use of income referred to in paragraph (1) are governed by the Decree of the Minister.

The implementation of the PP is governed by the Minister for State-Owned Enterprises in Regulation No: Per-05/MBU/2007. The Minister of State-Owned Enterprises is positioned as the shareholder in the SOEs.

This thesis examines the implementation of the PP in SOEs in Makassar South Sulawesi Province of Indonesia. It seeks to understand and evaluate the extent to which
the PP fosters the social, organisational and professional skills of MiSEs and entrepreneurs and, hence, how it fulfils the government’s objectives. It also explores the social and economic impact of the program on the community in Makassar.

1.3 Research Methodology and Conceptual Scheme

1.3.1 Research Methodology

The study uses a qualitative case study research methodology to investigate the impacts of the PP on MiSEs’ social and economic operations and on the community. There are two reasons for selecting a qualitative investigation. Firstly, the research focuses on a topic that has not been widely investigated in Indonesia. Therefore, the study is exploratory rather than confirmatory and so a qualitative approach is appropriate (Miles & Huberman, 1994; Patton, 2002). Secondly, this research involves the collection and analysis of a certain type of information that involves an in-depth understanding of a complex phenomenon within MiSEs as beneficiaries of the program. Using a quantitative method would not be adequate to cover the whole view and understanding of this topic and applying a qualitative methodology enables richer and deeper information to be obtained.

Program evaluation like that of Miles and Huberman uses a functionalist rather than critical framework (Kumar, 2011). The data collection and interviews with beneficiaries, PP supervisors and heads of villages discussed the PP program and implementation in immediate practical terms. This was appropriate as my background is from business school and my main emphasis was on the social and economic outcomes and impacts of the program. The interview protocol and schedule also had space for questions about the cultural aspects of the program. In addition respondents were encouraged to tell their stories in their own words which allowed me to follow up and probe for irregularities.

Evaluation studies have developed further and the study has elements of realistic evaluation (Pawson and Tilly, 1997). Realistic evaluation argues that researchers must critically assess policy makers’ overall theories of how the program will yield benefits, in the context in which it is being introduced, but also look for unanticipated and unwanted effects. Realistic evaluation informs the policy makers and participants about all aspects of a program’s impact. They might know a lot but they do not have an outside view of their program (Pawson & Tilley, 1997).

The research involves the use of elicitation techniques through semi-structured interviews. In the semi-structured interviews, a set of similar questions are asked to each
informant. In structured interviews, a set of identical questions is asked to each informant; the semi-structured interview is flexible because the interviewer can modify the questions and probe without losing focus on the topic that the interviewer wants to cover (Bernard and Ryan, 2010).

Comparisons are made across the respondents. Therefore, it was necessary to obtain similar information from all of them. Semi-structured interviews are typically based on an interview guide which is a list of questions and topics that have to be covered (Bernard and Ryan, 2010). Semi-structured interviews are flexible in that the interviewer can modify the order and details on how the topics are covered. Finally, because the respondents are asked more or less the same questions, comparisons across the interview responses are possible.

The analysis of the interviews can begin with case analysis or cross-case analysis. Beginning with case analysis means writing a case study for each person interviewed or each unit studied. Beginning with cross-case analysis means grouping together the answers from different people to common questions, or analysing different perspectives on central issues (Miles & Huberman, 1994; Patton, 2002). In the present study, case analysis is performed for each participant and cross-case analysis is then performed to identify different perspectives or outcomes of the PP.

Miles and Huberman (1994) used the ‘research display’ approach to incorporate meaning and verification. They presented two basic displays: within-case displays and cross-case displays. Data displays are intended to allow researchers to move from merely describing the data toward explaining patterns and variables within the data. In other words, by organising the data, the researcher makes it easier for meaning to be found (Miles & Huberman, 1994).

The primary data is collected by interviewing a range of stakeholders in the PP including beneficiaries who joined the program, personnel who supervised the program, and community leaders who were involved because beneficiaries asked them for statements when they applied to join the program and who saw how the program supported their community. The secondary data is collected from documents and papers provided by beneficiaries, SOEs and independent sources.

1.3.2 Research Conceptual Scheme
The model set out by Huberman and Miles in their book ‘Innovation Up Close’ (1984) is utilised in this study. Their conceptual model emphasised the initial effects of the local context, the properties of the program itself, and the nature of the assistance
provided to sites as affecting a process that began with adoption; proceeded through "transformations" in the innovation, the people, and the local organisations; and resulted in outcomes ranging from “stabilisation of use” to individual impact and job mobility of local personnel (Huberman & Miles, 1984).

The Miles and Huberman conceptual model shows the flow of an implementation process which interacts over time to produce outcomes. Figure 1.2 illustrates the general elements of the Huberman and Miles conceptual model.

Figure 1.2: Simplified Miles and Huberman research conceptual flowchart

The conceptual scheme in the present study is adapted from Huberman and Miles (1984) with some changes that are made to better suit the model to the research. One of the major modifications is the addition of the last box (Impacts). This box does not exist in the Huberman and Miles model but is necessary here because the present study not only looks at the outcomes of the program but also seeks to investigate the impact of the program on the community.

It was necessary to modify the Huberman and Miles model because the research subjects are different. Huberman and Miles applied their model to conduct research on formal institutions (schools) whereas the present study deals with informal institutions (MiSEs).

The first part of the framework deals with some variables. It starts with the external context and moves to the adoption decision. The external context consists of the social and legal framework (community, SOEs’ CSR, social entrepreneurship, and government commitment), and assistance for beneficiaries within the PP itself. The external context explains how the factors outside the program have an impact on the program. This part of the framework also describes how SOEs provide assistance to their beneficiaries. The SOEs not only provide funds for MiSEs but also provide orientation and training. The SOE supervisors of the PP and the beneficiaries explain the characteristics of the program according to their opinions, knowledge, assumptions and experiences since joining the program.
The internal context component captures information about the beneficiaries’ demographics, the condition of their business before joining the program, their organisational rules in conducting business, and their purposes and motives for joining the program. In the adoption decision component, the beneficiaries’ decision to join the program is explained. Their business plan and the support they received from SOEs in implementing the business plan are also explored.

The next component is transformation which involves the analysis of the changes experienced by the beneficiaries in terms of their business, perceptions and practices and also changes in organisational rules after joining the program. Degrees of success are captured in the outcomes component, along with beneficiaries’ perceptions of their success and failure in running their businesses. The beneficiaries’ perceptions of success are also investigated by reference to changes in their capacity after joining the program. The last component of the framework looks at the impact of the program on the MiSEs’ stakeholders and the MiSEs themselves.

This is a simple form of the research framework which was developed at the commencement of the research. Later, after analysing the data gathered in the research, the components were changed and improved in relation to the findings.

![Simplified research conceptual flowchart](image)

**Figure 1.3: Simplified research conceptual flowchart**

### 1.3.3 Research Question

The research model was used to generate a list of research questions, each with a number of sub-queries. The research questions covered seven main categories:

1. The characteristics or properties of the PP
2. The condition of the beneficiaries’ businesses prior to participation in the PP
3. The adoption decision
4. Role of internal and external assistance
5. Transformation during participation in the program
Outcomes and reconfigurations in program practice

Impacts of the program on the beneficiaries and the community.

From those main categories that produced a set of research focus questions, one major research question emerged, namely: “What are the impacts and challenges of the state-owned enterprise partnership program for MiSEs and their social, economic and professional entrepreneurship development in Makassar, South Sulawesi, Indonesia?”

1.3.4 Research Aims and Objectives

The research aims to determine the impacts and challenges of the state-owned enterprise PP for the social and professional development of entrepreneurs and MiSEs in South Sulawesi, Indonesia. For this purpose, the following objectives need to be achieved:

1. To identify the PP participation currently in place among SOEs in Makassar, South Sulawesi, Indonesia
2. To find out whether or not the program has been implemented as planned
3. To identify whether or not the stated goals of the program have been achieved
4. To find out whether or not the program is more effective for some participants than others
5. To identify the main stakeholders of the program
6. To identify the social economic impacts of the PP in Makassar, South Sulawesi, Indonesia
7. To identify the challenges in implementing and executing the PP in South Sulawesi, Indonesia.

1.3.5 Research Significance

This research will make a significant contribution in a number of aspects. First, a significant contribution of this research is enriching the literature on CSR and social entrepreneurship in Indonesia. Second, after reviewing the literature from different sources and both from both international and national (Indonesian) experiences, this research generally improves the understanding of partnership programs involving SOEs. Third, this study provides substantial evidence-based data and information that can be used by decision-makers for future planning.

The fourth contribution is that the phenomenon of partnership programs involving SOEs has not been widely studied, so the research makes a contribution to the research by focusing on the development of such a program in South Sulawesi especially and Indonesia generally. Fifth, this research will be relevant to central government policy-
makers in developing approaches and strategies related to corporations, especially SOEs. Likewise, it will be relevant to local government policy-makers, especially in relation to the role of corporations and the development of local communities.

1.3.6 Research Site

The data collection in this research was focused on Makassar, the capital city of South Sulawesi Province. South Sulawesi is one of the six provinces in Sulawesi Island. The island is located in the middle of Indonesia. Makassar is the largest city on Sulawesi Island and is the gateway to the eastern part of Indonesia. There are five main islands in the Indonesian archipelago; in western Indonesia lies Sumatra Island, Java Island and Bali, above them is Kalimantan (Borneo) and Sulawesi (Celebes), and in eastern Indonesia lays Irian Jaya (West Papua).

Makassar (known as Ujung Pandang from 1971 until October 1999) is the capital and administrative centre for the province of South Sulawesi, Indonesia. It is a busy port city, with over 1.3 million inhabitants, and home to four major ethnic groups, the Bugis, the Makassar, the Mandar and the Toraja (Pelras & Boneff, 1998). More information on Makassar city is provided in Chapter Four.

1.4 Assumptions

Patton (2002) explained that one assumption in research is that the results of a study would have utility for identifying areas of improvement during the implementation phase of the program that was evaluated.

Another assumption is that the program has been implemented according to the standard operating procedures in each SOE. Therefore, the beneficiaries would be willing to be interviewed and would be open and honest in responding and explaining their experience since joining the program (Shank, 2006). An assumption regarding those beneficiaries is that they had the capacity, knowledge and understanding of the program’s contribution to their personal skill and development.

1.5 Scope and Limitations

A research exploration is typically framed by certain parameters. One parameter for the study is identifying the scope and the limitations of the study. The scope is defined by explaining the case selected for the study. The limitations identify any potential weaknesses in the study (Creswell, 2003).
1.5.1 Scope
The scope can be explained as the extent of the area or subject matter that something deals with or to which it is relevant. In the present study, the scope includes the use of some case studies and some beneficiaries’ experiences and stories. Focusing on these cases allows an in-depth exploration of the experiences and stories of the participants in the program to be conducted.

The scope of the study is focus on the economic process of beneficiaries. Therefore, issues such as culture, religion, kinship, and gender are mentioned but they are not analysed further because they are outside the scope of the project. However, those issues will be incorporated in later papers.

1.5.2 Limitations
The PP involves two parties: the SOE as the party that provides funds, and the beneficiaries who receive the fund. Considering the limited length of the study, it was decided to emphasise the beneficiary side and explore their points of view about the program. The study is also limited to perceptual accounts of the program effects based on beneficiary descriptions of experiences.

1.6 Definition of Terms
The following terms are used in this thesis:

- **Corporate social responsibility** is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large (WBCSD, 2000).

- **Social entrepreneurship** is a practice that integrates economic and social value creation (Mair, 2006).

- **Micro small enterprises** (MiSE) are productive enterprises owned by individuals and/or entities who meet the criteria set by SOEs or government.

- **Micro Enterprises** (Mi) are defined as individuals and/or private entities that have maximum assets of Rp50 million (about US$ 5000).

- **Small Enterprises** (SE) are defined as individuals and/or private entities that have maximum assets of between Rp50 million (about $5000) and Rp500 million (about US$ 50,000).

- **Microfinance** is a financial service that deals with loans and savings and insurance for MiSEs.
- **Badan Usaha Milik Negara (BUMN) / State-Owned Enterprise** (SOE) is a company wholly or partly owned by the state/government (BUMN, 2007).

- **Program Kemitraan dan Bina Lingkungan** is the name of the Indonesian Government’s SOE partnership program, in the Indonesian language.

- **Partnership Program and Community Development** is a translation of *Program Kemitraan dan Bina Lingkungan*.

- **Partnership Program** is the Indonesian Government’s SOE partnership program with small businesses and cooperatives; the program includes a loan facility with low interest that aims to increase the ability of small businesses and cooperatives to become strong and independent through the use of funds from the profits of SOEs.

- **Community development** is a component of the PP which aims to improve social conditions in the regions where SOEs operate through the utilisation of funds from the profits of the SOEs.

- **Mitra Binaan** is the Indonesian word for “beneficiary”; it refers to the MiSEs that join the PP.

- **Grace period** is a specified period during which the beneficiaries are freed from making instalment payments.

- **PP supervisor** is a person who works at an SOE and is taking care of PP operations.

- **Social impact** refers to the specific environmental, cultural, political, economic, spiritual, psychological and physical influences which affect individual and group attitudes, values and behaviours. Such a broad definition captures what is generally assumed to be social impact as it is related to CSR regardless of the type of CSR initiative (Forester, 2009).

1.7 **Thesis Outline**

The thesis consists of eight chapters. This chapter described the background of the research, including the role of MiSEs in the Indonesian economy and how MiSEs create employment opportunities and reduce unemployment. The government’s role in developing MiSEs through the SOE partnership program was discussed, including how participation in the program is considered as the CSR of the SOEs. This chapter also described the research framework, research question, and research aims and significance, and set out the definition of terms, thesis assumptions, scope and limitations and thesis outlines.
Chapters Two and Three review the literature related to the present research. They describe the PP legal framework, CSR, microfinance, social entrepreneurship, and MiSEs. The relationships between these concepts and practices are also discussed in these chapters.

Chapter Four presents the methodology. It explains and investigates the research method used in this study and identifies why it is important to utilise that type of method. The steps taken in this study are portrayed in the methodology map. This chapter also discusses the ethical considerations in the study.

Chapter Five describes the implementation of the PP in some SOEs. It also describes the research site of the study, Makassar, including its geographical location and inhabitants.

Chapter Six presents the first part of the findings. It discusses the findings related to the first three components in the research framework, namely, the external context, internal context of beneficiaries, and the adoption decision. The findings on the external context are drawn from primary and secondary data. The discussion on the internal context of the beneficiaries investigate the demographic profiles of the beneficiaries, the condition of their business prior to participating in the PP, their organisational rules and practices, and beneficiaries’ purposes and assumptions in joining the program. The discussion on the adoption decision investigates the decision to join the program, finances, business plans and support for the business plan in the implementation of the PP.

Chapter Seven presents the second part of the findings. It focuses on transformation and participation by looking at the changes reported by the beneficiaries since joining the program. The program outcomes are explored by looking at the degree of beneficiaries’ success and the program’s impact on the beneficiaries and the community. It also explores how the program was implemented and the beneficiaries’ point of view regarding the program.

Chapter Eight presents a summary of the information gathered in the previous chapters. The findings are discussed and analysed in order to answer the main research problem. This chapter also contains a map that illustrates the integration of the findings and summarises the highlights, showing how the research components interact and affect each other.
1.8 Conclusion

MiSEs are a vital part of the Indonesian economy. They are the biggest business driver in Indonesia, accounting for 99.99% of the total number of entrepreneurs in the country in 2011. Despite their vital role, MiSEs face limitations such as a lack of access to formal credit facilities, lack of a legal status, and low level of education resources.

In response to the above issues, the Indonesian Government through the Ministry of State-Owned Enterprises required each SOE to help MiSEs by setting aside a portion of their annual profits. The portion set aside may be as much as 1-3% of the net profits. The Program Kemitraan dan Bina Lingkungan partnership program is devoted to helping MiSEs by providing revolving funds to MiSEs at low interest and supporting community development activities in the regions where the SOEs operate.

This thesis examines the implementation of the PP in SOEs in Makassar, South Sulawesi Province, Indonesia. It seeks to understand and evaluate the extent to which the PP fosters the social, organisational and professional skills of MiSEs and entrepreneurs and, hence, how it fulfils the goals of the program and government objectives. It also explores the social and economic impact of the program on the community and in particular on rates of unemployment in Makassar.

The study uses a qualitative case study research methodology to investigate the social and economic impacts of the PP on the MiSEs and the community. The qualitative methodology enables richer and deeper information to be obtained.

The conceptual scheme of the research is adapted from the model proposed by Huberman and Miles (1984) with some changes made to better suit the context of this research. The model is reconstructed in Chapter Seven to accommodate the results of the in-depth exploration. The model was used to generate a list of research questions, each with sub-queries. The main categories in the scheme produced a set of research focus questions which guide the research to answer the one major research question: “What are the impacts and challenges of the state-owned enterprise partnership program for MiSEs and their social, economic and professional entrepreneurship development in Makassar, South Sulawesi, Indonesia?”
Chapter 2

CSR in the Indonesian Context: Voluntary is Mandatory

2.1 Overview

The literature review presented in this chapter deals with the concept of CSR from a range of viewpoints in the East and West. CSR is discussed in the general context of a company or an industry and in this case specifically in the context of SOEs. The implementation of CSR in some developing countries in general, and in Indonesia in particular, is presented. The literature review also explores the legal framework of CSR in Indonesia and the basis of the Partnership Program implementation as a mandatory CSR requirement for SOEs in Indonesia.

This chapter explores the relation of the Partnership Program to the concept of microfinance. The Partnership Program appears to have similarities with microfinance institutions that provide loans to poor entrepreneurs and support them to improve their business. Similarly, the Partnership Program is a not-for-profit oriented program, with low interest charged on its loans. It is a revolving fund and the interest is used to train MiSEs and for the program’s long-term sustainability. The social and entrepreneurship aspects of microfinance that are related to the social entrepreneurship concept are also investigated in this chapter. These concepts and their relations to one another are the main issues investigated through the literature review in this chapter. Figure 2.1 presents a map of the content of this chapter.

Figure 2.1: Chapter map
2.2 Corporate Social Responsibility

2.2.1 Overview

Many people believe that CSR is a Western concept. However, in developing countries, there is some evidence to show that CSR draws strongly from cultural tradition (Crane, 2008). In Indonesia, for example, CSR is rooted in traditional culture called ‘gotong royong’ which can be translated as “handling the burden together”. The people in Indonesia, especially those who live in remote areas or in villages still use the term gotong royong to deal with community challenges such as building a church, mosque or bridge. When one village suffers from a natural disaster then people from neighbouring villages will come to help. Everyone in the community has a social responsibility to help others.

In the Western concept of CSR, the corporation has a responsibility to help and share some of its profit to the surrounding community to show that it cares for the community. On the other hand, in the East, the sense of responsibility is embedded in everyone culturally. The leader of the village has a responsibility to lead his/her village to prosperity; a company which operates in an area has a responsibility to its community and so on.

In Indonesia, social responsibility covers all aspects of the helping the community and not just corporate aspects. For example, Indonesia’s Limited Liability Law of 2007 (Article 74) imposes an obligation on companies to engage in environmental social responsibility which means applying social responsibility in the environment where the company operates.

2.2.2 CSR History and Concept Evolution

A number of definitions of CSR are available and no particular definition is universally accepted. Each of the diverse definitions refers to similar characteristics of CSR and the purpose and intent of the definitions are largely the same.

The CSR concept has been evolving for many years. The major development of the concept began in the early 1950s which Carroll (1999) described as the beginning of the CSR modern era. This section presents an overview of the concept development of CSR from the 1950s to 1960s, 1970s to 1980s and during the 1990s. The shape of CSR in the 21st century and in the future is then considered.

2.2.2.1 Development of CSR Concept in the 1950s-1960s

A review of the literature indicates that the exact source of the CSR concept has not been ascertained. However, many researchers agree that the publication of Bowen’s
“Social Responsibilities of the Businessman”, in 1953, is a milestone of modern CSR development. Bowen gave the initial definition of CSR as “the obligations of the businessmen raised to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society” (Bowen, 1953). This definition provided the foundation for the introduction of an obligation on businesses to establish objectives that are in harmony with the goals and values of society.

In the 1960s, more efforts were made to give a formal definition of CSR. Davis (1960) added another dimension to CSR by formulating it as “decisions and actions taken for reasons at least partially beyond the firm's direct economic and technical interest” (Davis, 1960). In this definition, Davis (1960) affirmed the existence of a CSR beyond economic responsibility solely. This argument becomes highly relevant because, at the time, the views on the social responsibilities of companies were still dominated by the philosophy of neo-classical economists led by Milton Friedman who said that in a free society “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profit so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Schwartz & Saia, 2012).

In other words, in the dominant neo-classical view at the time, businesses were seen to have a social responsibility to use company-owned resources as efficiently as possible to produce goods and services needed by the community at a price that can be reached by the average consumer. When business goes well, the company will obtain maximum benefit and can continue to discharge its social responsibility to the community.

2.2.2.2 Development of CSR Concept in the 1970s-1980s
In 1971, the US Committee for Economic Development (CED) published the Social Responsibilities of Business Corporations (Carroll, 1999; Culture, 2005). This publication can be considered as a code of conduct based on the presumption that business activity has a fundamental purpose to give a constructive service to meet the needs and satisfaction of the community. The CED formulated a CSR model using concentric circles (Figure 2.2). The inner circle is the basic responsibility of the corporation for the implementation of an effective policy on economic considerations (profit and growth). The middle circle represents the responsibility of corporations to be more sensitive to the values and social priorities that apply in determining which policy
is to be taken. The outer circle describes the responsibilities which might arise with increasing corporate participation in safeguarding the environment and the community.

![Diagram](image)

**Figure 2.2: Committee for Economic Development (CED) model for CSR (Culture, 2005)**

The 1970s was also marked by the development of CSR definitions. Sethi (1975) gave an explanation for the behaviour of corporations known as social obligation, social responsibility, and social responsiveness. According to Sethi, social obligation is the behaviour of the corporation which is driven by the interests of the market and legal considerations. This social obligation only emphasises economic and legal aspects. Social responsibility is corporate behaviour that not only puts emphasis on economic aspects and the law alone but harmonising obligations with the norms, values and expectations of the social environment. Social responsiveness is the behaviours of corporations that are responsive and adapt to the interest of society. Social responsiveness is preventive anticipation and action. In Sethi’s approach, social obligation is mandatory, social responsibility is advised and social responsiveness is preventive. Sethi’s social performance dimensions are similar to the concentric circle model presented by the CED.

In the early 1980s, Carroll proposed a CSR model that categorises a company’s responsibilities into four areas, namely: economic, legal, ethical and discretionary (Carroll, 1979). Figure 2.3 shows Carroll’s model.
Carroll later changed the term “discretionary” to “philanthropic”. In either case, this category of responsibility is considered to be voluntary. In Carroll’s approach, each category of responsibility is not mutually exclusive but rather must exist on a continuum and the responsibilities are often pursued simultaneously (Carroll, 1979; Culture, 2005).

2.2.2.3 Development of CSR Concept in the 1990s

In the 1990s, a number of topics related to CSR emerged including corporate social performance, the stakeholder theory, business ethics, sustainability and corporate citizenship (Sen, 2011). The introduction of the concept of sustainable development in the 1990s had a big impact on the development of the concept of CSR. The concept of sustainable development encouraged the use of sustainability reports including the triple bottom line method developed by Elkington (1999). The development of CSR in this period was also affected by necessary changes in the orientation of CSR from a voluntary activity which had no relation to the achievement of long-term goals to becoming a strategic activity related to the achievement of the objectives of the company in the long-term (Elkington, 1999).

In the 1990s, according to Visser (2010), CSR was institutionalised due to standards such as the ISO 14001 and SA 8000, guidelines such as those provided by the Global Reporting Initiative and corporate governance codes such as the Cadbury Code in the UK and the King Code in South Africa (Visser & Tolhurst, 2010). Introduced in
1997 by the International Organisation for Standardisation, ISO 14001 is the world’s preferred standard for measuring and evaluating environmental management systems. It may be applied to environment-related responsibilities, such as waste management, or practices aimed at avoiding adverse changes to air, water or land. SA 8000 is the social accountability standard. It is the most widely recognised global standard for managing human rights in the workplace (DOLE, 2011).

In summary, the 1990s saw an increased focus on the strategic alignment of CSR with a company’s long-term objectives. Kotler and Lee (2005) identified the benefits that can be obtained for a company through the implementation of strategic CSR, such as increased sales and market share, strengthened brand positioning, enhanced corporate image, lower operating costs, as well as enhanced attractiveness of the company in the eyes of investors and financial analysts.

2.2.2.4 Development of CSR Concept in 21st Century

Horrigan (2007) argued that since the last decade of the 20th century and the beginning of the 21st century, global debates about CSR have reached a new level of transition from ‘why’ corporations must be socially responsible to ‘how’ they can become socially responsible. He also argued that this movement is seen in the legal frameworks underpinning corporate governance, decision-making and reporting, as well as in corporate law reform and other regulatory initiatives oriented around CSR concerns. The requirements for directors’ duties, business risk and operational assessments, and corporate reporting also remain a 21st century work in progress across these systems (Horrigan 2007).

As stated above, Visser (2010) pointed out that CSR was institutionalised in the 1990s due to the introduction of international standards, guidelines and corporate governance codes. The 21st century has seen more of the same, spawning a plethora of CSR guidelines, codes and standards, with industry sector and climate change variations on the theme. Visser (2010) argued that because CSR is a dynamic movement that has been evolving over decades, it is helpful to show the paradigm shift from CSR 1.0 to CSR 2.0. Table 2.3 summarises the characteristics of CSR 1.0 and CSR 2.0 and the resulting paradigm shift.
Table 2.1: Paradigm shift from CSR 1.0 to CSR 2.0 (Visser, 2010)

<table>
<thead>
<tr>
<th>CSR 1.0</th>
<th>CSR 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>A vehicle for companies to establish relationships with communities, channel philanthropic contributions and manage their image.</td>
<td>Defined by ‘global commons’, ‘innovative partnerships’ and ‘stakeholder involvement’.</td>
</tr>
<tr>
<td>Included many start-up pioneers like Tradecraft, but has ultimately turned into a product for large multinationals like Royal Dutch Shell.</td>
<td>Mechanisms include diverse stakeholder panels, real-time transparent reporting and new-wave social entrepreneurship.</td>
</tr>
<tr>
<td>Travelled down the road of ‘one size fits all’ standardisation, through codes, standards and guidelines to shape its offering.</td>
<td>Recognises a shift in power from centralised to decentralised; a change in scale from few and big to many and small; and a change in application from single and exclusive to multiple and shared.</td>
</tr>
</tbody>
</table>

CSR 2.0 moves beyond the outmoded approach of CSR as philanthropy or public relations (which in relation to environmental responsibilities has been widely criticised as ‘green wash’) to a more interactive, stakeholder-driven model. CSR 2.0 is guided by the following five principles (Visser, 2010):

1. Connectedness – In order to succeed in CSR, business has to break the hegemony of shareholders. Companies have been behaving as “mere serfs in the kingdom of shareholder capitalism”. Business can take power back by moving from subservience to connectedness and by institutionalising multi-stakeholder relationships.

2. Scalability – The sustainability problems such as climate change and poverty are at such a massive scale, and are so urgent, that any CSR solutions that cannot match that scale and urgency are unhelpful distractions.

3. Responsiveness – Business has a long track-record of responsiveness to community needs. CSR 2.0 responsiveness also means greater transparency, not only through reporting mechanisms like the Global Reporting Initiative, but also by sharing critical intellectual resources. However, the severity of today’s global problems demands that
companies go much further. CSR 2.0 requires uncomfortable, transformative responsiveness, which questions whether the business model itself is part of the solution or part of the problem.

4. **Duality** – Much of the debate on CSR in the past has dwelt in a polarised world of ‘either/or’. Either your company is responsible or it is not. Either you make life-saving drugs available for free or you do not. This fails to recognise that most CSR issues manifest as dilemmas, rather than easy choices. In a complex, interconnected CSR 2.0 world, companies will have to become far more sophisticated in understanding local contexts and the appropriate local solutions they demand, without forsaking universal principles.

5. **Circularity** – CSR 2.0 circularity would create buildings that, like trees, produce more energy than they consume and purify their own waste water; or products that decompose and become food and nutrients; or materials that can feed into industrial cycles as high quality raw materials for new products.Circularity need not only apply to the environment. Business should be constantly replenishing its social and human capital, not only through education and training, but also by nourishing community and employee well-being. CSR 2.0 raises the importance of meaning in work and life to equal status alongside ecological integrity and financial viability.

To conclude this section of the literature review, Table 2.2 presents a summary of definitions of CSR from the 1950s to 2013. The summary demonstrates the evolution of the CSR concept over time.
<table>
<thead>
<tr>
<th>Author</th>
<th>Year</th>
<th>Definition/Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fortune Magazine Survey</strong></td>
<td>1946</td>
<td>Social consciousness (of businessmen) – businessmen were responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-and-loss statements. Note: 93% of businessmen responding agreed with this statement. [cited in Bowen 1953, p. 44]</td>
</tr>
<tr>
<td><strong>Bowen</strong></td>
<td>1953</td>
<td>CSR refers to the obligations “to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”.</td>
</tr>
<tr>
<td><strong>Davis</strong></td>
<td>1960</td>
<td>Social responsibility refers to business “decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest”.</td>
</tr>
<tr>
<td><strong>Frederick</strong></td>
<td>1960</td>
<td>Social responsibilities mean that businesses should oversee the operation of an economic system that fulfils the expectations of the public. And this means in turn that production and distribution should enhance total socio-economic welfare. Social responsibility in the final analysis implies a public posture towards society’s economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms.</td>
</tr>
<tr>
<td><strong>Davis and Blomstrom</strong></td>
<td>1966</td>
<td>Social responsibility refers to “a person’s obligation to consider the effects of his decisions and actions on the whole social system. Businessmen apply social responsibility when they consider the needs and interest of others who may be affected by business actions. In so doing, they look beyond their firm’s narrow economic and technical interests”</td>
</tr>
</tbody>
</table>
| **Johnson** | 1971 | “A socially responsible firm is one whose managerial staffs balance a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation.”

“Socially responsibility states that businesses carry out social programs to add profits to their organization.” (p. 54)

“The third approach of social responsibility assumes that the prime motivation of the business firm is utility maximization; the enterprise seeks multiple goals rather than only maximum profit.” (p. 59) |
| **Samuelson** | 1971 | “…a large corporation these days not only may engage in social responsibility, it had damn well better try to do so.” [speaking more to public expectations than attempting to provide an overall definition] |
Table 2.2: Evolution of definition of CSR (Continued)

| Committee for Economic Development (CED) | 1971 | Business “functions by public consent and its basic purpose are to serve constructively the needs of society – to the satisfaction of society.” (p. 11) Further, business “is being asked to assume broader responsibilities to society than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of American life than just supplying quantities of goods and services. Inasmuch as business exists to serve society, its future will depend on the quality of management’s response to the changing expectations of the public.” (p. 16) |
| Steiner | 1971 | “Business is and must remain fundamentally an economic institution, but … it does have responsibilities to help society achieve its basic goals and does, therefore, have social responsibilities. The larger a company becomes, the greater are these responsibilities, but all companies can assume some share of them at no cost and often at a short-run as well as a long-run profit.” Further – “It is a philosophy that looks at the social interest and the enlightened self-interest of business over the long-run as compared with the old, narrow, unrestrained short-run self-interest.” (p. 164) |
| Manne & Wallich | 1972 | Manne: “To qualify as socially responsible corporate action, a business expenditure or activity must be one for which the marginal returns to the corporation are less than the returns available from some alternative expenditure, must be purely voluntary, and must be an actual corporate expenditure rather than a conduit for individual largesse.” (pp. 4-6) Wallich: “I take responsibility to mean a condition in which the corporation is at least in some measure a free agent.” [not an obligation imposed by Law] |
| Davis | 1973 | CSR refers to “the firm’s consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm.” (p. 312) “It is the firm’s obligation to evaluate in its decision-making processes the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks.” (p. 313) “It means that social responsibility beings where the Law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the Law, because this is what any good citizen would do.” (p. 313) |
Table 2.2: Evolution of definition of CSR (Continued)

<p>| Eilbert and Parket | 1973 | “Perhaps the best way to understand social responsibility is to think of it as ‘good neighbourliness.’ The concept involves two phases. On one hand, it means not doing things that spoil the neighbourhood. On the other, it may be expressed as the voluntary assumption of the obligation to help solve neighbourhood problems.” “The commitment of a business or business, in general, to an active role in the solution of broad social problems.” (p. 7) |
| Eells and Walton | 1974 | “In its broadest sense, CSR represents a concern with the needs and goals of society which goes beyond the merely economic.” And – “a broad concern with business’s role in supporting and improving the social order.” (p. 247) |
| Miller | 1975 | Asked how to balance responsibilities to employees, consumers, community and shareholders, Miller responded: “Every good manager subconsciously senses this as he plunges deeper into his job. Such a judicious balancing is not something he ought to do; it is something he has to do. The corporation has a real structure quite apart from its legal structure. You cannot operate without the shareholders’ capital; they do not have to pay it in. You cannot exist or operate without employees; they do not have to work for you. You cannot exist or operate without a community that is stable that has a reasonable crime rate, adequate schools, and so on; the citizens do not have to welcome you to it. You cannot exist without customers; they do not have to buy from you. Even suppliers do not have to sell to you if you do not give them a decent mark-up and otherwise treat them fairly. You have to operate in a fair and balanced way, such that all of these people will want to give you their services, their funds, or their business. You have to treat them equally because they are all equally essential. Otherwise, you do not have a business for very long. In other words, CSR is not a matter of what you ought to do but really is a matter of looking at the total realities and total requirements of a given situation.” |
| Sethi | 1975 | Distinguishing social obligation, social responsibility and social responsiveness: “Thus social responsibility implies bringing corporate behaviour up to a level where it is congruent with the prevailing social norms, values, and expectations of performance.” (p. 62) Social responsiveness by contrast is “the adaptation of corporate behaviour to social needs.” |
| Preston and Post | 1975 | Social responsibility refers “only to a vague and highly generalized sense of social concern that appears to underlie a wide variety of ad hoc managerial policies and practices.” |</p>
<table>
<thead>
<tr>
<th>Author</th>
<th>Year</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carroll</td>
<td>1979</td>
<td>“The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.” (p. 500)</td>
</tr>
<tr>
<td>Jones</td>
<td>1980</td>
<td>CSR is “the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by Law and union contract. Two facets of this definition are critical. First, the obligation must be voluntarily adopted; behaviour influenced by coercive forces of Law or union contract is not voluntary. Second, the obligation is a broad one, extending beyond the traditional duty to shareholders to other societal groups such as customers, employees, suppliers, and neighbouring communities.” (pp. 59-60)</td>
</tr>
<tr>
<td>Carroll</td>
<td>1983</td>
<td>“In my view, CSR involves the conduct of a business so that it is economically profitable, Law abiding, ethical and socially supportive. To be socially responsible… then means that profitability and obedience to the Law are foremost conditions to discussing the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, times and talent. Thus, CSR is composed of four parts: economic, legal, ethical and voluntary or philanthropic.” [Note: In this update, he substituted “voluntary or philanthropic” for “discretionary” used in his earlier definition – perhaps reflecting the typical practice in the business community]</td>
</tr>
<tr>
<td>Drucker</td>
<td>1984</td>
<td>“But the proper ‘social responsibility’ of business is to tame the dragon that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth.” (p. 62)</td>
</tr>
<tr>
<td>Carroll</td>
<td>1991</td>
<td>“It is suggested here that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a pyramid.” (p. 40) And – “The CSR firm should strive to make a profit, obey the Law, be ethical, and be a good corporate citizen.” (p. 43)</td>
</tr>
<tr>
<td>World Business Council for Sustainable Development</td>
<td>2000</td>
<td>CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.</td>
</tr>
</tbody>
</table>
Table 2.2: Evolution of definition of CSR (Continued)

<table>
<thead>
<tr>
<th>Source</th>
<th>Year</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marsden</td>
<td>2001</td>
<td>CSR is about the core behaviour of companies and the responsibility for their total impact on the societies in which they operate. CSR is not an optional add-on nor is it an act of philanthropy. A socially responsible corporation is one that runs a profitable business that takes account of all the positive and negative environmental, social and economic effects it has on society.</td>
</tr>
<tr>
<td>Commission of the European Communities</td>
<td>2001</td>
<td>CSR is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment.</td>
</tr>
<tr>
<td>CSRwire.com</td>
<td>2003</td>
<td>CSR is defined as the integration of business operations and values, whereby the interests of all stakeholders including investors, customers, employees, and the environment are reflected in the company’s policies and actions.</td>
</tr>
<tr>
<td>UNRISD Conference Report</td>
<td>2003</td>
<td>At the core of the CSR agenda “are specific policies and practices involving codes of conduct, environmental management systems, stakeholder dialogues, community investment and philanthropy, as well as reporting, auditing and certification related to social and environmental aspects.”</td>
</tr>
<tr>
<td>World Bank</td>
<td>2003</td>
<td>CSR “is a term describing a company’s obligations to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit.”</td>
</tr>
<tr>
<td>ISO 26000</td>
<td>2013</td>
<td>The social responsibility of an organisation is “the responsibility for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable Law and consistent with international norms of behaviour; and is integrated throughout the organization and practiced in its relationships”.</td>
</tr>
</tbody>
</table>

2.2.3 CSR and Companies

The management decision of a company to carry out CSR programs on an ongoing basis is a rational decision as it usually leads to benefits that will be enjoyed by the company and its stakeholders. Through CSR, the welfare and socio-economic lives of local people and the wider community can be improved. This in turn will ensure the smooth running of the production activity by preserving the environmental sustainability and natural resources which ensures the availability of the supply of raw materials for production.
CSR has many benefits for the company (Petkoski & Twose, 2003). The first benefit is maintaining and boosting the company’s reputation. By conducting CSR activities, consumers can recognise the company as a company that does good activities for the community. The second benefit is that it is possible to reinforce a company’s brand through CSR activities. This can lead to consumer awareness of the company's products so as to increase the company's brand position. The third benefit is that CSR activities can differentiate the company from its competitors. If CSR activities are conducted, the company has an opportunity to highlight its competitive advantage and superiority so as to differentiate itself from competitors who offer similar products or services. The fourth benefit of CSR is that it involves innovation and learning. Selecting CSR activities that correspond to the main activity of the company requires creativity. Planning a CSR program consistently and regularly can trigger innovation in companies, which in turn can enhance the role and position of the company in the global business. The fifth benefit relates to open access for investment and financing for the company. Investors now have an awareness of the importance of investing in companies that are committed to CSR. Providers of funds, such as banks, might also prioritise the provision of funds to companies that perform CSR. The sixth benefit is that CSR can boost share values. Ultimately if the company routinely conducts CSR in accordance with its core business and does it consistently and regularly, stakeholders and the business community including investors and creditors, academics, governments and consumers will increasingly recognise the company. The demand for the company’s products will go up and the company’s stock price will also rise.

2.2.4 CSR and Communities

Generally, a company has two functions: as a business organisation and as a social organisation. Companies that are only business-oriented will face challenges in their social environment either directly or indirectly. Interacting with the surrounding environment is unavoidable: from providing input, to the output process. In other words, a business unit of activity cannot be separated from its social environment. Companies use natural resources as materials to produce goods and use human resources to produce services and as the driving force of all the company’s activities. Public awareness of the importance of a company’s impact on social and environmental conditions has grown in recent decades. Parties that have an interest in a company have begun to press companies to start implementing social and environmental obligations. According to

1 www.sinarharapan.co.id
Kodrat (2009), the model of CSR implementation in Indonesia generally includes the following elements:

1) Social assistance – the provision of social services, health facilities, houses of worship, roads and other public facilities, natural disaster relief, poverty alleviation and community development.

2) Education and development assistance – the provision of education and training, scholarships to children of school age.

3) Economic assistance – running a partnership program, providing funds or soft loans for business development and empowering local communities.

4) Environmental assistance – environmental management, waste handling, and preserving nature and biodiversity.

5) Consumer services – continuous product improvements, toll-free services and ensuring the quality and availability of products.

6) Employee assistance – old age security programs, health and safety and good remuneration programs.

2.2.5 CSR and Government

Understanding the role of the public sector in CSR is complex and is an emerging field. The concept of CSR has not yet taken hold in many public sector agencies, and many of their interventions have not been undertaken explicitly as CSR initiatives but nevertheless could be seen as part of the CSR agenda. There is therefore a wealth of relevant experience among public sector agencies that is currently being overlooked. Table 2.3 categorises the possible range of government interventions regarding CSR (Petkoski & Twose, 2003).
Table 2.3: Government interventions in CSR (Petkoski & Twose, 2003)

<table>
<thead>
<tr>
<th>Public Sector Roles</th>
<th>Mandating</th>
<th>Facilitating</th>
<th>Partnering</th>
<th>Endorsing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Command and control legislation</td>
<td>‘Enabling’ legislation</td>
<td>Combining resources</td>
<td>Political support</td>
<td></td>
</tr>
<tr>
<td>Regulators and inspectorates</td>
<td>Creating incentives</td>
<td>Stakeholder engagement</td>
<td>Publicity and praise</td>
<td></td>
</tr>
<tr>
<td>Legal and fiscal penalties and rewards</td>
<td>Capacity building</td>
<td>Dialogue</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A number of regulations in force in Indonesia can be used as a reference for CSR implementation in public sector agencies. These include: the 1945 Constitution, Article 33; Law No. 19 of 2003 on State-Owned Enterprises; Law No. 25 of 2007 on Investment; Law No. 40 of 2007 on Limited Liability Companies; and Regulation of the Minister of SOEs (No. PER-05/MBU/2007) on the SOE Partnership Program which obliges SOEs to support small businesses and community development.

The regulations imply that efforts should be made either by the government or corporations to carry out community development in the areas of social, educational, economic and environmental health. However, there do not appear to be local ordinances that specifically address the issue of managing CSR. This indicates that the management of CSR is governed by the central government even though government administration in Indonesia is based on a model of local autonomy. In this model, each area should have a local ordinance that specifically deals with the CSR to be adapted to local conditions and the local environment.

2.2.6 CSR in Developed and Developing Countries

These days, companies are considered as socially responsible if they can create good shareholder values, as well as having positive effects on their stakeholders, namely, their customers, suppliers, employees and the community at large. Companies are seeking to become sustainable by addressing their stakeholders’ welfare and environmental protection issues. The methods used by companies to address the various social and environmental issues in their operating areas, individually or collectively, are known as CSR.
Some business writers make a pragmatic argument for CSR. They argue that the first responsibility of a business is to make enough profit to cover the cost of the future. If this responsibility is not fulfilled, no more social responsibility can be fulfilled. Decaying businesses in a decaying economy are unlikely to be a good neighbours, good employers or socially responsible in any way. In this view, the social responsibility of business is met when social problems are turned into economic opportunity and economic benefit. This development of productive capacity feeds into human competencies, well-paid jobs and wealth (Drucker, 1984).

Corporate awareness that the continuity of business growth will not occur without the support of stakeholders, such as managers, consumers, workers and other community members, created a shift away from a simple focus on profits and the bottom line. CSR suggests that the business will not prosper if the stakeholders do not prosper.

The pragmatic approach acknowledges the existence of communities around a company but does not see community empowerment as an explicit goal of CSR. Empowerment means efforts so that people are directly involved themselves in the process of gaining social, organisational and entrepreneurial skills and competencies. Empowerment has a broader meaning than employment or job opportunities, because it involves more complex factors such as perceptions, motivations, human qualities, natural resources and science and technology. All these factors must be integrated. If empowerment is not able to run smoothly it will cause both economic and social disparities.

Carroll’s pyramid (Figure 2.4) has been used as a cornerstone of CSR theory in many studies. It is almost entirely based on research in the American and European context (Crane, 2007). Visser argued that Carroll’s pyramid only applied to developed country settings and proposed a new layer in the pyramid which is specifically relevant to developing countries (Figure 2.5). In Visser’s pyramid (Crane, 2008) philanthropic responsibility becomes the second layer instead of legal responsibility as shown in Carroll’s pyramid. Visser argued that this is the result of a strong tradition of philanthropy in developing countries.

Carroll (1991) identified four types of corporate responsibility, creating a definition of CSR that addresses the entire range of obligations of business to society. All these kinds of responsibilities have always existed to some extent, but it has only been in recent years that ethical and philanthropic functions have taken a significant place. The four types of responsibilities in Carroll’s model are:
1. Economic responsibility – This refers to the fundamental responsibility of business to produce goods and services that society wants, and which it sells at a profit.

2. Legal responsibility – This refers to the obligation of business to fulfil its economic mission within the confines of the law.

3. Ethical responsibility – This refers to the ethical responsibilities of a company to go beyond legal compliance. Ethical responsibilities embody standards, norms or expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair, just or in keeping with the respect or protection of the stakeholders’ moral rights.

4. Philanthropic responsibility – This refers to voluntary responsibilities, such as philanthropy, which a company can assume even if there are no clear-cut societal expectations to do so.

These four categories are not mutually exclusive, nor are they intended to portray a continuum with economic concerns on one end and social concerns on the other. These four components of CSR are as a pyramid (Carroll, 1991), as shown in Figure 2.4.

![Figure 2.4: Carroll’s CSR pyramid (Carroll, 1991)](image-url)
Carroll’s CSR pyramid shows the four components of CSR, starting with the basic building block which is the notion that economic performance undergirds all else. At the same time, business is expected to obey the law as society’s codification of acceptable and unacceptable behaviour. Next is the responsibility of business to be ethical. At its most important level, this is the obligation to do what is right, just and fair, and to avoid or minimise harm to stakeholders (employees, consumers, the environment and others). As a final point, business is expected to be a good corporate citizen. This is captured in the component of philanthropic responsibility, wherein business is expected to enhance the financial and human resources in the community and to improve the quality of life.

Carroll’s pyramid is an ideal model for developed countries, but the common question that arises in discussing CSR literature in developing countries is whether or not Western conceptions and models of CSR are adequate for describing CSR in developing countries. For example, the most popular model, namely, Carroll’s (1991) CSR pyramid, is almost entirely based on research in the North American context. Yet several empirical studies suggest that culture may have an important influence on perceived CSR priorities (Crane, 2007; Crane, 2008; Visser & Tolhurst, 2010).

Crane and Matten (2007) addressed this point explicitly by discussing CSR in the multi-ethnic European context using Carroll’s CSR pyramid. They concluded that “all levels of CSR play a role in Europe, but they have different significance, and furthermore are interlinked in a somewhat different manner” (p. 51). In the same way, Carroll’s four-part pyramid construct can be usefully applied to look at how CSR is manifested in a developing country context.

Taking this approach, the contention made by Visser (Crane, 2008) is that the order of the CSR layers in developing countries—if these are taken as an indicator of the relative emphasis assigned to various responsibilities—is different from Carroll’s classic pyramid. Hence, in developing countries, economic responsibilities still get the most emphasis. However, philanthropy is given the second highest priority, followed by legal and then ethical responsibilities. This model is illustrated in Figure 2.5.
Based on Carroll and Visser’s pyramids, a specific pyramid for the Indonesian context is proposed in the present study as shown in Figure 2.6. In Visser’s pyramid, the legal responsibility is in third layer and ethical responsibility is on top of the pyramid. The layer arrangement shows the importance of the responsibility, with the lower layer being the most significant responsibility that has to be fulfilled by a company. In deciding to place ethical responsibility as the uppermost level in the pyramid, Visser was referring to Transparency International’s annual Corruption Perception Index and Global Corruption Barometer which indicate that most developing countries have high levels of entrenched corruption.

In the proposed Indonesian CSR pyramid, ethical responsibilities come before legal responsibilities. Even though Indonesia is the first country in the world to have CSR laws (Waagstein, 2011), there are no sanctions for failures to implement CSR. Therefore, when an Indonesian company implements CSR, it is not doing so because of the legal aspects of CSR but because they feel that they have an obligation to help the community and become a good corporate citizen. For example PT Unilever established Unilever Care Foundation in 2000 to support the community around the company by providing training and workshop for small enterprises, health education, HIV/AIDS prevention, etc.

Long before the enactment of CSR laws in Indonesia in 2007, a number of companies especially mining companies had implemented traditional CSR programs in

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**Figure 2.5: Visser’s CSR pyramid (Crane, 2008)**

---
the form of community development. These were voluntary initiatives carried out directly by a company through its human resource development programs or its public relations division. Community development activities were also sometimes conducted by a foundation established separately from the main organisation. These are some of the reasons why ethical responsibilities can be said to come before legal responsibilities in the CSR pyramid in the Indonesian context.
Figure 2.6: Indonesia’s CSR pyramid
The layers in the proposed CSR model for Indonesia, and the ways in which each layer differs from the Carroll and Visser models are explained as follows:

1. Economic responsibility – This refers to the fundamental responsibility of business to produce goods and services that society wants, and which it sells at a profit. The meaning and positioning of this responsibility in the proposed Indonesian CSR pyramid is the same as in the Carroll and Visser pyramids.

2. Philanthropic responsibility – This refers to voluntary responsibilities. In the proposed Indonesian CSR pyramid, this responsibility is placed on the second layer because the “gotong royong” cultural value is embedded in the everyday life of Indonesians, with each member of community coming to help and work together when needed; for example, when there is a need to build a place of worship or fix a broken bridge in one village, then people from neighbouring villages will come and help. The same cultural tradition is followed by a company that operates in the neighbourhood: the company usually voluntarily helps by providing money or materials and even skilled workers to assist the community.

3. Ethical responsibility – This refers to the ethical responsibilities of a company to go beyond legal compliance. As explained above, ethical responsibilities embody standards, norms or expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair, just or in keeping with the respect or protection of the stakeholders’ moral rights. This type of CSR refers to the moral responsibility of the company towards the community. The moral responsibility of the company could be directed to many parties including employees and other companies and so on. Moral responsibility is particularly relevant in the community in which the company conducts its activities; for example, a company may take a narrow moral responsibility towards the community and environment.

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2 Gotong royong can be translated as “shouldering the load together” and is part of the traditional culture of Indonesia. The concept is about helping others to solve a community problem; for example, building a church or mosque in a village. All the members of the community will get together hand in hand to help one another despite their religious, ethnic or tribal differences.
around its factory or it may take a wider moral responsibility to the broader society.

4. Legal responsibility – This refers to the obligation of business to fulfil its economic mission within the confines of the law. In the proposed Indonesian CSR pyramid, this responsibility is put at the top level because there is no debate in Indonesia about whether or not a company wishes to engage in social responsibility activities since the Indonesian Government introduced laws in 2007 obliging every company that operates in Indonesia to perform CSR. Some companies protested against this law and challenged it in the Judicial Review Court; however, the result of the challenge was not successful as the court determined that the Law was sound and for the good of the community.

In the external sphere, CSR implementation should be able to improve the social and economic aspects of the environment surrounding the company in particular and society in general. These external responsibilities are shared between the obligations of business entities to realise the welfare of society through sustainable development. CSR has to be a continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.

In implementing CSR, companies can engage in explicit and implicit CSR (Moon & Matten, 2008). Explicit CSR refers to corporate policies that assume and articulate responsibility for some societal interests. External CSR activities normally consist of voluntary programs and strategies by corporations that combine social and business values and address issues perceived as being part of the social responsibility of the company. Implicit CSR refers to the corporation’s role within the wider formal and informal institutional responsibility for society’s interest and betterment. Implicit CSR normally consist of values, norms and rules that result in requirements for corporations to address stakeholder issues and that define the proper obligations of corporate actors in collective rather than individual terms.

CSR is the concept that companies have a responsibility towards customers, employees, shareholders, communities and the environment in all aspects of the company operations. CSR is closely linked to sustainable development, and there is an argument that when implementing its activities a firm should base its decisions not
solely on financial factors, such as profits or dividends, but also on social and environment consequences for now and the future (Moir, 2001; Moon & Matten, 2008).

CSR should involve meeting the needs of all stakeholders and not just shareholders if it is being carried out on an ethical basis. This ethical basis is described in the following key principles (Moir, 2001):

1. To treat employees fairly and equitably
2. To operate ethically and with integrity
3. To respect basic human rights
4. To sustain the environment for future generations
5. To be a caring neighbour in the community.

When businesses carry out CSR, such ethical concerns or moral responsibilities can be in the form of providing assistance to communities or small and medium enterprises in developing their business. It can be in the form of efforts to encourage economic growth in the community in order to improve the welfare of the society or community in general.

According to a report by APEC\(^3\), a number of similarities can be noted in CSR practices and activities in countries in the Asia Pacific region:

- The origins and conceptualisation of CSR are rooted in the historical and cultural traditions of each country and deeply influenced by ethical concepts and religious practice.
- CSR is gradually moving from its historical focus on business philanthropy to a broader set of activities that engage business with the full range of its stakeholders and integrate the practice of CSR into the core strategy of the organisation.
- Efforts at measurement and reporting are growing rapidly in the belief that formal monitoring and evaluation of outcomes will enhance the credibility of CSR and make it easier to substantiate.
- CSR is evolving in response to profound external forces, including meeting legal and regulatory obligations and responding to the elite and broader public opinions that demand higher standards of accountability; for example, meeting environmental requirements and assuring appropriate labour standards throughout the supply chain.

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\(^3\) Paper presented by Dr. Filemon A. Uriarte, Jr., Executive Director, ASEAN Foundation, during the LCF CSR Conference 2008 held at the Shangri-la Hotel, Makati City, Philippines on 16-18 July 2008.
Companies are increasingly turning to partnerships with other stakeholders including both governments and non-government organisations in implementing CSR activities.

Despite overall similarities among countries in the region, there are notable differences between the experiences of the developed countries and those of the developing countries. CSR activities in the developed countries tend to have the following patterns (APEC, 2005):

- There is great emphasis on the importance of environmental stewardship and the strengthening of environmental management practices.
- There is strong and active civil society involvement.
- An important CSR driver is the management of supply chain, including links to production in developing economies, often in response to well-articulated consumer concerns or activism.
- There is tendency to have strong traditions of community outreach including corporate community investment that in both concept and practice extends beyond pure charity or philanthropy.
- Companies are increasingly engaged in strategic partnerships with stakeholders within the communities in which they operate for mutual benefit.

In the case of industrialised and developed countries in the region, the major CSR challenges include: (a) finding appropriate responses to globalisation, (b) identifying and addressing gaps in CSR practices, (c) developing common standards of good practice throughout the supply chain, and (d) assuring exemplary corporate behaviour worldwide.

On the other hand, the practice of CSR in developing countries tends to have the following patterns (APEC, 2005):

- There is tendency to emphasise the role that multinational enterprises play in importing good CSR practices, which are then emulated by the local corporate community.
- The key drivers for CSR are the requirements of the global marketplace and their supply chains; for example, there are strong incentives for exporters to adopt appropriate practices (e.g. human rights, labour practices, environmental practices and food safety) to access markets or to attract overseas investment.
Where there are weaker regulatory frameworks or more limited capacities to enforce legislation, there is a tendency for global protocols to influence CSR practices to overcome local weakness and promote the capacity of local businesses to compete in global markets.

The major challenges differ from those of developed countries in that the challenges generally relate to: (a) raising further awareness of CSR, (b) building capacity within existing institutions that can drive the adoption of CSR, (c) making the case to the local business community to adopt CSR, and (d) transferring competencies to individual companies (APEC, 2005).

2.2.7 CSR Application in Selected Countries
This section presents a review of the application of CSR in a number of countries, namely, Indonesia, the Philippines, Singapore, Thailand, Vietnam, the United States and Japan. Most of the information is drawn from the APEC (2005) report on “Corporate Social Responsibility in the APEC Region: Current Status and Implications”.

A. Indonesia
The implementation of CSR is still at its early stages in Indonesia but there are encouraging signs. Companies operating in the global market are becoming gradually aware that they are required to balance the social, economic and environmental components of their business, while building shareholder value. The concept of “gotong royong” in Indonesian culture has been an important concept and functions as the basis of CSR in Indonesia. Therefore, the concept of social responsibility is not new for the Indonesians since social responsibility is seen to be relevant to all stakeholders of a community. The promotion of CSR has been marked by various initiatives in the public sector, private sector, in some NGOs, and even a combination of various stakeholders.

Most companies are in the “compliance stage” of the CSR organisational learning curve, where they adopt policy-based compliance as a cost of doing business; but some have reached the “managerial stage”, where they embed the societal issue in their core management process; and a few have even reached the “strategic stage”, where they integrate the societal issue in their core business strategies.

B. The Philippines
In the Philippines, mutual aid is manifested in rural traditional communities. For example, the spirit of “bayanihan”, a Philippine tradition which entails ‘brotherhood’, is
exemplified in the lending of mutual assistance. It is rooted in a deep sense of mutual respect.

Market forces have been the major drivers of CSR behaviour with corporations and private institutions organising and involving themselves in CSR activities not only as tactical responses to potential crises in the Phillipines but also in acknowledgment of the fact that businesses could not possibly thrive in an environment where the majority of the population are poor.

Sustaining the commitment to and resources available for CSR are the main challenges as social problems persist amidst the worsening economic condition of the country. Most CSR efforts are philanthropic in nature with education and health being the main recipients. Internal expressions of CSR, that is, linking it to the day-to-day operations of the organisation, are practised with companies promoting employee involvement in CSR. Leaders who play a significant role in strengthening CSR commitment within an organisation are the principal agents for the CSR promotion strategy.

One popular proponent of CSR in the Phillipines is the Philippine Business for Social Progress (PBSP), founded in December 1970 by 50 Filipino business leaders who pledged to set aside 1% of their companies’ net income before taxes to pursue poverty reduction programs. Based on a Venezuelan model of corporate social action, the PBSP was a means by which the Philippine business community could rationalise and co-ordinate its funding and technical support to socio-economic projects and programs across the country (Progress, 2011).

The PBSP aims to reduce poverty in the Phillipines by supporting community-based sustainable livelihood and enterprise development by providing startup and micro, small and medium enterprises with credit as well as non-credit assistance such as training, business advisory services, and market development support. PBSP encourages the value, practice and discipline of entrepreneurship among communities, and helps transform non-formal micro and small enterprises into formal enterprises. The foundation also aims to generate jobs and self-employment opportunities by disbursing financial assistance. The PBSP claims to implement CSR in three ways:

1. Businesses focus on community involvement with the host communities that provide them with labour. The welfare of residents is addressed through community relations projects.
2. Businesses set up their own social development foundations to undertake projects more systematically, often beyond their base communities, and focused on specific target sectors.

3. PBSP set up the Centre for Corporate Citizenship in an effort to promote the concept of CSR, from mere company support for projects, to the integration of social development in basic company philosophy and practice. The model of a corporate citizen is one who has a larger role in society and who “not only looks at the material costs of operations, but the environmental and social costs as well” (Stevens, 2010).

As the above description indicates, the PBSP is similar to the Partnership Program in Indonesia. The major differences between these two programs are the actors in the program and the amount of funds that the companies put aside from their profit. In Indonesia, the Partnership Program is operated by SOEs who put aside a maximum 3% of their profits each year, while the PBSP program is operated by a consortium comprised of 50 private companies who put aside 1% of their profits.

C. Singapore
The development of CSR in Singapore has been influenced by its unique characteristics as a city state that has achieved great economic success in an system whereby the government remains a key architect of the economy and has considerable influence over corporate behaviour. The government-centric approach in Singapore influences CSR approaches with much emphasis on compliance with legislative requirements as a means of achieving and regulating socially responsible behaviour.

D. Thailand
The practice of CSR is in an early stage of development in Thailand and is substantially influenced by religious beliefs and traditional norms of ethical practice. The full integration of CSR into business management at the strategic level is not yet widely evident, reflecting both an insufficient commitment to the concept on the part of top management and a general perception that CSR is primarily a form of business philanthropy.

Engagement with the NGO sector deals with broader aspects of CSR, including sound environmental practices and social development while engagement with government emphasises compliance with environmental, health, labour and safety standards. The CSR challenges in Thailand include: (a) the narrow perception of CSR
by many leaders as merely encompassing philanthropic activities as a public relations function; (b) the threat of an economic downturn; and (c) negative perceptions of standards related to CSR as another form of trade barrier.

E. Vietnam
CSR activities in Vietnam are regulated and supervised by the government and corporate social policies observe State regulations, which are outlined in the companies’ annual plans. The CSR thrust in Vietnam includes meeting the requirements of the import partners, operating in a favorable working environment, avoiding conflicts and disputes with local labour, and to some extent philanthropy.

Enterprises and government are the two main players in the promotion of CSR in Vietnam, whereby enterprises determine the success of CSR and government promulgates policies, supervises the enforcement of regulations and provides information on CSR issues. The main challenge is to raise the level of awareness of CSR since consumers generally have limited appreciation of CSR and fail to associate it with their choice of products to buy and do not relate CSR to social concerns.

F. United States
Wide-ranging and diverse commitments to society can be found in US companies, many of which are exemplary models of CSR practice. While CSR has taken on increased importance for business, it remains considerably undeveloped both in concept and in practice. CSR activity remains relatively rudimentary, considerably fragmented and lacks coherent strategy that would align and integrate it into the business.

Small and medium enterprises remain somewhat below the radar screen on CSR. Because the size, visibility and influence of the Fortune 500 companies in the US is so great, the practices of small and medium-sized companies tend to be overlooked. Much of the frameworks, tools and case examples are from large companies, with the untested assumptions that large companies will lead the way and their innovation will spill over into smaller companies. The following observations can be made of CSR in the US:

1) CSR practice is widespread. It would be an extremely rare company that did not have some CSR activity.
2) CSR practice is considerably variable, with no model having emerged that constitutes the standard.
3) Most companies are in a transitional phase and engaged in a learning mode.
4) Pockets of innovation are opening up new ways of practising citizenship.
5) Attempts to understand and implement global CSR practice are at a very early and largely undeveloped stage.

G. Japan

Corporate ethics and CSR-style ideas emerged in merchant activities under the Japanese feudal system during the 18th and 19th centuries, and these concepts still remained in place following the transition of the Japanese economic system to capitalism in the late 19th century. The “omi-merchant” represented a typical successful merchant during the Edo period (1603-1867) and the merchants of that era followed a “sanpo-yoshi” (“good for three parties”) principle or code of conduct. This code of conduct stated that the first priority is customers’ satisfaction, never expecting a high rate of profit and refraining from being greedy to secure benefits only for one self.

A philosopher during the Edo period, Baigan Ishida, maintained that the three key principles in business management were diligence, honesty and thriftiness. These principles have been handed down throughout Japanese history and are embodied in Japanese businesses today. This historical perspective needs to be taken into account when looking at CSR in Japan.

CSR in Japan typically entails the following attributes:

- Providing society with economic value
- Redistributing profits and contributing to society
- Working to prevent corporate misdeeds.

However, contemporary Japanese sources including the Japan Association of Corporate Executives regard these elements as an insufficient embodiment of modern CSR, and they cite the following descriptions as more appropriate:

- Sustainable social development and the creation of sustainable corporate value are synonymous
- CSR comprises of investment that should be positioned at the heart of business
- CSR comprises of voluntary efforts above and beyond compliance.

Overall, CSR is undergoing a transition in Japan as companies are adopting a sustainable approach that starts from reaction into responsibility, and evolves from responsibility into management.
2.2.8 CSR in Indonesia: Voluntary is Compulsory

In Indonesia, the term CSR has become increasingly popular since the 1990s. Some companies had long been performing corporate social activities which were not named CSR but were similar in approach to the CSR concept as they represented a form of participation in social and environmental endeavours. Since 2003, the Social Department of Indonesia has recorded government agencies which are active in developing CSR. The department has also advocated the benefits of CSR to the various national companies through the concept of corporate social investment which it promotes using the “seat belt” analogy⁴.

Many companies in Indonesia have demonstrated CSR engagement as a business case and that being socially responsible is good for their business. If they are socially responsible, business sales can increase, the quality and reliability of the workforce are enhanced, and trust in the company can build.

When the Indonesian Parliament passed Law 40/2007 on CSR for Limited Liability Companies in July 2007, Indonesia became the first country to introduce mandatory legal requirements for CSR (Rosser & Edwin, 2010). The implementation of the 2007 law has created significant debate over the nature of CSR, namely, whether it is voluntary or mandatory. On the one hand, the adoption of such a law represents a legal recognition of the existence of CSR, and this clarification on the legal nature of a concept is necessary for understanding the obligation and responsibility. On the other hand, it has created much confusion surrounding its substance and procedures. The obligatory nature of CSR is legitimate and therefore encouraged; however, in practice, this is problematic, as it not only requires a precise interpretation of CSR and identification of the duty bearer and beneficiaries, but also an effective implementation mechanism and a means of confirming the impact (Waagstein, 2011).

Private sector has played a major role in the development of Indonesia. However, it has also contributed to the destruction of nature and the environment and in this regard has been detrimental to society. One of the reasons this has occurred in the past relates to business practices that were characterised by corruption, collusion and nepotism, particularly during the Suharto government from 1966 to 1998 (Visser & Tolhurst, 2010). After the fall of the Suharto government in the late 1990s and with the added pressure of some NGOs and affected communities, these conditions began to

⁴ The “seat belt” analogy is used to illustrate that doing CSR is a good thing and that its benefits will return to the company that performs it. Furthermore, it will increase the company’s image and reduce risk when it has problems with the community.
change gradually. The CSR movement began to develop in Indonesia as local NGO activists had increased opportunities to publicly criticise domestic and foreign companies for environmental and social problems such as deforestation, pollution and the destruction of local communities. There were strong calls for tighter regulation of corporate activities (Rosser & Edwin, 2010). Private companies started to run their CSR programs and pay more attention to their environmental and social surroundings.

The Indonesian Government has introduced numerous laws and regulations over the years requiring companies to engage in certain types of socially responsible behaviour such as reforestation and providing for the occupational health and safety of workers. These programs have also extended to requirements to support MiSEs, based on the SOE example, although in most cases these have not been properly enforced (Atje, 2008; Rosser & Edwin, 2010).

Indonesia is the only country where CSR has been made mandatory. As explained above, this is due to the enactment of Law No. 25/2007 on Investment and Law No. 40/2007 on Limited Liability Companies. Law No. 25/2007 defines CSR as the responsibilities attached to every investment in order to maintain a harmonious and balanced relationship that supports the environment, local values, local norms and local cultures. The responsibilities of investors with regard to CSR are: (a) to maintain environmental conservation; (b) to care for the safety, health, comfort and wellbeing of employees; and (c) to comply with the laws. Infringement of the law may cause the withdrawal of a business permit. Law No. 40/2007 goes one step further by introducing a requirement to report on CSR. It defines CSR as the commitment of the company to take a role in developing a sustainable economy in order to improve the quality of life and environment for the company itself, for local communities and for the broader society; however, CSR is only obligatory under this law for firms involved in natural resource extraction and other related industries. Moreover, firms are allowed to treat CSR expenditures as costs in their accounting, subject to the fairness of such expenditures. There will be a sanction, which is as yet undefined and untested, should firms fail to implement CSR (Rosser & Edwin, 2010; Visser & Tolhurst, 2010; Waagstein, 2011).

The challenges posed by these two laws have raised debate and controversy among business people, politicians, lawyers and others. Law No. 25/2007 states that CSR is mandatory for all corporations those operate in Indonesia. However, Law No. 40/2007 (in Article 74) only requires companies conducting their business activities in and correlated to the field of natural resources to implement this CSR. Law No. 40/2007
has generated strong reactions from various stakeholders because there will be a sanction should firms fail to implement CSR. This differs from the Law No.25/2007 which does not impose any sanctions.

Those who oppose the implementation of Law No.25/2007 state that it creates legal uncertainty as it is not in accordance with the CSR movement’s voluntary emphasis; they argue that the essential feature of CSR is its voluntarism. Furthermore, it is argued that the law is unjust and discriminatory, particularly towards certain corporations (mining) and creates an additional burden for these corporations. This would negatively impact the economy in general.

In Indonesia, the adoption of Law No. 40/2007 and Law No. 25/2007 give CSR a mandatory status and regulate implementation. The problem of distinguishing the mandatory and voluntary aspects of CSR frameworks has been faced in Indonesia. This problem occurs because of differences in views and opinions due to the number of different terminologies and definitions that apply. It also depends on the purpose, approach, semantic intent of the stakeholder involved in interpreting the law, and the institution concerned. Specific historic, cultural and political factors also contribute to this degree of diversity.

Moon and Matten (2008) distinguished mandatory and voluntary CSR in broad terms. They argued that CSR should be perceived both as a social imperative and as a social consequence of business success. Accordingly, they introduced two forms of CSR, namely, implicit and explicit CSR. As discussed above, explicit CSR usually consists of voluntary programs and strategies by corporations that combine social and business values and address issues perceived as being part of the social responsibility of the company. Implicit CSR normally consists of values, norms and rules embedded in (mandatory and customary) requirements for corporations to address stakeholder issues with the obligations of corporate stakeholders defined in collective rather than individual terms. Companies practising explicit CSR use the language of CSR in communicating their policies and practices to their stakeholders, whereas those practicing implicit CSR normally do not describe their activities in this way (Moon & Matten, 2008; Waagstein, 2011).

The notion of explicit CSR in Indonesia is more developed in sectors that have a direct relationship to natural resources and manufacturing, since these industries receive more negative attention and pressure from society due to high-profile lawsuits and cases, particularly human rights cases involving corporations. Examples include the Lapindo Mud tragedy in East Java and the Newmont Mines incident in Nusa Tenggara.
The public perceptions following these kinds of incidents motivate corporations to make their CSR commitment more explicit. This approach can be regarded as CSR in its early stages but at least is an encouraging sign that Indonesian companies, especially those operating in the global market, are becoming increasingly aware that they are required to balance the social, economic and environmental components of their business, while building shareholder value.

Most companies in Indonesia are in the “compliance stage” of the CSR organisational learning curve (Budimanta, 2008). At this stage, they adopt policy-based compliance as a cost of doing business. However, some have reached the “managerial stage”, where they embed the societal issue in their core management process; and a few have reached the “strategic stage” (Porter & Kramer, 2006), where they integrate the societal issues in their core business strategies.

The course of CSR implementation in Indonesia faces many problems. CSR programs have not been socialised properly in society (Budimanta, 2008). In Indonesia, the understanding of the CSR concept is still poor and inconsistent. This causes the CSR programs to not be running as they should. In particular, the general public does not understand what a CSR program is. It is often thought of as a Western concept associated with philanthropic acts, cause-related marketing or public relations. The misperception that CSR ultimately represents a net cost, as opposed to an investment, is still very common; this, in turn, has discouraged companies from adopting CSR in their corporate policies (Waagstein, 2011).

A crucial problem is the absence of clear rules in the implementation of CSR among private companies. As explained above, the government has passed legislation mandating CSR programs (Law No. 40/2007 and Law No. 25/2007). However, there is an absence of regulations implementing these laws so that implementation is being hampered due to the lack of government enforcement. This raises questions over the government’s seriousness in implementing the mandate of this law. Without proper implementation, the law will be a “paper tiger” and will never materialise in the real world.

2.2.9 CSR Legal Framework in Indonesia

The following sections explain the legal framework of CSR in Indonesia. Generally, there are four basic laws of CSR. They consist of three laws for private and public companies and one especially for SOEs. Although the four basic laws have the same goal, namely, to institutionalise the CSR obligation in the Indonesian legal system, each
one has its own characteristics. For example, the implementation of CSR according to the investment law concerns all the investors operating on Indonesian territory, including domestic and foreign investors. The corporations law requires the implementation of CSR only among companies doing business in the natural resources sector.

A CSR obligation is also especially applied to SOEs. However, limited liability SOEs must also comply with the corporation law. As a consequence, there is an overlap of the CSR obligations in these four basic laws. Recapping some of the previous discussion in this chapter, the following laws form the legal framework of CSR in Indonesia:

1. **Law No. 19 of 2003 on SOEs**

   The role of SOEs in providing public services can be seen in Article 2 paragraph (1) item e of this law: “Also active to give guidance and assistance to weak economy entrepreneurs, cooperatives, and community”. Further, in Article 65 paragraph (1) states that: “the government can provide a special assignment to State-Owned Enterprises to organise public benefit function with fixed attention to intents and purposes the activities of State-Owned Enterprises”. Article 88 paragraph (1) stipulates that SOEs are to set aside part of their net income for the purposes of fostering small business / cooperative and community development around the country.

   These articles set out the application of CSR in SOEs in Indonesia. Their implementation is supplemented by regulations issued by the Minister of State-Owned Enterprises (Regulation Number Per-05/MBU/2007) on the Partnership Program.

2. **Law No. 25 of 2007 on Investment**

   According to Article 15 of Act No. 25/2007, every investor is obliged to:

   a) Apply the principles of good corporate governance.

   b) Implement CSR.

   c) Generate reports about the activities of capital investment and deliver the reports to the capital investment coordination board.

   d) Respect the cultural traditions of the communities surrounding the location of the investment business activities.

   e) Comply with all provisions and regulations.
This legislation appears to set up CSR as a corporate code of conduct that promotes ethical business practices. Business ethics is a set of general agreements governing the relationship between business and the public, so that the relationship is intertwined with good will and fairness.

3. **Law No. 40 of 2007 on Limited Liability Company**

   Article 74 of Law No.40/2007 states that a company conducting business activities in the field and/or related to the natural resources is required to implement social and environmental responsibilities. The company as a legal entity has rights and obligations and one of the company’s liabilities for business activities related to natural resources is the requirement to carry out these responsibilities.

   According to Article 74 paragraph 4, the provisions regarding social and environmental responsibilities are subject to government regulations. However, the available regulations on CSR do not clearly interpret the provisions of this Act, thus limiting the certainty for businesses. Without a clear definition in the laws, CSR needs to be understood as the commitment of a business to conduct its activities ethically and to contribute to sustainable development, through cooperation with stakeholders.

4. **Law No. 20 of 2008 on Micro, Small and Medium Enterprises**

   It is specifically stated in Article 21 of Law No.20/2008 that SOEs “can provide financing of preliminary annual profit share allocated to Micro and Small Enterprises in the form of loans, guarantees, grants, and other funding”. Even though SOEs participated in the Partnership Program as part of their mandatory CSR, they also performed voluntary CSR. This issue of mandatory and voluntary CSR activities was investigated in the interviews conducted in the present study. When this issue was raised with the supervisors of Partnership Programs at two SOEs, they replied that CSR activities and Partnership Program activities were seen to be different in terms of funding and objectives. However, both activities were categorised as forms of CSR by the SOEs.
2.3 Micro and Small Enterprises

2.3.1 Definition
MiSEs are the backbone of the Indonesian economy. MiSEs are the largest group of economic players in the Indonesian economy and have proven to be the key to national economic security in times of economic crisis, as well as being dynamic in post-crisis economic growth.

A number of definitions are used to categorise MiSEs in Indonesia. According to Law No. 9/1995, small enterprises are those productive businesses owned by Indonesian citizens, either privately or through institutions, which own assets up to a maximum of Rp200 million not including the land and building on which the business is operated or with a maximum turnover of Rp100 million in a year.

A definition of MiSEs is also given in Law No. 20 of 2008 on Micro, Small and Medium Enterprises. Micro enterprises are defined as individuals and/or private entities that have maximum assets of Rp50 million. Small businesses are economically productive businesses, conducted by an individual or business entity that is not a subsidiary or branch of a company and is not owned, controlled or directly or indirectly part of a medium or large business. A small business has assets of between Rp50 million and Rp500 million. Medium enterprises are economically productive businesses, conducted by an individual or business entity that is not a subsidiary or branch or owned, controlled or directly or indirectly part of a small or large enterprise, with assets above Rp500 million and below Rp10 billion (Tambunan, 2009). A summary of the characteristics of Micro Small and Medium Enterprises (MSMEs)\(^5\) is shown in Table 2.4.

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\(^5\) MiSEs is used for micro and small enterprises and MSMEs is used for micro small and medium enterprises.
Table 2.4: Main characteristics of micro, small and medium businesses

<table>
<thead>
<tr>
<th>No.</th>
<th>Aspect</th>
<th>Micro Business</th>
<th>Small Business</th>
<th>Medium Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Formalities</td>
<td>Operate in informal sector, are not registered</td>
<td>Some operate in the formal sector; some are not registered; few pay taxes</td>
<td>All in the formal sector; registered and pay tax</td>
</tr>
<tr>
<td>2.</td>
<td>Organisation and management</td>
<td>Run by owner or family; no labour and bookkeeping system; do not separate the family finances from the business finance</td>
<td>Run by the owner; no internal division of labour and no formal bookkeeping system</td>
<td>Many hire managers, implement the professional division of labour, and implement internal and formal bookkeeping systems</td>
</tr>
<tr>
<td>3.</td>
<td>Patterns/nature of the production process</td>
<td>Simple production process</td>
<td>Some use the latest machines</td>
<td>Many have a high degree of mechanisation</td>
</tr>
<tr>
<td>4.</td>
<td>Market orientation</td>
<td>Lower class; the type of goods/commodities sold in the business is not always fixed, can be changed at any time</td>
<td>Many are selling to the domestic market and serve the middle class upwards</td>
<td>All selling to the domestic market and many are exporting as well as serving the middle class upwards</td>
</tr>
<tr>
<td>5.</td>
<td>Economic and social profiles of business owners</td>
<td>The average level of education is relatively very low; generally have no access to banking facilities, but most of them have access to non-bank financial institutions</td>
<td>Many are well-educated and from non-poor households; for many the primary motivation is profit</td>
<td>Most are well-educated and come from prosperous households; the primary motivation is profit</td>
</tr>
<tr>
<td>6.</td>
<td>Wealth net value</td>
<td>Up to Rp50 million</td>
<td>Rp50 million to Rp500 million</td>
<td>Rp500 million to Rp10 billion</td>
</tr>
<tr>
<td>7.</td>
<td>Annual sales</td>
<td>Up to Rp300 million</td>
<td>Rp300 million to Rp2.5 billion</td>
<td>Rp2.5 billion to Rp50 billion</td>
</tr>
</tbody>
</table>

On the other hand, Statistics Indonesia (*Badan Pusat Statistics*) categorises businesses according to how many workers they employ. Micro businesses are businesses with 1 to 4 workers and small businesses have 1 to 19 workers. The Indonesian central bank (Bank Indonesia) also uses its own categorisation of businesses.
It categorises businesses by reference to their ceiling credit. For micro enterprises, the maximum ceiling credit is Rp50 million; for small enterprises, the ceiling credit is a minimum of Rp50 million to a maximum of Rp500 million. These MSMEs range from retailing, agriculture, small industry and services.

MSMEs play an important role in reducing poverty and unemployment. The empowerment of MSMEs is a goal of government policy for improving the economy, reducing unemployment and reducing poverty. The government encourages MSMEs to continue to grow so that they can absorb more labour. The growth of MSMEs in Indonesia increased considerably over the last two years. In 2009, the number of SMEs was around 52.8 million units, and then in 2011 the number increased to 55.2 million units. Increasing numbers of MSMEs increase employment. One MSME can absorb 3-5 labourers (Tambunan, 2009). With the addition of about 3 million units of MSMEs in the last two years, the amount of labour absorbed rose by about 15 million labourers (Foundation, 2013)

According to data from the Ministry of Cooperatives and Small and Medium Enterprises, MSMEs provided employment for 101,722,458 persons or 97.24 percent of the total workforce in 2011. This number had increased by 2.33 percent, or 2,320,683 people, compared in 2010. As shown in Figure 2.7, micro businesses (MiB) employed 94,957,797 people (90.77%), small businesses (SB) employed 3,919,992 people (3.75%) and medium businesses (MB) employed 2,844,669 people (2.72%).

![Figure 2.7: Employment contribution of MSMEs and large business (2010-2011) (Ministry of Cooperatives and SMEs 2012)](image-url)
MSMEs are a distinctive feature of developing societies. There are no systems for regulating self-employment or for people to register for unemployment benefits and micro enterprises cover these people as well as many other participants on the fringes of the labour market. It is inappropriate therefore to read Indonesian labour market statistics as one would read those of Australia or other developed economies.

MSMEs are the largest group of economic players in Indonesia and they proved to be resilient in times of crisis. MSMEs create substantial employment opportunities for workers in the country, thus greatly helping to reduce unemployment. The unemployment rate in Indonesia was 6.58% in 2011 (IMF, 2011). The contribution of MSMEs to economic growth in Indonesia is very large. Last year, MSMEs sustained 56% of the total GDP in Indonesia (Foundation, 2013)

As indicated above and as confirmed in the data presented in Table 2.5, MSMEs absorb many employees, absorbing 97% of the nation’s employees in 2011 and 2012. Micro businesses were the dominant business in employing people, followed by small enterprises. Large companies only accounted for 2.76% of the total employment.

In 2012, the total size of the work-force registered by Badan Pusat Statistik (BPS) Indonesia – the Indonesian Board of Statistics Centre – was about 120 million people. The work-force included 7.6 million unemployed people. Even though micro small and medium enterprises absorbed the majority of workforce in the market, unemployment remains an issue in modern Indonesia.

The data in the Figure 2.7 and Table 2.5 was produced by the Indonesian Ministry of Cooperatives and SMEs. Their data was collected from a survey conducted by the BPS.
Table 2.5: Development of MSMEs (2011 and 2012) (Ministry of Cooperatives and SMEs 2013)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>(%)</td>
<td>Total</td>
</tr>
<tr>
<td>1</td>
<td>BUSINESS UNIT (A+B)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.</td>
<td>Micro, Small and Medium Enterprise</td>
<td>55,211,396</td>
<td>99.99</td>
<td>56,539,560</td>
</tr>
<tr>
<td></td>
<td>- Micro Enterprise</td>
<td>54,559,969</td>
<td>98.82</td>
<td>55,856,176</td>
</tr>
<tr>
<td></td>
<td>- Small Enterprise</td>
<td>602,195</td>
<td>1.09</td>
<td>629,418</td>
</tr>
<tr>
<td></td>
<td>- Medium Enterprise</td>
<td>44,280</td>
<td>0.08</td>
<td>48,997</td>
</tr>
<tr>
<td>D.</td>
<td>Large Enterprise</td>
<td>4,952</td>
<td>0.01</td>
<td>4,968</td>
</tr>
<tr>
<td>2</td>
<td>BUSINESS UNIT EMPLOYEES (A+B)</td>
<td>104,613,681</td>
<td>110,808,154</td>
<td>6,194,473</td>
</tr>
<tr>
<td>C.</td>
<td>Micro, Small and Medium Enterprise</td>
<td>101,722,458</td>
<td>97.24</td>
<td>107,657,509</td>
</tr>
<tr>
<td></td>
<td>- Micro Enterprise</td>
<td>94,957,797</td>
<td>90.77</td>
<td>99,859,517</td>
</tr>
<tr>
<td></td>
<td>- Small Enterprise</td>
<td>3,919,992</td>
<td>3.75</td>
<td>4,535,970</td>
</tr>
<tr>
<td></td>
<td>- Medium Enterprise</td>
<td>2,844,669</td>
<td>2.72</td>
<td>3,262,023</td>
</tr>
<tr>
<td>D.</td>
<td>Large Enterprise</td>
<td>2,891,224</td>
<td>2.76</td>
<td>3,150,645</td>
</tr>
</tbody>
</table>

In response to the above issues, the government through the Ministry of State-Owned Enterprises has required each SOE to help MiSEs by setting aside a portion of its profits each year. SOEs are required to allocate a maximum of 2% of net income to the Partnership Program and a maximum of 2% of net income for the Community Development Program (BUMN, 2007).

Based on the research including interviews and observations conducted in the present study on MiSEs involved in the SOE Partnership Program in Makassar, the enterprises are characterised by the following:

1. Family-owned
2. Workers are families, relatives and neighbours – Since, it is a family business, the workers (if there are any) most likely come from the family itself. One of the reasons is that workers who are family or neighbours are cheap labour. Also, most of the businesses are located at home so it is convenient for family members or neighbours to do the work.
3. Located at home – Many small enterprises have small capital. They cannot afford to rent a shop so they operate from home.
4. Mostly in the retail business – Most of the respondents in the present study were in the retail business. They buy goods from bigger shops and sell the goods in their own shop. This type of business does not require any specific skill.
5. Limited capital and stock – Due to limited capital, the businesses only buy certain products that sell. They do not have enough space in the home/shop
to keep stock. The business owner usually shops for stock once or twice a week or when customers ask for specific goods.

6. Trade with suppliers by consignment – In the retail business, a supplier usually uses a box truck called a “Kampas” to deliver goods to small retail shops. Kampas will come to visit these small retailers at a certain time, usually once a week. It will give the goods and collect the money on its next visit. This system is possible because most small retailers are home-based. This mutual dependence between the enterprise and the suppliers/distributors/agents has enabled them able to work with each other.

2.3.2 Obstacles to Micro, Small and Medium Businesses

A number of problems are faced by MSMEs in Indonesia. Among other problems, the level of expertise, skills and capabilities of its human resources is still low. This is generally due to their low level of education and training. Weak managerial and human resource capabilities result in the small entrepreneurs being unable to compete with other businesses and unable to run the business properly. According to Kuncoro (2000), broadly speaking, there are two categories of challenges faced by small entrepreneurs in Indonesia:

1. For MSMEs with a turnover of less than Rp50 million, the general challenge faced is how to maintain the viability of the business. For businesses of this size, the question is “how safe is safe enough?” They generally do not require large capital for the expansion of production; the necessary capital simply helps smooth the cash flow.

2. For MSMEs with a turnover of between Rp50 million and Rp1 billion, the challenges are far more complex. Generally, they begin to think of expanding and furthering their business development.

The challenges faced by MSMEs can also be categorised as financial and non-financial. One of the major obstacles is that MSME have limited accessibility to financial institutions, such as banks, because the businesses usually don’t have enough collateral to get a loan. The non-financial aspects are related to the level of skills, knowledge, networking and technology available to MSMEs. Through the SOE Partnership Program, the government has recognised these financial and non-financial problems and has been trying to address them through the program’s focus on providing financial and non-financial assistance.
The research conducted by Turner (2000) portrays the small enterprises in Makassar very well. Turner uses the term “survivalism” to describe how the small enterprises were trying to live day by day rather than thinking of their business growth or expansion. As discussed in later chapters, this observation is confirmed by the findings of the present study. The term “surviving” was being used in the coding/analysis process to describe some of the interview respondents’ responses on how they manage their business, even before the review of the literature revealed the terminology used in Turner’s work. Turner (2000) identified the following constraints to growth for small enterprises in Makassar:

1. *Elementary technology and lack of innovation*
   Turner found that small enterprises in Makassar were using very simple tools in operating their business production. In addition, it was not considered correct or appropriate for workers to suggest ideas to the boss. In Bugis/Makassar culture, it is not acceptable for an employee to confront their boss or ‘punggawa’. The *punggawa* is usually the business owner or the person who has the capital. He is seen to be a rich person and considered to be a person who knows everything about the business. He has the power to give work to people. It is impolite for the ‘*pajama*’ (worker) to tell the boss what he should do, even though it might be the right thing to do for the business. This restriction also applies because the *punggawa* hold high status in the community.

2. *Poor accounting records*
   Many small enterprises do not separate their business and private finances. This is often due to poor accounting records. This makes it difficult for them to apply to the bank for a loan because they do not have good transaction records.

3. *Conspicuous consumption*
   Among the Bugis/Makassar people, social status is very important. Turner found that small business owners would prefer to use business money for *hajj* (visiting Mecca) rather than using it to develop their business. The importance of *hajj* lies in social status. People who have visited Mecca are respected and will be seated in a special place at a wedding party. For women, wearing gold accessories also accords social status, as does having a large house, cars or motorcycles.
4. Bureaucracy and corruption

Bureaucracy and corruption are problems in most developing countries. To participate in the Partnership Program and receive funds, a small enterprise does not need to have a business location licence or licence to run a business from the local government commerce agency. The business owner only needs a letter from the head of village confirming that he or she is a community member. This feature of the Partnership Program was discussed with respondents in the present study.

5. Access to credit

Without licence and transaction records, the small enterprises are un-bankable. This was one of the key reasons for the government’s creation of the Partnership Program aimed at small enterprises.

2.3.3 Role of MSMEs in Indonesian Economy

MSMEs have an important role in the Indonesian economy. This group of businesses has been a backbone of the Indonesian economy and resilient in economic crisis. In 1998, when most big businesses faced bankruptcy and many employees were laid off, MSEs managed to survive. Many employees who were laid off then became involved in a small or medium-sized business. Products made by MSMEs make a significant contribution to the Indonesian economy and national income because many of them are exported.

From the global perspective, it is recognised that MSMEs play a vital role in the development and economic growth of a country. This is not only the case in a developing country such as Indonesia, but also in developed countries, such as Japan, the US and countries in Europe.

In Indonesia, it has often been stated that MSMEs are very important, especially as a source of income and employment growth. This statement is certainly not without justification. The fact remains that the employment opportunities created by the MSME group absorb a significant amount of labour in the country. Therefore, MSMEs are expected to be able to continue to play a role in efforts to optimally cope with unemployment numbers that are likely to rise steadily each year. By absorbing labour, MSMEs also have a strategic role in the government’s efforts to fight poverty in the country (Tambunan, 2009).
2.3.4 Turner’s Small Enterprise Integrative Framework

In this section, a particular focus is placed on the work by Turner (2003) who made an important contribution to the literature on MSMEs in developing countries through the book “Indonesia’s Small Entrepreneurs: Trading on the Margins”. In the book, Turner presented an analytical framework for examining small enterprises and applied the framework to investigate small-scale entrepreneurs in Makassar, Indonesia (the same setting as the research in the present study). Turner called the framework the “small enterprise integrative framework”. The framework is shown in Figure 2.8 and described in more detail below.

![Small enterprise integrative framework](https://via.placeholder.com/150)

**Figure 2.8: Small enterprise integrative framework (Turner, 2003)**

The building blocks of the small enterprise integrative framework are: flexibility in labour relations, networks and trust, collective efficiency and clusters, and innovation. Each of these building blocks is explained as follows:

1. **Flexibility in labour relations**

   Flexibility in labour relations consists of two dimensions: flexibility in employment, and flexibility in work (Curry, 1993; Turner, 2003). Flexibility in
the employment impacts on the increasing work schedules and the flexibility in work where labours need to move from one work task to another also raise the stress level of the workers. The new task may require a greater level of responsibility but an increase in authority or autonomy may not follow.

2. Networks and Trust

Turner (2003) draws on the industrial production literature to explain the concept of networks. Networks are defined as the arrangement of units or contacts (including small independent enterprises, subcontracting enterprises, large enterprises, suppliers, purchasers, or a mixture of these) that are interconnected through various types of relationships that enable enterprises to enlarge their potential (Murillo & Lozano, 2009; Turner, 2003).

3. Collective Efficiency and Clusters

Turner (2003) explains that collective efficiency is based on the premise that small enterprise competitiveness cannot be achieved individually but requires active collaboration, supported by physical agglomeration and sectoral specialisation among enterprises. Those small enterprises are then able to gain collective efficiency by operating within an enterprise cluster.

4. Innovation

Turner (2003) cites the Oxford English Dictionary and defines innovation as the introduction of something new or previously unknown (an idea or object) into something that was known. There are three things that small-scale entrepreneurs must be aware of in order to become innovative. Firstly, they must have knowledge concerning a possible change; secondly, they must be able to carry out the change; thirdly, they must have the choice of whether or not to make the change and when to make it (Turner, 2003; Yuwono, Supramono., & Rietveld, 1994). Furthermore, there are a number of factors that influence whether or not an entrepreneur will adopt innovation, including (Turner, 2003; Yuwono et al., 1994):

- Personal factors (such as age, skills, education, risk attitude, knowledge about innovation, expectations)
- Firm features (such as level of production, skills of workers, profitability, possibility of receiving credit, contribution to household income)
- Social networks (relationships with friends, colleagues, other entrepreneurs, village leaders) – for example, social networks can be
important for mobilising the credit needed for the adoption of an innovation

- Characteristics of the existing product/technology compared with the new one; here, issues such as compatibility, complexity and availability of inputs play a role
- Market considerations (such as the expected selling price of the new product, marketing channels, market demand)
- Wider environment, including government policies, extension services, infrastructure.

All of the above building blocks in the small enterprise integrative framework, namely, flexibility in labour relations, networks and trust, collective efficiency and clusters, and innovation, form a critical approach for examining small enterprises in developing countries (Turner, 2003).

2.4 Microfinance

Microfinance is defined as the provision of financial services to the entrepreneurial poor. This definition has two important features: it emphasises a range of financial services—not just credit—and it emphasises the entrepreneurial poor (Brandsma & Hart, 2000). Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term refers to the provision of financial services to low-income clients, including the self-employed (Ledgerwood, 2000).

The emergence of the microfinance lending mechanism in the 1990s was marked by a major debate between two leading views that are categorised as the financial systems approach and the poverty lending approach (Arun, Hulme, Taylor, & Francis, 2009). The financial systems approach emphasises large-scale outreach to the economically active poor—both to borrowers who can repay micro-loans from household and enterprise income streams, and to savers. The financial systems approach focuses on institutional self-sufficiency because, given the scale of the global demand for microfinance, this is the only possible means to meet widespread client demand for convenient, appropriate financial services.

The poverty lending approach concentrates on reducing poverty through credit, often provided together with complementary services such as skills training and the teaching of literacy and numeracy, health, nutrition and family planning. Under this approach, credit funded by donors and governments is provided to poor borrowers, typically at below market interest rates. The goal is to reach the poor, especially the
extremely poor, with credit to help them overcome poverty and gain empowerment. Except for mandatory savings required as a condition of receiving a loan, the mobilisation of local savings is normally not a significant part of the poverty lending approach to microfinance (Arun et al., 2009).

One example of microfinance is Grameen Bank which was developed by Muhammad Yunus in Bangladesh. Yunus developed the concept of microcredit to poor entrepreneurs who do not have collateral and are unable to borrow from commercial banks. To guarantee the payment of the debt, the Grameen Bank Group uses a system of ”solidarity”. These groups apply for a loan together, and each of its members serves as a guarantor of the other members, so that they can grow their business together.

2.4.1 What is Microfinance and Microcredit?
The terms “microfinance” and “microcredit” refer to different mechanisms. Microfinance is a financial service that not only deals with loans but also with savings and insurance. In other words, a microfinance scheme is run as a financial institution like a bank but on a small scale. On the other hand, microcredit is a loan to targeted beneficiaries such as the poor. It is usually part of a microfinance service.

Robinson (2001) defined microfinance as small-scale financial services, primarily credit and savings, provided to people who farm or fish or herd; who operate small enterprises or micro enterprises where goods are produced, recycled, repaired or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools; and to other individuals and groups at the local level in developing countries, both rural and urban. Many such households have multiple sources of income. About 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or for savings (Robinson, 2001).

Microfinance is also one of the tools used to fight poverty. With access to microcredit through microfinance institutions, the poor may be able to increase their income, assets and other benefits. They can switch from struggling for survival to being able to survive day to day and plan for their future and the future of their children.

Robinson (2001) explained that loans in the form of microcredit are one of the powerful tools in addressing poverty. In understanding the delivery of financial services to the poor, Robinson proposes three classifications of the poor. The first category consists of very poor communities (the extremely poor), that is, those who do not earn and do not have a productive activity; the second category includes the poor who do
have an economic activity (economically active working poor); and the third category consists of low income communities. The classification proposed by Robinson is shown in Figure 2.9.

<table>
<thead>
<tr>
<th>Income level</th>
<th>Commercial financial services</th>
<th>Subsidized poverty alleviation programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower middle income</td>
<td>Standard commercial bank loans and full range of savings services</td>
<td>Interest-bearing savings accounts for small savers</td>
</tr>
<tr>
<td></td>
<td>Commercial microloans</td>
<td></td>
</tr>
<tr>
<td>Economically active poor</td>
<td>Official poverty line</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Povert programs for such purposes as food and water, medicine and nutrition, employment generation, skills training, and relocation</td>
<td></td>
</tr>
<tr>
<td>Extremely poor</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 2.9: Financial services in the poverty alleviation tool box (Robinson, 2001)**

As shown in Robinson’s financial services framework (Figure 2.9 above), the approach used to alleviate poverty will vary for each of these groups of people. To achieve the poverty reduction target, then services to the first group that is extremely poor will be more precisely targeted if a direct approach is used in the form of subsidies, food programs or job creation. For the second and third groups, services will be more effective if an indirect approach is used, such as the creation of a climate that is conducive to the development of MSMEs, the development of various types of microloans or synergy among MSMEs and large enterprises.

The purpose of microfinance is often to help poor people who have businesses up and running. These small and micro entrepreneurs not only need a loan but also require other transactions such as saving, money transfers and insurance. The type of businesses they usually run are small and micro enterprises. The need for capital is one of the main constraints faced by micro and small entrepreneurs. They are unable to access bank services because banks generally treat them as high risk. Banks typically require a
guarantee for the loan, and the poor have no property to be used as a guarantee. They could borrow from informal moneylenders who do not require collateral but offer loans at prohibitively high interest rates. In Indonesia, these lenders, called “lintah darat” are widely available.

The services of the lintah darat create a vicious circle. Farmers have to borrow the money despite the high rates of interest because they are poor and it is difficult or impossible for them to borrow from the bank because there have no assets that can be used as guarantee. The farmers borrow money to buy fertilisers and seeds for planting, and agree to repay the loan at the time of harvest. However, because the repayment amount is very high, just gain little personal advantage from their harvest. The remaining profit is only enough to support them until the next growing season. At the time of the next growing season, they have no money to buy seeds and fertiliser, and they borrow again from the lintah darat.

In Indonesia, microfinance and MSEs cannot be separated because microfinance exists because of the MSEs’ need for affordable loans. The limited access to sources of financing causes MSEs to rely on informal sources. As well as moneylenders, other informal sources include microfinance institutions such as saving and loan cooperatives. The use of informal financial services is often preferred by MSMEs due to the flexibility in the requirements and in the disbursement of credit. This is one indicator that the existence of informal financial services meets the needs of MSEs.

### 2.4.2 Microfinance in Indonesia

Commercial microcredit provided by financial institutions is not new. It was common in parts of Europe in the nineteenth century and was sometimes exported to countries under colonial rule. Thus, Indonesia’s oldest institutions providing commercial microcredit profitably, such as the Badan Kredit Desa (village banks), were formed by the Dutch in the 1890s. While not developed specifically as microfinance institutions, the village banks provided microcredit and voluntary savings schemes to large numbers of poor clients.

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6 The term “lintah darat” (moneylender) is used to describe a lender who applies a very high interest rate. Although the loans are granted without collateral, borrowers typically pay with the proceeds acquired. For example, if a farmer is not able to pay with cash, he can pay with his crop. However, this is usually considered to be a degrading method of loan repayment because growers sometimes must hand over ¾ of their crops. The moneylenders operate mostly in the rural areas and the farmers borrow from them because they need money to buy seed and fertiliser. The conditions of the loan usually include an agreement to repay the loan at harvest time.
Indonesia has a fairly long history in the field of microfinance. The first commercial bank that specialised in financing small businesses was **Bank Dagang Bali**. The bank was privately owned and built up services to small businesses (Network, 2009). Due to conflicts on the board, the bank was closed by the government in 2004. However, other currently available microfinance institutions include **Bank Rakyat Indonesia**, one of the major banks in Indonesia which has opened several branch offices in rural areas with the aim to provide services to micro businesses in rural areas.

The Indonesian Government’s commitment to alleviate poverty by helping the poor through microcredit is channelled through microfinance institutions. The government indicated the seriousness of this commitment with the passage of Law No. 1 of 2013. Recognising the gap between the demand and availability of microfinance services that facilitate the economic activities of the poor and people with low income, the law aims to empower economic communities by regulating the provision of microfinance services.

According to Law No. 1 of 2013, a microfinance institution is defined as a specialised financial institution established to provide business development services and community empowerment, either through loans or micro-scale business financing to members of the public, the management of deposits, and the provision of consulting services for business development. In the Indonesian context, microfinance institutions have three objectives: to enhance the access to micro-scale funding for the community; to help increase economic empowerment and productivity of the community; and to increase the income and welfare of society, especially the poor and people with low incomes.

Any discussion on the available forms of microfinance in Indonesia should mention the “**arisan**” which is an informal credit and savings scheme with a long history in Indonesia. These schemes have limited reach because their sustainability is based upon unity and social ties among the members of the group. Nevertheless, it is estimated that millions of people participate in **arisan** formed at workplaces or in other locations in both rural and urban areas. **Arisan** members include not only the poor but also the middle class and upper-middle class (NOVA, 2009).

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7 **Arisan** (gathering) is a financial scheme based on the agreement of a group of people (usually between 10-30 persons) who contribute a certain amount of money to the group. At an agreed time, the collected money will be drawn down by one member of the group. For example, if there are ten members, the money will be drawn down ten times.
2.4.3 Microfinance and the SOE Partnership Program

Microfinance and the SOE Partnership Program have many similarities. In fact, both these programs aim to help micro, small and medium enterprises. Both aim to empower the poor so that they can live independently and boost their income.

Microfinance can be established and operated by private or public entities. In Indonesia, a microfinance institution must be owned by an Indonesian citizen. According to Law No. 1 of 2013, this type of institution cannot be owned by foreign citizens either directly or indirectly. This is because the purpose of a microfinance institution is to improve access to micro-scale funding for communities, helping to increase economic empowerment and productivity of society and increase revenues and the welfare of society, especially the poor and low income.

The Partnership Program is specifically run and operated by SOEs. Its aims are similar to microfinance but with low interest. Beneficiaries can be individuals or groups. The following box presents the announcement of a Partnership Program in an SOE (Bank Mandiri). The announcement highlights how the program can benefit beneficiaries through the loan features, sets out the requirements for participation in the program, and promotes the advantages of the program such as training and workshops.
Social Entrepreneurship
The practice of social entrepreneurship which integrates economic and social value creation has a long heritage and a global presence (Mair, 2006). Social entrepreneurship can be characterised as consisting of two distinct approaches: a social orientation, and a commercial orientation (Hamby, Pierce, & Brinberg, 2010). Through the commercial orientation, entrepreneurial actions that have a positive impact on the society and the local community can be carried out.

The SOE Partnership Program in Indonesia is distinctive in that it recognises social entrepreneurship as a desired outcome of its activities. The development of business is not just for economic purposes but has to involve the production of social value.

Box 2.1: Bank Mandiri Partnership Program

The aim of the SOE Partnership Program with MSMEs is to increase the competence of small businesses to become tough and self-sufficient through the utilisation of the funds from the profit of SOEs. The PP loan is a new loans facility for working capital or investment needs. Loans are given to feasible prospective partners who are not bankable.

**Loan features:**
- Maximum loan Limit of Rp30 million for individuals/Rp100 million for cooperatives
- Maximum period of time is three years
- Interest rate is not cascaded and is fixed (6%)
- Free provision and administration.

**Requirements:**
- Indonesian citizen
- Meets the criteria of small business
- Has yet to receive loans from Bank Mandiri, other bank or SOE
- Has been doing business for a minimum of 1 year (individuals) and 2 years (business entities/cooperatives) as well as have the prospects to be developed
- Primarily small businesses and cooperatives that do not yet have access to banking (not bankable), have a maximum asset of Rp200 million turnover per year/maximum of Rp1 billion.

**Benefits:**
- Low interest rates
- Soft loan requirements
- Light loan guarantees
- Coaching in the form of training, mentoring and promotion to foster and enhance the ability of the MSME to become tough and independent.

Source: [http://www.bankmandiri.co.id/article/265805761519.asp](http://www.bankmandiri.co.id/article/265805761519.asp)

2.5 Social Entrepreneurship
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The SOE Partnership Program in Indonesia is distinctive in that it recognises social entrepreneurship as a desired outcome of its activities. The development of business is not just for economic purposes but has to involve the production of social value.
goods as well. Like the social entrepreneurship approach, the Partnership Program is based on the belief that social goals can be achieved by corporate entities (SOEs) who are directed to achieve these goals by legislation.

These peculiarities of the Indonesian situation do not prevent it from being considered as social entrepreneurship. The concept of social entrepreneurship is understood differently among researchers. One group of researchers refers to social entrepreneurship as not-for-profit initiatives in search of alternative funding strategies, or management schemes to create social value; a second group of researchers understands it as the socially responsible practice of commercial businesses engaged in cross-sector partnerships; and a third group views social entrepreneurship as a means to alleviate social problems and catalyse social transformation (Mair, 2006).

Nowadays, entrepreneurs have two choices of organisational structure: for-profit or non-profit. The difference is sometimes characterised in a simplistic “good and bad” dichotomy whereby the mission of a non-profit organisation to support a social cause is considered good and the mission of a for-profit organisation to maximise shareholder wealth is considered bad. However, the difference is not that simple especially for social entrepreneurs. A social entrepreneur is someone who recognises a social problem and uses entrepreneurial principles to create, organise and manage a venture to make social change. In other words, rather than bringing a concept to the market to address a consumer problem, social entrepreneurs attempt to bring a concept to the market to address a public problem (Ratliff, 2010).

Social entrepreneurship is usually the work of a social entrepreneur, although this is not a necessity. A social entrepreneur has the ability to identify a social problem and use business principles to alleviate it. Whereas a business entrepreneur typically measures performance in terms of profit and return, a social entrepreneur focuses on creating social capital. Thus, the main aim of social entrepreneurship is to promote social and environmental goals. However, while social entrepreneurs are most commonly associated with the voluntary and not-for-profit sectors, their goals are not necessarily incompatible with making a profit (Baron, 2007; Seelos & Mair, 2005).

There are a number of examples of successful social entrepreneurship practices that have integrated economic and social value creation. These include (Moir, 2001): the global efforts of Asoka, founded by Bill Drayton in 1980, to provide seed funding for entrepreneurs with a social vision; the multiple activities of Grameen Bank, established by Professor Muhammad Yunus in 1976 to eradicate poverty and empower women in
Bangladesh); and the use of arts to develop community programs in Pittsburgh by the Manchester Craftsmen’s Guild, founded by Bill Strickland in 1968.

There are many definitions of social entrepreneurship in the literature. Much of the literature on social entrepreneurship approaches the concept with a heavy focus on conceptual rather than empirical research. Most definitions of social entrepreneurship refer to an ability to leverage resources that address social problems, although there is little consensus beyond this generalisation. For example, some scholars define social entrepreneurship as a process demonstrated when government or non-profit organisations operate using business principles. Others see it as the activities of conventional entrepreneurs who practise CSR or as outcomes of organised philanthropy and social innovation. Still others define it very narrowly, as economically sustainable ventures that generate social value (Dacin, Dacin, & Matear, 2010).

Government itself through its business units can also act as a social catalyst to support micro and small enterprises. It can act as a social entrepreneur (Austin, 2006). The collaboration of SOEs with MiSEs through the Partnership Program in Indonesia is a good example of collaboration between the public and private sectors. The partnership program will be described later in this Article. Figure 2.10 illustrates the ways in which relationships between the government, business and non-profit sectors can create social entrepreneurship.

![Figure 2.10: Government, business and non-profit sector relationships in social entrepreneurship (Pragmatist, 2010)](image-url)
As shown in the figure above, the government, business and non-profit sectors can collaborate to create social entrepreneurship. Traditionally, each of these three sectors has distinct roles and approaches: the private sector focuses on profitable markets, the public sector provides public goods and services, and the non-profit sector engages citizens in meeting societal needs. When one sector’s territory is entered by another sector (for instance, many non-profit organisations have embarked on incomeearning ventures), it will lead them to develop business-like practices in order to generate revenues. In addition, CSR has been motivating businesses to account for their community, environmental and labour practices along with their profits. Combining the social and economic responsibilities traditionally associated with each of the three sectors, social entrepreneurship may take the form of a non-profit, business or government initiative. No matter what organisational form it takes, social entrepreneurship tends to exhibit characteristics of all three sectors. According to Nicholls (cited in Wolk 2008), the organisational mechanisms employed in social entrepreneurship “are largely irrelevant: social entrepreneurs work in the public, private, and social sectors alike, employing for-profit, not-for-profit, and hybrid organizational forms (or a mix of all three) to deliver social value and bring about change”. Social entrepreneurship, then, is the practice of responding to market failures with transformative and financially sustainable innovations aimed at solving social problems (Skoll, 2010).

It can be concluded that social entrepreneurship uses business methods to conduct relevant actions that have a positive impact on society or use business principles to organise and manage a venture to effect social change. Indonesian SOEs have a unique approach to social entrepreneurship. Like the examples of social entrepreneurship mentioned above, the SOEs act to address social problems. According to Ratliff (2010), social entrepreneurship exists where the public, private and voluntary sectors overlap. Indonesian SOEs perform mandatory CSR in the form of the Partnership Program. The program has the character of microfinance as its main objective is to help the poor out of poverty. Microfinance itself has two dimensions which are the social and entrepreneurship dimensions. The social dimension is concerned with the objective of helping MSEs or poor communities and the entrepreneurship dimension is concerned with performing business-like operations. Program sustainability, not profit, is the main issue. Figure 2.11 illustrates this description of SOEs as social entrepreneurs.
2.6 Conclusion

This chapter presented the first part of the literature review relevant to the components of the study, namely, CSR, MiSEs, microfinance and social entrepreneurship. CSR is considered by many to be a Western concept. However, in developing countries, there are some evidences to show that CSR draws strongly from cultural tradition (Crane, 2008). In Indonesia, for example, CSR is rooted in traditional culture called ‘gotong royong’ which can be translated as “handling the burden together”. The people in Indonesia, especially those who live in remote areas or in villages still use the term gotong royong to deal with community challenges such as building a church, mosque or bridge.

In the Western concept of CSR, the corporation has a responsibility to help and share some of its profit with the surrounding community to show that it cares for the community. On the other hand, in the East, the sense of responsibility is embedded in every person culturally. The leader of the village has a responsibility to lead his/her village to prosperity; a company which operates in an area has a responsibility to its community and so on.

Indonesia became the first country to introduce mandatory legal requirements for CSR (Rosser & Edwin, 2010) when the Indonesian Parliament passed Law 40/2007 on CSR for Limited Liability Companies in July 2007. For SOEs, the obligation to support MiSEs has been mandated by government since 1983 until now.
MiSEs are the backbone of the Indonesian economy. MiSEs are the largest group of economic players in the Indonesian economy and have proven to be the key to national economic security in times of economic crisis, as well as being dynamic in post-crisis economic growth.

Microfinance is also one of the tools used to fight poverty. With access to microcredit through microfinance institutions, the poor may be able to increase their income, assets and other benefits. They can switch from struggling for survival to being able to survive day to day and plan for their future and the future of their children.

Social entrepreneurship uses business methods to conduct relevant actions that have a positive impact on society or use business principles to organise and manage a venture to effect social change.

Indonesian SOEs perform mandatory CSR in the form of the Partnership Program. The program has the characteristics of microfinance as its main objective is to help the poor out of poverty. To explain further, the next chapter explores SOEs and the Partnership Program with a particular focus on how SOEs as government institutions are mandated to support MiSEs in Indonesia.
Chapter 3
Indonesian State-Owned Enterprises and the SOE Partnership Program

3.1 Overview
The literature review presented in this chapter deals with the history, vision, mission, and financial performance of Indonesian SOEs. This chapter also explores the Partnership Program as a CSR activity of SOEs in Indonesia. SOEs as government-owned companies are mandated by laws and regulations to foster MiSEs through participation in the Partnership Program. The larger context behind SOE support for MiSEs through the Partnership Program is also discussed.

In addition, this chapter explores the relation of the Partnership Program to the concept of microfinance (see Chapter 2, Section 2.4). The Partnership Program appears to have similarities with microfinance institutions that provide loans to poor entrepreneurs with the aim to support them to improve their business. Similarly, the Partnership Program is a not-for-profit oriented program, with low interest charged on its loans. It is a revolving fund and the interest is used to train MiSEs and to ensure the program’s long-term sustainability. The social and entrepreneurship aspects of microfinance that are related to the social entrepreneurship concept (see Chapter 2 Section 2.5) are also investigated in this chapter. These concepts and their relations to one another are the main issues investigated through the literature review in this chapter. The social and economic impacts of a program such as the Partnership Program and the indicators used to measure the potential socio-economic impacts of a program are also discussed. Figure 3.1 presents a map of the content of this chapter.

Figure 3.1: Chapter map
3.2 Indonesian State-Owned Enterprises

3.2.1 Foreword

The 1945 Constitution of the Republic of Indonesia is the basis of Indonesian law. The constitution sets up social welfare as a philosophy and economic principle, especially in Article 33 (Syahriza, 2010). In its original form, Article 33 stated:

1. The economy shall be operated as a joint effort based on family principles
2. Production branches significant to the State and anything controlling the life of many people shall be controlled by the State.
3. Soil and water and natural wealth contained therein shall be controlled by the State and used for the welfare of the people to the utmost.

According to the explanatory notes of Article 33, it establishes an economic democracy wherein production is carried out under the direction or ownership of community members. Prosperity of society takes precedence over the welfare of individuals. The economy is to be structured as a joint venture based on family principles and cooperation.

The principles of economic democracy require that the branches of production which are important for the control of the State and life of the people must be controlled by the State. If not, the reins of production fall into the hands of those in power and the majority of people suffer oppression. Natural resources contained within the earth are the main source of the prosperity of the people. Therefore, these resources must be controlled by the State and used for the maximum benefit of the people and economic sovereignty.

Article 33 clearly states that production is significant to the State and that anything controlling the lives of people and the natural wealth contained in the country

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8 The 1945 Constitution has been amended several times. This is the wording of the original article. The article has not been changed by amendments; however, additional points have made to it in the regulations.
9 The explanatory notes of the 1945 Constitution are part of a formal document. The notes within the constitution are as one piece.
10 The family principle can be interpreted as the ties of every member of the community to help each other; in this context, “family” is only interpreted as a small gathering of community members but can be interpreted as an attitude of tolerance and upholding strong togetherness.
11 Economic democracy is an idea or way of life that prioritises equal rights, obligations and treatment for all citizens in the economic field (http://www.kamusbesar.com/49901/demokrasi-ekonomi). The Indonesian economic system is called an economic democracy. In an economic democracy, government shall provide direction and guidance to economic growth, and create an economic climate for business growth. The business community is obliged to give a positive response to the guidance and strive to create a healthy climate in the activities undertaken. The cornerstone of economic democracy is Pancasila (the five philosophical principles that are the foundation of the Indonesian state), while the 1945 Constitution is its constitutional basis. Article 33 of the 1945 Constitution is the basis of Indonesia’s economic democracy.
shall be controlled by the State and used for the greatest welfare of the people. Therefore, Article 33 is the basic working principle for all SOEs which must be managed for the common good. The legacy of these founding principles is that Indonesia now has a mixed economy with many large SOEs but an equally large private sector.

In Law No. 1 of 1967 (Section 6), the Indonesian Government specified the following areas that are important to the State and the lives of citizens:

1. Ports
2. Production, transmission, and distribution of electric power to the public
3. Telecommunications
4. Shipping
5. Flight
6. Drinking water
7. Common rail
8. Atomic power plants

The other areas of State control are those that occupy an important role in national defence, including the production of arms, ammunition, explosives and other war equipment.

3.2.2 History of Indonesian SOEs
Historically there are some reasons behind the establishment of SOEs in Indonesia. SOEs were used even before Indonesia’s independence in 1945. During the colonial period, the Dutch Government established several State companies, such as pawnshops and railway companies and others. After independence, these companies were nationalised by the Indonesian Government.

In the 1950s, a number of foreign companies were nationalised by the Indonesian Government. This was the first major milestone of the establishment of SOEs; indeed, at first, the main objective of the establishment of SOEs was to accommodate foreign and nationalised assets (Nugroho & Randy, 2008).

Another reason for the establishment of SOEs in Indonesia was the government's desire to develop industries that were needed by the community but were difficult for the private sector to enter because they required large investment and high risk. A further reason was the government’s belief that the management of certain industries could not be given to private parties; for example, the industries that involved national
security and defence. The best example of this is PINDAD which is an SOE producing weapons, war vehicles, bullets and other military equipment.

In general, three principal reasons lie behind the establishment of SOEs in Indonesia (Nugroho & Randy, 2008):

1. To create an economic body for nationalised foreign assets; this occurred in the 1950s when the Indonesian Government nationalised many foreign firms.
2. To build the necessary industry for society, where society itself (or the private sector) is not able to enter because of the need for very large investment and because the business risks are very great.
3. To build a strategic industry with due regard to the security of the State; therefore, the government created SOEs to produce armaments (PINDAD) and explosives (Dahana), print money (Peruri) and manage food stocks (Bulog).

By 1959, the government had taken over many foreign companies in Indonesia. The government expected that pribumi\textsuperscript{12} (indigenous Indonesian) entrepreneurs could run and manage these companies. In fact, they did not yet have the capability to manage the companies because of limited capital and human resources.

Some ethnic Chinese businesses saw an opportunity and approached the government with proposals to manage these companies. These approaches were rejected by the government at the time which did not want the ethnic Chinese to dominate trade, industry and agriculture as they had in the days of the Dutch colonial government. Therefore, the government set up SOEs to deal with foreign firms that have been taken over.

In the 1960s, Indonesian SOEs faced many problems. One of the problems encountered was the lack of human resources capable of running and leading these companies. To overcome the problem, the government worked with the military. The military was perceived to have managerial ability because it was used to large-scale activities, in fields such as recruitment and logistics. This era was the starting point of the growth in the Indonesian military’s dual function or Dwi Fungsi ABRI\textsuperscript{13} (Bastian, 2002), institutionalised in the New Order\textsuperscript{14} era of the Suharto government.

\textsuperscript{12} Pribumi is a term used by original Indonesian people to identify that they are not Chinese. For Chinese people, even though they were born and grew up in Indonesia, they are still not considered as Pribumi but as Non-Pribumi.

\textsuperscript{13} “Dwi Fungsi ABRI” or "the dual function of the armed forces" – besides the defence and security forces, the armed forces are also a socio-political force. The term “dual function” is the basis for the legitimacy of the socio-political role of the armed forces. It began to grow and become popular in the Suharto New Order era. It began with the conception in 1958 by a highly respected general Nasution, of the "middle way" of the armed forces, which is essentially about providing the opportunity for the armed
In 1960, in order to facilitate the State government’s ability to regulate SOEs, the government issued Government Regulation No. 19 of 1960. The regulation provided a uniform definition of State companies as any form of firm or company whose capital was from the State wealth unless otherwise provided by or under any law\textsuperscript{15}.

In 1967, Suharto’s New Order introduced a fundamental change in the Indonesian economy. This change was influenced by two international funding agencies, namely, the International Bank for Reconstruction and Development and the International Governmental Group on Indonesia. These international agencies convinced the Suharto Government that Indonesian economic recovery would not succeed without foreign aid. However, foreign aid is not dispensed free of charge. The Indonesian Government was required to implement an open door policy for foreign investment and capital. Following the issuance of Law No. 1 of 1967 on Foreign Investment, various kinds of foreign investment has entered Indonesia.

Foreigners or foreign companies can dominate only in the non-strategic and non-important private sectors. In the strategic sector, since 1968, the government has allowed foreign capital control of up to 49\% of an SOE. The easing of restrictions in 1968 was based on the needs of the Indonesian economy at that time. The economy was still in bad condition and required an injection of funds; the solution was to invite foreigners to invest in Indonesia. For that reason, the foreign companies were allowed to invest in strategic companies that “control the life of many people”. By 1974, the improvement in the economy allowed for the reduction of the foreign ownership threshold to 25\%.

Law No. 9 of 1969 aimed to reduce the number of SOEs that existed at the time from about 822 to only 184 companies. They can be grouped into three forms, namely, \textit{Perusahaan Jawatan (Perjan)}\textsuperscript{16}, \textit{Perusahaan Umum (Perum)}\textsuperscript{17} and \textit{Persero}\textsuperscript{18} (Abeng,

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\textsuperscript{14} Suharto was the second president of Indonesia (1966 to 1998). This era was called “\textit{Orde Baru}” or “New Order”.

\textsuperscript{15} “Unless otherwise provided by or under any law” meaning that the government can sell some of its shares in an SOE but the sale has to be in compliance with regulations and laws.

\textsuperscript{16} \textit{Perusahaan Jawatan (perjan)} is a form of SOE which is wholly owned by the government. It is financed out of the government’s budget. It provides services oriented to the community. Nowadays, there are no more SOEs using this model because it needs a lot of cost to maintain it. An example of a
There is also a form of SOEs that are specifically regulated by a separate law dealing with banks and oil companies (Pertamina). In practice, the SOE fields of business are distinguished as public utilities (telecommunications, electricity, gas, rail and aviation), strategically vital industries (oil, coal, steel, shipbuilding and automotive), and business itself (Ibrahim, 1997).

The end of the Suharto New Order era in 1998 saw the commencement of Era Reformasi, the Reformation Era. The central role of the SOEs did not change during Reformasi and the problems of managing SOEs remained an issue for government. The government set out to improve SOE management through Law No. 19 of 2003 implemented by government regulation, Decree of the President, and the Minister of SOEs. Since then, the SOEs could only take the form of public companies and limited liability companies.

3.2.3 Indonesian Ministry of SOEs: Vision, Mission, Management and Objectives

The term SOE began to be widely known in Indonesia when Government Regulation No. 3 of 1983 was issued to deal with the model of guidance and supervision for SOEs. As SOE performance continued to decline from year to year, the government began looking for the right approach in managing SOEs. The Ministry of State-Owned Enterprises was established in 1998. The establishment of this ministry was a first step in efforts to manage and reform Indonesia’s SOEs (Abeng, 2012).

As a government institution that has the duty and responsibility to manage the assets of the country, the Ministry of State-Owned Enterprises has the following vision and mission (http://www.bumn.go.id):

perjan SOE is Perusahaan Jawatan Kereta Api. It is a railway company that was structured as an SOE but it has now turned into a limited company by the name PT. Kereta Api Indonesia.

17 Perusahaan Umum (perum) could be translated as “public company”. It is a business unit fully owned by the government for the purpose of providing goods and services for the public, serving the general public as well as the pursuit of profit based on the principles of corporate management. The enterprises operate in areas considered vital to the general welfare. Examples of perum / public companies are: Perum Peruri (printing money), Perum Perhutani (forestry), Perum Damri (transport) and Perum Pegadaian (pawnshop).

18 Persero (Limited) is one of the enterprises that are managed by the national or local government. In contrast to perum or perjan, the first purpose of establishing a persero is profit and the second purpose is providing services to public. The founding capital is derived partly or wholly separated from the country's wealth in the form of shares. Such company is not very different in nature from a limited liability company. Both are in pursuit of maximum profits. Limited stock or the equivalent of 51% must be controlled by the government. Examples of persero companies are PT Jasamarga, Bank BNI, PT BNI Life Insurance, PT PLN.
A. VISION

In line with the vision and mission of the President, and considering the position of SOEs in accordance with the mandate of Article 33 of the 1945 Constitution, as well as the intent and purpose of the establishment of SOEs by Law No. 19 of 2003, the Ministry of State-Owned Enterprises set its vision as “being professional trustees of SOEs to increase the value of SOEs”.

B. MISSION

To realise the above vision, the mission of the Ministry of State-Owned Enterprises is set as follows:

1. To embody the modern organisation in accordance with good governance
2. To improve the competitiveness of SOEs at the national, regional and international level
3. To increase the contributions of SOEs to the national economy.

In 2003, the government ratified Law No. 19 of Year 2003 on State-Owned Enterprises. The law regulates the essential concept, purpose and management of SOEs. In principle, SOE management in Indonesia is similar to private business entities whereby SOEs are managed and run by boards of directors and supervised by commissioners for the limited type of SOEs and by the board of trustees for the public company type of SOEs. Although the system management is not very different from the private sector, each SOE clearly has a particular purpose of its own in addition to the pursuit of profit. In general, the intent and purpose of the establishment of SOEs (R. Indonesia, 2003) as stipulated in Law No. 19 of 2003 are:

a) To contribute to the development of the national economy in general and in particular to State revenue;
b) To pursue profit;
c) To organise public services in the form of supply of goods and/or services of good quality and sufficient for fulfilling the lives of many people;
d) To pioneer business activities that cannot be implemented by the private sector and cooperatives;
e) To participate actively in providing guidance and assistance to entrepreneurs in economically weak groups, cooperatives and the community.
The current management of SOEs is coordinated by the Minister of State-Owned Enterprises. In carrying out his or her duties, the Minister is assisted by several deputies. Each deputy has a different SOE region of supervision and guidance. Figure 3.2 presents the organisational structure of the Ministry of State-Owned Enterprises.
1. Expert staff on governance of SOEs
2. Expert staff on public policy
3. Expert staff on human resources and technology
4. Expert staff on inter-institutional relations
5. Expert staff on investment and SOE synergies

Figure 3.2: Organisational structure of Indonesian Ministry of State-Owned Enterprises (BUMN 2013)
### 3.2.4 Number of SOEs in Indonesia

Table 3.1 presents a summary of the number and type of SOEs in Indonesia from 2006 to 2010. The SOEs take four forms, namely, company bureau (*Perjan*), public company (*Perum*), limited liability company (*PT Persero*) and open limited liability company\(^\text{19}\) (*PT Persero Tbk*). Most *Perjan* type companies have shifted to the *Perum* structure and no companies in the form of *Perjan* have existed since 2005. The transfer to *Perum* did not, however, increase the number of *Perum* due to the transfer of some unsuccessful *Perum* to *PT Persero*. Since 2007, the number of *Perum* increased by one company. For *PT Persero*, the number declined since 2005 due to the mergers of some companies in the form of *PT Persero* and diversion of *PT Persero* to *PT Persero Tbk*. Nevertheless, the number of *PT Persero* increased by two companies since 2008 and increased again by one company in 2010 when one company exited from the SOE list and two companies entered the list. In 2010, SOEs totalled 142 companies consisting of 14 *Perum*, 114 *PT Persero* and 14 *PT Persero Tbk* (Foundation, 2013; Statistik, 2012).

#### Table 3.1: Number and types of SOEs (Statistik, 2012)

<table>
<thead>
<tr>
<th>Type of SOE</th>
<th>Number of SOEs per year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td><em>Perjan</em></td>
<td>0</td>
</tr>
<tr>
<td><em>Perum</em></td>
<td>13</td>
</tr>
<tr>
<td><em>Persero</em></td>
<td>114</td>
</tr>
<tr>
<td><em>Persero Tbk</em></td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>139</td>
</tr>
</tbody>
</table>

Note: *Persero Tbk* means it has released some of its stock to the public through an IPO.

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\(^{19}\) *Persero Tbk* is a limited liability company owned by the state but which has sold some of its stocks to the market through an initial public offering (IPO). It is difficult to translate *Persero Tbk* into English. For the purposes of this study, the researcher has translated it as “open limited liability” to differentiate it from *Persero* or limited liability which means wholly owned by the government/state.
Box 3.1: Policy Direction of Ministry of SOEs: Plans and Strategies 2012-2014

Based on the plans and strategies of SOEs in 2012-2014 (BUMN, 2013), the policy direction of the Ministry of SOEs consists of two major policies. The first one is the policy direction of the Ministry of SOEs and the second one is the policy direction of the development of SOEs.

1. Policies and Strategies for Ministry of SOEs

The policy direction of the Ministry of SOEs is bureaucratic reform. The Ministry of SOEs as an executive element of government is in charge of carrying out the functions of supervising and guiding the SOEs, and has great responsibility in carrying out the mandate of Law No. 19 of 2003. Therefore, the Ministry of SOEs should be supported by adequate resources, one of them which is competent human resources, with staff who have integrity and are dedicated to realising the plans and programs of work and able to carry out the mandate of the law.

The preparation of bureaucratic reforms in the Ministry of SOEs is in the process of finalising all the requirements. The steps that need attention in finalising the reform of the bureaucracy include:

1. Accelerate the completion of all documents of bureaucratic reform requirements.
2. Conduct intensive communication and coordination with the Ministry of Administrative Reforms and Minister of Finance to expedite the implementation process.
3. Prepare the mechanism of recruitment for new employees in Ministry of SOEs to cover the lack of HR expertise.
4. Accelerate the process of determining the status of employees of the Ministry of SOEs as permanent employees (currently the employees are still employed in various other Ministries / institutions).
5. Set up the implementation of key performance indicator assessments of the employees.
Box 3.1 Continued

The strategy to be implemented consists of:

1. Increasing the competence and performance of HR in the Ministry of SOEs.
2. Increasing the capacity and capability of the Ministry of SOEs.
3. Improving the implementation of good corporate governance of the Ministry of SOEs.
4. Implementing policies and strategies for development of SOEs.

2. Main policy direction related to the development of SOEs is rightsizing, restructuring, revitalising and profiting of SOEs gradually and continuously.

Rightsizing of policy is to be implemented through five types of action, namely:

1. Stand-alone
2. Merger/consolidation
3. Holding
4. Divestment
5. Liquidation.

The SOE rightsizing implementation in 2012-2014 will involve rightsizing the paper sector, printing and publishing, agricultural sector, forestry sector, mining sector, pharmaceutical sector, dredging sector and various industry sectors so that the number of SOEs at the end of 2012 would be about 116 SOEs. In 2013, rightsizing was conducted in the airport sector, land transport and railways sector, agriculture, trade sector, energy sector, construction and construction consultants sector, logistics sector and appraisal service sector, so that the number of SOEs would be approximately 105. Subsequently, in 2014, rightsizing is being conducted for the defence sector, industrial-based technology sector, dock and shipping sector, steel and steel construction sector, insurance sector and construction sector so that the number of SOEs at the end of 2014 is expected to be approximately 95.
Box 3.1 Continued

The rightsizing policy is set out in the Master Plan of 2010-2014 which is an integral part of the Strategic Plan of the Ministry of SOEs. In addition to SOE rightsizing, restructuring, revitalisation and profiting, other policy directions taken are:

1. Confirming the SOE board selection process is professional, transparent and objective
2. Determination of the SOE Act implementing regulations and harmonisation of legislation in accordance with the Limited Liability Company Act and/or the Capital Market Protocol
3. Implementation of good governance and good corporate governance
4. Improved performance, business competitiveness and sustainability of SOEs
5. Improving the quality of public service delivery
6. Enhancing the role of SOEs in encouraging the implementation of national development priorities
7. Privatisation of SOEs to improve competitiveness and company value.

The following strategies will be implemented:

1. Applying the Ministry of SOEs information management system
2. Improving the quality and quantity of talent among SOE chairmen and directors
3. Improving the quality of monitoring and control system of SOEs.
4. Increasing efforts to increase the value of SOEs through the efforts to "create value strategy"
5. Improving the implementation of good corporate governance and performance management systems in SOEs
6. Improving the quality and quantity of SOE investment policy
7. Enhancing the role of SOEs in the pioneering efforts and development of MSMEs
3.2.5 SOE Financial Performance

The financial performance of SOEs in the 2008-2012 period is summarised in Table 2.2. As seen in the table, the banking and financial institutions had the dominant net profit. With only Rp149 trillion equity, this sector gained an asset value almost ten times its equity. In addition, with the same amount of equity, it reached more than 33% of the total net profit which was the highest percentage of profit among all the SOEs. This indicates that the banking and financial sector was very competitive in that period. SOEs in the electricity, gas and drinking water sector had most of the equity with a total of Rp164,686,522. This sector had more than Rp400 trillion of asset value and obtained Rp16 trillion of net profit. This was achieved due to a wide range of machinery and equipment being installed to produce electricity, gas and water.
Table 3.2: SOE financial performance highlights 2008-2012 (Statistik, 2012)

<table>
<thead>
<tr>
<th>No.</th>
<th>Business Field</th>
<th>Asset Total</th>
<th>Equity</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture and Farming</td>
<td>50,239,422</td>
<td>18,528,774</td>
<td>3,689,113</td>
</tr>
<tr>
<td>2</td>
<td>Mining</td>
<td>293,449,428</td>
<td>125,281,081</td>
<td>21,412,283</td>
</tr>
<tr>
<td>3</td>
<td>Industries</td>
<td>89,825,821</td>
<td>39,865,904</td>
<td>7,078,131</td>
</tr>
<tr>
<td>4</td>
<td>Electricity, Gas and Drinking Water</td>
<td>401,647,921</td>
<td>164,686,522</td>
<td>16,326,047</td>
</tr>
<tr>
<td>5</td>
<td>Building and Construction</td>
<td>24,781,854</td>
<td>5,682,228</td>
<td>868,006</td>
</tr>
<tr>
<td>6</td>
<td>Trading, Hotels and Restaurants</td>
<td>3,624,592</td>
<td>930,877</td>
<td>128,771</td>
</tr>
<tr>
<td>7</td>
<td>Transport and Communication</td>
<td>205,819,914</td>
<td>111,857,477</td>
<td>17,939,170</td>
</tr>
<tr>
<td>8</td>
<td>Banks and Financial Institutions</td>
<td>1,424,772,224</td>
<td>149,618,114</td>
<td>33,138,361</td>
</tr>
<tr>
<td>9</td>
<td>Services</td>
<td>9,312,268</td>
<td>4,659,444</td>
<td>480,138</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>2,503,473,444</strong></td>
<td><strong>621,110,420</strong></td>
<td><strong>101,060,020</strong></td>
</tr>
</tbody>
</table>

3.3 SOE Partnership Program

SOEs have been an important part of the Indonesian economy since 1945. The principal foundation of SOEs is set out in the 1945 Constitution where Article 33 states that all natural resources and production that dominates the lives of the people will be owned by the State.

In an effort to achieve the economic wellbeing of its people, the government is in charge of allocating, organising and managing all the resources and all the factors of production that exist in the country. That is why the State formed the SOEs as business entities, which operate as companies that manage the resources and factors of production within the country for the economic welfare of its people.

SOEs have a significant role in moving the economy of the country, because the management of all the economic potential, the potential of natural resources and the factors of production have been allocated to the SOEs. SOEs are expected to be the driving forces of the economy. Even in a country like Indonesia that is still developing and where there are still many who live below the poverty line, the State is expected to be a trainer, business mentor, facilitator, motivator and partner to ensure the strategic and mutually beneficial economic activity of the typical business unit, namely, the MiSE.

Considering the demands of globalisation and the current era of free competition, the framework between SOEs and MiSEs should be designed in the form
of professional collaboration, not a social collaboration, so that the rights and responsibilities of each party will be clear. Such an aim can achieve maximum results which benefit both parties. MiSEs also provide many job opportunities for the people.

As mentioned above, one of the main purposes of the existence of SOEs is to support economically weak entrepreneurs, cooperatives and communities. To realise this purpose, the government has run the Partnership Program since 1983 in line with Government Regulation No. 3 of 1983 on Procedures for the Development of SOE. At that time, SOEs became the “Bapak angkat usaha kecil/industri kecil” (foster father of small business/small industry). Along with the publication of Decree of the Minister of Finance Decree (No. 1232/KMK.013/1989 dated 11 November 1989) on Guidelines for Entrepreneur Development and Cooperatives through the SOEs, the program was known as “Program Pegelkop”. In 1994, the program name was changed to Pembinaan Usaha Kecil dan Koperasi (SME Development and Cooperation). The change was based on the Minister of Finance Decree (No. 316/KMK.016/1994 dated 27 June 1994) on Guidelines for SME Development and Cooperation through Utilization of Funds of SOEs. Other relevant instruments in establishing the program were: the Decree of the Minister of State-Owned Enterprises / Chairman Board of Trustees of State (No. Kep-216/M-PBUMN/1999 dated 28 September 1999) concerning the Partnership and Community Development, the Minister of State-Owned Enterprises Decree (No. Kep-236/MBU/2003 June 17 2003) on the SOE Partnership Program with the Small Business and Community Development Program, and the Minister of State-Owned Enterprises Decree (No. PER-05/MBU/2007 dated 27 April 2007) on the SOE Partnership Program with the Small Business and Community Development Program.

In the Minister of State-Owned Enterprises Regulation (No. Per-05/MBU/2007) on the Partnership Program with Small Business Enterprises, the Partnership Program is described as a program to improve the ability of small businesses to become strong and independent through the use of funds from the profits of SOEs. This regulation also explains that the Community Development Program is a community empowerment program funded through the use of funds from the profits of SOEs (BUMN, 2007). The history and regulations of the SOE Partnership Program are summarised in Figure 3.3.
3.3.1 Type of Loans and Grants in the Partnership Program

As discussed in Chapter 1, the Partnership Program provides financial support to MiSEs. The following types of loans and grants are provided:

- Loans for working capital and/or purchase of productive fixed assets;
- Special loans to MiSEs which have become a beneficiary which is an additional loan in order to fulfil orders for the patronage of MiSE business partners;
- Mentoring program grants in order to increase capacity (capacity building) of MiSEs assisted in areas of education, training, apprenticeships and promotion;
- Capacity building grants in the field of production and processing, marketing, human resources and technology; these grants can only be awarded to or for the benefit of MiSE beneficiaries.
The business that are financed by the Partnership Program must be productive enterprises and can be in any economic sector (industrial, trading, agricultural, plantation, fisheries, services, other) with the terms and criteria set forth by any SOE in accordance with the delegation through the Corporate Action Scheme (BUMN, 2007). The Partnership Program basically consists of two types of programs, namely, programs strengthening small businesses through the provision of revolving loan funds and assistance (called the Partnership Program), and empowerment programs improving social conditions in areas around the SOEs (called the Community Development Program.)

At the time of writing, almost all SOEs have Partnership Programs and these are spread all over Indonesia. Examples include PT. Jamsostek (Persero) and PT. Askes in health insurance, PT Perkebunan Nusantara in agriculture. Pertamina and PLN are in mining and energy, and Bank Mandiri and Bank Rakyat Indonesia in the banking industry.

The loan program for small businesses is a program to improve the ability of small businesses to become strong and independent through the use of funds from the profits of SOEs. The loan program is a partnership in loans granted by the company as determined by Article 2 of Regulation of the Minister of State-Owned Enterprises (No. PER-05/MBU/2007). The loans are granted to small businesses to increase business capital. Obligations are placed on the small businesses to make repayments in a timely manner in accordance with the agreement and to periodically report progress to the lender.

3.3.2 Funding Criteria Funded for MiSEs in the Partnership Program

The types of businesses funded by the Partnership Program are all kinds of productive enterprises in all economic sectors. A business can participate in the program if it satisfies the following conditions (BUMN, 2007):

- Is defined as small or micro, which means having a maximum net worth of Rp200 million (excluding land and buildings which are the place of business) or having annual sales of at most Rp1 billion;
- Belongs to an Indonesian citizen;
- Is independent, that is, not a subsidiary or branch of a company owned, controlled or affiliated directly or indirectly with a medium or large business;
- Is shaped by the efforts of individuals, this includes business entities that are not a legal entity or entities that are legal entities, including cooperatives that:
• Have the potential and prospects for development;
• Have been conducting business at least 1 (one) year;
• Do not meet the banking requirements (non-bankable).

In selecting beneficiaries for the Partnership Program, SOEs must apply these criteria according to the regulations.

3.4 Linking the SOE Partnership Program, CSR, Social Entrepreneurship and Microfinance

Linking CSR and social entrepreneurship efforts could be a very promising model in terms of the achievement of UN Millennium Development Goals. To date, most CSR projects have concentrated on communities in developed countries, where achieving the UN goals is much less of a critical issue. This is due to the notion of corporate citizenship and the fact that most corporations operate principally in developed countries (Seelos & Mair, 2005).

CSR comes from the business community. There are many entrepreneurs and business leaders who express their vision with a clear social mission. However, the growth of CSR is also due to the expectation among community organisations and the public that businesses will be socially responsible. Many companies also participate in CSR activities because of government regulations which require companies to include social objectives in their policies (Hockerts, Robinson, & Mair, 2009).

Social entrepreneurship and CSR strategies have complementary roles in the community. The principles can be exchanged and business leaders can learn from the existing practices. CSR is an ongoing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large; in other words. It is how the business manages its relationship with society (Blowfield & Murray, 2008). Social entrepreneurship is a practice that integrates economic and social value creation which has a long custom and a global existence (Mair, 2006). Therefore, both CSR and social entrepreneurship use the business approach to conduct relevant actions that have a positive impact on the local community and on society generally.

Social entrepreneurship, CSR and microfinance are stand-alone activities but may also be applied in various combinations. The SOE Partnership Program in Indonesia can be depicted as a combination of all three. In the program, these three
concepts emphasise the ways in which SOEs can contribute to community, improve the community’s social and economic wellbeing, while protecting the environment. Figure 3.4 illustrates the combination of social entrepreneurship, CSR and microfinance components in the SOE Partnership Program.

Figure 3.4: Social entrepreneurship, CSR and microfinance in the SOE Partnership Program

3.5 Social Impact

There is no widely accepted definition of social impact in the context of CSR, reflecting the relatively new emergence of the social impact concept (Forester, 2009). However, the International Association of Impact Assessment (Vanclay, 2003) provides a convenient approach to conceptualising social impacts as changes to one or more of the following:

- People’s way of life – that is, how they live, work, play and interact with one another on a day-to-day basis;
- Their culture – that is, their shared beliefs, customs, values and language or dialect;
- Their community – its cohesion, stability, character, services and facilities;
- Their political systems – the extent to which people are able to participate in decisions that affect their lives, the level of democratisation that is taking place, and the resources provided for this purpose;
- Their environment – the quality of the air and water people use; the availability and quality of the food they eat; the level of hazard or risk, dust and noise they are exposed to; the adequacy of sanitation, their physical safety, and their access to and control over resources;
- Their health and wellbeing – with health seen a state of complete physical, mental, social and spiritual wellbeing and not merely the absence of disease or infirmity;
- Their personal and property rights – particularly whether people are economically affected, or experiencing personal disadvantage which may include a violation of their civil liberties;
- Their fears and aspirations – their perceptions about their safety, their fears about the future of their community, and their aspirations for their future and the future of their children.

Edwards (2000) argues that the assessment of socio-economic impact includes an evaluation of the impacts of development on a community’s social and economic wellbeing. Impacts are generally evaluated in terms of changes in community demographics, housing, employment and income, market effects, public services, and aesthetic qualities of the community. The qualitative assessment of community perceptions about development is an equally important measure of development impacts. For example, assessing proposed developments in a socio-economic context will help community leaders and residents identify potential social equity issues, evaluate the adequacy of social services and determine whether the project may adversely affect overall wellbeing (Edwards, 2000).

Furthermore, Edwards (2000) emphasised that a socio-economic impact assessment should examine how a proposed development will change the lives of the current and future residents of a community. The indicators used to measure the potential socio-economic impacts include the following (Edwards, 2000):

- Changes in community demographics
- Results of retail/service and housing market analyses
- Demand for public services
- Changes in employment and income levels
- Changes in the aesthetic quality of the community.

The present study elaborates on some of these indicators in the discussion on the findings in Chapters 6 and 7 where the impacts of the SOE Partnership Program are explored.
3.6 Conclusion

This chapter presented a review of the literature relevant to the main components of the study, namely, SOEs in Indonesia, the SOE Partnership Program, the link among CSR, microfinance and social entrepreneurship. Historically, SOEs were established in Indonesia even before Indonesia's independence in 1945. During the colonial period, the Dutch Government had established several state-owned companies, including pawnshops and railway companies. After independence, these companies were nationalised by the Indonesian Government. The 1950s saw the first major milestone in the establishment of SOEs; indeed at first, the main objective of the establishment of SOEs was to accommodate foreign and nationalised assets (Nugroho & Randy, 2008). At the time of writing, there are 142 established SOEs in Indonesia. They are either in the form of public companies (Perum); limited liabilities companies (PT Persero) or open limited liability companies.

SOEs are government institutions that are mandated to help and support MiSEs in Indonesia. To fulfil this obligation, they participate in the Partnership Program which is usually considered to be part of the company’s CSR. The aim of the Partnership Program is to improve the ability of small businesses to become strong and independent through the use of funds from the profits of SOEs. Chapter 6 presents the findings of this study’s exploration into the operations and benefits of the program including how the program was promoted and adapted by beneficiaries. Chapter 7 presents the findings on the transformation of the beneficiaries, the outcomes of the program and the impacts of the program on beneficiaries and the community and how it helps to improve beneficiaries’ standards of living and alleviate poverty and unemployment.

The SOE Partnership Program aims to support poor entrepreneurs; for this reason, it can also be considered as a form of microfinance. A microfinance institution is a finance institution that specialises in helping poor communities and concentrates on reducing poverty through credit, often provided with complementary services such as skills training and the teaching of literacy and numeracy, health, nutrition and family planning. Microfinance has two dimensions: social impact and entrepreneurship. Therefore, microfinance is closely related to social entrepreneurship. In this chapter, the elements of CSR, microfinance and social entrepreneurship were linked to one another in the SOE Partnership Program.
Chapter 4

Research Methodology

4.1 Overview

This chapter explains and justifies the research methodology that was applied in order to achieve the underlying objectives and answer the research questions introduced in Chapter 1. A qualitative multiple case study methodology appeared to be the most suitable approach to the research problem.

The chapter also provides an overview of the research site, including details on the research location’s geography and demographic information related to the site. The research design and framework are at the centre of all research. In this study, the framework guides the research from an examination of the external context at the beginning (an introduction to the SOE Partnership Program, the government’s commitment to supporting MiSEs, the state of social entrepreneurship and community involvement in the program) to an analysis of the adoption decision made by the program beneficiaries. The last two parts of the framework discuss the outcomes of the program for beneficiaries including the impact of the program on beneficiaries as well as the local community and broader society. This chapter explains how the framework was implemented in this research. The selection of the respondents and the ethical considerations in this research are also discussed. Figure 4.1 shows a map of the chapter.

The study began from the template of program evaluation suggested by Miles and Huberman (1994; see also the discussion of the conceptual framework in Chapter 1 Section 1.3.2). Therefore, functional analysis (Kumar, 2011) was the basis of this study during data collection and interview. The researcher was spending an amount of time with beneficiaries, PP supervisors and heads of villages in order to gather objectives judgment and justification of the program and its implementation. As my background is from business school the emphasis was on the social and economic outcomes and impacts of the program.

The theory and practice of realistic evaluation (Pawson & Tilley, 1997) were also used. It argues that researchers must learn the policy maker’s overall theories of how the program will yield specific benefits, as well as maybe unwanted effects, in the context in which it is being introduced. Realistic evaluation informs the policy makers
and participants of aspects of the program they may not be aware of. They might know a lot but are not know-alls about their program. This is relevant to the research significance (Section 1.3.5) that this research will provide substantial evidence-based data and information that can be used by decision-makers for future planning and will be relevant to local government policy-makers, especially in relation to the role of corporations and the development of local communities.

The SOE Partnership Program in Indonesia involves two main stakeholder groups, namely, the SOEs as the program administrators and the MiSEs as beneficiaries. Due to limited time and in order to focus the research, this study only investigates the experience of the beneficiaries in the program. An exploration of the experience of the SOEs in the program will be recommended for future research.

To collect data from parties, four supervisors of the PP in three SOEs and forty-four beneficiaries of the program were interviewed. In addition, seven heads of villages who were the representative of the communities in which the SOEs were operating and where the beneficiaries lived were also interviewed.

![Chapter 4: Research Methodology](image)

**Figure 4.1: Chapter map**

### 4.2 Research Site
The research was conducted in Makassar, the capital city of South Sulawesi Province. South Sulawesi is one of the six provinces in Sulawesi Island. The other provinces are North Sulawesi Province (where the capital is Manado), Gorontalo Province (Gorontalo), Middle Sulawesi Province (Palu), West Sulawesi Province (Mamuju) and
Southeast Sulawesi Province (Kendari). Makassar is the largest city in the island and the gateway to eastern Indonesia. It is one of Indonesia’s largest cities.

Makassar is sometimes spelled as “Macassar” or “Mangkasar” and the city was officially known as Ujung Pandang or Ujungpandang from 1971 until 1999. Makassar is located on the south-western coast of Sulawesi Island, facing the Makassar Strait.

Various ethnic groups have settled in Makassar, of which the significant tribes are the Makassar, Bugis, Toraja, Mandar, Buton, Javanese and Chinese. The city has an area of 175.77 km² and a population of approximately 1.4 million people (BPS, 2014). A map of the city is shown in Figure 4.2, and the ethnic and demographic profile of Makassar is explored in more detail in Chapter 4.

Indonesia has more than 10,000 islands. The five main islands are Sumatera, Jawa (Java), Kalimantan (Borneo), Sulawesi (Celebes) (a ‘K’ shaped island, with Makassar located in the south) and Irian Jaya (West Papua). As can be seen in the map of Indonesia (Figure 4.3), Makassar is located in the middle of Indonesia.
Figure 4.2: Makassar city map (Google Maps, accessed on 07/01/2014)
Figure 4.3: Map of Indonesia (Google Maps, accessed on 07/01/2014)
4.3 Research Design and Framework

The selection of the right research design to answer the research questions is an important decision in any research project. The first approach that was considered for use in the present study was Owen’s (2006) program evaluation approach.

In Owen’s (2006) approach, program evaluation can be carried out in five forms of enquiry: the proactive form, clarificative form, interactive form, monitoring form and impact form. The monitoring and impact form of enquiry appeared to be a suitable approach to evaluating Indonesia’s SOE Partnership Program. However, after further deliberation, it was clear that a more comprehensive approach was required to facilitate an in-depth analysis of this program. Ultimately, the approach proposed by Huberman and Miles (1984) and their conceptual model was selected.

The conceptual model proposed by Huberman and Miles (1984) emphasises the initial effects of the local context of a program, the properties of the program itself, and the nature of the assistance provided to sites. These factors are seen to affect a process that begins with adoption, proceeds through to "transformations" in the program, the people and the organisations involved, and results in outcomes ranging from "stabilisation of use" to beneficiary impact and job mobility of local personnel. The conceptual model proposed by Huberman and Miles shows the flow of the implementation process in which a range of factors interact over time to produce outcomes. The Huberman and Miles conceptual model is presented in Figure 4.4.
Figure 4.4: Huberman and Miles (1984) conceptual model of program implementation
The research design in the present study is based on a dynamic approach of the implementation process of the SOE Partnership Program adapted from the Huberman and Miles (1984) model with changes made to fit the model to the particular context of the research. The expanded model, as presented in Figure 4.5, consists of six sets of factors which interact over time to produce results and showing how these results impact on the beneficiaries and the surrounding community.

The major modification to the Huberman and Miles (1984) model is the addition of “impacts” as a set of factors. This component does not exist in the Huberman and Miles model. It is added to the model of the present study in order to facilitate the examination of not only the outcomes of the program but also the impacts on society.

The first components of the model are the external and internal context. In the external context, government commitment, level of social responsibility and the nature of the communities surrounding the SOEs are among the factors that impact on the implementation of the program. To understand the external context, the organisational practices, rules, goals and assumptions of the program are investigated. The internal context is linked to the beneficiaries of the program. To examine the internal context, the beneficiaries’ descriptions of their conditions and experiences before and after participation in the program are analysed.

In the “adoption decision” component, the beneficiaries’ decisions to participate in the program are explored. The beneficiaries’ business plans and the program’s support for their plans are also examined.

The next component of the model is “participation and transformation” which covers the changes experienced by the beneficiaries through a series of accommodative transformations. During the program, the beneficiaries interact with the particular SOE that is running the program. Changes occur in the beneficiaries’ perceptions, benefits and practices; they may become more skilled individually, or feel more able to understand how to run their business. Implementation of business principles also bring a shift in the beneficiaries in terms of the rules, networks and relationships they utilise in the business.

This model assumes that the transformation process produces a different result, mostly perceived as gains and benefits on the individual and institutional level. These results may or may not be in accordance with the results expected or specified by the program developers (Miles & Huberman, 1984).

In the context of the present study, the transformation process will be expected to produce the following distinct outcomes for the beneficiaries: a high degree of
success in business; and improved capacity and skills. The potential impacts of the Partnership Program include:

1. Affecting the beneficiaries’ social economy
2. Increasing the beneficiaries’ standard of living
3. Improving the beneficiaries’ entrepreneurial skills
4. Affecting the community around the SOE
5. Alleviating unemployment in the community.

The arrows inside and outside the boxes in the model show the interactions of the factors in each of the components and the flow of actions during the program implementation. For example, in the “adoption decision” component, the decision to apply to join the program is influenced by the beneficiary’s need for financial support (“finance”). To apply, the entrepreneur needs to submit a business plan to the SOE. When the entrepreneur becomes a participant in the program, support from the SOE is required for the business plan implementation. Whether or not the beneficiary feels they received sufficient support from the SOE for the implementation of the business plan is one of the questions investigated during the course of the research.
Figure 4.5: Research framework flowchart (adapted from Huberman and Miles (1984))
### 4.4 Framework Implementation

Modification of the Huberman and Miles (1984) model was necessary because the research subjects are different. Huberman and Miles applied their model to conduct research on formal institutions (schools) whereas the present study deals with informal institutions (micro and small enterprises).

A formal institution has a set of rules and procedures that must be obeyed, including an organisational structure and chain of command. The informal institution does not have written rules or a formal organisational structure. It is owned by an individual or a family, so it runs according to the family’s traditions or the owner’s rules. This has been an established practice among MiSEs in Makassar.

#### 4.4.1 Interviews

The purpose of interviewing is to allow the researcher to enter into the other person’s perspective (Patton, 2002). Personal interviews are widely used as a key component of qualitative research. In the present study, personal interviews were held with beneficiaries, SOE supervisors of the Partnership Program and heads of villages. The interviews with the beneficiaries and heads of villages were more informal compared to the interviews with the SOE supervisors. Efforts were made to conduct purposeful and warm conversations with the beneficiaries and heads of villages in order to obtain responses more openly from them.

The aim of the interviews with the beneficiaries was to capture their perspectives of the program and their experiences in the program. Beneficiaries were asked to explain the purpose of the funds received under the program and to describe how the program affected their life and family as well as the impact of the program on them and their community. The heads of villages were asked about the impact of the program on their community. In the interviews with the SOE supervisors of the program, the supervisors were asked for their views on how the program was implemented. They were asked to explain the source of the program’s funds, and to describe their experience in managing the program and how the program affected their company.

The first step in commencing the field research was meeting the SOE supervisors of the program. When first approached with a request for interview, the SOE supervisors were provided with information about the study and a consent form to read. The SOE supervisors were also asked to recommend program beneficiaries for participation in the research.
Based on the SOE supervisors’ recommendations, some beneficiaries were then contacted and invited to be interviewed. Before the interview, the beneficiaries were provided with information about the study and the consent form.

4.4.2 Respondents, Form of Data and Collection Instruments

To gather data in this research, four SOE supervisors of the Partnership Program were interviewed. Documentation related to the program was also obtained from these respondents. Forty-four beneficiaries and seven heads of villages were investigated, bringing the total number of respondents to 55. A summary of the data sources, form of data and the collection instruments used in this project is presented in Table 4.1.

Table 4.1: Data sources, form of data and collection instruments

<table>
<thead>
<tr>
<th>No.</th>
<th>Data Source</th>
<th>Form of Data</th>
<th>Collection Instrument</th>
<th>Expected Type of Data</th>
</tr>
</thead>
<tbody>
<tr>
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<td>PP Supervisor</td>
<td>Words</td>
<td>Interview</td>
<td>Written</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Numbers</td>
<td>Documentation</td>
<td>Additional information</td>
</tr>
<tr>
<td>2.</td>
<td>Village Heads</td>
<td>Words</td>
<td>Interview</td>
<td>Written</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Documentation</td>
<td>Additional information</td>
</tr>
<tr>
<td>3.</td>
<td>PP Beneficiaries</td>
<td>Words</td>
<td>Interview</td>
<td>Written</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Numbers</td>
<td>Documentation</td>
<td>Additional information</td>
</tr>
</tbody>
</table>

4.4.3 Selection of Participants

The research participants were selected using a purposive sampling technique in which the informant was determined by the researcher to satisfy the criteria in accordance with the purpose of research (Creswell, 2003; Miles & Huberman, 1984). Potential participants for the project were identified by determining the type or category of persons who were the most appropriate participants for the research project. This led to the decision to interview selected persons who were involved in the Partnership Program including those who were participating, managing, evaluating and experiencing the impacts of the program.

As part of the qualitative design of the research, there was a deliberate intention to interview SOE executives, beneficiaries of the Partnership Program, and members of the beneficiaries’ communities. Both male and female subjects were considered suitable. Due to the limited time and resources for conducting, transcribing and analysing interviews, it was only possible to accommodate participants who closely met the selection criteria.
4.4.4 Interview in Action
During the field research it was discovered that the term “interview” was sensitive when approaching beneficiaries to participate in research on the program. Some beneficiaries refused to be interviewed but were willing to “share their stories”. From their point of view, the perceived formality of an interview makes them feel uncomfortable. Therefore, when contacting potential participants, terms like “talk”, “discuss” or “chat” were used in order to gain higher rates of willingness to participate in the research. This is itself an indicator of part of the local culture and practices in MiSEs.

Finding beneficiaries’ homes and business locations proved to be challenging. Motorbike transport was used because most of the beneficiaries live in narrow streets. Some beneficiaries had moved to new addresses and some addresses on the list provided by the SOE were fictitious.

Some program beneficiaries declined to participate in the research for a range of different reasons. For example, one beneficiary stated that he did not want to participate because he had not used the program funds for his business in accordance with the main objective of the program. Other beneficiaries agreed to participate in the research but requested that the interviews not be recorded.

Language was also an issue faced in the interview process. The respondents sometimes spoke a mix of Indonesian and Makassar/Bugis languages. In transcribing the interviews, it was necessary to have a good understanding of the intended meaning in the interviewee’s response. If the interview used Makassar language or a mix of Indonesian and Makassar languages, then their response was first translated into Indonesian and then translated into English.

4.5 Methodology Map
The advantage of adapting the Huberman and Miles (1984) research approach is that it helped to identify the types of questions that should be asked regarding each component of the program implementation process. Each component of the program implementation has its own set of questions. The interview questions were thus based on the components of the program implementation process.

In analysing the interview data, case analysis or cross-case analysis were used. Case analysis involves writing a case study for each person interviewed or each unit studied. Cross-case analysis involves grouping together answers from different respondents to common questions, or analysing different perspectives on central issues (Patton, 2002). In the present research, case analysis was performed for each participant.
and then cross-case analysis was performed to find different perspectives on the outcomes and impacts of the Partnership Program.

After the field research was completed, it was decided to manually analyse the data rather than use qualitative analysis software such as Nvivo. The aims and outcomes of analysis are the same but the small sample, single researcher situation makes use of NVivo unnecessary. In the manual analysis process, the responses of each respondent were put into groups to match each component of the program implementation. The interview transcripts were broken down into themes or program component. This process enabled each response to a certain question to be compared across different interviews. This, in turn, enabled the key issues and perceptions in every component of the program implementation to be identified. The steps involved in this research, namely, preparing, collecting, processing, analysing and reporting are shown in the methodology map in Figure 4.6, and each step is described in the following subsections.
Figure 4.6: Methodology map
4.5.1 Preparing

The first step in preparing the research was making appointments with some SOE supervisors of the Partnership Program and arranging to visit them for interview. As explained above, the SOE supervisors were asked to provide a list of beneficiaries who could be approached for interviews. Having a list of beneficiaries’ names, the next step was to contact some of them and make appointments. Some did not want to participate in the research but arrangements were made to meet a number of them.

Another part of the preparation was writing questions for the interviews. These questions were reviewed and improved throughout the research. Prior to the initial data gathering/interviews, preliminary research interviews were conducted with some program beneficiaries in order test the questions and improve their quality. During the data gathering phase, the questions were evaluated after the first three interviews and the questions were improved again.

4.5.2 Collecting

Interviews with the participants were conducted one on one but sometimes the beneficiary’s spouse was also involved in the conversation. During the interviews, attention was placed on capturing the respondents’ experiences of being in the program, listening to their opinions and prompting their reflections. Notes were made during the interview process and the interviews were also recorded if the participant agreed.

4.5.3 Processing

All the interview recordings and notes were collected and transcribed them as soon as possible after the interviews. Transcribing the recorded interviews was challenging due to the use of the Makassar language or a mix of Indonesian and Makassar in some cases, as explained above. Once the transcribing was completed, the simple coding and categorising of the responses commenced based on the themes from the model (Figure 4.5). The next step was analysing the responses and identifying the patterns in the responses that occurred in all the interviews.
4.5.4 Analysing
In the previous step, data processing was completed by coding and categorising the responses according to the themes and identifying the patterns in those responses. Next, the data could be interpreted and compared. This involved analysing all the responses and the underlying meanings and reasons (Creswell, 2003; Miles & Huberman, 1984).

Following the analysis, the data were able to be displayed in tables, graphs and figures. For example, the data on how the SOE supervisors differentiated their company’s CSR program from the Partnership Program could be depicted in a diagram as shown in Figure 4.7 (the results on this point are discussed in more detail in Chapter 6).

![Diagram showing the relationship between SOE, Public Relation, Financial Department, CSR, Voluntary, Mandated, Company Charity/Philanthropy, and Partnership Program & Community Development.]

Figure 4.7: PP supervisors’ descriptions of the differences between CSR program and SOE Partnership Program

4.5.5 Reporting
The findings of the study are reported in order to fulfil the aim of this research to investigate the implementation of the Partnership Program and its outcomes impacts. The findings are also focused on understanding how the program has changed the beneficiaries’ lives, socially and economically. Findings on the success and failure
factors of the program from the point of view of the beneficiaries, as well as suggestions and recommendations for the program’s improvement, are also reported.

4.6 Ethical Considerations

For the purposes of this research, certain amounts of identifiable data were collected, including the names of the interviewees in the audio recordings. However, the researcher undertook not to reveal the respondents’ identities and they were invited to participate in the research on the condition of anonymity. Therefore, these identifying personal details were removed upon transcription of the audio tapes. The audio tapes were kept safely by the researcher once the transcripts were complete. In order to ensure the confidentiality of the respondents, only the researcher had access to the audio recordings and the raw data transcripts.

This research received ethical clearance from the Griffith University Human Research Ethics Committee (HREC) generated on September 7, 2011 and extended on February 7, 2013.

4.7 Conclusion

This chapter provided an overview of the methodology applied in this research. The program investigated in this study involves two groups of stakeholders, namely, SOEs and beneficiaries; however, due to limited time and in order to keep the research focused and to facilitate in-depth research, only the beneficiaries’ perceptions and experiences are explored in detail.

The research model is an adaption of the Huberman and Miles (1984) research design and conceptual model, with adjustments and revisions made to fit the context of the present study and to sharpen the focus of the research. The adjustments were also necessary in order to reflect the differences in the respective research subjects: Huberman and Miles applied their model to investigate formal institutions (schools), whereas the present study investigates informal institutions (micro and small enterprises). The adapted model describes the SOE Partnership Program implementation as a series of components, namely, the external context, internal context, adoption decision, participation and transformations, outcomes and impacts, and explains the relationships between these components.

Qualitative research methods were used in the collection of the data. Respondents were selected for interview using the purposive sampling technique in which
the suitability for participation was determined by the researcher according to criteria in line with the purpose of research.

In the data analysis stage, manual analysis of the data was used rather than qualitative analysis software. All the data were classified into groups according to the components of the program implementation model. This enabled the themes, key issues and perceptions of each respondent to be identified. The data were then ready to be analysed in order to answer the research questions. The next chapter presents an overview of the research site and the implementation of the PP in three SOEs in Makassar.
Chapter 5

Partnership Program Implementation in “Kota Daeng” Makassar

5.1 Introduction

This chapter explores the research site and the Partnership Program implementation in SOEs located in Makassar, the capital city of South Sulawesi Province. Makassar is the biggest city in eastern Indonesia and the gateway to most areas in eastern Indonesia. Information on Makassar, including the population, business, employment and education system, is presented in this chapter.

Three SOEs in Makassar that had implemented the Partnership Program participated in the research, including providing the names of some of their program beneficiaries. This chapter investigates the implementation of the Partnership Program in those three SOEs, namely PT Pertamina, PT Askes and Pelindo IV. Figure 5.1 presents an overview of the chapter structure.

Figure 5.1: Chapter map

5.2 “Kota Daeng” Makassar of South Sulawesi Indonesia

Makassar is considered as one of the biggest cities in Indonesia in terms of development. Demographically, various ethnic groups have settled in the city which now comprises significant numbers of Bugis, Toraja, Mandar, Buton, and Javanese and Chinese peoples. The native and the most dominant ethnic groups are Makassar and Bugis. Maps of Sulawesi Island and the city of Makassar were presented in Chapter 4 (Figures 4.2 and 4.3).
Makassar is famous in Indonesia for its colloquial name “Kota Daeng”. Kota is the Indonesian word for “city” and Daeng is from Makassar and Bugis language. It is a term used to call Makassar people, whether a man or a woman. Daeng can be translated as Mr, Mrs or Ms in English. The use of this word shows respect for the person who is being addressed. Any Makassar person can be called “Daeng” in conversation as a sign of respect. In the past, there were four social stratifications in Makassar society:

1. Kare – religious people and men of knowledge
2. Karaeng – royalty and nobility
3. Daeng – businessmen and free people

The word “daeng” originates from “pakdoangang” meaning “pray” in Makassar language. Makassar people traditionally believe that a name is a prayer so they name their children according to positive and hopeful characteristics. For example, the name Daeng Gemilang means “he will always be successful”, “Daeng Nikeknang” means “he/she will always be remembered”, “Daeng Kanang” means she will always look beautiful and “Daeng Bajiso” means “she will always bring good and kindness to people”. Therefore, a person can be called “Daeng” even by those who do not know the person’s actual name.

As mentioned in Chapter 1, the city of Makassar, sometimes spelled Macassar or Mangkasar, was officially known as Ujungpandang or Ujung Pandang municipality from 1971 to 1999 (Pelras & Boneff, 1998). It is the provincial capital of South Sulawesi.

Makassar city has a strategic position because it is located at the crossroads of the south and north in Sulawesi Island, the east and west regions of Indonesia and the north and south regions of Indonesia. Geographically, Makassar city is located at coordinates 119 degrees east longitude and 5.8 degrees south latitude with an altitude between 1-25 metres above sea level. The city is bounded to the north by Pangkajenne Islands District, to the south by Bone Regency, to the west by the Makassar Strait and to the east by Maros Regency.

5.2.1 Population

In 2009, the population of Makassar population was more than 1.3 million people (676,654 females and 662,009 males). Most of the population of South Sulawesi Province live in urban areas, with only 7,272 people living in the province’s rural areas in 2009. Due to the disparity between the size of the rural population and the size of the
urban population, the migration of people to the urban areas is an issue. A breakdown of the population in South Sulawesi Province by region and gender is shown in Table 5.1.

Table 5.1: Population of South Sulawesi Province (Statistics Indonesia 2010)

<table>
<thead>
<tr>
<th>Regency/Municipality</th>
<th>Population by Region, Urban/Rural, and Sex</th>
<th>Sulawesi Selatan Province</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban/Rural</td>
<td>Urban</td>
</tr>
<tr>
<td></td>
<td>Sex</td>
<td>Sex</td>
</tr>
<tr>
<td>01 Pekalongan</td>
<td>16,310</td>
<td>11,184</td>
</tr>
<tr>
<td>02 Deli Serdang</td>
<td>34,081</td>
<td>31,662</td>
</tr>
<tr>
<td>03 Banda Aceh</td>
<td>20,859</td>
<td>20,004</td>
</tr>
<tr>
<td>04 Jambi</td>
<td>30,664</td>
<td>23,501</td>
</tr>
<tr>
<td>05 Jambi</td>
<td>27,822</td>
<td>29,002</td>
</tr>
<tr>
<td>06 Banjarmasin</td>
<td>114,995</td>
<td>116,502</td>
</tr>
<tr>
<td>07 Simalungun</td>
<td>22,597</td>
<td>22,423</td>
</tr>
<tr>
<td>08 Tapanuli Utara</td>
<td>50,121</td>
<td>50,769</td>
</tr>
<tr>
<td>09 Pariaman</td>
<td>10,981</td>
<td>11,639</td>
</tr>
<tr>
<td>10 East Aceh</td>
<td>22,877</td>
<td>24,056</td>
</tr>
<tr>
<td>11 Banjarmasin</td>
<td>50,151</td>
<td>51,279</td>
</tr>
<tr>
<td>12 Simalungun</td>
<td>24,209</td>
<td>26,942</td>
</tr>
<tr>
<td>14 Siantar Mandailing</td>
<td>36,245</td>
<td>39,196</td>
</tr>
<tr>
<td>15 Pinrang</td>
<td>41,542</td>
<td>42,172</td>
</tr>
<tr>
<td>16 Deli Serdang</td>
<td>14,991</td>
<td>14,991</td>
</tr>
<tr>
<td>17 Toba</td>
<td>17,230</td>
<td>18,050</td>
</tr>
<tr>
<td>18 Toba</td>
<td>14,041</td>
<td>14,041</td>
</tr>
<tr>
<td>22 Lintau Utara</td>
<td>12,225</td>
<td>12,440</td>
</tr>
<tr>
<td>25 Lintau Timur</td>
<td>24,140</td>
<td>22,999</td>
</tr>
<tr>
<td>29 Togalgading</td>
<td>22,510</td>
<td>22,999</td>
</tr>
<tr>
<td>71 Kota Melayu</td>
<td>618,111</td>
<td>672,089</td>
</tr>
<tr>
<td>72 Kota Pada-Pada</td>
<td>61,346</td>
<td>62,273</td>
</tr>
<tr>
<td>73 Kota Palu</td>
<td>16,552</td>
<td>16,960</td>
</tr>
</tbody>
</table>

Source: 2016 Population Census Data – Statistics Indonesia

118
5.2.2 Industry

The largest industry in Makassar is wholesale and retail trade. According to data from Statistics Indonesia (2010), there were 118,459 wholesale and retail businesses operating in Makassar in 2009 (Table 5.2). This is reflected in the fact from the list of beneficiaries given by participating SOEs in this research that most of the beneficiaries participating in the SOE Partnership Program are in the retailing business (Statistics, 2010).

As the biggest city in Eastern Indonesia, Makassar has become the centre of trade and retail businesses. Retailers from other islands in Eastern Indonesia like West Papua, Maluku islands and provinces in Sulawesi Island come to Makassar to shop for their stock. Makassar also has a special area for manufacturing industries called “KIMA” as it is the abbreviation of Kawasan Industri Makassar (Makassar Industrial Zone).
<table>
<thead>
<tr>
<th>Regency/Municipality</th>
<th>Agriculture, forestry or plantation</th>
<th>Growing of tobacco, crops, and tubers</th>
<th>Growing of horticultural plants</th>
<th>Fishing and aquaculture</th>
<th>Animal production</th>
<th>Other agricultural activities</th>
<th>Mining and quarrying</th>
<th>Manufacturing</th>
<th>Electricity and gas</th>
<th>Construction</th>
<th>Wholesale and retail trade</th>
<th>Hotel and restaurant</th>
<th>Transport and storage</th>
<th>Information and Communication</th>
<th>Financial and insurance</th>
<th>Education services</th>
<th>Human Health</th>
<th>Public services and personal service activities</th>
<th>Others</th>
<th>Real estate activities</th>
<th>Water supply etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Kolaka Selatan</td>
<td>454</td>
<td>2,468</td>
<td>514</td>
<td>751</td>
<td>125</td>
<td>539</td>
<td>285</td>
<td>322</td>
<td>894</td>
<td>936</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
<td>1,008</td>
</tr>
<tr>
<td>02 Kolaka Utara</td>
<td>524</td>
<td>2,576</td>
<td>584</td>
<td>865</td>
<td>140</td>
<td>673</td>
<td>389</td>
<td>404</td>
<td>996</td>
<td>1,027</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
<td>1,137</td>
</tr>
<tr>
<td>03 Palu</td>
<td>602</td>
<td>3,069</td>
<td>642</td>
<td>896</td>
<td>166</td>
<td>903</td>
<td>497</td>
<td>550</td>
<td>1,236</td>
<td>1,374</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
<td>1,471</td>
</tr>
<tr>
<td>04 Palu Selatan</td>
<td>656</td>
<td>3,464</td>
<td>682</td>
<td>954</td>
<td>182</td>
<td>1,008</td>
<td>558</td>
<td>664</td>
<td>1,312</td>
<td>1,454</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
</tr>
<tr>
<td>05 Kolaka Kecil</td>
<td>712</td>
<td>3,858</td>
<td>758</td>
<td>1,034</td>
<td>188</td>
<td>1,008</td>
<td>558</td>
<td>664</td>
<td>1,312</td>
<td>1,454</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
<td>1,542</td>
</tr>
</tbody>
</table>

Table 5.2: Industry in South Sulawesi Province (Statistics Indonesia 2010)
5.2.3 Employment

One of the characteristics of MiSEs is that they are run as self-employed businesses. It means the owners are the staff as well as the directors of the business. For example, in a micro retail business, the owner does everything from ordering the stocks from suppliers to placing the stock on the shelves and serving customers. Table 5.3 presents data on the employment status of the population in South Sulawesi Province. Most of the self-employed people work in the wholesale and retail trade (233,046 people from a total of 733,400). The term family in Indonesian context is represented by member of nuclear family, grandparents, grandchildren, cousins and nephew (Suprajitno, 2004)

Table 5.3: Employment status in South Sulawesi Province (Statistics Indonesia 2010)

<table>
<thead>
<tr>
<th>Main Industry</th>
<th>Self employed</th>
<th>Self employed assisted by unpaid temporary employees</th>
<th>Employer assisted by paid permanent employees</th>
<th>Employee</th>
<th>Casual worker</th>
<th>Unpaid family worker</th>
<th>Net Adjusted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop agriculture and forestry</td>
<td>177,901</td>
<td>305,289</td>
<td>10,418</td>
<td>17,444</td>
<td>64,030</td>
<td>373,590</td>
<td>57</td>
<td>1,030,949</td>
</tr>
<tr>
<td>Fishing and aquaculture</td>
<td>27,505</td>
<td>21,744</td>
<td>12,742</td>
<td>20,194</td>
<td>16,909</td>
<td>22,520</td>
<td>67</td>
<td>140,210</td>
</tr>
<tr>
<td>Animal production</td>
<td>15,238</td>
<td>9,141</td>
<td>1,551</td>
<td>2,909</td>
<td>2,047</td>
<td>12,081</td>
<td>1</td>
<td>45,232</td>
</tr>
<tr>
<td>Other agricultural activities</td>
<td>365</td>
<td>367</td>
<td>274</td>
<td>1,277</td>
<td>528</td>
<td>217</td>
<td>1</td>
<td>2,358</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>2,203</td>
<td>402</td>
<td>1,029</td>
<td>9,762</td>
<td>1,562</td>
<td>401</td>
<td>1</td>
<td>15,360</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>38,405</td>
<td>13,755</td>
<td>11,018</td>
<td>61,180</td>
<td>7,571</td>
<td>11,653</td>
<td>2</td>
<td>140,505</td>
</tr>
<tr>
<td>Electricity and gas</td>
<td>555</td>
<td>79</td>
<td>267</td>
<td>7,646</td>
<td>234</td>
<td>72</td>
<td>0</td>
<td>9,044</td>
</tr>
<tr>
<td>Construction</td>
<td>10,554</td>
<td>2,422</td>
<td>29,018</td>
<td>62,907</td>
<td>47,355</td>
<td>1,039</td>
<td>41</td>
<td>154,576</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>233,946</td>
<td>51,874</td>
<td>22,506</td>
<td>74,195</td>
<td>8,577</td>
<td>49,077</td>
<td>2</td>
<td>439,477</td>
</tr>
<tr>
<td>Hotels and restaurant</td>
<td>7,959</td>
<td>2,117</td>
<td>2,694</td>
<td>15,127</td>
<td>579</td>
<td>2,816</td>
<td>0</td>
<td>34,602</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>56,550</td>
<td>1,761</td>
<td>7,611</td>
<td>43,155</td>
<td>20,128</td>
<td>1,512</td>
<td>0</td>
<td>160,559</td>
</tr>
<tr>
<td>Information and Communication</td>
<td>2,525</td>
<td>145</td>
<td>790</td>
<td>9,719</td>
<td>106</td>
<td>471</td>
<td>0</td>
<td>15,972</td>
</tr>
<tr>
<td>Financial and insurance</td>
<td>465</td>
<td>22</td>
<td>332</td>
<td>24,133</td>
<td>113</td>
<td>49</td>
<td>0</td>
<td>25,181</td>
</tr>
<tr>
<td>Education services</td>
<td>3,443</td>
<td>268</td>
<td>812</td>
<td>162,453</td>
<td>1,108</td>
<td>435</td>
<td>0</td>
<td>168,479</td>
</tr>
<tr>
<td>Human Health</td>
<td>1,143</td>
<td>94</td>
<td>446</td>
<td>33,241</td>
<td>406</td>
<td>126</td>
<td>0</td>
<td>40,758</td>
</tr>
<tr>
<td>Public services and personal services</td>
<td>30,459</td>
<td>3,171</td>
<td>9,548</td>
<td>23,665</td>
<td>20,558</td>
<td>3,563</td>
<td>4</td>
<td>303,208</td>
</tr>
<tr>
<td>Other (real estate activities, water supply etc.)</td>
<td>6,362</td>
<td>482</td>
<td>2,119</td>
<td>13,212</td>
<td>4,262</td>
<td>1,524</td>
<td>0</td>
<td>28,201</td>
</tr>
<tr>
<td>Total</td>
<td>723,400</td>
<td>613,185</td>
<td>121,916</td>
<td>228,307</td>
<td>613,790</td>
<td>126</td>
<td>2,116</td>
<td>3,141,623</td>
</tr>
</tbody>
</table>

Source: 2010 Population Census Data – Statistics Indonesia
5.2.4 Education

The Indonesian education system consists of nine years of compulsory education which is provided free in state schools. Students spend six years at primary school level and three years in junior high school. Beyond those compulsory years of schooling, students can move on to senior high school (three years) and then university. Makassar has several state universities and has been an educational destination for some students in Eastern Indonesia.

The highest level of educational attainment level in Makassar city is senior high school (approximately 33% of the total Makassar city population), followed by primary school (17%) and junior high school (15%). The details of the level of educational attainment in South Sulawesi Province are shown in Table 5.4.

Table 5.5 shows the number of people working in each main industry and their level of educational attainment. Working in wholesale and retail trading is the most common occupation in Makassar city, and employees who have graduated from senior high school represent the largest group in this sector (32% of the total number of employees in that sector).

Given the above data, the facts that the majority of the Makassar population had graduated only from senior high school and that the most common job was in the wholesale and retail trade were expected to be of most relevance to the present study. These factors are discussed further in Chapter 6 in regard to the demographics of the respondents.
Table 5.4: Educational attainment by region in South Sulawesi Province (Statistics Indonesia 2010)

Population 5 Years of Age and Older by Region and Educational Attainment

<table>
<thead>
<tr>
<th>Regency/Municipality</th>
<th>Educational Attainment</th>
<th>Unit: people</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Never Attended School</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Not Completed/Not Yet</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Completed/Primary School</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Primary School</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Junior High School</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Senior High School</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vocational</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Diploma I/II</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Diploma III</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Diploma IV/University</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Postgraduate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Not Started</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>01 Palopo</td>
<td>26,352</td>
<td>3,202</td>
</tr>
<tr>
<td></td>
<td>12,533</td>
<td>2,083</td>
</tr>
<tr>
<td></td>
<td>12,533</td>
<td>2,083</td>
</tr>
<tr>
<td>02 Bulukumba</td>
<td>22,912</td>
<td>7,433</td>
</tr>
<tr>
<td></td>
<td>10,622</td>
<td>4,444</td>
</tr>
<tr>
<td></td>
<td>10,622</td>
<td>4,444</td>
</tr>
<tr>
<td>03 Sambung</td>
<td>40,296</td>
<td>37,452</td>
</tr>
<tr>
<td></td>
<td>28,652</td>
<td>18,652</td>
</tr>
<tr>
<td></td>
<td>19,044</td>
<td>10,304</td>
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</table>

Table 5.5: Educational attainment and industry in South Sulawesi Province (Statistics Indonesia 2010)

Population 15 Years of Age and Over by Educational Attainment and Main Industry

<table>
<thead>
<tr>
<th>Educational Attainment</th>
<th>Main Industry</th>
<th>Unit: people</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>Wholesale and retail trade</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hotel and restaurant</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transportation and storage</td>
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</tr>
<tr>
<td></td>
<td>Information and Communication</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial and Insurance</td>
<td></td>
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<td></td>
<td>Education services</td>
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</tr>
<tr>
<td></td>
<td>Public services and personal service activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others (real estate activities, warehousing etc.)</td>
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<td>493,477</td>
<td>24,502</td>
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<td>40,753</td>
<td>302,256</td>
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<tr>
<td></td>
<td>28,201</td>
<td>214,622</td>
</tr>
</tbody>
</table>

Source: 2010 Population Census Data – Statistics Indonesia
5.3 Partnership Program Implementation

5.3.1 PT Pertamina

As a national asset, PT Pertamina is an SOE that has a firm commitment to practising CSR to improve the welfare of the Indonesian people. The spirit of community empowerment, which has existed since the founding of PT Pertamina, takes the form of a commitment to provide added value to the Indonesian people. The company’s CSR program is aligned with the needs of the communities around PT Pertamina’s operations, who are seen as important stakeholders and who play a major role in supporting the sustainability of PT Pertamina’s business success.

The aim of the company’s integrated CSR program is to encourage the communities around PT Pertamina’s areas of operations to grow with the company. Through the integrated CSR program, the company’s goal is to participate in promoting a healthy, intelligent, prosperous and independent community with good environmental awareness.

The company’s objectives in the development of its CSR commitment are to develop harmonious relationships and to create favourable conditions to support the company’s growth by solving social problems, improving the company’s culture and integrating values with the company’s business strategies, and developing strategies to build the company’s image and reputation (Jeremy Moon & Chapple, 2005).

Table 5.6 and Figure 5.2 present a summary of PT Pertamina’s Partnership Program fund. As shown in the table, there is a significant amount of money involved in this project. In 2006 (Pertamina, 2007), the amount of funds distributed in the company’s Partnership Program was Rp 39,600,000,000 (approximately US$ 3,960,000); in 2009 (Pertamina, 2010), the amount of funds distributed in the program reached Rp 374,000,000,000 (approximately US$ 37,400,000).

### Table 5.6: PT Pertamina Partnership Program fund distribution (from Pertamina Annual Reports 2006-2010)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributed PP Fund* (in US$)</td>
<td>39,600,000,000</td>
<td>118,470,000,000</td>
<td>240,050,000,000</td>
<td>374,000,000,000</td>
</tr>
<tr>
<td>Partners (Small Enterprises, Cooperatives, and informal Sector)</td>
<td>1854</td>
<td>3294</td>
<td>5484</td>
<td>4547</td>
</tr>
<tr>
<td>Increased Fund in Percent</td>
<td>199%</td>
<td>103%</td>
<td>56%</td>
<td></td>
</tr>
</tbody>
</table>

* in rupiah

* US$ 1 = Rp. 10,000
Comparing the four years of program implementation from 2006 to 2009, the largest number of participants (small enterprise, cooperatives and informal sector businesses) in PT Pertamina’s Partnership Program was in 2008 (Pertamina, 2008, 2009), with nearly 5,500 participants in that year. In 2009, the number of participants declined to just over 4,500 (Table 5.6 above, and Figure 5.3).

An interesting question arises regarding the 2009 figures for the PT Pertamina Partnership Program, with the amount of funding increasing but the number of partners decreasing from the previous year. This question was raised with the supervisor of Pertamina’s Partnership Program who explained that in 2009 PT Pertamina channelled some of its funds to other SOEs that did not have Partnership Program funding due to their losses in that year. These SOEs are referred to as “BUMN Penyalur” (“channelling SOEs”). As the source of Partnership Program funds is SOE profit in a given year, there is a practice of channelling funds from profitable SOEs to unprofitable SOEs enabling them to implement their Partnership Programs.
5.3.2 PT Askes

PT Askes provides health services and health insurance in accordance with the Government’s view that ready access to health care enhances the national welfare and enables national development targets to be accomplished (Waagstein, 2011). As a state enterprise, PT Askes has a moral responsibility to help to develop and grow the economy and social conditions of the community and the environment around its business locations. In carrying out its CSR programs, PT Askes aims to develop community-based economic activities and growth and create fair development results through job expansion, business opportunities and community development. Its commitment to CSR is manifested through the Partnership Program.

PT Askes determines that the funds for the program are derived from the after-tax earnings of the company (up to a maximum of 2%), as well as from administration services of loans, margins and revenue sharing, deposit interest and/or demand deposit from the Partnership Program fund after subtracting operating expenses. As shown in Table 5.7 and Figure 5.4, the amount of funds distributed in the Partnership Program increased significantly from 2006 to 2009. In 2006 (ASKES, 2007), the amount of distributed funds was Rp 8,034,500,000 (approximately US$ 803,450), increasing by 17% in 2007 (ASKES, 2007). In 2009 (ASKES, 2007), the amount of distributed funds reached Rp 27,091,977,000 (approximately US$ 2,709,197) which was an increase of 101% compared to 2008 (ASKES, 2007).
Table 5.7: PT Askes Partnership Program fund distribution (from PT Askes Annual Reports 2006-2009)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributed PP fund*</td>
<td>8,034,500,000</td>
<td>9,401,900,000</td>
<td>13,489,750,000</td>
<td>27,091,977,000</td>
</tr>
<tr>
<td>(in US$)</td>
<td>803,450</td>
<td>940,190</td>
<td>1,348,975</td>
<td>2,709,197</td>
</tr>
<tr>
<td>Partners (Small enterprises, cooperatives and informal sector)</td>
<td>4,363</td>
<td>4,750</td>
<td>5,248</td>
<td>6,176</td>
</tr>
<tr>
<td>Increased fund in percentage</td>
<td>17%</td>
<td>43%</td>
<td>101%</td>
<td></td>
</tr>
</tbody>
</table>

* in rupiah (Rp)  
* US$ 1 = Rp. 10,000

Figure 5.4: Growth in PT Askes Partnership Program fund from 2006 to 2009 (from PT Askes Annual Reports 2006-2009)

The number of small enterprises, cooperatives and informal sector businesses that were partners in the PT Askes Partnership Program also increased significantly from 2006 to 2009 (Table 5.7 above, and Figure 5.4). From 4,369 partners in 2006, the number increased to 5,248 partners in 2008. The data on the number of partners in 2009 are not available because the company’s annual report did not reveal the figure for that year. Based on the previous years’ growth, it can be extrapolated that the figure in 2009 was likely to be more than 5,000 partners.
The percentage of funds added every year to the PT Askes Partnership Program fund is shown in Figure 5.6. As shown in the figure, the addition to the fund increased by double in 2009 compared to 2008.
5.3.3 Pelindo IV

“Pelindo” is the abbreviation of Pelabuhan Indonesia (Indonesian Port Corporation) which is responsible for the provision of port and harbour services. Before 1983, the operation of commercial sea ports was conducted by eight SOEs, namely PN Pelabuhan I-VIII. In 1983, in line with the issuance of the national port arrangement policy where the government determined four gates of national foreign trade, those eight SOEs were merged into six companies, one of which was Pelindo IV.

As a form of CSR, the company implements the Partnership Program for small business owners. As shown in Table 4.3, the distribution of the partnership funds in 2009 and 2010. In 2009, the company had more than six billion rupiahs to be distributed to MiSEs. It comprised of fund residue from previous year (Rp. 1,066,225,477), loan return, allocated profit distribution, interest revenue and interest on Bank Accounts. As we can see from the table that there is a significant raise in allocated profit from 2009 to 2010. There was more than 1 billion rupiahs from this item. Looking at this table, we can tell roughly that the company had significant increase in its profit that year (Pelindo, 2010, 2011).

In terms of fund channelling, there were 7, 8 billion rupiahs can be distributed to MiSEs in 2010 but only half of the fund were channelled or distributed. The full distribution of the funds was not achieved because of delays in transferring cash funds from the company to the Partnership Program and also because PP supervisors were more selective in channelling the fund. The discussion on how PP supervisors select and evaluate the beneficiaries’ application is presented in Chapter 6.
Table 5.8: Pelindo IV Partnership Program funds, 2009 and 2010 (Pelindo IV Annual Report 2010)

<table>
<thead>
<tr>
<th>NO A</th>
<th>Uraian Description</th>
<th>2010 (Rp)</th>
<th>2009 (Rp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sisa Dana • Fund Residue</td>
<td>1.375.179.116</td>
<td>1.066.225.477</td>
</tr>
<tr>
<td>2.</td>
<td>Pengembalian Pinjaman • Loan Return</td>
<td>2.630.560.122</td>
<td>2.592.429.406</td>
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<td>4.</td>
<td>Penerimaan Bunga Pinjaman • Interest Revenue</td>
<td>373.105.500</td>
<td>319.127.494</td>
</tr>
<tr>
<td>5.</td>
<td>Jasa Giro • Interest On Bank Accounts</td>
<td>85.810.021</td>
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<tr>
<td></td>
<td>Jumlah A • Total A</td>
<td>7.798.011.678</td>
<td>6.086.303.393</td>
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</table>

<table>
<thead>
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<th>NO B</th>
<th>Uraian Description</th>
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<th>2009 (Rp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Pinjaman kepada UKK • Loan to UKK</td>
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<td>2.</td>
<td>Hibah • Grant</td>
<td>130.553.141</td>
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<tr>
<td>3.</td>
<td>Biaya operasional • Operational Cost</td>
<td>170.441.368</td>
<td>301.377.277</td>
</tr>
<tr>
<td></td>
<td>Jumlah B (Total B)</td>
<td>3.835.994.509</td>
<td>4.711.124.277</td>
</tr>
<tr>
<td></td>
<td>Saldo</td>
<td>3.962.017.169</td>
<td>1.375.179.116</td>
</tr>
</tbody>
</table>

5.4 Conclusion

This chapter provided a detailed background of the Indonesian city of Makassar which is the setting of the research. This chapter also introduced the three SOEs in Makassar which participated in the present study, namely, PT Pertamina, PT Askes and Pelindo IV. The implementation of the Partnership Program in those three SOEs was investigated, as reported in the following chapters.
Chapter 6
Data Analysis and Findings 1
Charity vs Alms
(Resources, Internal Context and Adoption Decision)

6.1 Overview
This chapter presents the first part of the research findings focusing on the external context and internal context of the SOE Partnership Program and the beneficiaries’ adoption decision. The first part of the chapter discusses the external context and explores the role of government and its commitment to helping MiSEs. The relevant factors in the external context include government commitment, the SOEs’ CSR commitment, micro finance, social entrepreneurship and the community impacted directly or indirectly by the Partnership Program, including suppliers. The aim of the research into the external context is to explain how the factors outside the Partnership Program impact on the program. The data collected for this part of the exploration were a mix of secondary and primary data, including interviews with four SOE supervisors of the Partnership Program (Rayu, Laode, Indra, and Dahlia)\[^{20}\].

As part of the discussion of the external context, this chapter also describes the Partnership Program itself in detail with a focus on the source of the funds, the steps in the application process, the types of assistance provided, ways in which information about the program is disseminated, and how the beneficiaries’ participation in the program is monitored. This part of the enquiry relies on primary data gathered from SOE supervisors of the Partnership Program and the program beneficiaries who were asked to describe the program based on their knowledge, assumptions and experiences.

The second part of the chapter discusses the internal context and presents information about the beneficiaries’ demographics including their types of business, age, gender and educational background. The condition of their business before joining the Partnership Program is also explored, including their organisational rules in practising business, and their motives for joining the program.

The last part of the chapter discusses the adoption decision, that is, the beneficiaries’ decision to join the Partnership Program. This discussion explores some of the reasons and intentions that drove the beneficiaries’ decision to join the program. The application process is examined in detail, including the requirement for beneficiaries to make a business plan explaining what they would use the funds for. The

\[^{20}\] These are de-identified names.
support received from the SOE to implement the business plan is also explored further in this chapter. Figure 6.1 shows the structure of this chapter in a chapter map.

**Figure 6.1: Chapter map**

### 6.2 External Context

The external context of the Partnership Program refers to the social and legal framework of the program including the following factors: government commitment and SOEs’ CSR, micro finance and social entrepreneurship, and the community that is directly or indirectly involved in the program (including suppliers) (Figure 6.2). These factors are discussed in the following sub-sections, followed by an in-depth look at the Partnership Program itself.

**Figure 6.2: Map of Partnership Program external context**
6.2.1 Government Commitment and SOE CSR

The Indonesian Government has paid serious attention to the MiSE sector, with particular efforts made to assist MiSEs who find it difficult to access business capital. As discussed in Chapter 3, the banks are not interested in channelling funds to small and medium entrepreneurs because of the risk. The SOE Partnership Program is one of the government’s strategies to address this problem. One of the Partnership Program’s supervisors acknowledged this purpose of the program as follows:

“Government commitment in giving supporting [MiSEs] and the community is realised by SOEs through our Partnership and Community Development Program. We view [the program] as a contribution in developing sustainable economic, assisting the improvement of [MiSE] conditions, and paying attention to the surrounding environment in accordance with the generally accepted business ethics.” (Interview Indra 03SP)

Another PP supervisor stated:

The existence of PP is aiming at improving the social and economic condition of beneficiaries through the use of PP fund. It is to support them to the state of un-bankable to bankable (Interview Laode 02SP).

The Indonesian Government’s commitment to supporting MiSE has been furthered through a framework of laws and regulations since 1983, as discussed in detail in Chapter 2. Among these is the legislation creating the Partnership Program with the aim to improve the ability of small businesses to become strong and independent through the use of funds from the profits of SOEs (BUMN, 2007).

6.2.2 Micro Finance and Social Entrepreneurship

As discussed in detail in Chapter 2 (Section 2.4), microfinance exists to empower poor people in communities by giving them access to soft loans (Robinson 2002). The Partnership Program has the same objective. The SOEs’ implementation of the Partnership Program is not profit-oriented. It has the distinct social goals to raise MiSEs to a better financial and social status. Even though SOEs are directed to focus on these goals by legislation, this peculiarity of the Indonesian context does not prevent the companies’ efforts from being considered as social entrepreneurship. Mair (2006) argued that the concept of social entrepreneurship means different things to different researchers: one group refers to social entrepreneurship as not-for-profit initiatives in search of alternative funding strategies, or management schemes to create social value;
a second group understands it as the socially responsible practice of commercial businesses engaged in cross-sector partnerships; and a third group views social entrepreneurship as a means to alleviating social problems and catalysing social transformation.

The government itself through its business units can act as a social catalyst to support MiSEs. It can act as a social entrepreneur (Austin, 2006) who helps MiSEs by providing capital for their business. In the case of the Partnership Program, the SOEs have no intention of taking any profit from the loan scheme except for the sustainability of the program (Interview Laode 02SP). The interest that is charged on the Partnership Program loans is only for administration purposes and to keep the program going. The sustainability of the program is also ensured through the injection of new capital every year from the companies’ profits. This is why the Partnership Program does not need collateral (such as a guarantee or security for the loan in the form of an asset) from the MiSE owners who participate in the program. The collaboration of SOEs with MiSEs through the Partnership Program is a good example of public and private partnership.

6.2.3 Community and Suppliers: Pakkampas Story

The community is the people around the SOEs who directly or indirectly experience the impact of the Partnership Program. Direct experience means they are beneficiaries of the program and indirect experience means they experience the flow-on impact from the beneficiaries. For example, if a community member is a beneficiary of the Partnership Program, he can provide more goods; the community may now have easier access to buy their daily needs because his neighbours do not have to travel far to buy goods.

The heads of villages who were interviewed in this research as community representatives stated that they knew some of the SOEs that operated in their area. Some members of their community worked at the SOEs and some were beneficiaries of the SOE Partnership Program. The SOEs also held “pasar murah”2¹ every year to enable the community to buy cheap daily needs. Another activity that the SOEs usually to help the community was to provide heavy equipment such as trucks to take away waste on clean-up day (Interview Rustam 2HV). In the view of the heads of villages, the SOEs had been useful and generous to the community.

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2¹ Pasar murah (“cheap market”) is an activity where an SOE sells daily needs such as rice, sugar and flour at cheaper prices than the normal prices in shops or markets.
The owners of small retail businesses in Makassar usually shop for stock from wholesalers in city centre locations such as Pasar Sentral\textsuperscript{22} and Pasar Terong\textsuperscript{23}. To enlarge their distribution channel, some of the big shops in Pasar Sentral and Pasar Terong use box trucks. They usually use small trucks for deliveries in the city area and bigger trucks for deliveries outside the city area. These trucks are called “Mobil kampas” and the driver is called “pakkampas”; it is common to refer to the delivery service as pakkampas in general.

The pakkampas take goods from the big wholesaler and sell the goods to retailers. There are two types of pakkampas: one type is owned by the wholesaler who wants to reach the retailers in the city and outlying areas, and the other type is owned by a private company or an individual. The latter usually has good relationships with wholesalers and has the advantage of access to many varieties of goods and brands from many wholesalers or distribution agents.

A big retailer is usually a large grocery shop more like a supermarket, sometimes called a mini market. Some micro and small retailers, especially those from remote areas, buy their stock and supplies from stores of this size. They prefer to shop in these stores because going directly to the wholesalers in the city usually incurs higher costs in the form of transport costs. The photograph below (Plate 6.1) is of a small retailer called Mr Samad (not real name) who was interviewed in this research and whose case is used to illustrate the typical practices of small and micro retailers in Makassar.

\textsuperscript{22}Pasar Sentral is an old name of Makassar Mall. A shopping centre located in the heart of Makassar city. Many wholesalers and big retailers have shops in this mall. The shopping centre provides many varieties of goods and services, from groceries, meat to clothing etc.

\textsuperscript{23}Pasar Terong is a popular traditional market selling fresh vegetables and fruits, cake mix and groceries. This market supplies fresh vegetables for Makassar city.
Plate 6.1: Mr Samad’s shop; he buys from Pakkampas

Micro and small retailers and big retailers can shop directly at wholesalers in the city and they can get cheaper prices than buying from the Pakkampas. They access the wholesaler directly when they need to buy a large amount of supplies and goods. Even though the price is cheaper, they have to pay immediately in cash; in contrast, they can take the goods from the Pakkampas and pay later at an agreed time (usually one or two weeks later). Figure 6.3 shows the flow of supply in the MiSE retail business.
Mr Samad usually bought his stock from the *pakkampas* who came to his house regularly (once a week). He did not order many goods because he had limited money but the *pakkampas* allowed him to take more goods and pay for the goods the next time they came to his shop. If he sells the goods, he can pay for them and order more and about the unsold items or stock, he can return them or replace them with other goods.

The advantage for micro and small retailers when they shop at wholesalers is that they cut out one link in the distribution channel and therefore obtain good prices. On the other hand, by stocking up from the *pakkampas*, retailers like Mr Samad can save money on transport because the goods come to him and he can take the goods and pay the following week.

### 6.2.4 Partnership Program

#### 6.2.4.1 Introduction

Interviews with the SOE supervisors of the Partnership Program provided the opportunity to examine the implementation of the program in-depth. One of PP supervisors revealed that the program aims to take beneficiaries from the state of unbankable to bankable (Interview Indra 03SP). Another issue investigated in the interviews was the position of the Partnership Program in the SOE organisational structure. In Indonesian SOEs, CSR is controlled by a company’s public relations department or corporate secretary. In the three SOEs investigated in the present study, the Partnership Program was under the company’s finance department. When queried
about this, the supervisors of the Partnership Program in the SOEs explained that CSR and the Partnership Program were different in terms of funding and program objectives. However, both programs were considered to be forms of CSR by the SOEs.

The interviews revealed that the SOEs have separate CSR and Partnership Program divisions. The division responsible for CSR is called the Division of Public Relations. For example, if there is a request to help build a mosque or other place of worship, the request will be assigned to the Division of Public Relations; meanwhile, activities related to the Partnership Program sit in the Finance Division (Interview Indra 03SP).

The source of funding for the CSR programs and Partnership Program are different. The CSR fund is determined by the company directors based on the company’s current budget. The amount of funds allocated for donations depends on the board of directors’ decisions because the CSR is voluntary. On the other hand, funding for the Partnership Program is determined by laws and regulations. These funds are derived from SOEs’ net profits each year. This also means that the amount of funds for CSR is determined at the beginning of the budgeting cycle, while the amount for the Partnership Program fund is determined at the end of the relevant financial period. As one of the respondents explained, the Partnership Program funds “are distributed to the public in the form of partnerships and community development” (Interview Laode 02SP).

When asked about the differences between CSR and the Partnership Program, one of the SOE supervisors of the Partnership Program explained the programs very well. According to him, the activities under the PR Division are “charity”; as such, these activities are voluntary and the amount of funds spent by SOEs depends on their sincerity. There are no binding rules on the amount that must be allocated. For the Partnership Program, the program must be carried out and the amount of funds is established by statute and regulations. The Partnership Program supervisor described the difference between CSR and the Partnership Program by reference to the Islamic practice of zakat (an obligation to give alms):

“I can give you an analogy for both of these programs. It would go like this: I take example in my religion, namely Islam because I am a Muslim. Charity is not mandatory; it is according to our ability to give, while zakat is compulsory and our duty as Muslims. Thus, CSR is charity as a form of corporate philanthropy, while [the Partnership Program] is

24 In this context, the SOE supervisors perceived CSR to be the company’s charity or philanthropy.
Although the funding sources and goals are different, both CSR activities and the Partnership Program are forms of SOE CSR. Indonesian SOEs are implementing both CSR activities and the Partnership Program, and the Partnership Program is considered to be part of the company’s CSR. Based on the results of the interviews, the structure of CSR in SOEs in Indonesia can be depicted as shown in Figure 6.4.

![Figure 6.4: CSR in Indonesian SOEs](image)

### 6.2.4.2 Source of Program Funds

In the interviews, the supervisors of the Partnership Program in the SOEs were asked about the source of the program fund and they clearly identified that the funding source was their SOE’s profit. They referred specifically to Article 9 in the Minister of State-Owned Enterprises regulation (No. PER-05/MBU/2007) which states that the program can be funded by a set percentage of SOE profit, by loan administration services fees and interest rates on program funds in the bank after deducting operating expenses, and funds channelled from other SOEs.
Therefore, the Partnership Program fund is sustained by repayments of previous loans and from loan administration fees. This enables the Partnership Program to operate like a rolling fund, similar to a micro finance operation. Unlike most micro finance organisations and mainstream banks, the Partnership Program does not need to charge high interest to stay ahead of inflation because it receives a constant inflow of new working capital every year (and this is automatically adjusted for inflation as it is based on SOE profits). This may also explain why the Partnership Program can survive without requiring collateral from beneficiaries.

In terms of the practical availability of the funds, when an SOE has decided on the amount of funds that will be injected into the Partnership Program for a particular year, the funds are transferred to the Partnership Program account in the Office of the Minister of State-Owned Enterprises in Jakarta. Then the money is transferred back to the SOE to be channelled to MiSEs (BUMN, 2007).

6.2.4.3 Application for Partnership Program

It is easy for MiSE owners to apply to join the Partnership Program by simply visiting the office of an SOE in their area. They must fill in an application form and submit it with the required information and documents. Prospective beneficiaries must submit a plan for the use of loan funds in the development of the business. The application must contain at least the following data (BUMN, 2007):

1) name and address of business units;
2) name and address of owner/caretaker business units;
3) proof of identity of owners/managers;
4) line of business;
5) business license or a business certificate from the authorities;
6) development of business performance (cash flow, the calculation of income and expenses, balance sheet or data that shows the financial situation and business results); and
7) Business plan and amount of funds needed.

In the next step, the supervisor of the Partnership Program and the recruitment team in the SOE evaluate the application. If the application meets the selection criteria, then a team from the SOE visits and interviews the applicant. The team sees the applicant’s business, takes photos and collects any further necessary information from the applicant. One of the program supervisors explained that during these visits she also
usually included an orientation to the program when she saw that the applicant had a good chance of being accepted into the program (Interview Indra 03SP).

Returning from the visit, the team discusses the applicant’s eligibility to receive the fund and also decides on the amount of funds that the applicant can borrow. When the team has made the decision that the applicant is eligible to join the program then they make a report to the SOE director in the area to approve it. Then the team calls the applicant with the good news and asks the applicant to come to the office to sign a contract.

The letter of agreement (contract) must contain at least the name and address of the SOE and the beneficiary; the rights and obligations of the SOE and the beneficiary; the loan amount and allocation; the terms of the loan (the length of the loan, scheduled instalments of the principal amount and loan administration services). The usual loan term is for three years. After both parties have signed the contract, the funds are transferred to the applicant’s nominated bank account. This procedure is designed to minimise corruption and collusion between Partnership Program officers and the applicant. Opening a bank account is very simple and easy; just go to a bank office, register and deposit an amount of money as low as 50 thousand rupiahs (about US$5). Figure 6.5 illustrates the steps in the application process, from the submission of an application to fund disbursement.

Figure 6.5: Partnership Program application process

In the research interviews, one of the supervisors of the Partnership Program (Laode 02SP) explained that any community member who is interested in joining the program can come to any SOE branch office in the area and request an application form.
The applicant can take the form home to fill it in. The supporting documentation that needs to be attached to the application form when it is submitted include a form of identity (e.g. ID card), family registration card, and a statement from the head of village verifying that the applicant is a member of the community and has run a micro or small business. Once these documents have been prepared, the application can be submitted.

6.2.4.4 Partnership Program Characteristics
This section discusses the characteristics of the Partnership Program according to the supervisors of the program in the SOEs and according to the beneficiaries who have participated in the program. The beneficiaries’ assumptions before and after receiving the fund are also discussed.

Partnership Program Characteristics – Supervisors
The interviews with the supervisors of the Partnership Program in the SOEs revealed a number of perspectives on the characteristics of the program and the differences with CSR. The supervisors identified the following Partnership Program and CSR characteristics and differences:

1. CSR is voluntary. This means that the implementation of CSR depends on the plans made by the company. Likewise, the amount of funds donated will largely depend on the ability of the company to allocate the fund. In contrast, the Partnership Program is mandatory and should be performed by the SOEs because it has a clear legal basis;

2. Different funds are used. The amount of funds allocated for CSR is determined at the beginning of the budget cycle and the amount depends on agreement among the company’s directors. For the Partnership Program, the size of the fund amount is determined by the size of the company’s profits in the previous year as this determines the Partnership Program budget for the coming year’s program.

3. The targets of the funds are different. The goal of CSR is to supply funds to help communities around the company in general. The Partnership Program is aimed at the small and medium business community only.

4. Different departments are in charge. CSR is not mentioned explicitly in the SOEs’ organisational structure. CSR is usually placed in the department that deals with the community to build the image of the company; for example, the department of public relations or the marketing department. In general, the Partnership Program sits under the finance department.
5. The ability to respond to an urgent national or community crisis is different. In the event of a natural disaster or calamity, the SOEs could respond through their CSR mechanism and provide assistance. In contrast, the Partnership Program has a much more limited scope and less flexibility – the program only provides assistance to beneficiaries’ areas and is only targeted at the small and medium business community.

Despite the different characteristics of each sphere of activity, the supervisors of the Partnership Program in the SOEs considered the program to be part of their company’s CSR. Figure 6.6 presents a summary of the differences between the SOEs’ CSR activities and the Partnership Program according to the SOE supervisors of the program.

![Figure 6.6: Differences between CSR and Partnership Program](image)

**Partnership Program Characteristics – Beneficiaries**

The interviews with the beneficiaries revealed that most of the beneficiaries knew or had well-formed views about the characteristics of the Partnership Program. The following characteristics were identified by the beneficiaries:

1. The program needs no collateral from the applicants in order for them to access the fund.
2. The program has lower interest compared to banks or other financial institutions; the interest is 6% per annum or 0.5% per month.
3. The loan has a three month grace period. Beneficiaries start to make repayment instalments four months after receiving the fund. This characteristic makes the program distinct compared to other loans or credit facilities.

4. The program includes training for beneficiaries.

The characteristics identified by the beneficiaries highlight the attractive and unique aspects of the program. One of the distinctive characteristics is that the program lends funds to beneficiaries without the need for collateral. Even loan products that are especially targeted at small business owners by mainstream banks in Indonesia require collateral, usually in the form of a land certificate. As discussed in Chapter 3, the inability of MiSEs to provide guarantee or security for a loan is a major obstacle for MiSEs.

The low interest is another distinct characteristic of the Partnership Program. At the time of writing, the lowest average bank interest is 9% according to the Indonesian Central Bank (Finance, 2009; B. Indonesia, 2013). This indicates that the interest rate offered by the Partnership Program is not matched by other financial institutions.

The grace period is another characteristic that makes the program distinct. Beneficiaries have 90 days to use the money before they start paying the instalments. To the best of the researcher’s knowledge, there is no other lending facility in Indonesia that offers a three month grace period.

6.2.4.5 Assistance

Partnership Program funding is provided in the following forms with the aim to help beneficiaries run their business (BUMN, 2007):

a) Loans to finance working capital and/or purchase fixed assets in order to increase production and sales;

b) Loans to finance the implementation of business activities and meet orders from business partners;

c) Cost of coaching and workshops to build beneficiaries’ skills and knowledge through financial education, training, apprenticeship, marketing, promotions, and other areas pertaining to increased productivity of beneficiaries.

In the interviews conducted in the present study, the beneficiaries were asked about the assistance they received from the SOE since joining the program. The interviews focused on three particular types of assistance, namely, orientation, training,
and intervention. Orientation usually occurs shortly after the beneficiary has been successful in joining the Partnership Program and received the loan. The orientation covers information about the program and how to pay the instalments. A few months after receiving the loan, beneficiaries are usually invited to training held by the SOE on topics such as how to run a small business, bookkeeping and motivation. Intervention refers to the assistance received from the SOE if the beneficiaries experience difficulties in running their business that might affect their ability to make the repayments. The findings on each of these types of assistance are discussed in the following sub-sections.

A. Orientation

One of the activities that beneficiaries should take before or soon after receiving the loan from the Partnership Program fund is participating in an orientation (Interview Indra 03SP; Laode 02SP). The aim of the orientation is to give the beneficiaries a basic understanding of the Partnership Program and how it works. The beneficiaries who were interviewed in the present study were asked whether or not they had participated in the orientation, and 64% of the respondents (28 out of 44) reported that they had participated in the orientation before they received the loan and 25% of the respondents (11 out of 44) said they participated in the orientation after receiving the loan. Overall, 89% of the respondents (39 out of 44) had participated in the orientation.

Among the respondents who had participated in the orientation, the majority stated that they knew the purpose of the orientation was to make them more aware of the program. However, three respondents felt that the orientation was not relevant to them and that it did not add to their existing knowledge about the program. They already knew about the program from friends or colleagues before they applied to join it.

Even though the majority of the respondents realised that the purpose of the orientation was to make them better understand the program, their responses in the interviews indicated that most of them did not really understand the objectives of the Partnership Program. They only knew that the program provided loans to them. However, the broader objective of the program is to empower MiSEs by raising their business to a higher level (e.g. from un-bankable to bankable) and the beneficiaries’ lack of awareness of this objective indicates that the orientation is failing to fully explain the scope and purpose of the program.

Among the respondents who did not report attending an orientation, there were three respondents (7%) who were not sure whether or not they had joined an orientation.
As revealed in an interview with one of the program supervisors (interview Indra 03SP), the beneficiaries are usually invited to a meeting where the SOE team provides the orientation but sometimes the orientation is covered in the home visit to the applicants. It is likely that the respondents who were not sure about whether or not they had participated in orientation had been visited by a program supervisor who covered the orientation in the home visit. This indicates that the program supervisors should improve their communication with the beneficiaries by clarifying whether the preliminary visit is purely an assessment or whether it also includes the orientation.

According to two of the respondents (4%), they did not know that an orientation existed. They only received notification that their application had been approved and were asked to come to the SOE’s office to sign a document. After that, they only knew that they had to repay the loan by instalments. Figure 6.7 provides a summary of the beneficiaries’ participation in orientation.

![Orientation for Beneficiaries](image)

**Figure 6.7: Beneficiaries’ participation in Partnership Program orientation**

**B. Training**

The interviews with the beneficiaries explored their participation in training through the Partnership Program and whether or not the training had a positive impact. The majority of the respondents (33 out of 44; 75%) reported that they had participated in training and most of them stated that their knowledge about managing their businesses had
increased, especially in bookkeeping. Having more knowledge on bookkeeping had enabled them to manage their businesses better and perform better financially; for example, the training had changed their ways of managing their money. Prior to participating in the training, they did not separate the money. All the money from sales went into their pocket. When they shopped for stock, they paid with money from their pocket; when they paid patrol for their private car, they took money from their pocket. After the training, they were able to differentiate the business money and personal money.

One respondent had not participated in training and expressed frustration that she had been in the program for one and a half years and had never been invited to join training. She said that she felt abandoned and ignored by the SOE which, in her view, only cared about the instalment payments. She was aware of the availability of training for beneficiaries but every time she contacted the SOE to enquire, she as advised that she would be informed when the next training was held.

Some of the respondents (7 out of 44; 16%) had been invited to training but did not participate for various reasons. Some of them said they were out of town or they were busy with their business at the time of the training. For example, one of the beneficiaries runs a small business as a make-up artist and wedding organiser. On the day of training, she was busy in her role as “indo botting” (“wedding mother”); her responsibility ranges from decorating the house to making-up the bride and preparing the wedding gown, so organising just one wedding can keep her busy for a few days at a time.

Beneficiaries are supposed to know about the training provided by the SOE but three of the respondents (7%) reported that they did not know or did not have information about the training. Even though this was a proportion of the respondents, it indicates that there are shortfalls in the communication and that SOEs should improve their methods of delivering information about training. Figure 6.8 presents a summary of the beneficiaries’ participation in training under the Partnership Program. Also shown are photographs of training activities (Plates 6.2 and 6.3) taken from my personal collection when observing the training.
Figure 6.8: Beneficiaries’ participation in Partnership Program training

Plate 6.2: Training for beneficiaries
C. Intervention

During the research interviews, the SOE supervisors of the Partnership Program were asked to describe what they did when a beneficiary did not make the repayment instalments at the agreed time. All of the supervisors stated that they contacted the beneficiary in those circumstances and try to find the best solution. An intervention such as this is a form of assistance from the SOE when the beneficiaries experience problems in repaying the loan or when they stop making the instalments. The SOE will contact the beneficiary and ask about the problem and why it is happened.

Two of the program supervisors (Laode 02SP and Indra 03SP) mentioned that there are two types of intervention options. The first type is referred to as “rescheduling”. It means that the SOE will rearrange the instalment schedule and give the beneficiary more time. The second type is referred to as “reconditioning” whereby the SOE will ask the beneficiary to pay as much as they can each month. In this type of arrangement, there is no fixed amount that the beneficiary must pay – the amount depends entirely on their ability to pay.

The majority of the beneficiaries (35 out of 44; 80%) reported that they never had assistance in the form of intervention because they had paid the instalments regularly. Some of them (7 out of 44; 16%) said that the program supervisors had come to them and shared advice about how to develop their business. This type of assistance
was not because they could not pay the instalments but because the program supervisors saw that there was something wrong with their way of doing business that could affect their business in the future. In those cases, the supervisors intervened to correct the beneficiaries. According to the beneficiaries’ point of view, this intervention was positive. It means the SOE is paying attention to them and helping to improve their business. Two of the beneficiaries (4%) did not know that assistance in the form of intervention existed and they had never been told about it. Again, this indicates that the SOE supervisors need to give clear information about the program to ensure that important information about the program is properly disseminated. The findings on the intervention assistance are summarised in Figure 6.9.

Figure 6.9: Intervention provided to beneficiaries’ in Partnership Program

The findings on the assistance provided by the SOE to the beneficiaries indicate that the relationship between the beneficiaries and the SOE is a partnership. Assistance is provided by the SOE to the beneficiary in the same was as a father would help the adult son or daughter to be successful; when success is achieved, the father steps back again and allows the child to continue. Overall, the findings support the conclusion that the Partnership Program was achieving its objective of enabling SOEs to partner with MSEs.
6.2.4.6 Program Dissemination

Information about the Partnership Program, including its existence, scope and purpose, is disseminated through word of mouth, local government activities, government services, seminars, electronic and printed media, and SOE activities. In the research interviews, one of the SOE supervisors of the Partnership Program (Interview Dahlia 04SP) was asked why announcements about the existence of the program were not broadcast publicly and openly; she answered that this was because the fund was limited and there would be many applicants from the community. When people submit an application, they will expect to become beneficiaries. If too many people apply and cannot join, the SOE risks disappointing the community and ruining its image.

Figure 6.10 illustrates the various methods used to disseminate information about the program. Each of these methods is discussed in the following sub-sections, based on the interviews with the SOE supervisors of the program.

A. Word of Mouth

In the research interviews, the Partnership Program beneficiaries were asked how they had come to know about the program. As shown in Figure 6.11, the majority of the respondents (25 out of 44; 61%) stated that they knew about the program from friends and family, that is, through word of mouth. Only 17% (7 out of 44) knew about the
program from an SOE, and 22% (9 out of 44) knew about the program from other sources (newspaper, flyers, seminars, etc.). This indicates that family and friend networks have a significant influence on who knows about the program and, consequently, who has an opportunity to join it.

The term “word of mouth” refers to the informal spread of information through talking among individuals or groups of people. According to the SOE supervisors of the Partnership Program, the main reason for spreading awareness and information about the program by word of mouth was because there is no requirement for a collateral to guarantee or secure a loan from the fund. The supervisors had learned from experience that it was difficult to collect the instalments when there was no collateral, and the SOE has no power to pressure beneficiaries to pay. This led to the preference to use a system of referral.

The result of using word of mouth to spread awareness about the program is that the beneficiaries tend to be selected from among the SOE personnel’s own networks or from the circles of friends and acquaintances around existing and previous beneficiaries. This type of practice would typically arouse concerns about collution in the West but works reasonably well in Indonesia. To minimise the unfair selection of beneficiaries, SOEs select the beneficiaries carefully and check the applications well. Using referrals as part of the recruitment process enables the SOE to have some control, as the person making the referral is well known to them; for example, the SOE can put pressure on the person who made the referral if their recommended beneficiary falls into arrears in the repayments.

The program supervisors reported that since they began relying on this method, the amount of unpaid instalments had decreased. However, this method can have a negative impact on the relationship between the SOE and the person who made the referral when a beneficiary cannot pay the instalment and the intermediary cannot help to put pressure on them. In the interviews with the beneficiaries, one beneficiary relayed his experience of having a problem in paying the instalment. He had been late for three months in paying the instalment. He explained that his business was not running well at that time, which was the reason he could not pay the instalment. A member of his family who worked at the SOE contacted him, but the fact remained that he was unable to make the payments at that point in time:
“Yes, my family who works at Askes called me and asked me to pay the instalment but I told them that my internet shop is closed so some of the money left I used to open a new business. Because it is just open so I need time to get profit and pay the instalment”. (Interview 09B1)

Figure 6.11: Ways in which beneficiaries became aware of the Partnership Program

One of the SOE supervisors of the Partnership Program (Interview Dahlia 04SP) explained how the person who made the referral can help the SOE to put pressure on a beneficiary whose repayments are in arrears. According to the supervisor, beneficiaries will feel ashamed. This shame is called “siri” and is part of Bugis and Makassar culture. For example, the beneficiary will feel ashamed if other people (such as neighbours) are watching them when the intermediary or a representative from the SOE comes to their home or business to ask for the instalment payment. The concept of siri and how it manifests in the Partnership Program is explained in more detail in the following box.
**Box 6.1: Siri Na Pacce: How Word of Mouth works in Partnership Program dissemination**

*Siri* is the concept of legal consciousness and philosophy in the Bugis-Makassar culture (Marzuki, 1995). It is considered sacred. *Siri Na Pacce* (in Makassar) or *Siri na Pesse* (in Bugis) are two words that are inseparable from the character of the Bugis-Makassar people. If someone loses his *Siri* or *De ni gaga Siri na*, then his life loses meaning. Bugis-Makassar people even argue that this person is like an animal (*sirupai olo kolo’e*). A Bugis adage says: *Siri mi Narituo* (Shame/dignity is the reason we live).

*Siri* is a shame that decomposes the dimensions of human dignity, so *siri* is a taboo for the Bugis-Makassar in interacting with others. There are two types of *siri*. The first is *siri nipakasiri*, which occurs when someone is insulted or treated outside the bounds of humanity. So he (or his family if he is not able to) must uphold his dignity to restore what has been taken. Otherwise, he will be called *mate siri* (no status and dignity as a human being) (Nurul Ilmi, 2002).

For the Bugis-Makassar, there is no higher purpose or reason to live than keeping his *siri*, and if they are offended or humiliated (*Nipakasiri*) they would rather die in a fight to restore *siri* than live without it. Death because of *siri* is called *mate nigollai* or *mate nisantangngi*, meaning to die of sugar and coconut milk as it is sweet to die for something useful. The second is *siri masiri* which is a way of life that is intended to maintain, improve or achieve a feat that is done with all strength and all toil by *siri* itself, by *siri* families and groups (Nurul Ilmi, 2002). In this context, the Bugis phrase “*Narekko sompe'ko, wrote' muancaji Ana’ guru, ancaji Punggawako*” means “Do not wander away into men, but strive to be a leader”. Partnership Program beneficiaries who pay arrears will feel *masiri* (ashamed) when they cannot pay the instalment and this information is told to the person who referred them to the program.

*Pacce* itself is a philosophy that values a sense of togetherness (collectively), sympathy and empathy that underlies the collective life of the Bugis-Makassar (Marzuki, 1995). This can be seen if there is a relative, neighbour or community member who is alone and facing a crisis –the other relatives or neighbours will be happy to help to alleviate the burden of the person affected. It is as if the whole community has been affected collectively. *Pacce* can be related to someone’s social responsibility to their community and to a company’s CSR. In this way, CSR in South Sulawesi can be traced back to Bugis and Makassar culture.
B. Local Government Activities
The Makassar city mayor usually arranges meetings with the community to explain any new activities or programs for the community. SOEs are usually invited to explain the Partnership Program to audiences at these meetings (Interview Rayu 01SP). The explanation is provided not only for MiSEs but also to all members of the community who happen to be attending the meeting. In that way, the SOE is hoping that the Partnership Program message will be spread to the broader community and reflect positively on the company’s image.

C. Government Services and Seminars
Local government departments usually hold training activities. For example, one of the SOE supervisors of the Partnership Program (Interview Laode 02SP) stated that the Department of Fisheries and Marine in South Sulawesi usually gathered fishermen in a village or area to explain about the rules and regulations in fishing. In these kinds of meetings, the local SOEs were usually invited to explain the Partnership Program and how the SOE plays its role in supporting and helping the community.

D. Electronic and Printed Media
News about the Partnership Program existence and purpose is published in the electronic and printed media when one SOE is disbursing funds to beneficiaries or when special activities are held by an SOE to symbolise the channeling of the fund. Local TV and newspapers are usually invited to broadcast these events, which are seen by the SOEs as opportunities to promote the company’s image in the community (Interview Rayu 01SP).

E. SOE Activities
Some dissemination of the message about the Partnership Program occurs when SOEs hold activities such as cleaning days where the SOE employees work with the community to clean up the village around the SOE. As part of the cleaning day proceedings, the SOE will make a presentation on the Partnership Program. Another activity that is usually popular with community members is the “pasar murah” (cheap market) where SOEs sell goods such as rice at half price. During this event, the SOE will take advantage of the large crowd to promote the Partnership Program to the community (Interview Indra 03SP).
6.2.4.7 Monitoring

The issue of how the SOEs monitored the beneficiaries’ participation in the Partnership Program was discussed in the research interviews with the SOE supervisors of the program. One of the supervisors (Interview Indra 03SP) explained that beneficiaries have to make a written progress report to the SOE using a progress report template that can be obtained from the SOE’s office. Another supervisor said that a team of Partnership Program officers visit the beneficiary for monitoring purposes every three months. One supervisor stated that a letter is sent every month to the beneficiaries of the SOE’s Partnership Program to remind them to pay the instalment. The letter also contains some details of their past payments and information about their loan (Interview Laode 02SP2). Figure 6.12 illustrates the flow of the monitoring of beneficiaries in the Partnership Program.

A beneficiary who has paid the instalments regularly for two years will have the opportunity to renew the loan contract with additional funds. As discussed above in Section 6.2.4.6.1, if the beneficiary does not pay the instalment regularly then the SOE will provide assistance in the form of intervention that might involve rescheduling the due dates for the loan payments or reconditioning (where the amount of the loan repayment is varied).
6.2.5 The Partnership Program External Context – Conclusion

Based on the primary and secondary data gathered to investigate the external context of the SOE Partnership Program, a model showing the SOE support of MiSEs through the Partnership Program is proposed. As shown in Figure 6.13, the model consists of the four pillars of support, namely, funds, training, business plans, and monitoring. Having concluded the discussion on the external context of the program, the internal context is discussed in the next section.

![Figure 6.13: Model of SOE support for beneficiaries through the Partnership Program](image)

6.3 Internal Context

This section discusses the internal context of the Partnership Program. The discussion begins with an overview of the beneficiaries’ demographics including their gender, age, education, type of business and status. The condition of the beneficiaries’ business before they participated in the program is then discussed. Their organisational rules and
business practices and their assumptions and purposes in joining the program are also explored. Figure 6.14 illustrates the map of the internal context.

![Figure 6.14: Internal context map](image)

6.3.1 Demographics

6.3.1.1 Gender

In the present study, 44 MiSE owners who were Partnership Program beneficiaries were interviewed. They consisted of 23 male respondents and 21 female respondents. Figure 6.15 shows the breakdown of the respondents (beneficiaries) by gender. Even though the majority of the respondents were male (23 out of 44; 52%), it was observed during the field research that most businesses were operated by women (typically, the beneficiary’s wife). This was because the husbands had applied to join the program but the wives were operating the business on a day-to-day basis. The husband usually already had a job, such as a factory worker, labourer, pedicab driver or pete-pete25 driver.

When I asked why it had to be in her husband’s name and not her own name, the respondent answered that she is respecting her husband as the head of the family. In addition, she said that it does not matter for her because the business is owned by both of them: If something goes wrong with the business, they both will be responsible.

In the socio-cultural reality of the people of Makassar, the mother is regarded as the primary educator in the family (Iswari, 2010). Therefore, if the child has internalised

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25 *Pete-pete* is a common form of public transport in Makassar. It is a small bus with 9 or 10 passengers. The passengers face one another behind the driver. The bus mostly runs from *Pasar Sentral* (Makassar Mall) in the city centre to suburban areas.
socially undesirable values, the criticism is not addressed to the child, but rather to the mother.

Among the Bugis Makassar ethnic group, the roles of men and women in carrying out daily activities especially in the domestic sphere and the public roles are quite different. In the domestic domain, the role of woman is around the house, and the man’s role is outside the house: For the public domain, there is flexibility in gender roles as reflected in the Bugis Makassar phrase: “Anyone, even a man who has the quality of a woman is a woman; but even if a woman has manlike qualities she is a man”. The application of this principle is found in the context of the opportunity for women to take on the role of political leaders in the past and the present (Iswari, 2010; Nurul Ilmi, 2002).

![Figure 6.15: Breakdown of respondents (beneficiaries) by gender](image)

**Figure 6.15: Breakdown of respondents (beneficiaries) by gender**

Most MiSEs in this study are based at home or rented place because they cannot afford to buy or even rent a proper shop. The husband usually already has a job with a small salary. Therefore, to help the family, they open a small business at home which the wife can operate while still attending to child-minding and housekeeping tasks.

### 6.3.1.2 Education

The respondents’ educational background ranged from primary school to university graduate. Most of the respondents were high school graduates (26 out of 44; 59%) and some respondents had only graduated from primary school and junior high school.

MiSE owners in Indonesia are mostly from poor family backgrounds where graduating from high school is considered to be a significant achievement. Some
beneficiaries reported that before joining the Partnership Program, they could not pay the costs associated with their children’s schooling. This indicates that, while most MiSE owners have low levels of education, they recognise the value of the Partnership Program in supporting their aspirations for their children.

Figure 6.16 shows the breakdown of the respondents’ educational background. Table 6.1 presents data from Statistics Indonesia showing that more than 30% of the Makassar population had graduated from senior high school.

Figure 6.16: Breakdown of respondents (beneficiaries) by level of education
Most of the respondents (40 or 91%) were aged between 30 to 40 years (Figure 6.17). In Indonesia generally and in Makassar especially, most people marry between the ages of 20 to 30. It is not surprising that most of the beneficiaries were in the 30-40 age range because at that age in Makassar, people are already having a family and the children are starting to grow up and are going to school. This means that the family’s financial needs are also growing. That is why they need to find an alternative income not only in order to survive but also to save some money to improve their business and life.
6.3.1.4 Type of Business

To be a beneficiary in the Partnership Program, the applicant must have a business. It is one of the eligibility requirements for the program that beneficiaries must have a business which has been running or operating for more than one year. The types of businesses range from services to manufacturing. Most of respondents in the present study (25 out of 44; 57%) were retailers. Figure 6.18 presents a breakdown of the respondents (beneficiaries) by type of business.

Retail is the most common business in Indonesia. Shops selling cakes, drinks, daily needs and groceries are easy to find in the neighbourhood or in a housing complex. It is easy to open this type of business. As long as you have space in front of your house and a small amount of money to buy goods, then you can go shopping at a wholesaler or large market. Applying for a business licence for this type of micro business only requires a discussion with the head of village that can provide a letter stating the intention to open a shop.
Table 6.2 presents data from Statistics Indonesia showing that wholesale and retail businesses are the most types of common business in Makassar. Makassar has the largest number of wholesale and retail businesses compared to other regencies or municipalities in South Sulawesi, with a total of 118,459 wholesale and retail businesses. This is reflected in the fact that most of the respondents were in the retail business. All the findings on the respondents’ demographic profiles (age, gender, education and type of business) are summarised in Table 6.3.
| Table 6.2: Main industries in South Sulawesi Province (Statistics, 2010) |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Region/Municipality | Main Industry | Unit | Main Industry | Unit | Main Industry | Unit | Main Industry | Unit | Main Industry | Unit | Main Industry | Unit | Main Industry | Unit | Main Industry | Unit |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Central Java | Agriculture, forestry, and fisheries | 1,659 | Manufacturing and metalwork | 19 | Mining and quarrying | 0.9 | Textile and clothing industry | 0.8 | Communications and information technology | 0.7 | Media and entertainment | 0.6 | Wholesale and retail trade | 0.5 | Hotels and restaurants | 0.3 |
| East Java | Agriculture, forestry, and fisheries | 2,659 | Manufacturing and metalwork | 19 | Mining and quarrying | 0.9 | Textile and clothing industry | 0.8 | Communications and information technology | 0.7 | Media and entertainment | 0.6 | Wholesale and retail trade | 0.5 | Hotels and restaurants | 0.3 |
| Central Java | Agriculture, forestry, and fisheries | 1,659 | Manufacturing and metalwork | 19 | Mining and quarrying | 0.9 | Textile and clothing industry | 0.8 | Communications and information technology | 0.7 | Media and entertainment | 0.6 | Wholesale and retail trade | 0.5 | Hotels and restaurants | 0.3 |
| East Java | Agriculture, forestry, and fisheries | 2,659 | Manufacturing and metalwork | 19 | Mining and quarrying | 0.9 | Textile and clothing industry | 0.8 | Communications and information technology | 0.7 | Media and entertainment | 0.6 | Wholesale and retail trade | 0.5 | Hotels and restaurants | 0.3 |

Source: 2010 Population Census Data - Statistics Indonesia

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Table 6.3: Summary of respondents’ demographic profiles

<table>
<thead>
<tr>
<th>No.</th>
<th>Item</th>
<th>Quantity</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gender</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>- Male</td>
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<td>52</td>
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<tr>
<td></td>
<td>- Female</td>
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<td>48</td>
</tr>
<tr>
<td></td>
<td>Total</td>
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<td>100</td>
</tr>
<tr>
<td>2.</td>
<td>Education</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>- Primary</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>- Junior High</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>- Senior High</td>
<td>26</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td>- University</td>
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<td>32</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>44</td>
<td>100</td>
</tr>
<tr>
<td>3.</td>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 20s</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>- 30s</td>
<td>15</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>- 40s</td>
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<td></td>
<td>- 50s</td>
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<td>7</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>44</td>
<td>100</td>
</tr>
<tr>
<td>4.</td>
<td>Business</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>- Retail</td>
<td>25</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>- Service</td>
<td>17</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>- Manufacturer</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>44</td>
<td>100</td>
</tr>
</tbody>
</table>

6.3.2 Beneficiaries’ Condition Prior to Participation in Partnership Program

In the interviews, the respondents were asked about the condition of their business prior to joining the Partnership Program. More than half of the respondents indicated that before joining the program their businesses were very small, limited in capital and could not compete with other similar businesses around them. Participating in the program had changed their business capacity, allowing the business to become bigger and more competitive.

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26 The demographic profiles are only for beneficiaries.
Prior to joining the program, the respondents seemed to carry out the business only to fulfil their daily needs. This can be described as “only trading to survive” (Turner, 2000). They never or seldom thought of growing their business. When they joined the program and participated in training, this way of thinking had changed and they started to improve and develop their business.

### 6.3.3 Business Rules and Practices within MiSEs

There are a number of important differences between the formal and informal business sectors, especially in regard to business rules and practices. In the informal sector, rules and business practices are less noticed. Micro businesses are mostly owned and operated by an individual or a family. During the research interviews, the beneficiaries were asked about the rules that they applied in their business, and the majority of respondents stated that there were no specific rules that they applied in their business. They were just doing what they had normally been doing for years.

### 6.3.4 Beneficiaries’ Purposes in Joining the Program

Developing their business and helping the community were reported by the respondents as the major purposes in joining the program. They wanted to help the community by providing easy access to goods and services (Interview Zain 08B1; Interview Riwaning 02B1).

Twenty of the respondents (45%) answered that their purpose in joining the program was financial. They did not have enough capital to improve their business and, without it, they cannot become competitive and improve their life. More than half of the respondents (24 out of 44; 55%) stated that they wanted to develop their business and had a social purpose of helping their neighbours and community. For example, in a housing complex, sometimes the nearest market or shop is about 2 km away; by selling items which the community needs, many people in the area can be helped. Some respondents reported that before joining the program, they only had very limited goods because they did not have enough capital to buy more stock for the shelves. Nowadays, their customers have more goods to choose from.

### 6.4 Adoption Decision

This section discusses the decision made by the respondents to join the Partnership Program. The business plan they wrote when they applied to join the program is also discussed, including the support they received from the SOE to implement the plan. Figure 6.21 shows the relevant factors of the adoption decision.
6.4.1 Decision to Participate in the Program

Respondents’ decisions to join the program were mostly influenced by the need to develop their business, have access to more capital and to help the community. For most beneficiaries, the decision was discussed with members of their family especially the wife or husband. For example one of beneficiary named Hada, is a housewife. When she wanted to decide to join the program, she discussed it with her husband (Interview Hada 19B2). Before joining the program, it is necessary to discuss it with family members because the business generally takes place at home. Therefore, the decision to apply to join the program was known by members of family.

The other reason to join the program was because the program offers a very low interest rate, requires no collateral and the term is long. They believe that they can manage to pay the instalments regularly due to this low rate of interest. In addition, there is no requirement to provide any collateral in the program. These factors made the respondents confident about their decision to join the program.

6.4.2 Finance

The beneficiaries’ financial condition was one of the reasons they wanted to join the Partnership Program. The respondents reported that joining the program had helped improve their financial condition. For example, Amin (01B2) stated that he was financially weak before joining the program; his kids had not been able to attend school at that time.

Amin was the owner of a small construction company and was the recipient of Partnership Program funds from one of the SOEs in Makassar. He established his
business ten years ago. Initially, he was a construction worker with a poor family background, and he was unable to open his own business due to a lack of capital. He started to raise his business capital little by little from his salary when he worked in a construction company. When he thought he had enough money, then he opened his own business. Fortunately, he met an SOE employee who told him about the Partnership Program and his application was successful. At the time of the interview, he stated that his main concern was not money but how to grow and develop his business. Along with his success in joining the program, his family also felt the impact of the program. His children can choose which school they want to go and the family is prosperous. The box highlights more details of Amin’s case in his own words.

**Box 6.2: SOE Partnership Program: My Financial Saviour**

I am Amin, aged 38 years old, one of the Partnership Program beneficiaries in Makassar. I am only graduated from primary school. My business is a small construction company that builds houses. Before having my own business, I used to work as a bricklayer in some construction companies. My dream was having my own company. To fulfil this dream, I started to save some of my salary. When I thought it was enough to open my own company then I quitted working in the construction company and started running my own business. At the beginning it was very hard because I had very limited capital to buy tools and machinery. Later, information about the program was delivered to me by one of the SOE’s employee who came to this area to promote the program.

Joining the program has been a big leap to my life and business. I can buy tools and machineries to support my business. I have to make a progress report every 3 months to the SOE where I joined the program and usually the supervisor gives some advice and suggestions about my business. As a beneficiary, I know my responsibility is to pay the instalment every month and I have the right to join any workshop or training held by the SOE.

My family condition after joining the program has changed and is better. I do not have any financial problem anymore either in my business or in my family. Before it was difficult to pay for my kids’ school fees but now my kids can go to school with clean uniforms and new books. The people around me like my neighbours are also very happy because when I have big orders I usually recruit them to work with me. So they can have jobs and feed their family.
6.4.3 Business Plan Implementation

At the time beneficiaries apply for the Partnership Program, they are asked to make a business plan. This plan sets out their general plan for using the fund. The business plan enables the SOE to control and check the use of the money after disbursing it. This is also one way that the SOE monitors the program.

In the research interviews, the beneficiaries described their various business plans. Among the plans were plans to open a new branch, to buy a car for distribution, to put more stock on the shelves and to buy new machinery. For example, Syamsir (03B1) had a business making biscuits. His plan was to buy a car to enable him to expand his area of distribution. In the past he could only distribute the product by motorcycle in Makassar but, since having the car, he was able to distribute to further areas. This certainly had an effect on his business production capacity. Before he could only produce and distribute 200 packs of biscuits per day; at the time of the interview, he could reach up to 1000 packs of biscuits per day.

One limitation in the Partnership Program appears to be that the business plan is only designed to help the application process – the Partnership Program recruitment team looks at the plan and evaluates it. However, the training later provided in the program is very general as it is held for every beneficiary from different business backgrounds. The team should be aware that different businesses have different plans and need different training. Therefore, training would be more effective if the beneficiaries’ business plans are linked with the training. This would assist them to implement their business plan. It might also address the problem indicated in this research which is that the majority of beneficiaries reported that they never had any assistance from the SOE in implementing their business plan.

6.4.4 Support for Business Plan Implementation

As mentioned above, the business plan is used by the SOE as a tool to monitor and control the funds after disbursement to beneficiaries and to make sure that the funds have been used according to the plan. The majority of the respondents stated that they had received no support from the SOE in the implementation of this business plan. For example, Asiben (01B1) stated that she only received funds from the SOE and never had any support afterwards. She had not even heard about training or workshops. In cases such as this, it seems that the SOE took the business plan into consideration only as a requirement of joining the program and did not maximise its use. Some of the respondents reported that they did not know if there was support for implementing the
business plan. For example, Nakil (06B2) said that there was no such thing as support for business plan implementation. She said that she usually went to the SOE office to pay the instalments but she had never received or heard of that support.

Only six respondents confirmed that the SOE had given them support in implementing their business plan. The support was in the form of motivation and business advice on how to manage their business well. To these respondents, this support from the SOE was very helpful in running their businesses (Interviews 11B2, 12B2 and 14B2).

6.5 Conclusion

This chapter presented the first part of the research findings and explored the first three components of the research scheme, namely, the external context, internal context and the adoption decision. The discussion about the external context used secondary data on the legal and regulatory framework of the program combined with information obtained through interviews with SOE supervisors on how the Partnership Program was implemented. One of the major findings is in relation to the dissemination of the program’s existence and scope. It was found that the information about the program is mostly disseminated through word of mouth. The SOE supervisors reported that the number of unpaid instalments had decreased since they began relying on this type of dissemination. In this part of the research it was also found that the assistance provided by the SOEs to the beneficiaries in the form of orientation, training and intervention were considered to be very useful by the beneficiaries. They reported that training had improved their knowledge, skills and networking with other MiSEs.

The second part of the chapter focused on the internal context, including the beneficiaries’ demographic profiles (age, education, gender and type of business). Most of the beneficiaries in this study were in the retail business and this was expected considering that retail is the dominant business in Makassar. The condition of the beneficiaries’ businesses prior to participating in the program was also explored, showing that most beneficiaries experienced improvements. The use of the beneficiaries’ business plan was also highlighted in the discussion.

Overall, it is concluded that the Indonesian Government made a commitment to support MiSEs through various programs including the Partnership Program. The beneficiaries in the program come from different businesses and backgrounds. The research conducted in the present study indicates that joining the Partnership Program gives them the opportunity to develop and improve their business.
Chapter 7
Data Analysis and Findings 2
(Participation and Transformation, Internal Outcomes
And External Impacts)

7.1 Overview
This chapter discusses the second part of the findings. The discussion starts with transformation, and then looks at the outcomes of the program and, finally, the impacts of the program. As in Chapter 6, this discussion includes some general information about the program in addition to the experiences and opinions of the respondents. However, this chapter focuses more on the implementation of the program.

The discussion on transformation analyses the changes reported by program beneficiaries in terms of their business, perceptions and practices, as well as changes in organisational rules since joining the program. The degrees of success among the beneficiaries are explored in the discussion on outcomes, including the beneficiaries’ perceptions of their success and failure in running their businesses. The beneficiaries’ perception of success is also part of their capacity change after participating in training offered as part of the Partnership Program. Partnership in the program also has side effects for the beneficiaries, which are also discussed in this chapter.

The program has transformed most MiSEs into more skilfully run organisations and increased their capacity. Those changes have an impact on beneficiaries and the community around them. The last part of this chapter discusses the impact of the program on MiSE stakeholders and the MiSEs themselves. The structure of this chapter is shown in the chapter map in Figure 7.1.
7.2 Participation and Transformation

Transformation means a marked change in form, nature or appearance. In the context of the present study, transformation refers to the changes experienced by beneficiaries in terms of their business operations and the differences in their businesses after participating in the Partnership Program. This section discusses the changes reported by the beneficiaries in their business generally, changes in their perceptions of the program, and changes in their business practices. The changes in organisational rules before and after joining the program are also discussed. Figure 7.2 illustrates the map of the beneficiaries’ participation and transformation.

The following box presents the story of Agus, a beneficiary who came from Java to Makassar with nothing in his hands. He worked hard until he managed to save some money to open his own business. The message behind the story is that the Partnership Program has been able to change a person’s life and his family. This is his story, from “zero to hero”. 

Box 7.1: From Zero to Hero

Agus has been one of the PT Askes Partnership Program beneficiaries since 2010. He was an ordinary man who came from Java Island to Makassar in 1995, with just enough money to take him to Makassar. Poverty in crowded Java drew him to find his fortune elsewhere.

When Agus first arrived, he had no money to buy food. Water was his main sustenance and he was lucky to eat once a day. He tried to get a job. At the bus terminal, he became acquainted with some thieves and pickpockets who invited him to join them in order to obtain money to eat. He considered doing this dirty work until he met someone who worked as an “aheng”*. Since then, Agus began helping the aheng get passengers on to the buses going out of town. It enabled him to earn money and buy food every day.

With strong determination and with the little capital that can be gathered from his work as an aheng, Agus ventured to open a printing business and began making license plates. He ran this business for several years with very limited capital. Materials for printing were purchased only if there was an order incoming. He had not been able to build up any stock.

At the start of this business, Agus felt frustrated and desperate. He was thinking of returning to Java. One night, he sat by the river at night and considered what steps he should take. He asked for God’s guidance. Returning to Java would be considered a failure and he did not want this to happen. He wanted to be a successful person. After brooding that night, he kept trying and trying...

In 2010, a major change started in Agus’s business. He met with an employee of PT Askes and they became friends. Through this employee, Agus came to know about the Partnership Program. He was advised to sign up and become a participant in this program. He then applied and successfully received funding. He was very grateful and spent the money to buy stock and printing supplies. Since then, the business has grown rapidly and can compete with other printing companies. He has been able to participate in some local government tenders. He was also able to provide sufficient inventory for large orders. In fact, this time he was able to buy a house for his family.

This is one story of the transformation of Partnership Program beneficiaries. It demonstrates that someone who does not have anything is capable of being successful and buying a house for his family.

*"Aheng": A person who looks for passengers for a certain bus. The aheng will greet passengers who come into the terminal and offer a bus to take them to their destination. The aheng will collect the money from these passengers and hand it to the bus driver. The aheng can keep 5-10% of the money as their service fee.
7.2.1 Changes as Presented by Beneficiaries

The changes that beneficiaries showed after participating in the Partnership Program are positive. Their businesses have become more sustainable. This includes all the economic aspects of the business. They are able to improve their business service. The condition of their business before and after receiving the funds from the Partnership Program was totally different. Before, they did not have many varieties of goods to sell and very limited amounts. The customers did not have many choices and so they only bought a small amount of goods. The customers were sometimes disappointed with the service (Interviews with beneficiaries 02B1, 08B1, and 11B2).

Being able to provide more goods and better services had impacted on the sales. There had been a significant increase in sales. One beneficiary (22B2) reported that he can usually only get Rp100,000 per day, but after improving his service and adding more variety of goods, he can earn Rp300,000 per day and sometimes more than that. The increase in sales then affects the business turnover. The increase in turnover has an impact on business income. The increase in income also has an influence on the business profit. More profit means the beneficiaries can improve and grow their business by providing more and better goods and services. All of these factors have an impact on their business sustainability.

The Partnership Program had transformed the respondents’ businesses into more competitive businesses that were more sustainable than before. The beneficiaries have more capital and are able to increase their sales, income and turnover. The training offered in the program had also impacted on the way they conducted their business. The interaction of these factors is illustrated in Figure 7.2.

In terms of social life, the growth of the businesses had affected the beneficiaries’ social status. Before joining the program they were unable to employ any workers to help them. Due to the growth in sales and turnover, they were able to employ staff. This had raised their social status from worker to employer.
As illustrated in the above figure, the beneficiaries’ participation in the program created a process that started from the beneficiaries changing the way they provided service to their customers, through to making their business sustainable. The following case study shows how the change was experienced by one beneficiary after joining the program, in her own words. Following the example, each of the stages in the beneficiaries’ transformation process is discussed.
Box 7.2: Private Money vs Business Money

My name is Suryani; I am the owner of Citralia Catering Makassar. I am one of PT Pertamina’s beneficiaries. I knew this program [Partnership Program] from a friend, and then I went there and asked for this program. When I arrived and asked about this program, one of the employees explained to me and asked me to fill in an application and complete all the requirements. After that then I submitted my application. I waited for 3 months for the application to be approved because the SOE only gave the funds at a certain time in a year. I was told that my application was successful and I must come to the Pertamina office to complete the requirements and documents that I had not submitted before. Then there was invitation to a meeting, it was like seminar or a short training. It was telling me about how the program runs, how to pay the instalment, how to manage the money, and how to manage our business etc.

The seminar itself was very important because I think training for small and medium enterprises is seldom and rarely found. The training can improve my skill in managing my business like in marketing and promotion and other skills. Even though it was only a day and short course but it was very important. The training is very important to increase and improve my sphere of knowledge as a small business. Obviously, the training was very good. I hope that more training can be held in the future, so I as a small business actor can be more competitive and motivated.

The training materials were management, how to run a business, promotion and bookkeeping. Sometimes small enterprises are not good in managing money. They cannot differ between business money and private money. Sometimes they are all in one pocket. So through this training I can be more aware of this problem.

The program helps me improve my business. My application was approved at the right time. At that time I really needed more money for my business. I received a big order, so I can use the money straight away. My business has been running for a long time but I join with my family (father) to run the business and a few months ago, we separated the business because I wanted to do my own business independently.
### Box 7.2 Continued

The most significant change that I felt after receiving the fund is that I got more orders and more organised in my business. Now, I started thinking better for my future. I am more confident in running my business. Now I can receive big order from government offices or private offices for catering.

When applying for the program, my plan was that I wanted to develop my business, because now there are many competitors. I wanted my catering business to be different with others. I wanted my business to be unique and have competitive advantage. In order to be unique and have competitive advantage, I have to maintain my quality and services so I can be more competitive, having more customers, and more orders from offices for their catering.

Talking about my business position in the competition among other catering companies, I cannot say that my business is in the middle or top level or better than my competitors but I think I still can compete with them because I always maintain my food quality and its taste. Those things I try to maintain so far. Because we are in food industry so taste is very important. In the past, my father was in this business by a name called ‘Mulia Catering’. Since my father passed away I tried to build my own company called Citralia Catering. So I still have to compete with my own family business.

I have five regular employees so far, but when I have big orders then I usually hire extra people. Most of them live close from here and some of them are neighbours. I also usually help them when they have financial problems like they want to pay their rent and they do not have enough money then I usually lend them the money. Most of them have financial problems, maybe because they are coming from poor family.

I have suggestions for this program that it would be good if the SOE held many training for MiSEs so they can be developed and improved. Even without joining the program. The SOE should make training and workshop for all people. Like catering companies, they have a catering companies association. Training can be held for that association.
A. Improved Service
The beneficiaries improved their customer service based on what they learned in the training. From the training, they learned that they have to satisfy their customers, as a satisfied customer will certainly will come again to shop for more. This is particularly important in retail the business, which involved the majority (57%) of the beneficiaries in this study.

When asked about what type of service she had changed and improved in order to get more customers, one beneficiary (02B1) explained that before she received funds and help from PT Askes, her shop was small and she did not have a wide variety of goods to sell. The customer was often disappointed because she cannot provide the things they wanted. After receiving the fund, she can buy more goods and meet more customer needs. The customers were also interested in buying more when they can see many varieties of goods that are available. Another beneficiary stated that more customers now come to his shop because there are many varieties of goods to choose from. That is why they are interested in coming to his shop (08B1). As well as having a good variety of goods that customers want, the beneficiaries had also begun to pay more attention to the service side (11B2). This included serving the customers well, opening earlier and closing later than other shops in the area, greeting the customers, and having a chat with them. The main point is to improve their service to customers (08B1). In the following case study, one of the beneficiaries explains the improvements to her business in her own words. Plates 7.1 and 7.2 show the beneficiary’s business. The pictures were taken with the beneficiary’s consent after the interview.
Box 7.3: Open Earlier and Close Later

I am Riwani and I have been in the program since 2010, so it has been 2 years now. I really enjoy being in this program especially the training. I joined the training last year and there were some subjects in the training. It was starting from making a good financial report, operational management, networking, marketing and self-motivation. For me, I like the accounting subject, especially making financial report because it was different with what I had learnt in college so far. The material was very simple and easy to understand. It was very useful.

Before receiving fund and help from PT Askes, my shop was small with not so many goods and variety to sell. The customers were often disappointed because they cannot get things they wanted. After receiving the fund, I can buy more goods and provide all customers’ needs, and now they won’t be disappointed anymore.

When applying for this program, I was asked to submit my business plan. So I submitted my business plan at that time. My shop had not sold refill water and gas canisters. So I was thinking of using this money to buy a refill water machine and gas canisters and it is proved to be very successful until now. My shop becomes better in sales and my turnover is increasing. Everyday people around here buy refill water and gas canisters from my shop. My neighbours are very grateful because they don’t have to go far to buy refill water and gas canisters. So the community here really support my shop.

At that time, I was very sure that I will be successful, because my business plans of opening a refill water kiosk and selling gas canisters was excellent. In my neighbourhood or in my area there has been no shop selling gas canisters and refill water. So, I was confident that it will be successful.

In running my business, I don’t have any specific rules. I open and close the shop as we want to. But now, because I have to pay the instalment every month then I have to make sure that the shop has to be open every day and because the shop is in my own house then I can ask for help from my family or relatives who live in my house to look after the shop too.
In running this business, my main problem is employees. I only rely on my family right now, but in the future I will try to hire an employee who can help me open and close the shop and also servicing customers. I am also grateful that the community around here are very supportive, it can be seen from their enthusiasm for coming to my shop and buying their needs and wants. Sometimes they only plan to buy one item, but when they arrive here at the shop they usually buy more items and that is very good. Really, the program has changed my business to a better one.
The beneficiaries had tried to improve their business by improving their service to customers. In fact, it was successful and more customers were coming to their shops or business. As a result of this, the sales increased significantly. There was a big difference in the sales before and after receiving the fund from the Partnership Program. One beneficiary stated that before joining the program, he can only reach sales up to Rp100,000 per day. When he joined the program and was able to provide better service and more goods, he was able to reach sales up to Rp 300,000 per day or even more than that (22B2).

One of the beneficiaries interviewed in this study was an ice cream maker. He also reported that one of the major changes he could see after receiving the fund was an increase in sales (04B1). His production had also become safer due to the purchase of new ice canisters which prevent leaking into the ice cream product.

As explained in the example discussed in Chapter 6, one beneficiary owned a biscuit company (03B1) which could only produce 200 biscuits a day. At the time of the interview, the company was producing up to 1000 crackers a day. This increase was also influenced by the increased capability to distribute the products. When the owner received the fund from the Partnership Program, he bought a small truck to deliver his product around Makassar and its suburban areas. This beneficiary’s experience is discussed in more detail in the box below, followed by a picture of his products in Plate 7.3.

Plate 7.2: Riwaning’s gas canisters and water refill machine
Mr Syamsir is a biscuit maker in Makassar. He is also a beneficiary of the Partnership Program. He knew of the program from his family who worked at PT Askes. When he was told that his application was approved by PT Askes, he was then invited to a meeting. In that meeting he was told about the program and how the program helped MiSEs. He received some advice on how to run a business and encouraged him to improve and develop his businesses.

In 2010, he joined training for beneficiaries. For him, the benefit of the training was to remind him to always improve and motivate himself, and to innovate in his business so he can compete. The product may be the same as his competitors but he has to be better in quality and innovation. In the training he was taught about motivation to become an optimist person even though if business is down. He stated: “In the business sometimes you succeed, sometimes you fail, but always be optimistic”. The training also taught him about accounting, how to make a simple financial report, networking, how to deal with his competitors, and how to do effective and efficient marketing. The training was held over three days and two nights.

One of the training subjects that was interesting and challenging for him was product innovation and marketing. He was asked to make a marketing plan for a product. He had to find the most creative way of marketing the product. He felt really lucky to be in this program, as he found it to be very helpful. When he started his business, his turnover and product distribution was small; however, since he received the Partnership Program fund, he can develop his business. His channel of distribution had grown because he now used a car to distribute his products.

When Syamsir applied for the program he was asked to make a business plan. His business plan at that time was to enlarge his product distribution, so it can reach remote areas. To do this he needed a vehicle. At that time he did not have a car, so some of the money from the program was used to buy a commercial vehicle. With his distribution growing, he feels happier and more optimistic about the business.

Syamsir’s main objective when joining the program was to develop his business and create job opportunities for people in his community and neighbourhood. As well as the car, he bought equipment for making the products, stoves, packaging and ingredients in order to develop the business.
Box 7.4 Continued

Syamsir stated that his business had undergone many improvements and development since he joined the program. He described the change as “drastic”. The increase in sales was over 100%. He said he felt more confident in facing his competitors, as he was now able to compete with them, in terms of distribution and price.

He still sometimes experiences difficulty in running his business especially when sales go down, for example at the beginning of new school semesters, when people prefer to buy uniforms or books rather than snacks, and in the fasting month (Ramadhan). To overcome this problem, he tries to innovate through product differentiation and he tries to find new customers and new distribution places.

Being in the Partnership Program has created a number of advantages for Syamsir and his business. His business is growing, his customer base is growing and now his customers have more choices in terms of product varieties. His business is also influencing the community around it and that is also why the community is very supportive. All his employees are from his community. As his company grows, their welfare is also improving.

Plate 7.3: Syamsir’s biscuit products
C. Increase in Turnover
In accounting, turnover refers to inventory or accounts receivable. A quick turnover is desired because it means that inventory is not sitting on the shelves for too long. The Partnership Program beneficiaries who were interviewed in this research were very happy to see that their goods sold well and they had to provide more stock for customers. Some of them did not want to disclose the increase in their turnover in detail. A beneficiary who sold meat balls (bakso) and salad (gado-gado) only mentioned that her business turnover had increased but did not want to say how much it had improved other than to say it was better than before (21B2). When prompted to explain why she did not want to specify her business turnover, she replied and answered while laughing that she was afraid the details about her turnover would be shared with the SOE. Despite reassurances that her confidentiality would be maintained in the research, she continued to smile and said the turnover was enough to pay the instalments and add more capital to her business.

A similar statement was made by a beneficiary who had a motorcycle service and spare parts business. He was only willing to say that his turnover had increased after participating in the program especially in motorcycle spare parts; however, he declined to specify the quantity of the increase (11B2). One beneficiary who had a business selling rice and groceries stated that his turnover has increased up to 80% compared to before (15B2), but he declined to specify the average or actual amount of money he earned.

D. Increase in Income
An increase in sales and turnover clearly had an effect on the beneficiaries’ income. The increase in income had made the beneficiaries more confident and they believed that their businesses were on the right path. One beneficiary who had a business selling food in front of her house stated that her business could be categorised as a developed business because the income had continually increased since joining the program (09B2). The majority of the beneficiaries interviewed in this research reported a significant change in their income. One beneficiary, in particular, stated that the income had increased very well (12B2).
E. Increase in Profit
The majority of the beneficiaries in this research responded that they had increased profits, but none wished to disclose the exact amount of the increase. Rather, the beneficiaries preferred to describe the increase in profit in general terms only. For example, one beneficiary stated that she felt lucky because her business was getting better and her profit had increased more than she expected (21B2). Another beneficiary responded that his profit was better now and he hoped it would continue in this way into the future (16B2).

F. Self-Sustaining Business
The beneficiaries reported increases in sales, turnover, income and profit, which mean that their businesses were growing. They had become more confident in competing with other businesses, even with the larger ones run by the Chinese (“non pribumi”) residents in Makassar who have a long history of running successful businesses in the city. One beneficiary stated that he thought the change in his business since joining the program was quite significant because his business had been able to compete with other businesses around him (03B2). Another beneficiary explained that her business was in a “pretty good” position because her business was now known by many people and customers had responded positively about her cooking (21B2). When asked about what they would do with their increased income and profit, most of the beneficiaries said they would like to open a new branch.

In the context of the present study, the term “self-sustaining” refers to the ability of the MiSEs to operate and perform their activities so they can survive and grow. Being a self-sustaining business means they are performing well financially and want to develop the business further. For example, if the beneficiaries wish to open a new branch as most of them stated, then their access to the necessary capital would no longer be a barrier and they would be more confident in facing their competitors. This growth and self-sustainability had been made possible for most of the beneficiaries because they were now competing with bigger businesses in terms of distribution and price (03B1; 03B2).

7.2.2 Changes in Beneficiaries’ Perceptions and Practices
This section discusses the beneficiaries’ perceptions of the program before and after they joined. This includes how the program was understood by the beneficiaries and what they believed would be the benefits if they applied themselves to the program seriously.
The beneficiaries reported the perception after joining the program that they must work hard in order to be able to pay the instalments and succeed. For example, before joining the program the beneficiaries in retail only opened their businesses from the morning to the afternoon, but after joining the program they opened from early morning to late evening. They also asked their customers what they need and what service they expect.

The beneficiaries reported that the training offered in the program had made them more confident and skilful. Meeting other beneficiaries in the training had also motivated them to build their contact network among MiSEs. Some of them were in the same type of business so they shared experiences and exchanged ideas on how to improve their businesses in the future.

Changes in business practices had improved their business capacity and performance. The beneficiaries felt they were more competitive than before. They can now keep more savings in the bank (Interview Mardiah 05B2).

Figure 7.4 illustrates the interconnection between the beneficiaries’ perceptions and business practices. The beneficiaries perceived that by joining the program they had to work hard to improve themselves in order to be able to succeed and pay the instalments. Their perceptions in joining the program were that they had to improve their skills and networking not only with customers but also with other stakeholders. Having good networks and trying their best would eventually make them more confident to compete with similar businesses.

Those perceptions have to be implemented in their business practices. When they do this, the result will be improved business capacity, increased competitiveness and more profit and savings. The box below presents the case of one of the beneficiaries who experienced changes in his perceptions and practices since joining the program.

![Figure 7.4: From perception to business practice](image-url)
Box 7.5: Keep Trying and You Will Succeed

I am Hafid and 44 years old and start being beneficiary for the Partnership Program since 2012. I got information about this program from a friend who also was a beneficiary. My educational background is graduated from high school only. But I feel I have considerable business experience.

The life experience that I will never forget is when I was in Barru, I once ran as head of village. But I lost at that time and decided to move to Makassar. On the business side I have a lot of experiences. I had worked in the business of selling chicken pieces and I was famous in Barru. Around 1987 I got married and started my own business. My initial business was then continued to sell Kalimantan timber. However, due to ship and my stuff sinking into the sea I went bankrupt. With the remaining capital, eventually I went back to selling chicken pieces. After that I stopped selling chicken pieces and started a retail business.

Some time ago my son who lived on the island of Dobo asked me to send goods to him. So I filed a request to increase my capital through the Partnership Program. I only send goods upon request from there. For example, I just sent three motorcycles there. In addition to it, there is also milkfish, underwear, pants, electronic goods and eggs.

Before I joined this program, I have been making deliveries to the island of Dobo; I only have to raise capital and fund. This program has helped my business. Now the eggs were sent to 500 racks worth 15 million. Anyway one time shipping it could get me out 20 million capital and for postage only it could be up to 3 million.

Talking about obstacles, one obstacle I faced during this time was the delay in the ship's departure but so far it is still going well. Even if the Ciremai ship is postponed, I will send the goods by the Kalimutu although the delivery time is seven days while the Ciremai only takes three days.

I feel the changes since participating in the program are quite good because before I just send the goods by 10 million and now can reach 20 million. But in running the business "do not be too passionate or rush it" because it could fail. For example, you have new capital and opened a new business that is not controlled and mastered by you then it would not work. By improving the existing business only then you will succeed.

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27 Dobo Island is an island in Maluku Province of eastern Indonesia.
28 Kalimutu & Ciremai Ships are inter-island ships that operate from western Indonesia to eastern Indonesia. Ciremai is an express ship which only stops at major harbours while the Kalimutu ship is a regular ship that stops in every harbour. The express ship reaches Dobo Island in three days whereas the trip by regular ship takes seven days.
7.2.3 Changes in MiSE Business Rules and Practices
As most MiSEs are non-formal business, most of the beneficiaries did not follow written rules but as the businesses were growing they had begun to make adjustments to their practices such as their business hours. They had begun to open earlier in the morning and close a little later in the evening in order to serve more customers. There were also adjustments in the employment practices since they now had more employees (Interview 15B2). However, the majority of these MiSEs reported that there were still no specific rules involved in their daily practices because they were family-owned and informal businesses. This aspect was discussed in detail in relation to the internal context of the program (Chapter 6, Section 6.3.3).

7.3 Internal Outcomes of Partnership Program
This section discusses the internal outcomes of the Partnership Program with a particular focus on the degrees of success among the beneficiaries since joining the program. Success is seen from the business and social point of view. The beneficiaries’ views on success and failure are discussed. Changes in the beneficiaries’ capacity in running their business and the side effects of Partnership Program participation are also discussed. Figure 7.5 illustrates the map of the internal outcomes of the program.

Figure 7.5: The internal outcomes map of the program

7.3.1 Beneficiaries’ Degree of Success
The majority of beneficiaries felt that they were successful in running their business (43 out of 44 respondents). They measured their success by the increase in turnover, sales, income and profit. They felt more confident in running their business. Their businesses are more competitive than before. Before they joined the program, they considered their businesses to be mediocre but when they can increase their sales and turnover, they feel more confident. They can compete with bigger businesses around them. For example, a
small retail shop selling groceries and operating from home can compete with the mini market in the neighbourhood. Success was also measured in terms of the social outcomes. For example, one of beneficiaries reported that he was now able to pay for his children’s school fees, uniforms and books.

### 7.3.2 Success or Failure

Overall, joining the program had led to significant benefits for the beneficiaries. They feel confident that they can open a new branch, knowing they are able to deliver goods and services to customers, thanks to the training they received in the program. Some also reported that they were free from debt and able to buy premises.

The beneficiaries who had enjoyed success were able to identify the factors that had led to their success, and they were proud that they had implemented these factors in their business. Although most of the beneficiaries were enjoying success at the time of the interviews, one beneficiary had experienced failure in his business (Interview Gazali 09B1). In some ways, his experience is still a success story because he changed his business when the first one failed and he continued to keep trying and do his best.

According to the information provided by PT Askes, Gazali was a Partnership Program beneficiary who was running an internet shop renting desktop computers with internet access for Rp3000 per hour. However, when attempts were made to invite Gazali to participate in this research, the mobile phone number provided by the SOE was not connected. A person who answered his home phone number stated that Gazali had moved and he did not know where he moved.

A further attempt to contact the beneficiary was made by visiting the business address provided by PT Askes. It was a small street, more like a pavement and wide enough only for pedestrians and motorcycles to pass through. Instead of an internet shop, a small grocery shop was being run at the address. The owner of the grocery shop did not know where Gazali had moved. Enquiries around the neighbourhood led to information from an old lady who said that Gazali had moved to a street about one kilometre from the old shop. A motorcycle rental was operating at that address. Further enquiries revealed that this business was being run by Gazali and that he lived nearby.

When Gazali was first approached at his house, he asked if I was PT Askes. He looked worried, probably because, as he later revealed, he had not paid the instalments for two months. After explaining to him the purpose of the visit and the research, he agreed to be interviewed. Gazali’s story is told in his own words in the following box.
Box 7.6: Money Does Not Recognise Family or Friend; Business is Business

I am Gazali; I applied to join the program in order to be able to develop my business. But as you know sometimes business is good and sometimes bad. Now my business is in bad condition.

I knew the program from one of my family but honestly, now I am two months behind in paying the instalment because I spent the money on my internet shop and now the internet shop is closed because not so many customers and not profitable anymore. Sometimes I had to use my borrowed money to pay my employee. Being arrears in payments, my family who works at Askes called me and asked me to pay the instalment but I told him that my internet shop is closed. Then, I used some of the money left to open a new business. Because it is just open so I need time to get profit and pay the instalment.

In order to be successful and be able to pay the instalment, I have some strategies. First of all, because my business is motorcycle rental and it is a service business, I try to give the best service to my customers. Secondly, cautiousness because this business is risky, people are renting motorcycles, so I have to know their identity well. And the last one is honesty.

When I decided to join the program, my relative who works at Askes suggested to me to add new computers to my internet rental shop. I only had five computers at that time and I wanted to add seven more computers. So I can get more customers coming to play online gaming. But I was wrong, after adding more computers, not so many customers coming because online gaming was not so popular any more. So, in order to rescue my business and with some funds left, I changed to another business. I sold all the computers and closed the internet shop. I opened a new business that is motorcycle rental.

My major problem in running the internet shop was because most of the users or customers were in debt to me. They did not pay cash because some of the users were friends. Some of them did not think that this is business. Too many customers and friends owed me. Another thing that made my internet shop close was because of my employee. Because my employee was not honest in writing all the income and he took some of the money or most of the money. There was about four months when I did not control my business because I was out of town. I actually put trust in my employee but he cannot keep my trust, so my business closed.
Successful business people generally have the ability to identify the target they wish to achieve and have sharp instincts in business, they are willing to take the financial risk, they have ability in the areas of planning, organising and implementation, they work hard and do everything necessary to achieve success, and they are able to establish good relationships with customers, employees and suppliers.

Throughout their experiences, the beneficiaries were shown to be honest and not afraid to fail and keep trying (such as Gazali). Agus demonstrated discipline, patience,
sincerity, resilience, and a willingness to sacrifice and work hard, which brought success to him. In Riwani’s experience, having skills, good management and support from the community in her neighbourhood has led her to success.

In the story of some beneficiaries, one of the reasons for failure is not being able to distinguish between business and friends. For example, Gazali had to close his internet business because friends and family were using his services and did not paying. Other factors that caused failure are included lack of sufficient capital, no discipline and fear of failure.

### 7.3.3 Capacity Change

Changes in business capacity and self-improvement were the most common responses from the beneficiaries. For example, in terms of business capacity, one of beneficiaries who manufactured biscuits was able to increase his production capacity from 200 packs a day to 1000 packs a day. This enabled him to fulfil orders from customers not only in Makassar city but also in the areas around Makassar.

The change was not only in business but also in individual capacity. The beneficiaries stated that they had become more skilful than before, especially in running their business and dealing with customers and competitors. For example, Riwani reporting her experience of gaining useful knowledge and skills especially in bookkeeping.

### 7.3.4 Side Effects of Partnership Program Participation

Being a beneficiary in the Partnership Program has also improved beneficiaries’ awareness of their ability and potential. They felt empowered and had more self-confidence and business confidence since they joined the program. Among the side effects they reported were feeling independent, being more aware of helping the community and having increased self-awareness of their abilities.

One of the most important effects that the beneficiaries experienced since joining the program was becoming part of a network. This was especially the case for those who had participated in training held by the SOEs where they met other beneficiaries from different business backgrounds and even in the same business. During the training they were able to share their experiences and knowledge. This networking continued after they finished the training.
7.4 Impact of Partnership Program

The Partnership Program had positive outcomes for the beneficiaries as discussed previously. This section discusses the impact of the program on beneficiaries’ social economy, standard of living and entrepreneurial skill, and the impact on the community. Two types of impact were considered in this research, namely, direct impact and indirect impact. The direct impacts affect the beneficiaries’ lives socially and economically. The indirect impacts affect the community around the beneficiaries. Figure 7.6 illustrates the map of impact of the program.

![Figure 7.6: The map of impact of the program](image)

7.4.1 Impact on Beneficiaries’ Social Economy and Standard of Living

The Partnership Program has been shown to have impacts on the beneficiaries’ businesses, lifestyles and the communities around them. In line with the beneficiaries’ success, they were able to employ people from around their neighbourhood. This eventually will have an effect on the employees’ family and living conditions. One of the social and economic impact indicator is changes in people’s ways of life – that is, how they live, work, play and interact with one another on a day-to-day basis (Vanclay, 2003). Another indicator is changes in employment and income levels (Edwards, 2000).

One interviewee said that he was able to pay his children’s school fees which he had been unable to do before joining the program. Their self-confidences in doing business had improved and they were able to compete with other larger companies. One beneficiary who was in the ice cream making business said that the major change in his business since receiving the fund was a huge increase in sales. His production was also safer due to the purchase of new ice canisters. He felt more confident that he can compete with other ice cream maker companies.
Since he started the business, he always invited his neighbours to work with him because if they do not have jobs they might commit crime. The area in which he lived was known as a poor area, and he trained many of his neighbours since they were children. The junior employees undertake simple tasks like carrying the water and salt, and the senior employees make the ice cream. When the senior employee retires, a junior employee can take over. In this way, the beneficiary believed that his business was useful and important to his neighbourhood (Interview 04B1).

Most of the beneficiaries interviewed in this research responded that the program had increased their standard of living and shifted their position from financially weak to financially strong. In Indonesia, the standard of living for an employee is measured using the KHL method. This is an estimate of the standard needs to be met by an employee to be able to live physically and socially each month. In Makassar especially, the minimum wage of an average of Rp1.5 million is the result of negotiations involving the government’s survey of the value of basic needs in a number of markets in the city of Makassar, trade unions, employer organisations including APINDO of South Sulawesi, universities and experts as well as Statistics Indonesia which then set the standard for decent living.

With reference to this standard, the beneficiaries had successfully gained income over that standard. For example, one of beneficiaries now can produce as many as 1000 packets of biscuits a day with the average price of Rp1500 per pack, which means he can have sales of around Rp4.5 million a month. Even taking into consideration the costs of production, this indicates an income that is comfortably above the minimum wage. Thus, the program had definitely changed the beneficiaries’ lives and improved their standard of living.

The program had impacted on reducing unemployment in the community. According to one of the heads of village who was interviewed in this research, there was an average of two people employed by each of the Partnership Program beneficiaries in his community. In his view, the program was improving people’s living standards and improving the beneficiaries’ entrepreneurship ability (Interview Head of Village 04HV; 03HV).

7.4.2 Improved Entrepreneurial Skill of Beneficiaries

Beneficiaries’ entrepreneurial skills were also improved as a result of joining the orientation and training held by the SOE. As discussed above, this had created

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29 APINDO is Asosiasi Pengusaha Indonesia (Indonesian Businessmen Association)
significant benefits to the beneficiaries, especially the changes in their self-capacity and skill. In the interviews, the beneficiaries mentioned some of the skills such as bookkeeping, marketing, production efficiency, networking and self-motivation. For example, when asked about the training and its impact on entrepreneurial skills, Riwani stated that when she was at university she had learnt about bookkeeping but she found it difficult to understand; however, when she joined training held by the SOE, she found a very simple way of understanding it. This had been given her a great advantage in managing her business.

7.4.3 Impact on Community and Unemployment

The interviews indicated that the Partnership Program definitely had an impact on unemployment and support in the community. For example, as discussed above, one of the beneficiaries trained his neighbours to make and sell ice cream. In the future, some of his employees could apply the skills he has taught them and open their own ice cream shop or another type of business. Another example is a neighbourhood grocery shop where the beneficiary allows people in the community to take the goods they need and pay later when they have money.

Among the 44 beneficiaries interviewed in this research, 16 beneficiaries (36%) worked by themselves and did not take on any employees because they thought they can manage their business without hiring anyone. One of the reasons was because MiSEs are family businesses so they can usually get help from family members who live with them and are not considered as employees. Twelve respondents (27%) did not specify whether or not they employed anyone. Two respondents (5%) had five workers in their companies. According to them, they had never imagined before joining the program that they would be able to hire five workers. A summary of the beneficiaries’ number of employees is shown in Figure 7.4.
Evidence about the impact of the Partnership Program on the community was also gained from interviewing heads of villages. One of the heads of village knew about the program from his community members who participated in the program. He knew that the program provided funding to develop small businesses without the need for collateral. In his area he knew of two people who participated in the program, because they had asked him to sign a letter of introduction to join the program.

The program impacts on the surrounding community because it opens up business opportunities for other residents, which can thereby reduce the unemployment rate. For example, one beneficiary reported that, at first, he worked alone; then, as the business grew, he was able to employ two workers (Interview Rustam 05HV).

Generally, MiSEs – especially retail businesses – only employ family members. During the research, it was observed that in one family, the husband applied for the Partnership Program fund and used it to build up the retail shop which his wife then ran. The husband himself took other jobs. He cannot rely on a steady income from his outside jobs, which is why he needed his wife to help him improve the family’s financial situation.

The program’s social and economic impacts are real as evidenced by the beneficiaries in the interviews. For example, the impacts were experienced in the form

*Others means beneficiaries do not specify their number of employees

**Figure 7.7: Beneficiaries’ number of employees**

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The program’s social and economic impacts are real as evidenced by the beneficiaries in the interviews. For example, the impacts were experienced in the form
of changes in employment and income levels of beneficiaries and community members. Many beneficiaries needed their neighbours and family members to work for them after joining the program as their business was growing and the orders were increasing.

7.5 Conclusion
This chapter presented the second part of the findings in this research. The discussion began by looking at the transformation of beneficiaries in joining the program. The outcomes of the program were the impacts on the beneficiaries’ social and economic life and the impacts on the community.

In the transformation, the beneficiaries had undergone changes in their business and in their family’s situation. Before joining the program they did not have confidence to compete with bigger businesses. Since joining the program, they had gained confidence in their abilities, especially after participating in training from the SOE.

The outcomes experienced by the beneficiaries from joining the program included increased sales and increased profit. They were able to save some of the profit. Their networking ability had also developed after the training and helped them to run a successful business.

The program was found to have had a positive direct impact on the beneficiaries and a positive indirect impact on the community around them. The beneficiaries experienced the impacts in the form of stable income, good social status and better standard of living. The community experienced a better standard of living after some of the beneficiaries being able to employ and train neighbours. The beneficiaries believed that this had a positive impact on decreasing unemployment and criminality in their neighbourhoods.
Chapter 8
Summary and Integration of the Findings: What Have We Learnt?

8.1 Overview
This chapter summarises the findings and integrates them in order to address the research problem. The research framework has six components that flow according to the general functional model or conceptual scheme of input, process and output (Alireza & Ali, 2012). The resources and internal context are the input materials to this research process. The adoption decision and transformation and participation are the process and the outcomes and impacts of the program are the output. All of these components are modified according to their influence and connection to the findings. This is shown in the integration of findings presented in this chapter, in the form of a map showing the findings integration and summary highlights (FISH). Figure 8.1 shows the structure of this chapter.

8.2 Findings in Review
The Partnership Program is a government program, therefore the study can be considered as a program evaluation. The study also investigates the outcomes of the program and the impacts of the program on beneficiaries and the community. Furthermore, it analyses the social and economic conditions of the research objects. Therefore, the research is not only an evaluation of a program but goes further by identifying the deeper impact of the program on the community generally and on the beneficiaries of the program, especially how the program has improved the skill and
ability of MiSEs, improved the beneficiaries’ standard of living, and reduced unemployment and poverty in society.

The research was conducted in Makassar, South Sulawesi of Indonesia and the research object was beneficiaries of the SOE Partnership Program, SOE supervisors of the program, and the community around the SOEs and beneficiaries. Four SOE supervisors were interviewed and provided documents related to the program. Forty-four beneficiaries and seven heads of villages were interviewed, with a total of 55 respondents in this research.

8.2.1 Review of Findings on External Context

The first component of the flowchart is the ingredients of the research. The structure of this component is illustrated in the map in Figure 6.2 in Chapter 6. The external context consists of the government commitment to helping MiSEs, CSR, microfinance and social entrepreneurship, and community involvement in the program. Each of these factors is discussed in this section.

8.2.1.1 Government Commitment to Helping MiSEs

Generally, the Indonesian Government has supported MiSEs through several government departments and ministries at the national, provincial, municipal and village levels. These include the Ministry of Cooperatives and Small Enterprises, the Ministry of Women’s Role Development, the Ministry of Manpower and Transmigration and the Ministry of State-Owned enterprises (Turner, 2003).

The present research focused on the Partnership Program which is under the Ministry of State-Owned Enterprises. SOEs have been committed to helping MiSEs since 1983 when the government introduced regulations requiring SOEs to support MiSEs through a formal program. Since then, SOEs became known as “Bapak angkat usaha kecil/industri kecil” (foster parents of small business/small industry). The initial program was later described as a subcontracting arrangement between large and small enterprises where the large companies were benefiting more than the small ones (Ibrahim, 1997; Turner, 2003), and was not successful. In 1989, the program was improved in order to favour the small enterprises but with the same objectives (BUMN, 2007) and in 1994, the program’s name was changed to Pembinaan Usaha Kecil dan Koperasi (MiSE Development and Cooperation).

The program was then changed again in 1999 to become the Partnership and Community Development Program with Small Business and Community Development (the Partnership Program). The aim of the Partnership Program is to improve the ability
of small businesses in order to become strong and independent through the use of funds from the profits of SOEs (BUMN, 2007).

SOEs run the Partnership Program through supervisors who are responsible for the program’s operation. They are usually the head of the SOE’s finance department. The supervisors’ role includes collecting and evaluating applications, visiting applicants to see the applicant’s business and how it is run, conducting interviews either on the spot or in the SOE’s office and making contracts with successful beneficiaries (Interview with PP supervisors 01Sp;02Sp;03Sp;04Sp).

8.2.1.2 CSR, Microfinance and Social Entrepreneurship

Many people believe that CSR is a Western concept. In the United States and Europe, the corporate element is emphasised, whereby the corporation has a social responsibility to share some of its profit to the surrounding community. However, in developing countries there is some evidence to show that CSR draws strongly on cultural traditions (Crane, 2008). In Indonesia, for example, it is rooted in the traditional culture of ‘gotong royong’ which can be translated as “handling the burden together”. The people in Indonesia, especially those who live in remote areas and villages still apply the principle of gotong royong to handle community problems, such as building a church or mosque, or repairing a bridge. When one village suffers from a natural disaster then people from the neighbouring villages will come to help. Everyone in the community has a social responsibility to help others.

In Indonesia, social responsibility refers to the obligation to help the community and this obligation is not just placed on corporations as it is in the West. Reflecting the importance of this obligation, the Indonesian Government legislated to oblige every company to apply CSR (through Limited Liability Law 2007) including environmental social responsibility (Article 74). For SOEs, the government also created the Partnership Program as a special program to help MiSEs to develop by giving them access to soft loans. The loans can be used for purposes such as increasing capital and buying new machinery. The most important objective of the program is moving the MiSE from un-bankable to bankable (BUMN, 2007).

Microfinance exists to empower poor people in the community by giving them soft loans (Robinson, 2002). In the present study, it is argued that the Partnership Program has the same objective as microfinance, namely, to help the poor out of poverty. Both are non-profit-oriented, with the sustainability of the program being their main objective. The Partnership Program operates on a rolling financial basis. This
makes it a microfinance operation. Unlike a bank or microfinance organisation, however, the Partnership Program does not need to charge enough interest to stay ahead of inflation because it receives a constant inflow of new working capital every year (and this is automatically adjusted for inflation as it is based on SOE profits). This may also explain why the Partnership Program can survive without requiring collateral from beneficiaries.

Microfinance itself has two aspects. The social aspect is the provision of financial services to the poor who are unbankable, and the enterprise aspect looks at this as an economic activity that provides a good return on investment and assets (Sriram, 2012). Having those two aspects, microfinance has social entrepreneurship principles.

In the interviews with SOE supervisors of the Partnership Program (Interview Laode; Indra; Dahlia; Rayu), they stated clearly that the intention of the program was not to make a profit but to be sustainable in order to help MiSEs. This means pointing them in the right direction where they can join the mainstream economy on market-based terms. The SOE supervisors were willing to help the community around them without personal or profit interest (Anwar, 1991; Sriram, 2012). In this regard, they can be considered as social entrepreneurs, even though they did not recognise themselves in that way.

8.2.1.3 Community Involvement in the Program
Community involvement in the Partnership Program has two forms, namely, direct and indirect involvement. Beneficiaries are involved directly when they join the program. Other members of the community feel the impact of the program even though they are not beneficiaries. These people include the beneficiaries’ neighbours who do not have to go to the market to buy their daily needs because they can shop locally, saving them time and money.

Some of the beneficiaries’ employees are neighbours and family members. Their lives have improved due to the impact of the program. One of the examples is Mr Zainal who employs his neighbours and family to help and prevent them from doing criminal act (Interview Zainal 08B1). They now have regular incomes and are able to pay for their children’s school fees and other costs. Another example of the indirect impact is the benefit for the suppliers of retail businesses (see Chapter 6): the beneficiaries’ success has a direct effect on them because the beneficiaries will buy more stock from them.
8.2.1.4 Partnership Program

The Partnership Program is a CSR program involving SOEs in Indonesia. Its objective is to help MiSEs to become stronger and independent through the use of some of the SOEs’ profits (BUMN, 2007). Laode, one of the SOE supervisors of the program, explained that even though the program is considered as a CSR program, there are some differences between them. The CSR status is voluntary and the Partnership Program is mandatory. Another difference is the source of the funds. CSR funds are decided by the board of directors at the beginning of the financial year, while the Partnership Program fund is decided at the end of the year as it depends on the company’s profit from the previous year.

A mandatory CSR obligation like the Partnership Program is contrary to the principles of neo-classical thought, such as the opinion expressed by Milton Friedman that in a free society “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman & Friedman, 1982). In Indonesia, CSR has become mandatory because the government sees that company’s responsibility has to go beyond its economic obligation (Carroll, 1991). The company must pay attention to all its stakeholders.

The Partnership Program is a favourable program for MiSEs because it does not require the beneficiaries to provide any collateral in order to obtain the fund. It has lower interest than banks or other financial institutions. Another advantage of the Partnership Program is that it offers the beneficiaries a three month grace period before instalments must be paid. The SOEs also provide training for the beneficiaries on business development topics.

Information about the existence and purpose of the program is largely disseminated by word of mouth. SOEs use this method in order to minimise the negative result of the program (Williams & Buttle, 2013). Dahlia, one of the SOE supervisors of the program, stressed that one of the reasons she used this method was to avoid having too many applications because they have limited fund to distribute each year; if there is too much demand for the program, many applicants will be disappointed and this would not be good for the company’s image.

The social dynamics of the Partnership Program are similar to microfinance. The reliance on trust is typically microfinance. The obligation on the beneficiary is not because of collateral but building up trust on the personal level. That is part of the
external environment of the program. The program is about creating trust and maintaining it. On the cultural level, the Makassar and Bugis concept of “siri” (shame/dignity) creates a powerful bond if someone trusts you. That is why the beneficiaries try to pay the instalments on time. This was confirmed by the SOE supervisors of the program who stated that since applying word of mouth as the main method of dissemination, the level of unpaid instalments had decreased significantly. Through word of mouth, the company can do better monitoring of the beneficiaries (Interview Dahlia 03SP).

8.2.2 Review of Findings on Internal Context

The second component of the flowchart is the host of the research. The internal context refers to the beneficiaries of the Partnership Program and is represented by data on their gender, level of education, type of business and age. The structure of this component is shown in the map in Figure 6.14 in Chapter 6.

The majority of the beneficiaries in this research were male (23 out of 44; 52%) but in fact the businesses were usually operated by women (wives and other family members). This is because the husband usually had a job but the salary was not sufficient to fulfil their daily needs. They needed another source of income in order to be able to support the entire family. In terms of education, most of the respondents were high school graduates (26 out of 44; 59%). Some of the respondents mentioned in the interviews that their parents could not afford to pay their school fees because they were poor, so they had not been able to attend school. These matches the data from Statistics Indonesia (see Chapter 6). In regard to age, 91% of the respondents were in their 30s-40s. Regarding the type of business, most of the respondents were in the retail business (25 out of 44; 57%). Again, this is reflected in the Statistics Indonesia (2012) showing that the majority of businesses in Makassar were retail businesses.

In regard to the condition of the beneficiaries’ business before joining the program, their businesses were small, limited in capital and could not compete with other same businesses around them. They faced the kinds of problems that hinder the continuous operations of enterprises and constrain business growth (Turner, 2003). They only traded to survive and no specific rules were followed because the owner runs the business.

During the interviews as part of investigating the internal context, the beneficiaries were also asked about their reasons for joining the Partnership Program. The point of this line of questioning was to discover the objectives or goals to be
accomplished (Sargent, 1986). Most of the beneficiaries responded that developing their business and helping the community were their major purposes for joining the program. The retailers wanted to help the community by providing a better variety of goods and easier access to the goods.

8.2.3 Review of Findings on Adoption Decision

The third component of the flowchart is the adoption decision. It summarises the beneficiaries’ reasons for joining the program. The structure of this component is shown in the map in Figure 6.19 in Chapter 6.

This section reviews the findings on the reasons behind the respondents’ decision to join the Partnership Program and what drove them to participate in the program. Most of the beneficiaries responded that they made the decision by discussing it with their family especially their wife or husband. The reason for this was to ensure the members of the family understand that they have a loan from the SOE that will need to be repaid. This is also important for the future in case the beneficiary passed away before the loan is repaid, in which case the family members who continue to run the business can pay the remaining instalments (Interview Rayu 1SP). The other aspect that drove them to join the program was because the program offers a very low interest and the program does not require any collateral.

Financial matters are the most common reason for being in the program. In order to apply for the program, the beneficiaries needed to create a business plan and explain its implementation to the SOE. It was found that most business plans referred to buying more stock for the shop, buying a vehicle for product delivery, replacing old machines and opening a new shop.

The SOEs also provided beneficiaries with training on topics related to developing their businesses. However, one apparent problem is that the SOEs deliver the same type of training despite the diversity in the beneficiaries’ types of business. Ideally, the training would be linked to the beneficiary’s business plan and type of business. Otherwise, the training may not be useful and relevant to them.

The majority of the respondents stated that there was no support from the SOE to implement their business plan. When this was raised in the interviews with the SOE supervisor of the program they stated that every beneficiary has to make a written progress report every three months to SOE. The progress report is a tool to evaluate the beneficiaries’ progress (Interview Indra 3SP). Despite the fact that the majority of the beneficiaries claimed that they received no support, there were few respondents (6
people) mentioned that they did receive support in the form of advice and motivation from the SOE supervisor.

8.2.4 Review of Findings on Participation and Transformation

The fourth component of the flowchart is the participation and transformation of the beneficiaries in the Partnership Program. It summarises the transformation experienced by the beneficiaries such as how they changed their business practices after joining the program. The structure of this component is shown in the map in Figure 7.2 in Chapter 7.

The beneficiaries’ participation in the program had transformed their businesses, especially for those who had participated in training in the program. The transformation was mostly positive and it would be difficult to characterise one as unsuccessful. The changes that the beneficiaries demonstrated after joining the program were positive (improved service, and increased sales, turnover, income and profit). Their businesses had become more sustainable. The program had transformed the respondents’ businesses into more competitive operations. It raised their social status from worker to employer.

In terms of the beneficiaries’ perceptions of the program, their understanding of how to reach success in business had also changed. They perceived it was necessary to work hard, have more networks, be more confidence, and gain skills in order to succeed. The transformation that they had undergone since joining the program was demonstrated in improved business capacity, increased competitive, business intensification and more savings in the bank. Before and after joining the program, the rules and regulations in the businesses had not changed much, except for the working hours and disciplining the employees. MiSEs are an informal sector in Indonesia. Their employees are usually family members and relatives. This is considered as flexible labour (Turner, 2003).

8.2.5 Review of Findings on Internal Outcomes

The fifth component of the flowchart is the internal outcomes of the program. It summarises the outcomes of the program such as how the beneficiaries achieved success and the improvement in their knowledge and skills after joining the program. The structure of this component is shown in the map in Figure 7.5 in Chapter 7.

Participating in the SOE Partnership Program had made the beneficiaries more confident about competing with bigger companies. Before they joined the program they considered themselves as mediocre businesses but now they considered their businesses
to be above average. For example, one beneficiary stated that she did not have a feeling of inferiority to bigger companies (Interview Surya 6B1).

Successful business people generally have the ability to identify a goal have sharp instincts. They are willing to take risks and they have ability in the areas of planning, organising and implementation. They also work hard and do everything necessary to achieve success, and they are able to establish good relationships with customers, employees and suppliers.

Another internal outcome was not only in business but also in self-capacity change. The beneficiaries became more skilful than before, especially in running their businesses and dealing with their customers and competitors. One of the beneficiaries, Riwani, reported her experience of gaining useful knowledge and skills through the training offered in the Partnership Program. In her case, she especially found the training in bookkeeping to be very helpful.

The success of MiSEs depends on the ability of the business owner to improve their skills and knowledge. Critical to the success of MiSEs is the establishment of networks and linkages and other forms of interaction and interdependence (Dijk, 1995; Turner, 2003). One of the beneficiaries interviewed in this research, Surya, recommended that SOEs provide more training to improve the beneficiaries’ skills and knowledge but also emphasised the importance of networking which she felt was one of the key factors in her success in running her catering business (Interview Surya 6B1).

8.2.6 Review of Findings on External Impacts
The sixth and last component of the flowchart is the external impacts of the program. It summarises the impacts of the program including how the program had affected the beneficiaries’ social and economic conditions as well as the community around them. This component also summarises the program’s impact on reducing unemployment and increasing the beneficiaries’ standard of living. Furthermore, it deals with how the beneficiaries had achieved their success, and the improvement in their knowledge and skills after joining the program. The structure of this component is shown in the map in Figure 7.6 in Chapter 7.

The program has been shown to impact on the beneficiaries’ businesses and on the communities around them. In line with the beneficiaries’ success, they were able to employ people in their neighbourhood. This eventually will have an effect on the employees’ families and living conditions. One interviewee said that he was able to pay his children’s school fees where he had not been able to do before joining the program.
The beneficiaries’ self-confidence in doing business had improved and they were able to compete with larger companies.

The findings on the impacts and changes that the beneficiaries experienced after joining the program have been highlighted through the beneficiaries’ stories. For example, one beneficiary was an ice cream maker and said that the major change in his business after receiving the fund was a huge increase in sales. His production was also safer due to the purchase of new equipment. He stated that he felt confident in his ability to compete with other ice cream maker companies. Since he started the business, he employed his neighbours. For this reason, he believed that his business was useful and important to his neighbourhood (Interview Hamka 04B1).

To conclude this review of the findings, two types of impact were researched in this study, namely, the direct and indirect impacts. The Partnership Program has been shown to have a positive direct economic and social impact on the beneficiaries and a positive indirect impact on the community around the beneficiaries.

8.3 Findings Integration and Summary Highlights

The Partnership Program was the central focus of this study. The actors of this study were the beneficiaries of the program, the SOEs and the community leaders. The exploration of the external context revealed the government’s commitment to support MiSEs. The Partnership Program was created as a strategy to achieve this goal. The Partnership Program is considered as CSR by SOEs, even though they already have specific CSR programs. They consider the Partnership Program to be a compulsory form of CSR from the government. The program applies a similar approach to microfinance. In fact, microfinance itself has two aspects, namely, the social and entrepreneurship aspects. Therefore, in this research it is concluded that the Partnership Program is a type of social entrepreneurship and the SOE supervisors as the operators of the program are social entrepreneurs even though they do not identify themselves that way. In these ways, the external context has contributed to the Partnership Program.

The majority of the beneficiaries stated that their businesses before joining the program were mediocre and they traded just enough to survive for the day or the week. The state of the beneficiaries’ business prior to participating in the Partnership Program is part of the internal context (beneficiaries) of the study. MiSEs are identified as an informal sector in Indonesia. This is because businesses are run without a formal licence and at a very small scale of trading. The owner is also the manager and the worker. Specific rules are not applied in practising the business. The beneficiaries’ demographic
information is discussed in the scope of the internal context. Referring to the general functional model of input, process and output (Alireza & Ali, 2012), the above two components are considered as the input of the Partnership Program study.

The decision to join the Participation Program depends on the beneficiaries’ plan. If they have the intention and will to improve their business then they will decide to join. The interview responses revealed that financial stress was their main issue. They needed more capital and new machinery in order to be able to compete with other businesses. Making a business plan is one of the requirements to be fulfilled by beneficiaries when applying for the program. The adoption decision is part of the process that the beneficiaries must undergo when they join the Partnership Program. The adoption decision is interrelated with the internal context of the study, whereby the latter is the state of the beneficiaries’ business before they joined the program.

Another phase in the Partnership Program is the beneficiaries’ participation and transformation. The changes that happened over time as a result of the beneficiaries’ experience in the program feature significantly in the findings of the study. One example was the increase of production capacity for a beneficiary who made biscuits (Syamsir 03B1). Since the beneficiaries’ businesses had improved, some of the beneficiaries also made adjustments to their practices. For example, they had changed the rules for opening and closing the store and had begun to open earlier and close later.

The positive changes experienced by the beneficiaries also affected the overall outcome. They had achieved a degree of success since joining the program. They acknowledged that they were more skilful, had more networks among owners of the same type of business and different businesses, and they had better knowledge of bookkeeping after participating in training that was especially tailored for beneficiaries. All of these factors represent the internal outcome of the study. The outcome is part of the output in the general function model.

The last part of the study is the impact. The success of the beneficiaries in running their businesses had impacted not only the beneficiaries themselves but also on the people around them especially their neighbours who experienced the positive impact of the program. The beneficiaries who were in retail helped their neighbours by providing a wider range of daily needs such as rice, noodles and eggs. Other beneficiaries who were in manufacturing and production, such as the ice cream maker (Hamka 04B1) and the biscuit maker (Syamsir 03B1) employed their neighbours. Working in the beneficiaries’ companies had helped to support the neighbours’ living conditions. The beneficiaries stated that their success in business was helping to decrease
unemployment and alleviate poverty in their community. All of these factors represent the impact of the Partnership Program on beneficiaries and the community.

To better understand the findings, the research scheme flowchart was revised to form a map that integrates all the effects of the program explored in this study. Figure 8.8 presents the FISH map. The ‘FISH’ abbreviation reflects the shape of a fish in the map (with body, fin and tail) which became apparent after creating the map. The direct lines in the map show the relationships between the components and the reason for their connection. A straight line indicates a main connection of the findings and a dotted line represents the connection between the variable indicators. The main findings connections are numbered 1 to 8 and the numbers are marked in blue. The connections between the variable indicators are numbered 9 to 2, and the numbers are marked in yellow. Each of the connections is explained as follows.
Figure 8.2: FISH map showing the integration of findings and summarising the research highlights
1. “External context” to “Partnership Program”
The external context is closely connected to the Partnership Program because it contains some indicators that directly influence the program. The external context is the social and legal framework of the Partnership Program including the laws and regulations that govern the program as part of the government’s commitment to supporting MiSEs through the SOEs’ CSR. The Partnership Program is operated in the same way as microfinance and with the same objective. It provides additional capital for MiSEs at very low interest. Microfinance exists to empower poor people by giving them access to soft loans (Robinson 2002). The motivation of the SOEs in implementing the Partnership Program is not profit-oriented. Rather, the program has the distinctive social goals to elevate MiSEs to higher financial performance and social status. It is proposed in this study that these social goals can be legitimately achieved by corporate entities such as SOEs as a form of CSR even when they have been directed to achieve these goals by legislation.

The Partnership Program also resembles microfinance as it relies greatly on trust. This is reflected in the SOEs’ use of word of mouth to disseminate information about the program and the SOE supervisors’ comments that the incidence of defaults or delays in loan repayments had decreased since they began to rely on word of mouth. The ability of the program to recoup funds was not because of collateral but because of the building up of trust at the personal level. That is part of the external environment of the program. Overall, it is concluded that the external context forms the basis of the Partnership Program as the underlying social and legal framework.

2. “Internal context” to “Partnership Program”
The exploration of the internal context revealed the condition of beneficiaries in general, including how the beneficiaries ran their business before they joined the Partnership Program and their purposes and assumptions related to the program. It also revealed the demographic profile of the beneficiaries (including their age, gender, level of education and type of business). Information on the internal context helped to determine the beneficiaries’ general condition before they decided to join the Partnership Program and their purposes in joining the program. This enabled the changes experienced by the beneficiaries over time in the program to be explored. These are the main connections between the internal context and the program.
3. “Adoption decision” to “Partnership Program”

The beneficiaries’ decision to join the Partnership Program involved a range of reasons. The majority of the beneficiaries stated that their financial situation was the main reason they adopted the decision to join the program. In order to be eligible to participate in the program, they were required to make a business plan. The business plan is closely related to the Partnership Program as, without it, it would not be possible to join the program. The adoption decision is also connected because without it, the MiSE would not be in the program.

4. “Participation & transformation” to “Partnership Program”

Being able to satisfy the process discussed in points 2 and 3 above, the beneficiaries then participated in the Partnership Program. In this phase, the beneficiaries underwent transformation over time, including changes in their perceptions. Change can be positive or negative. The research findings indicate that the changes experienced by the beneficiaries were predominantly positive, as their businesses developed and grew well. The transformation from joining the program affected the outcomes of the program.

5. “Partnership Program” to “Outcomes”

Participation in the Partnership Program had changed the beneficiaries’ lives and businesses. The result is seen in the degree of success enjoyed by the beneficiaries since joining the program. The beneficiaries viewed success in both business and social terms. The changes were evident in the beneficiaries’ capacity to run their business and also in the side effects of participation in the program such as social status.

6. “Outcomes” to “Impact”

The exploration of the outcomes of participating in the Partnership Program showed that, internally, the beneficiaries had transformed positively and the majority of them had successful stories to tell. The connection between outcomes and impact represents the internal success which affected the external context for the beneficiaries, which is called the impact. This connects the beneficiaries’ success as an outcome of joining the program to the impact that they produce that affects the community around them. The direct and indirect impacts were investigated in this research. The direct impact refers to the effects on the beneficiaries and the indirect impact refers to the effects on the community.
7. “Impact on community” to “External context”

The impact on the community is part of the program impact. Specifically, it is an indirect impact of the program. As shown in the map in Figure 8.8 above, the community is part of the external context of the program. The community can experience the impact of the program by interacting with the beneficiaries in their neighbourhood. For example, Riwani, one of the program beneficiaries stated that many of her customers and neighbours were grateful for her shop’s presence. They can buy their daily needs in her shop and no longer have to travel far. Another beneficiary, Zain, also stated that the community around his retail shop was very happy that he opened his shop in the area.

8. Impact on beneficiaries

The beneficiaries are positioned as part of the internal context in the map. The impact of the program on the beneficiaries was significant. The program impacted on their family, social and economic lives by elevating both income and social status. As Edwards (2000) emphasised, one of the indicators used to measure the potential socio-economic impacts of a program is changes in employment and income levels. In the case of the Partnership Program, an increase in income had impacted on the beneficiaries’ standard of living and their entrepreneurial skills.

9. “Internal context to “Adoption decision”

The internal context acts as the host of the program. It includes information on the state of the beneficiaries’ business prior to participating in the program, their purpose for joining the program and their demographic profile. The adoption decision is part of the process involved in joining the program. Both the internal context and adoption decision are mutually related.

10. “SOEs’ CSR” to “Characteristics of Partnership Program”

The Partnership Program is considered as a CSR program by SOEs in Indonesia. The unique characteristic of the program is that it is mandated by government and an obligation to SOEs to implement it where CSR is rooted by a voluntary action that is taken by a company ((Friedman & Friedman, 1982; Schwartz & Saiia, 2012). This is one of the Partnership Program characteristics as SOEs’ CSR.
11. “Microfinance” to “Partnership Program characteristics”
The Partnership Program has the same characteristics and goals as microfinance. Both exist to help MiSEs in need of affordable funds as they do not have access to banks. The limited access to sources of financing causes MiSEs to rely on other sources. That is the reason for the microfinance connection to the Partnership Program.

12. “Social entrepreneurship” to “Partnership Program characteristics”
As explained in point 11, microfinance has similar goals and characteristics as the Partnership Program. Microfinance has two aspects, namely, social and entrepreneurial aspects (Sriram, 2012). The social aspect refers to its action of helping the poor, while entrepreneurship refers to maintaining program sustainability through the adoption of commercial company practices. Overall, the Partnership Program is characterised as a social entrepreneurship program.

13. “Government commitment” to “Project fund”
Since 1983, the Indonesian Government has been committed to helping MiSEs by issuing regulations and creating programs through SOEs (Interview Indra 2Sp). Due to this government commitment, fund are taken from SOEs’ net profit each year (as much as 2%) and applied to support MiSEs. The funds are not only distributed to MiSEs but are also used to provide them with skills, knowledge and networking opportunities through workshops and training.

14. “State prior to participating in program” to “Changes as presented by beneficiaries”
Amin (01B2) was one of the program beneficiaries interviewed in this study. Amin only graduated from primary school in his village. He used to work as a bricklayer and helper in housing construction projects in Makassar. His children could not go to school because he could not afford to pay the school fees. That was his status prior to participating in the Partnership Program. One day, he met an SOE employee who offered him the chance to apply to join the program.

Joining the Partnership Program has been life changing for him. He can run his own business in the construction industry. In the interview, Amin stated that even though he only had a small company he was confident that he could compete with bigger companies because he had a complete set of tools and machinery which he bought with the Partnership Program money. His children were now going to school and he and his wife no longer had financial difficulties. Amin’s story illustrates the
changes experienced by the beneficiaries comparing the state of his business and finances prior to his involvement in the program and the changes that he experienced after joining the program.

15. “State prior to participating in the program” to “Changes in beneficiaries’ perceptions and practices”

Amin’s story in point 14 demonstrated the typical condition of a beneficiary before joining the program. The relation between the beneficiaries’ previous condition and the changes in their perception and practices after joining the program are depicted in this relationship in the FISH map. For example, Amin mentioned that after joining the program, he started to work harder and was not fussy in taking jobs or orders. He accepted jobs and orders no matter how small they were.

Maman (03B2) was another Partnership Program beneficiary interviewed in this research. He stated that being a beneficiary had opened his eyes and changed his perception. Since joining the program he had confidence and knowledge about many types of business that can be developed.

16. “Organisational rules and practices within MiSE” to “Changes in organisational rules and practices within MiSE”

A MiSE is typically operated by the owner who performs every task in the business. For example, in a retail business, the owner will go to the wholesaler to buy stock for the shop. The owner will place the stock on the shelves of the shop and so on. Most of the beneficiaries stated in the interviews that they did not apply specific rules in their business. Riwani stated that she did not have specific rules before joining the program but since she joined the program she applied rules such as opening her shop early in the morning and closing late at night. She did this because being in the program had made her realise that she had an important responsibility to pay the instalments every month.

17. “Assistance” to “Beneficiaries’ degree of success”

The SOEs provide assistance to the beneficiaries in the form of orientation, training and intervention. It was found that 75% (33 out of 44) of the beneficiaries investigated in this research had joined the training. This was directly proportional to the number of successful beneficiaries, with 43 beneficiaries considering themselves to be successful and only one considering himself to be unsuccessful.
18. “Assistance” to “Beneficiaries’ capacity change”
Joining the workshop and training held by the SOEs had improved the beneficiaries’ capacity. For example, Marwan mentioned that the training had improved his knowledge and helped him to manage his business well. Marwan also stated that the training had improved his skill in connecting with other people and, in that way, his network had developed. Syamsir reported that after joining the training he was able to manage his business well and perform his bookkeeping tidily. He said that his production capacity had increased significantly after learning production efficiency and his product market had expanded thanks to the marketing training that he received.

19. “Changes as presented by beneficiaries” to “Beneficiaries’ degree of success”
The majority of the beneficiaries in this study were relatively successful in running their business (43 out of 44 respondents). They demonstrated a number of positive changes when comparing the condition of their business before and after joining the program. The degree of their success was measured by their responses to questions about their turnover, sales, income, and profit. Most of the beneficiaries reported increases in turnover, sales, income and profit. They felt more confident in running their businesses and their businesses were more competitive than before. Before they joined the program, they considered their businesses as mediocre but since joining the program they had increased their sales and turnover. They believed they could compete with bigger businesses around them. For example, one of the beneficiaries ran a small retail shop selling groceries from home and was able to compete with the mini market in the neighbourhood. In terms of social success, one of the beneficiaries reported that he could now pay for his children’s school fees, uniforms and books.

20. “Changes in beneficiaries’ perceptions” and practices to “Beneficiaries’ capacity change”
The research showed that being in the program had changed the beneficiaries’ perceptions. They realised they must work hard in order to be able to pay the instalments and succeed in their business. Joining the training had made them more confident and skilful. In addition, meeting other beneficiaries in the training had motivated them to build their network of contacts among MiSEs. Some of them were in the same line of business so they shared experiences and exchanged ideas on how to improve their businesses in the future. Changes in business practices had improved their business capacity and performance. They felt more competitive than before and were financially better off (Interview with Mardiah 05B2).
The beneficiaries’ changes in perceptions and practices had changed their business capacity and self-capacity. For example, in terms of the business capacity, Syamsir (03B1) had increased his production capacity from 200 packs of biscuits a day to 1000 packs a day. He had to do this in order to fulfil new orders from customers in Makassar city area and in the areas around Makassar.

In terms of the self-capacity change, the beneficiaries had become more skilful than before, especially in regard to running their businesses and dealing with their customers and competitors. For example, Riwani stated that it was useful to gain knowledge and skills through the training offered in the program. In her case, the training in bookkeeping had been particularly helpful.

21. “Plan for implementation” to “Beneficiaries’ degree of success”
In the interviews, the beneficiaries explained that they had to submit a business plan along with their application when applying for the Partnership Program. The purpose of the plan was to explain what they would do with the money they borrowed from the program. The majority responded that they made a plan to open a new shop, buy a car for distribution, purchase more stock and buy new machinery. For example, Syamsir (03B1) wrote in his business plan that he intended to buy a car in order to expand his area of distribution. Before having a car he could only distribute his product by motorcycle in Makassar but since having the car, he was able to distribute to more areas. It is concluded that a good business plan affects the ability of a beneficiary to be accepted in the program and the success of the beneficiary’s business.

22. “Finance” to “Affecting beneficiaries’ social economy”
The beneficiaries were asked about their purpose for joining the program. Twenty of the 44 beneficiaries (45%) answered that their purpose for joining the program was related to financial matters. They did not have enough capital to improve their business and without it, they could not become competitive and improve their life. Twenty-four of the beneficiaries (55%) stated that they wanted to develop their business and had social purposes of helping their neighbours and community. The program has been shown to impact on the beneficiaries’ business, lifestyles and the communities around them. In line with the beneficiaries’ success, they were able to employ people from their neighbourhood. This will eventually have an effect on the employees’ family and living condition. One of the social and economic impact indicators is changes in a person’s way of life – that is, how they live, work, play and interact with one another on a day-
to-day basis (Vanclay, 2003). Another indicator is changes in employment and income levels (Edwards, 2000).

23. “Decision to be in the program” to “Affecting beneficiaries’ social economy”
The beneficiaries’ decision to join the program had an effect on their life and family. The program had positive social and economic impacts on the beneficiaries, as explained above in point 22. The social impact includes their ability to help their neighbours by employing them. In this case, the neighbours will feel the indirect impact of this program as they will get paid and have money to spend on their family. As Mr Hamza (04B1) mentioned, his workers were his neighbours. Hamza lived in a poor slum area in Makassar. He believed that employing his neighbours prevented them from getting involved in criminal activities. The economic impact on the beneficiaries is their ability to develop their business with the help of the Partnership Program.

24. “Beneficiaries’ degree of success” to “Beneficiaries' increased standard of living”
The beneficiaries’ success was found to be one of the positive outcomes of the program. Increased sales, turnover, income and profit were indicators of the success of some of the beneficiaries. Most of the beneficiaries reported that the program had increased their standard of living and shifted them from a financially weak position to a stronger position.

25. “Beneficiaries’ capacity change” to “Improved entrepreneurial skill”
As discussed in relation to point 18, the orientation and training provided significant benefits to the beneficiaries, including changes in their self-capacity. Joining the training had increased their skill. For example, when Riwaning was asked about the impact on her entrepreneurial skills she explained that when she was at university she had learnt about bookkeeping but she found it difficult to understand; however, when she joined training held by the SOE for Partnership Program beneficiaries, she found a very simple way of understanding it. This had been given her a great advantage in managing her business.

26. “Beneficiaries’ degree of success” to “Alleviation of unemployment in community”
When a business is successful, it will demand more capital and labour. The interview findings showed that several beneficiaries had hired more people to work in their
business. Of these, two beneficiaries employed five people in their business. The beneficiaries’ role in alleviating unemployment in the community was also cited by the heads of villages. They commented that the Partnership Program impacts on the surrounding community by opening up business opportunities for other residents, thereby helping to reduce the unemployment rate. One beneficiary explained that, at first, he usually worked alone; then, as the business grew, he was able to employ two workers (Interview Rustam 05HV).

27. “Side effects of participation in program” to “Improved entrepreneurial skill”
In the training the beneficiaries met other beneficiaries from different or similar business backgrounds. This enabled them to share their experience and knowledge. This networking continued after the training finished. Being more independent, being more aware of helping the community and having more self-awareness about their abilities were some of the side effects that beneficiaries reported as a result of joining the program.

8.4 Conclusion on the Research Problem
This study addressed the research problem related to SOEs’ social responsibility program to help MiSEs. It looked at the impacts and challenges of the program for the beneficiaries and the community around them. Based on an interpretivist epistemology and using a qualitative case study methodology, interviews were undertaken with four SOE supervisors (documents related to the program were also collected from them), 44 beneficiaries (MiSEs) and seven heads of villages, leading to a total of 55 respondents in this research. A summary of the data sources, forms of data and the collection instruments used in this project was provided in Chapter 4 (Table 4.1). All the respondents resided in Makassar, Indonesia. A set of questions derived from the research framework was used to investigate the research problem. Data collection took place using the interview instrument developed for this study. All information was collected through face-to-face, semi-structured, open-ended interviews with the respondents.

The study concludes that SOEs’ relationship with MiSEs through the Partnership Program had a significant impact on the majority of beneficiaries in terms of their knowledge, skills, networking and standard of living. It also had a positive impact on the community around them as it helped to alleviate unemployment.
8.5 Contributions of this Research
The research contributes to theories of CSR, microfinance and social entrepreneurship. It also can make a significant contribution to practitioners and policy-makers.

8.5.1 Contributions to CSR Theory
In its original conception, the practice of CSR was purely voluntary. CSR in the West emphasises the responsibility of corporations to share some of its profits with the community. On the other hand, in developing countries, the sense of social responsibility is embedded culturally among all individuals. The leader of the village has a social responsibility to lead his/her village to prosperity; a company which operates in an area has a social responsibility to its community and so on. In Indonesia, the implementation of CSR is mandatory and must be performed by companies that operate in Indonesia.

The first contribution of this research is that the mandatory nature of CSR in Indonesia has been relatively successful because it is backed by culture in many ways. The second contribution is the learning about the use of word of mouth to disseminate information about the Partnership Program. The use of word of mouth might be considered unfair because only those individuals who have a pre-existing association with the SOEs can join the program. However, the SOE supervisors of the Partnership Program reported that they preferred to use this way as they noticed that it reduced the bad loans or unpaid loans.

The third contribution is the proposed pyramid of CSR specifically for the Indonesian context. The pyramid places ethical responsibility before legal responsibility. Even though Indonesia is the first country in the world to have CSR legislation (Waagstein, 2011), there are no sanctions for not implementing CSR. Therefore, when a company implements CSR in Indonesia, it is doing it not because of the legal aspects of CSR but because of a felt obligation to help the community and be a good corporate citizen.

Long before the enactment of CSR laws (prior to 2007) in Indonesia, a number of companies especially mining companies had begun to implement traditional CSR in the form of community development. The process and implementation were voluntary. The implementation model of community development in Indonesian companies was carried out directly by a company through its human resource development programs or its public relations division. Sometimes, community development was also conducted by a foundation established separately from the main organisation. These are some of
the reasons why ethical responsibility comes before legal responsibility in the Indonesian context. Figure 8.3 shows the proposed pyramid for Indonesian CSR.

![Proposed pyramid for Indonesian CSR](image)

**Figure 8.3: Proposed pyramid for Indonesian CSR**

The development of the Indonesian CSR pyramid was based on the CSR pyramids of Carroll (1991) and Visser (2008) which were discussed in Chapter 2. Each of the layers, including the differences with the levels in Carroll’s and Visser’s pyramids, is discussed as follows:

1. **Economic Responsibility**
   Economic responsibility refers to the fundamental responsibility of business to produce goods and services that society wants, and which it sells at a profit. The level of this responsibility in the Indonesian CSR pyramid is the same as in the Carroll and Visser pyramids.

2. **Philanthropic Responsibility**
   Philanthropic responsibility refers to voluntary responsibilities, such as philanthropy. This responsibility is placed at the second level in the proposed Indonesian CSR pyramid because the cultural practice of “gotong royong” is embedded in everyday life of Indonesian people, so that each member of community will come to help and work
together when needed. The same cultural background influences the actions of Indonesian companies that will usually help by providing money, materials and skilled workers to help their local community in times of crisis.

3. Ethical Responsibility

Ethical responsibility refers to the responsibilities of a company to go beyond legal compliance. Ethical responsibilities embody the standards, norms or expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair, just or in keeping with the respect or protection of stakeholders’ moral rights. The CSR referred to here is the moral responsibility of the company to the community. The moral responsibility of the company could be directed towards many beneficiaries such as employees and other companies. In terms of the social responsibility, a company has a moral responsibility towards the community in which the company conducts its activities; either it is narrow in the sense of a responsibility for the environment around the factory or it is wider in the sense of a responsibility for the broader community.

4. Legal Responsibility

Legal responsibility refers to the obligation of a business to fulfil its economic mission within the confines of the law. This responsibility is put at the top of the proposed Indonesian CSR pyramid because there is no debate about whether or not a company wants to discharge its social responsibility since the Indonesian Government enacted laws in 2007 obliging every company that operates in Indonesia to perform CSR. Some companies were opposed to this law and challenged it in the Judicial Review Court; however their case was not successful as the court decided the legislation was sound and that it was for the good of the community.

In the external sphere, CSR implementation should be able to improve the social and economic aspects of the environment surrounding the company in particular and society in general. These external responsibilities are reflected in the obligations of business entities to realise the welfare of society through sustainable development. CSR has to be part of the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.
8.5.2 Contributions to Microfinance and Social Entrepreneurship Theory

The findings of this study indicate a link between microfinance and social entrepreneurship. The operators of the Partnership Program (SOE supervisors) act as social entrepreneurs even though they do not identify themselves that way. Figure 8.4 illustrates the links between the Partnership Program, microfinance and social entrepreneurship.

![Diagram of links between Partnership Program, microfinance, and social entrepreneurship]

Figure 8.4: Links between the Partnership Program, microfinance and social entrepreneurship

The Partnership Program is a CSR program which is implemented by SOEs in Indonesia. In its operation, the program shares the characteristic of microfinance which has two aspects: social and entrepreneurship (Sriram, 2012). The social dimension refers to the action of helping the poor while maintaining the program sustainability through practising the entrepreneurial aspects of a commercial company. As the program operators, the SOE supervisors were found to be acting as social entrepreneurs who worked not for profit but for the purpose of supporting MiSEs while at the same time maintaining the program sustainability.

8.5.3 Characteristics of Small Enterprises in Makassar

Based on the observations in the field research, MiSEs in Makassar were found to share the following characteristics:

1. Family-owned

   All the beneficiaries who participated in the present study ran family-owned businesses. In some cases, the husband had applied to join the Partnership
2. **Workers are family members and neighbours**
   As the MiSE is typically a family-owned business, the workers – if any are required – were most likely family members. This is because family members are cheap labour. In addition, most of the businesses are located at home so it is convenient for family members or neighbours to do the work.

3. **Located at home**
   Many small enterprises have small capital. They cannot afford to rent a shop. They operate from home.

4. **Mostly in retail business**
   Most of the respondents in this study were in the retail business. They bought goods from bigger shops and sold the goods in their own shop. This type of business does not require any specific skill.

5. **Limited capital and stock**
   Limited capital means the owner of a MiSE will only buy certain products that sell. They do not have enough space at home or in the shop to put extra stock. The owner of the MiSE usually shops for stock once or twice a week or when a customer asks for a specific item.

6. **Trade with suppliers by consignment**
   In the retail business, a supplier usually uses a box truck called a ‘kampas’ to deliver goods to small retail shops. The kampas will come to visit these small retailers at a certain time, usually once a week. It will provide the goods to the small retailer and collect the money on its next visit. The supplier is able to do this because most small retailers are home-based. This mutual dependence between the MiSE and suppliers/distributors/agents makes it possible for them to work cooperatively with each other.

8.5.4 **Practitioners and Policy-Makers**
   For practitioners and policy-makers, this research can make a significant contribution. It can inform the central government in its development of policies related to corporations, especially SOEs. Likewise, it can inform local government policy especially in relation to corporations and the development of local community potential, ensuring that policies and strategies are more focused, targeted and sustainable.
Moreover, the research can assist central and local government policy-makers to recognise the conditions and attitudes of MiSEs in regard to social participation. An in-depth understanding of MiSE behaviour should be taken into consideration for planning and implementing regulations and policy that will effectively assist these organisations to operate efficiently and at the same time produce greater social benefits for all stakeholders.

8.5.5 This Work and Turner’s – Differences and Similarities

The literature review in Chapter 2 included a section focusing particularly on the work of Turner (2003) on MiSEs in developing countries. Turner presented a useful analytical framework for examining small enterprises and applied it in her investigation into small-scale entrepreneurs in Makassar, Indonesia (the same site as the present study).

Turner’s “small enterprise integrative framework” consists of several building blocks, namely, flexibility in labour relations, network and trust, collective efficiency and clusters, and innovation. These were discussed in detail in the literature review. For the purposes of summarising and concluding the present study, the similarities and differences between the present work and Turner’s work are presented in Table 8.1 and explored further here as follows:

1. Flexibility in labour relations

There are two dimensions of flexibility in labour relations: flexibility in work and flexibility in employment (Curry, 1993; Turner, 2003). In relation to the present study, flexibility in labour relations plays an important role in the MiSEs. Most of the MiSEs investigated in this study were family businesses; when extra labour is required, they employ family members and neighbours. This was seen clearly in the findings in Chapters 6 and 7.

For example, Riwani (02B1) was one of the Partnership Program beneficiaries who relied on family members to look after her shop. The business was run from home and because she had the idea to open the shop she was considered as the owner-manager. Her father had retired man and her mother was a housewife. When Riwani was not home, her father or mother looked after the shop. The issue that often arises in flexible employment (Curry, 1993) is the salary that a business owner such as Riwani should give to her father or mother. Riwani did not provide a fixed salary or decide on a nominal payment for her parents but since it was a family business, she made sure that any goods or money they took from the shop was noted and counted. Riwani’s
experience was typical of the experiences of other the beneficiaries in this research in regard to flexible employment.

2. **Network and Trust**

   Turner (2003) used industrial production literature to explain the network concept. She pointed out that a network is an arrangement of units or contacts (including small independent enterprises, subcontracting enterprises, large enterprises, suppliers, purchasers, or a mixture of these) interconnected through various types of relationship that enable enterprises to enlarge their potential (Murillo & Lozano, 2009; Turner, 2003).

   There are some similarities and differences between the type of network envisaged by Turner (2003) and the networks observed in the field in the present study. Turner explained networks by using industrial production to explain the concept. However, this is different to the network observed this research. For example, in regard to Partnership Program training, the beneficiaries reported that they were able to meet with other business owners and built their network relationship with people who ran the same type of business or different types of businesses. The majority of the respondents stated that the program had helped them to expand their network and improve their business.

   According to Turner (2003), trust is between small enterprises and their suppliers; whereas in the present study, trust is between the MiSEs and SOEs who provide soft loans without any collateral required.

3. **Collective Efficiency and Clusters**

   Turner (2003) explained that collective efficiency is based on the premise that small enterprises’ competitiveness cannot be achieved individually but requires active collaboration, supported by physical agglomeration and sectoral specialisation among enterprises. Those small enterprises are then able to gain their collective efficiency to operate within an enterprise cluster (Turner, 2003). This phenomenon existed in the Partnership Program but was not investigated in the present study because the focus of this research was on the individual MiSEs that received soft loans from an SOE. The cluster beneficiaries existed in remote areas where a group of people received soft loans from an SOE. They were usually farmers, fishermen or livestock owners. This group had a leader who was responsible for collecting the payment from group members.
4. **Innovation.**

Turner (2003) used the definition of innovation as the introduction of something new or previously unknown (an idea or object) into somewhere or something that is known. There are three things that small-scale entrepreneurs must be aware of in order to become innovative. Firstly, they must have knowledge concerning a possible change; secondly, they are able to carry the change; thirdly, they must have the choice of when to do so or not (Turner, 2003; Yuwono et al., 1994). Furthermore, there are a number of factors that influence whether or not the entrepreneur will adopt the innovation, among these factors are (Yuwono, Supramono and Rietveld 1994; Turner 2003):

- Personal factors (age, skills, education, risk attitude, knowledge about innovation, expectations, etc.)
- Firm features (level of production, skills of workers, profitability, possibility of receiving credit contribution to household income, etc.)
- Social networks (with friends, colleague entrepreneurs, village leaders etc.) may also be important for mobilising credit needed for the adoption of an innovation
- Characteristics of the existing product/technology compared with the new one; here, issues such as compatibility, complexity and availability of inputs play a role
- Market considerations (expected selling price of new product, marketing channels, market demand, etc.)
- Wider environment, including government policies, extension services, infrastructure.

All of the above building blocks – flexibility in labour relations, network and trust, collective efficiency and clusters, and innovation – form a critical approach for examining small enterprises in developing countries (Turner, 2003). Turner applied the framework to clearly portray small enterprises in Makassar. She used the term “survivalism” to describe how small enterprise owners were trying to live day by day rather than thinking of business growth or expansion. This is one of the similarities between Turner’s work and the present study. In the coding/analysis in the present study, the term “surviving” was used to describe some of the respondents’ responses to questions about how they were managing their business. This term was being used before becoming aware of it in Turner’s work. The contribution of Turner’s work to the present study is acknowledged.
In other work, Turner (2000) focused on the impact of globalisation and economic crises on small enterprises in Makassar. In this work, Turner identified some of the constraints to growth for small enterprises, which are also relevant to the MiSEs investigated in the present study:

1. **Elementary technology and lack of innovation**

   Turner (2000) observed that small enterprises in Makassar used basic technologies that were time consuming, labour intensive and frequently dangerous. Their operating circumstances often bestowed a limited capacity for innovation. Within the small enterprises studied by Turner, innovation in the production process occurred very slowly, and could perhaps best be seen as a generational change. Turner found that small enterprises in Makassar were using very simple tools in operating their business production and it was not correct or a good idea for workers to suggest ideas to the boss.

   The observations in the present study lead to the conclusion that in Bugis/Makassar culture it is not right to confront the boss. The boss is usually the business owner or a person who has capital. He is seen as a rich person who holds a high status in society and is considered to be a person who knows everything in the business. He gives jobs to people. That is why it is considered impolite to tell the boss what he should do, even though it may be the right thing to do. So the boss is always right.

2. **Poor accounting records**

   Another problem Turner (2000) found to be hindering the development of small enterprises was that very few kept accounting records. Thus it was not easy for owners to estimate the requirements for their enterprise on more than a day to day or week to week basis, and stocks of raw materials were commonly only kept for short time periods (Turner, 2000).

   The findings and analysis in the present study indicate that many small enterprises could not separate their business and private money. This was due to poor accounting records. The lack of transaction records is one reason why it is difficult for MiSEs to apply for loans from a bank. Therefore, training on accounting or bookkeeping is an essential subject in PP workshop and training for beneficiaries.
3. **Conspicuous consumption**

The heightened importance of social status amongst the local Bugis and Makassar communities was identified by Turner (2000) as another barrier to development from within the small enterprises. As a consequence, a significant portion of the profits from their enterprises went into conspicuous consumption, rather than being reinvested back into the enterprise as capital (Millar, 1989; Pelras & Boneff, 1998; Turner, 2000).

The observation that can be added to this point from the present study is that social status for Bugis/Makassar people is very important. Turner (2000) mentioned that small business owners preferred to use their business’s money to visit Mecca rather than using it to develop the business. Yet it should be noted that visiting Mecca is important for social status, along with wearing gold accessories, and having a big house, car or motorcycle. When a man proposes marriage to a Bugis/Makassar woman, the amount of money he can give to the woman’s family also symbolises his status. The greater the amount of money he gives, the better the man’s status in the community. This materialistic culture has made it difficult for small businesses to grow.

In one of the interviews conducted in the present study, one of the beneficiaries of the Partnership Program had used some of the funds from the program to renovate his house and had used only a small amount of the funds from the program for the business. Another respondent (08B1_MZ) stated that he knew of some beneficiaries who had misused the fund. The social expectations related to conspicuous consumption could explain cases of misuse.

4. **Bureaucracy and corruption**

The bureaucracy in Indonesia is a formidable challenge for anyone having to deal with the civil service or banking sector. Hidden “extra costs” (bribes, under the table payments, promises of services that must be upheld at a later date, and so on) are expected at all levels within these sectors, and cost time and money for small-scale entrepreneurs. MiSEs have to deal with these hidden costs when applying for licences, wanting to undertake training or applying for credit from banks (Turner, 2000).

Bureaucracy and corruption are problems in most developing countries. To be eligible for the Partnership Program fund, a small enterprise does not need to have a formal licence to run a business. The owner only needs a letter from the head of village confirming that he is a community member. This factor was discussed in some of the interviews. Some of the respondents already had a licence for other purposes; however, when they applied to join the Partnership Program they went to the head of their village
to ask for a letter. The flexibility of this requirement in the Partnership Program means that program applicants can avoid unnecessary dealings with bureaucratic procedures.

5. **Access to credit**

Turner (2000) noted that small enterprise owners were required to have formal business licences before they could borrow money from a bank. This was only the first hurdle for those needing funds from sources outside the family and, not surprisingly, the majority of the entrepreneurs interviewed by Turner said they would go to family to borrow money. Banks, as many informants stated, needed collateral and demanded that repayments were made on time (Turner, 2000). In the case of the present study, the Partnership Program was specifically aimed at helping MiSE which, without licences and transaction records, were un-bankable.

Turner (2000) used the term ‘kampong’ (village) to describe the relationship between small enterprises and their suppliers. In the present study, it was found that most of the raw materials for MiSE producers in Makassar came from villages around the city. Clothing, cookware and plastic wares came from Java Island. One of the respondents in the present study was a supplier for some islands in eastern Indonesia. He used the Partnership Program fund to buy goods to send to other island in eastern Indonesia.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Labour flexibility</td>
<td>Flexibility in work and employment</td>
<td>Most MiSEs used flexible employment</td>
<td>Similar</td>
</tr>
<tr>
<td>2</td>
<td>Network and trust</td>
<td>Used industrial production literature to explain the network;</td>
<td>Used social network; Trust between MiSE and SOE</td>
<td>Different</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trust among cluster members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Collective efficiency and clusters</td>
<td>Collective efficiency based on the premise that small enterprises’</td>
<td>Efficiency can be achieved by individuals with the help of a bigger company</td>
<td>Different</td>
</tr>
<tr>
<td></td>
<td></td>
<td>competitiveness cannot be achieved individually but requires active collaboration</td>
<td>(SOE)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Innovation</td>
<td>Depends on small enterprise to apply it; some do not want to change in order to</td>
<td>More capital from the program has led to implementation of innovation</td>
<td>Different</td>
</tr>
<tr>
<td></td>
<td></td>
<td>hold their position now</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Elementary technology and lack of</td>
<td>Small enterprises used basic technologies that were time consuming, labour</td>
<td>MiSEs wish to apply new technology or innovation but the lack of capital</td>
<td>Different</td>
</tr>
<tr>
<td></td>
<td>innovation</td>
<td>intensive, and frequently dangerous</td>
<td>makes them stick to simple and cheap equipment; the Partnership Program</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>aims to improve MiSEs by supporting them to purchase new machines/equipment</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Poor accounting records</td>
<td>Very few small enterprises kept accounting records</td>
<td>Poor bookkeeping made it difficult for the MiSE to determine private or</td>
<td>Similar</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>business money</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Conspicuous consumption</td>
<td>A significant portion of profits went into conspicuous consumption, rather than</td>
<td>One respondent had used some of the program funds to renovate his house, and</td>
<td>Similar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>being reinvested back into the enterprise as capital</td>
<td>only a small amount was used for the business</td>
<td></td>
</tr>
</tbody>
</table>
Table 8.1: This work and Turner’s work – Differences and similarities (Continued)

<table>
<thead>
<tr>
<th>8</th>
<th>Bureaucracy and corruption</th>
<th>Hidden “extra costs” are expected at all levels, and cost time and money for small-scale entrepreneurs</th>
<th>MiSEs can avoid bureaucratic procedures by asking for a letter from the head of village stating that they are a member of the community (i.e. no need for a formal licence)</th>
<th>Different</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Access to credit</td>
<td>Small enterprise owners were required to have business licences before they could borrow money from the bank and they needed collateral</td>
<td>MiSEs faced difficulties in dealing with banks because they did not have formal licence or collateral</td>
<td>Similar</td>
</tr>
</tbody>
</table>

8.6 Research Limitations

This research had some limitations. Firstly, the research was conducted in Makassar, Indonesia and was limited to MiSEs that were Partnership Program beneficiaries. In future research, it would be worthwhile to investigate those MiSEs that were not beneficiaries of the Partnership Program in order to compare how they survive in running their businesses.

During the field research in this study, it was sometimes found that the husband had applied to join the Partnership Program and his wife was running the business. This was usually because the husband already had a job but his salary was not sufficient to cover the family’s expenses. Therefore, only the beneficiaries’ wives were present at the business and interviewed. Despite the absence of the person who was formally the beneficiary of the program, all the necessary information could be gathered because the wife was able to answer the questions well.

Another potential limitation of this study was the collection of data through qualitative face-to-face interviews. Although it is an appropriate method for investigating the attitudes, opinions and values of respondents, sometimes the respondent can be reticent to answer some questions fully and openly. For example, there were some interviewees who did not want the interviews to be recorded and were concerned that the information would be passed to the SOE. In those cases, the interviewees were reassured that they would remain anonymous. Despite this reassurance, they were sometimes still cautious when answering the questions.
The study is only focus on the social and economic impacts of the program. Therefore, issues such as culture, religion, kinship, and gender are mentioned but they are not analysed further because they are outside the scope of the project.

8.7 Future Research Directions
This research raises the possibility of future explorations in different environments and locations. Since there is a lack of similar studies in the literature that go beyond the program evaluation, particularly in Indonesia, more empirical studies of CSR implementation using the same or different methodologies need to be conducted and would help in the development of a comprehensive theory of CSR, social entrepreneurship and microfinance.

The present study focused on the beneficiaries’ experience and point of view. Therefore, an exploration into the SOE experiences and practices would be a productive direction for future research. The same framework might be used to investigate the SOEs’ side or a new framework could be constructed to investigate it. Future exploration on issues such as culture, religion, kinship, and gender are topics that can be analysed further.

8.8 Conclusion
This chapter summarised the findings, followed by an integration of the findings and a summary of the research highlights in the FISH map. These steps were taken in order to answer the main objective of the study as stated in Chapter 1.

The Indonesian government has been committed to supporting MiSEs through SOEs since 1983. The Partnership Program has evolved during those years and is considered as a form of SOE CSR. There is a cultural practice embedded in the Partnership Program, namely, the principle of “gotong royong” (helping one another).

Information about the Partnership Program is largely disseminated by word of mouth. This means that the program relies on an immediate level of trust that is typical of microfinance. The obligations in the program are not developed because of collateral but because of trust built up trust at the personal level. That is an important element in the external environment of the program. This reflects the social dynamics of microfinance. The Partnership Program is about building trust and maintaining it. At the cultural level, for Makassar and Bugis people, the concept of “siri” (shame/dignity) governs behaviour. That is why the beneficiaries usually try to pay the instalments on time. The SOE supervisors of the Partnership Program reported that since applying word of mouth, the level of unpaid instalments had decreased significantly.
The study has shown that the Partnership Program had been implemented well by SOEs and the program supervisors in Makassar. The program’s objectives of supporting MiSEs had been fulfilled. There were several great success stories recorded in this research. These case studies showed that the program had improved the beneficiaries’ entrepreneurial skills, networking and knowledge. Bookkeeping training has been particularly useful to the beneficiaries for identifying and separating the private and business money. The success of individual beneficiaries also had flow-on effects of alleviating unemployment and criminality. It can be concluded that the program had been successfully implemented by SOEs in Makassar where it was having positive impacts on beneficiaries and the community.

Finally, based on the findings, the study has offered an insight into how the Western concept of voluntary CSR has been transformed into a mandatory program in Indonesia. Supported by cultural practices that place social responsibility obligations on all levels of society, the program has succeeded in significantly changing many people’s lives.
Appendices
Appendix A

Griffith UNIVERSITY
HUMAN RESEARCH ETHICS COMMITTEE

ETHICAL CLEARANCE CERTIFICATE

This certificate generated on 07-09-2011.

This certificate confirms that protocol 'NR: Impact and Challenges of State Owned Enterprises Partnership Program: An Indonesian CSR and Social Entrepreneurship' (GU Protocol Number HUM/21/11/HREC) has ethical clearance from the Griffith University Human Research Ethics Committee (HREC) and has been issued with authorisation to be commenced.

The ethical clearance for this protocol runs from 23-08-2011 to 11-11-2012.

The named members of the research team for this protocol are:
APro Malcolm Alexander
Mr Aminuddin Amrullah

The research team has been sent correspondence that lists the standard conditions of ethical clearance that apply to Griffith University protocols.

The HREC is established in accordance with the National Statement on Ethical Conduct on Research Involving Humans. The operation of this Committee is outlined in the HREC Standard Operating Procedure, which is available from www.gu.edu.au/ori/ethics.

Please do not hesitate to contact me if you have any further queries about this matter.

Gary Allen
Manager, Research Ethics
Office for Research
G39 room 3.55 Gold Coast Campus
Griffith University
Phone: 3735 5585
Facsimile: 5552 9058
### Appendix B: Operational Definitions, Type and Source of Data

<table>
<thead>
<tr>
<th>Variables</th>
<th>Operational Definition</th>
<th>Type and Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Context (Social &amp; Legal Framework)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government’s commitment</td>
<td>Government’s commitment to support and develop small and medium enterprises. This commitment is demonstrated by the existence of rules and regulations that require State-Owned Enterprises (SOEs) to run the Partnership Program (PP) with small and medium enterprises.</td>
<td>Primary Data / Secondary Data PP Supervisors</td>
</tr>
<tr>
<td>CSR and social entrepreneurship of SOE</td>
<td>The contribution made by an SOE to society through its activities, social investment and philanthropy programs, and its engagement in public policy.</td>
<td>Secondary Data Document</td>
</tr>
<tr>
<td>Community</td>
<td>A group of people who live around the SOE or in the area where the SOE operates and who are either directly or indirectly involved or related to the SOE.</td>
<td>Primary Data / Secondary Data Heads of Villages</td>
</tr>
</tbody>
</table>
### Partnership Program

**Characteristics**
- The PP has the following features:
  - The program is only run by SOEs
  - It is a revolving fund
  - It targets small enterprises which technically do not meet the banks’ requirements for obtaining a loan
  - The loan interest is 6% flat per annum.

**Project fund**
- The total funds used in the PP. The PP fund is derived from three sources: from corporate profits after tax (maximum of 3% for the PP and up to 1% for community development); from beneficiaries’ repayments of the principal and the interest on the loan; and from the deposit interest on the balance of funds in the bank.

### Assistance

**Orientation**
- A course introducing the PP and explaining responsibilities and opportunities to beneficiaries after receiving the PP loan / fund.

**Intervention**
- Assistance provided by the SOE to improve beneficiaries’ situations (especially when their businesses are declining).

**Training**
- Activity leading to skilled behaviour. The beneficiaries learn to improve their entrepreneurship skills through a set of activities such as making financial reports, marketing, efficient production, self-motivation et cetera.
### Appendix B: Continued

<table>
<thead>
<tr>
<th>Internal Context (Beneficiaries)</th>
<th>Description</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographics</td>
<td>Characteristics of the community and district that are identified by informants as influencing adoption and/or implementation.</td>
<td>Primary Data Beneficiaries / PP Supervisors</td>
</tr>
<tr>
<td>Status prior to participating in the program</td>
<td>Respondents’ status prior to their involvement in the program and the accumulation of knowledge or skills that results from direct participation in the program and related activities.</td>
<td>Primary Data Beneficiaries</td>
</tr>
<tr>
<td>Organisational rules, and practices in the MiSE</td>
<td>Principles, conditions, standards and models those are customarily implemented and practised by the MiSE as an organisation.</td>
<td>Primary Data Beneficiaries</td>
</tr>
<tr>
<td>Beneficiaries’ purposes and assumptions</td>
<td>What the beneficiaries believe and their desired goals in the program.</td>
<td>Primary Data Beneficiaries</td>
</tr>
<tr>
<td>Adoption Decision</td>
<td>Description</td>
<td>Data Source</td>
</tr>
<tr>
<td>Decision to be in the program</td>
<td>The process undertaken by beneficiaries when making up their minds about joining the program.</td>
<td>Primary Data Beneficiaries</td>
</tr>
<tr>
<td>Finance</td>
<td>The beneficiaries’ financial background.</td>
<td>Primary Data Beneficiaries</td>
</tr>
<tr>
<td>Business plan</td>
<td>The beneficiaries’ business plan implementation after receiving the PP funds.</td>
<td>Primary Data Beneficiaries</td>
</tr>
<tr>
<td>Support for implementation</td>
<td>The SOE’s support for implementation of the beneficiaries’ business plan.</td>
<td>Primary Data Beneficiaries PP Supervisors</td>
</tr>
</tbody>
</table>
### Appendix B: Continued

<table>
<thead>
<tr>
<th>Participation &amp; Transformations</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes as presented by beneficiaries</td>
<td>The act of changing in business form, shape or appearance after joining the program.</td>
<td>Primary Data Beneficiaries</td>
</tr>
<tr>
<td>Changes in beneficiaries’ perceptions and practices</td>
<td>The representation of what the beneficiaries perceive and practise after joining the program.</td>
<td>Primary Data Beneficiaries</td>
</tr>
<tr>
<td>Changes in organisational rules and practices</td>
<td>All the changes that have been made in the organisation, including standards, models or patterns regarded as typical of the organisation.</td>
<td>Primary Data Beneficiaries</td>
</tr>
</tbody>
</table>

**Outcomes**

<p>| Degree of beneficiaries’ success | A specific identifiable position in a continuum, series or especially in a process of accomplishments that beneficiaries achieved after joining the program. | Primary Data Beneficiaries            |
| Perceived success or failure | Perceived or observed outcomes at the beneficiaries’ level that are directly related to the objectives or outcomes of the program. These outcomes may be judged positively or negatively and may be anticipated or unanticipated. | Primary Data Beneficiaries            |
| Beneficiaries’ capacity change | Perceived positive change in ability to perform or produce outcomes. | Primary Data Beneficiaries            |
| Side effects of PP participation | Perceived or observed outcomes at the beneficiaries’ level that are indirectly related to the objectives or outcomes of the program. | Primary Data Beneficiaries PP Supervisors |</p>
<table>
<thead>
<tr>
<th>Impacts</th>
<th>Description</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on the beneficiaries’ social economy and increased standard of living</td>
<td>Effects of the PP on beneficiaries’ social economy and the standard of living, such as being able to compete with other businesses and to pay their children’s school fees.</td>
<td>Primary Data; Heads of Villages; Beneficiaries</td>
</tr>
<tr>
<td>Effect on the community around the SOE including alleviation of unemployment</td>
<td>Effects of the PP on people who live around the beneficiaries or in the areas where the beneficiaries’ businesses are operating (either direct or indirect effects).</td>
<td>Primary Data; Heads of Villages; Beneficiaries</td>
</tr>
<tr>
<td>Improved entrepreneurial skills</td>
<td>The impact of the PP on beneficiaries’ entrepreneurial skills in running a business after joining the program.</td>
<td>Primary Data; Beneficiaries</td>
</tr>
</tbody>
</table>
Appendix C1: Consent Form in English

Program Kemitraan - Fostering Micro Small Enterprises in Makassar Indonesia: An Exploration of the State-Owned Enterprise Partnership Program

**CONSENT FORM**

**Research Team**  
Senior Researcher: A/Prof. Malcolm Alexander  
School of Humanities, Nathan Campus, Griffith University.  
Contact Phone: (07) 373 57169.  
Contact Email: m.alexander@gu.edu.au

Research Team Member: Amiruddin Amrullah  
School of Humanities, Nathan Campus, Griffith University.  
Contact Phone: (07) 373 57819.  
Contact Email: amiruddin.amrullah@griffithuni.edu.au

By signing below, I confirm that I have read and understood the information package and in particular have noted that:

- I understand that my involvement in this research will include a short, semi-structured interview and a brief questionnaire. Time taken should be about thirty minutes.
- I have had any questions answered to my satisfaction;
- I understand the risks involved.
- I understand that there will be no direct benefit to me from my participation in this research.
- I understand that my participation in this research is voluntary.
- I understand that if I have any additional questions I can contact the research team;
- I understand that I am free to withdraw at any time, without comment or penalty;
- I understand that I can contact the Manager, Research Ethics, at Griffith University Human Research Ethics Committee on 3735 5585 (or research-ethics@griffith.edu.au) if I have any concerns about the ethical conduct of the project; and
- I agree to participate in the project.

<table>
<thead>
<tr>
<th>Name</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Signature</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td></td>
</tr>
</tbody>
</table>
**Appendix C2: Consent Form in Indonesian**

**Pembinaan Usaha Mikro dan Kecil di Makassar Indonesia: Sebuah Eksplorasi atas Program Kemitraan BUMN**

**LEMBAR PERSETUJUAN**

**Research Team**
Senior Researcher: A/Prof. Malcolm Alexander  
School of Humanities, Nathan Campus, Griffith University.  
Contact Phone: (07) 373 57169.  
Contact Email: m.alexander@gu.edu.au

Research Team Member: Amiruddin Amrullah  
School of Humanities, Nathan Campus, Griffith University.  
Contact Phone: (07) 373 57819.  
Contact Email: amiruddin.amrullah@griffithuni.edu.au

Dengan bertanda tangan dibawah ini, saya menginformasikan bahwa saya telah membaca dan mengerti semua informasi yang tertulis dibawah ini:

- Saya mengerti bahwa keterlibatan saya dalam penelitian ini akan melibatkan wawancara. Waktu yang digunakan sekitar 30 menit.
- Saya telah menjawab semua pertanyaan dengan baik;
- Saya mengerti bahwa tak akan ada keuntungan langsung dari keterlibatan saya dalam penelitian ini.
- Saya mengerti bahwa keterlibatan saya dalam penelitian ini adalah sukarela.
- Saya mengerti bahwa jika saya punya pertanyaan tambahan maka saya dapat menghubungi tim peneliti.
- Saya mengerti bahwa saya dapat mengundurkan diri setiap saat tanpa komentar atau penalty.
- Saya mengerti bahwa wawancara ini direkam.
- Saya mengerti bahwa saya dapat mengontak manajer penelitian Universitas Griffith di +613735 5585
- Saya setuju untuk berpartisipasi dalam penelitian ini.

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signature</td>
</tr>
<tr>
<td>Date</td>
</tr>
</tbody>
</table>
Appendix D1: Information Form in English

Program Kemitraan - Fostering Micro Small Enterprises in Makassar Indonesia: An Exploration of the State-Owned Enterprise Partnership Program

INFORMATION FORM

Research Team
Senior Researcher: A/Prof. Malcolm Alexander
School of Humanities, Nathan Campus, Griffith University.
Contact Phone: (07) 373 57169.
Contact Email: m.alexander@gu.edu.au
Research Team Member: Amiruddin Amrullah
School of Humanities, Nathan Campus, Griffith University.
Contact Phone: (07) 373 57819.
Contact Email: amiruddin.amrullah@griffithuni.edu.au

Why is the research being conducted?

The research aims to explore the impacts and challenges of State Owned Enterprises’ Partnership Program (SOEPP) in South Sulawesi of East Indonesia. The research has some objectives that need to achieve, they are:

- To review the existing SOEPP in South Sulawesi, Indonesia.
- To find out the main stakeholders of the program
- To find out the impacts of SOEPP in South Sulawesi, Indonesia
- To examine factors affecting the implementation of SOEPP in South Sulawesi, Indonesia
- To review the challenges in implementing and execution of SOEPP in South Sulawesi, Indonesia.

To do this, the researchers have decided to interview selected persons who are involved in Partnership Program (PP), those who are participating, managing, evaluating, and feeling impacts of this program. This research is being conducted by a student (Amiruddin Amrullah) as part of his PhD thesis from Griffith University.

What will you be asked to do?

To take part in this research you will need to do three things. Firstly, you need to have read the information and consent forms. It is important to remember are that you are doing this in a voluntary manner and even if you choose to participate, you are free to stop at any time. The other important point is anonymity. Neither your name nor your business name/company will be shared with anyone nor published anywhere. The other two tasks involve your participation in the research. The first part involves you being interviewed. You will be asked a series of questions about you and your business/company. These answers will be recorded, and later written out with any identifying names removed. You will also be asked to fill out a short questionnaire.
The basis by which participants will be selected or screened

Participants will be selected with a purposive sampling technique in which the informant is determined by the researchers with the criteria in accordance with the purpose of research. The researcher will identify the potential participants for the project by determining the type or category of persons who are the most appropriate participants for the research project. To do this, the researchers have decided to interview selected persons who are involved in Partnership Program (PP), those who are participating, managing, evaluating, and feeling impacts of this program.

As part of a small sample qualitative design, the researchers are deliberately aiming to interview SOE Executives, Experts at Ministry of State Owned Enterprises, Beneficiaries of PP Project, and Community around beneficiaries. Both males and female subjects are suitable. Due to the limited time and resources for conducting, transcribing and analysing interviews, I shall not be able to accommodate participants from outside the selection criteria.

The expected benefits of the research

This research will have a number of potential benefits make a significant contribution to all these aspects:

- Researchers will benefit from the increased knowledge generated within this field of research.
- The most significant contribution of this research will be enriching the literature on CSR and SE in Indonesia
- After reviewing literature from different sources both from international and national (in Indonesia) experiences, this research generally improve our understanding about SOEPP.
- This study will provide substantial evidence-based data and information that can be used by decision makers for future planning.
- Research about the SOEPP has not been much studied, so that research is expected to be one contribution in developing a partnership program in South Sulawesi especially and Indonesia generally.
- This research is important to be understood by central government in developing policies related to the corporation, especially among SOEs. Likewise with the local government, for policy especially in relation to the corporation and the development of local communities potential can be more focused, targeted and sustainable.
- when the study is completed (late 2013), a copy of this study will be given to interviewed SOEs as input and documentation.

Risks to you

There are essentially no risks associated with this type of research. It involves conducting a series of informal one-to-one interviews, and taking questionnaire responses in a company setting.

Your confidentiality and anonymity

For the purposes of this research a certain amount of identifiable data will be collected, particularly names in the audio recordings. However, these identifying personal details will be removed upon transcription of the audio tapes. The audio tapes will be erased once the transcripts are complete. Only the researchers shall have access to the audio recordings.
(until they are destroyed) and the raw data transcripts. The researchers will not reveal your identity; it will remain anonymous and will not be shared to anyone outside the research team.

**Your participation is voluntary**

Please refer to consent form.

**Questions / further information**

For additional information about the project, please contact:
1. A/Prof Malcolm Alexander at m.alexander@gu.edu.au
2. Amiruddin Amrullah at amiruddin.amrullah@griffithuni.edu.au

Please note that Griffith University conducts research in accordance with the *National Statement on Ethical Conduct in Human Research*.

If potential participants have any concerns or complaints about the ethical conduct of the research project, they should contact:

1) The Manager, Research Ethics on +61 (7) 3735 5585 or email at research-ethics@griffith.edu.au.

2) Prof. Muhammad Ali (Hasanuddin University Makassar, Indonesia) on +62411585415 (Office); +6281334190688 (Mobile) and email at muhd.alilakatu@yahoo.co.id
Mengapa penelitian ini dilakukan?
Penelitian ini bertujuan untuk mengeksplorasi dampak dan tantangan Program Kemitraan BUMN (PKBUMN) di Sulawesi Selatan Indonesia Timur. Penelitian ini memiliki beberapa tujuan yang perlu untuk mencapai, mereka adalah:

- Untuk meninjau PKBUMN yang ada di Sulawesi Selatan, Indonesia.
- Untuk mengetahui stakeholder utama dari program ini
- Untuk mengetahui dampak PKBUMN di Sulawesi Selatan, Indonesia
- Untuk menguji faktor-faktor yang mempengaruhi pelaksanaan PKBUMN di Sulawesi Selatan, Indonesia
- Untuk meninjau tantangan dalam penerapan dan pelaksanaan PKBUMN di Sulawesi Selatan, Indonesia.

Untuk melakukan hal ini, para peneliti telah memutuskan untuk mewawancarai Badan Usaha Milik Negara (BUMN) yang dipilih dan juga beberapa peserta terpilih yang terlibat dalam Program Kemitraan (PP). Penelitian ini sedang dilakukan oleh seorang mahasiswa (Amiruddin Amrullah) sebagai bagian dari tesis PhD-nya dari Universitas Griffith di Brisbane Australia

Apa yang akan anda diminta untuk lakukan?
Untuk ambil bagian dalam penelitian ini, Anda akan perlu melakukan tiga hal. Pertama, Anda perlu membaca formulir informasi dan persetujuan. Hal ini penting untuk diingat...

**Dasar dimana peserta akan dipilih atau disaring**

Peserta akan dipilih dengan teknik purposive sampling di mana informan ditentukan oleh peneliti dengan kriteria sesuai dengan tujuan penelitian. Peneliti akan mengidentifikasi calon peserta untuk proyek dengan menentukan jenis atau kategori orang-orang yang peserta yang paling tepat untuk proyek riset (dalam hal ini penerima manfaat dari proyek kemitraan program). Jenis atau kategori peserta:

1. Penerima Manfaat Proyek PP
2. Peserta harus telah bergabung dengan proyek untuk kadang-kadang
3. Menerima dana dari PP Proyek
4. Memiliki bisnis / nya sendiri
5. Sehat
6. Mampu mengekpresikan dan berbagi pendapatnya
7. Bersedia untuk berpartisipasi dalam penelitian ini

Selanjutnya, proses lain yang berpotensi sah oleh calon peserta proyek dapat diidentifikasi, adalah dimana peneliti diperkenalkan kepada individu atau kelompok peserta potensial (Usaha Milik Negara sebagai penyandang dana Program Kemitraan akan membantu peneliti untuk mengidentifikasi dan memperkenalkan calon peserta / penerima manfaat).


**Manfaat yang diharapkan dari penelitian**
Penelitian ini akan memiliki sejumlah manfaat potensial memberikan kontribusi yang signifikan terhadap semua aspek:

- Para peneliti akan mendapatkan keuntungan dari peningkatan pengetahuan yang dihasilkan dalam bidang penelitian.
- Kontribusi paling signifikan dari penelitian ini akan memperkaya literatur tentang CSR dan SE di Indonesia
- Setelah meninjau literatur dari berbagai sumber baik dari internasional dan nasional (di Indonesia) pengalaman, penelitian ini secara umum meningkatkan pemahaman kita tentang PKBUMN.
- Penelitian ini akan menyediakan data berbasis bukti substantial dan informasi yang dapat digunakan oleh pengambil keputusan untuk perencanaan masa depan.
- Penelitian tentang PKBUMN belum banyak diteliti, sehingga penelitian yang diharapkan menjadi salah satu kontribusi dalam mengembangkan program kemitraan di Sulawesi Selatan khususnya dan Indonesia pada umumnya.
- Penelitian ini penting untuk dipahami oleh pemerintah pusat dalam mengembangkan kebijakan terkait dengan korporasi, terutama di kalangan BUMN. Demikian juga dengan pemerintah daerah, kebijakan terutama dalam kaitannya dengan perusahaan dan pengembangan potensi masyarakat lokal dapat lebih fokus, sasaran dan berkelanjutan.
- Ketika studi selesai (akhir 2014), salinan studi ini akan diberikan kepada BUMN diwawancarai sebagai masukan dan dokumentasi.

**Risiko Anda**
Ada dasarnya tidak ada risiko yang terkait dengan jenis penelitian. Ini melibatkan melakukan serangkaian informal satu-ke-satu wawancara, dan mengambil respon kuesioner dalam pengaturan perusahaan.

**Kerahasiaan Anda**

**Partisipasi Anda bersifat sukarela**
Silakan merujuk ke formulir persetujuan.

**Pertanyaan / informasi lebih lanjut**

Untuk informasi tambahan tentang proyek, silahkan hubungi:

1) A / Prof Malcolm Alexander di m.alexander@gu.edu.au
2) Amiruddin Amrullah di amiruddin.amrullah@griffithuni.edu.au

Harap dicatat bahwa Griffith University melakukan penelitian sesuai dengan Pernyataan Nasional Perilaku Etis dalam Penelitian Manusia. Jika calon peserta memiliki masalah atau keluhan tentang perilaku etis dari proyek penelitian, mereka harus menghubungi:

1) **Manajer, Penelitian Etika +61737355585 atau**  
   research-ethics@griffith.edu.au.
2) **Amiruddin Amrullah di +61435763227 (Australia) atau +628124150248 (Indonesia) pada amiruddin.amrullah@griffithuni.edu.au**
References


Sen, S. (2011). 'Corporate social responsibility in small and medium enterprises: application of stakeholder theory and social capital theory'. (DBA thesis), Southern Cross University, Lismore, NSW


