

CHAPTER I

INTRODUCTION

A. Research Background

The pandemic of Covid-19 disrupted the economy of the populace, particularly among small-business owners. Meanwhile, small business owners and entrepreneurs are recognized as the main forces behind economic growth (Ribeiro-Soriano, 2017). Because of the pandemic's limited market demand, supply restrictions, financial incapacity, and capital limits, Small and Medium Enterprises (SMEs) are struggling to remain sustainable (Ganlin et al., 2021). The consequences of this pandemic are felt all over the world, Indonesia is one of the affected nations. The fields that could be adversely impacted include the development of the economy, economic uncertainty, and the stability of small and medium enterprises (Surya et al., 2022).

According to information from Kementerian Komunikasi dan Informatika, the majority of SMEs were impacted. Nearly 54,000 SMEs experienced a decrease in sales, and 50,000 SMEs reduced their production. Whereas, SME itself is the country's economic engine and contributor to the gross domestic product (Mujahid et al., 2019; Woźniak et al., 2019). The existence of these SMEs is crucial since Kominfo data reveals a very significant number of MSMEs, including 64.19 million, with SMEs dominating with 63.13 million, or comparable to 99.92% of all current business sectors. Data representation of deflation in sales of SMEs in Indonesia is illustrated in Figure 1.1.

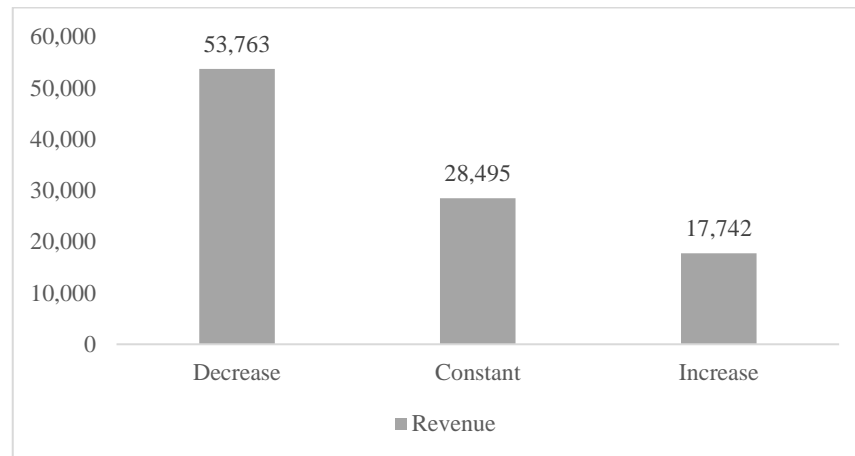


Figure 1.1 The impact of the Covid-19 pandemic on SME income

Source: Kementerian Komunikasi dan Informatika (Keminfo)

Following the information in Figure 1.1 above, more than half of all SMEs in Indonesia experience a reduction in total revenue, the major cause is that they decreased output as a result of diminishing purchasing capacity and a lack of financial resources. Even though entrepreneurs significantly rely on outside capital to encourage expansion (Cavallo et al., 2019). Especially financial resources from investors and the government which could boost the capability of SMEs to manufacture goods (Luukkonen et al., 2013). However, due to the 8.71 million firms that require financial assistance, this effort is unable to be managed by the government solely.

The collaboration between the Indonesian government and local businesses is realized through the Corporate Social Responsibility (CSR) program. In light of the COVID-19 pandemic, the business sector has demonstrated a willingness to enhance actions and commitment through CSR, objectives, and sustainability (Carroll, 2021). Companies most frequently practice CSR in the form of economic responsibilities, it aims to do what society demands to generate employment,

produce funds, and contribute to economic activity (Masoud, 2017). In the economic sphere, CSR takes several forms, one of which is contributing resources to help micro businesses improve the economy (Mujahid et al., 2019). CSR-based resources assist firms in increasing their relative efficiency in integrating the resource-capability-performance triad (Nath et al., 2010).

There are various forms of CSR delivered by corporations to enhance marketing capabilities, one of which encourages improving business endeavors. Previous research findings reveal that CSR-based resources are assets for business support that improve marketing capabilities (Niromand et al., 2012). When businesses take benefit of adequate corporate social responsibility (CSR) resources, it is simpler to develop marketing capabilities in a competitive environment (Kemper, Schilke, Reimann, et al., 2013). Furthermore, companies could gain a competitive advantage by adding, managing, and realizing the benefit of CSR-based resources.

This occurs because the benefits of resources from CSR allow firms to produce greater quantities and correspond to demand, resulting in more profits and allowing the company to attract more consumers than its competitors (Saeidi et al., 2015). Companies with low competitive advantage perform significantly worse than other companies in terms of capturing market share, achieving long-term success, and responding efficiently to changing market dynamics (Urbancova, 2013). The integration of corporate social responsibility (CSR) based resources has major consequences for the success of initiatives aimed at attaining a competitive advantage (Leonidou et al., 2013). Furthermore, a competitive atmosphere might

encourage companies to be inventive in creating more value with other parties to fulfill demand in a dynamic business era.

In establishing value with other parties such as customers, stakeholders, staff, etc, CSR-based resources are linked to value co-creation by emphasizing interdependence and reciprocal advantages. Corporate social responsibility (CSR) based resource initiatives encompassing a diverse range of resources empower companies to optimize the effectiveness of resource integration and foster value co-creation (Yin et al., 2019). There is also an interaction between value co-creation and marketing, which allows businesses to obtain value-generating resources and earnings (Alves et al., 2016). The company's resources must be managed to allow value co-creation. Not only does it have an impact on marketing aspects, but value co-creation also plays a major role in business performance to fulfill the customer's needs.

Many factors impact business performance, including marketing, finance, operations, and human resources. According to the preceding discussion, all facets of company success, beginning with marketing skills, competitive advantage, and value co-creation, contribute to business performance. Marketing capabilities enable it to be easier for businesses to raise sales through advertising (Martin & Javalgi, 2016), while companies with a greater level of competitive advantage also have better levels of performance (Saeidi et al., 2015). In addition, collaboration with value co-creation activities also contributes to strengthening business performance by assisting customers in experiencing brand value in a lucrative manner (Zaborek & Mazur, 2019). As a result, CSR-based resources are the most

lucrative preference for enterprises for improving their company performance because of the wide range of advantages to which they all contribute.

Because of the numerous established advantages, many corporations have voluntarily implemented corporate social responsibility (CSR) programs to support improving economic growth (Sarkar & Searcy, 2016). One of the influential companies in Indonesia is Pertamina, as a major company, Pertamina holds a significant stake in various endeavors. As stated on its official website, Pertamina actively supports the accomplishment of the 2030 Sustainable Development Goals (SDGs) through its various CSR programs. The company focuses on the implementation of Goal 8, Decent Work and Economic Growth. Goal 8 has the highest level of influence among the Sustainable Development Goals (SDGs), with a significant percentage of 31% (van Zanten & van Tulder, 2021). Consequently, this is a key issue that Pertamina collaborates with the government to address, aiming to eliminate economic inequality.

Pertamina's dedication to promoting SDGs is evident through its commendable corporate social responsibility (CSR) initiatives. CSR entails the commitment of companies to contribute to sustainable economic development while considering their social responsibilities (Masoud, 2017). By actively engaging in CSR practices, the company not only benefits society but also fosters the development of innovative green processes (Achi et al., 2022). As a result, Pertamina has established numerous impactful corporate social responsibility (CSR) programs aimed at supporting business continuity while positively affecting the community.

Pertamina consistently emphasizes the importance of targeted subsidies. One such initiative is their program to support 1,000 Small and Medium Enterprises (SMEs) in Indonesia. As stated on Pertamina's official website, the primary objective of this program is to empower small businesses, enabling them to thrive independently while also creating a positive impact on the overall welfare of Indonesia. This CSR approach is strategically integrated within the company, serving as a means to maintain and enhance its competitive edge (Saeidi et al., 2015). With a widespread implementation throughout Indonesia, the Pertamina 1000 SMEs program aims to uplift micro-entrepreneurs, enabling them to achieve sustainable incomes and contribute to the country's economic growth.

The 1000 SMEs Program, which is sponsored by Pertamina, encompasses a range of resources aimed at supporting small and medium-sized enterprises (SMEs). These resources include assistance in the form of capital loans through corporate social responsibility (CSR) initiatives, guidance from seasoned professionals, and marketing support through business advertising at local and overseas exhibitions. The program not only demonstrates a commitment to nation-building through volunteer efforts but also reflects the company's strategic intent to enhance its brand differentiation amidst competitors (Bai & Chang, 2015). Nevertheless, it is important to note that while CSR initiatives, like this program, contribute to sustainability beyond the economic sector, studies have revealed certain limitations regarding their direct impact on a country's overall economy (ElAlfy et al., 2020), often showing benefits primarily for shareholders and the internal functioning of the companies involved.

The long-term implications of the 1,000 SMEs program on the sustainability and income growth of the supported businesses remain uncertain, making it challenging to determine if the program's benefits extend to the prosperity of the coaches involved. While the program shows potential advantages, the existing research on the connection between CSR-based resources and business performance lacks clarity (Saeidi et al., 2015). Empirical evidence from previous studies leaves the relationship inconclusive (Achi et al., 2022). As the 1,000 SMEs program continues to unfold, further research and evaluation are essential to establish a clearer understanding of its lasting impact on both the supported businesses and the prosperity of the coaches, in light of the ambiguous relationship between CSR-based resources and business performance.

Based on several reasons above strengthening the phenomenon that occurs, the researcher intends to measure the influence of corporate social responsibility (CSR) carried out by Pertamina in its mission to prosper the economy. Especially the 1000 SMEs-assisted program which is planned to boost economic growth. CSR experts believe that a socially responsible business entity benefits accordingly from its good image among its customers and is also recognized as a respectable entity within its business community (S. M. Ahmad et al., 2019). The phenomenon that will be examined seeks to unlock whether there is an influence of CSR-based resources on the business performance of the 1000 assisted SMEs, such as expectations that are beneficial to society and profitable for Pertamina.

To explore the role of CSR-based resources, this research modifies from Gregory et al. (2019), Abid et al. (2023), Qi et al. (2023), and Zaborek & Mazur

(2019) model while seeking to shed light on the marketing phenomena arising from the implementation of Pertamina's CSR program in fostering 1000 Small and Medium Enterprises (SMEs) in Indonesia. Particularly its influence on 148 superior SME performance outcomes, which remains inadequately understood (Kemper, Schilke, Reimann, et al., 2013). This research aims to examine the involvement of CSR-based resources in the practice of marketing capabilities, competitive advantage, value co-creation, and business performance in SMEs fostered by Pertamina. Knowing the impact of CSR-based resource characteristics allows assisted SMEs to consider factors that can improve their outcome of business performance.

B. Research Question

Based on the explanation in the research background, the research questions of this research are:

1. Do the corporate social responsibility (CSR) based resources influence marketing capabilities?
2. Do the corporate social responsibility (CSR) based resources influence competitive advantage?
3. Do the corporate social responsibility (CSR) based resources influence value co-creation?
4. Do marketing capabilities influence business performance?
5. Does competitive advantage influence business performance?
6. Does value co-creation influence business performance?

7. Do marketing capabilities mediate the influence of corporate social responsibility (CSR) based resources on business performance?
8. Does competitive advantage mediate the influence of corporate social responsibility (CSR) based resources on business performance?
9. Does value co-creation mediate the influences of corporate social responsibility (CSR) based resources on business performance?

C. Research Objectives

Based on the research question above, this study has several objectives, including:

1. To determine the influence of corporate social responsibility (CSR) based resources on marketing capabilities of SMEs fostered by Pertamina.
2. To analyze the influence of corporate social responsibility (CSR) based resources on competitive advantage of SMEs fostered by Pertamina.
3. To investigate the influence of corporate social responsibility (CSR) based resources on value co-creation of SMEs fostered by Pertamina.
4. To test the influence of marketing capabilities on the business performance of SMEs fostered by Pertamina.
5. To identify the influence of competitive advantage on the business performance of SMEs fostered by Pertamina.
6. To find out the influence of value co-creation on the business performance of SMEs fostered by Pertamina.
7. To analyze the influence of corporate social responsibility (CSR) based resources on business performance mediated by marketing capabilities.

8. To investigate the influence of corporate social responsibility (CSR) based resources on business performance mediated by competitive advantage.
9. To analyze the influence of corporate social responsibility (CSR) based resources on business performance mediated by value co-creation.

D. Research Benefit

This research is expected to provide benefits to the following:

1. Theoretical

The results of this study are expected to be used as a theoretical reference for further research to broaden the knowledge of practitioners in the same field. In addition, this research serves to add new perceptions in the field related to corporate social responsibility (CSR) programs in the form of resource support.

2. Practical

The outcomes of this study have the potential to assist firm owners in managing resources from CSR-based programs to ensure their business improve greater than before. Furthermore, it will assist SMEs in applying CSR-based resources to build marketing capabilities, competitive advantages, and value co-creation, which will allow them to carry out business performance more efficiently.