

LOCAL WISDOM BASED SOCIAL RESPONSIBILITY OF BALINESE SME TO IMPROVE COMPETITIVENESS

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Abstract: Small and Medium Enterprises (SMEs) have crucial role in Indonesian economy. Despite the enormous contribution, SMEs still encounter obstacles in business development. SMEs do not yet have appropriate strategy to create competitiveness. Strategies suitable for SMEs must consider local wisdom of the location where SMEs domicile. This study aims to analyze the influence of local wisdom in creating competitiveness for SMEs, carried out through socially responsible practices. This study applies qualitative method focusing on twelve SMEs located in Badung district, Bali. Information was obtained through in-depth interviews and literature review. The information was analyzed to determine the relation between local wisdom values and the concept of social responsibility. This research proves that local wisdom has influence in creating competitive advantage through socially responsible business practices. The value triggers the SMEs to be socially responsible towards its customers, employees, environment and community that in return improve its reputation, customers' satisfaction, employees' loyalty and productivity.

Keywords: competitiveness, local wisdom, SMEs, social responsibility, strategy

Abstrak: Usaha Kecil Menengah (UKM) memiliki peran penting dalam perekonomian Indonesia. Akan tetapi, UKM masih menghadapi kendala dalam upaya mengembangkan usahanya. UKM belum memiliki strategi bisnis yang tepat dalam menciptakan keunggulan bersaing. Strategi bisnis yang sesuai bagi UKM harus memperhatikan kearifan lokal dimana UKM berlokasi. Penelitian ini bertujuan untuk menganalisis pengaruh nilai kearifan lokal dalam menciptakan keunggulan kompetitif bagi UKM yang dilakukan melalui praktek tanggung jawab sosial. Penelitian ini menggunakan metode kualitatif yang berfokus pada dua belas UKM yang berlokasi di Kabupaten Badung, Bali. Informasi diperoleh melalui wawancara mendalam dan kajian pustaka. Hasilnya digunakan untuk menganalisis hubungan antara nilai kearifan lokal dengan konsep tanggung jawab sosial. Penelitian ini membuktikan bahwa nilai kearifan lokal memiliki pengaruh dalam menciptakan keunggulan bersaing melalui praktek bisnis yang bertanggung jawab secara sosial terhadap pelanggan, karyawan, lingkungan, dan komunitas. Tanggung jawab sosial UKM berbasis kearifan lokal yang dilakukan berdampak pada peningkatan reputasi, kepuasan pelanggan, loyalitas, dan produktivitas karyawan.

Kata kunci: daya saing, kearifan lokal, strategi, tanggung jawab sosial, UKM

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have great influence on Indonesia economy. This tremendous role is due to its accounts amounting to 99% of the total business units in Indonesia. These sectors contributed about 61,9% of the total Gross Domestic Product and absorbed around 97% labor of total workforce in 2021 (Treasury Magazine, 2022). Although SMEs play significant role in the Indonesian economy, this sector still faces many obstacles in creating competitiveness. According to previous research, SMEs encounter financial and marketing issues, unskilled human resources, low technical skill, unsupported technical infrastructure, and lack of knowledge of intellectual property and linguistics. ILO (2019) added that SMEs experience lack of knowledge of production and packaging technology, weak product quality control due to lack of technological knowledge, limited ability to meet consumer taste and inability to develop human resources. In addition, minimal working capital, inability to grow a business, lack of product innovation, weak distribution channel, and inability to maintain customer loyalty are also problems that SMEs encounter (Rahadi, 2016; Ismail, 2020). Moreover, Pramudita (2021) found that the problems in SMEs are lack of innovation, low level of digitalization, absence of branding, short term business mindset and incapable to maintain customers' loyalty.

The government has established efforts to address SMEs' challenges. However, this effort seems insufficient considering the complexity of the problems encountered by these enterprises. The struggle is because SMEs do not yet have appropriate business strategy to increase their competitive advantage. Appropriate business strategy must take into account the character of the SMEs as well as the value of local wisdom of area where the SME operates. This consideration is important because Indonesia is a country with diverse cultures and customs. The value of local wisdom regulates the order of human life because it is culture from generation to generation. The local wisdom has the function to regulate the harmony of human social life, manifested by humans' social responsibility both for their fellow humans and the environment.

Local wisdom, as a traditional value that guides daily life, improves the civilization of human life and entrepreneurship orientation (Jundaini 2018; Sukarniti 2020). It considers the potential of natural resources, the

environment, human paradigms and behavior (Jundaini, 2018). However, the strength contained in the value of local wisdom has not been utilized in structured manner to develop competitiveness especially in SMEs. According to Rahyuda et al. (2017), no SMEs have applied the concept of competitiveness based on the value of local wisdom. Rahyuda et al. (2017) added that unstable business growth was caused by weak understanding of management skills based on the value of local wisdom. In fact, the value of local wisdom can be a source of strength for SMEs (Rahyuda et al. 2017). The weak competitiveness of SMEs is also caused by weak understanding of social responsibility practices as part of the business strategy. According to previous research, the practices of social responsibility can increase the competitive advantage of SMEs. For instance, skill improvement training for employees affects performance and productivity that in the long term positively impact SMEs competitive advantage. The increase of knowledge and experience of employees result in the key to effective competitiveness improvement. This accordingly provides unique intangible asset for the SMEs (Gahramanova, 2019). Moreover, according to the European Commission (2005b), the most important factors of social responsible activities related to the environment are the use of material, energy, waste and pollution management in an environmentally sound manner. Through environmentally responsible practices, SMEs can improve their reputation, which can affect the competitiveness of companies (European Commission 2005b). Through socially responsible practices, SMEs can systematically improve their competitive ability that in return increase business sustainability and trust among stakeholders to build economic value for the SMEs (Martinez, 2017; Ikram et al. 2019).

However, the benefit of social responsibility practices for SMEs has not yet been maximally utilized. This is due to the lack of understanding of the positive impact of the practice of social responsibility itself and scarce research on the related issues. In addition, the reason of the scarce amount of research about social responsibility practices in developing countries is due to the consequence of socio-cultural difference (Jamali et al. 2015, Podder dan Biswas 2017, Thanh et al. 2021). This socio-culture difference is because the existing practice of social responsibility is originally based on western countries approach that may not be appropriate for practice in developing countries (Johnson and Schaltegger 2016; Bose et al. 2017).

Chowdhury and Shumon (2020) added that the research of social responsibility in SMEs should consider aspects of attitude, ethics, and expectation that influence decision making process. Thus, the adjustment of the western-based concept of social responsibility should adapt the local wisdom and related culture of the region where SMEs domicile. As local wisdom is the values that has great impact on people's life, the values accordingly are strongly related to the ways of people behave both to the human fellows and the environment. In other words, the values dictate on how people interacts socially in good manner and responsibly.

As previously mentioned, SMEs in Indonesia play great role in the country's economic development. In addition to this fortunate, Indonesia is also renowned for its rich culture and tradition. The culture and tradition of the community are characterized by its unique local wisdom value. However, the value has not yet optimally utilized as tool to increase the competitive advantage of SMEs. As Rahyuda et al. (2017) stated in the research that the strength of local wisdom as source of competitive advantage has not maximally been applied by SMEs to improve management skill that accordingly causes unsteady business growth.

This current study aims to analyze the influence of local wisdom on social responsibility practices of SMEs and its impact on SMEs competitiveness. This study then raises two research questions which the first one is how local wisdom influences social responsibility paradigm of SMEs and the second one how this local wisdom based social responsibility behavior affects SMEs competitiveness. By this research in place, it is expected that the study will enrich the previous research on corporate social responsibility. The first contribution of this research is to prove that SMEs have also practiced social responsibility in doing business mainly influenced by local wisdom values of the SMEs owner. Secondly, this study enriches the knowledge in the context of SMEs competitive improvement by applying local wisdom based social responsibility as SMEs business strategy.

METHODS

The research was conducted among the SMEs located in Badung district, Bali during the month of July 2021. The reason why Badung was chosen as location of the SMEs is because the presence of SMEs in this district

has shown rapid growth due to tourism industry mostly located in this area. This study applies two sources of data, namely primary and secondary data. Primary data was obtained through in-depth interviews conducted on twelve SMEs. The SMEs selected in the study were determined by purposive sampling with classifications such as its domicile, more than two years of experience in business, as both direct and indirect exporter. The product produced by the SMEs vary from handicraft, fashion attire, SPA and skin care products, furniture and interior, organic incense and decorative lighting. The list of informants is shown in Table 1.

Table 1. List of SMEs

Name	Product Type	Years in business
Castalie	Merchandise from leather	15
Kipas Bali	Painted handicraft	20
Kokokan	Used wooden furniture	7
Maitaru Jaya Bali	Used wooden furniture & interior	16
Ayushi	Beach wear	20
Unique Bali Living	Decorative lamp	23
Gaya Warna	SPA product	20
Arideco Driftwood	Driftwood furniture	15
Starlight	Decorative lamp	10
Dupa Suputra	Herbal and organic incense	6
Bee Handicraft	Patchwork handicraft	15
Utama Spice	Aroma therapy and skincare	32

The in-depth interviews were conducted using the semi-structured interview method. Secondary data was obtained through literature review from previous research and books related to the topic under study. The information obtained is afterward processed by first creating a transcript simplified by selecting information relevant to the research objective. After this reduction stage, content analysis is carried out to interpret the information obtained in accordance with the research topic. The steps taken intend to determine the information with the same character followed by drawing conclusions.

In order to attain the research purpose, the study attempts to develop two hypotheses. The hypotheses are aimed to find the answers for the research questions. The first one is the influence of local wisdom to social responsibility activity of SMEs in performing business.

The second one is the role of this local wisdom based social responsibility to the SMEs competitiveness. The research design is as shown in Figure 1.

The research design above depicts local wisdom as an element that affects way of life and mindset of the SMEs owner. This value becomes the philosophy of Balinese people that predominantly affect the way of SME, in this case, conduct its daily business operation. Thus, better knowledge and understanding of element of the local wisdom are really important in order to know how it triggers the SMEs in performing social business practices in the business. This local wisdom as the fundamental of social responsibility conduct has in return contributed to the competitiveness of the SMEs. The graph above implies that local wisdom has capability to contribute to SMEs competitiveness through social responsibility practices in doing business.

RESULTS

Based on the 2020 population census, the total population in Bali is 4,317,404 people, with a composition of 50.3% men and 49.7% women. As a tourist destination, Bali is known for its culture and customs. The majority of Balinese people are Hindus who represent about 83.5% of the total population. Therefore, cultural values and local wisdom of the Balinese people are strongly influenced by the teachings of Hinduism. The Balinese people highly respect this cultural value and the local wisdom as guidance in carrying out their daily life. The application of this value is to achieve *Jagadhita*,

that advocates for creating peace for all creatures and harmony in the universe.

Local wisdom is the result of long historical behavior as part of the culture carried out from generation to generation. This is reflected in the values of life that prevails in community group. Balinese people are known for their hospitality, respect for dignity and tolerance. For example, mutual respect occurs between fellow residents who work in the fields or other social work due to a sense of mutual need for one another. The life order of the Balinese people is strongly influenced by local wisdom in their social relationships. In life with others, there is the value of local wisdom *Tat Twam Asi* ("I am you, you are me"), meaning that every human being is the same. This value underlies the attitude of mutual tolerance among the community.

In realizing the value of *Tat Twam Asi*, there is *Catur Paramitha*, which regulates human relations. *Catur Paramitha* refers to four attitudes that humans must adopt toward others, namely *Maitri*, *Karuna*, *Mudita*, and *Upeksa*. *Maitri* means friendliness with others by living in harmony and loving each other without envy or hatred. As a fundamental of life, love becomes the basis of behavior and attitude of friendship, cooperation, hospitality, and willingness to help others. *Karuna* means compassion towards others by being tolerance and willingness to assist others who suffer and have problems. *Mudita* means the attitude to please others and sympathy for the success of others without envy. The last element, *Upeksa* means tolerance and mutual respect for others.

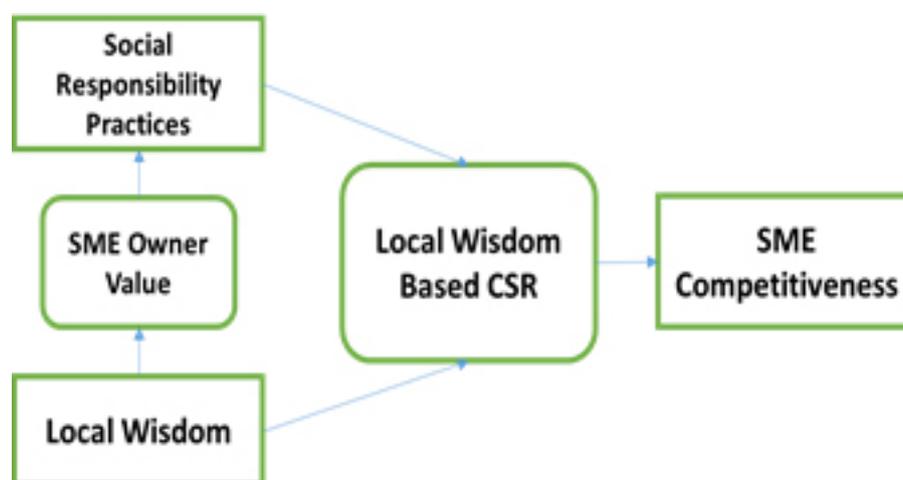


Figure 1. Research Design

Another life value, *Tri Kaya Parisudha*, consists of three elements. The first element is *Manacika* whose meaning is mind control by thinking right. For example, Balinese believe that, in conducting relationship with others, they should think positively and optimistically without prejudice against others; do not spread rumor, do not want others' property. The next element is *Wacika* or telling the truth by controlling speech. Humans are expected not to criticize each other, not to say rude and dirty words, not to tell lies and to keep their promises. The third element is *Kayika*, which means doing the right thing, such as not killing or torturing animals, preserving the environment, being honest and polite, and behaving according to applicable ethics. Examples of manifestation of the values above are *Menyame Braya* and *Dana Punia*. *Menyame Braya* is treatment of others with compassion, helping each other, living in community with harmony while *Dana Punia* is active involvement in community in the context of social activities such as giving donation, helping poor people and so on.

These value of life are applied in daily life when dealing with both in community and environment as there is belief of the existence of *Karma Phala*. *Karma Phala* is a belief that any actions taken in life will in return give back the results of these actions in the future. If a deed is good, then it is believed that *karma* will give good results, and vice versa. Balinese people believe that human life cannot run properly without the presence of all creatures on earth along with the universe. Therefore, the belief of the Hindu community in Bali prioritizes harmonious relationship between all existing creatures. The relationship between human and God, other humans, and nature needs to be maintained in harmony in order to achieve happiness in life. These three harmonious relationships are known as the *Tri Hita Karana* philosophy (Babad Bali, 2016). *Tri Hita Karana* comes from *Sanskrit*, meaning three words, namely *Tri* meaning three, *Hita* meaning happiness, and *Karana* meaning cause. In other words, *Tri Hita Karana* indicates three causes of happiness. To achieve happiness in life, Balinese people believe in maintaining harmonious relationship between humans and God (*Parhyangan*), human-human relationships (*Pawongan*), and human-nature relationships (*Palemahan*).

The application of *Palemahan* can be done through preserving nature and the environment, which has become a tradition for generations. A sustainable

environment can be a source of fortune and prosperity for humans. Relationships with humans or *Pawongan* can be realized by maintaining good family relations, friendship both in society and in the workplace, compassion, helping each other, are some examples of maintaining harmonious human relationship. Additional life value that maintains harmonious relationship with humans are compassion, nurturing, offering motivation to others, affection, and fostering one another. The relationship of these two elements is not complete without harmonious relation with God, or *Parhyangan*. This relationship is manifested through religious activities such as praying, obeying religious teachings and carrying out religious ceremonies. In order to create harmonious relationship as indicated in three elements of *Tri Hita Karana*, the believers refer to the values of life such as *Catur Paramitha*, *Tri Kaya Parisudha*, *Menyame Braya* and *Dana Punia*.

In running their businesses, SMEs in Bali adhere to the philosophy of *Tri Hita Karana* and the order of social life in accordance with the customs prevailing in the traditional village. SMEs run their businesses by trying to maintain harmonious relationship between the Almighty, fellow human beings and the environment. SMEs have unknowingly carried out corporate social responsibility by running their businesses adhering to the *Tri Hita Karana* philosophy and local wisdom. In his research, Astawa (2012) stated that harmonious values have been carried out well by business actors in their customs and *awig-awig* (customary law).

An example of the practice of social responsibility as manifestation of *Tri Hita Karana* value is found in SME producing patchwork handicraft. The SME empowers housewives surrounding the business operation as workers in the company. This SME in addition has committed not to terminating employment during the Covid-19 pandemic and continue to provide wages in accordance with the minimum wage. In addition, informal communication, friendly working atmosphere, flexible working hour and chances to pray together are the ways of this SME realizes the *Pawongan* concept. This indirectly increases employee motivation and loyalty which has impacted employees' productivity.

SME producing incense from organic materials embodies the concept of *Palemahan* or harmonious relationship with the environment by making herbal and organic incense products made of mahogany and agarwood. Incense is a product routinely used in

Balinese ritual activities in daily prayers and religious ceremonies. In addition, incense is often used in meditation activities. Most of the existing incense in the market uses chemicals not good for the environment and human health. By using this organic material, this SME has considered the value of harmonization with nature, offering products safe to use and environmentally friendly. This unwittingly affects the products preferred by consumers because they are not harmful to both human health and the environment.

Other SME produces SPA products made from natural and organic ingredients safe to use for the customers. In addition, the SME has registered its products with the Food and Drug Supervisory Agency (BPOM) as well as other certifications required to ensure the feasibility of the products produced. The SME uses packaging easily biodegradable so it does not pollute the environment. Referring to the value of *Tri Hita Karana*, this SME fulfills the elements of *Pawongan* and *Palemahan* because it has produced products safe for fellow humans and at the same time have contributed to preserving the environment. Overseas customers favor these products because they fulfill social responsibility in terms of product safety and environmentally friendly.

SMEs producing furniture from used wood of fishing boats have experienced continuous demand from customers abroad because it produces furniture and interior products that indirectly contribute to preserving the environment. These SMEs carry out the *Palemahan* value of the *Tri Hita Karana* through the used wooden raw materials so that they have indirectly participated in conserving the forest by not using fresh wood from the forest and not from illegal logging. These actions determine the decision of foreign buyers to conduct business transactions with SMEs because the products are environmentally friendly. Transactions with foreign buyers will not occur or are difficult to apply if the products are made from raw materials that destroy forests or illegal logging.

Based on the illustration mentioned previously, the value of local wisdom, *Tri Hita Karana*, as a cultural and traditional value, has strong influence on the life of the Balinese people so it also affects the entrepreneurial orientation of SMEs. The application of *Tri Hita Karana* has a positive impact on the performance of an organization or company and the ability to achieve strong excellence (Surya et al. 2017). Winata (2019) adds that *Tri Hita Karana* enables companies to create

a sustainable competitive advantage. Competitive advantage is the condition whereby the companies possess the ability in generating higher profitability compared to its competitors by offering more economic value to the customers (Besanko et al. 2015; Barney et al. 2006). Competitive advantage can be attained by, for example, producing high quality products, treating employees fairly, environmentally concern and so on. According to previous research, competitive advantage has positive correlation with social responsibility practices in SMEs (Jenkins, 2009; Apospori et al. 2012).

The competitiveness attained by the SMEs is due to the manifestation of this local wisdom through being social responsibility in conducting business practices. The value of local wisdom, which is the value of life, has unconsciously become a practice of social responsibility in SMEs. If linked to the four categories of social responsibility strategies in SMEs by the European Commission (2002) of community, environment, workplace, and marketplace, the four values of local wisdom demonstrate a relationship as shown in Figure 2.

Local wisdom such as *Catur Paramitha*, *Tri Kaya Parisudha*, *Menyama Braya*, and *Dana Punia* is manifested by the SMEs in Bali as social responsibility practices that lead to competitiveness. For example, the element of *Catur Paramitha*, *Manacika* or good thinking is defined as creative thinking by making new innovations in the products created.

For example, SME that produces furniture from driftwood seek to find the latest models from trending references to meet the customer tastes and trend from the international market. This relates to the category of corporate social responsibility, relating to a marketplace in the Euro Commission 2002 producing quality and innovative products and providing good service to customers by fulfilling orders according to consumer tastes.

This practice creates competitiveness in terms of loyalty of overseas customers through continuous orders. In addition, by using driftwood waste that pollutes the beach, this SME has indirectly implemented the value of *Kayika's* teachings, namely doing good by utilizing waste and preserving the environment. This practice exemplifies the category of corporate social responsibility – a setting from the Euro Commission

2002 which includes environmental protection in the form of eco-friendly products. This practice also has an impact on competitiveness in terms of producing environmentally friendly products favored by overseas customers. In addition, the raw material cost component is reduced through the use of coastal waste.

SMEs that produce furniture and interior products from used boat wood make their products based on customer tastes and needs. This relates to the desire to provide what customers need by fulfilling orders as requested and is a manifestation of *Kayika's* teachings in *Tri Kaya Parisudha* and the value of *Karuna's* wisdom in *Catur Paramitha*, which essentially seeks to help others live. The practice of social responsibility based on local wisdom is closely related to the category of corporate social responsibility – the setting within the Euro Commission 2002. This has an impact on competitiveness by creating customer satisfaction with products that meet market needs and are environmentally friendly.

SMEs producing the furniture also provides knowledge to fishermen in the Banyuwangi area on how to process and transform the abandoned boat to become wooden material ready to use as raw materials for the furniture. By this, the fishermen knowledge and experience have been improved and at the same time increase their income. This knowledge sharing is indirectly related to the value of *Mudita*, referring to sympathy for the

circumstances of others, manifested by providing knowledge of ship waste management to fishermen. This social responsibility practice is an example of community-related practice in the Euro Commission 2002. This practice has an impact on competitiveness in terms of ensuring the supply of raw materials from suppliers with guaranteed quality.

Almost all SMEs in this study mentioned their active involvement in making both donations to people experiencing difficulties, donations to temple reconstruction activities and to religious and traditional ceremonies. These are related to the value of *Dana Punia's* local wisdom in the form of a partial allowance for donations. For example, patchwork-producing SMEs specifically shared her experience when distributing as many as 30.000 free face masks to motorcycle taxi drivers and the surrounding community when the Covid-19 virus was rampant in Bali. Incense-producing SMEs allows students to work in her workshop as an internship. This is related to philanthropy activities aiming to build engagement with the community through empowerment of local community. This is aligned with the community aspect in the Euro Commission 2002. This practice also indirectly creates good reputation of the SMEs for future recommendation. This in addition indirectly can be a good way to have guarantee for license to operate of the business in the environment where the SMEs domicile.



Figure 2. Local wisdom based CSR in Balinese SMEs

In addition, the nature of kinship and mutual cooperation as a reflection of the value of *Menyama Braya's* were also dominantly mentioned by the SMEs. The practice of social responsibility carried out by the informants such as close relationship without discrimination, informal communication, fair treatment, good remuneration, training, friendliness, flexible working hour, place to live are some examples. The practices are closely related to the workplace aspect of the Euro Commission 2002. This practice creates competitiveness in terms of creating employee loyalty and motivation which has an impact on employees' productivity.

The value of local wisdom impacts the social responsibility strategy in SMEs launched by the Euro Commission in 2002. The category of social responsibility as a strategy for SMEs consists of four elements: marketplace, workplace, environment, and community. Figure 2 shows that *Tri Kaya Parisudha* and *Catur Paramitha* have linkage to all categories of corporate social responsibility strategies within the Euro Commission 2002. For example, the element of *Manacika*, or good thinking, produces quality and innovative products that have an impact on the marketplace. The element of *Wacika*, or speaking well, and *Maitri* will have an impact on good relationship by providing service to customer need and complaint, which also has an impact on the marketplace. The element of *Maitri*, *Karuna*, *Upeksa*, and *Wacika* are related to the workplace by establishing good relation with the nature of kinship, tolerance and helping employees.

The environment can be related to the value of *Kayika*, with the application in reducing production waste by using raw materials from natural materials or waste. The value of *the Dana Punia* can be linked to the community element in which the activities carried out can be in the form of participating in community activities, contributing to the construction of houses of worship and providing assistance to underprivileged communities and others.

The value of local wisdom implemented by the Balinese people impacts the rules within the theory of corporate social responsibility. This indicates that the value of local wisdom can be used to increase the competitiveness of SMEs if it is associated with a social responsibility strategy. The concept of social responsibility as strategy in business is really important as people are recently more concern on environment

sustainability and human well-being. This concern accordingly affects the consumers' decision when buying products that are safe to use and eco-friendly (Puspitasari et al. 2021).

The analysis above has shown that local wisdom has great influence in the SMEs way of life that have great role in social responsibility behavior. This mindset accordingly affects the way the owner of SMEs conduct business operation. The SMEs have unconsciously implement the concept of corporate social responsibility. The SMEs do not realize that the local wisdom realized by implementing social responsibility has positively impacted the competitiveness of their business. Many still view the value of local wisdom as a teaching that guides humans in carrying out their personal lives and has not been associated with business strategies. In addition, the value of local wisdom associated with social responsibility strategies for competitive advantage is still very limited. Therefore, the result of the research is to prove that local wisdom has great potential to increase the SMEs competitiveness through social responsibility practices. The potential has to be elaborated more useful to increase SMEs competitiveness

Managerial Implications

Based on the analysis above, it indicates managerial implication that the SMEs have to take into consideration. The first implication is the necessity to broaden the knowledge capacity of SMEs relating to the concept of corporate social responsibility. This knowledge in effect can assist the SMEs to relate the value of local wisdom *Tri Hita Karana* with the social responsibility principals and apply maximally the potential of local wisdom based social responsibility to increase competitiveness of the business. The knowledge and understanding of corporate social responsibility strategies can be carried out by participating in training activities, dialogues, seminars and direct mentoring. This approach is taken to be able to broaden the insights of SMEs so that they can change their perspective on the importance of practicing corporate social responsibility as a strategy that is linked to local wisdom values.

The second managerial implication is the importance of SME commitment regarding the social responsibility. Factors that play an important role in increasing the commitment of SMEs is the existence of policies that encourage SMEs to integrate social responsibility

as a business strategy. This policy needs to be linked to local wisdom values that have become a tradition of life with the aim of being more easily accepted by SMEs. Policies must be facilitating, establishing partnerships and designing frameworks for government work programs that involve SMEs to integrate social responsibility practices into strategies.

The next implication is the establishment of communication with relevant stakeholders. Communication with employees is an important factor in the efforts of SMEs to integrate this social responsibility into the strategy. This aims to gain commitment and increase employee motivation to achieve the goals set. Lastly, the managerial implication is the development of program implementation strategy. SMEs carry out social responsibility practices as a strategy based on local wisdom that has become a tradition in everyday life. With a better understanding and a supportive business environment, social responsibility practices that are integrated with this strategy can increase the competitiveness of SMEs.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The value of local wisdom has influence on SMEs competitiveness as the value is manifested into social responsibility business practices. The practices are based on local wisdom, *Tri Hita Karana*, that has long been way of life for the Balinese. The dimensions of *Tri Hita Karana*, human to God, human to human, and human to environment, have taught the Balinese people to have respect for all of these elements as prerequisite to attain happiness in life. As this philosophy becomes a way of life, SMEs in Bali mostly apply this value when performing business. Accordingly, the values are realized by conducting the business in socially responsibility manner.

The value can be the source of competitive advantage when SMEs practice such values in the business concept. The values have led the SMEs to produce innovative, good quality product and safely to use for the customers. These have caused customers satisfaction that accordingly improve customers' loyalty and SMEs reputation. In addition, respectful, communicative and fairly treatment to the employee have accordingly

created employees' loyalty and productivity. Moreover, the concern of safe environment reflected in eco-friendly product and waste management have resulted in cost efficiency. Lastly, the involvement in community has preserved license to operate for SMEs in performing business. All of these have shown that the implementation of local wisdom through social responsible business practices can be the source of competitive advantage.

Recommendations

The role of local wisdom values as a potential for increasing the competitiveness of SMEs needs to be increased through a comprehensive understanding of the benefits of social responsibility practices as a strategy. Therefore, the government need to do this through education, socialization and mentoring programs. Changes in the perspective of SMEs in applying the value of local wisdom as a value that has the potential to increase competitive advantage through social responsibility practices that are integrated with strategy. This effort can be carried out by engaging stakeholders to integrate this concept into the SME business strategy. Stakeholders are expected to work together in synergy to create a conducive business environment to support social responsibility practices as a strategy for competitiveness in SMEs.

Future research may attempt to test the validity of the result of this research by applying quantitative methodology. The method not only can cover more respondents but also wider areas whether within Bali or outside the island. Another potential future approach can elaborate more on different concept for SMEs in carrying out social responsibility practices as business strategy. This can be used as basis for policy maker to design policy suitable to the character of SMEs. This is important considering that Indonesia as a country that has a diverse culture, local wisdom as daily life value is crucial factor for consideration.

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