



Graduate School of Development Studies

BONDING/BRIDGING SOCIAL CAPITAL: IS IT A CHOICE OR NECESSITY?

Case Study of Rebana and Metal Clusters in Central Java

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List of Acronyms

| | |
|--------|--|
| FPESD | Forum Pengembangan Ekonomi dan Sumber Daya |
| FEDEP | Forum for Economic Development and Employment Promotion |
| SME | Small and Medium Enterprises |
| PACA | Participatory Appraisal Competitive Advantage |
| FRK | Forum Rembug Klaster |
| CNC | Computer Numeric Control |
| GTZred | Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)-regional economic development |

Abstract

The paper examines the basis of interactions of firms in rebana and metal cluster. The frequent interaction of the firms which are used to gather access to economic resources on the basis of relations within kinship, family, and familiarity, is defined as social capital. The basis of the interaction is differentiated into bonding and bridging social capital. The study focuses on the basis of interactions of firms which are mostly taken by the artisans to access economic resources. The study found that bonding social capital route is the route mostly taken by firms. Moral obligations, kinship and family systems, norms, values, instability of market and the power of the leading actors are the reasons why the clusters take the strong ties. It is found that maintaining these strong ties is the useful approach for small artisans to survive because of their lack of capability to be independent. However, building wider relationships with other different background of people such as global buyers, and different group or organizations are a need for the leading firms that mostly have the capacity. It is concluded that bonding social capital needs to be maintained as the first approach of small firms to gather easier access for economic resources. Meanwhile, it needs to be actualized to trigger wider interactions with other partners for the benefit of the firms.

Relevance to Development Studies

Social capital has been proven to contribute for development. Its existence as the basis of interactions becomes an asset for individuals to have an access of economic resources. Within the context of industrial cluster, especially for cluster where the strong ties dominate the interaction, needs to be reviewed as its benefit for developing clusters

Keywords

Social Capital, Bonding/Bridging Social Capital, Javanese Kinship and Family, Cluster Development, Cluster Trajectory

Chapter 1

Introduction

1.1. *Background*

The importance of inter-relationships and group networks in human activity seems to be interesting to discuss because of its dynamic. Most of us are aware that maintaining relationships will augur well towards the achievement of our goals of life. More importantly maintaining and nurturing these relationships could persuade others towards concerted actions in achieving mutually beneficial interests and goals. Some people may incur losses due to having less personal ties with any individual or group which actually could benefit them in accessing certain resources. To achieve certain goals, they might be able to reach it without certain networks, but, with a big deal of challenge. Fewer networks in accessing resources might end up in failures in achieving the goals.

People who are within the networks are connected through process of relations could form a kind of capital (Field 2008). It is simplified that the importance of relationship of the people is the core of social capital “relationship matters” (Ibid: 1). Then, he further states that “the more people you know, and the more people you share a common outlook, the richer you are in social capital” (Ibid: 1). His point indicates that the relations that people build with other individuals or groups would provide them wider access to resources by benefitting from the connections they have. The wider the relations with other people, the easier access they have to get resources they want. How about individuals who have less relations? Shall they build their own alliances? Shall they ask for a favor from the state?

Relationship that matter most for small and medium enterprises is termed as social capital by some scholars. Additionally, some studies discussed interactions which happen at different levels of engagement among actors, such as the interaction within the family, organization, friend, neighbor, and those that are based on common background within the society. This is termed as bonding social capital (see Woolcock 2001, Knorringa and van Staveren 2006). The other type is bridging social capital where individuals need to build new connections in order that wider relationships with other individuals of different background and identity are established (Ibid.). Bridging social capital opens more opportunities for individuals for upgrading, innovation and growth.

Several cases confirm that relationship within members of family may be one of the solutions in accessing difficult resources for instance, as in the case of wood carvers in Senegal (Repetti: 2002) in which the artisan is employed by his father. This confirms that family relations offer members better opportunities in the labor market. Chinese start-up entrepreneurs who were assisted by their family for initial funding benefitted because of lower transaction costs (Au and Kwan 2009). Another example is the case of Ethiopian shoe makers who rely on their similar group for buyer relations (Knorringa and van Staveren 2006). This strong tie is argued to be important not only as channels for information and financial capital, but also for motivation, support and interpersonal pressure (Au and Kwan 2009).

The other type of social capital is bridging social capital. It is believed to be important for marginalized countries (Knorringa and van Staveren: 2006) due to its opportunities to develop industry. The case of Vietnam shoe makers confirm that they were able to upgrade by being processor intermediaries between the Republic of Korea and Taiwan. On the other hand, Ethiopian shoe makers tried to utilize incipient forms of social capital to enhance capabilities of various group of artisans within the clusters itself. In the

first case, the challenge is to move from processing to direct buyers, while the second example largely challenged for its own relations among various firms within the network.

One finding from the study on social capital in industrial clusters mentioned that bridging social capital play distinct roles in cluster development. Whenever bridging social capital is strengthened, it leads to industrial development in marginalized countries (Knorringa and van Staveren 2006). It reveals to a suggestion of the transformation of bonding into bridging social capital. A question that needs to be asked is when do firms need to transform the stock of bonding into bridging social capital?

As the above examples show, bonding social capital is important for labor market information, lower transaction cost, and financial provision for start-up entrepreneurs. A study by Johannsson and Olaison (2008) in relation of social capital and entrepreneurship, suggests that the strong ties are beneficial to actualize the weak ties or bridging social capital. In this paper I argue that bonding social capital, to a certain extent need to be strengthened for the sustainability of clusters in Central Java, especially for start-up firms.

1.2. Relevance and Justification

Based on several studies conducted by scholars; Knorringa and van Staveren (2006), Basan and Schmitz (1997), illustration of how social capital matters in economic development are proven. Social capital is dynamic naturally as the condition and structure of society is changing. It has been proven as one of the capitals which contribute to development. The case studies in this paper will bring to fore discussions on bonding and bridging social capital and there significant values in further providing asset for firms in widening their networks. The paper will look at two cases where bonding/bridging social capitals are seen as important assets for the growth of enterprises at certain level. It further suggests a need for maintaining bonding social capital not only for growth and upgrade but also as basis of transformation into bridging social capital.

1.3. The Objective of the Study

The paper illustrates and analysis the existing types of social capital in two case studies of clusters in Central Java, and how its strong/weak ties are built in the cluster. Further, it will review how and why individuals choose certain route of social capital relatives to other routes.

1.4. The research Question

The main research question the paper answers is: “To what extent does social capital influences the roles of key actors’ relationship in rebana and metal clusters in Central Java?” To answer the question, the sub-questions will follow:

- i. What kinds of social capital exist in the rebana and metal clusters which belong to certain trajectory of cluster? (the bonding and the bridging social capital)
- ii. What are the sources of the existence of social capital? How are they formatted?
- iii. Why and how do firms choose certain route of social capital as the basis of their relations?

1.5. The Research Methodology and Limitations

The research methodology

To answer the above question, the research employed field work and desk study. The fieldwork was conducted in July to August 2010, taking a total of four weeks. Twenty four in-depth interviews were conducted to 13 stakeholders in the Rebana Cluster at Brebes, and 11 for the Metal cluster at Pati. They include big, medium, and small firms, local government, and FEDEP. The Rebana and the metal clusters were chosen because (a) they are facilitated by the local governments at local and provincial levels, and (b) these industrial clusters have different conditions of stock social capital. This would bring comparative dynamism in the results of the case studies.

Purposive sampling was used in the study. The interviews with enterprises centered on history of agglomeration of the enterprises and relationships with other stakeholders; the relations of producer with suppliers, with government, and the buyers. The enterprises were selected based on the size of the employees the entrepreneurs. The selection of respondents follow an iterative approach of (a) listing potential interviewees from firms classified as big, medium, and small size, (b) listing of possible enterprises that would be interviewed. The selection process was aided by key informants knowledgeable in the area of clusters. During the field work several enterprises not otherwise listed were interviewed to validate responses of listed enterprises.

Two phone interviews were resorted to for big enterprises due to their tight time availability. Discussions with government support institutions were accomplished to gather their experiences in facilitating programs for enterprises, one of the influential factors on the existence of social capital. A number of documents were likewise gathered to complement data from the interviews. They include the handbook of the addressed regions, news from media, cluster program planning generally in Central Java, implementation of programs and results of the facilitation activities.

Practical limitations

Interviews with big enterprises and buyers were difficult to do since they were very busy with their businesses. They were rarely at the enterprise or at home which impelled me to do phone interviews. Within the limits of phone interviewing, discussions were done with utmost tact and care in order to elicit needed concerns, experiences and recommendations.

The limited studies at local levels on social capital and cluster contributed to the hardship in gathering relevant literature on the subject. In the absence of local level information, regional data was extrapolated and served as benchmark to data needed to be presented for local level conditions. Insights of the reality were also gleaned through observations of interviewees' reactions during the conduct of interviews. These brought out several ideas for researcher what was going on.

1.6. The Structure of the Paper

The paper contains six chapters. The first chapter presents background of the study, relevance and justification, and the objective of the study. In the same chapter, the research question is provided with its methodology. Chapter 2 covers conceptual framework used in the study. Discussions on social capital and its type will be elaborated. In the same chapter, how the system of family and kinship in Java work in daily life will be provided. Next, the literature review related to cluster—generally in Indonesia, and specifically in Central Java—will be offered. Chapter 3 discusses the position of rebana and metal clusters within the typology of clusters. Next, Chapter 4 focuses on the features of social capital in rebana and metal clusters. An in-depth analysis whether the bonding and bridging social capital could be regarded as a choice or a necessity is discussed in the fifth chapter. The last, chapter 6 will sum up the whole findings.

Chapter 2

Conceptual Framework

2.1 *Introduction*

The focus of this chapter is to review relevant theories and concepts of social capital in industrial clusters. This is the basis for describing and analyzing the case studies in rebana and metal clusters. The concept of social capital would be seen in the context of industrial clusters in Indonesia and especially in Central Java. Types of social capital are also provided and accompanied by an illustration of how Javanese social relations are built. The trajectories of cluster are discussed to frame the position of the clusters.

2.2 *Defining social capital*

The term '**social capital**' was first noted by French sociologist Pierre Bourdieu. Bourdieu sees social capital as an asset or capital of social relationship related to social hierarchy. There is benefit of individuals who have connections with privileged people. However, it becomes a bad news for marginalized people. Those who do not have such network with certain people are assumed to have less benefit because of less access to resources. As quoted by Field (2008), the work of Bourdieu (1980:2) says that:

“Different individuals obtain a very unequal return on a more or less equivalent capital (economic or cultural) according to the extent to which they are able to mobilize by proxy the capital of a group (family, old pupils of elite schools, select club, nobility, etc).”

The work of Bourdieu offers social capital scholars with a pessimistic view related to the benefits in using this capital. It emphasized that existing social capital can only be accessible to those who have reliable connections with certain individuals, people, or groups. The connections built due to the bonding ties among them are built with or without intention. Some return the gain due to their personal closeness, while some have less gain due to their lack of connectedness. Bourdieu and Wacquant (1992: 119) offer broad definition of social capital:

Social capital is the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition. Acknowledging that capital can take a variety of forms is indispensable to explain the structure and dynamics of differentiated societies (Bourdieu and Wacquant 1992:119).

From the above definition, it is suggested that social capital is the accumulation of individual or group's interaction result on values, habit, and norm, by acknowledging the existence of common familiarity to achieve certain goals. However, it seems that Bourdieu highlights the segmented people who benefit the results of the interaction. He shows his anxiety on people who do not belong to any network or interaction with others who are institutionalized. Some do not belong to any structure of the group or society that could offer access for the members in acquiring certain resources. Some are excluded and have less access and co-operation for certain resources.

Meanwhile, Coleman (1994 as cited in Field 2008) disagrees with the skeptical view of Bourdieu related to the poor and the marginalized people for having no access in exploring the resources due to lacking of ties with certain groups of people or individuals. He emphasizes that social capital comprises a resource because it postulates reciprocity expectation and wider networks where trust and shared values guide relationships. These elements benefit poor and marginalized communities because social capital is not limited to the powerful. The works of Coleman, according to Field (Ibid.) have wider influence than that of Bourdieu. Coleman views social capital bringing positive impact not only for certain people, but also for all. For him, the concept of social capital is important to explain how people manage to cooperate. His basis for defining social capital was the individual rational choice where every actor benefits from the social network or relationship he belongs to. In line with Coleman, Field (2008) added that social capital is called a capital because of its ability to facilitate actors easier to get resources.

By reviewing the above social capital debate, it seems that we need to see the different approach they look at before we move to the social capital literature in relation with industrial clusters. For Bourdieu and Wacquant (1992), social capital is segmented into a group of people which then compared to those who do not belong to any connection or network. Their view is based on the existence of hierarchical position in society. The work of Bourdieu implies two social capital elements; social networks and connections, and sociability. The first refers to network and connection gathered due to frequent exchange in the group in terms of shared norms and identities. These exchanges offer an access to certain resources which benefit them (Ibid: 143). The second refers to how the network is maintained. It requires skill and power to sustain the interconnectedness. Therefore, those who have no power and ability to involve in the network will have less opportunity in accessing resources which can be achieved only whenever they have special ties within the group or with certain individuals. However, Coleman sees that social capital is a capital whenever it benefits everyone because the term of 'capital' is used in a positive way; not the other way around. The occurrence of how people manage in the group and the ability of people to make use of the network to be more effective is how the capital works.

Within the context of Central Java's social milieu characterized by hierarchical position within the family and its prevailing asymmetrical social and cultural structures, the postulate offered by Bourdieu seems more relevant to work with. The interaction of individuals within the family and people in the society possibly bring certain type of interaction, network and co-operation among them which later could bring exclusion for others. It could happen simultaneously without the group or family realizing that their segmented network could bring others who do not belong to them to fail to have certain opportunities as others in the group have. It is not uncommon for people to contact their friends first for a certain opportunity, say, a vacancy, instead of informing others. This is because they prefer people whom they trust on the basis of experiences they acknowledge before. This transaction results in the exclusion of those who may be more competent. Or it happens in the group of entrepreneurs who seek raw material. Suppliers will easily give the material for their neighbors or extended family, without legal agreement or contract before. But those having less continuous engagement with certain people or suppliers might experience difficulties to have informal agreement, even though they might be able to purchase it in cash without knowing the suppliers.

Recent study conducted by Knorringa and Van Staveren (2006) about social capital in relation with industrial development, defines social capital as "the set of social relations that enable entrepreneurs to gain, maintain or expand access to economic resources and that entrepreneurs use to reinforce the productivity of these economic resources" (Ibid: 5). Further, it suggests that 'governments and multilateral organizations have an important role to play in creating enabling conditions for social capital formation, by working towards reducing inequalities and power asymmetries in societies, reducing

uncertainty and improving participation (Ibid:12)'. At this point, we could see that social capital could be triggered by certain types of activities from outsiders. The dark side of social capital could be likely overcome by initiatives of outside actors by providing enabling environment which is conducive for network and relation improvement.

The study of social capital in industrial development mentioned above seems to offer a solution in coping with the problem of the possible negative effect of social capital such as the unequal return and exclusion. The suggestion of social capital formation assistance from outsiders indicates that social capital could be created and is proposed to bring benefit for all individuals—not only certain groups of people or privileged ones—and to reduce inequalities. The proposal of the creation of social capital is meant to bring the level of network and relations to be wider.

The literatures on social capital in industrial clusters pointed to my working definition of social capital as any resource in either concrete or abstract forms utilized during frequent interactions among firms in a cluster in order to gain economic benefits on the basis of trust on kinship, family, familiarity among others, and on strangers. This is particularly appropriate in the Central Java society where the system of kinship seems to be strong within a family. Such kinship recognizes among others preferential treatment of family members and extending support to each other. It happens in the relation among firms in one of study cases discussed. It bonds firms to trust more members of family to co-operate and engage in, most especially economic activities. Social solidarity and obligations among close friends and neighbors mostly happen in the cluster while some try to trust strangers as well.

Types of social capital

In social capital literature, the sources of social capital are discussed and divided into bonding social capital and bridging social capital which are commonly recognized (Woolcock 2001, Knorringa and van Staveren: 2006):

1) Bonding social capital

Bonding social capital originates from social ties such as family, kinship, ethnicity, organization, or religion. It is mentioned that bonding social capital is often found in horizontal relationship such as in cluster, among firms and firm with other stakeholders, business service providers, and business associations. As noted also by Putnam, bonding social capital tends to reinforce exclusive identities and maintain homogeneity. It is 'a kind of sociological superglue in maintaining strong loyalty within the group'. The bonding social capital, again, highlighted by Knorringa and Van Staveren (2006: 5), is "important in the context of small and medium enterprises in marginalized countries, in terms of generating a critical mass of like-minded and complementary producers and suppliers that makes a location attractive for outside buyers". The strong bonding social capital engenders certain types of trust among members which enable them to control the free riders that exist.

This type of social capital could be strong but also has dark sides (Ibid.). The discussions of their paper convey possible benighted side of the capital; locked-in into limited resources which trigger less innovation and exclusion of others in generating social capital for people who have less access to resources and those who do not belong to any group and are less influential. Bonding social capital could trigger the practice of nepotism and corruption as it relates to the control of certain people over certain

resources. This is particularly obvious for those who have more connection with governments or higher authorities. Furthermore, it could create fierce competition and thus benefit more entrenched elite minority and create loss for others.

For instance, a study done in Ethiopia finds that the bonding social capital happens in the type of arm-length buyer relations. It is found that it is difficult for enterprises to engage with wider buyers. Meanwhile, in Vietnam, the bonding social capital becomes the basis for the existing hierarchical buyer relations since the large firms are run by political entrepreneurs closely related to certain group interests. Even though this bonding social capital drives to the exclusion, it does not always give negative impacts. It is useful for the clusters whenever there is no local cooperation at all which lead individuals to make use of the bonding social ties. In fact, the relationship built in this level of social capital benefits and plays important roles especially for small firms in developing countries.

2) Bridging social capital

The other type of social capital is bridging social capital. Knorringa and Van Staveren (2006) postulate that it happens due to sharing common (business) values which is as a result of interaction within different groups. In their study, it is found that bridging social capital is relevant for industrial development in developing countries. It is mainly found in vertical relationships such as between producers and global traders or in a value chain.

The trust in the bridging social capital required to be earned. The network built by producers and global traders has less common norms, less common values, and minimum characteristics, and thus the network will work based on the reciprocity of trust. Somebody's good acts would become the basis of other's trustworthiness. Moreover, it is mentioned that the bridging social capital 'enables the emergence of economic transaction costs arising from incomplete contract and uncertainty (Ibid: 21)'. Since in the bridging social capital people need to trust strangers for the sake of cooperation, the trustiness of one another is assessed in every step of the engagement. It is suggested that local producers need to build interaction with outside community such as global buyers and other actors with different background of identity.

From the above illustration of the bonding/bridging social capital, it is obvious that social capital has good impacts toward individuals' connection and network. It seems that there is a suggestion for an action from firms which is facilitated by outside actors to move further to have wider network outside their communities. However, the means of how to manage individual firms in establishing bridging social capital formation facilitated by outsiders remains unanswered. What will the outsiders use to facilitate in building someone's trust towards others, especially those who belong to different background, culture, or identity? Some might answer the trust has to be gained by deciding to take the risk. This decision on taking the risk is called trust (Humphrey J. and H. Schmitz 1996). It comes to the conclusion that having bridging social capital needs certain efforts, takes time, and is too risky for firms that have less power and knowledge of having a certain position in value chain directly. Nonetheless, it is not something which is impossible to achieve.

The possibility of transformation from bonding into bridging social capital happened in Vietnam where every actor, especially state and other parties worked together to provide a conducive environment for shoe firms in engaging with global buyers. Realizing that the stock of bonding social capital was far from enough to bring them to a certain level in global value chain as direct exporters to Europe and the United

States of America, it came to the need to develop the bridging social capital. They started to develop networks with global buyers, to negotiate and to arrange logistics substances. These needs led them to require new skills that could be obtained collectively as well as individually. The exporters mostly have common understanding about the need to have such ‘upgrading’ connection with other wider people for their advantage in the business. However, it is also realized that such enabling environment for the bridging social capital formation is rarely to happen for survival firms in the cluster in marginalized country (Knorringa and van Staveren: 2006). It was found that most of the firms maintain their bonding social capital to connect with limited markets. Again, it was suggested that the bridging social capital needs to be developed for its ability to ‘break the vicious cycle of poverty and marginalization’ (Ibid: 94).

However, it remains questionable whether the bridging social capital would be the solution for the survival firms in developing countries, especially in Central Java where the people are known for strong social values, and norms within the similar identity, to have better living and improved business. Is it true that the transformation from bonding into bridging social capital is a need or necessity? If there is a need to move from bonding into bridging social capital, then which enterprises need to do that? To be able to illustrate the cases deeper, the paper will provide discussion about the existing system of relationship in Javanese family. It will be useful to have some insights of how certain types of clusters prefer to take one kind of social capital instead of the other.

The function of Javanese Kinship and family system

Geertz's (1961) studied kinship and socialization in Javanese family and found that the existence of certain values in the Javanese family influence the way people behave with other extended networks and influences the way they engage in their relations with the rest of the world. He states that ‘...general social values provide legitimacy and meaning to familial institutions and serve as normative guides for the daily give-and-take among family members’ (Ibid: 146). It implies that the interaction within the family members can influence the way they behave with others. The study found that there are two important values that dominate the society behavior in Java; they are “respect” and “harmonious social appearances”. The first refers to an expectation of certain attitude between superior and inferior, and men and women. It is found that this kind of “respect” guides to “social behavior in many different context-towards government officials, in the school, in the political parties, in relationships, among neighbors, and among others” (Ibid.). He adds that this value drives the relation of superiority and inferiority. For those who are inferior will expect for having protection, contribution, and assistance from the superior. And in return, the superior can expect respect, loyalty, recognition, and certain appropriate behavior and etiquette. It shows the hierarchical order for the relationship in the Javanese culture.

The second refers to the way how individuals maintain good relationship with the family membership to be harmonious, and to try as much as they can to minimize the personal conflict within the family. It implies certain unwritten institutions for the member of the family for having ‘good’ relationship from generation to generation. In Javanese term, it is called *rukun*. It is well-defined by Geertz as ‘a state of agreement, of unanimity in a group concerning its means and purposes, at least in outer behavior. If there is no overt expression of divisive opinions and feelings, then the group is said to be in *rukun* (Ibid: 149)’. He claims that in fact, the concept of *rukun* refers not to ‘mutual aid and co-operation but to the appearance of such and to the absence of overt interpersonal conflict’. After all, disappointment often happens at last after a certain degree of decision is made. Nevertheless, it is explained in the study about the contribution of Javanese family and kinship system that:

“...the major contribution of that the family and kinship system make to the functioning of Javanese society: the cultivation and preservation in the individual, through his experience in his family, or primary ethical norms, norms which enable each Javanese to pursue a way of life which is morally acceptable, personally satisfying, and at the same time which integrates and sustains the fabric of the whole society (Geertz 1961: 153).”

To sum up, the existing values raised above is useful to reflect how those can influence the stock of social capital in the clusters. It will be applied in the context of the household businesses in the cluster that mostly develop their businesses based on a strong relationship within the family they have. The case studies taken for the discussion in the paper will illustrate how the stock of social capital they have is likely to be maintained and be useful for survival firms in Central Java province. I propose that we need to review how one kind of social capital can dominate relationship built in the cluster instead of the other type. The bonding and bridging social capital become individual rational choice for having easier access of economic resources to develop the businesses. How one route of social capital can integrate and perceive the fabric of the whole firms in cluster will be illustrated.

2.3 Cluster

There is no common definite consensus about the definition of cluster. The principle notion of the cluster is its agglomeration of enterprises sectoral and geographically concentrated (Schmitz: 1995, Tambunan 2005). Schmitz and Nadvi (1999) state that clusters array from survival, artisans, medium and large scaled firms. Clusters, herein, are influenced by various actors either driven by firms or individuals. Porter (1998) suggests the definition of cluster as proximate group of companies interconnected with institutions characterized by certain commodities and complementarities. In the cluster, there are other actors playing important roles for competition such as public sector, and other bodies such as academies, agencies, and other service providers that support information of market, development of products, training, and so on (Tambunan 2005).

The concept of cluster seems to be important in framing policies to support SME. De Oliveira (2008) says that in clusters, SMEs would be able to cope with problems in the places which have lack of resources; skills, technologies, services, information, credits, markets and distribution channels. Practical experience has shown that SMEs are the actors in economy that are justified to be important for generating income and employment. Clustering is regarded as a tool for local economic development which could strengthen competitiveness and innovation, and pursued joint action (Anderson et.al. 2004)

In the case of Central Java, mentioned by Klapwijk (1997), theoretically, cluster may consist of any mix of ‘cottage’, ‘small’, and ‘medium-scale’ enterprises¹ and is regarded as a survival cluster. The concept of small industry cluster, in Indonesia, as defined by the Ministry of Industry, is as a group of small enterprises and producing similar output, which is located in rural *desa* or small town. Having said that, it retrieves us for survival enterprises study discussed by Berner et al. (2008), where they exist and start not because of their choice, but rather because of some reasons, and one of them is due to wage employment constraints. In their discussion, it is mentioned that the entrepreneurs who within the family are helping each other. It is merely a kind of moral obligation of the poor. The men, who are regarded successful, are expected to help the other members of the family. They are morally obliged to assist the starters or more

¹ It is according to BPS criterion

vulnerable blood-line entrepreneurs. Johannison and Olaison (2008) call it as the importance of social capital for survival entrepreneurs.

In the case of clusters that will be discussed, most cases also show that there are expectations from small artisans to get assistance from the bigger or older successful relative-businessmen. This type of being 'hero' for other smaller artisans within the family is by no means without benefit for the 'hero'. At the end, they could determine the required final products and prices for a particular market. These leading actors face other competitors who have the same target of the same market with various ways of marketing and production chains, and the dynamic change for any level of leading actors including the strongest ones (Knorringa 1996: 36).

Somehow, there are widely accepted views on benefit of clustering. Tambunan (2005) mentions that clustering lead individual enterprises in addressing problems related to production, development, and market information in the cluster. They could also benefit from external economies such as machinery, components, raw material suppliers, and the existence of workers with specific skills. It is easier also for government, universities, and other supporting institutions to provide service in certain concentrated area of firms instead of given to individuals in scattered places. Further, Knorringa et al. (2002) add that in clusters, besides depending on outside actors, there are opportunities for endogenous technological and organizational upgrading through the local actors' contour capacity, and could create collective efficiency (Nadvi 1998). The agglomeration of small artisans in the cluster of Central Java, clustering will bring them easily to cooperate for mutual benefit, less cost (Heinen and Weijland 1998), and bring the place attractive for outsiders because of the pool of production.

Typology of clusters

In many clusters of developing countries, it is acknowledged that many of them are difficult to upgrade because they only have basic equipment for production, and less technical reasons for collaboration due to the simple technology they have. To have some insights of the position of two clusters in Central Java, it is important to review literature on cluster typology. At the end, the rebana cluster and metal one could be categorized for certain typology because of certain conditions. In researches about clusters, the ones that have potentials to upgrade could be differentiated into three typologies (Knorringa et al. 2002). First is the Italianate trajectory. This type of cluster is found for example in the surgical instrument cluster, Sialkot, where many large firms exist. Collaboration and co-operation among firms, service providers, and association, as well as the use of certain technology are easily seen. This type of cluster has reached world market and has a certain bargaining position as well (Humphrey 1995). This type of cluster might not be easily found in other developing countries. It is as a consequence of less capability for technological innovation, resources, supporting enabling institutions. This type of cluster is characterized by the need of high investment in technology and for certain quality standard due to world requirements. The local institutions also engage one another for the cluster improvement in this type of cluster.

The second type of cluster is the satellite trajectory. It is slightly found in most developing countries which have less capability to upgrade. This cluster trajectory is regarded the least attractive one (Knorringa 2002). It is because the large and leading firms are located outside the area of clusters. It results to the less possibility for local endogenous to upgrade. The existence of big manufacturers outside the cluster is because of the cheap labors. However, the skills from the big industries can benefit employees, women for instance. They can acquire more income because of this condition. The cluster also becomes a part of international commodity chain, and offers job opportunities. In Indonesia, rattan furniture in Tegal Wangi West Java is one example for this cluster classification (Tambunan 2005).

The last cluster is the hub-and-spoke type. It is observed that the clusters in developing countries have more potential for endogenous upgrading. Nadvi and Schmitz (1994) state that this type of trajectory is mostly found in developing countries. They have three tiers to consider. First is the available small household and workshops in the area that aim to survive. They target the local markets instead of the wider ones. They are the lowest hierarchy among others. Second is the medium firms whose market is not limited into local but it is also international as well. They are able to invest technology for better production and skills. The last is the firms that can improve innovation, quality, and growth oriented. This hub-and-spoke cluster drives leading families or big firms to monopolize the market because of their access to information and market information. It ends up for them to act as benevolent autocrat for other small firms in the clusters. The example of this kind of cluster is found in most south Asian case studies.

Reviewing the above different characteristics of cluster trajectories, it is assumed that clusters certain characteristics will result to different ways of how enterprises build their relations among others. For example the cluster of surgical instrument which belong to Italianate trajectory. Enterprises are likely easier to build collaboration and co-operation among others because of urgent need to accomplish the world market standard for their product. To reach the standard, they need to co-operate each other. As a result, they will have more frequent interaction compared to the rattan furniture cluster. In the rattan furniture cluster where the big leading firms are located outside the area of cluster, might have fewer interactions with other firms. Further, when we observe the types of hub-and-spoke, different level of tiers might influence them in engaging each other in the cluster.

2.4 The conclusion

The role of social capital in cluster development has been proven to play important role. Reviewing the related literatures about social capital, my own working definition will be used. Social capital is any resource in either concrete or abstract materials which exist because of frequent interaction among the firms which are used to gather access to economic resources on the basis of relations within kinship, family, familiarity among others, and strangers. This paper will focus on the relationship of individuals, in this case mean the firms of rebana and metal cluster in Central Java, where they are bonded with certain family and kinship system of Javanese (Geertz 1961) such as values, norms, and habits. It is then assumed that these bases of interactions among the firms will have certain level of influence in the stock of social capital in the two clusters.

As discussed before about cluster in developing countries, including in Central Java, are mostly found to have less collaboration, and are difficult to upgrade because of simple equipment. Looking at the previous study related to cluster classification, it seems that the Central Java clusters are included in the hub-and-spoke clusters. Based on this assumption, different tiers might result into a certain type of interactions among firms. The interaction of small firms, medium, and the big firms seems to be interesting to discuss where the leading families or big firms are mostly found to be dominant in accessing the resource of information and market channels.

Chapter 3

Positioning Rebana and Metal Clusters

3.1 Introduction

This chapter will describe and position the rebana and metal clusters. The concept of cluster typology will be used to analyze and classify their position. In Indonesia, especially in Central Java, the clusters can be found easily as having simple technology and characterized by informal sectors. It seems to be also found in the case study because mostly the artisans have less advance instrument in the production and less cooperation among firms and supporting institution. This chapter presents how the rebana and metal clusters can be appropriately positioned.

3.2 Rebana at glance

Bumiayu is a small town of 102,798 people located in the south part of Brebes regency. The total population in 2006 was 102,231 and 103,100 people in 2007, 102,789 a year after with 51,735 were female. It has 17 districts which are 9 out them located in the southern part, including Bumiayu. People's main earning comes from farming, trading, and services. Nonetheless, trading sector is one of the main activities which most people do in the town.

In western side of Bumiayu, located a small district namely Kaliwadas. Its 3,357 inhabitants occupy 240,535 Ha of land. It becomes a very attractive place for people as the center where musical percussion instruments are made. Activities such as drying goat leathers and painting them with simple sprayer can be seen clearly in front of almost every house in Kaliwadas. Showrooms in front of their houses are full of products such as rebana or terbang², marawis³, jingle ring⁴, and marching⁵. Most people name the area as the center of Bumiayu's rebana. More than 480 home industries produce the instruments in the area,

² Rebana is round, flat, one-side covered by goat leather. Circular frame of wood is turned, with one hand to tap on the leather. Art in Indonesia, Malaysia, Brunei, Indonesia and Singapore, which often have a tambourine is a musical rhythm of the desert, for example, psaltery, and hadroh Qasida. Rebana musical instruments in various other areas have different name to call. That is terbang. In Indonesia, it is a tambourine with four to five pair in jingles and is usually 10"-12" (25 cm-30 cm) in diameter. Rebana waw originated from the word "Robbana" which means "Our Lord". It comes due to the culture of playing musical instrument related to Islamic religion. It is then often called Rebana. The information is also available in www.rebana.net from the Betawi art Overview, 2003, and <http://www.nscottrobinson.com/framedrums.php> From the fieldwork, the writer concluded that rebana is a percussion instrument which is typically characterized by the one face to tape

³ Marawis is one of the traditional percussion musical instruments originally from Yemen. In Indonesia, Marawis has been adapted to Indonesian tastes. Blended and mixed with the culture as needed. Marawis song is originally used to praise the Prophet Muhammad. Now, it is widely used for celebration of certain regions or wedding parties.

⁴ Jingle ring is like tambourine but without skin or leather.

⁵ It has been used since 19th century by a variety of composers. It contains 6-8 tenor drums. (Ibid.)

and employed 4-5 people per household. This production becomes the main activity for the people in Kaliwadas⁶.

It was in 1950s that raw materials such as woods and goat leather were abundant. As the majority of the inhabitants are Muslims, traditional activity such as playing music in the rhythm of Middle East was usually played in the area and neighboring districts. The culture also drives them to produce, mainly, rebana. Therefore, demand of rebana increased. In the year of 1960s, the producers of the instrument were only about 180 households. Artisans used to make the products manually. Further, they can improve the products better. Since then, specialization in the *sentra*⁷ was started. From generation to generation, the division of the producers naturally happened. There are groups of people who involve in the framing, designing, and finishing processes. They do not use much sophisticated technology in making the instruments. Mostly, they use their hands for making the rebana and only use other simple technologies to help them.

The production for musical instrument was only for domestic market. The demand was from Central Java, Jakarta, West Java, Kalimantan, and Sumatra. Started in 1990s, the market of this instrument was getting wider. It starts to attract buyers from international markets such as Malaysia, Brunei Darussalam, Singapore, the Netherlands, Canada, Australia, and America. Besides functioning as musical instruments, the buyers make use of them as souvenirs. For Malaysia, the demand is driven because of religious reasons⁸. Because of the prospective market for traditional musical instruments, the artisans started to make diversification of the products such as marawis, jingle ring, and marching. The diversification was driven mostly by the buyers' inputs.

Producers have different ways in marketing and selling the products. Most of them have showrooms in front of their houses and other places. For the big producers, usually they also have some branches in other cities such as Jakarta, and Yogyakarta. The other ways are through spreading brochures, offering to any sport and musical shops, establishing websites, and joining exhibition. Offering to any sport and musical shops is the most common way of marketing done by rebana makers. A few producers can join exhibition. They are mostly big firms who are well-known by the government. They usually have more information from state compared to other small firms.

The starting point of program for cluster development

The rebana cluster is, then, becoming the backbone of the economy of the society. Therefore, in 2006, the local government started to plan strategic programs for the cluster. It was driven by an assessment of local economic development competitiveness facilitated by GTZ-red⁹ and FPESD (a dialogue platform for local economic development at the provincial level) by using PACA instrument. The assessment of local competitiveness in Brebes regency using a tool of competitiveness called PACA¹⁰ exercise resulted in four chosen programs for further development. They are programs for rebana, agro tourism, salty

⁶ Bumiayu District data in 2009

⁷ The term of *Sentra* was commonly used for the place where the center of production happened. Recently, the term of "cluster" is more commonly used to refer to *sentra*.

⁸ Paper presented at the UNESCO Regional Expert Symposium on Arts Education in Asia, Hong Kong, 2004

⁹ The Indonesian-Germany technical cooperation for regional economic development (RED)

¹⁰ PACA stands for Participatory Appraisal of Competitive Advantage. An instrument used for assessing certain region's competitiveness

eggs, and onions¹¹. They are selected for their significant contribution to the development of economy in Brebes Regency generally, and especially for its locality. Especially for rebana, it is well-known to have national and international markets.

The initiation of the establishment of Cluster Dialogue Forum was just started in 2006. On October 28th, 2008, the meeting resulted in the establishment of Dialogue Cluster Forum (FRK). Enterprises name it Prima Karya Association. It is aimed to discuss possible joint-programs for any possibility for products upgrade, quality improvement, and product diversification. Until the field work was done, it seemed that the association had not given a lot of contributions to the members. The activities were rare, and recently the platform becomes a place for the government for information pool about certain programs.

However, because of the limitation of the programs available from the government, it seems that the information ends up only for few people. This platform is likely to be less functional as it supposed to be.

3.3 Metal Cluster at glance

The Metal cluster in Pati has \pm 600 producers. There are more than 8000 employees in the area. The business area is spread out in seven sub-districts; Juwana, Winong, Jaken, Jakenan, Pucak Wangi, Batangan, and Pati city. The core of the cluster is in Juwana sub-district where the small and big production process happened. Juwana is where the survey was executed. This cluster was included in one of the programs of FEDEP Pati for cluster development.

The initiation of production was started in 1940s and was made by Mbah Karso (Juwana) and Mbah Karsan (Kauman) and was sold to Yogyakarta. These two persons then collaborated and developed the business from generation to generation. They became the two biggest family leading actors. Further, they expand the market into international level such as Netherlands before 1997—the south Asian financial crises.

After the economic crisis, some enterprises tried to diversify the products. There were around 15 artisans who followed the programs facilitated by the government in terms of a diversification program. Finally, started from 2005, they established their own network and were actively involved in many programs of spare parts development. This 15 firms involved in the network of spare parts industries actively managed their programs in the group. From the head of the group I received information that they have their agreement required to be obeyed; price agreement, innovation idea exchange, orders sharing, and quality control. They also make themselves supported by different stakeholders such as ATMI (Academy of Technical and Machinery Industry) Solo, Semarang State University, BPPT, LIPI, vocational schools, and Indonesian University.

The group was also actively involved in the exhibition. Several trainings were facilitated by the government such as training of CNC (Computer Numeric Control), training of molding and power press. Sometimes, the head or one member was chosen to represent the other producers and is required to report to the members about the condition, the information, and the market possibility. The ‘surprising’ fact was they have an agreement not to sell the products to the same companies. For instance, if one or two of the members already sell the products in West Jakarta for certain companies, then the other persons are expected not to sell at the same regions or the same companies.

¹¹ The report of PACA exercise in Brebes

The starting point of clustering program

The brass cluster was supported in the clustering program since the establishment of FEDEP Pati. It was prioritized due to its potency to be upgraded. Some programs facilitated by local and provincial government were the establishment of dialogue platform as forum for discussion related to the brass development issue, and some exhibitions in both local and provincial levels. Several businesses matchmaking programs are conducted by corresponding with the related bigger firms for possibility of access to market and product upgrade.

The platform of the dialogue often becomes table for discussion and information exchange especially for government to put the facilitation information and certain guidance related to organization capacity building. Meanwhile, the firms have a perspective that what the firms need is mainly the market information which is lately less available in the forum. The government interest seems to differ from the artisans. However, it is not denied that the information given in some meetings at the Forum Dialogue Cluster is useful for the firms to get having new insights of certain possible diversification of the products.

3.4 Conclusion

Rebana cluster could be classified as 'spontaneous' cluster, yet 'created' cluster. Historically, it emerged spontaneously from imitating behavior which was developed. Nevertheless, it was also created from the top as the program for cluster development started. As study about cluster in the previous paper done by Klapwijk (1997) about rural industrialization in Central Java, the cluster was acknowledged as the *desa*¹², as the reference unit. In fact, at the moment, the cluster of rebana is borderless. Many suppliers, middlemen, supporting individuals or institutions do not come from the same area. As discussed above, the cluster trajectory of the hub-and-spoke type is mostly found in developing countries; and Indonesia is not the exception.

The clusters of rebana artisans, mostly, use simple technology, and have less potential to innovate due to less technology capacity. They also have few wider markets and less investment on technology. It is in line with the typology of hub-and spoke discussed in the previous chapter (Knorringa and Stamer 1998, and Knorringa 2002) as many found rural areas in developing countries (Tambunan 2005). Even though the products have been internationally known, the handicraft artisans still use less sophisticated technology. Manual work still dominates the process of the production. In the cluster area, some big firms are located in Bumiayu where most small and medium firms are located near the big firms. Fierce rivalry happens among the firms and there is less co-operation. However, some big firms are the leading family-related firms that open chances for other small producers as the market pool. It seems to be appropriate to put the rebana on the list of hub-and-spoke trajectory.

Metal cluster and the new group of automotive are likely to be classified as the similar trajectory as rebana cluster. Looking at the technology they use and some leading companies located at the area of cluster, we may say that the metal cluster also could be included at the hub-and spoke cluster. The characteristics of the cluster possibly open opportunities for upgrading and innovation especially for the spare parts group because they have more advance technology compared to rebana and brass artisans.

¹² It is a village

Chapter 4

The Features of Social Capital in Rebana and Metal Clusters

4.1 Introduction

The features of social capital seem to be significant to be unpacked in getting understanding how they work in practical action and benefits related actors. This chapter reveals theoretical reflection in cases of rebana and metal cluster. It conceptualizes the events happening in the cluster by using the theories and concepts framed in the second chapter. The key lessons are related to the interactions of the people, challenges, and illustration of how a certain kind of social capital plays roles and constraints for the development of cluster. It comes to the point of how one kind of social capital is preferred to be maintained in the cluster; and the illustration of the case study will answer the question whether the transformation into the bridging social capital is the best way for the firms in general for certain cases.

In the examples of two clusters, the bonding social capital seems to be dominant as I will explain further. It reveals how the ties within the family members are viewed as a 'bless' for small artisans as their first way for starting and developing their businesses. It happens for most cases especially in rebana cluster. This chapter will illustrate what is happening in the two clusters related to the co-operation and collaboration of the firms, within the family members, and how the business is developed based on the kinship. Acknowledging how the system work will give a better understanding of why in most cases of these clusters, the bonding social capital is maintained. The description and some analytical points for the nature of the network happening in the clusters which are dominantly influenced by the leading actors will be elaborated.

4.2 Firms and Family Relationship

In the cluster of rebana, the copying and imitating behaviors were repeated within the family and extended-family. Its uniqueness as the center of production drives the region into an identity functions as a "brand name" in the regional niche (Klapwijk 1997). In the case of rebana cluster, people began to produce this musical instrument in 1950s. The production processes were started within small households and neighbors. There were about 180 households in 1960s. Every household has its own *bani*¹³. Most *bani*(s) establish and empower their own family businesses. When three people (representing small, medium, and big firms) were asked why they put more priority on their family in terms of assistance and co-operation instead of their neighbors, similar answered were given. They consider that building strong *bani* means building their own business. Big leading family would be morally obliged by giving other members of the family assistance.

Big firms, in most cases, give the relatives more chances to get the job as a trained artisan- for beginner, or as a paid-worker. It commemorates the case of Senegal wood carvers where the father offered a job for his son (Repetti 2002). One of the firms also would also be pleased to give their relatives a little bit more payment when they really need it if they are recruited as employees at the peak season. As mentioned by one of the artisans "The decision making process is also decided together. I prefer to

¹³ It is a term represents a group of family.

employ workers who have bloodline relations...they are easy to be managed and trained (Yusuf, 13 July, 2010)."

More or less similar practical action happens in the metal cluster, especially to brass artisans. They were recruited on the basis of blood-line relationship by the employers. However, according to some big firms, they sometimes also prefer to look at their skills first. If the family members have less expected skill, they might be employed but are positioned in another level of workers as mentioned one of the interviewee "my priority to recruit the labors is the members of family or neighbors who are skillful (Widodo, 17 July 2010)".

The way firms decide matters in their business reveals trust within the family members in terms of recruitment and the decision making process at the financial matters. An example of two big brothers who are in the same business family can be taken. One of them becomes the one who is responsible for the production process, and the other one is for the marketing stuff.

The members of the family who are trusted should know about the risk they might take, such as the opportunistic behaviour. This decision on taking the risk is called trust (Schmitz 1996). The brass artisans have the same way in the decision process. Meanwhile, the automotive group will decide the business matters based on the skills they have "we decide business matters based on skills instead of close friends (Dwijo Swito, 26 July 2010)"

4.3 The Javanese kinship behavior: the basis model of strong ties in the clusters

It was discussed in the previous chapter that kinship and family system play important roles in the behavior of individuals towards others (Geertz 1961). In the artisan cluster, it is contextualized at the position of the artisan business starter. Whenever he needs a certain amount of financial capital for the production processes, he can expect from the have—his successful uncle, for example. This assistance for sure is by no means without any expectation in return. The capital providers in most cases are elder, experienced, and big artisans. The habit of the give-and-take (Ibid.) within the family members might be one of the reasons. The poor, at this case, the start-up rebana enterprises, they can expect to have financial capital from the elder or other more successful one—the leading actors. In return, the leading actors can expect start-up rebana enterprises to sell the products in cheap price for them.

In the case of rebana cluster, the family commonly provides the business starters a certain financial capital. For some cases, they provide the payment in advance for the sake of production process. Meanwhile, the capital provider may expect the artisans to give the entire final product to him with certain criteria and qualifications. The similar situation happens in the case of metal cluster. The two big leading firms will provide their extended-poor relatives who started their business by providing the capital needed. The price is set by the capital providers as well. The leading actors seem to act like a benevolent dominator. As a result, most of the time, the decision making process is made by the rich family. The small artisans are more dependent on the rich that lead them to have less voice. As discussed earlier, the feeling of respect to the seniors is a 'proper' attitude regardless of everybody's satisfaction of the decision.

Yanto has been six years being 'independent' to run the business. He works at home with several simple equipments for the production process. He was excited because his uncle liked his products and requested him to make the products more. Yanto himself does not know how much his final products end up. For him, to sell the products every month is enough for living. Moreover, he can ask any time for any need to

his uncle. He trusts his uncle because of his assistance of the capital. Yanto never tries to find out other direct buyers because he is very busy in producing the requested products from his uncle. (Source: fieldwork note, July 2010)

The above example of artisan seems to be 'lucky' for having bloodline relationship with his uncle, who is rich. Therefore, he can expect to have access for financial capital. In reverse, the uncle can dominate any decision making in the interactions, for instance, the price set, the product qualification, and certain deadline for product finishing. For this case, the power is obviously held by those who are rich, older, and have good reputation in the society.

Likewise, from the interview with the brass artisans from metal cluster in Juwana, it is found that they also believe that family brings them a 'bless' to some extent. For instance, some aids are delivered; financial, market channels, and share-orders. For most of them, when beginning the business, big family business is really helpful for them to develop. After certain duration of time, some can be successful, and build up another type of co-operation, such as product diversification information exchange and technology. The leading actors usually expect to have in return with good products and punctuality of product finishing and delivery. Other enterprises' interaction is engaging with close neighbors such as raw material suppliers. Provision of raw material without paying in advance is common practice for most local artisans in the area of clusters.

The next question concerns with the small artisans who have no blood-line relations with the rich, the elder, or the leading actors. The only choice they might have is to build trust by engaging durable interaction with the leading actors. Earned trust has to be built because of the need for further co-operation and information channel from other leading firms. Otherwise, these small firms have to face challenges by trying to build bridging social capital by making use of certain available institutions. In fact, the formation of bridging social capital is done only by a few leading firms, or a few young beginner artisans whom they get used to know outside networks because of their experience from higher education.

4.4 Leading actors as the 'catalyst' for access to Market Opportunities

Since the leading actors have the resources to market information, they become the benevolent autocrats. Accordingly, they have right to decide many important things such as price, punctuality, and certain product qualifications. However, for the case of rebana cluster, thes decision taken by the leading actors are likely well-accepted by the small firms. It might be related to the type of entrepreneurs to some extent. One of owners of the biggest firms in the rebana cluster promises his daughters and sons to join him the business because there are many market opportunities.

Imam Sujari (67 years old). His big house is full of rebana, marching. He lives with his two daughters and two grand children. Their father promising business made them change their preference to be entrepreneurs in rebana business. Their father has wider markets not only local but also international. His loyal buyers will also become theirs. His daughters informed me that her father belongs to an association in Yogyakarta. As a result, he has wider markets, more buyers, and needs more final products. However, none of his neighbors belongs to the handicraft association he joins. And it seems that they do not want other neighbors to have this information, except his member of the *bani*. (Filedwork note: Imam Sujari, 13 August 2010)

Meanwhile, in the case of metal cluster, as discussed in the previous chapter, two big leading families play an important role as 'catalysts' for most firms in Juwana. Their ability in marketing and promoting drive them to wider access to markets and make other firms position them to be the leading and helpful ones. Nonetheless, after the crisis, as discussed earlier, the co-operation among artisans of brass ended. They have fewer co-operations even within the family. They find out that every member of family who is doing the business has different needs. Hence, they prefer to diversify their product and find out their niche in local markets and for export.

4.1 Conclusion

The discussion reveals that bonding ties seems to be important in most cases within the family members and the close neighbors. They share resources and division of labors. This co-operation and collaboration are obvious to be based on the family ties. It might be different from what happened in the cluster in Brazil (Bazan and Schmitz 1997) where the stock of social capital formatted because of the strong basis of the church community in the history. The accumulation of social capital formation is based on a certain infrastructure co-operation and the ethnicity in Dois Irmãos. In the case of the rebana and metal clusters, the source of social capital is typical within the family. The take-and-give system hold by the Javanese within the members of the family sometimes becomes the basis for them to co-operate. The stock of social capital in Java is accumulated because of the strong bonding social capital within the family and close relatives. This different source stock of social capital might differentiate the need and level of bridging social capital formation.

Some examples of transaction within the family are obvious that they bring economic benefits which are less costly. The small firms are not burdened with additional costs of spending their time for compiling many forms for requesting a loan from the bank, providing collateral or avoiding interest. It is also not necessarily for them to sign an official letter for the price agreement between individuals and family. This interaction is apparent to be based on the trust, and also moral obligation. The existing bonding social capital in this cluster of rebana seems to be different with the type of social capital in Ethiopia. It was discussed by Knorringa and Van Staveren (2006) that the bonding social capital in Ethiopia was resulted not to help the shoe firms in reducing transaction cost. They often end up to a very small and family-based market. However, from the case study of rebana, the bonding social capital seems to be the first step to approach for most small enterprises in order to survive in their business. Metal cluster has no significant difference with the rebana cluster. The bonding seems to be dominant in the brass cluster.

Different with the artisans of rebana and brass, the automotive group seems to get easily engaged with other global buyers by actively joining exhibition, co-operating with government, and building network with other institutions such as universities for more technical needs, such as more advanced and modified technology for the products. Strong ties are regarded as an ideal approach for having strong ground for those who start the business, especially the small firms or business starters who have less capital, few networks, and fewer skills for negotiation and big production. What they need to have is their relations stock within the member of family and good reputation as also happening in the brass cluster.

The nature of social capital formation in both clusters seems to be very strong for bonding social capital. The exchange of information on market and production often happens within the family and kinship, or neighbors. They are tied within the group, and only a few who are able to engage with strangers—the leading actors. The role of this bonding social capital cannot be ignored. For small firms or starters, these bonding ties are very significant as the basis for business development and ‘sustainability’ for certain time. Market opportunities, labor information, and financial capital provided by ‘catalyst’ are beneficial for the small enterprises.

The above illustration reveals imbalance return for small firms because of the dominant actions done by the big firms such as for price setting, prohibition of others and certain qualifications. However, this co-operation by itself actually provides chances for individuals especially for small firms to rehearse their skills and try to negotiate with their leading family on the basis of: (1) permission to ‘expect’ something from the successful business individuals in their family (Geertz 1961), (2) their skill in making the handicraft, both rebana and brass, for making use of their bargaining position chance, and (3) being loyal to them and give more mutual benefits for all parties involved, yet setting certain limitation for the ‘helpers’ or ‘catalyst’ not too much interference in the business (Au and Kwan 2009).

To sum up, the chapter reveals that the bonding social capital approach seems to be dominant as the basis of the relations among firms and other supporting institutions. The next question might come up to mind is that whether this route of bonding for most artisans, and bridging for automotive one, is a choice or necessity? The following chapter will discuss critical points to answer the question.

Chapter 5

Is Bonding/Bridging Social Capital a Choice or Necessity?

5.1 *Introduction*

The examples of the different sources of stock of social capital from different artisans discussed in the previous chapters reveal that both rebana and metal clusters have strong bonding social capital which belongs to the hub-and-spoke clusters where the relations are dominated by the leading families, especially in the clusters of rebana and brass. The group of automotive seems to have wider network with supporting institutions outside the clusters. By considering the family and kinship system, the following elaboration will point out some elements which are considered to be the basis of the interaction among firms and why they take certain route of social capital instead of the other.

5.2 *Moral obligation*

As discussed in the paper by Berner et al. (2008), it was mentioned that the way survival enterprises maintain their business is by helping each other. The successful entrepreneurs are expected to have other members of the family. This kind of behavior explains the moral obligation of individuals within the member of the family to be able to help other people who have fewer resources to survive (*Ibid.*). In the example of rebana, those who are elders, and the rich, are expected to help the poor ones. Meanwhile, in return, those who help the less successful, the beginner, or the vulnerable one, will have more bargaining position to decide, to direct, and to request for certain actions from them. For instance, in the production process relations, the 'helpful' leading family will be pleased to pay them in advance, or provide certain required raw materials. For instance, wood provision for rebana, or the scrap for brass cluster.

The first thing I needed whenever I started business in marketing for rebana and marching was financial capital. My elder sister, who is a teacher, offered me the money for making some products, looking for buyers, and for delivering the final products. Sometimes, I pay her late because it depends on the payment from my customers. But, my sister was fine because she trusts me and she knows very well what I am doing. So, I do not have to worry and neither does she. (Fuad Amrulloh, 13 July 2010)

The above example explains how the elder family will be pleased to help the other member who needs certain capital, in this case, is financial capital. This accommodative sister is obliged to help the member of the family who needs the money to start the business. In return, she has an expectation to get certain profit and right to decide in a particular way about the use of the money. It explains the argument discussed by Berner et al. (2008) that survival entrepreneurs have moral obligation to help the other members of the family to survive.

I used to share my scrap to some small artisans who have bloodline relationship with me. If they need it, and I have plenty of the scrap, then I will give it to them. Sometimes, I expect them to help me to work on some production processes as the thing they need to pay me in return. If they cannot make it, I will train them for a while, and give them opportunity to work on it (Widodo, 17 July 2010)

It is found most of them gave similar points in their answer that they would be happy if they could help the other poor families. Yet, in the case of metal cluster, it seems that this kind of bonding social capital was less maintained after the crisis struck them. Afterwards, every household struggled for their own. However, the sharing of orders still happened.

5.3 Cultural values/norms

As discussed above, the strong relations among individuals within the family has been found as the norms required being obliged in the family (Geertz 1961). In this case, in the cluster of rebana, the member of the *bani* is required to assist the other members who need assistance for starting the business. Likewise, in the case of the brass cluster artisans, the relations were historically connected among the big leading families and their generation. This illustration confirms the influence of values existing in every household to the stock of the strong ties they have.

The strong ties that are generated through the available norms might not necessarily be intended to lead the members of the family to limit their network. In fact, the leading firms are those who are able to create and build network outside. The norms to engage, to respect elder, and to give-and-receive habit (Ibid.) confirms an understanding of individuals to be more dependent on the family. It offers enough space for relations within the members of the family. As a result, if the relations benefit them, they might be reluctant to move outside the family. In the examples given, the family not only provides financial capital but also motivation for business development. From the interview, Fuad Amrualloh (28 years old) mentioned that 'to be together with family, we will be strong and motivated to cope with fierce competition'. It creates certain values and norms. It confirms one of the benefits they get for having close relationship with family.

5.4 Less risk and instability

Having strong ties within the family might result in less transaction cost and less interest for financial reason. For instance, start-up artisans in the cases prefer to request the financial capital assistance from the family because of less formal agreement, and might be mostly less interest. Yet, they might be asked something back as a return.

Because of less market pool, the fierce competition happens. It leads the firms to have instability of income and consumers. Having strong ties with family will lessen the risk in emergency time such as lower demands or raw material. Johannison and Olaison (2008) name it as the importance of social capital for survival entrepreneurs. This bonding social capital to some extent confirms its benefit for beginner artisans.

5.5 Market and Labor channels

As mentioned before, a few markets are available. Leading firms have to struggle to find the new market. It depends on the active leading actors in finding the market. Leading firms, the elders, and the successful family members, in fact, become the sources of information for labors recruitment and as the loyal buyers for small artisans (see points 4.5 and 4.6).

It confirms that the condition of such environment where there is a high market and labor competition, it opens more opportunities for small firms to survive and it benefits them to acquire certain knowledge from the elders—more knowledgeable enterprises. It might be against the argument that the bridging social capital is required to lessen the risk of being ‘locked in’ in the cluster (van Staveren and Knorringa: 2006). In fact, from the study case, it opens opportunities for small firms to be able to acquire certain capital from the other artisans that is their family.

5.6 Building strong family business is a solution for fierce competition

For most cases, firms are confident that they will have better performance for having the business together with their family. Having business and co-operation within the members of the *bani* drives them to the sense of togetherness to be bigger enterprises while competing with other *bani*(s).

The competition in the area is very fierce. If we stand alone, it would be harder to survive in the business. Struggling together with family drives us more spirit to achieve better performance compared to others. Many successful and big enterprises were always begun by building a strong *bani* and its members (F.Amrulloh, July 13, 2010)

At this point, the feeling of being secure in doing the business due to the togetherness with the family is sometimes unnoticed. It is likely that there is a fear for being independent for starters, but there is also a willingness to compete with others for the business improvement. The feeling of being more comfortable with the members of the *bani* or family confirms the firms to be reluctant to start making a bridge to build network outside the cluster. From the investigation, it is found that the small firms were hoping to be independent, yet they have no ability to perform independently due to lacking of resources such as finance, less network, and less experience in selling.

5.7 The dark side of strong ties

The strong ties within the family are good news for those who have the leading family blood-line. They can access resources for their economic activity; labor market and market channels. Those who have less resources might need to struggle for having a particular relationship with certain leading firms; or they might need to expect other institutions to facilitate their needs. The new cluster dialogue forum (FRK) in rebana cluster might accommodate this issue in co-operation with government. However, this forum is still weak and has a few activities for the members. Nevertheless, at least, it becomes the pool for information. For most cases, the information ends up only for those who have certain relationship with the government. It confirms the argument stating that social capital benefit for only certain people Bourdieu (1980 quoted by Field), and creates exclusion (Knorringa and van Staveren 2006)

The strong ties happen in rebana and brass clusters drive certain individuals, especially the leading actors, to dominate the relationship. There is a chance for opportunistic threat because of hierarchical condition. The bargaining power of the small firms that depend on the leading family will be weak; less voice in decision making process, and have less innovation. Nonetheless, it is not impossible that the leading firms can bring innovation and is shared with the other members of the family.

5.8 How is the transformation of bonding to bridging social capital possible to happen?

Social capital is changing all the time (Knorringa van Staveren 2006, Schuller 2008, Bazan and Schmitz 2006). The study in Brazil shows that there is a growth, but the social capital is less. In metal cluster, especially in automotive group, the co-operation is more well-established. In rebana cluster, the co-operation within the family and close relatives and friends still become the strategy for leading firms and small artisans to conduct their mutual relationship for business development in any condition. The relationships with global buyers and outside associations are done mostly by leading firms or some medium enterprises.

Consequently, it seems that to define whether there is a need to transform the bonding into bridging social capital needs to be contextualized. It depends on how the firms themselves view the needs of having more relationships with others. Several practical actions facilitated by the government can become the solutions for small firms, especially for those who are excluded from the 'lucky' group, in knowing more information by being active in gathering information from any available institutions.

The challenge faced by the rebana artisans is to build the relations inter *bani* itself. The fierce competition and a certain level of distrust affected by the past experience seem to be their reasons for not to co-operate. The same thing happens in the metal cluster, especially for brass group. The crisis time and the scarce raw material make them harder to engage relations. For the automotive group, to have wider global buyers is the big challenge.

5.9 Conclusion

From the illustrated cases, the importance of the bonding or bridging social capital in the cluster depends on the level of the firms. For starters, having bonding social capital seems to be the best approach to get started in developing the business. However, the domination of the leading firms might threaten the small artisans for future development. For some cases, in rebana, forming bridging social capital inter-*bani* or family might be more important than those small artisans.

Therefore, the bonding/bridging social capital is not a matter of choice, where individuals prefer to choose one of them. From the discussion, it is shown that firms prefer the bonding social capital. It means that firms prefer to maintain interaction with the people they know well such as within the members of *bani* or family, or closed-friends, or neighbors. It is because for firms, they are the 'best' people they know to help them in getting access for economic resources. Enterprises found that this strong ties need to be maintained due to its importance for developing business to be bigger and successful. An expectation from one another becomes a factor that leads individuals to improve business into a certain level of security. It is expected that it can bring them to a certain level of success. Further, some reasons found to be their considerations—the limitation of knowledge, fewer networks, and less capital—make them cannot afford to build a bridge with wider relations or global buyers. And only a few firms—the leading actors and automotive groups—are able to form the bridging social capital by making use of other institutions. It can happen to these groups due to their ability and capacity in engaging any available institutions in the clusters.

Chapter 6

Conclusion

This study is started by acknowledging the importance of relationship for small and medium enterprises which is defined as social capital. Relationship in the cluster plays important roles for cluster development. And related to industrial cluster, social capital, to some extent, benefits enterprises for accessing certain resources for economic activities. Studies confirm two different levels of interaction which happen in the key actors, in this case, the firms in the cluster. For example the relationship within the member of the family, close individuals, organizations, friends, and other ties that are based on the common background of the society. It is called bonding social capital. The other is bridging social capital in which the relationship is based on trust on people who belong to different identity or strangers. It is believed to trigger more benefit for clusters because it opens more opportunities for enterprises for wider network which leads to upgrade, grow, and innovate. Then, it comes to some points that the transformation of bonding into bridging is suggested to gather more benefits. However, the question remains unanswered related to the need of certain type of social capital for certain enterprises situated in different levels of trajectory. For example clusters in developing countries, in this case industrial clusters in Central Java shows that the interactions in the local society are mostly based on certain system and values.

The aim of this conclusion is to address the need of relating the use of social capital for a certain level of firms within the trajectory cluster. It is found useful to differentiate the relationship which is based on certain types of social capital and classify the type of the clusters. The discussion in Chapter 3 shows that rebana and metal clusters have some similarities. First, they both belong to the hub-and-spoke cluster which has potential for endogenous upgrading. They use simple technology and only a few firms that can invest in certain technology and skills. In this case, it happens to automotive group. It is found that both rebana and metal clusters have a household as the basis of the production process. Next, the target markets covers mainly local and a few international markets. Targeting the international markets is mostly done by the leading actors—leading family. It is where the relationship in these two clusters is directed to.

The relationship of the clusters is found to be dominated by strong ties or bonding social capital as discussed in Chapter 4. It happens because of the influence of the existing family and kinship systems as the basis of the firms' interaction. From the discussion in the paper, it is illustrated that becoming the member of the family, being close with certain people and having durable interactions with certain individuals give them easier access to economic resources; for example resources for market information, labor market and channels, financial capital, and as a capital for having more motivation in coping with fierce competition.

However, this bonding social capital is found to have several limitations. For instance, first, an exclusion; those who do not belong to any blood-line relation with leading actors or at least being close friends with leading enterprises, will face more challenges in accessing the economic resources they need in developing the business. Second is the domination of leading actors upon small firms. The hierarchical condition leads small firms into the threat of being powerless in decision making process related to economic activity. The dependency on the leading families might become the sources for small firms in rebana and metal clusters to innovate and to grow to a certain level. Nonetheless, seeing the strong ties and the norms and values that the leading firms are expected to do within the member of the family especially for

the less successful firms is by no means impossible to open opportunities as well for start-up to develop more the business.

Chapter 5 illustrates a deeper analysis whether bonding/bridging social capital is a choice or necessity for firms in rebana and metal clusters. It is found that these two famous kinds of social capital is not a matter of choice where individuals prefer to take one route than the other one. From the case illustration, it reveals that most small enterprises are found taking the route of bonding social capital, which means that their family, close friends, kinship, and neighbors become the best approach for them as the mediators to access economic resources. Besides moral obligation reason, certain norms, and values make the individuals embedded to each other. The other reasons are also found. They are the feeling of being secured in coping with labor and market instability, and fierce competition among others as well. Meanwhile, there is a necessity for firms to form bridging social capital. It was indicated by the capability of a few firms; the leading actors of rebana and metal clusters, and the automotive group by doing certain practical actions, for example by trying to engage directly with global buyers and other supporting institutions.

The studies about social capital in relations with industrial development (Schmitz and Bazan 1997, Knorringa and van Staveren 2006) confirm that social capital plays important roles for the economic development. It is commonly found that growth can influence the stock of social capital. And, the nature of social capital itself is changing all the time (Bazan and Schmitz 1997, Knorringa van Staveren 2006, Schuller 2008). Their study reveals the importance of certain level of bonding/bridging social capital and the limitations for development. The previous literatures found that the transformation of bonding into bridging social capital can bring more opportunities to upgrade, innovate and grow. Nonetheless, to whom the transformation of bonding into bridging social capital should be addressed in the context of developing country remains unanswered. The illustrative study of rebana and metal clusters showed that bonding social capital where the relationships are based on kinship, family, blood-line relations, close friends and close neighbors, seems to be an ideal route to take for small enterprises or start-up business. The discussion shows that the route of bonding social capital is their way to successfully access resources for economic activity in the cluster; financial capital, labor channel, market information, and information exchange. This study is small but it is interesting because it shows particular roles of social capital in hub-and-spoke type of cluster where the interactions of firms are influenced by the existing system of family and kinship. It offers individuals who are active in cluster development, an insight about typical interactions in bonding social capital which seems to be a useful route for certain kinds of society and can be considered in facilitating cluster. However, the importance of process in bonding into bridging social capital transformation cannot be ignored. Building wider relationships with other different background of people such as global buyers, different group or organizations are fruitful for certain groups of enterprises that have the capacity for the transformation.

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Annex 1 Interview Guidelines

A. History of the agglomeration of enterprises

The outline of the questions are:

1. When did the similar production begin to agglomerate?
2. Who did initiate the very first production?
3. How was it started?
4. How many producers in the first 5 or 10 years the starting of production agglomeration? Was there any significant changing time by time? Was it decreasing or increasing? Why? Please mentioned two very important pressing topics
5. How many employees per household did they have? Do the employees come from your own family, relatives, or outsiders?
6. How's the working hours? Is it flexible? Are the employees permanent, or they are employed in peak season? And what happens when not fully utilized?
7. How many raw material suppliers do you have?
8. What were the reasons or what factors did drive enterprises to collaborate? If not, why?
9. Who facilitated the collaboration?
10. Who mostly involved in the process of agglomeration? What did they do to make everybody collaborate? What was it based on?
11. When did they start to do activities together?
12. What kind of activities?
13. What are the main products? Which products have high demand? Any new products? Any new markets? how do find the ideas of new products? From buyers? From other enterprises?
14. How do enterprises set the price of the products? How's the setting of the price among the firms? Is there any compromise or agreement among them? Shared cost?

B. Relations with buyers.

1. Who are the buyers?
2. Do you have settled buyers?
3. Will most buyers be back to you and buy your products again?
4. According to you, what makes the buyers back to you?
5. What makes the buyers choose other enterprises rather than you?
6. Do buyers give inputs for your products betterment?
7. Do buyers ever provide you or at least offer you certain training or additional knowledge in relation to the product improvement?
8. How do you promote the products to find out new buyers? What are the different ways you use to promote the products with other enterprises?
9. Do your settled buyers ever recommend you to other prospective buyers?
10. How often do you have contact with the buyers?
11. How do you make deal of the prices with the buyers?
12. Do you export your products? Is yes, where? How do get the buyers outside from your country?
13. To get the buyers embedded to you, what do you do? Do you have special price for them
14. What is the different way of attracting new buyers with other producers according to you?
15. What would you do to convince the buyers that your products are better than the others?
16. Do you have certain time for promoting your products for buyers?

17. What media do you use? Using showroom, internet, or you invite them to your production process or shops, brochures, or exhibition, or others?

C. Relation among enterprises

1. Whenever there are high demands of the products, to whom do you work together to comply with the orders? To your neighbors, relatives, family, other firms? Why? And with what result? Uphold quality, price, delivery time?
2. Could your chosen joint producers do what you want them to do related to the required products?
3. How do you make agreement of the payment with other enterprises for this joint activity? If there are different opinions, who decides? How you and your partners compromise it?
4. Do you provide certain knowledge for them if you think they need to know for the sake of similar quality to fulfill the order?
5. Do you provide raw materials for them in peak season or any season?
6. Do you have permanent collaboration with them? Why?
7. Do you have certain activities together with other enterprises not particularly related to the production? What are they? If you don't have, why?
8. Who initiates the cooperation related to the production?
9. Why do you cooperate with them?
10. How often do you have contact with them? In what occasion?
11. Is there any association or certain group of enterprises?
12. Do you belong to any group or association? Why do you join or why don't you join? Does it benefit you?
13. Is it ok for you if other enterprises or neighbor producers come to your production process? Why?
14. Do you discuss any problem that you have with other enterprises? Why?
15. If you have any new information from outsiders about anything such as new producers or better production in other regions or inputs from your buyers for the betterment of the products, to whom will you come to? Will you tell others?
16. Do you have common agreement with other enterprises related to product prices? If yes, which products? If yes/no, Why?
17. Do you lend raw materials with other enterprises? Why? How do you make the deal?
18. Will you come to certain institutions such as government, or other supporting institutions available if you have problems and already discussed with several firms? Why?
19. Do you market your products jointly in showroom or exhibition, or other media of marketing?
20. Do you share any production instruments? Or other things with other enterprises?
21. Do you exchange any information with others? Why? In what sense?
22. Do you try to find other alternative suppliers? How? do you do it with other enterprises?

D. Relations with raw material suppliers?

1. Who are your raw material suppliers?
2. How many raw material suppliers in the cluster?
3. Is it difficult to get the raw materials? Why?
4. Do you order jointly the raw materials with other enterprises? Why yes/no?
5. How is the agreement made?
6. Whom do you think have higher bargaining position?
7. Could you easily get your raw material from your providers? Why?

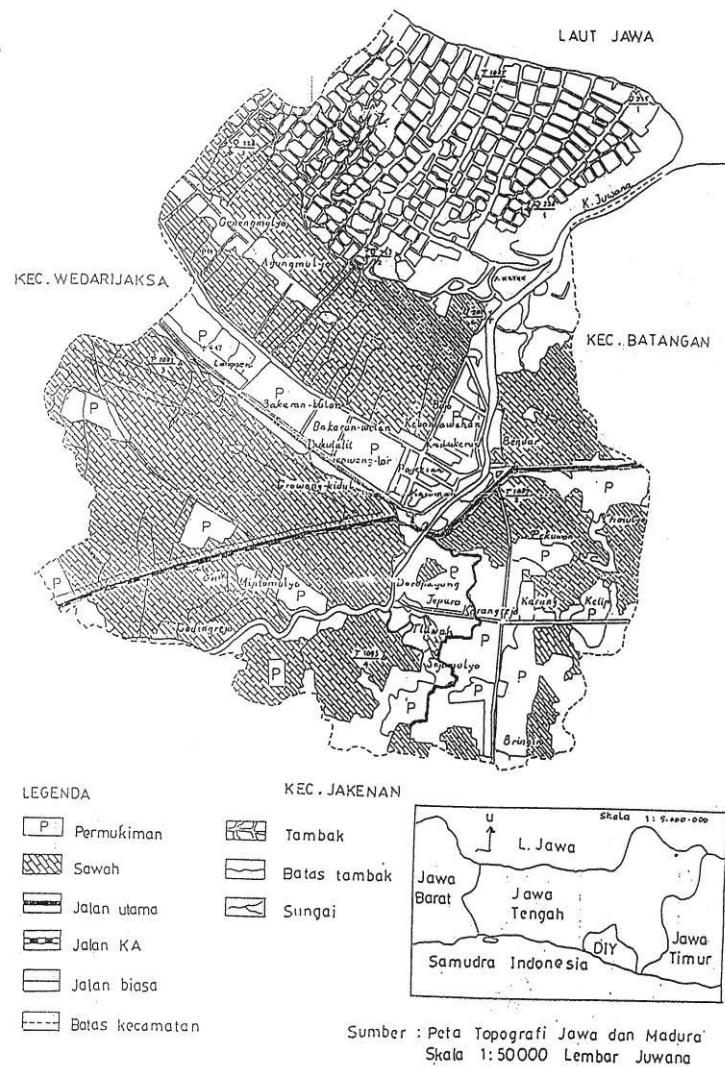
8. How long have you been engaged with your suppliers?
9. How many times do you change your suppliers? Why?
10. Do you get special price from your suppliers?
11. If you stick to your existing raw material suppliers, what is your consideration?
12. Are there any other joint activities that you pursue with suppliers? Why?
13. Do your suppliers provide you any assistance? What are they if any? Why not if you don't have?
14. Do your suppliers provide you special relationship in accordance with certain incentives compared to other enterprises? Why?
15. What do you need to do to get stick to your suppliers?
16. If there is a chance to change your suppliers, will you change?

E. Relations with government

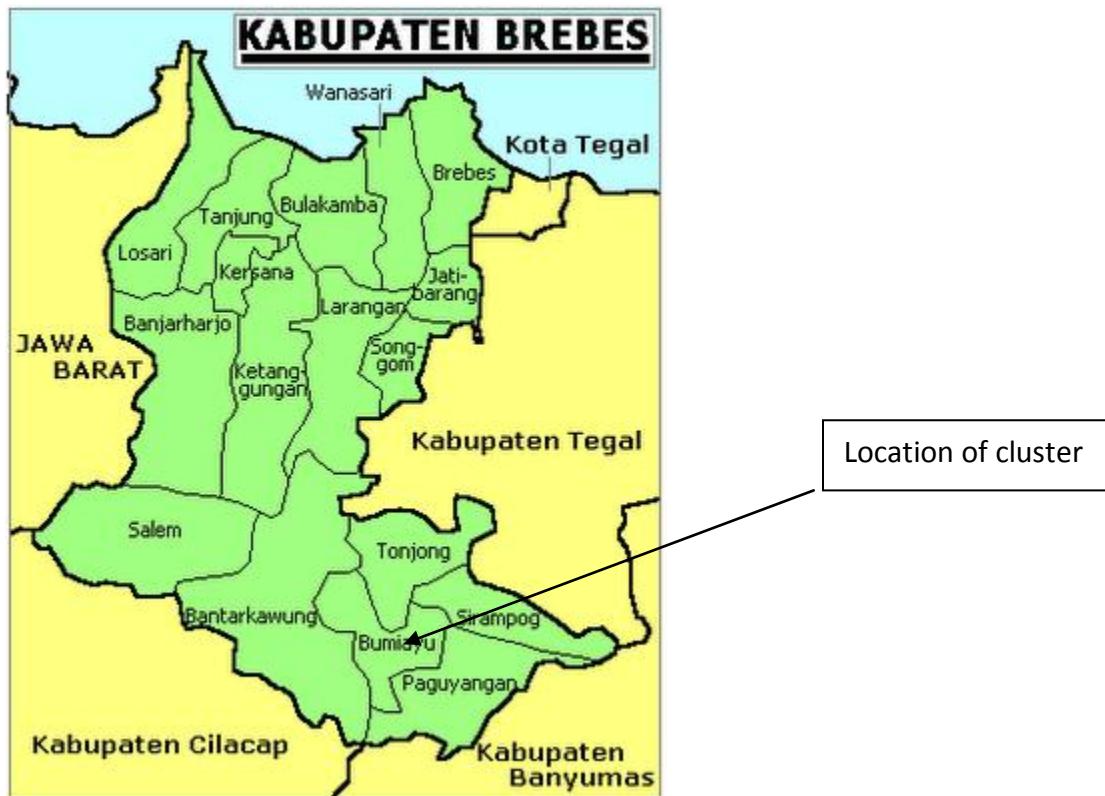
1. Is there any programs from government?
2. What programs were ever facilitated by government?
3. Which Dinas/sector that often facilitate your activities with other enterprises?
4. How do government involve in the promotion of your products?
5. Do governments facilitate a meeting or association for you?
6. Do you come to government whenever there is a problem need to tackle? If yes, are you in a group of firms/ on behalf of the group?
7. Who initiates the cooperation with government to have facilitation?
8. In your view, is the facilitation benefiting your unit or other enterprises? Why?
9. How often does the government facilitate your needs to improve your business?
10. Is it easy to get facilitations from your government? why?

Annex 2 Map of Location of Cluster

a. Map of MetalCluster

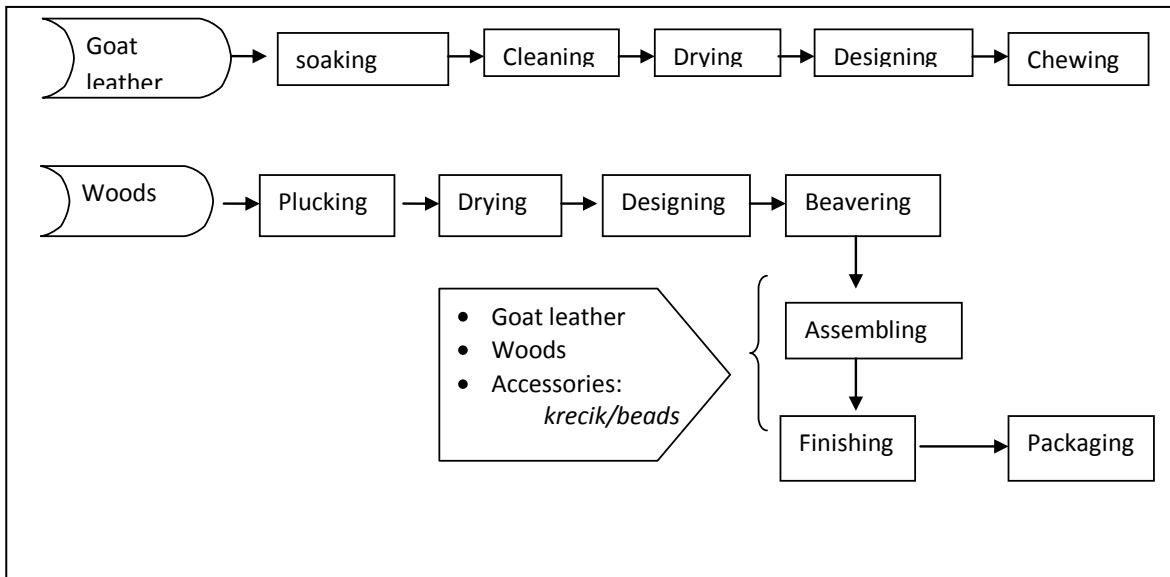


b. Map of Rebana Cluster



Annex 3 Process Production of Rebana and Metal Clusters

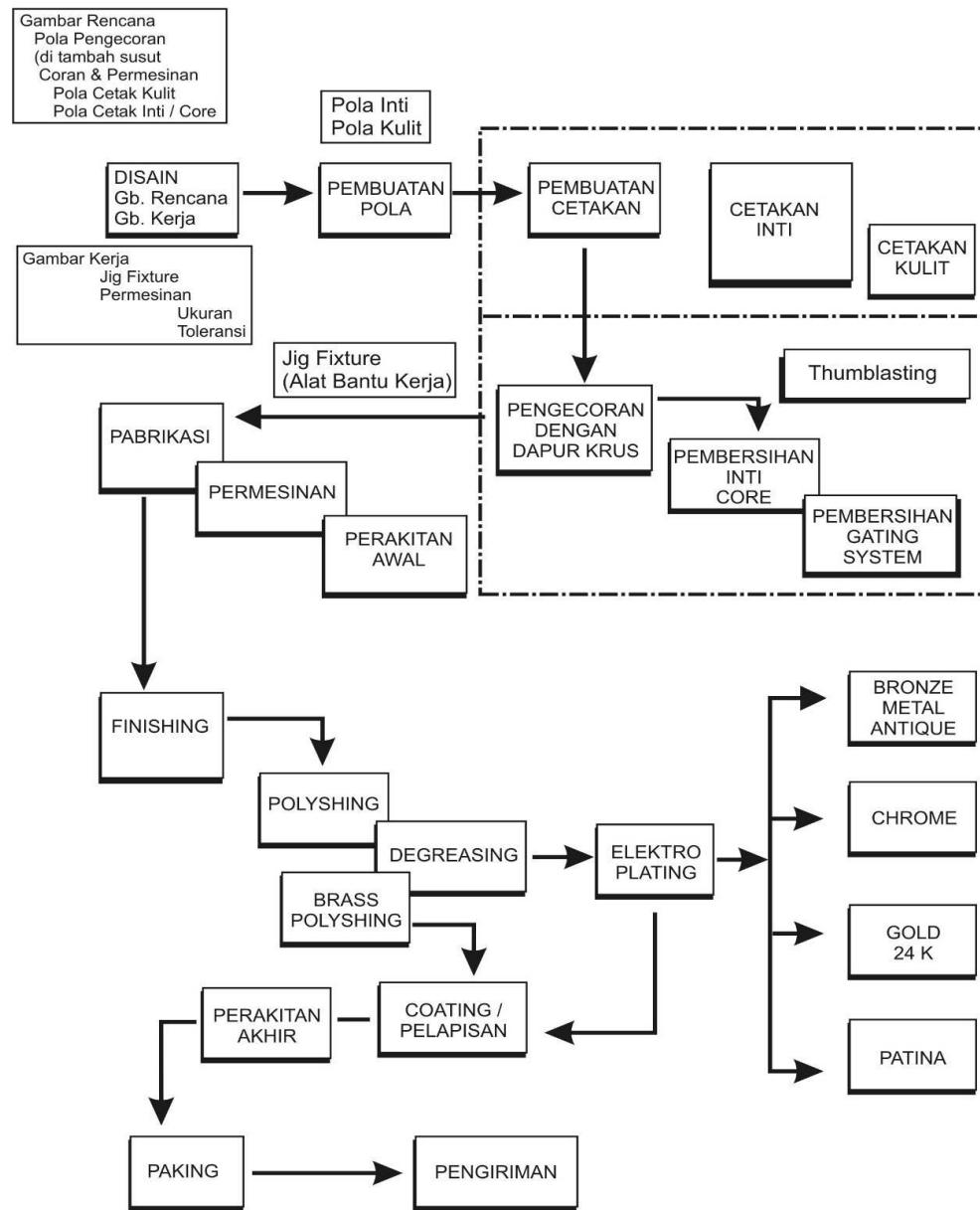
a. Rebana Cluster



Source: fieldwork July-August 2010

b. Brass casting cluster

Sentra Industri Kuningan - Juwana
SKEMA PROSES PRODUKSI
BRASS CASTING



Source: fieldwork July-August 2010

Annex 4 Photos Narration



Figure 1:One Artisan is Drying the rebana



Figure 2: the products of rebana cluster



Figure 3: Warehouse of Metal cluster



Figure 4: Pan and Packaging