An integrated analysis of socioeconomic structures and actors in Indonesian industrial clusters
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7. The Role of Local Actors in Local Business Associations in Clusters

“We are active in asking our members to be involved in our program, so we have a monthly meeting to discuss and distribute any information to our members.”

(Mr. Sardjimin, respondent from a medium-sized manufacturer in the Manding leather handicraft cluster)

As discussed in previous chapters, multiple linkages in the clusters are affected by economic and social factors, which in turn influence the performance of individual firms within the clusters. This joint interaction marks the socioeconomic structure of the studied Indonesian clusters. Moreover, this pattern of interactions frequently is created and stimulated by the role of local actors in local economic institutions, like local business associations. Small and medium firms can perform efficiently and well through collective linkages and organizations (Becattini et al., 2003).

The August 2007 pilot project of the studied clusters indicates that local actors use local business associations as a medium to coordinate collective actions to solve business problems for the sake of the cluster’s development. Some actors are influential and acknowledged as leaders by the cluster community because they get involved in decision-making processes in the existing local business associations. No single leader is popular and influential simply because of his or her charismatic or personal traits, implying that an investigation of the role of actors in decision-making processes in the local business associations is significant for this study.

This chapter shows how local actors use local business associations to coordinate interfirm relationships, collective interests, and actions. This chapter also explores the types of leadership of such local actors. I follow the conceptual framework of Chapter 3, represented by the left side of Figure 3.1, which shows the role of actors in decision-making processes in local business associations. Within local associations, influential actors operate differently and are classified as follows: rule-makers and open perspective actors.
This chapter consists of three sections. Section 7.1 presents local business associations in the clusters and their functions for the members, Section 7.2 addresses the role of actors in the clusters, and Section 7.3 contains conclusion.

7.1 Local Business Associations in Three Studied Clusters and Their Functions

As Chapter 5 indicates, local business organizations in clusters can induce social embeddedness among firms. Local business associations that represent local economic institutions are the medium in which local actors have significant roles in decision making about joint actions as well as collective business problems.

7.1.1 The Kotagede silver handicraft cluster

In the Kotagede silver cluster, there is one local artisan and entrepreneur cooperation at cluster level: Kelompok Pengrajin dan Pengusaha Perak Yogyakarta (Yogyakarta silver entrepreneurs and artisans cooperative; KP3Y), founded in 1951. During my interview, the vice chairman of KP3Y, Mr. Sutojo stated that the total number of active members of KP3Y reached 95 local entrepreneurs (August 2007). Once a year, in February, they organize a member meeting to distribute their annual dividend and evaluate and discuss their annual program. He explained:

“The members of KP3Y are around 200 local entrepreneurs, but only 95 persons are actively involved in our program. Almost 90% of the members are from micro and small firms, while only 5% are from medium and large firms. The cooperative has several business activities, such as a member-loan program, a small showroom for mobile phones, phone vouchers, mineral water, and gasoline. Our member-loan program collaborates with a branch office of the national bank Bukopin. The bank gives us a very low interest rate of 1% per month, and we ask our members 2% per month, so we can gain 1% per month from...
each member’s total loan. As a result, during the annual meeting, our members obtained a dividend from this cooperative which was higher than last year.” (Interview, 20/08/2007)

However, only 5 respondents (of 102 total) acknowledged involvement in that cooperative. In-depth interviews with some local entrepreneurs indicated that many people think that the official members tend to use the cooperative for their own business interest. Mr. Wahyudin and his wife, Mrs. Pandit, a small retailer in Kotagede, asserted:

“We do not join KP3Y, the only one local business association at the cluster level since we could not see some benefits from joining the association. We had a bad experience in 2006 when the management of KP3Y was appointed by local government to distribute government funding to local people in Kotagede since most of us were the victims of the earthquake. They did unfair distribution by listing mostly the members of the association. We were excluded from the list and we did not know why. The fact was our house hit by the earthquake. This experience made us reluctant to join the association.” (Interview, 24/08/2007)

Another interesting example comes from the story of Ibu (Mrs.) Setiyani Djazuli, 65 years of age. She is a small silver producer in Kotagede who runs her shop in the main street (Kemasan Street) out of a small house rented from her neighbor. She had worked as a laborer at the workshop of the largest silver company in Kotagede (HS Silver) since 1959, but in 2005 she decided to work independently to earn more income for her family as a silversmith and to sell the products at her own shop. It is a family business: Her five children help her.

Mrs. Setiyani has never joined any local business association in Kotagede. In our interview on August 16, 2007, she said, “Why should I join the associations? I don’t think it is necessary for me. I work for my family and have my own networks and customers. When the earthquake hit my house, I rebuilt the house with my own money; I did not get any funding from the government. I never discuss my business with my neighbors. I think each of us does business our own way.” In the past ten years, Mrs. Setiyani got involved in the Islamic women’s organization at the district level, but in her opinion, this activity did not influence the way she did silver business activities in Kotagede.

My observation indicates that some local producers and retailers behave as Mrs. Setiyani does: They do not join any local business associations and do not have any intensive contact with other local producers or retailers. It means that KP3Y is rather weak in the cluster. Further, observations indicate that when
many people do not acknowledge the business association at the cluster level, they founded a business organization at their own subcluster. Another alternative is joining the existing local business associations at the subcluster level, of which there are at least four in Kotagede: Kemasan, Basen, Bodon, and Semoyan.

In Basen and Semoyan, local business organizations are still functioning. Such groups are called associations, because they have a formal structure, organized procedures, and formal rules for their members. Sari Tulang Aji, an informal group founded in December 2003, is composed of micro–small firms located in Basen village. This group comes together for informal exchanges of information on joint marketing, to discuss the availability and quality of raw materials, and to connect the members to some external institutions like local and central government and other nongovernmental organizations. As Mr. Istiadi, the founder of Sari Tulang Aji, asserted:

“We were not a silver handicraft artisan in the past. We were a turtle shell handicraft artisan. However, in 1975, the markets of turtle shells were prohibited. Until 2006, we could buy turtle shells from the black market, but in 2006, the central government instructed us to finish our turtle shell handicraft business. Since that time, the central government motivated us to change our business activity into a silver handicraft production since we live in the Kotagede silver handicraft cluster. The local government, in cooperation with the central government, provided some training to improve our skills. This situation stimulated us to set up this association. Thus, the main purpose of this association is to mobilize ex–turtle shell handicraft artisans to find other alternative ways to do a business, such as a silver handicraft business. It is still not easy. Some of us decided to become temporary construction laborers or factory workers in Yogyakarta. The total number of ex–turtle shell handicraft artisans in this village is around 150 people, but the total number of those who want to join this association is only around 61 people. We still work hard to motivate our members to improve their entrepreneurship so they will not leave this handicraft business. When we had an opportunity to participate in a trading exhibition, we organized our members to produce a lot of silver handicraft products, determined the price together, and sold at one counter in that exhibition. We were successful at that time, and it motivated us to improve our silver handicraft business together through this association.” (Interview, 15/09/2007)
Preparing a proposal for government funding was an incentive for some artisans in Semoyan village to cooperate in the association Semar, which was founded in 2005. Mr. Abi, a small artisan and a treasurer of the association, explained:

“The name of our association is Semar; that stands for Semoyan Marsudi Rezeki [Semoyan is the village in Kotagede, and Marsudi Rezeki means a sun fortune.] We founded this association in 2005 since there was government funding offered to small entrepreneurs. To be eligible to obtain the funding, we had to have an organization and sent a proposal in the name of the association. We were successful in obtaining the funding and [distributed] it to our members as business capital. The total number of members of the association was 60. The first funding was for 20 people and the second funding was for 40 people. We also got production equipment granted by the local government. Since the government only gave us 24 pieces of equipment, we divided our members in 24 groups, and each group consisted of 2 or 3 people. One group was responsible for one piece of equipment. Sadly enough, currently, the association is not as dynamic as before. I do not know why, maybe because we are too busy [doing] our own business, but for me it is not a good reason to turn down the activities of the association.” (Interview, 10/07/2008)

Thus, at local level, several important business associations exist in Kotagede. There is at least one business association in one subcluster. The role of the associations is to supply services like technical and entrepreneurial training, organize trade fairs, procure raw materials, and lobby at the political level. This has supported the improvement of the performance of local firms and the cluster itself.

7.1.2 The Manding leather handicraft cluster

In the Manding leather cluster, one local business association exists at the cluster level, Karya Sejahtera, founded in 1995. Once a year in January, the members of Karya Sejahtera have their annual meeting to distribute the annual dividend and discuss their annual program. According to its chairman, Pa Sardjimin (49 years old), the total membership is 70 entrepreneurs; 80% of them are from the Manding village (Interview, 12/09/2007). This association operates not only for leather artisans but also for other entrepreneurs in Sabodadi Desa, the administrative area where Manding is located.

Karya Sejahtera has a program to improve business development of leather artisans in Manding, through its technology center, joint equipment, and business training for micro artisans (Interview with Sardjimin, 19/09/2007). It is
interesting that this association appointed the head of the village administration of Sabdodadi Desa, Mr. Binarjono, as the chairman of the advisory board. Should the need arise, he, as the representative of the local administration, would take part in bargaining and act as a mediator.

In addition to its annual meeting, the association also has monthly meetings, during which the management distributes information from external institutions (the government, banks, or other external agencies) that is useful for the members; it also organizes an arisan (rotating savings) for its members (as observed at the monthly meetings on October 11 and November 12, 2007). Mr. Sardjimin said:

“This association is not only for leather handicraft entrepreneurs from the Manding village, but also for other entrepreneurs in Desa Sabdodadi. This association [was] founded in 1995, and this period is my second time as chairman of this association. We are active in asking our members to be involved in our program, so we have a monthly meeting to discuss and distribute any information to our members. Our main program is rotating credit saving. We also have a very good cooperation with local government and with some financial institutions, so if the government invites us to attend trainings, we will tell our members and give all members a fair opportunity to participate in some training. In 2006, we obtained equipment grants from the central government. To make the equipment accessible is very useful for all members who need it, so we built our own workshop and all members have access to the equipment.” (Interview, 19/09/2007)

In Manding, people who ended their membership did not build a new business association; those who do not join the association or end his or her membership in Karya Sejahtera have chosen to get involved in other social and cultural groups. However, from the interviews, it is apparent that some of them were disappointed with the management of Karya Sejahtera and stated that they tried to find the possibility of founding a new business association. They have not succeeded yet because other members choose to keep silent rather than to have an open conflict with the existing management of Karya Sejahtera.

For example, Mr. Yono, a small producer from Manding, was part of the management of Karya Sejahtera during the previous period (2003–2006) but currently is not a member of the association anymore. According to Mr. Binarjono (Interview, 20/11/2007), the head of the village administration and the chairman of the advisory board of Karya Sejahtera, Mr. Yono founded a new association, Setya Rukun; however, when I interviewed Mr. Yono (15/12/2007), he denied that and said he was not involved in any association in Manding and is still thinking about developing a new association. He stopped
his membership at Karya Sejahtera in January 2007 because he was disappointed with its new management. He thinks that they do not distribute important and beneficial information to the members and misuse the association for their own interest. Mr. Yono confessed to me:

“I was a secretary of the association from 2003 to 2006 but after that, I resigned from the association. I was disappointed in the way they selected a chairman for the next period of the association. The chairman was not elected by the members at an annual meeting of the association, but he was assigned by the head of village as a representative of the local government in this village. This is not called democracy. In addition, there were several decisions that were unfair since it implied that not all members got the opportunity to enjoy some facilities granted by the central government and the central banks of Indonesia. Only few members had access to some information and enjoyed the granted facilities from external institutions. That was the main reason I quit my membership of the association. Now, I am thinking to collect some people who are also disappointed with the association to try and build a new association. I do not intend to compete with the existing association but just to provide an alternative for people here” (Interview, 15/12/2007).

Box 7.1 contains a participation report of a meeting in Karya Sejahtera. Note that the local business association in Manding is more active in organizing collective actions among the members than the associations in Kasongan and Kotagede. The meeting process is democratic in the participation of the members in the decision-making process. When we attended another meeting of this association, we decided to hide ourselves; only the host of the meeting knew about our presence. We experienced that the meeting became more dynamic without the presence of outsiders like us. The members got involved actively in the decision-making process and considered collective interests. The
management of the association led the process and allowed the members to give their opinion freely.

Box 7.1. The Monthly Meeting of Karya Sejahtera, Manding, September 10, 2007, 8–11 P.M.
Mr. Wandi, secretary of the association acting as chairman of this meeting, opened the meeting by describing the agenda. There were seven items on the agenda of the meeting:
1. Opening speech from the chairman of the association, Mr. Sardjimin;
2. Welcome speech from the host, Mr. Kidung;
3. Speech from the Head of Village as the chairman of the trustee board of the association, Mr. Binarjono;
4. Speech from the guest of the association, Mrs. Poppy Ismalina (myself);
5. Monthly activities and financial report by the chairman and the secretary of the association, Mr. Sardjimin and Mr. Wandi;
6. Discussion and questions from the members;
7. Closing speech by the chairman of the meeting.

In his speech, Mr. Sardjimin gave an overview of the association’s activities and introduced me as a guest of the association and the Manding cluster community for several months starting August 2007. He asked the members of the community to welcome me at their firms or workshops to have an interview. At the end of his speech, Mr. Sardjimin explained the advantage of having a friend like me and the importance of having a network with external persons and institutions to increase information access of a Manding community with external environments. Mr. Binardjono agreed with Mr. Sardjimin and also emphasized the advantage of cooperation with external institutions and the necessity of mutual understanding and openness among the members of the association:

“As we have enjoyed government and external institutions’ support for years after the earthquake in 2006, now it is time to say that we have to extend our cooperation with external institutions. That is the first thing to do for maintaining the sustainability of this association. The second thing is maintaining mutual trust among us. Mutual trust is very important to stimulate us to do the best for our business activity and this association. It is common that a business association has an up and down turning point. However, the more important thing is we have to trust that this association and cooperation among us is very necessary for our own interest. Openness and transparency are also very important. For all members of this association, you can ask everything that you want to the management of this association regarding the activities, government funding, other external institutions grants as well as the financial condition of this association. Everything is open and for the sake of our well-being.”

After Mr. Binardjono and myself, the chairman and treasurer of the association gave reports. In my speech, I introduced myself, explained the purpose of my research
in Manding, and expressed my willingness to have a long relationship with the Manding community.

Mr. Sardjimin, accompanied by Mr. Wandi, started their presentation by reporting the total sum of the revolving fund and the number of nonperforming loans from few members. The total revolving fund was 285 million rupiah (about €20,000), and there were ten members who had nonperforming loans. Mr. Sardjimin reminded the members about the disadvantage of nonperforming loans for other members of the association. “The higher [the number of] nonperforming loans, the less money can be borrowed by other members,” Mr. Sardjimin said. Then, he asked other members to be united as members of the association so every member would get advantages from their membership of this association.

Then, Mr. Sardjimin described the past month’s and ongoing activities. He wanted a list of the members willing to participate in some training offered by the Bank of Indonesia (Central Bank of Indonesia) the following month. Mr. Sardjimin promised that the association would give priority for the members that had never participated at any training before.

After Mr. Sardjimin’s presentation, the chairman of meeting asked the audience to decide the winner of the rotating money. The winner was Mr. Mukijan; as is the association’s tradition, Mr. Mukijan also would be the host of the next month’s meeting.

During the discussion and question session, Mr. Purwanto, one of members of the association, asked some questions and made some requests to the management of the association:

1. He asked why the association has not had a team to control the performance of the management of the association.
2. He suggested that a financial report presentation should be a routine agenda at every monthly meeting.
3. He submitted that members who have nonperforming loans should get a warning from the management: If they deny the second warning, the management should do something significant to force them to return their loans.
4. He believed that the bank account of the association should be under the name of the association (not under the private name of one of the management).
5. He suggested that every three months, all activities of the association should be assessed by an internal auditor.
6. One year ago, the management collected money from the members to purchase equipment; the members had not yet seen the equipment. Mr. Purwanto asked for the accountability of that policy.

Some members expressed their support to Mr. Purwanto’s requests and asked the management of the association to take into account those issues.

Mr. Sardjimin replied to the questions of Mr. Purwanto:

1. There has been a team that controls the performance of the management from the local government, but if needed, at the next month meeting, we can choose a team from our membership to control the performance of the management.
2. The management of the association is always ready to disclose financial reports at every meeting.
3. To overcome nonperforming loan problems, the management has built a special team to send a warning to members who have them. There is a serious sanction if the loan is not resolved after the third warning.
4. The association’s bank account is actually under the name of association and two names of the management, the chairman and treasurer. If members of management want to withdraw money, they need two signatures and the evidence is recorded.

5. The management agrees with the idea of an internal auditor; it will start at the next month meeting.

6. Money that was collected a year ago has been used to pay the daily costs of the association’s workshop. At the next meeting, the treasurer will present the financial report of that money.

After that, there were no more questions from the audience. A closing speech from the chairman of the meeting concluded the meeting. There were some informal talks among the audience about Mr. Purwanto’s request. In an informal way, Mr. Sardjimin and Mr. Binardjono tried to explain to the members that the association was on its the way to fulfilling what Mr. Purwanto had demanded. Late at night, everybody left.

Mr. Purwanto’s request shows the willingness of the members to check what the management of the association has done. When the management allowed him and other members to talk freely, it indicated that the management tried to implement a democratic process in every decision taken by the association. “We let the members say anything they want so it will make them realize that they are involved in the decision-making process and that they are responsible for the implementation of the decisions,” explained Mr. Wandi to us in an interview after the meeting.
The observation described here shows that there are many reasons for artisans and producers in the Manding cluster to use business associations as the medium for their collective interests. When local people have common interests and problems, this drives them to unite in a business association that can take collective actions. The meeting is only one of the examples of the dynamics of Karya Sejahtera. Other examples are building a workshop to share equipment, collaborating with the Bank of Indonesia to build some public facilities in the village, and distributing information to external institutions as well as handing out press releases about the development plan of the Manding cluster. This indicates that the Manding people are willing to improve the development of the cluster through collective actions because they believe that the development of a cluster would affect the performance of their firms.

7.1.3 The Kasongan ceramic cluster

In the Kasongan ceramic cluster, a similar association operates: Satya Bawana, founded in 1984, whose members are local artisans and manufacturers/retailers. According to its chairman, Mr. Timbul, the number of members totals 581 people (June 2008), though only about 300 local people are active members. The members of Satya Bawana founded one cooperative with the goal of joint input procurement and joint investment in equipment. The cooperative has one workshop in which the members can share the equipment.

The members of Satya Bawana meet every month on the 15th, to discuss their revolving external funds and distribute new information from external institutions. The main program of this association is revolving funds for its members. The source of funds could be the central Indonesian government or national banks. Mr. Timbul explained:

“The association [was] founded in 1984, but for several years the activities slowed down. Since 2007, I started developing some activities of the association. A revolving fund is our main program. We collect money from the members every month and in turn, they can borrow that money. Currently, the total revolving fund is 1.3 billion rupiah [about €93,000]. We also organize the use of equipment granted by the central government. The equipment is distributed to several groups of members and each group is responsible to look after the equipment. We control the program by visiting the workshop of each group once a month.” (Interview, 12/06/2008)

In Kasongan, the members of the cluster who do not join Setya Bawono have some alternatives; there are some local economic institutions that are similar to cooperatives and other business associations outside the cluster to expand their external networks. Some female entrepreneurs join the Koperasi
Mentari, (Mentari Cooperative, the Bantul district women’s Muslim cooperative), a local Islamic business organization for women in the Bantul district level; some other entrepreneurs join Koperasi Aneka (Aneka Cooperative), an artisan’s organization in the Bantul district.

The members of Koperasi Aneka extended their cooperative behavior to the creation of a small luxury showroom for selling the products of the members and benchmarking product quality. By joining such organizations, the members get more credit access and establish a network with external institutions outside the cluster. As Mrs. Mimi, a respondent from a medium-sized retailer from Kasongan, asserted:

“Most female entrepreneurs in Kasongan do not join Setya Bawono since almost all of the members of the association are male. I do not think there is a gender issue in this fact. I guess that it naturally happens since most of economic players in Kasongan are male. However, fortunately, we could join Koperasi Mentari as the cooperative for Muslim women in Bantul district. In the cooperative, we often discuss and share information about entrepreneurship. Some of us are not involved directly to a daily business activity but have to support our husband’s business activity; some of us have [been] involved in some business activities. The cooperative also facilitates some rotating funding for the members that are funded by local banks or other external financial institutions.” (Interview, 24/06/2008)

Thus, in Kasongan, local people may join the local business association at the cluster level and outside a cluster. The main functions of the associations are financial assistance, rotating savings, equipment sharing, and joint marketing. Local people obtain some benefits from their involvement in the associations that are useful in increasing the performance of their own firm.

7.1.4 Rotating credit saving groups

Beside business associations, a rotating credit saving group may exist in an area where people live together and are embedded in close social cultural ties. An example of the mechanism of a rotating credit saving group is the following: A group of 10–20 neighbors arranges to meet once a month for a social occasion at one of the member’s homes, an occasion at which they not only enjoy food and each other’s company, but also contribute a small amount of money into a piggy bank. One “winner” is chosen, usually by lot, to receive the total amount. In subsequent meetings, his or her name is excluded from the drawing, so that ultimately, all members win once.

This is an important institution for borrowing and capital accumulation among groups when banks or other formal financial institutions are not able to
subsists. It allows for small capital expenditures (e.g., for buying input materials), which would require a greater saving capacity than exists in such semisubsistence situations. If there is a member who really needs the money, the drawing is not conducted and the money is given directly to the one who needs the money. Thus, savings groups may use clusters to raise capital.

Several rotating credit saving groups are active in the cluster communities. Interviews indicated that most of these groups organize monthly meetings. However, during the meeting, they hardly ever talked about their daily business activities but rather raised social-political issues. Interestingly, we found that some members of some rotating credit saving groups compete with each other as retailers or manufacturers.

One rotating credit saving group in Kotagede has extended its activities beyond raising capital from its members: It is active in mediating the business interest of its members. The name of the rotating group is Usaha Abadi (the long-lasting business effort). Although the group only has nine members, the members represent all types of local people in one cluster: producers, retailers, subcontractors, and artisans. Mr. R.M. Mulyo Wiryono, a respondent from a medium-sized retailer in Kotagede and the founder of the group asserted this:

“I and two of my business neighbors initiated this group two years ago. My neighbors are Mr. Wahyudin and Mr. Sapt. They also have showrooms at the same street as my showroom. Our first motivation to found this group is gathering among ourselves and rotating our money. But after some long talks with them at several gatherings, we found the possibility to set up a business association that may have more functions than this group. Almost all of us have disappointing experiences with the management of the association KP3Y, so it stimulated us to have our own business association. Anyway, it is still a developing idea and we have enjoyed our group as an alternative quick source of obtaining small capital that we often really need for our business activities. We also learn to build empathy among members by giving priority to take money for the members who really need the money at the time the money is rotating.” (Interview, 10/01/2008)

My observations in Kotagede show that group members cooperate with one another in their daily business. There are subcontracting relationships between subcontractors and retailers, but there are also trading relationships between retailers. For example, if there is a customer who comes to Mr. Mulyo’s showroom and wants to buy a certain product that he does not have, he will call some members of the group to ask whether they have the product. Suppose Mr. Wahyudin has the product Mr. Mulyo’s customer needs. After getting a call from Mr. Mulyo, Mr. Wahyudin will come to Mr. Mulyo’s
showroom to deliver his product. Interestingly, when the product has been given to Mr. Mulyo, he is the one who will negotiate a price with the customer. Mr. Mulyo also negotiates with Mr. Wahyudin for the price of Mr. Wahyudin’s product.

However, there is a mutual understanding between them: Nobody will ask how much the agreed-on price of the product with the customer was, but everybody knows that the one who deals the price with the customer will try to obtain a little margin from both transactions. In other words, the agreed-on price of the product between Mr. Mulyo and Mr. Wahyudin must be less than the agreed-on price between Mr. Mulyo and his customer.

This aspect of Mr. Mulyo’s rotating savings group is interesting because price determination is difficult to decide among local people in the clusters. Observations at the association meetings indicate that the members of the association never talked about this issue or a possible price fixing. They were merely concerned about the financial assistance from government or other external institutions, information as well as joint marketing at some exhibitions, or other market access. Problems related to the availability of input at a reasonable price sometimes constituted the subject matter during the association’s meeting. Mr. Sutojo, vice chairman of KP3Y, Kotagede, asserted:

“We realize that there are some members who complain about the price war between retailers here. Some new retailers determine a price of their products at a very low level to attract customers. On the other hand, others cannot afford to sell products at such a low price. This is an unhealthy situation, but the association cannot do anything about this kind of price war. However, we help the members through collective purchasing of inputs to push the price down.” (Interview, 20/08/2007)

Thus, a rotating credit saving groups is important to improve social embeddedness among local people and to capitalize their business. Moreover, among the members of these groups, joint marketing may occur because mutual understanding among several people is improved through these groups, even the idea to build an alternative new business association at the cluster level is being developed in one of these groups in Kotagede. Using questionnaire survey data,
in the three clusters, almost all respondents were part of a rotating credit saving group.

In summary, there are three types of local business organizations: cooperatives, local business associations, and rotating credit saving groups. In the Kotagede silver cluster, the local business organizations are as follows:

1. KP3Y (Kotagede Artisans Cooperative), a local business organizations at the cluster level.
2. Sari Tulang Aji, a local business association at the subcluster level (Basen).
3. Semar (Semoyan Marsudi Rezeki), a local business association at the subcluster level (Semoyan).
4. Kutagede, a local business association at the subcluster level (Kemasan).
5. Some rotating credit saving groups at the subcluster level.

In the Kasongan ceramic cluster, the local business groups are as follows:

1. Satya Bawana (Kasongan Artisans Cooperative), a local business association at the cluster level.
2. Some rotating credit saving groups at the subcluster level.

In the Manding leather cluster, the local business groups are as follows:

1. Karya Sejahtera, a local business association at the cluster level.
2. Setya Rukun, a local business association at the cluster level (inactive).
3. Some rotating credit saving groups at the subcluster level.

7.2 The Role of Actors in Local Business Associations

In this study, we define actors as local influential businesspeople who emerge in the processes of decision making in the local business associations to arrange a code of conduct and coordinate collective actions to solve business problems, achieve collective objectives, and improve firm performance. Decision-making processes have become vehicles for individual people and groups to shape cluster-related organizational strategies. This implies that leadership in cluster development is essential and is expressed at the level of local organizations within a cluster. In this context, leadership results from a high degree of voluntary activity in local affairs that have an impact on community change. The actors help to animate local strategic vision processes, stimulate activities to upgrade the innovative capabilities of local firms, and represent the common interest of firms in a cluster if required. Actors have a range of structural rules and resources by which to inspire and empower their actions (Giddens, 1979); their actions are intentional and goal directed (Giddens, 1976).

This chapter shows that some local actors use the existing local business associations to solve collective problems that hinder the development of a cluster. The associations are useful as a medium for the members to arrange the
rule of interfirm relationships and coordinate collective efforts to improve the growth of the cluster. The next questions are these: Who are the actors and what types of leadership characterize actors?

I attended several meetings of existing business associations in the clusters to see how the decision-making process actually proceeded and identify the actors in the associations. All three clusters had similar decision-making processes. The chairman of the association or someone else proposes a new idea and opens a discussion forum. In the discussion forum, there are people who support or turn down the idea. Others become followers and agree with the decision that is made based on the leading opinion in the discussion. Thus, there are some influential people who usually give their opinion about the decision to be made by the meeting forum.

Accordingly, in one of the subsequent meetings in each business association, I asked each individual meeting member who the influential person(s) were in the decision-making process. Table 7.2 presents the results of this survey. In Kasongan and Manding, I attended a meeting of the business association at cluster level (Satya Bawana and Karya Sejahtera), and in Kotagede, I joined a meeting of the business association at the subcluster level (Semar (Semoany Marsudi Rezeki) and Sari Tualang Aji), but not at cluster level.

Almost all respondents put forward more than one name. A name that was mentioned by fewer than four respondents is not presented in Table 7.2. As Table 7.2 indicates, some people are acknowledged by many members of local business groups as persons who influence decision making processes in the groups even though they do not have a formal position. My field investigation leads me to conclude this is because they have more knowledge about the products and the markets and networks with external institutions than other members.

In Kasongan, the chairman of the business association Satya Bawana is elected by popular vote. The total respondents are 48 people who attended the meeting of the association on June 20, 2008. However, no respondent chose only one name in their list of influential people. In other words, someone who chose Mr. Timbul also chose a second name; at least one respondent put three names in the list. Thus, for example, in Satya Bawana, there are four people who are acknowledged by the members as influential persons in the decision-making process of the association: Mr. Timbul, Mr. Subur, Mr. Bejo, and the Head of the Village. In Kasongan, the head of the village does not have any formal position in the association. Interestingly, Mr. Timbul and Mr. Subur are classified as large producers in Kasongan, and most Kasongan people know that both of them compete with each other in their daily business activity.

In the subcluster Semoany-Kotagede, most respondents chose Mr. Suyanto, one of the managers of the association Semar, as being most influential. The question was put to the 13 attendees of the association meeting on May, 30, 2008. Similar to Kasongan, no one put just one name on the list;
they listed at least three names of influential people. Mr. Jirahman and Mr. Parjono are not part of the management of the association, but they usually come to the association meeting and influence the discussion among members.

At the meeting of Sari Tulang Aji on November 18, 2007, in Basen, the subcluster in Kotagede, the members of the meeting drew their own list of influential people. Table 7.1 indicates that there are five persons members of the meeting deemed influential. All five persons also came to the meeting and had their own list. Mr. Wahyono and Mr. Marsudi are the formal leaders in the subvillage of Basen and members of Sari Tulang Aji. As mentioned previously, people did not take into account only their formal authority but also their wisdom to improve the quality of the decision made by the association.

At the meeting of Karya Sejahtera in Manding on October 13, 2007, the greatest number of members chose Mr. Sardjimin, the chairman of the association, as an influential person. The second person is Mr. Binarjono, the head of the village of Sabdodadi and the chairman of the board of trustees of the association. Interestingly, Mrs. Siti was also elected, though she did not attend the meeting and has not been around for several months. Mr. Ratno was the oldest person at the meeting. He is the founder of the Manding cluster; therefore, he is knowledgeable about how to improve the business activities of the Manding cluster. He is also has good connections with the local government, so he is one of the important people in Manding.

Table 7.1. List of Influential Persons

<table>
<thead>
<tr>
<th>1. The Kasongan Cluster (Satya Bawana)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mr. Timbul (chairman of Satya Bawana)</td>
<td>elected by 41 respondents</td>
</tr>
<tr>
<td>2. Mr. Subur (an association activist)</td>
<td>elected by 17 respondents</td>
</tr>
<tr>
<td>3. Mr. Bejo (an association activist)</td>
<td>elected by 14 respondents</td>
</tr>
<tr>
<td>4. Pa Dukuh (the head of the subvillage)</td>
<td>elected by 10 respondents</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. The Kotagede Cluster</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subcluster Semoyan—Kotagede (Semar—Semoyan Marsudi Rezeki):</strong></td>
<td></td>
</tr>
<tr>
<td>1. Mr. Suyanto (an association activist)</td>
<td>elected by 9 respondents</td>
</tr>
<tr>
<td>2. Mr. Sudibyo (an association activist)</td>
<td>elected by 5 respondents</td>
</tr>
<tr>
<td>3. Mr. Abi (a vice chairman of Semar)</td>
<td>elected by 6 respondents</td>
</tr>
<tr>
<td>4. Mr. Parjono (the head of village)</td>
<td>elected by 5 respondents</td>
</tr>
</tbody>
</table>

**Subcluster Basen—Kotagede (Sari Tulang Aji):**
1. Mr. Sigit Budi Mulyo (chairman of S.Tulang Aji) elected by 7 respondents
2. Mr. Panular (an association activist) elected by 7 respondents
3. Mr. Istiadi (founder of an association) elected by 5 respondents
4. Mr. Wahyono (the head of sub-village) elected by 9 respondents
5. Mr. Bambang (an association activist) elected by 5 respondents
6. Mr. Marsudi (the head of sub-village) elected by 4 respondents

3. The Manding Cluster (Karya Sejahtera)

1. Mr. Sardjimin (chairman of Karya Sejahtera) elected by 17 respondents
2. Mr. Binarjono (head of village) elected by 12 respondents
3. Mrs. Siti (the owner of the medium-sized firm) elected by 6 respondents
4. Mr. Ratno (founder of the association) elected by 5 respondents
5. Mr. Siswo Darmojo (an association activist) elected by 5 respondents

After listing influential people in the process of decision making in the association, the respondents were asked to describe the influential people on the basis of two types of leadership defined in this study: rule-making and open perspective actors. As discussed previously, rule-making leadership emerges from a range of decisions made by local actors about the code of conduct of a local business association and its implementation. Open perspective leadership is indicated by a range of decision-making processes that are undertaken by local actors about the development of the network with some public or private institutions outside the clusters and who support the implementation of the plan of local business groups/associations.

In organizations like local business associations, actors who are rule-makers and are active in creating networks with external institutions (open perspective) must prevail. Rule-making actors motivate the association to define a clear code of conduct to manage interfirm relationships among the members and all activities of the association. Having a clear code of conduct enables the association to create many advantages for the members. Open perspective actors will further the improvement of networking of the association; this in turn will give the members the advantages of external networks, which can improve information and knowledge access of the members to the new opportunities and markets from outside clusters, as well as provide other advantages from outside institutions that will improve the quality of business within the clusters.

With regard to rule-making actors, I asked the members of the meeting whether the influential people they chose are active at every meeting in creating transparent and clear rules for all activities and whether these actors allocated responsibilities and opportunities to the members in a fair way. Regarding the open perspective actors, I asked respondents to assess whether the influential people are active in creating a network with outside institutions on behalf of the association and whether they persuade external institutions of the advantage of
being open-minded partners to obtain knowledge and information sharing from outsiders.

Tables 7.2 and 7.3 present my results. Not all agreed that their influential persons could be classified as rule-making and/or open system perspective actors. About 88% of respondents in Kasongan, 70% in Kotagede, and 78% in Manding acknowledged that their influential persons fulfill both two criteria.

### Table 7.2. Opinions About Rule-Making Actors

<table>
<thead>
<tr>
<th>Do the influential actors define rules (for themselves, the group, and/or the organization) and allocate task responsibility and resources toward the accomplishment of personally identified goals?</th>
<th>The Kasongan cluster (48 persons)</th>
<th>The Kotagede cluster (71 persons)</th>
<th>The Manding cluster (20 persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>42 persons</td>
<td>49 persons</td>
<td>18 persons</td>
</tr>
<tr>
<td>No</td>
<td>6 persons</td>
<td>22 persons</td>
<td>2 persons</td>
</tr>
</tbody>
</table>

### Table 7.3. Opinions About Open Perspective Actors

<table>
<thead>
<tr>
<th>Do the influential actors make a relationship or network with other institutions from outside clusters?</th>
<th>The Kasongan cluster (48 persons)</th>
<th>The Kotagede cluster (71 persons)</th>
<th>The Manding cluster (20 persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>44 persons</td>
<td>51 persons</td>
<td>20 persons</td>
</tr>
<tr>
<td>No</td>
<td>4 persons</td>
<td>20 persons</td>
<td>0 persons</td>
</tr>
</tbody>
</table>

The data in Table 7.2 and 7.3 show that people in a cluster community perceive the leadership of influential local persons in a developing country’s cluster as highly important, and they emphasized that people must cooperate through local formal and informal associations to solve their common business problems. Actors’ efforts cannot be made individually; they must be the result of a coordinated and integrated group effort. That is why we see several actors, not just one, who are influential in integrated and coordinated efforts.

The associations in each cluster are composed of individual people, and these people differ in several behavioral characteristics, including interpersonal relationships, individual orientation, goal orientation, and even problem-solving style. Some actors who are influential in local business associations are rule-making and open perspective leaders. As rule-making leaders, they are decisive in the arrangement of the rules or the mechanisms of interfirm relationships. The rules are important because the dynamics of interfirm relationships must be steered the right way to ensure progress in the cluster’s development.
In Semoyan, Kotagede, Mr. Abi, vice-chairman of Semar, told us that he respects his neighbor, Mr. Suyanto, and acknowledges him as a leader because he was active in mobilizing artisans in Semoyan to found Semar and lead its members to arrange some rules for the members of the association. He elaborated:

“Two years ago, most small and micro artisans in Semoyan were not sure about the future of their business. Production cost became higher because of the increase of input price. At the same time, they could not increase the price of their products since it would not be affordable for their customers who were mainly from low and medium income people. Mr. Suyanto and friends (including Mr. Abi) then tried to solve that problem. Firstly, they tried to solve a financial problem. They looked for information about the opportunity to get government funding to improve the availability of money capital for artisans in Semoyan.

From the local government, they got information that the local government could give them funding, but the business community had to found a business association and send funding proposal to the government on behalf of the association. Mr. Suyanto led some young artisans to found Semar and prepared a funding proposal to the local government. Finally, they got funding from the local government and production equipments. Then, the next agenda was how to distribute the funding fairly. Mr. Suyanto led the meeting to make the rules: (1) Funding from the government is a revolving fund, so the members who are eligible to obtain the funding should return it to the association within six months with paying a very small interest rate to the association; (2) The active members are 60 artisans. The total number of members who were eligible to obtain the fund at the first turn is 20 members, so within one and a half years, all members get an opportunity to borrow the fund; (3) Make the list of members who would get the first, second, and third priority for that fund based on the needs of the members. (4) Other members who did not get the first turn of the revolving fund would obtain the first turn of equipment sharing. The total number was 40 of 60 members. There were five equipments so one group that consisted of 8 members was responsible for one equipment; (5) The equipment [was] revolved from one house to another house of the members within one group.
All members followed the rules and got advantages from the sharing of equipment and revolving funds. The association was financed by the membership fee and the interest rate of revolving funds. Thus, Mr. Suyanto is one of influential leaders who have maintained the involvement of the members in the association by arranging the rules that have been beneficial for the members of the association. (Interview, 10/5/2008)

Thus, the evidence from Semoyan shows that rule-making leaders strengthen the collective unity and express aspirations that inspire the members. They lead the efforts of the members and deepen the motivation to enlarge output beyond that which could be achieved without the intervention of the leaders. Moreover, the leaders express the values and ideas of the group and make the members proud of their group identity.

In contrast, open perspective actors lead cluster members by being aware of changes in the external business environment. Collaboration with other external institutions is seen as useful to familiarize members with negotiating with outsiders. The actors initiate change in response to both the internal and external environment of the cluster. Also, they enable the members to self-adjust easily to external changes. Thus, as Giddens (1979) states, actors have capabilities that generate a sense of “communality” over individual people. In Manding, the members of Karya Sejahtera have been impressed with Mr. Sardjimin’s efforts to cooperate with external institutions like Bank of Indonesia, University of Gadjah Mada, and others. From the cooperation with Bank of Indonesia, Manding village has built a nice open room for public meetings and a comfortable parking place. Some automated teller machines have been placed there because of the cooperation with some national banks. The association has one workshop from the local government where the members can share production equipment. Mr. Sardjimin has helped the Manding cluster become open to external institutions to build public facilities, though he has still committed to a consensus in the association that the external (and also foreign) investors are prohibited to build showrooms and workshops inside the cluster to protect local artisans and traders. The local government has provided a special shopping area one kilometer from the cluster for external investors interested in doing the same business.

Box 7.2 describes the profile of one of the actors in Basen, Kotagede. Note that the actor does not need to have a formal authority to be acknowledged as a leader by the members of the association, as long as he or she is concerned, gets actively involved in the decision-making process, and takes action to realize the collective interests.

Box 7.2. Profile of Mr. Istiadi, the Founder and Principal Actor of Sari Tulang Aji
Mr. Istiadi (67 years of age) works as a silversmith in Kotagede. He does not have his own showroom; he routinely manufactures his products for some big hotels in Yogyakarta that have their own showrooms and his loyal client from Medan, North Sumatera (five hours by flight from Yogyakarta).

He lives in Basen, Kotagede, where Sari Tulang Aji, a local business association, exists. He is not the chairman of this association, though he founded it in December 2003. Some members wanted him to be the chairman when it was formed, but he declined because he felt too old to lead the association. Finally, the members of Sari Tulang Aji agreed to choose Mr. Istiadi’s son, Mr. Wahyono, as a chairman of Sari Tulang Aji.

Mr. Istiadi is one of the influential actors at Sari Tulang Aji because he is one of a few who have a connection with some government agencies, including the central and local government. Government agencies would contact Mr. Istiadi if they had some programs of interest to Sari Tulang Aji. Interviews with some Sari Tulang Aji members indicate almost all members believe Mr. Istiadi is an agent of change in Kotagede because he emphasizes the need for collective awareness among Kotagede people to maintain its original culture. Mr. Istiadi also promotes unity to improve the quality of life in Kotagede; for example, he has joined and is part of the management of the “Living Museum,” which was founded to sustain Kotagede’s cultural heritage.

Mr. Istiadi is concerned with the price war among retailers in Kotagede. Therefore, through Sari Tulang Aji, he persuades the members to determine as fair a price as possible. When the members of Sari Tulang Aji have an exhibition together, Mr. Istiadi leads them to determine a price of the products together for that exhibition. This is how Mr. Istiadi teaches them to get used to having a collective price determination. He maintains that when the members get used to talking about the product price, a sensitive issue in their culture, they will easily talk and solve other business problems that are less sensitive.

Currently, members of Sari Tulang Aji see Mr. Istiadi’s obsession as making them confident, productive, and creative enough to manufacture their silver handicraft products successfully and maintaining a good connection with some research and development institutions outside the cluster.

Source: in-depth interview with Mr. Istiadi (September 2007)

Box 7.2 demonstrates that Mr. Istiadi made an effort to get the members of the association used to discussing price determination. Some local people interviewed stated that competition in Kotagede is unhealthy, because some retailers push the price down to an unreasonable level. Mr. Istiadi found the solution to this by garnering an agreement about the upper and lower level of the price. Moreover, he is also concerned with the development of a network with external institutions, and the members of the association benefit from the network by the provision of technical training as well as participation in trade fairs.

In the studied Indonesian clusters, the local business associations are varied, and there are local actors in formal and informal business groups who affect the decision-making process in the groups through their ability to set a
clear code of conduct and create networks with external institutions. The role of local business associations and local actors is important in influencing the dynamics of a cluster. As Giddens emphasizes throughout his essays and books, “knowledgeable” actors (i.e., people who know what they are doing and how to do it) act by putting into practice their knowledge. This implies that those actors are capable of working in creative or innovative ways. Their actions may have consequence of transforming the very structures that gave them the capacity to act (Giddens, 1984).

7.3 Conclusion

This chapter began with two simple research questions: What is the role of local actors managing interfirm relationships in the local business organizations? and what types of leadership prevail in the process of decision making in the organizations? Local business organizations, including informal business groups such as rotating credit saving groups, have an important role in Indonesian clusters to mediate common problems and interests of participating firms. Firms in the clusters have many problems regarding input procurement, government and external institution lobbying, the use of production technology at the required level, lack of capital, and interfirm coordination within a cluster. Cooperative, local business association and rotating credit saving groups can help participants to solve problems together.

Local business organizations can bridge a variety of members’ interests, improving the performance of all members’ firms. In this situation, local actors prevail with leaders who steer the decision making in the clusters. This chapter draws three main conclusion about the leadership types in the local business organizations in the Indonesian clusters. First, I find that changes in a cluster are established by a group of leading actors within a cluster. The logic behind this is that if a single person cannot impose his or her vision on an organization and bring about substantive change, collective actors may be able to achieve such changes by assembling a variety of skills, expertise, influence, and legitimacy.

Second, some actors in a cluster define rules for themselves, their organizations, and the cluster and allocate task responsibility and resources to accomplish personally identified goals. Significantly, the advantage of a cluster is based on the reallocation of core competencies among firms and people. Third, actors have a strategic orientation and anticipate environmental influences. Thus, they must have an open mind to implement their strategic orientation.

Formal and informal business organizations are becoming increasingly important, because organizations in many industries enter into various forms of collaborative arrangements and some entrepreneurs play an increasingly important economic role. This chapter shows that shared values of the members of local associations and their identification with the collective goals of the cluster are often considered major factors for improving the performance of the
firms. It is often expected that, because of the solidarity and care for the others, groups with shared values and a strong social cohesion are successful in solving their common business problems.