An integrated analysis of socioeconomic structures and actors in Indonesian industrial clusters
Ismalina, Poppy

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2011

Link to publication in University of Groningen/UMCG research database

Citation for published version (APA):

Copyright
Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

The publication may also be distributed here under the terms of Article 25fa of the Dutch Copyright Act, indicated by the “Taverne” license. More information can be found on the University of Groningen website: https://www.rug.nl/library/open-access/self-archiving-pure/taverne-amendment.

Take-down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): http://www.rug.nl/research/portal. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.
8. The Interplay Between Socioeconomic Structures and Actors in Clusters

“Fortunately, after meeting several times, there was goodwill from both sides and appreciation for each other, and consensus was reached.”

(Mr. Timbul, the chairman of Setya Bawono, the local business association in Kasongan)

My main objective is to provide an integrative analysis of socioeconomic structures and the role of actors in a cluster. Chapters 5 and 6 focus on the analysis of socioeconomic structures, and Chapter 7 involves the role of actors. From the analysis of structures, I conclude that the studied Indonesian clusters are composed of socioeconomic structures and that those structures have a significant impact on firm performance. Chapter 7 shows that local actors have a significant role in managing interfirrm relationships through decision-making processes in local business associations. This chapter’s objective is to combine these two issues in an analysis of the interplay between the role of actors and structures.

I refer mainly to Giddens’s theory on the duality of structures and actors explained in Chapter 2. The framework of this chapter refers to that described in Chapter 3 involving an interaction of the elements of socioeconomic structures and the role of actors. My main argument is that actors have significant roles in developing socioeconomic structures of a cluster, and the existing local structures enable or constrain what the actors do or will do.

A cluster is a specific type of embedded network in one location that is generally established by the initiative of some local actors. It is continued by a dynamic local process consisting of intensive interactions of local people and affected by socioeconomic factors and the role of local actors in local business organizations to achieve the development of their own firms and the cluster itself. In such an embedded network, local actors form partnerships by organizing efficient access to information on the availability, competencies, and reliability of interfirrm relationships within a cluster. Actors in local business
organizations set a code of conduct for the organization, coordinate the interactions, and mobilize collective actions with the goal of improving firm performance and minimizing risk of opportunism and other unwanted actions.

The history of the establishment and the dynamics of cluster development show the interplay between structures and actors within a cluster. Actors have had significant roles in managing the collective learning process through business organizations. Both historical and current facts corroborate this. To explain and explore the main issues, this chapter consists of two parts: Section 8.1 details the history of the establishment of the studied clusters and describes the role of local actors and local structures in history; and Section 8.2 describes the dynamic process of cluster development that explores structures as a result of human action and actors as the developers of the structures. Section 8.3 concludes this chapter with a summary.

8.1 The History of the Establishment of the Studied Clusters: Local Actors as Pioneers and Local Socioeconomic Structures as Supporting Elements

As Chapter 2 explains, according to Giddens (1976), structures can be reproduced and transformed only through actors who come into existence from within a structured environment. Changes in social structures and systems take place as a result of human action, which is both enabled and constrained by the structures (Giddens, 1981). Throughout his theory, Giddens places a great deal of weight on the notion that actors are knowledgeable.

The history of the establishment of the studied Indonesian clusters can be interesting evidence of Giddens’s thesis about the interplay between structures and actors. In fact, the three clusters each grew in a different way. The Manding cluster is classified as an artisanal cluster, which has shown little dynamism and seems unable to expand or innovate, whereas the Kasongan cluster is an active cluster, which has been able to deepen its interfirm division of labor, raise its performance, and break into the international market. Though I classify the Kotagede cluster as dynamic, it is less so than the Kasongan cluster. It can be said that the Kotagede cluster is in an intermediate stage along the spectrum between artisanal and active clusters.

However, all the clusters were initiated by farmers (Manding and Kasongan clusters) or traders (Kotagede cluster) in need of supplementary activities for using their labor and capital surpluses through individual enterprises cooperating as well as groups of firms joining forces in business associations. When they were successful, other villagers tried to copy their neighbors’ innovative behavior, and gradually, the clusters grew and turned into producer networks with horizontally and vertically specialized enterprises. Embedded ties among them made the learning process effective. Product and process innovations, new organization forms, and business opportunities emerged through the interactive processes that took place within the clusters.
Embeddedness created proximity, affinity, and the basis for the development of trustful relations, which contributed significantly to the success of the interactive learning process.

8.1.1 The Kotagede silver handicraft cluster

Situated some five kilometers southeast from the center of Yogyakarta, Kotagede covers an area about one square kilometer on the eastern side of the Gadjah Wong River. The silver handicraft business has developed since Kotagede was the kingdom of Mataram, capital of Yogyakarta with the Panembahan Senopati government, at the end of 1500. At that time, Kotagede was a center for making the silver keris (a traditional Javanese knife) and jewelry provided for Panembahan Senopati’s family.

When Kotagede no longer served as the kingdom of Mataram, it turned itself into a distinguished place for artisans. Since the introduction of Indonesian tourism in the early 1970s, silverwork has become the hallmark of the Kotagede artisanship. Trade is a main activity for many Kotagede people. Though many of them may have vocations as government officials or public servants, they still engage in silver handicraft business.

Almost all the silversmiths in Kotagede come from families that have had the same trade for three or more generations. When the business expanded, the family business was split up into separate units, and each part was owned by one family member. However, the management tasks are divided among the family members: One or two were responsible for managing the production process and finishing stages, and the others took care of order acquisition and marketing. One example comes from the largest firm in Kotagede: HS Silver. Currently, it is managed by the fourth generation of the founders of the firm, the children of Mr. Harto (the third generation of founders died several years ago)

Mr. Harto was the founder of the local business association at the cluster level, KP3Y, in the 1960s. He and some other actors led the association to manage joint actions. At that time, through the association, firms in Kotagede cooperated by sharing hand tools; information on product innovation, conditions, and source of raw material; and transport costs on raw materials through joint purchases. The goal of the joint actions was to reduce production costs on the one hand and to increase learning on the other; it was not specifically to overcome external challenges or to reach distance market, but to improve learning. At that period, KP3Y had a significant role to improve a learning process and make information sharing occur among the members of the cluster. This situation contributed to the improvement of business activities in Kotagede.

Back to the current business conditions of HS Silver, the total turnover of HS Silver is 1 billion rupiah per month (€75,000). Besides marketing the products in local and domestic markets (Jakarta and Bali), the company mainly exports its product to Italy and the United States. Mr. Suryadi (53 years of age)
and his brothers and sisters have managed the firm since their father (Mr. Harto) passed away. Mr. Suryadi is the chief executive officer of the firm, and his brothers and sisters hold other positions such as financial director, marketing director, and business development director. Although they manage HS Silver together, each of Mr. Harto’s children has his or her own firm as well. As Mr. Suryadi asserted:

“I am the eldest son of Harto’s family. When I was young, my father got me involved in the family business. Before he passed away, I already built my own firm with support by my parents. The name of my company is CV Amie. The company was founded in 1975. The main specialization of my own business is handbag leather products, since at the time I founded the company, there was a good opportunity in leather products. In 1985, I expanded to the international markets Europe and Japan. However, I am still a player in the silver product business. That is the core business of our family. My brothers and sisters also have their own business but they focus on silver products. The production activity of silver products is pooled in one big workshop, in front of our showroom. My mother asked me to replace my father’s position in our family company one year after my father passed away, and my mother was too tired to manage the company. (Interview, 08/09/2007)

Thus, like other family firms in Kotagede, Mr. Suryadi and his brothers and sisters pool production, share common property, and collaborate on information about market opportunities and external networks. Now, they have diversified the family business into various business fields, such as one-stop shopping supermarkets, restaurants, other handicraft products, and some retail shops, although the core business is still silver handicraft. Another large company in Kotagede is Narti Silver, which is owned by the family of the sister of Mr. Harto (Mrs. Narti, who passed away several years ago) and now is managed by the children of Mrs. Narti.

Another interesting story is from Mr. R.M. Mulyo’s family. He and his wife had five small firms in Kotagede: Sari Mulyo, Mawar Putih, Tujuh Loga, Melati Putih, and Restu, all silver product retailers. Since he divorced from his wife, four of their firms are owned by his ex-wife and his children. Now, Mr. Mulyo owns and manages his small retail shop in the main street of Kotagede, Kemasan Street. His company does not manufacture the products but orders them from local artisans and subcontractors. Some of products are manufactured by his eldest daughter (Mrs. Retno), who owns a workshop with her husband (Mr. Jamal). Mr. Jamal is the son of one of the owners of the medium-sized silver firm in Kotagede (Mr. Yahar). This couple built their company by joining two families’ firms. As explained in Chapter 7, Mr. Mulyo
founded an informal business group that has been effective as a rotating saving group among the members and has been considering starting a business association from that group. In addition to the rotating savings, information sharing as well as joint marketing occurs among the members of the group.

Thus, the Kotagede cluster has been surviving for five centuries since the cluster has developed as a family business structure. Most firms belong to the third or fourth generation of silversmiths in their families, who get support from relatives in running the firm, at present just as at the time of its establishment. The members of the families pool and mobilize the financial and managerial resources needed for their business operations and share common property, thus expanding their firms. Actors in local business associations as well as informal business groups significantly contribute in leading local people in the learning process within the cluster.

8.1.2 The Manding leather handicraft cluster

The Manding cluster is located at Parangtritis Street, which is 11.5 kilometers from the center of the Yogyakarta province. In the streets around the crossroads of Manding village, there are dozens of showrooms with leather products with bags, shoes, jackets, and small souvenirs. Ratno Suharjo (77 years old; Interview, 20/07/2008) with his two brothers, Prapto and Yoto (both now deceased), are the pioneers of the leather handicraft business in Manding.

In 1957, they stayed in the house of their uncle, who was the manufacturer of leather equipment for the horses of the Yogyakarta Palace family. There, they learned to make leather bags.

In 1958, they returned to their hometown, Manding, where work was mainly in farming; however, farm productivity tended to decrease from year to year. They started making leather bags by recruiting and giving some technical training to some local young people. When traditionally leading producers are pioneer innovators, other producers may not easily imitate adoption, because pioneers are not their peers, those with whom they easily identify. However, in such a situation, it is possible that the pioneers will stimulate innovation adoption by others who are embedded in their network.

In 1976, they built a leather research and training center as an embryo of a local business association in the cluster. Ratno says, “At the end of the 1970s, we conducted some training once a week. At that time, about 20 people joined and started to become leather craftsmen,” (Interview, 20/07/2008). In 1980, some of them were able to send products to the Netherlands, Germany, Australia, the United States, and Japan. At that time, the Suhardjo brothers started to produce leather bags. They also collected orders at domestic markets, received advance payments, and distributed the work among their colleagues in the cluster. They had a crucial role in production as well as in marketing. As Mr. Sardjimin, the chairman of Karya Sejahtera (the local business association in Manding), asserted:
“We Manding people, especially the leather artisans, really admire ... Bapak Ratno and his brothers (Pa Prapto and Pa Yoto), who already passed away several years ago. Because of their tough efforts, the Manding cluster has become well-known as a leather handicraft cluster in Indonesia as well as in the international market. They did not stop finding market opportunities in the domestic market, but also started to expand into international markets. Unbelievably, within ten years, they could sell leather products to some international markets: the Netherlands, Germany, Australia, the United States, and Japan.” (Interview, 09/10/2007)

The development of the Manding cluster has seen ups and downs. Some craftsmen closed their workshops and showrooms during the crisis of 1997 and after an earthquake in May 2006. The total number of people still engaged in the leather handicrafts business is about 25. Most of them joined Karya Sejahtera, the local business association at the cluster level. The cluster produces some handicrafts from natural fibers. Interviews with some artisans and the formal leader of the local business association in Manding revealed that the existing Manding artisans were committed to protect their business area from external investors: They did not allow any outside investor to build a workshop or showroom in Manding.

8.1.3 The Kasongan ceramic handicraft cluster

The Kasongan industrial center is located in the Bangunjiwo village, Bantul district, about ten kilometers to the southwest from the centre of the Yogyakarta province. The Kasongan cluster has developed as a tourism destination with local ceramic industries as its main attraction. The cluster started in the early 1980s, when some local people looked for other productive works beyond their paddy fields and farming activities and founded one cooperative (now called Setya Bawana). Through the cooperative, they did such collaborative actions as joint purchases in raw materials, equipment sharing, and joint marketing through trade exhibitions introducing Kasongan as a new
cluster of ceramic handicraft. Thus, some local traders initiated and developed the area to become the ceramic handicraft cluster and led the cooperative to coordinate joint actions among local people.

Many local people believe that the development of the cluster came from collective actions of some local traders. They looked for other productive works beyond their paddy fields and farming activities. Initially, the local traders developed production as well as a shopping area on the east side of the river of the village. As Mr. Mir, a local micro artisan/manufacturer who lives on the east side of the river, stated:

“In the early 1980s, some of us decided to stop being farmers and saw an opportunity to develop ceramic handicraft products since it was not difficult to get raw materials to produce the products. They founded a cooperative for local people to learn together about how to make ceramic handicrafts from clay and how to obtain clay from the neighborhood. It was very cheap. Some of us learned how to produce ceramic products from other regions in Indonesia; for example, they went to Purwakarta (West Java, Indonesia) and worked as artisans—laborers over there. After having some knowledge, they came back and taught local people on how to make ceramic handicrafts in the cooperative. That was the way this area developed to be a ceramic handicraft cluster. Some of us worked together through the cooperative to start producing ceramic handicraft products and built our workshops and showrooms. Many local people worked as artisans—laborers in the workshops and tried to build their own workshop after several years working as artisans—laborers.” (Interview, 08/06/2008)

At that time, farmers used the west side of the river for their crops. In the late 1990s, the Bantul district government built a bridge to connect the east and west sides of the village, which was separated by the river. Today, the paddy fields have turned into showrooms and workshops for outside investors. Many local people decided not to farm any longer and sold their land to the outsiders. Activities on the east side of the river changed to become an area of trade, not just one of the production workshops owned by local people. Since then, most local people have pooled their activities with their workshop and showroom on the east side of the river, and newcomers or outside investors have rented the land and houses for their workshops and showrooms on the west side.

During my fieldwork, I found that there were some foreign investors who have luxurious and comfortable showrooms, but unfortunately, I could not meet and interview them because none of them lives nearby Kasongan. Consensus exists with local Kasongan people how to act with foreign investors:
Outsiders are not allowed to invest and build workshops or showrooms on the east side of the river. One of the outsiders, a couple from Surabaya (East Java, Indonesia), Mr. Jayadi and Mrs. Mimi expressed how they felt about that:

“It was not easy to be accepted by local people in Kasongan. Many of them were against outside investors like us. The first five months, they demonstrated intimidating behavior like throwing stones at our showroom. We were just silent but tried to contact some local people who were cooperative. We began to recruit some of them to be our artisans—laborers in our workshop. In addition, when we bought the land here [on the west side of the river], the price was very high compared with the land at the east side. They intended to sell their land at a higher price to any outsider. However, we saw there were huge business opportunities in this area, so we decided to buy and build our own showroom. At the first two years, our workshop was at the backyard of our showroom, but our business has developed very well so we could buy a half hectare land that is located 500 meters from here.”

(Interview 11/07/2008)

In summary, the Kasongan cluster has developed through learning processes among local people through the local cooperative, which was led by some influential actors and the interactions of local people and outsiders. Local structures have helped people improve the success of learning processes through embedded ties among local people. Nowadays, there are many ceramic business units in the village with a workshop and showroom at the same place. The area has been experiencing a massive business growth and has become famous as an attractive ceramic handicraft cluster delivering products for both domestic and international markets.

8.2 The Dynamic Process of the Cluster Development

From the history of the establishment of each cluster, this study shows that the clusters have developed through a learning process among local people in local business organizations. The process originates from the dynamic capabilities of local people. In the early stages of this process, unused local resources (financial and human) were mobilized through the local organizations led by influential actors, putting these resources to effective use. This process breaks down investments into small risk-taking steps: The enterprise of one creates a foothold for the other, such that ladders are constructed that enable small enterprises to climb up and grow. Local firms do not have to acquire equipment for the entire production process. They can concentrate on particular stages, leaving other stages to other firms.
In addition, the clusters have made it possible to overcome the traditional trade-off between costs and differentiation, in that their advantage is based on the reallocation of core competencies among local entrepreneurs. Thus, in Manding, Kasongan, and Kotagede, clustering has served as not only a collective survival means but also as a dynamic strategy of local people.

8.2.1 Structures as a production of human actions

The success of the dynamic process depends on the type of governance of interfirm relations (Schmitz, 1995; Visser, 1996; Dei Ottati, 2003b). Without the intensive interactions among the firms in a cluster, the dynamic process would be limited to serving a collective strategy. The dynamic process comes from dense social networks that ensure trust and reciprocity among local people. For example, in the studied clusters, purchasing inputs as well as marketing often is accomplished through the cooperative. Rotating savings (arisun) groups are also quite common. In the three clusters, some of the retailers interviewed stated that they often supply raw materials, technological assistance, and sometimes even credit to some of their subcontractors. As Mr. Jamal, a respondent from a medium-sized manufacturer/retailer in Kotagede, expressed:

“Our parents showed us how to keep a good relationship with our business partners, including our subcontractors and artisans. They always said that all of us are neighbors, so we are a big family, although we do not have a kinship. That is our value. We believe in the advantage of social ties for our business achievement. The development of the Kotagede cluster has proved that collective actions are a critical factor to explain growth and performance.” (Interview, 20/08/2007)

In Kasongan, the most dynamic of the three clusters, a well-developed system of subcontracting results from reciprocal relationships between retailers/traders and subcontractors. The ability of subcontractors to finish a wide variety of products within short delivery times allows the retailers to satisfy market demand. Maintaining stable relationships between them is essential to guarantee quality and service. Mr. Timbul, the owner of the largest firm in Kasongan, explained:

“My products are high-quality products. All people who work with me know that. What I have been doing is making my workers, subcontractors, and other partners trust me. I never lie to them. I always keep my word; a promise is a promise. Once I promised them to give a higher margin to anyone who could deliver a higher quality product, I will fulfill that promise, no doubt about that. On the other hand, I ask them to keep their reputation with me as
dependable partners. There are over 200 local subcontractors who work with me, and no one ever breaks our informal agreement: Quality is number one and the higher margin is the promise.” (Interview, 31/06/2007)

In Kotagede and Kasongan, the majority of the subcontractors interviewed agreed that they try to work hard in developing and adapting products to the needs of the retailers/traders. They are now more satisfied about their relationships with the retailers, and they try to set up stable linkages, increasing their ability to cooperate in defining fashion trends and product characteristics. This situation shows that cooperation among local people in the clusters supports market ties among them. Market ties mean the guarantee of producing products at the required quality level and more competitive prices. Social embeddedness engendered by trust and reciprocity motivates local people to deliver products in time as well as manufacture a variety of high-quality products.

Manding has a different story regarding the influence of the socioeconomic structure in the dynamic process of the cluster’s development. There, only few firms still manufacture for themselves. Only about 25 firms manufacture a small portion of the total amount of products that are sold in the area. Some of the retailers interviewed stated that they often order leather products from other regions because the number of local artisans and subcontractors is decreasing day by day. In addition, leather products from other regions are much cheaper; some of the clusters elsewhere are closing down because of floods.

However, because they live in a rural area, embeddedness among them is quite high. From the interviews it is clear that this embeddedness also influences the way they treat business partners. It is still useful for them to relate face-to-face with their associates, although the division of labor in this cluster is limited. Local medium-sized manufacturers still employ local artisans—workers and use local subcontractors to work on parts of their production process. “Neighbors are still neighbors; we have to keep good relations with them, and trust is most important when we do business with them; but beyond that we consider the price they offer and the quality of products they produce,” said Mr. Heri, a small retailer in Manding.

Intensive interactions between local people influenced by both economic and social factors constitute the socioeconomic structure of a cluster. The structure facilitates coordination as well as competition between local people within the cluster and, in turn, creates the dynamics of the process of developing the cluster. It also stimulates the development of individual firms as cluster members. Socioeconomic structures influence the effectiveness of people in taking advantage of the local environment. Social structures facilitate the
progress of maintaining stable linkages among local people, and economic structures encourage local people to maintain economies of scale and high business efficiency. Many firms have been able to introduce important improvements in the organization of the production process and the quality of their products, although they still maintain a traditional strategy of commercialization based on price. Social structures also diminish uncertainty and business risks that are usually common in every business, thus creating a stable and fairly safe environment in a cluster. Such an environment enables firms to operate at lower costs and become more innovative, which improves firm performance (see Chapter 6 for a detailed discussion).

8.2.2 The role of actors as developers of structures

In the three studied clusters, interactions among local people trigger learning dynamics and enhance the ability of actors to modify their behavior and find new solutions as their competitive environment changes. Furthermore, it is worth noting that local actors have a role not only in the collective actions in the form of cooperation between individual enterprises, but also in the form of groups of firms joining forces in business associations and the like. The clusters’ socioeconomic structures not only are supported by individual cooperation but also originate from collective actions that occur in local business associations. Sharing equipment or developing a new product can be accomplished by cooperation among individual enterprises, but there are many kinds of problems that can be solved only by local business associations.

The key issue of a collective strategy is the need to control critical resources. This is a particularly crucial decision issue for a smaller firm, which typically does not have the power to control these resources. Collective action is not simply a mode of harmonizing interests; it is also employed to mitigate conflicts between local people (Williamson, 1975). One of the problems in Kasongan is facing the “invasion” of outside investors. Within the past five years, some outside investors have taken advantage of the production skills of some local firms that were unable to sell their own products on the market and had become subcontractors. The investors started by buying farming land offered by the local farmers who had decided to drop farming. At that time, Kasongan had become popular as a ceramic handicraft cluster, so the investors saw huge business opportunities. They brought a lot of money and built big workshops as well as showrooms.

Local people saw this as an invasion of outside investors—a threat. As Mr. Jayadi, one of the outsiders, stated, local people intimidated the outsiders at their showrooms or workshops. This happened several years ago. Some local actors who were active in the local business association took a significant action. Setya Bawono, the local business association for the Kasongan artisans, organized several meetings to identify the main origins of the conflict. Its leaders asked local government to attend the meeting and become a mediator
between outsiders and local people. The solution that was found proposed that each of them should have a separate area in which to do business. As mentioned previously, the east side of the river is for local people and the west side is for outsiders. Some local people were appointed to control opportunistic behavior of local people who were willing to sell their lands on the east side to the outsiders to obtain higher prices. Mr. Timbul, the current chairman of Setya Bawono, explained the negotiation process:

“The conflict had sharpened. It resulted in some destructive actions. We thought it was not good for all business players in Kasongan, not only for the outsiders. Initially, the local government mediated for us. They called us and the outsiders at one meeting. It was not successful. We learnt from that meeting: it should be us who should mitigate that conflict. We were part of the local people, and we trusted each other. It was not easy for us to talk with both sides. But, fortunately, after meeting several times, there was goodwill from both sides and appreciation of each other. Consensus was reached about which area should be for locals and which area for the outsiders.” (Interview, 30/06/2008)

In addition to Setya Bawono, there was another local economic institution involved in mitigating the conflict between the locals and the outsiders: Koperasi Mentari (Mentari Cooperative), a local Islamic business organization for women at the Bantul district level, where Kasongan is located. Some female artisans/retailers from Kasongan had joined this cooperative, both locals and outsiders. The chairperson of this cooperative, Mrs. Mimi, the wife of Mr. Jayadi, is an outsider. This cooperative often conducted meetings to discuss the conflict and asked its members to make their husbands understand that it is necessary to be cooperative with each other. They understand that women have a significant role in influencing the business behavior of their husbands. “The women’s cooperative movement was very successful in creating a peaceful business environment in Kasongan. Every day, we reminded our husbands of the importance of a peaceful business environment in Kasongan,” Mrs. Mimi explained to us when we attended a Koperasi Mentari meeting.

In Kotagede and Manding, local actors have their own way in facing outsiders in a cluster. In Kotagede, the locals were aware that some outsiders pushed the price down to attract consumers. This was not a healthy business environment. Some local actors at the subcluster level have had a significant role in facing the problem. They asked the outsiders to join the associations and even join the rotating credit savings groups in the subclusters. They were more cooperative toward the outsiders and decided not to create a conflict; rather, their goal was a stable and fair business environment. The interviews indicate
that it has not been successful yet; talking about price determination is still not easy during local meetings. One of the local business associations that was successful in reaching an agreement about price setting among the members is Sari Tulang Aji in the subcluster Basen, Kotagede. Mr. Istiadi, one of Sari Tulang Aji’s influential actors, asserted:

“There was no choice for us other than talking about price determination of our products. It is an essential condition to create a fair business environment. We already have some difficult problems with the availability of inputs and marketing of our products, so a conflict between us would make the situation more difficult. That was the reason why I encouraged the members to talk about price determination. Fortunately, they accepted the ideas and at every meeting we now talk about pricing and remind our colleagues [what will happen] if they push the price very low.” (Interview, 07/09/2007)

Before the outsiders came to Manding, the locals agreed through the local business association Karya Sejahtera not to accept the outsiders building showrooms inside the cluster. The village government as well as the district government did not intervene with the locals’ decision. The district government provided a shopping center area for outside investors one kilometer outside the Manding cluster area. However, there is still a conflict in Manding among local people: There is disappointment among some members of Karya Sejahtera about some of the association’s management decisions. They think the decisions were only beneficial for the management, and there was information from external institutions that was given only to the management.

Some of them decided to drop membership of the association and tried to mobilize support from other local people to found a new association. Others kept silent and avoided having an open conflict with the management: “I think attending the meeting of the association is still beneficial for me since there is still useful information that is given at the meetings, and other benefits such as the technical trainings offered by the local or central government. Moreover, I still want to join the rotating savings group, which is like money saving for me,” said Mrs. Purwanti, a small leather artisan.

Thus, some local actors in local business associations have a significant role in creating a peaceful and fair business environment. It is part of the way local actors constitute socioeconomic structures of a cluster and how they support the advancement of the dynamic process. Making rules, mitigating conflicts, and mobilizing resources are the significant contributions of local actors in the local business associations. However, the roles could not be significant in solving problems if specific socioeconomic structures did not prevail: The actors need the existence of social cohesion among the members of
the clusters so they can ask the members to sit together to settle a dispute and find a solution. The other members must trust the actors; otherwise, they would not follow the rules agreed on under the leadership of local actors. As Mrs. Mimi stated:

“We have to be close to each other first, before asking them to be able to solve the conflict. It took time, but our strategy was to conduct a routine informal meeting. The meetings were relaxed that way. We asked the members to talk freely about their business as well as household problems. We tried to be good listeners. We also tried to make the members aware of the negative impact of the conflict. Finally, we became a big family and we trust each other. That is an essential condition to make them follow what we want them to do regarding the mitigation of conflicts.” (Interview, 06/06/2008)

Moreover, the actors have the power to mitigate successfully as well as mobilize resources. Giddens (1981) continually relates power to actors. He sees power relations as continually produced and reproduced in a context, related to the invocation of rules and the mobilization of resources (Giddens, 1981). A diffused notion of power is crucial to Giddens’s (1984, p. 14) concept of actors: “To be an agent is to be able to deploy (chronically in the flow of daily life) a range of causal powers.” As an agent ceases to be influential if he or she loses the capability to make a difference—that is to exercise some sort of power. Power is the means and degree of control over human and material resources (Colignon and Covaleski, 1991). At the cluster level, control (or power) is exerted by social consensus through processes that facilitate communication and consensus among the actors. The logic of personal choice and ongoing social interaction provides the context for action. In this context, leadership is a necessary consequence of social activity. In each case, it is evident that community leadership results from a high degree of voluntary activity in community affairs. But to the extent that activity in voluntary associations leads to having an impact on community change, specific actors become activists and leaders.

Furthermore, many small firms need a more active commercial strategy to be successful in an increasingly competitive market. Therefore, actors distribute information about trading exhibitions and coordinate joint actions in marketing, advertising, and market research through the local business associations. For example, Mr. Istiadi from Sari Tulang Aji is active in seeking information about trading exhibitions for the members of the association. When he gets that information, he asks the chairman of Sari Tulang Aji to hold a meeting and coordinate the members in preparing a joint exhibition by
producing more varied products and determining the margins for the participants.

At Karya Sejahtera meetings, Mr. Sardjinim always informs the members about the possibility of joint marketing as well as joint exhibiting at trade fairs. He coordinates the members in collecting the products that will be exhibited. Mr. Sardjinim has a good network with external institutions, including government and private institutions, so the members of the association can take advantage of his networks to do joint marketing. Karya Sejahtera provides a workshop that can be used by all its members. There, the members can learn the most efficient production process together. My observations in the workshop indicate that there are intense talks among the members about how to produce effectively and efficiently.

Thus, the actors use local business associations to facilitate collective learning of their members. As Chapter 7 concludes, there are role-making and open perspective actors. Through local business associations led by the actors, the innovation capability, which usually takes place inside an individual firm, becomes a collective process in a cluster, based on common knowledge accumulated in the community rather than in the firms. This process enhances local innovation capability. Collective learning supports the transformation within the cluster. As Giddens (1981, p. 28) states, in the perception of actors, power is defined as situated in a “transformative capacity.” Because transformation occurs through social relations, power can then be related to rules and resources. Power and the social relations through which it manifests itself are directly related to the actors’ production capacity (Giddens, 1984). The transformation of the structure of a cluster that results from the action of local influential actors is significant evidence of the interplay between socioeconomic structures and the role of actors within the clusters.

8.3 Conclusion

The establishment and development of the clusters provides interesting evidence about the interplay between structures and actors. Deliberate actions in local business associations have stimulated the development of the clusters that originate from the dynamic capabilities of local people. Structures are composed of the behavior of local people in interfirm relationships within the clusters, and the success of the actors’ actions is facilitated by socioeconomic structures. The actors, together with the members of a cluster, can create a peaceful and fair business environment with the support of the existing socioeconomic structures. This is important in the successful development of a cluster and the performance of individual firms.