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### The Essence of Small and Medium SMEs Cluster Establishment (Phenomenology Study on Rattan Industry SMEs in Cirebon District)

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#### ABSTRACT

SMEs rattan industry clusters in Cirebon District is one phenomenal cluster. It develops in areas without rattan resources to support the industry growth. This study aims to identify basic keys in development of SMEs rattan industry clusters in Cirebon District. It uses non mainstream paradigm with Schutz phenomenology analysis method. Data is analyzed by Nvivo 11. The analysis results indicate that sociohistory of a product becomes the formation basis of SMEs rattan industry cluster in Cirebon District. Socio history is formed from hereditary business, high acceptance of rattan commodity, strong social capital and upgrading the business actors.

**Keyword:** Cluster, rattan, socio history, quadruple helix (4 actors), SMEs.

#### 1. INTRODUCTION

Cirebon District is the largest rattan furniture producer in Indonesia with about 80% products are export oriented (FT Link Consultant - SHK Kaltim, May, 2005). The growth of SMEs rattan industry clusters was begun at 1970's. This area has no raw materials source (Sriwarno and Iman, 2009). All raw materials come from Kalimantan, Sumatra and Sulawesi (Department of Industry and Trade in Cirebon District, 2014).

The development of rattan industry in Cirebon District is quite massive to make rattan furniture become Industrial Core Competence Commodity (ICCC) since 2011 (interview with Suyatno, industrial Staf of Industry Office in Cirebon District, 2014). The business until 2013 reaches 1,331 units, the export volume reaches 1200 containers per month with target market are USA, Europe and some Asian countries (Suyatno, 2014). SMEs rattan industry clusters in Cirebon District started from 1 cluster only at Tegalwangi. Until now, it become 11 clusters (Department of Industry and Commerce Cirebon, 2014).

The raw rattan export is banned by joint decree of 3 ministers in 2011, but the development of furniture industry in Cirebon District continues to grow. The informant stated:

“Today almost every month there is a permit to establish a new business in rattan industry at our place (Suyatno, interview, 7 November 2014).

The growth of SMEs rattan industry clusters Cirebon District is very different from Smith's (1997) findings in India. The rattan industry in Assam (India) grow in rattan-producer areas. The area has long tradition in associated with rattan or bamboo.

The reality in Cirebon District is very contradictory with other regions in Indonesia, especially the largest rattan raw material producer region of Central Sulawesi Province. Central Sulawesi Province has only 37 rattan processing units, including polish, core, pitrit and furniture (interview with Yuslam, Head of SME Office of Palu Industry, 2015). Central Sulawesi Province produces 60 percent of raw rattan material in Indonesia (viva new, 2009: Central Sulawesi Province Forestry Office, 2012, Central Sulawesi, December 8, 2014). The abundance of raw materials actually can become a power to enter the international market. (Hongqiang, et al., 2012).

The very contrast between rattan producer and rattan industry in Cirebon District with is phenomenal. It is interesting to be studied scientifically to find the neumena behind the successful development of this rattan industry cluster. The above contradictions provide an important opportunity for cluster development research in Indonesian context, since there are at least 25,000 clusters (Sandee and Wengel, 2002), while not all clusters show encouraging growth (Irawati, 2006).

Cluster model was developed by Porter with diamond model name (Porter, 1990). However, the development of SMEs rattan industry clusters in Cirebon District becomes antithesis of diamond model. The diamond model is not suitable for developing countries, so cluster development must be viewed from a more dynamic perspective of policy, social and economic aspects. (Parrilli, 2004).

The industrial clusters development is also very interesting in communal society as Indonesian society (Sriwarno, 1999). The cluster concept development has been using western concept with culture of individual rights. Therefore, this research is different from some previous concept.

## **2. CLUSTER DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES**

Porter introduced the cluster concept since 1990 and 1998. It con concept and other inter-company collaboration forms have been linked in an effort to create competitiveness. In addition, there is growing optimism about the growth and development of SMEs with export-oriented in developing countries and clusters are one model to helps small businesses to grow and competitive (Schmitz and Nadvi, 1999).

The cluster is also an interesting topic. Schmitz and Nadvi (1999) provided examples of research domains in New Mainstream Economics (Krugman, 1991), Business Economics (Porter, 1990), and Regional Science (Scott, 1996).

The clusters concept supports the creation of flexible specialization and innovative environments (Newlands, 2003, Perry, 2005). The specialization in a cluster cannot be separated from various long activities history occurred between business actors leading to specialization. In addition to relationships

between business actors in a cluster that trigger new cluster growth opportunities, public institutions in cluster development is also shown in Indonesia (Perry, 2005).

The clusters in Indonesia originally came from an imperfect form (e.g. coconut sugar clusters), in a form of informal relationships (Burger, Kameo, Sandee, 2002). Cluster origin in an emerging economy is processing local resources (Perry, 2005). Under these conditions, nonsustainability resources will limit the cluster age (Perry, 2005). The clusters development in Indonesia is based specifically on dynamism of small businesses (Hill, 2002, Perry 2005). The studies result of Wijland(1999) and Perry (2005) showed that bamboo industry in Central Java was based the activity on worker skill. It makes the cluster growth is very low, causing marginal source of incomes of SMEs cluster.

Many countries with different levels of government tend to encourage the development of programs and policies to improve the performance of industrial clusters (Davis, Creutzberg, Arthur, 2009). The cluster concept approach politically is very interesting for local because it becomes an economic vital location to provide something visible and prominent from other activities. In a broader concept, the clusters illustrate governance management systems to implement National Innovation System (NIS) (OECD 1999, 2002). Therefore, this concept is also widely known as cluster-based policies (OECD 2008).

The cluster concept initially was technology-based development. The implementation today is not only in technology sector, but has grown in other sectors. Important keyword important in cluster development is the existence of geographic linkage with regard to market and non market aspect, such as supporting industries, institutions and educational institutions. In creative industry, clusters typically contain large scholarly and practitioner literature that perform various investigations to acquire ideas and build innovations in various locations and industries within cluster.

The clusters development initially refers only to a firm agglomeration at a particular location and performs superior local-based economic activities. The more perfect form of cluster concept not only emphasizes on gathering of industries individually but also the functional relationship between the firm and its supporting institutions to create value chains locally in form of vertical relationships between corporations with suppliers and other institutions. Development of many clusters began to gather various small and medium enterprises. The success stories of phenomenal SME cluster establishment are Silicon Valleys, Route 128 where small and medium-sized companies grow around the MIT campus area of the United States (Juoro, 2011).

This inherent weakness of SMEs makes clusters to become a benefits pattern for them grows, especially as collaborative networks. The clusters will increase opportunities for learning, especially through inter-company interaction to enhance the company's capabilities (Caniëls and Romijn, 2005; Siqueira and Cosh, 2008, Forsman, 2009). This condition is based on fact that economic performance of a company is the result of a continuous learning process (Forsman, 2009). In context of economic politics, SMEs based on human resources and local resources become the best solution to optimize the potential of national resources (Kristiyanti, 2011). Clusters are considered a strategic opportunity for SMEs to succeed in a particular industry. (Forsman, 2009).

Companies of cluster member have various benefits; among them are opportunity to improve knowledge, access to new markets, lower cost of production and R & D (Glaister and Buckley, 1996; Karaev, et al. 2007). The benefits for SMEs can be tangible and intangible. The tangible includes profits,

improving market share and sustaining competitive advantage, while intangible benefits are learning and developing competencies (Simonin, 1997; Forsman, 2009). In addition, there is a set of direct benefits from agglomeration of economies of scale, knowledge spillovers, human capital formation through informal learning and technology transfer. (Caniëls and Romijn 2003; Forsman, 2009).

Forsman's (2009) findings showed that regional cluster strategy can encourage innovation. Input knowledge from the company itself or other companies significantly affects innovation and only 7 percent of input knowledge comes from public such as universities, research organizations or government laboratories (Pavitt, 1984, Forsman (2009).) The findings also confirm that regional strategies trust public organizations are a crucial input source for SME innovation in clusters (Forsman, 2009). The main form of collaboration among cluster members in certain regions is a production network aimed to produce goods and services as efficient as possible.

Business and industry cluster approach needs to be developed to create a solid SMEs base (Kristiyanti, 2011). Cluster approaches may take form of upstream to downstream activities, or between core activities and supporting activities, supply of raw materials and marketing outlets will accelerate the business dynamics within cluster, including interactions with large businesses in the region. (Kristiyanti, 2011).

Small businesses with large numbers cannot become the driving force of economy, because they are generally only subsistence, unless they are cluster-based. The cluster approach for small business/industries can become the basis to create a broad dynamics for creation of a broad base of economic growth for development of competitive small businesses. (Kristiyanti, 2011). SMEs in a cluster have many benefits, but various constraints are also found in some clusters. (Davis, Creutzberg, Arthur, 2009).

### **3. RESEARCH METHODS**

#### **Qualitative Research Paradigm**

There are 2 poles of research paradigm namely positivism and post positivism (Creswell, 1994; Guba and Lincoln, 1994; Myers, 2009). This research uses post positivism paradigm. The unique phenomenon examined is Cirebon District does not produce raw rattan resources since the past, but today it becomes a very phenomenal cluster of rattan furniture. The other areas, especially producers of materials raw, do not have a rattan furniture industry clusters as well as Cirebon District.

#### **Phenomenological Analysis Knife in Research**

Phenomenology analysis knife is used to achieve the goal of problem formulation. Phenomenology is a description of direct experience data. It seeks to understand rather than explain symptoms (Hall and Lindzey, 1993). Research pattern of phenomenological analysis for SMEs rattan industry clusters will be useful for policy makers (Creswell, 2007) relation with development of competitive clusters.

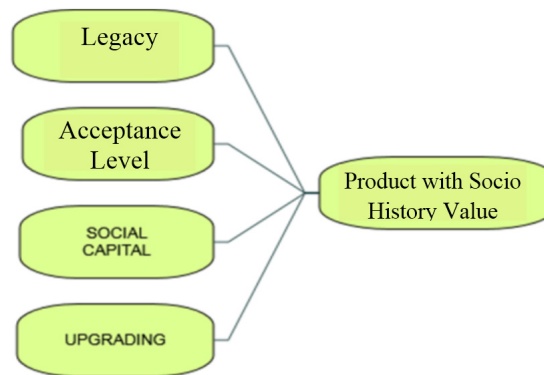
#### **Research Setting**

Cirebon District becomes the research location. It has been known as the national rattan industry cluster as the discussion for the study. The specific phenomena appear in field are:

- Cirebon District has no history of rattan producers, therefore growing industries not supported by rattan raw materials from Cirebon land.
- Cirebon District has been transformed into a rattan furniture producer area and the workforce absorption is the largest than other industries.

#### 4. RESULTS

The data analysis process is done with Nvivo 11 software to create map to describe the pattern of data findings in field. The field data is a reflection of how the theme and sub theme has relevance to development of SME clusters in Cirebon District. The framework of theme mapping is shown in Figure 1 below.



**Figure 1: Theme Mapping**

Figure 1 provides an understanding that development of SMEs rattan industry clusters in Cirebon District was formed through various activities related to theme and sub theme of this research. This is the key to successful development of SMEs rattan industry clusters in Cirebon District.

#### 5. DISCUSSION

##### **Social and Historical Value of Rattan Products as Basic Cluster Development**

##### *Legacy Business*

Long-term skills development and communal nature makes the social value of the skill. The skill attached to a particular product will create acceptance level within scope of that community. At this level, natural talent of Tegalwangi society becomes the basic capital in cluster development, as stated by the informants below:

Tegalwangi is indeed rattan village, my ancestors were rattan craftsmen. (ER)

...This is first pioneered by parents, then continued by child because the parents were die.... (ER)

Cirebon can grow because of having human resources where the craftsmen give their knowledge to the generations ... yes, after school we are weaving. (DA)

Weaving becomes the basic skill possessed by Tegalwangi community since the days of colonialism. Even based on research site information, rattan tale has become a local legend. The story of rattan existence

in Tegalwangi village is essentially understood and believed by people of Tegalwangi as the main base of SME cluster.

### *Acceptance Level and Rattan Products Knowledge*

The acceptance of Tegalwangi community to rattan commodity as a commodity with economic value becomes a strength for cluster development. This participation and engagement trigger faster industrialization. The informants stated:

“... many people raise duck and chicken. The cages are made from rattan. So you can make your own. Everybody can makes chicken cages. No one has made a chicken cage for sale, if you do not want to buy anything, you can make it...”(SU)

“... even my grandmother made clothes drier from rattan. The rattan small but long like nylon rope, but if you do not uses for long time the clothes become black ...”(GUN)

The degree of understanding and knowledge, and skill to process the rattan products also vary. Some skill in community is not commercialized, and making the rattan products only for individual needs. Some skills are used to process the rattan and become the main profession.

The growth age of SMEs rattan industry clusters in Cirebon District was same as casting of brass handicrafts in Pati Central Java (Ilmiawanti, 2008). The development of this cluster justifies that social value attached to a product in a particular group of people becomes a unique power. This social value eventually support the creation of information access (Birley, 1985), and emotional support (Bruderl & Preisendorfer, 1998), and competitive capabilities (McEvily & Zaheer, 1999) to create SMEs rattan industry clusters. Communal skill in long term provides strength to create a tough SMEs rattan industry clusters. This communal skill becomes an opportunity for bottom-up cluster development (Arsyad, 2011).

### *Social Capital*

Social capital grows naturally as a bottom up phenomenon. It is derived from a set of individuals to create a pattern of social relationships based on trust, social reciprocity, norms of behavior and collective action (Arsyad 2011). The growth of SMEs rattan industry clusters in Cirebon District naturally is encapsulated in a strong social capital among the people. This is revealed by informants below:

... if we talk the key to success of Cirebon, social capital is the basis.... social capital at other areas is not exist ....not wrong, the situation is not possible, not supportive. (So) Cirebon has a local genuine that passed down before Indonesian independence. Tenacity also does not belong to all areas in Cirebon, only in Tegalwangi, Tegalmantro. (AND)  
... indeed it was at Plered, they have natural talent. The people talent is batik, natural talent. Tegalwangi has waving natural talent (GUN)

Tegalwangi is a collective community. It is very different from pattern of European society with individual life pattern (Kuswarno, 2009). The growing awareness that weaving skills are a common property becomes a force for clusters growth. This condition makes the knowledge spillover in cluster development. The clusters are importance to be developed in a group of people who have strong social capital (Carlisle and Flynn, 2005).

Social capital growth in a cluster encourages knowledge creation that beneficial to all cluster members (Nonaka and Takeuchi, 1995). The growth of rattan-lovers groups naturally become non-formal agreements between cluster actors to justifies how social capital provides the impetus and power for sustainability and development of clusters. It seems that socially attached values that characterize strong social capital in cluster contribute to economic and social development of community (Anbumozhi, Gunjima, Ananth, Visvanathan, 2010).

### **Upgrading through Intervention**

The cluster development pattern is based on existing factors in community group. It provides a great opportunity to succeed. Long-term care skills also require a growing expectation among the community. Growing new hope for a group of society is very difficult (Kuswarno, 2009).

Interventions were conducted by ITB campus in SMEs rattan industry clusters. It was an important part to emulsify the cluster growth. In addition to technically, interventions in form of socialization and assistance to prospective clusters can change the way of thinking in Tegalwangi society to begin to produce rattan more seriously. The informants conveyed below:

- ... it become paradigm because they are basically weaving, then we learn the construction. Construction was woven, and then become a wicker chair. That is the chair (enrichment). Because at that time emerge a new profession, that is framing. There is also craftsman. Quickly this develops its industrial accessories, such as seats, etc. (AN)
- ... same as Cirebon, they are basically is bamboo woven, then move to small rattan. Formerly woven the banana tree skin, we upgraded to stronghold gray, big ones. The technique is weave, only harder. (SO)
- ... startup business is upgraded to become exporter firms. They are facilitated by exhibition and training. From zero become start up business. It is upgrading, not creating. (SO)

The cluster development model based on a product of social value is in line with what Lissner (1933) in Hall and Lindzey (1993) that “the higher the similarity of two activities creates greater substitution ability from one activity to another” . It means that SME cluster development can be done with community intervention in form of enrichment or upgrading basic skill in society, without “uprooting” the skill from sociocultural attachment.

### **Rattan Industry Development Model in Cirebon District**

Potential clusters should be developed to move more dynamically. The process of cluster industrialization is how to develop communal and artisanal skills to a better direction (dynamic or advanced). The industrialization process of SMEs is done by 4 entities namely academic, business, community, government. SME’s industrialization process includes following activities:

1. **Design:** Design strengthening for SMEs rattan industry clusters are intended to view and map craftsman’s abilities and determine the furniture design with a competitive value based on scale of their business natural ability (Sriwarno and Imam, 1999). Furthermore, design training process for SMEs rattan industry clusters are done by various entities, both academic and community especially by Rattan Design Cirebon (Radec).

2. **Government Assistance:** Government as regulator has an important role in cluster development. The development of rattan industry cluster in Cirebon District on one hand is a policy approach. As part of policy, determination of a product with social value will be followed up in various forms of government roles. Capital assistance, equipment and skills upgrading through training are the most common activities of government. Government assistance is very important in cluster development. This is because the maximal role will cause the cluster to become artisan. This feature is found in many SMEs industry clusters in Indonesia, among others, lack of qualified workers and low labor productivity (Berry et al., 2002; Chamindale and Vang, 2008; Sandee et al., 1994; Tambunan, 2007).
3. **Capacity Building:** Capacity building is directed to enhance the ability of a person, group, or organization through series activities to improve performance (Brown 2001). Through capacity building, SME's industrialization process is directed to build cluster competitiveness. (Tambunan, 2007). Capacity building is done mainly by rattan entrepreneurs associations by engaging SMEs in international exhibitions, marketing training and international marketing seminars.
4. **Market Facility:** Cluster will large if developed to reach the wider market. Development of SMEs rattan industry clusters should be able to create high demand both in domestic and abroad market. The advanced cluster is characterized by its ability to enter into global business and international markets (Mawardi, 2009). Government gives fund exhibition as the process of market facilitation to develop SMEs rattan industry clusters in Cirebon District. In addition to exhibition, effort to build SME market in Cirebon District is also done through business matching. The meeting involved associations as kadin, Amkri, Asmino, representatives of Ministry of Industry, Cirebon Industrial Office and West Java Province. Business matching is often a series of exhibition events. However, business matching is more of a meeting between employers and associations of both countries or some countries. Business cooperation is the focus of business matching meetings.
5. **The strengthening of *Maklun* culture:** The *maklun* is a factory-educated workforce. In business, factory makes workforce ready to become *maklun* for capacity building purposes. Employees who are trained to be the *maklun* gain strength in terms of managing employees, raw materials, or house production processes. This level creates the formation of *maklun* mindset for industrial thinking. The existence of this knowledge transfer is important so that *maklun* perpetrators not only know the production techniques, but also understand managerial base in managing the "factory" small scale. Willingness to share knowledge from manufacturer makes *maklun* players have practical knowledge and managerial business management from lowest level.

Based on cluster formation exploration and its development efforts by various parties (academic (A), business (B), community (C) and government (G)), it can be designed **the basket model of cluster development**, as representative of SMEs development in Cirebon District as figure 2 below.

Figure 2 gives an idea those SMEs rattan industry clusters in Cirebon District can grow because of very basic thing, namely product socio history. Furthermore, socio history is developed by various parties namely academic, business, community and government in various forms of design strengthening, government assistance, capacity building, market facilitation and *maklun* culture reinforcement.



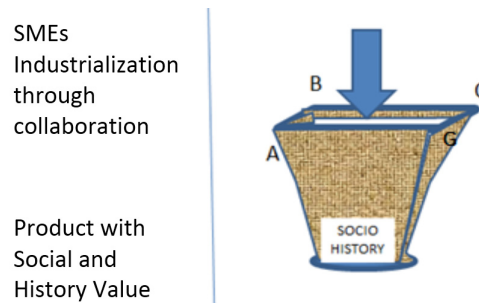


Figure 2: Basket Model in SMEs Cluster Development

## 6. CONCLUSION

A natural study is based on a natural condition. It triggers curiosity, protest, and anxiety over certain phenomena. Furthermore, phenomenon must be examined in depth to reveal the neumena behind the phenomenon. Based on empirical analysis of relevant data and deep contemplation process, the conclusions are described below.

The development of SMEs rattan industry clusters in Cirebon District comes from the socially attached skill, weaving. Its existence has been so long in Tegalwangi area. This local peculiarity becomes a crystal for SMEs rattan industry clusters growth in the region. This distinctive nature, both technically and socially, makes this local genuine not easy to adopt and imitate by various regions. Finally a product with strong socio history will become the basis to create a tough cluster in Cirebon District.

Successful development of SMEs rattan industry clusters in Cirebon District is further determined by collaboration of each entity (actor). It gives a real role in development process. The specific roles are further collaborated in various forms of joint activities such as design training, government funding, skill and managerial upgrading for SMEs, appropriate technology, capacity building, community empowerment, market facilitation through exhibitions, strengthening the raw material supply, institutional strengthening and production strategy through the growth of *maklum* culture.

The concept of Triple Helix (Academic, Business, Community, and Government) is insufficient to move industrialization process of SMEs rattan industry clusters in Cirebon District. This research found the community actor also has a role to move the clusters. Therefore, Academic, Business, Community and Government as model with 4 actors (quadruple helix) are a more appropriate pattern to build a competitive SMEs rattan industry clusters.

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