

Partnership model for small industry in cluster perspective in encouraging regional development (case study on some small industries in Jambi City)

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Abstract

This study aims to analyze: 1) the profile of the small industry clusters in Jambi City, those are batik industry cluster, tofu/tempeh industry cluster and furniture industry cluster; 2) the collaboration/partnership between various business actors and other parties in small industry cluster in Jambi City works; 3) an effective partnership models for small industry clusters. This research is a collective case study (survey and case study). The analysis was carried out on the profile of the small industry cluster and the partnership between various industrial groups in the small industry cluster. The results of the study showed that Jambi City has potential for the development of small industries. It can be seen from the development of business and employment in small industries. Based on the partnership between industry groups, in Batik industry cluster and tofu/tempe industry cluster, it showed the existence of upstream partnership to the source of raw materials, downstream partnership to the consumers, and partnership with supporting industries. In terms of pattern, the partnerships are directed towards traditional partnerships which are based on trust. Meanwhile in the furniture industry cluster, there is no partnership at all, both upstream and downstream, as well as partnership with the supporting industries. However, the partnerships have not been effective. For this reason, it is necessary to build a partnership in small industry cluster that pays attention to the principle of mutual benefit, equality, legality, empowerment, and social capital.

Keywords: *Small industry cluster, effective partnership, regional development*

JEL Classification: L22, L26, L52

INTRODUCTION

MSMEs in general and small industries in particular are one of the drivers for regional economic growth until now. It can be seen from the role of MSMEs in their contribution to GRDP and employment opportunities for a region. However, in its development, small industries are still faced with various problems so that they have not been able to provide optimal contributions to the economy of a region. Various problems faced by small industries today are related to capital, market access and limited facilities and infrastructure for the development of small industries (Lestari, 2010).

Given the role of MSMEs and problems faced by MSMEs, especially of small industries, the government has made various efforts in order to encourage the development of these small industries, one of them through cluster approach. In general, Nugroho et al. (2008) defined industrial clusters as a network of interrelated industrial

associations (core industries which are the focus of attention, supplier industries, supporting industries, and related industries), institutions that produce knowledge/technology, bridging institutions, as well as customers who are connected to one another in the value-added chain. In a cluster perspective, small industries should be seen as a group of businesses from the upstream to the downstream that require cooperation/partnership. However, various studies concluded that partnerships between various parties in the industrial cluster are weak (Djamhari, 2006, Nugroho, 2008 and Sujadi et al., 2008). In agribusiness, various empirical studies also showed the ineffectiveness of upstream partnerships in palm oil processing industry cluster (Basdabela, 2001, Tona et al., 2012, and Erfit, 2012). The lack of optimal upstream partnership is due to the perspective of partnerships that have been seen as economic relationships and not as social relationships as well (Erfit, 2012). Based on this, it is necessary to evaluate the existing small industry cluster partnership model so that an effective partnership model can be developed to encourage regional development.

RESEARCH METHODS

This research is a multi casestudy, means that it is combining surveys and case studies. In this study, three cases of small industry clusters were selected and it includes industry cluster of batik, tofu/tempeh, and furniture. This study used qualitative descriptive method.

The data in the study used primary and secondary data. Primary data was obtained through interviews with parties or business groups in small industry clusters including, business groups and business actors in the selected small industry clusters and other parties. Secondary data was obtained from government agencies including Bappeda (Development Planning Agency at Sub-National Level), Department of Industry and Trade, Cooperative Office at provincial level and Jambi City.

Data was collected through several methods. Those are structured interview by questionnaires and non-structured/in-depth interview with key informants. Observation of the collected data was done to check the validity of the data.

The study used descriptive qualitative and descriptive quantitative analysis methods. Qualitative descriptive method is the process of organizing and sorting data into patterns, categories, and basic description units so that theme and conclusions can be obtained (Moleong, 1993). Descriptive quantitative uses frequency distribution list and cross tabulation.

RESULTS AND DISCUSSION

Small industry cluster in Jambi City

Batik industry cluster

Jambi Batik is one of the main products for Jambi province in general and Jambi City in particular. It can be seen from the availability of natural, human, and cultural resources.

In terms of raw materials, most or about 90 percent of batik artisans, as the sample of the study, get raw materials from Java, including from Pekalongan, Solo, and Yogya. The rest of them get raw materials from Palembang or other artisans. Raw materials are usually purchased in cash and the artisans already have chosen one supplier as their main supplier of raw materials (subscription model). In relation to partnership, this subscription model is a form of partnership between batik artisans and suppliers of raw materials on Java Island. In this case, the partnership done is still in the traditional way,

which is only based on mutual trust between the parties. This kind of partnership is not based on a written contract.

Tofu/tempeh industry cluster

Tofu and tempeh are foods that considered as a source of protein made from soybeans. In terms of its business scale, most of tofu and tempeh products are produced by home industries or small industries. In terms of raw materials, the craftsmen obtained raw materials directly from soybean farmers, shops, and through tofu tempeh cooperative (KOPTI) of Jambi. The direct partnership of craftsmen and farmers will be able to boost the income of farmers, especially soybean farmers in Jambi province. According to Central Bureau of Statistics of Jambi province, it is estimated that the soybean production in Jambi province reaches 6,732 tons per year and 80 percent of it is used for tofu and tempeh production. Most of the purchases made are on credit, where payments are done after soybeans have been used up. As in the Jambi Batik industry, in relation to the partnership, the purchase on credit is also a form of partnership although it is a simple partnership based on mutual trust between tofu/tempeh craftsmen and soybean suppliers.

Furniture industry cluster

In Jambi City, furniture industry is considerable potential in terms of the number of business, of the labor that can be absorbed and the amount of investment, thanks to the availability of materials and labors to produce various kinds of furniture. In terms of raw materials, most furniture craftsmen obtain raw materials from Jambi and South Sumatra. Raw materials in general are purchased in cash; this is due to the very limited amount of raw materials for furniture. In terms of marketing, it is generally sold directly to consumers and with cash payments. However, as an assurance, the craftsmen usually ask for down payment. The profile of small industry clusters in Jambi City can be seen in the following table:

Table. 1. Profile of small industry clusters in Jambi City

No	Small industry	Raw materials	Marketing	Support
1.	Batik Industry	<ul style="list-style-type: none"> • 90% of raw materials come from Pekalongan, Solo, and Yogya, the rest come from Palembang • Raw materials are purchased in cash, credit, and subscription 	<ul style="list-style-type: none"> • Directly to costumers • Batik studios • Stores 	<ul style="list-style-type: none"> • Government assistance in the form of training • Capital assistance from banks • Cooperatives (<i>Koperasi</i>)
2.	Tofu/Tempeh Industry	<ul style="list-style-type: none"> • Mainly from Jambi • Raw materials are obtained directly from farmers, shops, and KOPTI. • Raw materials are purchased in credit, where payments are made after the raw material is used up. 	<ul style="list-style-type: none"> • Directly to costumers 	<ul style="list-style-type: none"> • Government assistance • Cooperatives • Capital assistance from banks
3.	Furniture Industry	<ul style="list-style-type: none"> • Raw materials come from Palembang and Jambi • Raw materials are purchased in cash. 	<ul style="list-style-type: none"> • Directly to costumers 	<ul style="list-style-type: none"> • Government and Banks in limited numbers

Source: Primary data

Partnership in small industry clusters in Jambi City and its effectiveness

To explain the course of partnership in each cluster, it can be divided into 3 groups, i.e. upstream partnership, downstream partnership, and partnership to supporting industries. The form of partnership involves the relationship (capital, marketing, and coaching), form of rules, and patterns.

Batik industry cluster

From the upstream partnership, there is a collaboration/partnership between batik artisans and raw material suppliers. It is proven by the purchase of raw materials on credit. In addition, raw material suppliers also help in product marketing of Batik artisans, especially artisans who get raw materials from fellow Batik artisans. The partnership is only based on trust between two parties. There is no written agreement or contract which regulates the rights and obligations of both parties. Referring to the partnership pattern, this partnership between Batik craftsmen and raw material suppliers is a traditional partnership. Related to this traditional partnership, especially in the field of agribusiness, Erfit (2009) explained that traditional partnerships are one form of partnership that plays a role in agribusiness activities which are generally formed autonomously or naturally in the community according to the needs of farmers. Agreements made are usually based on strong trust in one another and understand each other's needs or difficulties.

Next, the downstream partnership is occurred between Batik artisans and costumers. It can be seen from the marketing system of Batik artisans in selling their products. Basically there are two ways to sell their products. Batik artisans are selling directly to costumers through Batik studios or placing their products for sale to some shops in Jambi City. So there is a partnership in marketing.

We can see partnerships with supporting industries as well. Some artisans have received assistance from the government. It can be in the form of equipment, providing counseling and participating in exhibitions held by the government.

Tofu/tempeh industry cluster

In the upstream partnership in tofu/tempeh industry, raw materials are mostly purchased on credit, where payments are made after soybeans have been used up. Payment on credit in purchasing raw materials ia also a form of partnership, although it is a simple one that is based on trust between tofu/tempeh craftsmen and soybean suppliers. There is no written agreement between two parties, so it can be categorized into traditional partnership.

Furniture industry cluster

Sementara itu untuk klaster industri mebel, belum memperlihatkan adanya kemitraan baik keahluannya maupun keahluannya serta dengan industri penunjangnya. Kondisi ini tentu perlu mendapatkan perhatian untuk pengembangan industri kecil dimasa yang akan datang khususnya industri mebel di kota Jambi. Berikut ini dapat kita lihat jalannya kemitraan yang ada pada klaster industri kecil.

Meanwhile for the furniture industry cluster, there is no partnership formed at all to upstream, downstream, and supporting industries. This condition certainly needs attention for the development of small industries in the future, especially the furniture industry in Jambi City. The partnership in small industry clusters can be seen in the following table:

Table 2. Partnerships in small industry clusters in Jambi City

No	Small industry	Partnership			Rules and pattern
		Raw materials	Marketing	Support	
1.	Batik Industry	Yes, purchase on credit and subscription.	Yes, through Batik studios and shops with consignment system	Yes, assistance from government and banks	Informal and traditional partnership
2.	Tofu/Tempeh Industry	Yes, purchase on credit.	No, products are sold directly to costumers	Yes, assistance from government and banks	Informal and traditional partnership
3.	Furniture Industry	No, purchase in cash.	Yes, costumers are required to pay for down payments	Yes, limited.	Informal and traditional partnership

Source: Primary Data

Based on the partnership of these industries, in the aspect of mutual benefit, in general it has not provided much benefit for small industry actors. The partnerships are not having much influence on the increase of income, productivity, skills, and capitals for small industries. Little benefits felt by small industries from partnerships is linked to the intensity of the partnership. In other words, the partnership is very limited. For example, partnerships of Batik artisans and tempeh craftsmen in obtaining raw materials on credit from their raw material suppliers are limited in number.

In terms of equality, in general, the partnerships have led to the equality. The decision making related to the partnership is carried out by deliberation or agreement between parties. For example, in the payment system for the purchase of raw materials, especially in Batik industry and tofu/tempeh industry, it is usually determined based on the agreement between small industry actors and raw material suppliers.

From the legal aspect, the partnership is informal, especially the partnership between Batik artisans and tofu/tempeh craftsmen with their raw material suppliers. In this case, the rules of the partnership are not stated in writing but are based on mutual trust from both parties. In other words, there is no Cooperation Agreement or contract between the two parties. In addition, each party also does not specify certain conditions. Based on this pattern, it is categorized as traditional partnership, solely based on mutual trust.

In terms of empowermen, partnerships are related to efforts to foster the various parties involved in small industries. In terms of guidance, the raw material suppliers do not provide guidance in running a business for small business actors who are considered as partners in relation to the system of selling raw materials on credit. This is due to the nonexistence of obligation and regulation for suppliers of raw materials to provide guidance to small business actors in the context of increasing human resources and strengthening bargaining positions, increasing participation and independence. However, in the limited number, especially in small industry of Batik and tofu/tempeh, the government has provided various forms of training and banks have provided capital loans. In the partnership, ideally, it's expected to give guidance or training, besides providing loans to MSMEs (Erfit and Yulmardi, 2012).

From social capital aspect, partnership can be seen in terms of togetherness, trust, personal relationships, and participation. In terms of togetherness, in general, there is a lack of togetherness values from the partnerships in small industrial clusters. Likewise personal relationships and participation are still lacking. It is due to the limited interaction between parties in small industry clusters. In terms of trust, it is valued relatively high. It can be seen from the partnership in these industrial clusters that are based on mutual trust.

Evaluation of an effective partnership model for small industry clusters in Jambi City

From various information relating to the comparability and the basic aspects of effective partnerships in small industry clusters, it is necessary to pay attention to several aspects of effective partnerships that have been neglected that make the partnerships in the cluster has not yet run properly. From these neglected aspects of effective partnership, various steps must be prepared to create an effective partnership model for small industry clusters.

Table 3. Neglected aspects of partnership and its ideal in partnership

No	Aspects of effective partnership	Neglected	Ideally
1.	Mutual benefit	Not many benefits for small businesses	Providing benefits, especially in increasing income, productivity, and independence
2.	Equality	There is equality between small industry actors and various parties in small industry clusters, especially with raw material suppliers	There is an equality for both parties in the partnership
3.	Legality	There is no legality since the partnership is based on mutual trust, so it's less binding	The partnership is regulated in written agreement (SPK/Letter of agreement), so it can bind the parties
4.	Empowerment	Still limited, not many efforts have been made by various parties for small businesses that lead to the empowerment	The partnership is ideally aimed at empowerment, so the guidance is needed, not only limited to providing capital assistance
5.	Social capital	Still weak, and not yet paying attention to social capital.	Partnerships must be built with social capital

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the partnerships in Batik industry cluster and tofu/tempeh industry cluster, there are upstream partnership to the source of raw materials, downstream partnership to the consumers, and partnership with supporting industries. In terms of pattern, the partnerships are directed towards traditional partnership, where it is based on trust. Meanwhile in the furniture industry cluster, there is no partnership existed, both to upstream, downstream, as well as with the supporting industries.

By comparing to the indicators of effective partnership, the partnerships in small industry clusters have not been effective. Effective partnership model in small industry clusters have to pay attention to the principle of mutual benefit, equality, legality, empowerment, and social capital.

Recommendations

Further research is needed (especially the legal aspect) so that a more effective partnership model can be implemented for small industry clusters in Jambi City. It can determine the roles of various parties in an industrial cluster in Jambi City.

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