

Managing Innovation in the Indonesian Creative Industrial Cluster: An Empirical Study

Lalu M. Furkan, Nobutaka Odake

(Nagoya Institute of Technology, Nagoya, 466-8555, Japan)

Abstract: This paper clarifies to what extent the Indonesian craft industry and the Indonesian craft industry best practices cluster have embraced innovation practices. A framework of survey for companies in the cluster where direct face-to-face interview was conducted and distributed into 98 companies and 3 best practices based on the UNESCO “Award Excellence for Handicraft” 2010 all over Indonesia. Direct face-to-face interviews were conducted into tourism corridors of the Master Plan of Acceleration and Expansion in the Indonesia Economic Development 2011-2025. Thus, typical crafts such as metal, natural fiber, and wood were investigated in UD KamasanBali (Bali province), Mawar art shop (West Nusa Tenggara province), and Adeshya (Daerah Istimewa Yogyakarta province). The investigation revealed that the role of the government and universities are very crucial to the Indonesian craft industry and the Indonesian craft industry best practices cluster. The transfer of knowledge from government, universities, international agencies, corporations and others small- to medium- sized tourism enterprises have a significant impact to the industrial cluster development. Further, management of exhibitions is found to be the most effective and efficient method for promoting business achievements.

Key words: the Indonesian craft industry; the Indonesian craft industry best practices; small-and medium-sized tourism enterprises; craft industrial cluster; innovation

JEL code: M19

1. Introduction

Creative industries now form a distinct economic sector which has become a topical issue of the international economic and development agenda. Department for Culture, Media and Sport’s (DCMS, 1998) defined creative industries as activities that have their origin in individual creativity, skill and talent. It includes: performing arts, advertising, architecture, the art and antiques, design, designer fashion, film and video, interactive leisure software (such as computer game), music, publishing, software and computer services, television and radio, and craft. Despite, a growing number of reports on creative industry, many questions have yet to be fully addressed. For example, are creative industries capable of developing original and unique cultural products and creative services with sustainable effects (German Commission for UNESCO, 2007)? To date, very few studies deal with innovation within creative industries (Miles & Green, 2008). Discussion of content innovation has rarely been

Lalu M. Furkan, Doctor Course Student, Nagoya Institute of Technology; research areas/interests: SMEs, cluster, innovation. E-mail: love_steph85@yahoo.com.

Nobutaka Odake, Ph.D., Professor, Nagoya Institute of Technology; research areas/interests: SMEs, cluster, innovation. E-mail: odake.nobutaka@nitech.ac.jp.

articulated in innovation studies. It is more commonly encountered in cultural studies, and even then is often not portrayed as innovation (e.g., Wright, Boria, & Breidenbach, 2002; Zackariasson, Walfisz & Wilson, 2006). Furthermore, research has pointed to the need to explore innovation among creative industries in relation to the idiosyncrasies of the sector (Handke, 2008), such as the presence of “soft innovation” linked to changes of aesthetic nature, as opposed to more widely used definitions of innovation that refer to changes in the functionality of products and process (Stoneman, 2009).

This study is a set within the Indonesian craft industrial cluster. The purpose of this paper is to clarify to what extent the Indonesian craft industry and the Indonesian craft industry best practices cluster have embraced innovation practices between 2009 and 2011. A framework of surveys was undertaken in the creation of tourism cluster network based on The Master Plan for Acceleration and Expansion of Indonesia Economic Development 2011-2025. Three provinces (Bali, West Nusa Tenggara, Daerah Istimewa Yogyakarta) out of 33 provinces all over Indonesia are included in the sample survey. Thus, face-to-face interview across 101 owners or executives (33 respondents and 1 best practice each provinces) using questionnaires was taken and filled-out by author during the survey (July 19th-October 31st, 2012) and followed by the Indonesian craft industry best practices’ in-depth interview in July and August, 2013. The survey consisted of five section and cover letter explaining the purpose of study. First a definition for the term used in the survey was presented at the beginning of the survey. The person answering the survey was given chance to choose from two different options ranging from “Yes” and “No” and these were given numeric values from 1 (Yes) to 2 (No). Further, another option ranging from 1 (High), 2 (Medium), 3 (Low), and 4 (Not Applied) was also provided in the survey. Finally, an empty box was provided to get additional comment to innovation-related activities.

The interviews were open-ended interviews with a pre-made basic structure about the subjects that needed to be elaborated. The interviewee was given liberty to discuss the subject freely and when a situation arose, also a subject outside the pre-made structure.

2. The Importance of Knowledge and Innovation in the Cluster

Porter(1998) defines “cluster” as a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. The word “interconnected” means transaction sharing, customer sharing and technology sharing. These aspects can be adopted into inter-firm networks. There are two main aspects to the concept of cluster: accumulation in terms of proximity and networking in terms of relationship. Therefore, if there is networking among firms and institutes in a certain area and they accumulate to form a cluster, they might be classified as a target cluster.

The emergence of creative industries which may act as engines of regional economic growth is usually associated with the quality of human capital, that is, to the development and refinement of specific individual attitudes and capabilities. Schultz (1961), Becker (1964) and Barro (1991) were among the first to stress the importance of human capital in explaining economic growth. Jacobs (1992) argued that diversity of whatever kind is more likely to produce creative outcomes in areas where “so many people are so close together, and among them contain so many different taste, skills, needs, supplies, and bees in their “bonners”.

A number of studies have since then attempted to explore determinants and effects of new ideas and abilities from a regional perspective. Among others, Florida (2002) suggests that scholars in this field should use a new measure of human capital, based on specific set of occupations that make up the “creative class”, including

science, engineering, arts, culture, and entertainment. Lucas (2008) focuses on the channels through which new ideas may result in sustained growth, stressing the role of a class of educated people spending their career exchanging ideas, solving work related problems and generating new knowledge. See also Howkins (2001), Barry and Glaeser (2005) show that the difference in endowment of human capital across regions are likely to grow larger and more pronounced, therefore resulting in the persisting and substantial variation in wealth which can exist between regions within one country. Saxenian (1994) highlighted the importance of universities, entrepreneurs, and network-based industrial systems which are able to promote collective learning as factors favoring the development of high-tech industry in certain regions. Mellander & Florida (2007) identify some conventional and less conventional measures of human capital and “talent” in factors such as the presence of universities, amenities or service industry, openness and tolerance. Florida, Mellander and Stolaric (2008) discuss the role of creativity industries, the university system and concentration of gay and lesbian households (taken as a proxy of “diversity”) in fostering economic growth by means of a stage-based general model of regional development. Morrison (2008) follows an evolutionary approach in observing that industrial districts, as networks of heterogeneous agents, concentrating knowledge within small epistemic communities make some regions intrinsically more dynamic than others.

Entrepreneurship and the process of new business formation have also been shown to be drivers of progress at the regional level. Audretsch and Keilbach (2005) indicate a direct link between entrepreneurship capital, a specific type of human capital referring to capacity of a region to generate entrepreneurial activity, and regional economic growth (cf. also Audretsch, 2007; Van Praag & Versloot, 2007). However, as aptly argued by Fritsch (2008), persuasive evidence on the ways in which entrepreneurship and new firm creation shape economic growth has not been provided yet and they are likely to interact in a haphazard fashion.

A third major determinant of regional economic growth is technological change and innovation, even of an incremental nature. Acs and Varga (2002) identify three main aspects of research into technology-led regional economic growth. First is the concentration issue, i.e., the fact that knowledge-related economic activities tend to concentrate in certain regions rather in others. Second is the identification issue, i.e., finding out the key processes and institutional arrangements which favor technological advances. Third is the modelling issue, i.e., the construction of an analytical framework explaining the role of technological change in regional economic growth (Acs, 2002).

The knowledge of a (regional) economy can be considered simply as a list of the knowledge of its members (Arrow, 1962; Lucas, 2008). Each person may gain from the knowledge of the people around her, and a concentration of highly knowledgeable people within a region might positively affect economic growth. Consistent with this assumption, in some studies (Florida, Mellander & Stolarick, 2008) universities are found to be significantly associated with the presence in the same territory of both highly-skilled human capital and the creative class.

There is extensive literature on the importance of knowledge and innovation among enterprises in the cluster. It has now become common to refer to knowledge as the primary input into economic processes and as a crucial condition for the ability of the companies, communities and individual to participate successfully in the global economy (Reich, 1991). New knowledge is a new resource to innovate under certain conditions where innovation is the key to survive domestic and international competition. There are some studies indicate the strong effect of new knowledge on the innovativeness of a company. Rothwell (1991), working in the European context, finds that small firms which employ extensive relationships with external parties including knowledge exchange, are more

successful at innovation. He reveals that in order to compete successfully, small firms need to upgrade their knowledge through various channel of information with surrounding stakeholders. Kristiansen et al. (2005) in a study of Tanzanian cottage industries find a similar result: that knowledge obtained from various sources (i.e., media, socials, network, and customer relation) has a significant impact in innovation. However, another finding in Russia, Johanessen et al. (1997) observed that the use of new knowledge is not significantly linked to the success in innovation. The different findings may result from the different types of knowledge or the differing subject matter of knowledge in each case, such as: technology, markets, suppliers and industry characteristics.

Burns and Stalker (1971) refer to the organization and management of innovation as a product of the social processes taking place within organizations. Drucker (1985) describes innovation as “the effort to create purposeful, focused change in an enterprise’s economic or social potential”. A company can choose to carry out different kinds of innovation, mainly innovation in product, strategy, process, and market, jointly or on its own, depending on the level of risk and commitment it decides to take on (Kuster & Vila, 2011). Until recently, there have been few attempts to explore aesthetic and content innovation using the methods of innovation research. (Stoneman, 2007) noted that the creative industries sometimes engage in traditional technological innovation. He terms their aesthetic innovations as “soft innovation”, and distinguishes two aspects of such soft innovation: (1) innovation in products that are themselves largely aesthetic in nature (e.g., music, books, film); and (2) innovation in industries where innovation output is not aesthetic per se but functional. Miles and Green (2008) noted that the innovation patterns of creative industries have features in common with those described for other information goods, services, and experiences.

Innovation in the firm is a multidimensional concept (Neely, Filippini, Forza Vinelli & Hii, 2001). An innovation can be defined as “an idea, practice, or object that is perceived as novel by an individual or other unit of adoption” (Rogers, 1998). In the management literature, particularly in that dealing with innovation and the growth of firms, several types of innovation have been identified, i.e., product, service, process, market, logistic and organizational innovation (Neely, Filippini, Forza Vinelli & Hii, 2001; Johanessen et al., 1997; Avermaete, Viaene, Morgan, & Crawford, 2003). Many developing economies exhibit a pattern in which informal sources like family business, friends and customers, but also different practices and style of innovation related to the specific culture and social and institutional forces play a more important role than in developed economies (Hoftede, 1991; Holden, 2002). In this case, the organizations need to develop through new sources of knowledge. The transfer of knowledge becomes important. Several channels can be used: personal communication via face-to-face contact with customers, telecommunication modes (the internet and television), branch journals, technical manuals, visits to exhibitions, etc. (Van Geenhuizen, 1995). According to Affuah (2003), knowledge sources can be classified as functional sources of innovation and categorized into five groups: (1) international value chain functions; (2) external value-added chain of suppliers, customers, and complementary innovators; (3) university, government and private laboratories; (4) competitors and related industries; (5) other nations or regions. Transfer of knowledge can be obtained through network within firm, other firms, organizations, suppliers, consumers, etc. Typically, the term “network” is used to describe the observed pattern of organization.

The term “Network” has become the vogue in describing contemporary organization. From large multinationals to small entrepreneurial firms, from manufacturing to service firms, from emerging industries such as biotechnology to traditional industries such as automobile, from regional district such as Silicon Valley and Italy Prato district to national economies such as those of Japan and Korea, more and more organizations are being described as networks. Typically, the term “network” is used to describe the observed pattern of organization. But

just as often it is used normatively: to advocate what organizations must become if they are to be competitive in today business environment. The concept of networking has also become popular theme at the individual level of analysis: Individuals are alerted to the importance of their so-called “connections” in getting things done or moving ahead in life and are therefore urged to network more — to build relationships they can use to their advantage. A growing number of networking or organizations that help people make all sorts of contacts — from finding dates to finding venture partner — have sprung to capitalize on the interest in networks. Many firms (aided by willingness consultants) have also joined the bandwagon, offering in-house training programs that help their employees learn about the importance of networks and how to go about building and using them.

Nohria (1991) believes that there are three major reasons for the increased interest in the concept of network among those interested in organizational phenomena. The first is the emergence over the last two decades of what Best (1990) has labeled “the New Competition”. This is the competitive rise over the last two decades of small entrepreneurial firms, of regional districts such as Silicon Valley in California and Prato and Modena in Italy, of new industries such as computers and biotechnology, and of Asian economy such as those of Japan, Korea, Taiwan. This New Competition has been contrasted with the old in one important way. If the old model of organization was the large hierarchical firm, the model of organization that is considered characteristic of the New Competition is a network, of lateral and horizontal inter-linkages within and among firms. The competitive success of the New Competition has thus led to an increased interest in networks, particularly as the old seeks to become more like new. Established firms are trying to restructure their internal organizations along the line of networks. They are also trying to redefine their relationship with vendors, customers, and even competitors, instead of arm-length, competitive relation, they are seeking more collaborative relations that will bind them together into network. Several regions have launched initiatives to grow their own version of the entrepreneurial network district. Even at the level of national economic and legislative policy, discussion about the possibility of adopting Japanese *kieretsu* type network structures and about relaxing traditional antitrust policy that forbid collaboration among the firm in and industry. In addition to the interest in the new competition, a second reason for the increased interest in networks has to do with recent technological development. New information of technologies have made possible an entirely new set of more disaggregated, distributed, and flexible production arrangement, as well as new ways for firms to organize their internal operation and their ties to firm with which they transact. The rise such manufacturing and telecommunication networks has led to a concomitant interest in the organizational networks that these new technological development may spawn.

3. Tourism and Craft Industry in Indonesia

3.1 Tourism Industry in Indonesia

Indonesia is an archipelago country consisting of more than 17,000 islands with a population of around 240 million people, more than 300 ethnic groups and divided into 33 provinces from Sabang to Merauke. Its total area is two-thirds ocean and one-third land. The land area of The Republic of Indonesia covers 1,811,570 square kilometers. It is considered that Indonesia has great reason to promote tourism. The uniqueness of Indonesia begins with its diversity of cultures and heritages which is supported by its natural riches. Further, the Indonesian government has focused on the creation of tourism cluster network based on the Master Plan of the Acceleration and Expansion in the Indonesia economic development as presented in Figure 1. Province of Bali, West Nusa Tenggara, and Daerah Istimewa Yogyakarta are included in these efforts. Since tourism is a broad industry

involving many different players such as hotel, travel agent, transportation, food & beverage, other tourism and historical sites and craft industry. Thus, tourism contributes broadly to GDP. The Indonesian GDP reached US\$846 billion by 2012, making it the 16th largest world economy (World Bank, 2012). The positive trend may affect the Indonesian craft industrial cluster.

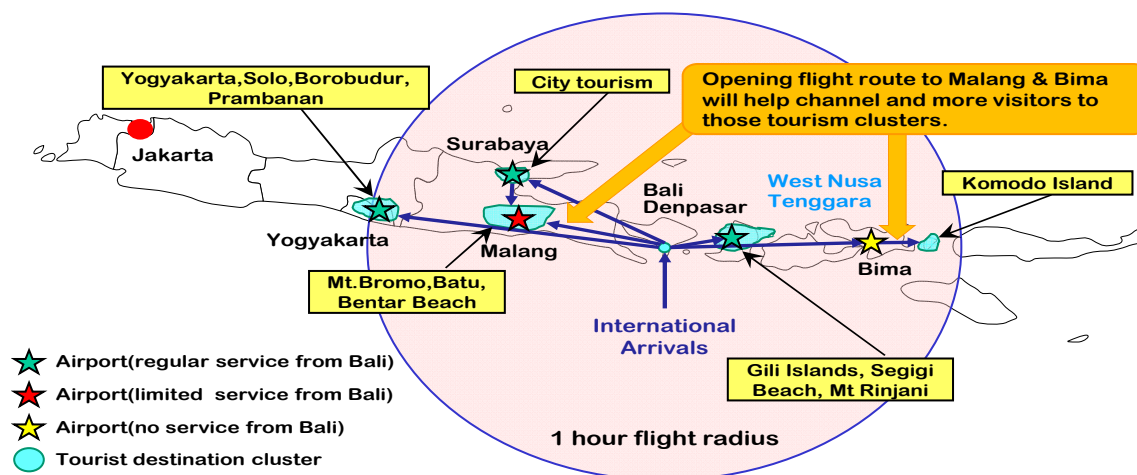


Figure 1 The Indonesian Tourism Cluster Network with Flight Route

Source: Coordinating ministry for economic affairs, 2011

3.2 The Indonesian Craft Industry

Most of the Indonesian craft industry is home-based industries where hand-made products are the main product. The cluster is surrounded by many craftsmen with specific craft skills in the village. They have good skills combined with local values and local wisdom in producing the craft products. Most of the craftsmen produce craft products by hand with feeling and artistic merit. Sometimes only very simple tools are needed. Consequently, most of population in the cluster which is usually located in a specific area or village earn their income from the cluster as craftsmen. They learned their expertise from the surrounding community where they learn from one other. In fact, the craftsmen also pass their expertise along to family members. Thus, the family members, regularly, help the craftsmen in producing crafts at very low wages and even as unpaid workers since the craftsmen take care of the financial management of the enterprise and family. Most enterprises are informal and private enterprises, working mostly on deadline orders from traders or wholesalers. They sell the products at the local price to the wholesaler in the cluster. The wholesaler enjoys significant profit when he re-sells to domestic or international buyers. Within the cluster, not all craftsmen can access markets because of lack of sources. Consequently, only a few craftsmen have the capacity to access markets because of the bundle of required resources such as language skill, negotiation skill, adequate funding, strategic distribution channels, excellent networks and entrepreneurship. Another common source of income in the cluster is agriculture. Since the area in the economic corridor is also designated as a national food support. Before the growth of the Indonesian tourism industry, the cluster focused on agriculture and still shift back into agriculture when the tourism industry becomes unstable. This has an impact on the craft industry. However, when the tourism industry is stable, crafts jobs are preferable in the cluster. This shifting trend from agriculture into tourism has an especially large effect on the craft industrial cluster.

4. The Indonesian Craft Industrial Cluster

4.1 General Business Information

Over view general business information related geographic market areas, changes to business and the importance of objectives can be seen in Figure 2. The respondents answering the survey were given chance to choose from two different options ranging from 1 (Yes) to 2 (No). The Indonesian craft industrial cluster has wide range of market coverage areas. Domestic market witnesses a share of 85% enterprises, while international market dominated by Asian or European countries mention a share of 65% enterprises. Further, turnover increased by at least 10% is the only significant changes occur to business during the survey. Profit margin on sales and growth in sales turnover are considered the most important objective in the Indonesian craft industrial cluster. It is followed by market share in Indonesia mentioned of 95% enterprises and growth in export witnessed score of 65% enterprises. The Indonesian craft industrial cluster is mainly dominated by the micro-sized enterprises with maximum number of employees of 10 employees.

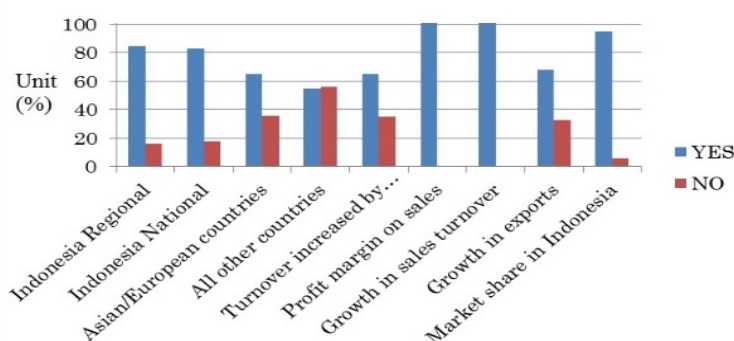


Figure 2 General Business Information

Source: Surveyed in 2012

4.2 Innovation Activities in the Indonesian Craft Industrial Cluster

With regard to innovation activities (Figure 3), the most important innovation activities in the cluster is change to product design, mentioned by 92% enterprises, followed by internal research & development (89%), all form designs (87%) and implementation of new or significantly changed strategy (62%) enterprises. Most enterprises have engaged change to product design and internal research & development through “self-innovating” skill, informal observation of market trends, product modifications or new products for business and market. Acquisition of external knowledge from other enterprises such as non-patented products took place informally and formally in the cluster within 50% enterprises, so advanced machinery was took place in the same way. In order to support the innovation activities mentioned above, most of the cluster sampled used computer and internet connections to introduce products in many different distribution channels for example: websites, galleries, exhibitions, brochures, e-mail and mouth-to-mouth promotion. Training for innovation activities with the government, corporations, universities, international and domestic agencies are also considered in this section, mentioned by 46% enterprises. It means not all enterprises might join it since some limitations such as less network, capacity, and program distribution. Further, the cluster members do not provide any financial statements or budgeting plans for innovation activities as mentioned above but in fact they do spent a certain amount of money for innovation activities off-budget. Most of these are informal and private enterprises which do not have access to banks for working capital or long term debt for investment since banks require such as SIUP (license for

business activity), SITU (license for business location), HO (license for disturbance tolerance) as a requirement for granting loans. Finally, most cluster members do not have an organizational structure which shows a clear job descriptions and specifications. However, most medium enterprises are formal enterprises and have a clear organizational structure supported by clear job descriptions and specifications. Both small and medium- sized tourism enterprises, in terms of strategy, have no clearly stated vision and strategy for responding to the market, and no clear sales goals and production planning.

In the aspect of process innovation, respondents have engaged new significantly improved process for producing craft products, evidenced by 45% enterprises where it takes place in this business or enterprise group (94%), its business with other organizations (88%), and other organizations (49%) enterprises as an outgrowth of the weekly, monthly and yearly changes in product design that are characteristics of the Indonesian craft industry. The decision to innovate is also encouraged by the following factors ordered by its importance of 1 (high) to 4 (not applied) point scale with sample number of 101 enterprises. As we can observe improving quality of the goods, increasing capacity for producing goods, and increasing value added are the most important aspects. It can be understood because they want to satisfy the market and increase competitive environment while at the same time increase the profit.

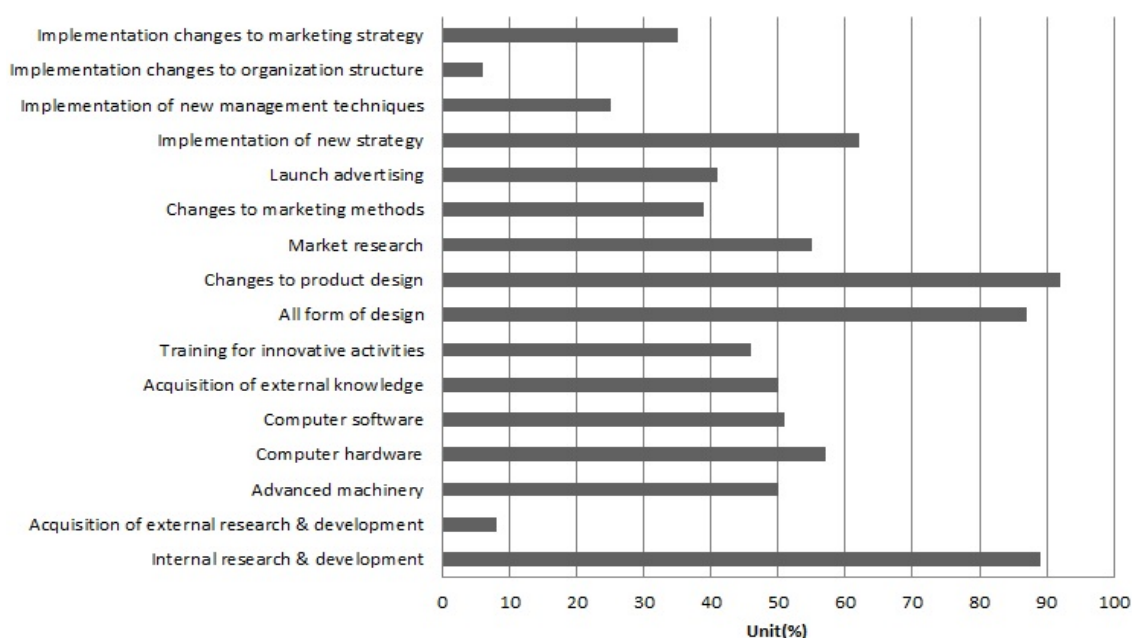


Figure 3 Innovation Activities

Source: Surveyed in 2012

4.3 Innovation Co-operation

In the sample survey taken in the field study, cluster members co-operate to their collaborators as presented in Table 1. There are 88 respondents answering the survey within option ranging from 1 (high) to 4 (not applied) which was classified as an active innovators. Clients or customers are the most important innovation collaborators with mean score of 1.02. They are sophisticated buyers with a complex demand related to product designs, materials, qualities and times delivery. Consequently the Indonesian craft industrial cluster should deal with the issues. The second most important innovation collaborators are suppliers with mean score 1.22 and followed by the government (mean score 1.67).

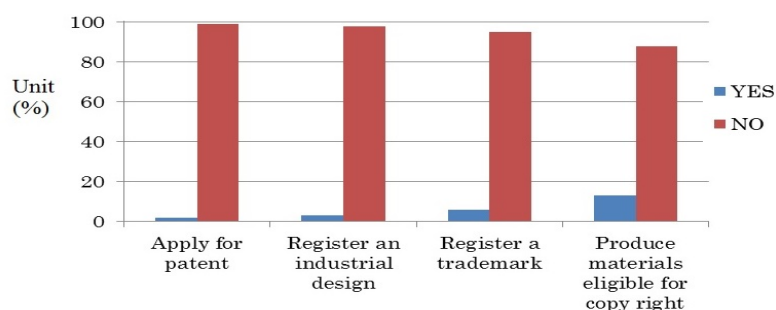
Table 1 Innovation Co-operation in the Indonesian Craft Industry

Co-operation partners	Maximum	Minimum	Mean
Other business within your enterprise	1	4	3.45
Suppliers of equipment, material, services	1	3	1.22
Clients or customers	1	3	1.02
Competitor in your industry	1	4	1.8
Consultant, commercial labs, private R&D	1	4	3.33
Universities or other higher education	1	4	3.34
Government or public research institute	1	4	1.67

Source: Surveyed in 2012

4.4 Protection of Innovation

Protection of innovation can be seen in the Figure 4. Other than a few of the medium sized enterprises, most of the sample survey respondents do not attempt to protect their innovation in the form of patents, registering industrial designs, trademarks, and producing material for copy right as presented in the following figure.


Figure 4 Protection on Innovation

Source: Surveyed in 2014

Overall, the uniqueness of innovation practices in the Indonesian craft industrial cluster can be explored by new combination of relationship among enterprises and institutions as seen in Figure 5. Government introduces many development schemes into the cluster such as marketing, organization, products and processes. In fact, not all enterprises are aided by the government because of limited budgets and because of criteria set by the government for joining the program such as training programs in design, marketing, processes and organization. Further, the government also advocates for the importance cluster association membership in the national and regional level. *DEKRANAS* (The Indonesian National Handicraft Council) was established in Jakarta on March, 1980 based on the agreement of two ministers: minister of Industry and minister of agriculture with decree no 85/M/SK/3/1980 and no. 072b/P/1980. In order to support the association activities, Minister of Home Affair established *DEKRANASDA* (The Indonesian Regional Handicraft Council) in December, 15th 1981 with decree no 537/5038/SOSPOL. It is non-profit organization to coordinate craft-stakeholders and support the craft business development. It aims, firstly, to explore and develop cultural heritages while supporting invention of new technologies development to increase quality as a national identity. Secondly, it aims to increase society awareness about the importance of crafts for social life. Thirdly, help craftsmen to increase their quality of life as well as entrepreneurship. Fourthly, help government for craft formulation policies and increase craftsmen resources. Lastly, help to market the craft product domestically and internationally. It is coordinated by the first lady (Mrs. President) in the National level and Mrs. Governor at Province level, and the first lady of the counties in district

level which is supported by minister of Industry, Minister of Trade, Minister of Home Affairs, Minister of Tourism and Culture, Minister of Small-to-Medium-sized Enterprises, and Minister of State Enterprise and other stake holders such as academics, craft experts, craft entrepreneurs and other institutions representatives. This association has wide impact to policy formulation at national and regional level in supporting craft development programs such as transfer knowledge and technologies, training activities, and support to national and international craft exhibition. It accelerates the craft development programs in collaborative efforts with the local government programs where they support each other. Another successful association called *ASEPHI* (The Indonesian Handicraft exporter and Producer Association) was established in 1975. *ASEPHI* is an independent association or non-governmental organization which is actively and consistently to promote its vision with routine agendas in order to support the future of its members. The routine agendas are *INACRAFT* exhibition or Trade expo, *CRAFINA* exhibition or trade expo, *Nusa Craft* exhibition or Trade expo, *INA* craft life style in Malaysia, *INACRAFT* Award, *INACRAFT* seminar, and *UNESCO* Award Excellence for Handicraft Programme. Its vision is to channel aspirations of entrepreneurs and craftsmen in order to encourage entrepreneurial spirit of craftsmen and handicraft producers to become professional businessmen and also to support government efforts to ensure the success of National Economic Development Program. This association has wide coverage areas including 16 supported association at the province level and 15 supported association in county level. The association is well-organized within 5 years period of delegation authorities. Further, another important formal and informal association found in the cluster based on the similar craft business background to promote creativities of business achievements. It was sometimes initiated by local government and organized by the local craftsmen and entrepreneurs where government support the infra-structure such as better road access to the cluster, joined-showroom and office building for association. In other case we can also find association established by among craftsmen and craft entrepreneurs independently in term of joined-exhibition based on mutual understanding among craft stakeholders. Thus, Department of Trade, Department of Small and Medium-Sized enterprises and coop, and other departments at the district, provincial and national level concerned with the Indonesian craft industrial cluster, since tourism in the corridor plays a significant role in the local and national economy. The government gives training related to products, processes, markets, organization and management. Furthermore, the government also supports cluster development through collaboration with corporations and international agencies. Corporate social responsibility (CSR) programs can be targeted at cluster development. As a result, some state-owned corporations under ministry of state enterprises such as PT. Garuda Indonesia, Tbk, the market leader in the Indonesian airplane industry, PT. Angkasa Purawhich manage airports, PT TELKOM, Tbk, the biggest telecommunications enterprise in Indonesia, assist in cluster development. PT. BRI, Tbk, the biggest state-owned bank corporation for SME, PT Angkasa Pura and PT TELKOM, Tbk support cluster development through their corporate social responsibility (CSR) programs which make soft loans to some cluster members at rates of around 6% rather than the 12-14% rates of typical commercial bank loans. These programs look for cluster members that fulfill the requirement set by the corporations. Another example, PT Garuda Indonesia has ventured into cluster development by offering assistance in training programs and marketing. PT BRI, Tbk contributes to a government program to help clusters with working capital loan for informal enterprises. International agencies such as GTZ, JETRO give technical assistance in term of product, process and marketing areas.

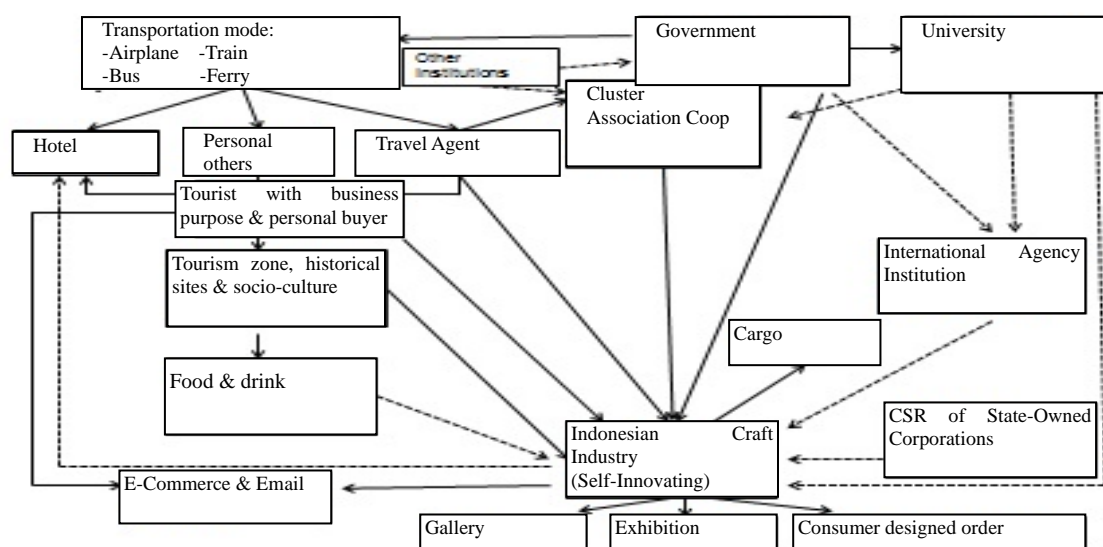


Figure 5 The Indonesian Craft Industrial Cluster

Source: Surveyed 2012

In response, many other tourism industry players such as airlines, airports, hotels, tour & travel operators, buses, ferries, trains, vehicle rental companies, telecommunications, banks, small- and medium-sized tourism enterprises and others play a role in capturing the market. International and domestic visitors choose various modes of transportation: air-plane, bus, ferry, train, cruise ship and combinations thereof. Most international and domestic visitors prefer airplane as the main mode of transportation since the era of cheap flight has been introduced in Indonesia. The combination of other modes of transportation is optional. Availability of easy transportation will have a synergetic effect on the existence of tourism sites and other small- and medium-sized tourism enterprises. Thus, international and domestic visitors turn to the hotel industry for accommodations in the tourism corridor. Relationship between hotel, travel agents and the craft industry is unique. The travel agent has a significant impact on the cluster since they serve large numbers of domestic and international tourists staying in hotel are headed into the cluster through collaboration with national and international travel agents with whom they network and propose tour programs. Self-promotion is also crucial. Some travel agents have agreement with specific enterprises in the craft industrial cluster requiring the travel agent to include a craft tour of the enterprise as part of its tour programs. However, cluster members who do not have a contract with travel agents make informal commission agreements with tour guides provided by the travel agent. The guides can make a significant amount of money by encouraging tourists to purchase many items. The better the personal relationship with the guide, the more tourists will visit the businesses in the cluster. The guide will take tourists into the cluster which offers the highest fees. This can create jealousy among cluster members because it ruins the pricing system because the cluster member must increase the price of craft products in order to cover the guide fee or travel agent agreements and still make a profit. On the other hand, the other cluster members feel uncomfortable with the situation since it ruins the price system in the cluster. Therefore, associations in the cluster play a significant role in maintaining a competitive environment.

However, from the total of 101 enterprises in the sample survey, we found thirteen (13) percent of enterprises did not innovate because of some reasons. They are no need due to previous innovations (86%) enterprises, no need due to market condition (63%) and, other constraining factors (70%). We found availability of finance, lack

of qualified personnel, and direct innovation cost high are the highest constraining factors.

5. The Indonesian Craft Industry Best Practices

The Indonesian craft industry best practices were based on the winner of the UNESCO Award Excellence for Handicraft 2010 referring to UNESCO program which is held within every two years in the four regions: Central Asia, South Asia, East Asia, and Southeast Asia. It encourages craft-workers to use traditional skills and materials to ensure the perpetuation of traditional knowledge while acknowledging the importance of innovative and marketable designs. The capable enterprises in delivering works based on the criteria of excellent, authentic, innovative, marketable with pre-condition of eco-friendly and fair deserve for UNESCO Award excellence for handicraft 2010. Thus, the three award winners located in the tourism corridor of the master plan of acceleration and expansion Indonesia economic development 2011-2025 are selected as the research object from total of thirteen winners all over Indonesia using UNESCO methodology. The classification of material in the award of excellence for handicraft 2010 is presented in Table 2. “Metal” refers to handicraft made of silver, gold, bronze and iron as its materials. UD KamasanBali was selected from this group producing the Balinese coins and accessories to preserve Balinese heritage pure. The business has been in good progress since the increasing trend of domestic and international market share. UD KamasanBali earned billion rupiah and it will increase in the near future. “Natural fiber” refers to handicraft produced from one or a combination from natural material e.g. bamboo, grass and rattan. Mawar Art shop was selected as the research object from this group. Mawar Art shop produces handicraft from wild grass in the forest which is located in the surrounding village. Furthermore, it sells the product into foreign and domestic market where 70 percent market share is in the foreign market and 30 percent domestic. Mawar Art shop earned a billion rupiah and sales have increased in the recent years. “Wood” refers to the business which produce handicraft where wood is the raw material. The wood can be made into various products with artistic merit. Adeysa was selected from this group. Adeysa has a long success story with tremendous effort to industry. Adeysa enjoys profit through innovative efforts on the business. Although there are many competitors in the industry, the product is unique. Its product is always inspired from the combination of Jepara and Jogja characters referring to mixed value culture

Table 2 Classification of the Indonesian Handicraft Industry

Classification	Product	Enterprise
Textile	Cotton, silk, linen	Kagasa
Natural Fiber	Bamboo, grass, rattan	MawarArtshop
Ceramic	Clay, pottery, porcelain	Kachio
Wood	Inci paper, lacquer	Adeysa
Stone	Prescious, jade	
Metal	Silver, gold, bronze, iron	UD KamasanBali
Others		TaqilaAmani

Source: Organized by authors based on the UNESCO “Award Excellence for Handicraft” 2010

6. The Indonesian Craft Industry Best Practices Cluster

6.1 Case 1: U. D. KamasanBali

U. D. KamasanBali was a pilot project initiated by the governor or local government of the Bali province to

produce Balinese coins as an effort of preserving Balinese cultural heritage in Kamasan, Klungkung, Bali, 2004. It was inspired by the presence of coins in Balinese rituals become somewhat compulsory, while, the stock of coins has seen a decrease. It is no wonder, for as the population grows more people conduct rituals and the demand for coins rises significantly. During the periods, Chinese coins called “*piss bolong*” in Balinese and “*Uang Kepeng*” in Indonesia language have been very important in various ritual activities and ceremonies of Balinese Hindu and Buddha such as Balinese birthday, wedding, burial, cremation and all rituals of the Balinese-Hindu. Ancient Chinese coins with square holes in the center and Chinese characters each sides have been circulating in Bali since 7th and 8th centuries and used as a monetary system — a phase shift from using the barter system through channel of trading and import. Gradually until 1970s, when people awareness increased, they began to forego the Chinese coins in their economic life but their purpose in rituals has lives on and on. This increase has led to people making duplicates. The duplicates are far different from original ancient Chinese coins. They are smaller, thinner made from zinc substance and Chinese characters have almost disappeared. These rough imitations can be easily found in traditional markets. The price is much cheaper than the original. People pay IDR 1,500 per coin for the original, while they only pay IDR 200 per coin for the imitation version. The imitations are selling well in the market as many buy them because they have no choice. For some people “cheap” can be the main reason because in a small ritual in a small temple the number of coins needed may amount to thousands of rupiah. The amount for Chinese coin purchases can be among “big buys” in a ritual. Using imitation coins in ritual, however, is not recommended. This problem has received special attention from governor or the local government of Bali. Thus, The Bali Cultural Office formed the “Bali Heritage Trust” with its vision to keep cultural heritage pure. The Bali Heritage Trust has embraced the metal craftsman from Kamasan, for cluster development purpose to produce Balinese coin money containing “*pancadatu*” (five strength of life) which resemble to original Chinese coins. In addition UD KamasanBali has 55 employees and sales around IDR 2 billion in 2011.

Prior to this, Bali Heritage Trust held seminar attended by the government, academics, priests, banten or ritual necessity makers and related stakeholders to decide the symbol printed in the Balinese coin money. This project was financed by the World bank grant and launched in Kamasan, Klungkung, where the factory and showroom is positioned together as UD KamasanBali in 2004. The factory mass-produces Balinese coins for rituals and they are capable of developing accessories with more than 250 product designs. The building has metal merging and forging in the basement, accessories creation in the top floor, and the show room in the front. This factory makes different versions from the original Chinese coins, and the coins are produced by five different metal known as *pancadatu* or “five strength of life” representing the Hindu’s god power. They include iron (the power of the god Wisnu), silver (the power of the god Iswara), copper (the power of the God Brahma), gold (the power of the God Mahadewa), and bronze (power of the god Siwa). In addition, the Balinese characters also show special significance and strength. They replace Chinese characters that mostly note the issuing dynasty’s name. Nowadays, holy letters such as “Sa”, “Ba”, “Ta”, “A” can be seen beside every side of the square center hole. The four of them represent the strength of life in the four corner points of compass. Over the letters, a Padma, the symbol of holiness is depicted.

Its processing also incorporates a quite unique method of gathering household leftovers which is new to the business and industry. They have gathered materials like broken taps, second-hand iron, etc supplied by uneducated, unemployment, poor people surrounding the village as apart from helping to clean environment. They also do not depend on materials offered by many factories. They forge together all materials and become new thing. Further, they also carry out “*penganugrahan*” ceremony in Besakih and Ulun Danu Batur Temple which is

among the biggest temple for asking divine permission to new Balinese coins. “*Penganugrahan*” refers to a ceremony to ask for holiness and blessing for an object. They believe that the unique Balinese coins properties can motivate people to use it in their rituals. Besides, the price is cheaper, only IDR 750 per coin and now the coins have been recommended by the banten or ritual necessity makers, priests and government. Socialization has been carried already since several years ago. Many people are already using the Balinese coins version. Despite this, its presence is not suddenly a shift from the real Chinese coins because in many rituals Chinese coins can still be found. In addition, UD KamasanBali also develops products into many other accessories and house decorative made from the Balinese coins such sculptures, spears, swords and various art material with Hindu values theme. UD KamasanBali can produce 20,000 coins per day. They sell their products mostly in domestics for ritual ceremonies and international market such as Australia, Asian, European countries with total sales IDR 3 billion per year. The transfer of knowledge and technology has been supported by government, universities, companies, agencies, other clusters and research institutions. They concern to technology advancement through networking with others institutions in the cluster. Consequently, It is the leading company producing Balinese coins and accessories

6.1.1 The Role of the Government, Universities, Corporations, Agencies

UD KamasanBali has been supported and promoted by the governor of Bali or local government to produce Balinese coins. Thus, Department of Culture formed Bali Heritage Trust (BHT) with decree no. 68/03-c/HK/2003. Its vision is to keep Balinese heritage pure. The Bali Heritage Trust has engaged the metal craftsman namely Mr I made SukmaSwacita to produce Balinese coins containing *pancadatu* for cluster development pupose. The first production of the *pancadatu* Balinese coins was launched in 2004 and attended by stakeholders such as governor, department of culture of the Bali province, priests, academics from universities or other higher education institutions and Balinese Hindu communities. Further, Hindu’s priests gave advice to celebrate a holy prayer ceremony before it delivers to the Balinese Hindu community in the two largest “*Pura*” referring to Hindu’s prayers space in Bali. Thus, UD KamasanBali held socialization of Balinese coins through promoting 200 Balinese coins to each 1,417 Hindu’s priests for the ritual ceremonies.

The local government through Department of Small- and Medium-sized enterprises, Department of Industry have been supporting and promoting UD KamasanBali through various training activities, e.g., production, design, marketing, organization and information technology. With regard to these training activities, the local government has engaged local universities and other higher institutions to be the trainers because they have a bundle of knowledge. In addition, The Department of Industry has supported UD KamasanBali to be a formal enterprise fulfilling required documents such as registered industry (SIUI) no. 28999/IK.289/715.1.6/o146, business activity (SIUP) no. 87/22-03/PK/IX/2005, registered business (TDP) no 220352801266, and tax identity (NPWP) no. 07.226.859.2-903.000. The business provides clear organizational structure where the managerial level graduated from local universities or other higher education. These documents will help UD Kamasanbali to be eligible in accessing working capital loan in which, most small- to- medium-sized enterprises have a problem with. Further the local government have also facilitated and promoted the enterprise into many domestics and international events. There are cost sharing among government, other institutions and UD KamasanBali to participate into many international and domestic trade expos.

Ministry of Industry has engaged PT PilarUtama (Astra group for PT. Daihatsu corporation) in giving technical assistance to UD KamasanBali concerning process of production, efficiency efforts and tools modification for three months. Transfer of knowledge and technology focuses on expansion of production while

emphasizing product quality based on its production methodology. Consequently, UD KamasanBali has successfully increased its production from 266 kg per month to 401.5 kg per month. This successful implementation of the Japanese knowledge and technology makes UD KamasanBali as the KreasiPrimaMutu award winner from the President of The Republic of Indonesia in 2009. In addition, it achieved ISO 9001:2008, scope of supply, producer of Metal Handicraft from BUREAU VERITAS. ISO 9001 refers to an international standard related to quality management based on principles: customer focus, leadership, involvement of people, process approach, system approach to management, continual improvement, fact-based decision making and mutually beneficial supplier relationship. Another achievement was TUV Rheinland test specification- REACH for 46 SVHCs. REACH refers to European Community safety regulation that deal with the registration, evaluation, authorization and restriction of chemical substances. REACH requires manufacturers and importers register all substances they produce in and or import to the European Union in quantities > 1 ton per year with the Helsinki-based European Chemical Agency (ECHA). The “Balai Besar Kerajinan” Yogyakarta and “Balai Besar Kerajinan” Jakarta, a technical service unit of the ministry of industry for handicraft research development, have supported UD KamasanBali concerning to electroplating techniques to gold, silver and antique colors adjusted with design or consumers design order. Further, The ministry of work force has also supported UD KamasanBali concerning product quality and employees productivity. Consequently, UD KamasanBali received The PRAMAKARYA AWARD from president in 2007.

Corporations with its corporate social responsibility (CSR) program contributes into UD KamasanBali development. Most state-owned corporations contributes 4 percent of its net income for SMEs development based on the decree of the ministry of state enterprises No. 05/MBU/2007. The PKBL program is the state-owned CSR program to create competitive products of the Indonesian creative industry. PT BNI is one of the leading bank industry in Indonesia under the ministry of state enterprises have distributed IDR 272 billion since 2004. From this amount, 60 percent is allocated in a creative industry sector. PT BNI makes soft loan to UD KamasanBali and cluster members at rate around 6% rather than the 12-15 rates of typical commercial bank loans. This programs support cluster development of the Balinese coins kepeng industry while appointed as a coordinator among them in the village. This cluster is called “*Kampoeng BNI*” refers to BNI village. This concept is the implementation of the Japanese concept called one village one product (OVOP). There is a synergetic efforts in the Kampoeng BNI among suppliers, craftsmen and a coordinator where hopefully the coordinator might help for a marketing efforts in the area. Further, PT Bank BNI also promote the kampoeng BNI products in the exhibitions or trade expos such as INACRAFT, which is among the biggest domestics trade expo attended by 5,000-7,000 domestics and international buyers. There were 1,230 exhibition stalls in the INACRAFT 2012, where 40 percent of these exhibition stalls represented by the PKBL program.

International agencies contribute to UD KamasanBali development such as World Bank, UNESCO, Ausaid. The local government of Bali made proposal to World Bank for preservation efforts of cultural heritage preservation. The World Bank agreed to finance the project in terms of seminar, socialization, logo printed in the coins and other activities related this project. Consequently, it required some performance indicators such as 40,000 Balinese coins production per month. In fact, UD KamasanBali had problem with it since no one can guarantee production of 40,000 Balinese coins per month. Further, transfer of knowledge and technology through networking with other institutions is successfully achieving the World Bank target. Thus, press conference released attended by stakeholders. Another case of Ausaid, the Australian agencies, gave a donation to help Bali bombing recovery related to the unemployment rate after the bombing. UD kamasanBali should recruit bali

bombing victims as their employees. Therefore, number of employees has increased significantly from 25 to 55 employees in 2012.

6.1.2 UD KamasanBali, Other Players and Association

UD KamasanBali has direct and indirect relationship with other tourism players such as air-port, transportation, hotel, travel agent, tourism sites, guide, restaurant and food & baverage. Among others, travel industry has strong relationship with UD KamasanBali. Travel industry has regularly carried tourists to UD KamasanBali gallery and workshop. They carry large number of tourists as part of their program. This collaboration might happen through formal and informal agreement to travel agent. However, If there is no formal agreement with travel agent, the tour guide makes informal commission agreement. He can make a significant amount of money for every items purchased. The better the personal relationship with the tour guide, the more tourists will visit UD KamasanBali. Some tourists will buy the products and they will re-order the products through email from their home countries. Further, personal tourists with his or her guide also come to UD KamasanBali and buy the products or play role as an intermediary for mouth-to-mouth promotion.

Media is important intermediary to UD KamasanBali for business development. Many international and domestic media such as newspapers, magazines, televisions industry have reported the business as a tourism related topic. They are interested since it produces a unique product as an effort of preserving Balinese heritage while producing artistic accessories at the same time. In addition, UD KamasanBali is likely to promote the business. The media industry is helpful for market coverage areas domestically and internationally. Another potential market is a domestic and international collector. They prefer their products since the products are unique with its ancient characteristics representing Hindu values. Besides, MICE industry is important agent to promote UD KamasanBali where Bali is frequently a host to MICE activities regionally and internationally. UD KamasanBali exhibits the products in these events. Information technology and printing industry are crucial matter to UD KamasanBali in term of marketing activities. The website, e-mail, online newspaper and magazine, cellular phone, and printing companies are such important intermediaries. However, direct and indirect relationship with other tourism players such as airport, airplane, bus, hotel, and restaurant should be highlighted. airport and hotel industry are potential showroom for exhibiting the products. Collaboration with these industries should be considered as new strategy. In addition, Transfer knowledge and technology was delivered by networking with other metal industrial cluster in Pati, Central Java. Consequently, they are capable of producing coins and accessories with cheaper production cost, faster process of production and more product quantities.

Association is very important agent to exchange information, knowledge and technology among the cluster member. UD KamasanBali has joined some associations such as association of the Indonesian handicraft exporters, the chairman of the Balinese craftsmen association, the secretary of the Indonesian meubler and handicraft, and design development organization. Collaboration with other association members in product designs, idea and projects contributes to innovation activities in the cluster.

6.2 Case 2: Mawar Art Shop

Mawar Art Shop, located in Nurbayegawah village, West Nusa Tenggara province, established in 1999. This area is well-recognized as the “Ketak” Handicraft industry cluster. The “Ketak” is typical a wild grass that easily found in the forest around the village. According to the owner of Mawar Art Shop, the history of the “Ketak” started from this village and it spreads all over sub-district region in Lombok. There are around 300 craftsmen in the village and they pass the expertise of producing ketak to other family members, relatives, friends and communities. However, ketak craftsmen is not the only source of income, but agriculture is another source of

income in the cluster. Mawar Art Shop is a family business operated by a husband and a wife with clear job description: i.e., production and marketing. Mawar Art Shop has employed 65 craftsmen who paid monthly as a regular workers and others as non-regular workers paid by dead line order. It produces house ware and home decoration made of “ketak”. The sales performance is around IDR 2 billion in 2013.

The significance increased on sales has been supported by JETRO (Japan External Trade Organization), the Japanese foundation partner and buyer, which is regularly order the products for Japanese market since 2008. Recently, sales has been dominated by foreign market. Japan takes account of 50% (fifty percent) from total market, followed by Europe 20% (twenty percent) and domestic market 30% (thirty percent) from the total market share. The business achievement is derived by networking with other institutions and Sales strategy through joining trade expo or exhibition. Continuous effort of joining exhibition or trade expo seems very efficient and effective for market penetration. It is very important aspect for enterprise branding. Prior to this, Mawar art shop joined many exhibition or trade expo. First of all, the government introduced Mawar art shop into exhibition and trade expo because no enterprises wanted to join as the cluster industry representative. Initially, government covers all exhibition cost or trade expo. Mawar art shop enjoyed some profit and benefits of joining exhibition and trade expo. Thus, Mawar art shop joined many exhibitions and trade expos and still enjoys more profit, market and network. Most exhibitions always involve government meaning to involve Mawar art shop as representative of ketak industry cluster. However, the government has reduced the subsidy of Mawar art shop through only covering exhibition costs while transportation and product delivery covered by the Mawar art shop and still enjoy profit. Further, not all exhibitions and trade expos fit to Mawar art shop since they are not potential market and profitable enough. Therefore, Mawar art shop reduced into participating from ten to eight and now becoming only four and five times a year concerning cost expenditure. Mawar art shop just only focus into selective exhibition and trade expo with large number potential international and domestic buyers, e.g., INA CRAFT, PPE or TEI (Trade Expo Indonesia), PKBL, ICRA. Mawar art shop exists in these exhibitions every year since they are the most profitable exhibitions. Exhibiting products and continuous efforts of joining these exhibitions is helpful for product brand, quality and business image. The buyers will recognize the product quality through buying and ordering the products in the exhibition arena. After couple months another order and re-order products occur as a basic nature of joining exhibition. According to the owner, the most important point of joining the exhibition is consistency in marketing efforts of joining exhibitions and trade expos. Building company brand image through joining exhibition is important. Further, distribution channel through partnership with other enterprises in potential city, hotel and other strategic area are also helpful. Collaboration on marketing innovation is also managed with other small- and medium-sized tourism enterprises player. Collaboration with travel agent and guide are important. The travel agent or personal guide will carry large number of tourists to Mawar Art Shop. Consequently, Mawar art shop will give share percentage to the travel agent or personal guide for every products purchased. Therefore, transaction might happen through negotiation between buyers and sellers.

Recently, increasing sales requires increasing number of non-regular craftsmen in the cluster. It might happen when the JETRO has been ordering large quantity products for Japanese market in the last 5 years. Consequently, Mawar Art Shop needs non-regular craftsmen while focusing on product quality at the same time. Mawar art shop should give more efforts to maintain the required quality on detail works because they work at their home with less control. Regarding to product quality, Mawar Art Shop has pleased consumer to check the product quality based on the agreement. The buyer might reject the product if it does not meet standard quality. Therefore, this service creates trust between producer and buyer. This trust is such crucial matter to increase

customer satisfaction.

6.2.1 The Role of Government, Corporation, Agencies

The government has a vital role in the history development of Mawar Art Shop. Mawar Art Shop actively joins many SMEs development programs such as training on product designs, market, information technology, and business. The government also supports the business through nominating the business in the international and domestic trade expo.

Mawar art shop also takes advantages from state-owned corporation programs. The corporate social responsibility programme where many state-owned corporations involve in giving technical assistance and access to market through trade expo called PKBL. The trade expo held by PKBL invites many international and domestic potential buyer.

JETRO is very important agent to Mawar Art Shop development. The JETRO is a government related organization promoting mutual trade and investment between Japan and the rest of the world. Further, it has implemented “one village one product” for vitalizing local communities and supporting SMEs in Indonesia since 2008. JETRO has selected promising companies looking to export products to Japan and introduce their traditional handicraft. Through this program, Mawar art shop has earned remarkable profit since JETRO has been ordering the products since 2008. In addition, JETRO provides SMEs coaching trained by JETRO’s experts for design development and product qualities. Further, it is very important matter for improving product competitiveness. The JETRO also seeks opportunities through the collaboration between Indonesia material and Japanese technology. JETRO invited Japanese companies to submit product development which can utilize the excellent material produced by the participating Indonesian manufacturer. Another agency involved in Mawar Art Shop development is the UNESCO. Through its program of award excellence for handicraft 2010, Mawar Art Shop product is awarded. Consequently, the product will be exhibited in the website of the UNESCO with complete detail of the manufacturer information. Another benefit are certificate of excellence, training and capacity-building, and trade fair and exhibition.

6.2.2 Collaboration with Others Tourism Players and Association

Mawar art shop has some collaboration with others small medium tourism enterprises, e.g., Oberoi hotel, Travel industry, and golf industry. Collaboration on innovation with Oberoi hotel, the most expensive and luxurious hotel in the area, is typical of marketing innovation with high-end target market. Collaboration with travel industry is also helpful. Travel business will take the tourists into the cluster as one of its trip itinerary. However, the business has a formal and informal agreement of profit sharing for each item product sold with the travel agent or the guide. Mawar Art Shop has exhibited their products in the golf office where the target market is medium-to-high income level. The golf industry provides space area to exhibit the products. Thus, there is an agreement and mutual benefit taken from this mutual agreement.

Association plays important role to the business such as association exporter of handicraft Indonesia, is an organizer of the biggest trade expo in Indonesia called ASEPHI (The Indonesian handicraft exporter). There are thousands international buyers invited regularly every year. Mawar Art shop enjoys profits and market from this event. Further, ASEPHI is intermediary used if there is a conflict of interests between handicraft enterprises and the government. Mawar Art Shop actively joins the exhibition organized by the association and gives input to the association and government.

6.3 Case 3: Adeshya

Adeshya, located in Daerah Istimewa Yogyakarta, produces wooden-art craft mostly contemporer and

abstract theme in the products. The education background and career as a teaching staff in the Indonesia Institute of Art, department of wooden art makes the founder easily transfer the knowledge into the products. His passion and knowledge about wooden-art encourage him to explore many products within artistic merit with specific target market, e.g., low, medium and high income. It produces home ware and home decoration, toys which main material comes from various kind of wood. The design development represents two cultural areas: Yogyakarta and Jepara representing where he comes from and where he lives and establishes Adeshya. Jepara is well-known as a cluster centre of furniture development having a unique character which is exported into many different countries. However, Yogyakarta is classified as the creative city symbolized by the richness of its cultural history. The combination of the cultural values in these two areas inspires the founder to create a unique product development. It makes Adeshya different with others business in the cluster. The sales have been increasing from IDR 1 billion in 2009 and IDR 1.3 billion in 2011.

Development in product design and quality through exploring the knowledge as the teaching staff in the Indonesian institute of art and experiences makes Adeshya products preferred by the market. The market penetration strategy through Joining trade expo is the success factor behind the increasing trend of sales. Most of sales is contributed by joining trade expo or exhibition. Adeshya has been joining many trade expos but now Adeshya has reduced number of participation of joining trade expos and focused into some trade expo event such INA CRAFT, PPE/TEI, PKBL, IFFINA.

6.3.1 The Role of the Government, Corporation, Agencies

Once again, the local government of Daerah Istimewa Yogyakarta province has tremendous efforts in the Indonesian craft industry cluster especially in the case of Adeshya. The government such as department of trade and industry, department of small -and medium-sized enterprises and cooperative and department of tourism involves Adeshya in various training, e.g., design, product, marketing, business, and information technology. Further, the government is also an information agent for many SMEs development program held by the government or external party. The most important aspect is the government always involves Adeshya in many trade expo in domestics and international expo. Trade expo has the most significant contribution on Adeshya sales.

Corporation has supported Adeshya through corporate responsibility program called PKBL. The PKBL is one of the qualified trade expo event followed by many producer under the technical assistance of the state-owned corporation. Adeshya has enjoyed the regular trade expo event held by the PKBL.

Adeshya has collaboration with international agency of the UNESCO through the program “The UNESCO award excellence for handicraft 2010”. Adesya was the winner of the UNESCO award excellence for handicraft so that it has some benefit, e.g., certificate of excellence, training capacity building, trade fairs and exhibition, communication and promotion, website, and intellectual property and copyright.

6.3.2 Adeshya, Others Players and Association

Adeshya has collaboration on innovation with others craft industry business through participating in the exhibition. Association exporter for handicraft Indonesia organizes exhibition and trade expo for the Indonesian craft industry cluster called INA CRAFT. The association and government invite many potential domestic and international buyers. Adeshya enjoys some profit through participating in the exhibition. Moreover, another association initiate for having joined exhibition with some craft producer where Adeshya participate in and the buyers might do direct transaction. The strategic location in the cluster center of tourism is managed as the main strategy to exhibit the products.

Further, the greatest efforts taken by Adeshya is having collaboration with domestic and international trade expo organizers. Adeshya participates in many domestic and international trade expo. However, not all trade expo is profitable. Some trade expo is profitable and others less profitable. Consequently, Adeshya reduce the frequency of joining trade expo and choose more selective trade expo.

6.3.3 Adeshya and Technology

Adeshya does not need sophisticated technology in process of production. It has been done by hand made with artistic merit. However, Adeshya need information of technology regarding activity of transaction, selling, website, e-mail since the foreign market is the biggest market share.

Overall, The Indonesian craft industry best practices cluster and its innovation co-operation can be explored by this new combination of relationship among government-university-enterprises partnership as presented in Figure 6.

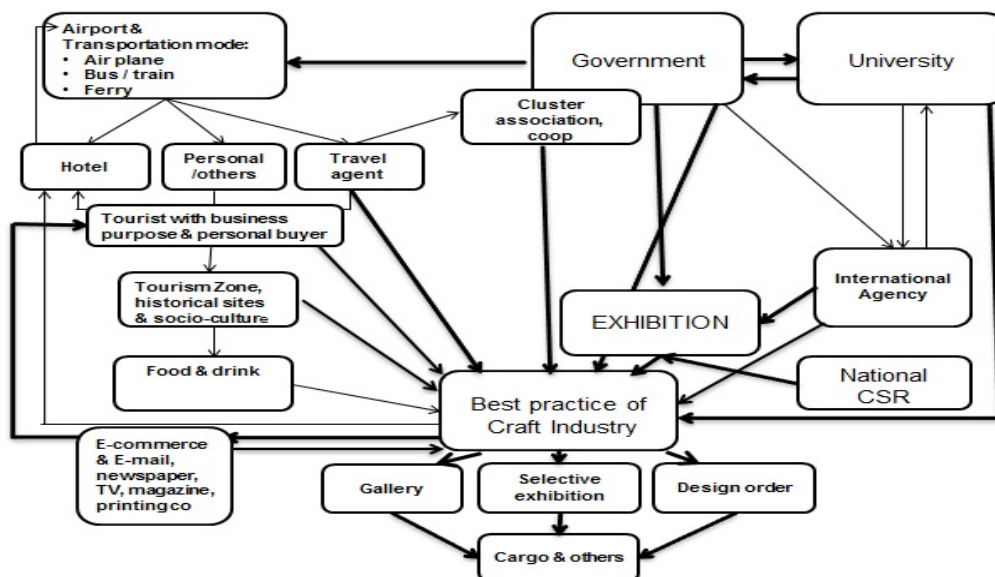


Figure 6 The Indonesian Craft Industry Cluster

6.4 The Importance of Exhibition or Trade Expo

The three best practices have enjoyed profit through exhibition or trade expo. Since they know trade expo is profitable, they join many exhibitions and trade expo every year. Thus, they realized that not all exhibition and trade expo is profitable but few of them. Further, these enterprises consider selective exhibitions and trade expo in order to maximize the profit after couple year's operation of joining exhibition. Finally, they found selective exhibitions as the most effective and efficient way to reach the market since it contributes a significant increase in sales. They agree, the selective exhibition or trade expo are INACRAFT, PPE or Trade Expo Indonesia, IFFINA, PKBL, ICRA. First, the INACRAFT is the largest and most comprehensive handicraft fair in the Southeast Asia, garnering recognition from both national and international buyers with 1,800 exhibitors from Indonesia and overseas and over 1,222 booths covering total area of 24,080 square meters in 2013, held in Jakarta convention center. The show is held over the period of five days around April every year. The show goes a long way in helping participants learn more about the latest market trend and industry development from this sector. The event is divided into two segments: trade days which focus on the business to business aspect, and public days which is an open trade for the public. Second, Trade Expo Indonesia or PPE (previous name of the exhibition), founded in

1986 and held in October every year, is the trade expo to promote the Indonesian export oriented product held by department of trade of the Republic Indonesia. The concept of this exhibition is a multi-product such vehicle auto-parts, cosmetics, drugs, electronics, handicraft, toys, food, furniture, textile, others. There were around 5000 buyers from over 90 countries came into exhibition in 2012. The total transaction achieved US\$1 billion. The organizer invites the buyer in various way: first mail short (FMS), second mail short (SMS), e-mail through database buyer, advertising: in-flight magazine Cathay pacific and Garuda Indonesia, brochures trade expo Indonesia, seminar of export competitiveness, gathering night and one to one meeting with foreign trade representative in different countries to know the market trend.. Third, IFFINA is the only furniture fair from Indonesia at the ASEAN circuit. IFFINA is the only Indonesia furniture event that has contribution with similar international furniture event. Every year IFFINA is visited by multiple thousands of international buyer. Fourth, PKBL BUMN expo held by ministry of state owned enterprises as the CSR programme of state owned enterprises which is attended by 200 SMEs under technical assistance of the state owned corporation. This trade expo helps SMEs in handicraft, agriculture, food and drink, textile, others. There are around 50 to 70 state owned enterprises or corporation involved in the event for assisting SMEs to the domestic and international market. Further, the best practice have experienced to join trade expo in foreign country such Japan, South Korea, emirate union of Arab. They spent great effort in domestic and international expo. For domestic expo, the best practice spends some amount of money depending on the city. However, the best practices find sponsor for having trade expo in foreign country. In conclusion, having qualified exhibition and trade expo should consider regular performance of trade expo, which are the organizer and co-organizer and location.

7. Discussion

The Indonesian craft industry and the Indonesian craft industry best practices cluster have engaged innovation practices in term of product, process, marketing, material and organizational. However, the innovation level varies among the Indonesian craft industrial cluster and the best practices. The innovation practices built through complex relationship among enterprises, other institutions and cluster members. Travel agent is the most important intermediary among other enterprises and airport, hotel industry seem very potential in the future for the industry. Another important actor is international agency through helping to promoting the best practice in the foreign countries.

In terms of regional development, collaboration among industry, government and university is mandatory. Government programs have performed a role in cluster development, but management control of the programs should be a priority. Program distribution among cluster members is a crucial matter. Every member of the cluster should be able to enjoy the fruits of government cluster development programs.

The role of university is also significant in cluster and regional development. It has a bundle of resources to be distributed in the cluster. As we can see in Figure 5, the university has not performed an ideal function as an intermediary of regional development. In contrast, the university has central role in the Indonesian craft industry best practices cluster. In this case, the university has become involved in cluster development based on contract projects from government and other parties, while it has formal and informal limitations to involving itself deeper in the cluster. Executing its mission of community service is crucial. Most best practice graduated from university or others higher education where their education level contributes innovation practices in the cluster.

In addition, the importance of collaboration on innovation among tourism players is undeniable. The

value-added by collaboration may increase competitiveness. In this research case, some innovative craftsmen tend to display their products not only in the gallery, exhibition, website, or the pasarseni (the art market) provided by government. The new trend of collaborating with a hotel and airport seems like a new strategy.

The three best practices have enjoyed profit through exhibition or trade expo. Since they know trade expo is profitable, they join many exhibitions and trade expo every year. Thus, they realized that not all exhibitions and trade expos are profitable but few of them. Further, these enterprises consider selective exhibitions and trade expo in order to maximize the profit after couple year's operation of joining exhibition. Finally, we found that selective exhibitions is the most effective and efficient way to reach the market since it contributes a significant increase in sales. They agree, the most qualified exhibition or trade expo are INACRAFT, PPE or Trade Expo Indonesia (TEI), IFFINA, PKBL, ICRA.

8. Conclusion

Government and university play important role for the Indonesian craft industrial cluster performance. Local and national government actively promote the best practices through cluster development programs. Thus, the government co-operates with universities to develop the Indonesian craft industry cluster in various training and research activities. This co-operation is based on contract projects. Further, universities with its mission of education contribute a bundle of knowledge to the cluster. Best practices in the tourism corridors graduated from local universities or other higher education in the clusters. In this way local university contribute knowledge to the best practices. Thus, they apply it to the business practices.

Building cluster through network with many tourism players and institutions is also crucial. The best practices collaborate with other small- to medium-sized tourism enterprises such as air-port, hotel, travel agents, and MICE industries, etc. The air-port, hotel and MICE industries are exhibition arena with some contract agreements. Further travel agent industry is among the most important channel of innovation since it carries large number of tourists to best practices. Further the best practices have engaged network with other players and institutions in local, national and international level related product, process and market innovation.

Management of exhibitions is found to be the most effective and efficient method for promoting business achievements. We revealed that all best practice apply management of exhibitions every year. The selective exhibition found to be the most effective and efficient method for business achievement

8.1 Limitation and Future Research

Future research will aim to enlarge the number of SMTEs and best practice in industrial cluster to search similar pattern or behavior and segmented according to size, sectors and regions.

Acknowledgment

This study is supported in part by the Directorate General of Higher Education, Republic of Indonesia under BPPLN Scholarship Batch 7

References:

- Acs Z. J. (2002). *Innovation and the Growth of Cities*, Cheltenham: Edward Elgar.
- Acs Z. J. and A. Varga. (2002). "Geography, endogeneous growth and innovation", *International Regional Science Review*, Vol. 25, pp. 132-148.
- Affuah A. (2003). *Innovation Management: Strategies Implementation, and Profits*, Oxford University Press.

- Audretsch D. B. (2007). *The New Entrepreneurial Society*, Oxford: Oxford University Press.
- Audretsch D. B. and M. Keilbach (2005). "Entrepreneurship capital and regional growth", *Annals of Regional Science*, Vol. 39, pp. 457-469.
- Avermaete T., Viaene J., Morgan E. J. and Crawford N. (2003). "Determinants of innovation in small food firms", *European Journal of Innovation Management*, Vol. 6, No. 1, pp. 8-17.
- Barro R. J. (1991). "Economic growth in a cross section of countries", *Quarterly Journal of Economics*, Vol. 106, pp. 407-443.
- Barry C. R. and E. L. Glaeser (2005). "The divergence of human capital level across cities", *NBER Working Paper No. 11617*.
- Becker G. (1964). *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education*, New York: Columbia University Press for NBER.
- Best Michael (1990). *The New Competition*, Cambridge, MA: Harvard University Press.
- Burn T. and Stalker G. M. (1971). *The Management of Innovation*, London, England: Tavistock.
- Department for Culture, Media, and Sport (DCMS) (1998). *Creative Industries Mapping Document*, London, England: Author.
- Drucker P. F. (1985). "The Discipline of innovation", *Harvard Business Review*, Vol. 63, No. 3, pp. 67-72.
- Florida R. (2002). *The Rise of the Creative Class*, New York: Basic Books.
- Florida R., Mellander and K. Stolarick (2008). "Inside the black box of regional development — Human capital, the creative class and tolerance", *Journal of Economic Geography*, Vol. 8, pp. 615-649.
- German Commission for UNESCO (2007). "Training strategies for world heritage management", Bonn, Germany: Author, p. 227.
- Handke C. (2008). "On peculiarities of innovation in cultural industries", in: *15th International Conference on Cultural Economics*, Northeastern University, Boston, MA.
- Hofstede G. (1991). *Cultures and Organization; Software of the Mind*, London: McGraw-Hill.
- Holden N. J. (2002). *Cross-Cultural Management: A Knowledge Management Perspective*, Newbury Park (CA): SAGE.
- Howkins J. (2001). *The Creative Economy: How People Make Money From Ideas*, London: Penguin Books.
- Jacob J. (1992). *The Death and Life of Great American Cities*, New York: Random House.
- Johannessen J. A., Dolva J. O. and Kolvereid L. (1997). "Perceive innovation success in the Russian market", *International Journal of Information Management*, Vol. 17, No. 1, pp. 13-20.
- Kristiansen S., Kimeme J., Mbwambo A. and Wahid F. (2005). "Information flows and adaptation in Tanzanian cottage industry", *Entrepreneurship and Regional Development*, Vol. 17, pp. 365-388.
- Kuster L. and Vila N. (2011). "The Market orientation-Innovation-Success relationship: The role of internationalization strategy", *Innovation: Management, Policy & Practice*, Vol. 13, No. 1, pp. 36-54.
- Lucas R. (2008). "Ideas and growth", *NBER Working Paper Series No 14133*.
- Mellander C. and R. Florida (2007). "The creative class or human capital? Explaining regional development in Sweden", *CESIS Working Paper Series No. 79*.
- Miles I. and Green L. (2008). *Hidden Innovation in the Creative Industries*, London, England: NESTA.
- Morrison A. (2008). "Gate keeper of knowledge within industrial district: Who they are, how they interact", *Regional Studies*, Vol. 42, pp. 817-835.
- Neely A., Filippini R., Forza C., Vinelli A. and Hii J. A. (2001). "Framework for analyzing business performance, firm innovation and related contextual factor: Perception of managers and policy makers in two European regions", *Integrated Manufacturing Systems*, Vol. 12, No. 2, pp. 114-124.
- Nohria N. (1992). "Is a network perspective a useful way of studying organizations?", working paper, Harvard Business School.
- Porter M. E. (1998). "On competition", *Harvard Business Review*, Harvard School Press, pp. 197-287.
- Reich R. B. (1991). *The Work of Nations*, New York: Alfred A. Knopf.
- Rogers E. M. (1998). *Diffusion of Innovation*, New York: The free Press.
- Rothwell R. (1991). "External networking and innovation in small and medium sized manufacturing firms in Europe", *Techno Innovation*, Vol. 2, pp. 93-112.
- Saxenian A. (1991). *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, Cambridge (MA): Harvard University Press.
- Schultz T. W. (1961). "Investment in Human Capital", *American Economic Review*, Vol. 51, pp. 1-17.
- Stoneman P. (2007). *An Introduction to the Definition and Measurement of Soft Innovation*, London, England: NESTA.
- Stoneman P. (2009). "Soft innovation: Towards a more complete picture of innovative change", *NESTA Research Report*, London, England: NESTA, July.
- Van Geenhuizen M. (1995). "Barriers and bridges in technology transfer: Perspective for border region", in: Coccossi H. and P.

- Nijkamp (Eds.), *Overcoming Isolation*, Berlin: Springer, pp. 103-126.
- Van Praag C. M. and P. H. Versloot (2007). "What is the Value of Entrepreneurship? A Review of Recent research", *Small Business Economics*, Vol. 29, pp. 351-382.
- Wright T., Boria E. and Breidenbach P. (2002). "Creative player action in FPS onlinevideo games-playing counter-strike: Game studies", available online at: <http://www.gamestudies.org/0202/wright>.
- Zackariasson P., Walfisz M. and Wilson T. L. (2006). "Management of creativity in video game development: A case study", *Services Marketing Quarterly*, Vol. 27, pp. 73-97.