

**Small and Medium Sized Enterprise (SME) in Social and Political
Context: A Case of Metal-working Industry in Indonesia 1980s-
2015**

Setia Diarta

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Abstract

The literature on SME development is extensive. However, an important question that remains unanswered concerns the relationships among small firms, multinational corporations (MNC), and the government in SME development, especially in developing countries.

The main purpose of this doctoral dissertation is to explore the development of metal-working SMEs and the factors influencing their dynamics in the social and political context of Indonesia.

In order to investigate these issues, I use small firm growth theory, which prioritises their development process, and incorporate the historical perspective in order to comprehend the social and political context. This perspective has proved useful for analysing the development of metal-working SMEs and the factors that have influencing them.

This doctoral dissertation is based on sources obtained from small firm archives, government archives, and MNC archives. In addition, I have also collected information from semi-structured interviews with more than 80 entrepreneurs from four regions on Java Island—such as Jakarta, Bandung, Sukabumi, and Tegal—as well as government ministry officials and a chairperson of a non-profit foundation of a business group in Indonesia.

Studies in business history have discussed the role of SMEs in economic growth and the industrial development process with an emphasis on the economic rationality of such firms. This study confirmed that the growth of SME in Indonesia can be explained partially by such economic factors. However, it also demonstrated that social and cultural factors, especially the family structure of small firms, SME policy, and the linkages between MNCs and SMEs, have played an important role in the development of SMEs, which dominate the industrial structure of Indonesia.

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PART I

Introduction and Overview of SME development in Indonesia

Chapter 1 Introduction

1. Problem statement

Small and medium sized enterprises (SMEs) have long been recognised as key to economic development (Anderson 1982, Mead 1984, Schmitz 1995). The role of SMEs in the process of industrialization and economic development varies according to the type of economy, stage of economic development and industrial sector. Berry and Mazumdar identified the importance of SMEs in developing countries as follows: first, SMEs maintain a large share of the economy in terms of the number of establishments, employees, and the value of output, etc.; second, SMEs contribute to the favourable combination and utilization of production factors (i.e., labour and capital) through the adoption of technologies appropriate for resource endowments and through participation in an inter-firm division of labour; third, SMEs contribute to the establishment of the foundations for industrialization; and fourth, SMEs contribute to a more equal income distribution as a consequence of their larger share in labour earnings (Berry and Mazumdar 1991).

Over the last two decades, the number of scholars interested in SME development has increased dramatically and are no longer in short supply. However, this by no means implies that we know everything about the phenomenon and a coherent, in-depth understanding of SME development still needs to be built. Wiklund et., al. argue that despite the substantial increase in the volume of research, recent literature on SME development suggest that relatively little is still known about the development of SMEs and thus conceptual development has been limited (Wiklund, Patzelt et al. 2009). Moreover, the large number of studies has not yielded much in terms of generalizable knowledge (Davidsson, Achtenhagen et al. 2007). For that reason, research findings on SME development have been far from conclusive.

Even though, the knowledge in this field has been continuously and substantially developed over time, central questions remain regarding the relationship between small firms, multinational corporations (MNC), and government in SME development. An emerging theme in SME development research is that which seeks to provide a contextualized view on what factors, including both internal and external factors, influence the dynamics of SMEs.

SMEs face a series of internal and external factors that have significant effects on their development. According to Morrison, factors that are frequently considered as internal factors include marketing objectives, HR strategies (such as employee motivation, staff turnover and provision of training), leadership styles, investment in R&D and organizational culture. Meanwhile, external factors are categorised into economic, social, political, technological, environmental and legal factors (Morrison 2006). External factors in particular cannot be controlled by SMEs during their development and yet the evidence suggests that SME development is to a certain extent externally determined (Davidsson, Achtenhagen et al. 2007). Examining the effect of the social and political context on SME development in developing countries such as Indonesia offers an opportunity to produce a more sophisticated and specific knowledge on this topic. According to Kok et al. family and friendship networks are one of the social contexts in which SME development takes place (Kok, Vroonhof et al. 2012). As such, an increased knowledge of family structure in SME development shall enrich what we know about the development of SMEs.

Government intervention is another distinctive factor that affects SME development. Policies to promote the development of SMEs are common in both developed and developing countries (Storey 1994, Levitsky 1996, Hallberg 2000). In the case of developed countries, policies or programs have been designed to promote aspects of SMEs as there has been an increase in the importance of SMEs in terms of their contribution to employment and gross domestic product (GDP) growth (Storey 1994). Meanwhile, in the case of developing countries, policies designed to assist SMEs have been a key aspect of industrial policy and multilateral aid programs such as those of the United Nations since the 1950s (Levitsky 1996, Khalid 2015). In Indonesia, SMEs play an important role in poverty alleviation and job creation. Therefore, given the importance of the role of government in SME promotion, research into the relationship between SME policy and SME development is warranted.

Social and political contexts are also of importance to the relationship between multinational corporations (MNCs) and SME, especially in Indonesia. According to the OECD, the linkages between MNCs and SMEs are important issues in SME development (OECD 2005). By encouraging mutually beneficial linkages, MNCs can support SMEs' capacity to engage in linkages and foster partnerships between MNCs and SMEs. Some

scholars have demonstrated that this kind of relationship often manifests itself in subcontracting activities (Sato 2000, Supratikno 2001, OECD 2002, Pantjadarma 2004). Other scholars have shown that the relationship with SMEs forms part of the corporate social responsibility (CSR) activities of the MNCs (Tilley 2000, Spence and Rutherford 2003, Castka, A. et al. 2004, Jenkins 2006, Murillo and Lozano 2006, Larrán Jorge, Herrera Madueño et al. 2016). This kind of relationship arose because of the social gap between the MNC and the SME, and the political impetus for SME development. Thus, it is imperative to analyse the relationship between them fully considering the social and political context in which that relationship is formed and functions.

2. Purpose and research objectives

Considering the uniqueness of the context in the metal-working SMEs in developing countries such as Indonesia, and in the light of significant shortcomings of the research on SME history in this particular context, the general purpose of this doctoral dissertation is:

to explore the development of metal-working SMEs and the factors that influence their dynamics, including the social and political context.

As discussed in the previous section, SMEs cannot control the social and political structures that influence their development. With this in mind, researchers should incorporate the social and political context into their analysis in order to provide a more comprehensive understanding of SME development. In this study, I will investigate the following topics keeping in mind the main factors that influence the dynamics of metal-working SMEs, namely firms, linkages between MNCs and SMEs, and SME policy.

The first topic deals with the relationship between family structure and spin-offs in small metal-working firms. Most small and micro firms throughout the world are family firms (Mandl 2008). Micro- and small-sized family firms strive for multigenerational success (Habbershon and Williams 1999). As part of this process, the family firm often facilitates the establishment of new firms or spin-offs. Despite the obvious importance of the family on business for and creation, etc., the vast majority of business history research has been conducted with economic factors at the heart of the analysis. In this regard, this study strives to increase our understanding of the social and

cultural factors that influence the creation of new firms.

Micro and small firms are very dominant in the industrial sector in terms of their overall number. The spin-offs from family firms have led to a huge growth in the number of micro and small firms in the metal-working industry and have produced a high degree of specialization. In turn, they have also contributed to regional development, bringing about the emergence of new economic regions or metal-working clusters.

With this in mind, the specific research objective of the first topic is the following:

to examine the relationship between family structures and spin-offs and to explore how generational change has influenced the transformation of metal-working SMEs.

Considering that the policy context plays a crucial role in the development of SMEs, **the second topic** investigates the role of government in helping metal-working SMEs. SMEs generate employment, make investments in plant and machinery, and create value through the production of goods and services (Vandenberg, Chantapacdepong et al. 2016). As such SMEs make a significant contribution to the economy and so government takes an interest in their development.

In Indonesia, SMEs have historically been consistently enunciated among the priorities of the Indonesian government (Hill 2001). They stand out in important government documents, such as long-term government plans (RPJP), medium-term government plans (RPJM), and are mentioned in many other official statements. Given the importance of SMEs to economic policy the specific research objective of the second topic of this research is the following:

to examine the government's involvement in the development of SMEs by exploring policy ideas and implementation, and the actors involved in them.

In the third topic, I discuss partnership linkages between MNCs and SMEs. Such partnership linkages – especially with SMEs acting as subcontractors to MNCs – have traditionally been the subject of much interest among scholars and policy makers. According to the OECD, MNCs' foreign affiliates generally seek local supplier relationships to reduce their dependence on intra-firm trade and, over the medium term, are mostly successful (OECD 2002).

Engagement with SMEs as a part of corporate social responsibility (CSR) has been observed in mainstream academic research (Tilley 2000, Spence and Rutherford 2003, Castka, A. et al. 2004, Jenkins 2006, Murillo and Lozano 2006). Such studies have assumed that partnership linkages between MNCs and SMEs have been a part of the CSR activities of MNCs. In this study, I demonstrate that social and political factors can also play an important role in the establishing strong partnership linkages between MNCs and SMEs. The specific research objective related to this topic is the following:

to examine the role of MNCs in the development metal-working SMEs and to explore the way MNCs create partnership linkages with SMEs.

By achieving these three objectives, this doctoral dissertation will contribute a better understanding of SME development, one which incorporates the historical perspective and the social and political context of Indonesia.

3. General context of the research

The need for more detailed studies on SME development is recognised by many scholars. According to Davidsson, a whole range of different factors that have affected the development of firms have been examined in academic research. These factors can be broadly categorised as internal and external factors, and both have an influence on the development of SMEs (Davidsson, Achtenhagen et al. 2010).

In the problem statement section of this doctoral dissertation, I questioned our ability to generalise about relationships among small firms, MNCs and government, without taking into account context and the theoretical implications that context might have. Friedman and Jones stated that there still remains uncertainty regarding the causal relationships between entrepreneurship, innovation, and economic growth (Friedman and Jones 2011). These three elements are linked by the characteristics of entrepreneurs in firms, innovations in the creation of inter-firms networks, and economic growth that requires government intervention. These three elements are present in metal-working SMEs in Indonesia.

Studies that account for the significant social and political situations in which SME development takes place provide distinctive research results. First, Stanworth and Curran offered a new perspective on the social processes involved in the growth and

development of the small firm (Stanworth and Curran 1976). They argue that the key to growth lies in the meanings attached to participation in the firm by the actors involved; a social action perspective that links the meanings and actions of participants in the small firm with their wider social environment. Second, the importance of SMEs to the economy of a country indicates the degree of importance of SME-supporting government policies, including regulations that enable them to operate efficiently and regulations that reduce their administrative costs (Harvie and Lee 2005). Although there have been initiatives by governments to promote and support SMEs in order to enhance their development and reduce poverty, there is still a lack of legislation and genuine administrative procedures such as the accessibility to assistance from government agencies (Harvie and Lee 2005).

Moreover, there is an urgency for extending the historiography of SME development to the cases of developing countries such as Indonesia. Studies of the developed world abound, so only by incorporating the developing world into the historiography of SME development will the field be both inclusive and comprehensive. In this doctoral dissertation, I employ a historical perspective and incorporate three derivatives of the social and political context in Indonesia into my analysis. Firstly, I examine spin-offs from the family firm (Colli and Larsson 2014), where the rule of succession of family assets becomes an important issue. Secondly, I examine the policy of social benefit (Khalid 2015), under which SMEs are mainly promoted so as to foster job creation and equality along ethnic lines. Finally, I examine subcontracting ties (OECD 2002), the social gap and mandate of legislation which are influencing factors in the creation of partnership linkages between MNCs and SMEs.

In order to examine the spin-off phenomena, I use 68 cases of micro and small firms from the industrial agency in two industrial districts in Indonesia. In addition, I conducted on-site interviews with the owners of firms in 2016 and examined several of the firms' documents to compare and verify the interview results with them. In relation to the policy of social benefit, I visited and interviewed thirteen small firms, collected materials from the central archives of the Ministry of Industry, and interviewed the director general of the SME section, the secretary general, and the head of training centre. In relation to relationship between MNCs and SMEs, I visited the largest business group in Indonesia, PT Astra International, and its non-profit foundation, Yayasan Dharma

Bhakti Astra (YDBA) and met three members of medium-sized firms in YDBA for interviews.

4. Theoretical background

Despite the large number of SMEs in the economy, most start small and stay small for the remainder of their existence (Birley and Westhead 1990, Davidsson, Lindmark et al. 1998, Garnsey, Stam et al. 2006). Growing firms make a considerable contribute to the economic development by generating jobs, tax revenue, and by fostering innovation (Acs 2006, Autio 2007). Ever since Birch forecasted that most new jobs would be generated by the growth of small firms established by entrepreneurs, the growth of such firms has been a popular topic, not least among policy-makers (Birch 1981).

In the last few decades, a large number of studies have focused on business growth and with an increasing interest in small firms in particular. A wealth of empirical research on this topic has been accumulated and these studies represent a variety of academic fields, including entrepreneurship, strategy, organizational theory, and industrial economics (O'Farrell and Hitchens 1988, Storey 1994, Ardishvili, S. Cardozo et al. 1998, Gilbert, McDougall et al. 2006, Coad 2007).

Davidsson et. al. identified a number of key themes in the study of SME growth: conceptualizing small firm growth; assessing small firm growth; identifying the factors that drive or hinder growth; modes of growth, growth stages and transitions; and the effects of small firm growth (Davidsson, Achtenhagen et al. 2010). Among these themes, this doctoral dissertation examines the factors that drive or hinder SME development.

A whole range of different factors concerning development have been studied by scholars. Porter highlighted the strategic choices made by firms as one of the key factors in their development (Porter 2008). According Porter, the main strategic issue in an emerging industry is the firm's ability to shape the structure of the industry. Through its choices, firms can try to establish rules of the game in various areas such as product policies, marketing approaches, and pricing strategies. Within the barriers set by the underlying economic situation faced in the industry and its resources, firms should strive to define the rules in the industry that will produce the strongest possible position for it in the long run. Meanwhile, Chandler and Hanks emphasised environmental aspects in understanding firms' opportunities for development (Chandler and Hanks 1994). In their

studies, they assess the environmental aspects within which firms operate to provide estimates of the quality of an opportunity and the availability of resources. For their assessment, they used environmental aspects such as: (1) product quality, customer service, and marketing approaches; (2) the products/services themselves; (3) major competitors; (4) whether the industry is in an early, high-growth stage of development; (5) firms that have been well established for years; and (6) substantial untapped market demand. In general such factors can be categorised as internal and external determinants (Davidsson, Achtenhagen et al. 2010).

Storey categorised such factors as *the entrepreneur, the firm and strategic factors* (Storey 1994). The entrepreneurial factor includes elements of *motivation, education, management experience, social marginality, the number of founders, functional skills, prior sector experience and prior firm sector experience*, all of which can have a positive impact on small firm development. Meanwhile, firm-related factors include elements of *the market, legal form, location, and ownership* which can have a positive influence on small firm development. Lastly, strategic factors include *technological sophistication, market positioning, the introduction of new products, management recruitment* which can all be important elements in the development of small firms.

Meanwhile, the macro-environment consists of economic, socio-demographic, political, physical, international and technological factors over which firms have essentially no control. There is considerable evidence to suggest that improving the regulatory environment can have a positive influence on the growth and survival of new and small enterprises. Gnyawali and Fogel argued that the environment is actually more important for small businesses than large businesses as the latter have a better chance of influencing it (Gnyawali and Fogel 1994). The environmental factors Gnyawali and Fogel identified as particularly important included government policies, socio-economic conditions, the availability of business skills, and financial and non-financial assistance. Evidently, their classification of environmental factors includes both internal and external variables.

Dana found that keeping regulations to a minimum, offering tax and other incentives, and providing training and counselling services increased the likelihood of new venture start-ups and stimulated growth (Dana 1998). Young and Welch found that Mexican entrepreneurs face many obstacles such as a lack of financial assistance and

business-related information, unnecessary taxation and a soaring inflation rate (Young and Welch 1993).

Most of those studies have used cross-sectional designs and quantitative methods (usually multiple regression) to explain single episodes of growth measured over short intervals of time. These have generally yielded weak explanations and are unable to say anything at all about why development was embarked upon in the first place. In contrast to such studies, in this doctoral dissertation I examine the process of small firm development, creation of partnership linkages between MNCs and SMEs, and the process of government intervention in SME development by applying the historical method.

5. Anticipated contributions

The anticipated contribution of the present study is threefold:

First, the doctoral dissertation reveals the importance of qualitative investigation concerning the history of SME development in their social and political context. The results derived from this doctoral dissertation can be useful in furthering understanding in this field, and they enrich the current state of the conceptual debate on SME development. Moreover, this study was conducted utilising various sources, such as government reports, and those collected from the archives of SME firms and MNCs. Semi-structured interviews were also conducted with SME owners, government officials and the chairperson of the non-profit foundation of a business group. Such diverse sources enrich and add to the originality of this study.

In the study, I examine the influence of family structure on spin-offs in two industrial districts in Indonesia. Spin-offs of small family firms are quite common in Indonesia, especially for micro and small firms located in rural areas. A spin-off is an important approach to family survivability and conflict avoidance among family members.

Most studies on family firms and spin-offs, especially for large firms, have been conducted on industrialised countries such as the United States (Scranton, 1993), Italy (Colli and Larsson, 2014), and Japan (Rose and Ito, 2005). These studies suggest that spin-offs from the family firm are initiated for economic reasons or firm strategy. This study, by contrast, provides a much need focus on an industrialising country and argues that spin-offs are not only economically driven, they are also influenced by social factors.

Concerning government intervention regarding metal-working SMEs, this study indicates that government programmes that countered the economic crisis in 1997-2004, can also be implemented at present especially for the purposes of the alleviation of poverty and reducing income inequality. The government's motivation has also been to use such policy as one way to encourage equality along ethnic lines.

Regarding partnership linkages between business groups, this study shows that MNCs and SMEs relationships can involve "talent scouting" by MNCs in search of capable SMEs that can serve as suppliers to their subsidiaries. In addition, the social and political factors in the way of MNCs has created cooperation that in turn strengthened the metal-working industry's structure.

This study also provides policy makers with valuable insight into SME development. Together with MNCs, policy makers can design an integrative programme to assist the development of SMEs. While MNCs assist SMEs by providing greater market access and creating production linkages, policy makers can do so via financial access and technical support. A better understanding of SME development can help avoid overlapping assistance from MNCs and policy makers.

For entrepreneurs of small firms this study provides valuable insight into the determinants of development and barriers to doing business. This study indicates how they can enjoy growth making the most of the available assistance from the government and MNCs. It stresses the importance of considering advantageous linkages, not only partnership linkages with MNCs, but also networks with other small firms.

6. Structure of the Doctoral Dissertation

This dissertation is divided into three parts, comprising six chapters in total. Part I contains this introduction (Chapter 1) and a chapter providing information on SME development in Indonesia (Chapter 2). Part II forms the main content of this dissertation and focuses on factors that influence SME development. It consists of chapters that examine the firm (Chapter 3), government (Chapter 4), and MNCs (Chapter 5). Part III offer the concluding remarks of this study (Chapter 6).

In order to achieve its objectives, this doctoral dissertation is designed around several topics, departing from existing literature on SME development. It exclusively focuses on three important factors regarding SME development, namely: the family firm

and industrial district, SME policy, and MNC-SME linkages.

However, before getting into these core topics, I provide essential background information related to SME development in Indonesia. Hence, the next chapter offers an overview of SME development in Indonesia. It presents general insights related to the overall economic and social situation in the country from 1984 up until 2015.

The third chapter of this study is titled “Family Structure and Spin-offs: A Study on Micro and Small-sized Metal-working Firms in Indonesia, 1980s-2015” which was published as an article in AGST working paper series (<https://agst.jgp.kyoto-u.ac.jp/workingpaper/1436>). The initial draft of that chapter was presented at Glasgow in 2017 during the annual conference of the Association of Business Historians.

The fourth chapter is entitled “Small and Medium Enterprise (SME) Policy for Social Benefit” and the initial draft of the chapter was presented in 2016 at Tokyo during the 52th Congress of the Business History Society of Japan.

The fifth chapter consists of an article titled “Social and Political Factors in Tripartite Relationship between Business Group, Multinational Corporation and Small Firm: The Case of P.T. Astra International” which will be submitted for publication in an extended version.

Finally, in the conclusion the author summarises and discusses the main results of this research. It concludes by demarcating the limitations of this research and highlighting future lines of enquiry.

Chapter 2 SME Development in Indonesia: An Overview

1. Definition of SME

The definition of what constitutes an SME in Indonesia varies widely. BPS (Statistics Indonesia) defines firms with four or less workers, those with 5 to 19 workers and those with 20 to 99 workers as Micro Enterprises (MiEs), Small Enterprises (SEs), and Medium Enterprises (MEs), respectively. The Indonesian Ministry of Industry (MOI) defines manufacturing SMEs on the basis of the value of their assets (excluding land and buildings). In this rendering, firms with assets of less than IDR 200 million are MiEs and those with assets of IDR 200 million to IDR 5 billion are SMEs. The 2008 Law on Micro, Small and Medium Enterprises, which aimed to foster SMEs for the purpose of promoting a fair and equitable society, defines MiEs as firms with assets (excluding land and buildings) of less than IDR 50 million or with sales of less than IDR 300 million; SEs as firms with assets of between IDR 50 million and IDR 500 million or with sales between IDR 300 million and IDR 2.5 billion; and MEs as firms with assets between IDR 5 billion and IDR 10 billion or with sales between IDR 2.5 billion and IDR 50 billion. This definition has also been used by Bank Indonesia, the Central Bank, and by the State Ministry of Cooperatives and Small & Medium Enterprises (MoCSME).

In Indonesia, SMEs are dominated by household industries (micro industries) that are mostly located in rural areas and serve as a sideline activity often involving the use of unpaid family labour. Less than 5 percent of SMEs are said to be modern SMEs, i.e. those which operate small-scale factories and employ paid labour. The focus of this dissertation is on modern SMEs in the manufacturing sector who employ between 5 and 100 workers.

SMEs in the metal-working industry match these criteria. The metal-working industry itself is characterized by the divisibility of the production process. The production process itself depends on the product type, whether producing individual parts, doing assembly work, or making large-scale structures. The metal-working tends to have too many production processes and can easily be divided into several operation stages. According to the International Standard Industrial Classification of All Economic Activities (ISIC) Revision 2, these industries are classified as industries encompassing the *Manufacture of fabricated metal products, machinery and equipment* (ISIC 38). ISIC 38 includes the manufacture of machinery and equipment that act independently on

materials either mechanically or thermally or perform operations on materials (such as handling, spraying, weighing or packing), including their mechanical components that produce and apply force, and any specially manufactured primary parts. This includes the manufacture of fixed and mobile or hand-held devices, regardless of whether they are designed for industrial, building and civil engineering, agricultural or home use. ISIC 38 distinguishes between the manufacture of special-purpose machinery, i.e. machinery for exclusive use in an ISIC industry or a small cluster of ISIC industries, and general-purpose machinery, i.e. machinery that is being used in a wide range of ISIC industries.

In addition, metal-working SMEs are generally owned by domestically and they are spread across Java Island which has been renowned as a major ISIC 38 location in Indonesia.

2. Profile of SME

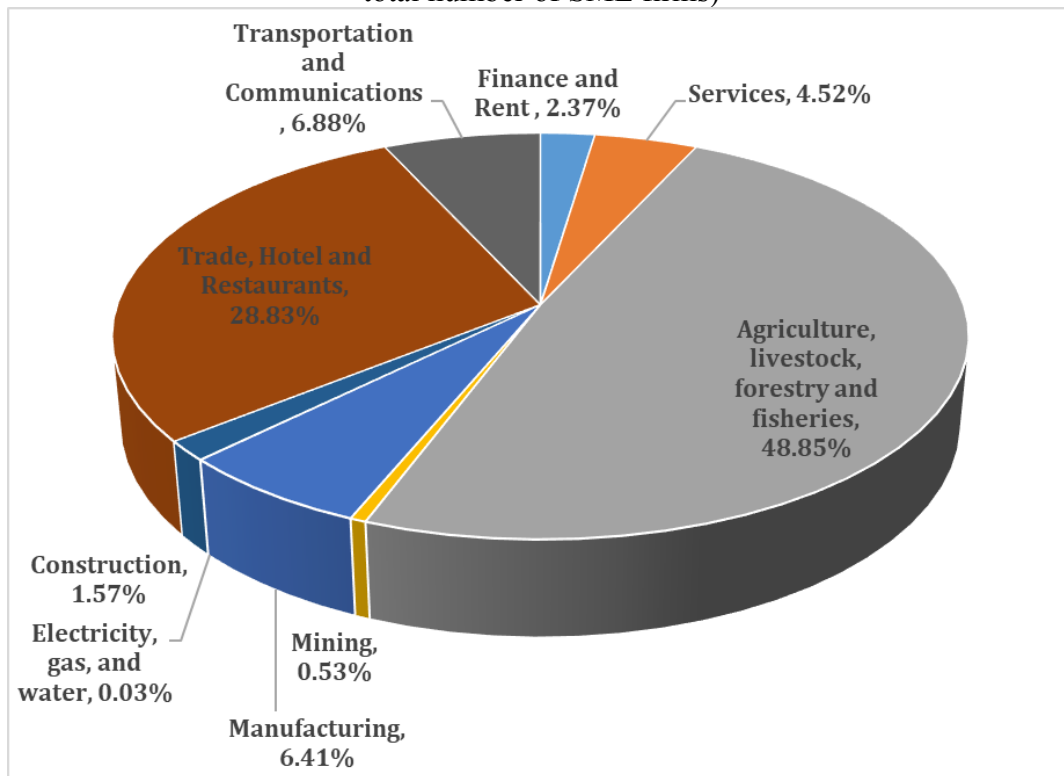
This section outlines the importance of SME development to Indonesia by considering the contribution of SMEs to Gross Domestic Product (GDP), identifying the sectors in which SMEs are dominant, and the role of SMEs in providing employment.

2.1 Dominant sectors of SME

In Indonesia in 2011 there were 55,206,444 SME firms. The economic sectors with the largest number of SME firms were in order of importance: (1) Agriculture, Livestock, Forestry and Fisheries (48.85 percent); (2) Trade, Hotel and Restaurant (28.83 percent); (3) Transportation and Communication (6.88 percent); (4) manufacturing (6.41 percent); and (5) Services (4.52 percent) (Figure 1).

Meanwhile, the economic sectors that accounted for the smallest proportion of SMEs were: (1) Finance, Rent and Corporate Services (2.37 percent); (2) Constructions (1.57 percent); (3) Mining and Quarrying (0.53 percent); and (4) Electricity, Gas and Water Supply (0.03 percent).

Figure 1 SMEs Firms in Indonesia by Economic Sector in 2011 (percentage share of total number of SME firms)

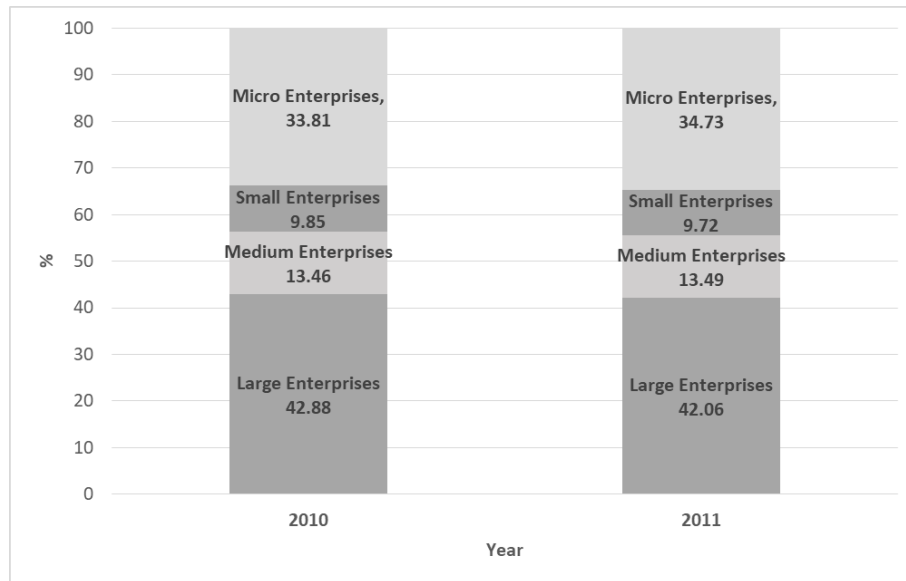


Sources: (Ministry UMKM 2015), processed by author

2.2 SME contribution to GDP

SMEs account for 99.99 percent of the total number of firms in Indonesia or 56.54 million business units (Ministry UMKM 2015). SMEs contribute 60 percent of GDP and create jobs for the community. According to Figure 2, from 2010 to 2011, there was an increase in the GDP contribution of SMEs and a respective decline in the contribution of large enterprises (LEs). In 2010, LEs contributed 42.88 percent of GDP and in the following year 42.06 percent, representing a declining share of 0.82 percent. The contribution of medium enterprises (MEs) to GDP stood at 13.46 percent in 2010, and marginally increased by 0.03 percent to 13.49 percent in 2011. In contrast, in the same year small enterprises (SEs) saw a slight decrease in their contribution to GDP from 9.85 percent in 2010 to 9.72 percent in 2011. The contribution of micro enterprises (MiEs) to GDP, however, grew from a 33.81 percent in 2010 to 34.73 percent in 2011, an increase of 0.92 percent.

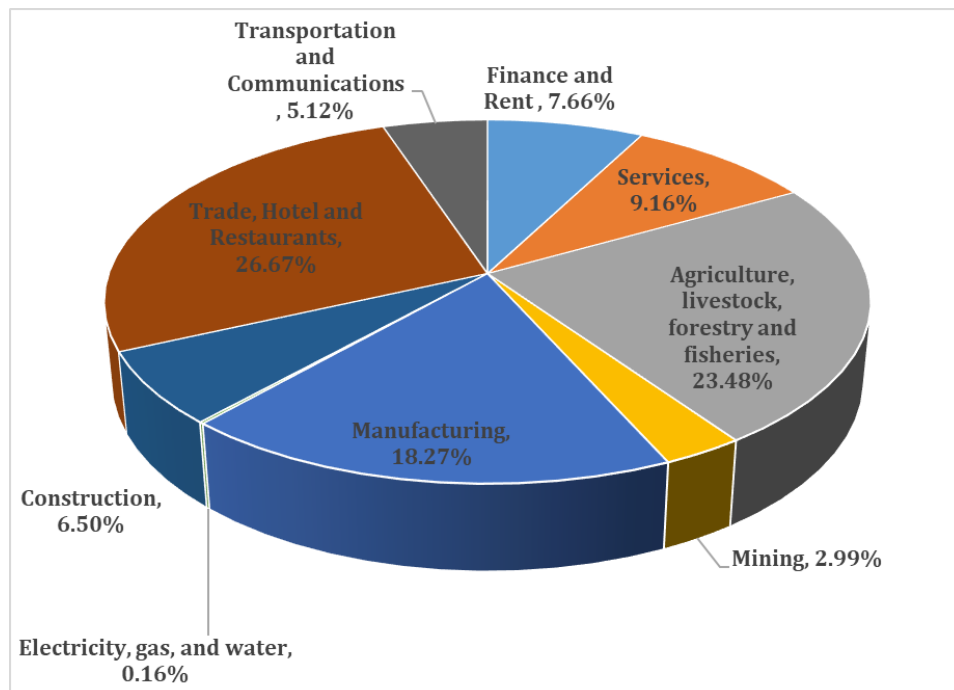
Figure 2 The development of LEs and SMEs in 2010 – 2011 (GDP Contribution)



Sources: (Ministry UMKM 2015), processed by author

Figure 3 shows a sectoral breakdown of the contribution of SMEs to GDP in 2011. The largest contributions are made in the following sectors: (1) Trade, Hotel and Restaurant (26.67 percent); (2) Agriculture, Livestock, Forestry and Fisheries (23.48 percent); (3) Manufacturing (18.27 percent); and (4) Services (9.16 percent).

Figure 3 SME contribution to GDP by Economic Sector



Sources: (Ministry UMKM 2015), processed by author

2.3 Employment in SME

In terms of employment, in 2011 SMEs employed 101 million workers, or in other words, SMEs absorbed 97.24 percent of Indonesia's workforce. Within this the employment contribution of MiEs accounted for 95 million workers or 90.77 percent of the workforce; SEs employed 4 million workers or 3.55 percent of the workforce; and MEs employed 3 million workers or 2.72 percent of the workforce. The remainder were employed in LEs (Ministry UMKM 2015). For MiEs, the Agriculture, Livestock, Forestry and Fishery sector played the biggest role in the absorption of workforce, with 42,543,128 workers or 44.80 percent of the total absorbent workforce of MiEs employed in this sector. The economic sector that employed the largest number of workers among SEs was the manufacturing sector with 1,162,195 workers or 29.65 percent of the total workforce employed by SEs. Among MEs too, it was the manufacturing sector that absorbed the most with 1,231,298 workers or 43.28 percent of the ME total employed in that sector (Ministry UMKM 2015).

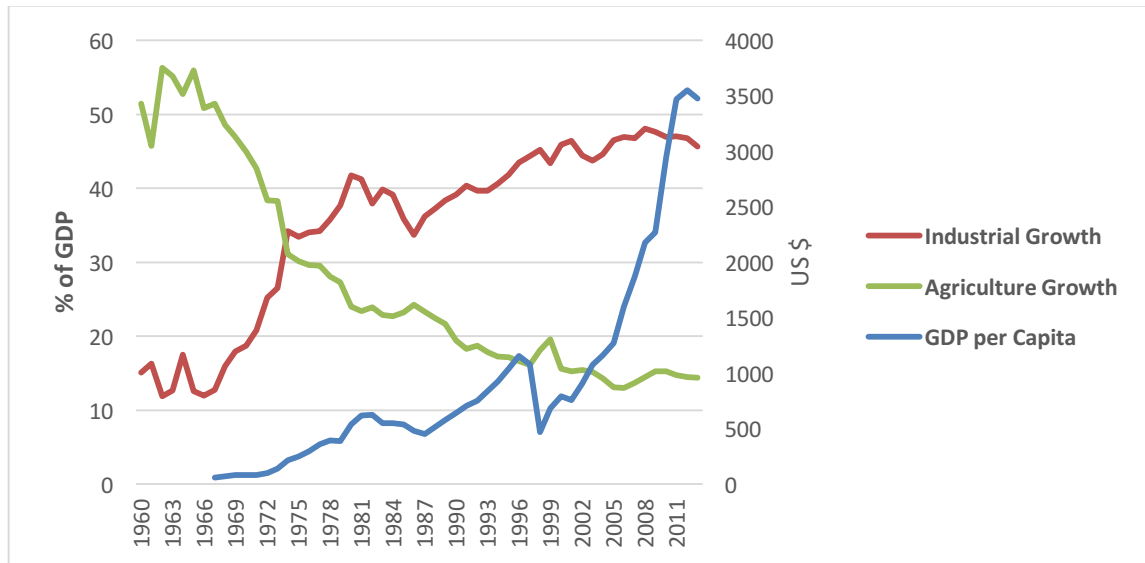
3. Industrial growth in Indonesia

In this section, I will discuss the history of industrial/manufacturing development in Indonesia, covering both SMEs and LEs.

3.1 The growth of industrial sector

The development of industry in Indonesia began in earnest in the late 1960s. Until the end of 1973, the Indonesian economy was essentially dependent on the agricultural sector rather than the industrial sector. Figure 4 indicates that in 1974 the industrial sector finally surpassed the agricultural sector in terms of share of GDP and also portrays the growth of per capita GDP in Indonesia. The higher contribution of the industrial sector to GDP signalled a significant change in the economic structure of the country from agriculture to industry. When the industrial sector overtook the agricultural sector, GDP per capita also increased. Indeed, GDP per capita more than doubled between 1984 and 1996 from US\$550 to US\$1,153. This was disrupted by the financial crisis in the period 1997-2004 which saw GDP per capita decrease to US\$ 679 in 1999—recovering only in 2004. Moreover, in the period of 2005-2013, GDP per capita in Indonesia increased three-fold from US\$1,160 in 2004 to US\$3,475 in 2013.

Figure 4 Industrial growth, agriculture growth, and GDP per capita growth



Sources: (BPS, processed by author)

3.2 The development of industrial structure

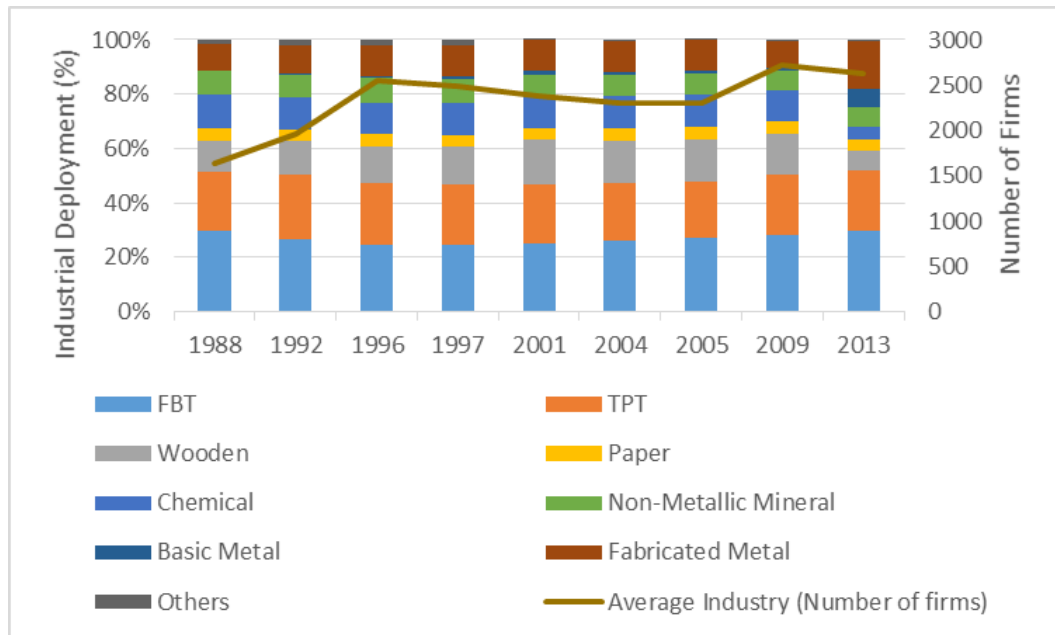
Figure 5 shows that from 1988 to 1996, the number of large and medium firms in industrial sector grew by about 2.8 percent per year. After that most of the industrial sector declined with the national average growth rate falling by 0.7 percent annually between 1996 and 1998. After 1998 growth was relatively flat and kept edging down through until 2004. In the period 2005-2013 national the average growth rate fell to 0.9 percent per year.

The industrial situation in Indonesia was relatively unchanged between 1984 and 2013. According to Darmin¹, the existing structure of industry in Indonesia is not yet of a kind that is able to support the full development of the national economy, because economic growth in Indonesia has simultaneously triggered a surge in imports of raw material or intermediate goods.

Around 70% of the industrial sector in Indonesia is composed of labour-intensive industries in which value added is relatively low. Yet whilst the creation of value added is relatively small in this sector, the large number of firms and their contribution to the economy renders them very important for the Indonesian economy and society.

¹ Jurnal Nasional (Newspaper), Industry structure in Indonesia Still Weak (Struktur Industri Indonesia Masih Lemah), September 1st, 2012 (<http://www.kemenperin.go.id/artikel/4299/Struktur-Industri-Indonesia-Masih-Lemah>, accessed on March 15th, 2015).

Figure 5 Changes in the number of medium and large industries according to ISIC (in percentage and number)



Sources: (BPS, processed by author)

*FBT: Food, Beverage, and Tobacco's; TPT: Textile and Product Textile

Considering the fact that since the beginning of Repelita III², the growth of SMEs has been geared towards filling certain gaps and simultaneously contributing to equity and strengthening the structure of industry³, it is not surprising that the growth of the SME sector was also dominated by the FBT, TPT, and wooden industries, as shown in the Figure 6.

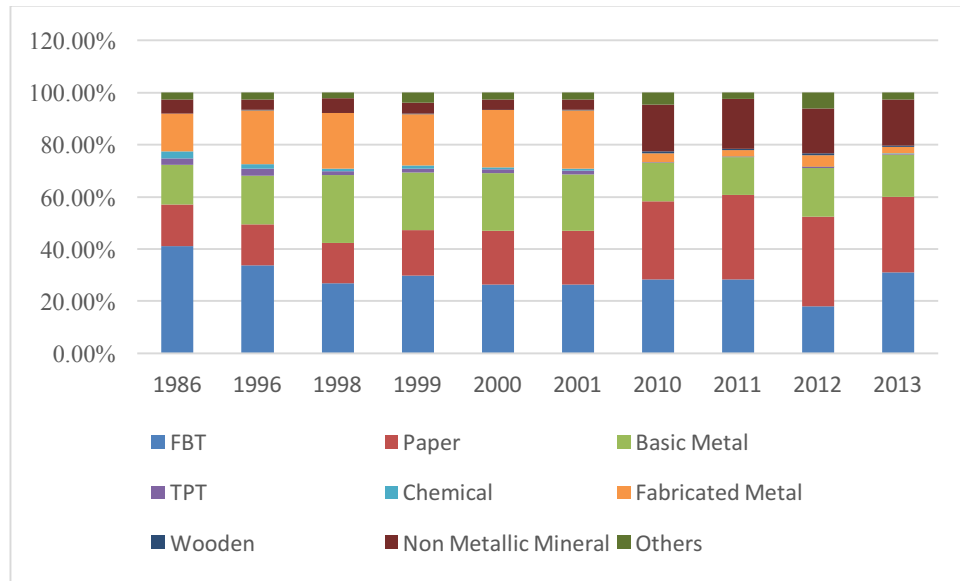
3.3 Employment in the industrial sector

When we focus on the number of industries and workers in the industrial sector, it is evident that the industrial sector is important in terms of jobs creation. Unfortunately, when the formal educational background of workers absorbed in the industrial sector is considered, the picture is not entirely positive. Data from 2002 showed that approximately 37 percent of workers in this sector had no more than a primary school education and only 34 percent had obtained education at the Junior High School and Senior High School levels.

² REPELITA III is The Third Long-Term Development Plan in Indonesia. This terminology was famous in "New Order" periods.

³ Bappenas [1982] "Five Year-Plan III (REPELITA III)", page VIII/32

Figure 6 Changes in SME Structure



Sources: (BPS, processed by author)

The industrial sector has an important role to play in addressing the challenges of development in employment. One of the advantages of this sector has been the continual increase in employment of the workforce. Each year the employment in this sector has tended to grow across large, medium and small firms alike.

The period 1984-1996 saw employment in industrial sector (large, medium, small, and micro) almost double from 7.2 percent to 12.2 percent of total employment. At this time, government policy placed more emphasis on labour-intensive industries such as TPT, FBT, and wooden industries, and as part of its pursuit of equitable distribution it sought the creation of new SMEs⁴.

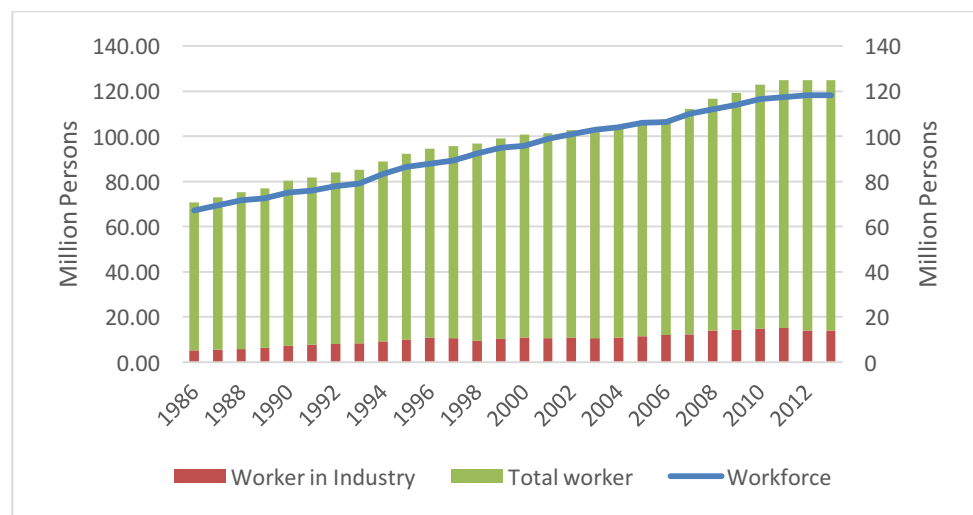
However, in 1997 employment in the industrial sector declined to 11.5 percent of total employment and in 1998, it fell further to only 10.2 percent. Moreover, in the period of 1997-2004, the number of industries tended to decrease (to below the 1996 level), hence the number of workers absorbed also saw a declining trend. These trends were a result of the monetary crisis that hit Indonesia and resulted in many layoffs. The impact of this crisis was not limited to the industrial sector; it had a negative impact that was felt across the Indonesian economy. This period also saw political instability with four changes in president further compounding the negative impact of the crisis on the

⁴ Bappenas, [Various Repelita Documents (Repelita III: Chapter 6 and 10; Repelita IV: Chapter 7 and 11; Repelita V: Chapter 7 and 11; and Repelita VI: : Chapter 12 and 20)]

Indonesian economy, including the industrial sector.

In the period of 2005-2013, the performance of the industrial sector picked up and it again managed to absorb more workers. In response to the Millennium Development Goal (MDG) programme, the government identified three pillars of its social-economic development strategy, namely: (1) Pro-Growth; (2) Pro-Job; and (3) Pro-Poor. With regards to the Pro-Job and Pro-Poor parts of its strategy, the government encouraged new entrepreneurs through its SME development programmes. SME-related entrepreneurship was encouraged because the development of SMEs was associated with the reduction of unemployment and poverty. The number of workers in the industrial sector increased accordingly in this period. The detailed pattern of employment in the industrial sector (large, medium, small, and micro) can be seen in Figure 7.

Figure 7 Changes in number of workers in industrial sector



Sources: (BPS, processed by author), Worker in industry including Large, medium, small, and household industry

3.4 The growth of foreign direct investment (FDI)

As a developing country, Indonesia needs significant funding to further its national development. The thirst for funds is due to its effort to catch up with developed countries, both regionally and globally. In addition to the efforts to find domestic sources of financing, the government has also solicited foreign sources of finance, one of which is Foreign Direct Investment (FDI).

Before the Asian Economic Crisis of 1997/1998, Indonesia was passing through a significant change in its economic structure, transitioning from a largely agricultural into a newly industrialised economy, with the manufacturing sector serving as the driving

force of economic growth. At that time, the government had successfully created a process of rapid economic development, and Indonesia was viewed as a promising economy in the Southeast Asian region. One of the government's strategies was to invite foreign investors to Indonesia. In particular, it sought long-term investments (FDI) which were anticipated to encourage growth in manufacturing. However, FDI in Indonesia remained dull because some sectors of the economy were kept off limits from foreign investment.

In the 1980s, FDI was directed so as to help Indonesia utilize its resource potential (human and natural); increase non-oil exports (especially from the manufacturing sector); distribute the gains of development; and provide business opportunities to sectors that produced indispensable goods, had export potential, required large investment and/or technology. FDI was also directed in a way that would not harm the economic interests or inhibit the development of State Enterprises⁵. For MNCs, the main reasons to establish a production base in Indonesia were the huge domestic market, low labour costs, and availability of natural resources. In May 1995, seeking to further encourage FDI, the government opened up several business sectors that had formerly been closed to investment, such as the palm oil industry, finished/semi-finished rattan, motor vehicles, etc., and investment in airport services, including aircraft maintenance.⁶

During the crisis period, many companies withdrew their investments from Indonesia, and this continued through to 2003. Since 2004, the structure of FDI in Indonesia has been more focused on downstream industries, especially household consumption goods, because they have proved more profitable. Consumer goods industries included apparel and textiles, food, beverages and tobacco, motor vehicles, as well as electronic goods.

Industrial development in Indonesia, particularly manufacturing, cannot be separated from FDI, especially that pursued by MNCs. Across the periods discussed, many emerging industries were born, some taking the form of joint ventures between a local firm and a MNC and others fully owned by MNC. There were also many local firms, particularly SMEs that emerged as suppliers for MNCs.

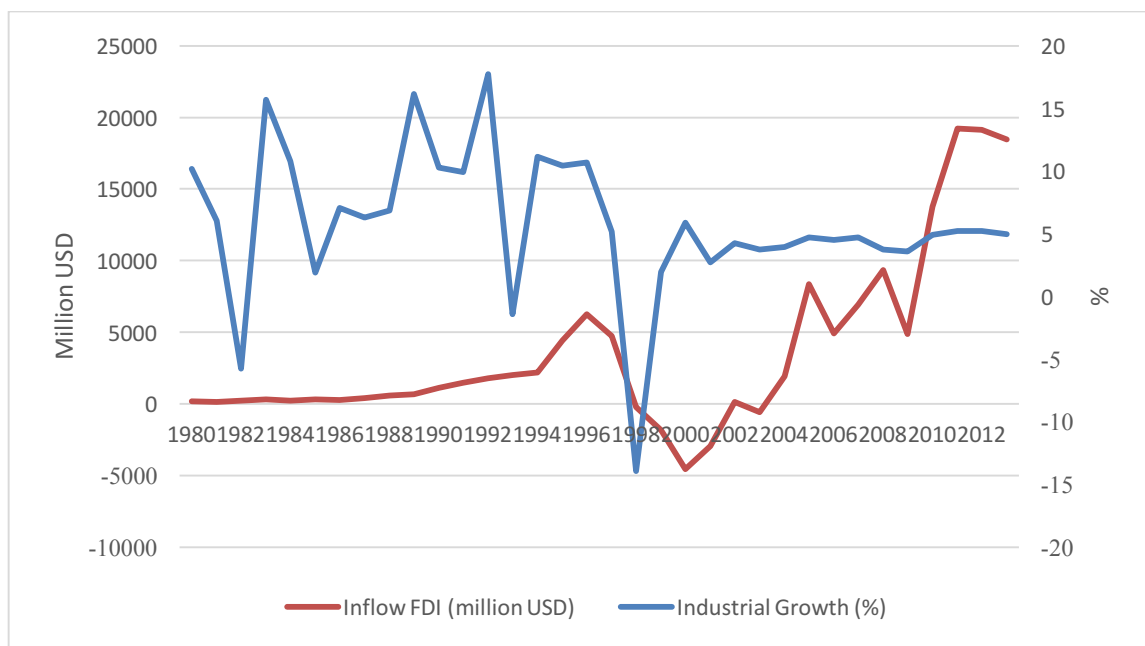
Figure 8 shows that Indonesian industry is highly dependent on FDI. It can be

⁵ Bappenas [1985] *The President's Accountability reports to Representatives*. Jakarta. Ch III, pp. 3.

⁶ Bappenas [1996] *The President's Accountability reports to Representatives*. Jakarta. Ch VI, pp. 9.

observed that the larger the increase in FDI the industrial sector, the larger its growth will be. According to the Indonesian Investment Broad, the contribution of FDI to the industrial sector in 2005 was 63 percent of total FDI in Indonesia, and this led to industrial growth of 4.7 percent, compared to 3.9 percent in 2004 when 44 percent of total FDI went to the industrial sector. When FDI in the industrial sector fell in 2008 (25 percent), negative growth of 3.7 percent was the result.

Figure 8 FDI and industrial growth



Sources: (BPS and Bank of Indonesia, processed by author)

Until early 1984, the government continued to strengthen and deepen the Indonesia's industrial structure, involving MNCs in the development process. Furthermore, the production activities of MNC's developed through a stable production system that could be supported and strengthened by SMEs. However, until the end of 1990, the role of SMEs was still weak in this respect ⁷, as it remained largely limited to the linking of MNCs and SMEs for the procurement of raw materials and marketing of products. At the time there was no integrated connections between MNCs and SMEs that saw them link as sub-contractors. Pantjadarma has shown that the subcontracting relationship between SMEs and MNCs in Indonesia was weak, because SMEs were unable to meet the quality standards that MNCs required (Pantjadarma 2004). He did,

⁷ Bappenas [1990] "Presidential Decree No. 21/1984 on Five Years Plan V (Repelita V), page 24.

however, agree that MNCs could play an important role in Indonesia in terms of increasing the capabilities of SMEs.

4. SME policy

Most official documents emphasize the importance of SMEs as a means of generating employment, achieving greater equality through a more diverse ownership structure in business, promoting rural and regional development, providing a basis for entrepreneurial development, and redressing the perceived ethnic imbalance in business ownership.

Hill divided policy instruments in Indonesia into three areas: (1) financial assistance; (2) technical assistance; and (3) regulation. With regards to financial assistance, several programmes remain important, as they had in the past, and many of these were introduced to assist SMEs. Some involved subsidized credit (whose importance peaked during the oil boom period of 1973–82), and others were based on requirements that banks allocated a certain percentage of their portfolio to these firms. With regards to technical assistance, this typically involved training schemes, industrial extension services, specialized vocational programmes, and domestic and international marketing advisory services. Usually these programmes are available free of charge to SMEs. Finally, in the area of regulation, the government experimented with a variety of programmes based on compulsion. These included enforced subcontracting schemes (mainly in the automotive and electronic industries) known as so-called *Bapak Angkat* programmes, whereby larger firms (particularly state enterprises) were required to sponsor and promote local SMEs. There were also preferential government procurement programmes and reservation schemes in which only firms of a certain size would be authorized to produce specific goods. In addition, cooperatives have been promoted with varying degrees of vigor.

5. Discussion

In Indonesia SMEs have historically been the main player in the domestic economy, as they have provided a large number of employment opportunities and have contributed greatly to GDP. They generally account for more than 90 per cent of all firms across sectors and provide the largest source of employment, thus supporting the livelihood of over 90 per cent of the country's workforce, especially the young.

With regard to output growth, the annual growth rate of SMEs has always been higher than that of LEs. However, this is not because the level of productivity (be it labour or total factor) observed in SMEs is higher than in LEs; rather it is mainly a result of the number of SME category units which far exceed that of LEs. Among SMEs, SEs and MIEs output growth rates are lower than the equivalent for MEs.

The structure of enterprises by size category indicates that the majority of enterprises across all sectors fall into the SME category, indeed these are mainly MIEs. Whereas, the sectoral distribution of SMEs shows that the majority of these enterprises in Indonesia are involved in agriculture (Figure 1). The second largest sector is trade, hotels and restaurants, the third is transportation and communications, and the fourth is manufacturing. In the manufacturing sector, enterprises are mainly engaged in simple, traditional activities, such as manufacturing of wood products, including furniture, and the production of textiles, garments, footwear, and food and beverages. Only a small number of SMEs are involved in the production of machinery, production tools and automotive components. In these industries, enterprises operate mainly as subcontractors producing certain components and spare parts for LEs (including foreign direct investment/MNCs). This is a key feature of enterprises in developing countries, especially in new industrialized countries.

PART II

Family Firms, Multinational corporations, and SME Policy

Chapter 3 Family Structure: a Driver on Dominance of Micro and Small Enterprises

1. Introduction

Many family firms are established by entrepreneurs who have worked for their family members' (father's or grandfather's) firms. These firms have appeared in the form of small, medium, and large firms. There have been many studies on family firms that have stressed their significant contribution to employment, income generation, wealth accumulation (Colli & Rose, 2008), gross domestic product (GDP) (Bjuggren et al., 2012), and innovation (Zahra, 2005). For instance, between 65 and 90 percent of all registered companies in Latin America are family firms; meanwhile, in the United States, this figure reaches 95 percent. They are not only the dominant form of firm but are also important for national economies. Family firms generate between 35 and 65 percent of the gross national product (GNP) among the member states of the European Union (Bjuggren et al., 2012).

Most family firms are founded as micro-sized (1–9 employees) and small-sized (10–49 employees) firms. The Austrian Institute for SME Research stated that more than 90 percent of family firms in selected countries in Europe are micro- and small-sized (Mandl, 2008). For instance, in Finland, Mandl showed that about 86 percent of firms have less than 10 employees. A very similar result is found for Lithuania and the Netherlands, where more than 90 percent of firms are micro- and small-sized firms.

Micro- and small-sized family firms are unique in their own form, as they have certain characteristics and resources that are driven by the involvement of a family in either the ownership or management of these firms. Moreover, they try to pursue multigenerational success (Habbershon and Williams, 1999). Some entrepreneurs encourage their successors to become independent, but other entrepreneurs, which are seemingly more common, encourage their successors to work together and stay with their original firms. Successors' responses are different: some still work in their parents' firm, while others create a new independent firm, separating their own activities from their parents' firm. Such practices are prevalent where a large number of entrepreneurs are

raised in families that own or have owned businesses previously (Fairlie and Robb, 2007). This process leads to spin-off activity.

A spin-off is defined as a firm established or formed from a university research group, or by an employee who leaves his or her company to start a new firm, or when an existing firm is split up into independent parts (Wallin, 2012). This study defines spin-offs as the transfer of 'rights' from the previous owner/employer of an existing firm to a new firm. These 'rights' can be in the form of physical assets or ownership. Spin-offs are also brought about by family relationships in which established firms assist genealogically related spin-offs which can help them develop diverse knowledge and skills. For instance, Firm A (as initiator), a metal-working firm that has core knowledge in the forging and metal forming process, initiates a spin-off, Firm B, which serves as the next generation of the business and is dedicated to the metal-machining process by using machine tools.

The objective of this chapter is to discuss the influence of family structure on spin-offs. It tries to answer the research question of how the family structure promotes spin-offs, especially in local indigenous communities. There are two types of ethnic family firm in the metal-working industry in Indonesia, namely those run by indigenous ethnic groups and those run by Chinese ethnic groups. Indigenous ethnic firms are dominant in terms of the number of firms compared to Chinese ones. However, such dominance exists only in micro-small firms, and not in medium-large firms. Furthermore, this study hypothesises that the family structure is one of the factors that plays an important role in increasing the number of firms in Indonesia.

Studies on the family system and spin-offs, especially in large firms, have mostly been conducted on industrialised countries, such as the United States (Scranton, 1993), Italy (Colli and Larsson, 2014), and Japan (Rose and Ito, 2005). These studies are insightful but it is also important to know the relationship between the family structure and spin-offs in newly industrialised economies, such as Indonesia. Spin-offs of small family firms are quite common in Indonesia, especially for micro and small firms that are located in rural areas. Spin-offs are an important means for family survivability and for avoiding conflict among family members. The existence of a multiplicity of family types, such as Chinese and indigenous, means that entrepreneurs have engaged in diverse methods of firm development. At a glance, these two family types look similar in terms

of ownership and management by a single family, the involvement of a family members in important position within the firm, and succession, etc. However, there are also several visible differences in their development. The Chinese family type tends to enlarge their firms and keep family members within the firm. Meanwhile, most of the indigenous entrepreneurs retain micro- and small-sized firms, and they direct the next generation to establish their own firms. Because micro and small firms are important for economic growth in Indonesia (Tambunan, 2008), an enquiry into how the family structure promotes the formation of new firms is a topic of considerable interest.

The International Monetary Fund (IMF) deemed Indonesia, along with Brazil, China, Mexico and Turkey, to be a newly industrialised economy (Boddin, 2016). Indonesian industry, according to share of GDP, is dominated by the food, beverage, and tobacco industries, the metal-working industry, and fertiliser and chemical industries.⁸ Among these three, the metal-working industry shows a strong relationship between small and large firms, which indicates a positive role for subcontracting ties between large and small firms (Hayashi, 2002). Subcontracting ties can increase productivity in small metal-working firms and thus it is possible to hypothesise that small family firms in the metal-working industry may enjoy positive growth from such ties.

This chapter analyses the long-term dynamics of small-sized family firms by focusing on the period between 1980 and 2015, which I further divide into two sub-periods: (i) 1980–2000 and (ii) 2001–2015. These sub-periods have been selected considering the dynamics within the metal-working industry. The year of foundation or ownership transfer of firms indicates that there are two periods of development: (i) the founder period, 1980–2000 and (ii) the successor period, 2001–2015.

The focal point of this study are two industrial clusters of the metal-working industry in Indonesia: Sukabumi in West Java and Tegal in Central Java. These two regions are important industrial clusters among the country's five industrial clusters—the others are located in Bandung in West Java, Ceper in Central Java, and Pasuruan in East Java. Tegal is a port city where the metal-working industry exists to cater to the need for spare parts for ship engines and sugar mills. Sukabumi is known as an area specialised in the production of agricultural tools, household appliances, and souvenirs made of metal.

⁸ Statistics Indonesia, <https://www.bps.go.id/linkTabelStatistik/view/id/1207>.

Recently, Sukabumi and Tegal have transformed themselves into industrial clusters that support the Indonesian automobile industry.

This study was conducted utilizing various data sources, such as government reports; entrepreneur profiles issued by the Astra foundation, which is an association founded by local business group, Astra International; and semi-structured interviews with the owners of family firms.

The remainder of the paper is structured as follows. First, I review the concept of family structure and spin-offs. Second, I discuss small family firms in Sukabumi and Tegal. Third, I present information on the historical background of family firms. Fourth, I describe generational changes and the transformation of firms, then conclude by discussing the implications of this study.

2. Study on family firms and spin-offs

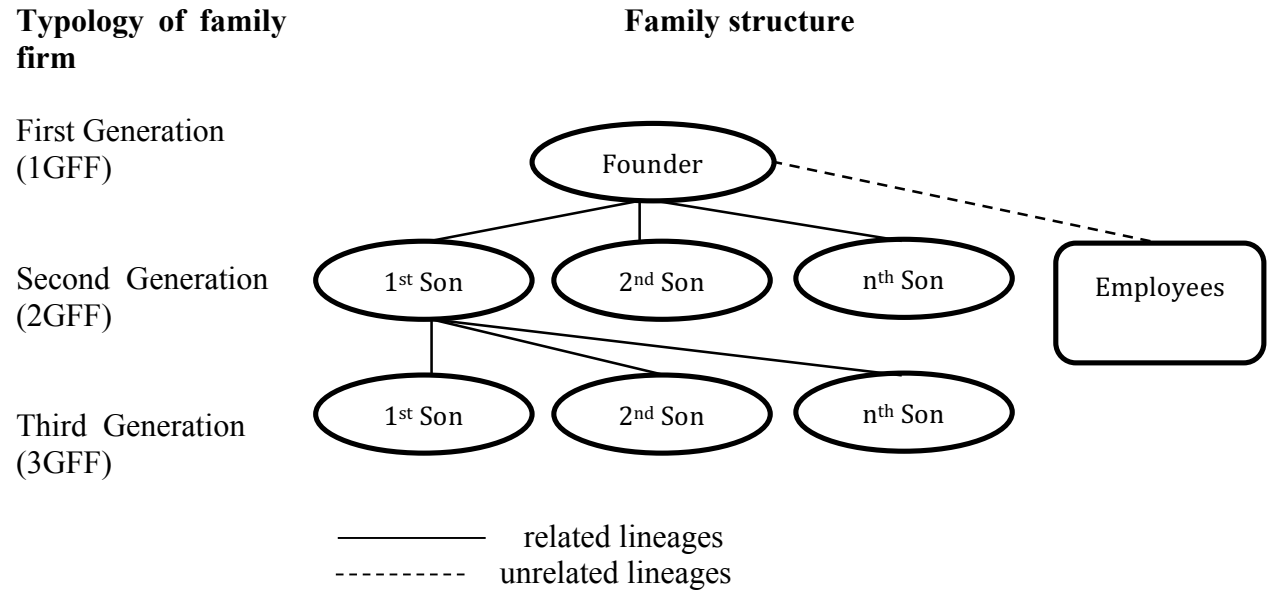
Here, I start with a definition of the basic terminology related to the family and family firms which is relevant to this study. Among various family types, families examined in this study are of the extended family or consanguine family type in which each member shares a lineage with other family members. This type of family is dominant in Sukabumi and Tegal. In general, a family firm means a firm where a single family owns and manages the firm. The first generation of firms in this industrial cluster were established by founders who did not have any family background in the metal-working industry. For the continuation of the business activities of those families, there were two patterns of succession: (1) the family member established a new firm, or (2) a family member succeeded to the head of his father/grandfather's firm. In both cases, i.e. the founders of those new firms and the successors of the existing firms, the heads of the firms can be characterised as a 'family firm born entrepreneur'.

Studies on family business or family firms have grown tremendously since the 1950s. A few theorists, such as Cristensen (1953), Donnelley (1964), and Levinson (1971), explored what makes a family firm, how it deals with succession and what leads to intra-family conflicts. In addition, Gersick et al. (1997) proposed a model for the stages of family firm growth. Furthermore, Colli and Rose (2008) studied the development of family firms, starting from case studies, and then expanding their research into other areas including professional corporate management, intergenerational conflicts, succession,

management, and entrepreneurship, etc. Their work is more strongly related to succession, which was defined as a gradual transfer of control from one generation to the next. Gradual transfers are achieved at every stage of a firm’s development, whether that be in the emergence, segmentation, or disintegration. According to a development model adapted from Wong (1985). in the emergent phase, founders lead in building a full-fledged firm by managing all firm activities, in the segmented phase family members are more active in firm activities, and finally in the disintegration phase spin-offs from the firm begin.

This study examines family structures and business units to explore how generational change affects the family firm. Figure 9 shows the relationship between each family member and the type of firm that they own and manage. This paper classifies family firms according not only to the involvement of family in the firm’s ownership or management but also to the family background of the founder of those firms. Here, first generation family firms (1GFFs) are those established by the founder without any family background in the relevant industry. Their sons are known as entrepreneurs of the second-generation family firms (2GFFs), and their grandsons are known as entrepreneurs of the third-generation family firms (3GFFs). 1GFFs, 2GFFs, and 3GFFs are independent firms where each firm has no ownership relation.

Figure 9 Family firm-born entrepreneurs



Source: Author

2GFFs and 3GFFs show firm succession through family inheritance. Three types of succession exist in this geographical region can be observed: (1) ownership transfer, (2) family assistance, and (3) a combination between ownership transfer and inheritance. Ownership transfer is the legal transfer of ownership. This transfer is to the ‘chosen one’ (son) in the family, and typically the other sons will receive financial assistance from the family. The value of assets received by the chosen one is equal to that of the inheritance beneficiary. Family assistance refers to the provision of facilities such as land, buildings, machinery, and financial support to the other sons who are not appointed as the successor of the firm. The combination of ownership transfer and family assistance occurs in a family, which has a single son. Family assistance quite often encourages the formation of a new firm, and hence it is considered a spin-off in the present study.

The foundation of a new firm could be influenced by the typology of family structure and inheritance custom. In Japan, a successful new firm facilitates the evolution of the family of companies to become more competitive. The genealogical transformation based on such reproduction is at the heart of the matter in many environments (Rose and Ito, 2005). If the family structure is sufficiently flexible, it enables the family to change its business environment and to set up a new business in a new industry or business category.

Some studies attempted to explain the relationship between family firms and spin-offs. Piore and Sabel (1984) mentioned that the idea of using family ties in spin-offs is to create alliances. They took up a case from Alfred Motte, a cotton-textile manufacturer in France, where Motte provided the seed money for the start-up and had them specialise in one of the phases of production. Meanwhile, Rose and Ito (2005) found that spin-off strategies aimed to improve the survivability of family firms. Firms that are established and genealogically related with other firms can develop diverse knowledge and skills. Rose and Ito drew on the example of Daiwa Bank and Nomura Securities, where Daiwa Bank is a commercial bank, from which Nomura Securities was a spin-off and became an investment bank (Rose and Ito 2005). Both of these studies reasoned that the spin-off from the family firm stemmed from economic reasons or firm strategy. In this study, I hypothesise that spin-offs can occur because of family structure, social norms, and culture. Thus, this study argues that it is not only economic drivers that can cause spin-off activity; social phenomena also generate spin-offs.

The present study was conducted in two metal-working clusters in Indonesia, namely Sukabumi regency (Sukabumi) and Tegal regency (Tegal) as can be seen in Figure 10. Sukabumi is a regency in southwestern Java and forms a part of the West Java province of Indonesia. The regency's seat is located in Palabuhanratu, a coastal sub-district facing the Indian Ocean. The metal-working cluster is located in Cisaat district, which has an area of 23.3 square kilometres and a population of approximately 115,000. Tegal is a regency in the northwest of central Java, with its district seat located in Slawi. Tegal has an area of 878 square kilometres and a population of approximately 1,395,000.

The metal-working industry in Cisaat, Sukabumi, started with traditional blacksmiths who made daily implements such as knives, machetes, hoes, etc. These blacksmiths mastered their techniques with the advent of forging process. Meanwhile, the metal-working industry in Tegal has supplied equipment for the transportation industry

(rail and shipping) and the sugar industry since the 1930s (Bappenas, 2004). In fact, this industry was related to the existence of some 6,400 hectares of sugarcane plantation in the area. It supplied equipment to seven sugar factories and the existing railway and shipyard industries in Tegal.

According to local government reports, there are numerous metal-working firms in these regions. For instance, there are 679 metal-working firms in Sukabumi district spread across Cisaat, Kebonpedes, Jampang Kulon, Caringin, Surade, Cicurug, Purabaya, Cibitung, Cimanggis, and Nyalindung. In particular, Cisaat became a popular area among entrepreneurs in metal-working, and there are now around 180 firms in this area. Likewise, in Tegal, there are around 1,800 metal-working firms, which are scattered across Talang, Adiwerna, Margasari, Pangkah, Lebaksiu, Kramat, Dukuhturi, Pagerbarang, Balapulung, Tarub, Slawi, etc. (see Figure 10).⁹

This study covers small firms in Sukabumi and Tegal that operated during the period 1980–2015. Officially, Sukabumi and Tegal became metal-working industry clusters in 1984, marked by the establishment of industrial estates by the government in that year (Ministry of Industry 1986a, Ministry of Industry 1986b). In 1996, the private sector, Astra International,¹⁰ participated in the development of this cluster. Astra established ‘*Sentra Industri*’ (Sentris) in Sukabumi and a business development agency in Tegal.

This study examines 68 small family firms in Sukabumi and Tegal. These firms were selected from among 2,500 firms present in these regions that were also registered with the appropriate industrial agencies. The 68 firms were selected considering: (1) firm size (with a preference for small-medium sized firms); (2) legal firm status (with a preference for C.V.¹¹ and P.T.¹²); and (3) whether they were family-owned.

Among the 68 firms selected there were 42 1GFFs, 24 2GFFs and 2 3GFFs (see

⁹ Data provided by local government.

¹⁰ Astra International (Astra) is an Indonesian conglomerate. The market capitalisation of Astra at the end of year 2016 was Rp 335.0 trillion. Astra has developed its business by implementing a business model based on synergies and diversification within seven business segments: automotive, financial services, heavy equipment and mining, agribusiness, infrastructure and logistics, information technology, and property. With a diversified business, Astra has touched various aspects of national life through its products and services. Astra conducts business operations in all parts of Indonesia under the management of more than 200 subsidiaries, joint ventures and associates, and was supported by more than 200 thousand employees.

¹¹ C.V. is a limited partnership not involving a legal person, and personal assets are liable for obligations.

¹² P.T. is a limited liability firm.

Table 1). Table 1 shows the relationship between the year of establishment, the type of succession, and the nature of firm. One noteworthy observation from the table is that 2GFFs and 3GFFs produced different products from their relatives. For instance, Tjamat Putra I (firm number 16 in Table 1) is a 2GFF that continues its father's business (ownership transfer) and specialises in casting components. Tjamat Putra II (17) is a 2GFF with a specialisation in sugar mill components, while Tjamat Putra III (18) is also a 2GFF, which produces ship components. Firms 17 and 18 were established by using family assistance from their parents. Two cases will be presented to show how family structure and the system of division of succession promotes spin-offs.

Table 1 is prepared from different sources, including firm archives, interview results, and firm data. Information derived from firm's archives are an important source of information that were collected alongside the interviews I conducted. I conducted interviews using a semi-structured questionnaire to gain deeper insights into various topics including the family tree, process of succession, entrepreneurial motivation, relationships with other similar companies, etc. The data collected consist of statistics that give a brief snapshot of the current state of the firms in question.

3.1 Abadi Teknik families – Succession after retirement of its founder

Abadi Teknik (46) is one of the oldest firms in Sukabumi. It was established by Mr. Jekeh in 1973. He started his operations by repairing agricultural tools with five workers, of whom two were his sons. His firm was equipped with a drilling machine, a grinding machine, and a lathe. Next, he developed his firm into a producer of food processing machines and simple agricultural machinery. He had 13 children in his family and 9 of them were boys.

Mr. Jekeh recalled that he applied Islamic norms on every aspect of his life including his business life. Since the beginning, he never intended to make Abadi Teknik a large firm. He invested the profit that he earned in land and buildings.¹³

When Mr. Jekeh passed away, his family distributed the inheritance according to Islamic law. His sons received a larger share of inheritance than his daughters and wife. The eldest son, Mr. Dadang, inherited the land and the workshop in the industrial estate

¹³ Interview result, 2015.

Table 1 Succession in Metal-Working SMEs in Sukabumi and Tegal

No	Name of Firm ^a	Year of Establishment/transfer ^a	Products ^b	Location ^a	Number of worker ^c	Founder ^b	Succession ^b		Generation of ownership ^b	Market channel ^{a&b}
							Ownership transfer	Family assist.		
1	Target	2011	Medical equip.	Tegal	26		o		2	Partnership
2	Matahari	2001	Rolling door	Tegal	18	o			1	Direct market
3	Frintakaru	2005	Fire extinguishers equip	Tegal	16		o		2	Contract
4	Putra Bungsu	1988	Heavy equip. comp.	Tegal	32				1	Contract
5	Milako Teknik Mandiri	1992	Heavy equip. comp.	Tegal	30				1	Contract
6	Intan Pratama	1992	Electr. Comp.	Tegal	25				1	Contract
7	Japra Pratama	1992	Automobile exhaust	Tegal	25				1	Partnership
8	Prima Karya	1990	Heavy equip. comp.	Tegal	30		o		2	Contract
9	Gaya Teknik Logam	2001	Automobile comp.	Tegal	18	o			1	Contract
10	Karya Utama Logam	2001	Nozzle, valve.	Tegal	15		o		2	Contract
11	Putra Logam Jaya	2001	Nozzle, valve	Tegal	20			o	2	Direct market

Table 1 Succession in Metal-Working SMEs in Sukabumi and Tegal (Cont.)

No	Name of Firm ^a	Year of Establishment/transfer ^a	Products ^b	Location ^a	Number of worker ^c	Founder ^b	Succession ^b		Generation of ownership ^b	Market channel ^{a&b}
							Ownership transfer	Family assist.		
12	Adi Jaya Logam	2004	Automobile acc.	Tegal	18			o	2	Partnership
13	FnF Metalindo Utama	2014	Automobile comp.	Tegal	36		o		2	Contract
14	Mulia A J	1980	Nozzle, valve	Tegal	22	o			1	Contract
15	Matahari I H	1986	Electr. Comp.	Tegal	25	o			1	Contract
16	Tjamat Putra I	2000	Casting comp.	Tegal	16		o		2	Direct market
17	Tjamat Putra II	2003	Sugar mill comp	Tegal	10			o	2	Contract
18	Tjamat Putra III	2003	Ship comp.	Tegal	12			o	2	Contract
19	Setia Kawan	2011	Porthole	Tegal	14		o		2	Partnership
20	Karya Manunggal	2011	Ship acces.	Tegal	18			o	2	Partnership
21	Adhi	2011	Automobile acc.	Tegal	12			o	2	Partnership
22	Kamaru	2011	Porthole	Tegal	15			o	2	Partnership
23	Riska Mandiri	2011	Ship acces.	Tegal	20			o	2	Partnership
24	Adi Logam	2006	Hydran valve	Tegal	12	o			1	Direct market
25	Logam Mandiri	2002	Nozzle	Tegal	14	o			1	Direct market

Table 1 Succession in Metal-Working SMEs in Sukabumi and Tegal (Cont.)

No	Name of Firm ^a	Year of Establishment/transfer ^a	Products ^b	Location ^a	Number of worker ^c	Founder ^b	Succession ^b		Generation of ownership ^b	Market channel ^{a&b}
							Ownership transfer	Family assist.		
26	NS	1990	Pump	Tegal	22	o			1	Direct market
27	Putra Jaya	1997	Welding	Tegal	25		o		2	Direct market
28	Izan Putra	2001	Screw	Tegal	20			o	2	Direct market
29	Kaligung Jaya	2003	Clamp	Tegal	14			o	2	Direct market
30	Elceha Jaya	1997	Automobile comp.	Tegal	25			o	2	Contract
31	Lancher Jaya	2002	Rice milling comp.	Tegal	18	o			1	Contract
32	Abadi Baud	2006	Screw	Tegal	15	o			1	Direct market
33	Sinar Kencana	2001	Heavy equip. comp.	Tegal	26	o			1	Contract
34	Rhodas	1995	Casting	Sukabumi	28	o			1	Direct market

Table 1 Succession in Metal-Working SMEs in Sukabumi and Tegal (Cont.)

No	Name of Firm ^a	Year of Establishment/transfer ^a	Products ^b	Location ^a	Number of worker ^c	Founder ^b	Succession ^b		Generation of ownership ^b	Market channel ^{a&b}
							Ownership transfer	Family assist.		
35	Sinar Terang	2004	Screw	Sukabumi	20	o			1	Direct market
36	Samudra	2004	Casting	Sukabumi	25	o			1	Direct market
37	Fitinda	1997	Agri tools	Sukabumi	16	o			1	Partnership
38	Bima	2002	Screw	Sukabumi	14	o			1	Direct market
39	Saga Multi	2006	Casting	Sukabumi	18	o			1	Direct market
40	Alifia	2005	Simple agri machinery	Sukabumi	12	o			1	Partnership
41	Alfa Utama	1989	Simple agri machinery	Sukabumi	18		o		2	Partnership
42	Nuansa Ilham	1992	Automobile acc.	Sukabumi	14	o			1	Partnership
43	Kopinkra	2010	Automobile comp.	Sukabumi	38		o		2	Contract
44	Karya Pusaka	1986	Simple agri machinery	Sukabumi	18	o			1	Partnership
45	UD Dedi	1989	Agri tools	Sukabumi	16	o			1	Partnership

Table 1 Succession in Metal-Working SMEs in Sukabumi and Tegal (Cont.)

No	Name of Firm ^a	Year of Establishment/transfer ^a	Products ^b	Location ^a	Number of worker ^c	Founder ^b	Succession ^b		Generation of ownership ^b	Market channel ^{a&b}
							Ownership transfer	Family assist.		
46	Abadi Teknik	1986	Simple agri and food machinery	Sukabumi	25		o		2	Partnership
47	Putra Abadi Teknik	2003	Military support.	Sukabumi	25			o	2	Partnership
48	Sejahtera Abadi Teknik	2005	Medical equip. comp.	Sukabumi	8			o	2	Contract
49	Hade	2006	Agri machinery	Sukabumi	18		o		3	Partnership
50	Tunas Abadi Teknik	2004	Automobile comp.	Sukabumi	15		o		3	Contract
51	Gilang Abadi Teknik	2003	Edu teaching aid	Sukabumi	20	o			1	Contract
52	Fahmi Cipta Abadi	1997	Automobile comp.	Sukabumi	42	o			1	Contract
53	Muara Berkah	2001	Automobile acc.	Sukabumi	18	o			1	Partnership
54	Entis	2009	Agri tools	Sukabumi	16	o			1	Partnership
55	Undang	2007	Agri tools	Sukabumi	12	o			1	Partnership
56	Jio	2001	Automobile acc.	Sukabumi	18	o			1	Partnership
57	Sarandi Karya Nugraha	1998	Medical equip.	Sukabumi	52	o			1	Partnership

Table 1 Succession in Metal-Working SMEs in Sukabumi and Tegal (Cont.)

No	Name of Firm ^a	Year of Establishment/transfer ^a	Products ^b	Location ^a	Number of worker ^c	Founder ^b	Succession ^b		Generation of ownership ^b	Market channel ^{a&b}
							Ownership transfer	Family assist.		
58	Alpindo	1996	Automobile comp.	Sukabumi	62	o			1	Contract
59	Barkah Jaya Mandiri	1996	Automobile comp.	Sukabumi	48	o			1	Contract
60	Cahaya Logam I	2000	Screw	Tegal	18	o			1	Direct market
61	Lulu Putra Mandiri	2005	Porthole	Tegal	16	o			1	
62	Cahaya Logam II	2004	Automobile acc.	Tegal	20	o			1	Partnership
63	Bontot Putra Logam	2009	Valve, nozzle	Tegal	14	o			1	Partnership
64	Merpati Teknik	2007	Automobile acc.	Tegal	12	o			1	Partnership
65	Sartika	2007	Rice milling comp.	Tegal	16	o			1	Contract
66	Budi Logam Putra	2001	Gold and silver artisan	Tegal	15	o			1	Direct market
67	Udin	2007	Welding	Sukabumi	10	o			1	Direct market
68	Nugraha	2002	Agri tools	Sukabumi	12	o			1	Partnership

a: firm archives

b: interview result

c: firm data

area along with three machines, and he founded Tunas Abadi Teknik (50). The second son, Mr. Endang, assumed the responsibility to continue Abadi Teknik (see Figure 11) and the other sons joined together to establish Putra Abadi Teknik (47). According to Mr. Endang, Putra Abadi Teknik was established so as to manage the inheritance on behalf of the other sons because most of them were teenagers, and so it was led by Mr. Ujang, the third son. Mr. Ujang passed away in 2002, thus, the other brothers chose to run their own firms, namely: Mr. Dikdik established Gilang Abadi Teknik in 2003, Mr. Burhanuddin founded Sejahtera Abadi Teknik in 2004, and Mr. Adit, son of Mr Ujang, established HADE in 2006. Meanwhile, Putra Abadi Teknik is now held by Mr. Amir.

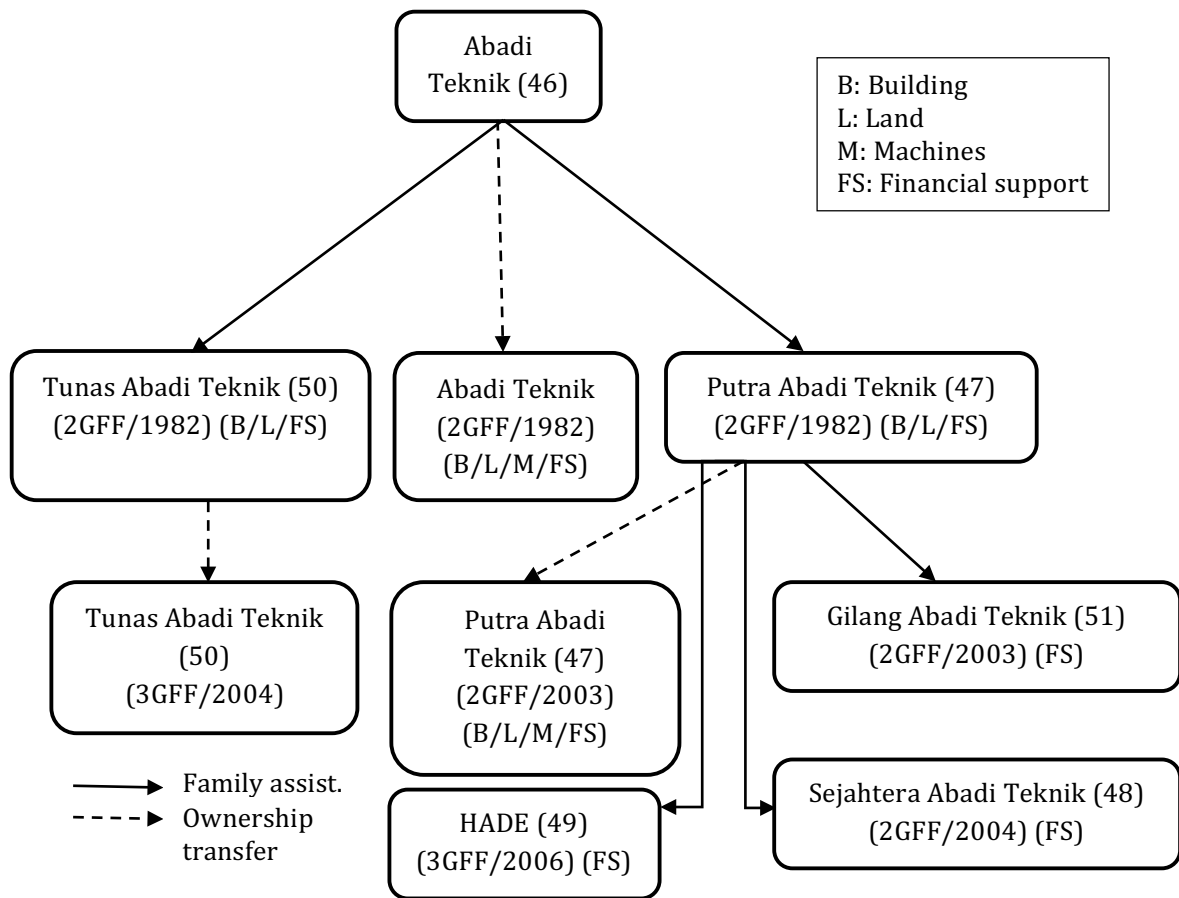
These six firms are small firms that are independent from each other and have different customers. For instance, Tunas Abadi Teknik focuses on supporting automobile component manufacturers, and Sejahtera Abadi Teknik (48) concentrates on supporting health equipment manufacturers, while Gilang Abadi Teknik (51) specializes in production of educational teaching aids, etc.

3.2 Setia Kawan families – Mother as counterweight

Setia Kawan (19) in Tegal is a firm that is specialised in foundry and welding. Its production capacity has reached one ton per order. Mr. Rosadi started the business in 1988. He had seven children and five of them were boys. For succession, Setia Kawan also followed Islamic law in the distribution of ownership transfer and inheritance, such as land, building, and machinery, among surviving family.

The mother of this family played an important role in after Mr. Rosadi passed away in 2007. At that time a decision on the succession had been made, but a spin-off had not yet occurred in this firm. The mother managed to control her children so as to keep Setia Kawan together as one firm and maintain some of its customers for ship components and other foundry products, even though each son had wished to start their own business, as they wanted to avoid conflict in the future.

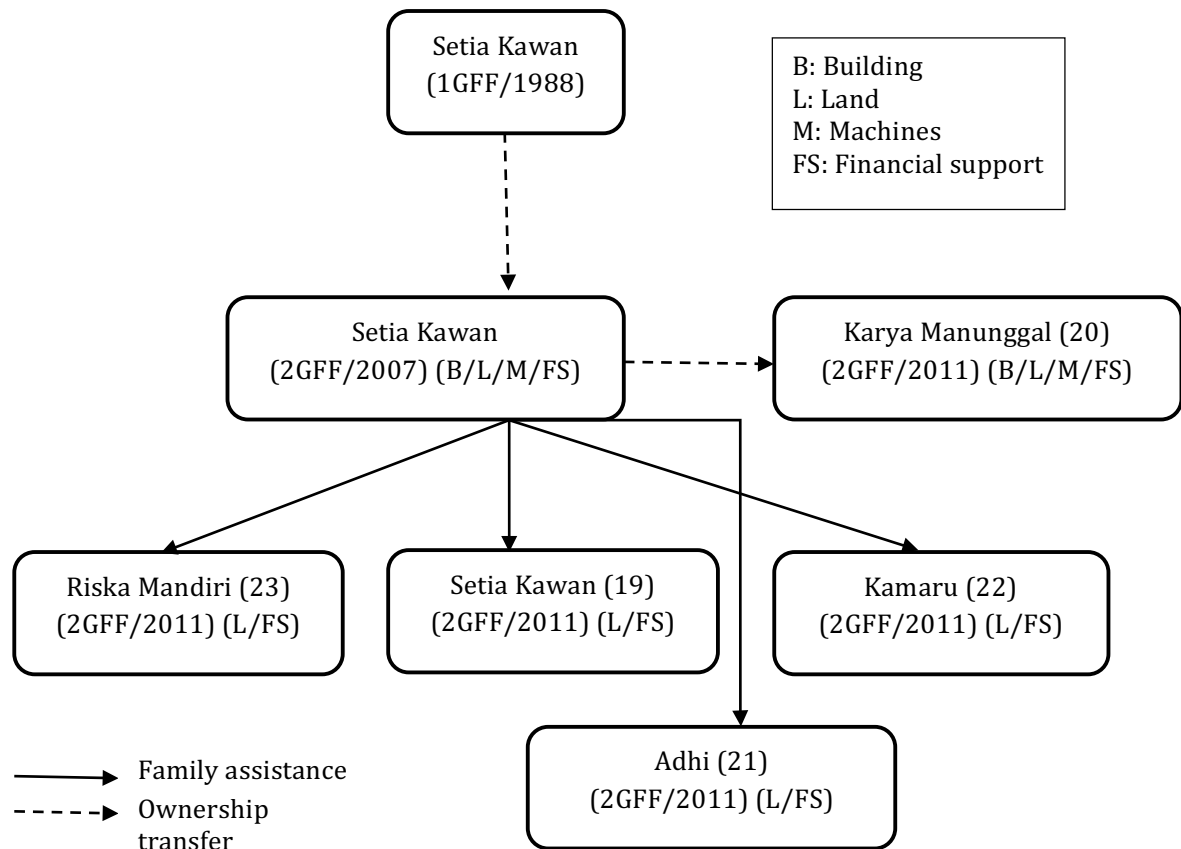
Figure 11 Spin-offs from the Abadi Teknik family



Note: 1GFF=first-generation family firm; 2GFF=second-generation family firm; 3GFF= third-generation family firm.

When their mother passed away in 2011, the sons agreed to divide up their large customer base and established five new firms (Figure 12), namely, Karya Manunggal (20), Riska Mandiri (23), Kamaru (22), Adhi (21), and Setia Kawan (19). Karya Manunggal was given to the first son, Mr. Ali, including its building and facilities. However, the brand name of Setia Kawan was given to the second son, Mr. Imron. The other siblings established new firms with their inheritance. These four new firms still focused on small-sized foundry work (i.e. 100–200 kg), welding, and machining.

Figure 12 Spin-offs from the Setia Kawan family



Note: 1GFF=first-generation family firm; 2GFF=second-generation family firm; 3GFF=third-generation family firm; N=number.

4. Historical background of family firms

There is an old Indonesian expression, '*Banyak anak berarti banyak rejeki*', which translates as 'Many children mean a lot of fortunes'. This expression was commonly used in household life before 1980, and is still in use to this day. At the time Indonesia's total fertility rate (TFR) reached five to six children per woman,¹⁴ and with many children, parents could encourage their children to work in order to support the family income. Here, supporting family income refers in most cases to family workers, which can be found in every sector of the economy, be it agriculture, industry, or services, etc.

¹⁴ World Bank, *World Development Indicator*, 1960–2015, <http://databank.worldbank.org/data/reports.aspx?source=2&series=SP.DYN.TFRT.IN&country=IDN> (accessed on November 1, 2017)

Statistically, family workers have an important employment status in Indonesia, especially during economic downturns. For instance, from the 1980s to early 1990s, the proportion of family workers and ordinary workers accounted for 51 percent and 49 percent of employment respectively. Evidently, family workers have been an important matter for family firms in Indonesia. For parents, there are two objectives to directly involve children in their business: operational strategy and succession. First, the engagement of family labour is a strategy to reduce the firm's operating costs, especially labour costs. Second, the involvement of children in the firm is part of the succession process.

Different data were observable in the early 1990s to mid-1997. At that time the proportion of family workers and ordinary workers were 34 percent and 66 percent respectively. During this period, Indonesia tried to establish its identity as a newly industrialising economy with a lot of foreign direct investment (FDI), especially in the manufacturing sector. The proportion of family workers increased from 1998 to 2003 (i.e. to 44 percent of the total) when the country stumbled into economic crisis. Between 2004 and 2015 the use of family labour again receded, falling to 30 percent of the total, as 70 percent of the workforce was not drawn from family ties.¹⁵

The specific succession pattern of family firms in Sukabumi and Tegal brought about a series of new firms by family firm-born entrepreneurs. Among the 68 firms examined in this study, 31 of them experienced generational changes. Figure 13 shows a simplified firm development chart for those 31 firms. It shows how family members promoted spin-offs. For instance, C.V. Abadi Teknik (46), which was founded in 1973 in Sukabumi, established five more firms, namely Putra Abadi Teknik-2GFF (47) in 2003, Sejahtera Abadi Teknik-2GFF (48) in 2003, Gilang Abadi Teknik-2GFF (51) in 2004, Tunas Abadi Teknik-3GFF (50) in 2004, and HADE-3GFF (49) in 2006.

The establishment of new firms is accompanied by the transfer of assets,

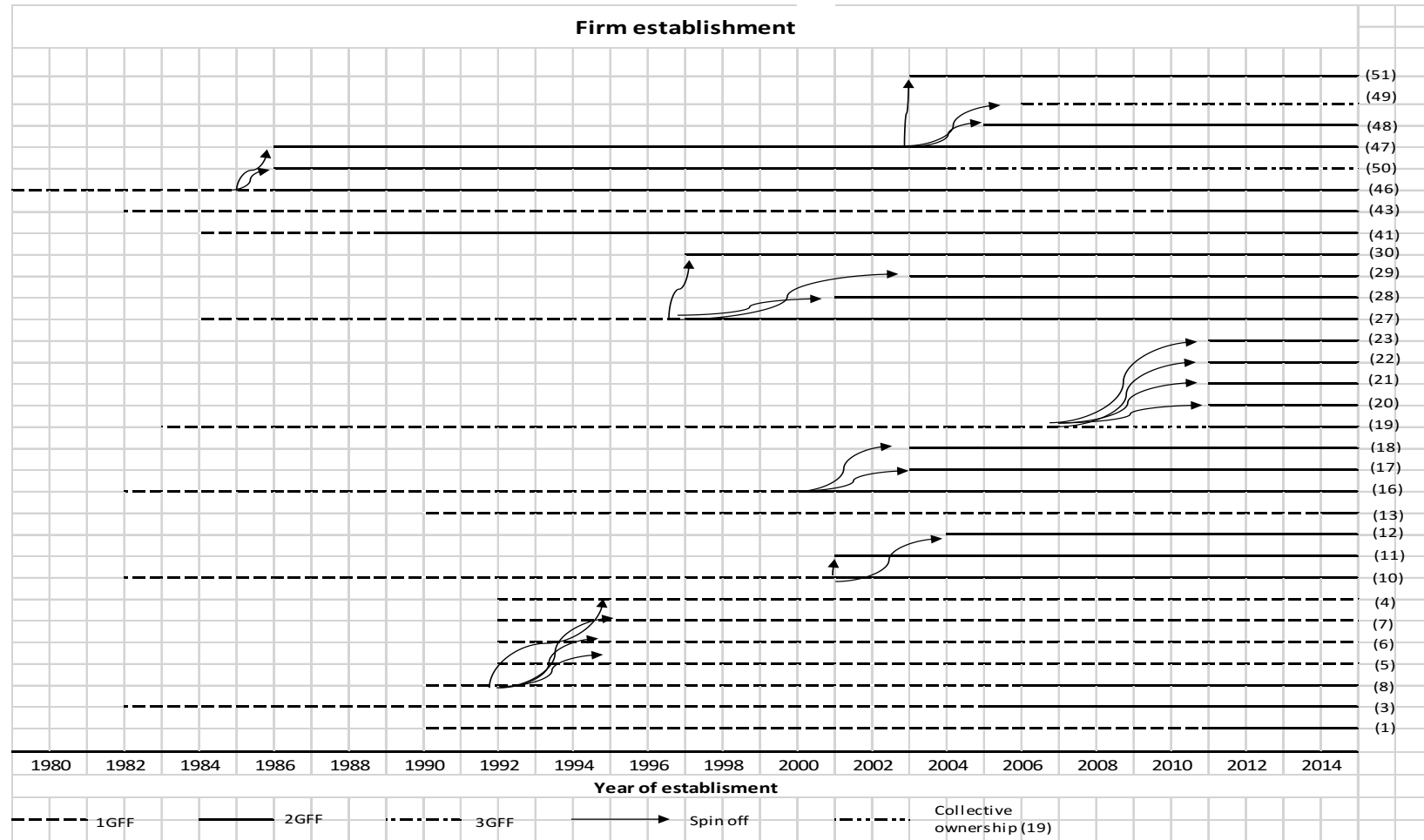
¹⁵ Statistics Indonesia, *Population of Main Employment Status and Main Industry, 1986 – 2017*, <https://www.bps.go.id/Subjek/view/id/6#subjekViewTab3|accordion-daftar-subjek1> (accessed on May 19, 2017).

machinery, and customers. For instance (in Figure 13), 2GFFs that had to leave Abadi Teknik (46) received land, a building, and some machinery items as a part of family inheritance. They also divided their main customers and chose their specialisation: Abadi Teknik was focused on agriculture machinery, Putra Abadi Teknik (47) concentrated on supporting tools for the military, Sejahtera Abadi Teknik (48) produced building machinery and tools for medical equipment producers, and Gilang Abadi Teknik (59) dedicated itself to education tools.

Among the twenty six 2GFFs and 3GFFs identified (Figure 13), six came in possession of their firms via ownership transfer and family assistance, since they were 'the only son' in their family. I focus on the other 20 firms that were established because of the family-based succession pattern. These firms came from five different parent firms: Abadi Teknik family, Putra Jaya family, Setia Kawan family, Tjamat Putra family, and Karya Utama Logam family. From these five parent firms, fifteen new firms were established as spin-offs with family assistance.

Wong (1985) introduced a model of Chinese family firms with four development phases as follows: 1) emergence, 2) centralisation, 3) segmentation, 4) disintegration. In this study I adapt Wong's model, observing the emergent, centralised and disintegrative phases of development in family firms. In the emergent phase, the founders play a leading role and discourage their children from university level education or work at another firm in favour of work in their own firms. In addition, the mother serves as a mediator between the father and sons. In the centralised phase, children assume responsibility, usually in managerial and technical production. Meanwhile, the father is responsible for investment and handling customers. However, in the process of the search for new customers, the father begins to engage his children. If there are several children, usually the child who becomes the successor will be involved in this matter. In addition, the father also begins to invest in land and buildings for the use of other children. This stage will continue until the father dies. In the disintegrative phase, the spinning off of new firms will begin. Then, the successor will have a full control of the managerial and operational aspects of the business, and have ownership of its assets including land and buildings. The other

Figure 13 Historical background of family firms and spin-offs



Note: 1GFF=first-generation family firm; 2GFF=second-generation family firm; 3GFF=third-generation family firm.

Source: Author

children will continue working for the firm as long as the mother is still alive. When the mother dies, the other children will choose to establish new firms as a part of family inheritance.

5. Generational changes in firm transformation

This section describes how generational changes impact motivation, professionalism, and the transformation of the production system in 1GFFs, 2GFFs, and 3GFFs.

5.1 Motivation for starting up the business

Personality trait is an especially significant factor with regards to business start-up intentions. The reasons for starting a new business differ from person to person, from country to country, and depending on the economic, political, societal, and cultural environment in which entrepreneurs operate. Some studies have indicated that economic conditions and entrepreneurial orientations affect an entrepreneurs' motivation to start up a business (Benzing et al., 2005).

The differences in the economic environment between the founder's period (1980–2000) and the successor's period (2001–2015) also produce differences in the start-up motivations held by entrepreneurs of 1GFF and 2GFF. In the founder's period, Indonesia faced economic problems associated with the unanticipated decline in the world oil price in the early 1980s, coming at a time when the Indonesian economy relied heavily on oil exports, and then the 1997 Asian economic crisis.

In general, 1GFF in the founder's period (Table 2) were established by people who came from various types of professions including those who were workers, merchants, farmers, and metal artisans before starting their business in metal-working. Of the nineteen firms observed, seventeen stated that they had started their business in order to create jobs for themselves and family. Meanwhile, all 2GFFs stated that they did not really have any choice in the matter since their parents had encouraged them to be in the business from the beginning.

Table 2. Number of firms according to year of establishment and type of family firm

	1GFF		2GFF		3GFF	
	(N)	(%)	(N)	(%)	(N)	(%)
1980–2000	18	75	6	25	-	-
2001–2015	24	54.5	18	41	2	4.5

Notes:

1GFF=first-generation family firm; 2GFF=second-generation family firm;

3GFF=third-generation family firm; N=number.

In contrast, the economic environment and circumstances for doing business were much better in the successor's period. A huge opportunity existed for establishing partnerships since there were so many medium and large-sized firms. Many in the younger generations in this period decided to establish new firms themselves. In one example, Mr. Arifin and Mr. Salafuddin were successors of Karya Utama Logam (10). When their father died in 2001, Mr. Arifin was chosen to take over Karya Utama Logam. Meanwhile, through personal saving and family assistance, Mr. Salafuddin established his own firm, Adi Jaya Logam (12). In addition, he also developed a network with a number of automobile spare parts manufacturers.

Mr Salafuddin's case also shows us that family assistance is the main financial source for the establishment of a new firm. Of the firms established after 2000, forty-four depended on family assistance (Table 3).

Table 3. Financial sources of firms

Year of Establishment	Financial sources			Total (Percentage)		
	PS	FAs	O	PS	FAs	O
1980–2000	24	17	-	58.5	41.5	0
2001–2015	25	40	4	36.2	58	5.8

Notes:

PS=personal savings; FAs=family assistances; O=Others (financial institutions, government, etc.). It is also possible for one firm to have two or three financial sources when they established the firm.

'..... I left my wealth to my wife and children so there would be no conflicts in the future. Then, I can die peacefully'. (Abdullah, C.V. Target)

5.2 Establishing professionalism through education

In contrast to the first-generation, second-generation entrepreneurs (and those that followed) no longer encouraged their children to leave school early in order to work in their firms. In the successor's period, children were encouraged to continue their education so that they could take industrial/technical courses, gain professional qualifications, become familiar with the latest technologies, and develop a theoretical and managerial approach to metal-working. Thus, most successors in the second generation prepared the next generation with systematic guidance, through educational and experiential targets to gain an entrepreneurial spirit.

The results show that the level of education in the founder's period was lower than in the successor's period (Table 4). This is due to several reasons. First, since the national education system was not well structured, there was an infrastructure gap in terms of schooling between urban and rural areas, and most of the firms examined here were located in rural areas. Second, parents always wanted their children to be more productive in order to support the family income. Third, after the second generation finished their six-year primary education, the parents asked their children to work in their workshops. However, in the successor's period, they sent their children to vocational schools and universities. They also allowed their sons to work in the other firms for two to three years, after which they would come back to their parents' firm to work for several years before eventually they established their own firms.¹⁶

The change in education level also led firms to discover different ways of manufacturing the products. In the founder's period, it was quite common that neither the entrepreneurs nor the workers knew how to read engineering drawings or to produce efficiently. They learned their trade through a trial and error-based process under which production was geared to producing uniform products to meet customer needs. There has been an improvement under 2GFFs, as some of the youngsters could acquire knowledge and skills through higher education in the fields of mechanical or industrial engineering.

¹⁶ Interview result with 2GFF, 2016.

As a result they have been able to implement a more efficient production process by being able to reading engineering drawings and understanding how improvements could be made to the layout of facilities, etc. which has helped to reduce costs.

Table 4. Educational background of entrepreneurs in metal-working SMEs

Level of education	1980–2000			2001–2015		
	1GFF (N)	2GFF(N)	3GFF(N)	1GFF(N)	2GFF(N)	3GFF(N)
Higher education					16	1
High School	14	5		25	2	1
Primary school (PS)	4					

Notes:

1GFF=first-generation family firm; 2GFF=second-generation family firm; 3GFF=third-generation family firm; N=number.

‘...it is better to provide decent education for my children and send them on to higher education, rather than investing in management consultants to improve firm performance...’ (Dadang Rusnandar, Alfa Utama)

5.3 Transformation of the production system

This subsection describes how generational change affected the transformation of production systems in micro/small firms. Here, the production system is the manufacturing subsystem that includes all functions required to design, produce, and distribute/sell a manufactured product. It can be divided into two types: cottage industry system (CI) and factory system (FS). CI is the process of manufacturing goods by workers at home and selling them, in some cases entrepreneurs receive resources from merchants and after processing the materials, producers return finished products to these merchants. FS is in effect the modernisation of CI. In FS design, production, and distribution are handled by merchants’ firms, which organise a workshops or factory where production activities take place.

Motivation, education level, and family structure have influenced the transformation of the production system within firms. Table 5 shows that, in general, changes occur in the production system as a firm is handed down from one generation to

the next. CI were dominant among 1GFFs in the founder's period. Their motivation and education levels influenced how they operated their firms in their early years. At this time these firms were flexible enough to change the location of production according to demand, since their only focus was on how to increase family income. For 2GFFs, since most of the entrepreneurs were successors, it was difficult for them to move their production to other areas. Thus, they were less mobile and converted their homes into factories, and moved into new houses.

Identifying the specific requirements of workshops in order to implement an appropriate production system for their industry became an important issue in the successor's period. Even though, 2GFFs and 3GFFs typically still used a part of their houses as production sites, they were already a separation between their workshops and domicile. Some family members were waiting to get a suitable place before moving, while others who inherited land or buildings from the parent firms started to design their buildings as workshops.

Table 5. Ownership structure of family firms and the type of production system

Year of establishment	Type of firm	Production System		Percentages	
		CI	FS	CI	FS
1980–2000	1GFF	19		100	
	2GFF		5		100
	3GFF				
2001–2015	1GFF	25		100	
	2GFF	8	10	44.4	55.6
	3GFF		2		100

Notes:

1GFF=first-generation family firm; 2GFF=second-generation family firm; 3GFF=third-generation family firm; CI=cottage industry system; FS=factory system.

6. Conclusion

Indonesian micro and small family firms have different approaches to dealing with succession. In the succession process the family firm facilitates the setup of a new firm which results in a spin-off. The continuation of a firm depends on the rules concerning succession, ownership transfer, and the inheritance of family assets. In Indonesian

indigenous society, the rules on succession prioritize succession by a family member, and the custom is to divide family assets (inheritance assets) equally to multiple sons. In general, only one son succeeds to head his father's business and the other sons set up new firms (spin-off) by using other assets. The newly established firms are independent from one another, and although their assets came from the same source, their management is different.

Generational changes have also led to changes in the motivation and education levels of entrepreneurs, and changes in the production system of new firms (spin-offs). These changes have prompted new firms to professionalize their management, develop more flexible production systems, and improve networking. Successful generational changes can be seen from the five parent firms that created twenty new firms in the second and third generations, all of which survive to this day. This study has also shown that succession and generational change represent one of the most important stages in the life of a family firm. This time can determine the continuation or the closure of the family firm.

Spin-off activity has led to a huge growth in the number of micro and small firms in the metal-working industry and has increased the degree of specialization. It has contributed to regional development, bringing about the emergence of new economic regions or metal-working clusters. This study has shown that family firms in the metal-working sector do not intend to transform themselves into medium- or large-sized firms. Instead of growing their business to become medium or large firms, the family firm structure has tended to encourage the creation of even more micro and small firms.

Studies in business history have discussed the role of SMEs and the functions and mechanisms of industrial clusters with an emphasis on the economic rationality behind these phenomena. This study confirmed that the dominance of micro and small firms in Indonesia can be explained partially by such economic factors. However, it also demonstrated that social and cultural factors, especially the custom of divided succession, have played a decisive role in the creation of micro and small firms which dominate the industrial structure in Indonesia.

Chapter 4 Small and Medium Enterprise (SME) Policy for Social Benefit

1. Introduction

Small and medium-sized enterprises (SMEs) contribute significantly to the economies of Asia. Their sheer number is overwhelming, as they account for 98% or more of all enterprises in most countries. They generate employment, make investments in plant and machinery, and create value through the production of goods and services (Vandenberg, Chantapacdepong et al. 2016). SMEs are an important phenomenon which naturally attracts engagement from government.

It is argued that the Indonesian government promotes SMEs because of the greater economic benefits they bestow compared to large firms in terms of job creation, efficiency, and growth. Some of the SME programmes, especially technical and financial assistances, in Indonesia that are focused on investment and incentives are not effective in the long run and do not meet the expectations of businesses. Such efforts tend to support unprofitable activities and are thus inefficient (Iwantono 1995, World Bank 2001)¹⁷. Government assistance in the form of subsidies, improvements in education and training, and the development of SME clusters are more important for SME development in its entirety and can prove effective in the long run (Tambunan 2008). This study focuses on SME policy by exploring the implementation of policy, instead of providing a simple assessment of its success or failure.

In Indonesia, SMEs have historically been “a clear and consistently enunciated Indonesian government priority” (Hill 2001). They receive prominent mention in important government documents, such as long-term government plans (RPJP), medium-term government plans (RPJM), and many other official statements.

In period of the 1970s until 1998, SME policies were dominated by credit and service programmes. Credit programmes included small enterprise development

¹⁷ The research stated that government assistances through production facilities investment on a Common Service Centre (UPT) in order to foster SME are categorized as ineffective programme because incentives and subsidized are determined by Officials (supply-driven SME Programme) rather than determined by the real needs of SME (demand-driven SME Programme).

programmes, called KIK/KMKP (1971-1990), and small enterprises credit programs, called KUK (1990-1998). These programmes provide credit for investment and working capital (at a subsidized interest rate). Meanwhile, service programmes included small industries development programmes, known as BIPIK since the 1980s, and small industry estates programmes, known as LIK since 1971. These programmes aimed at providing services to SMEs through education and training, and cluster development (Diarta 2015).

In 1997, Indonesia faced the Asian economic crisis, which also affected its policies towards SMEs. Most government programmes in existence before the crisis were terminated, including programmes related to SMEs. As a result, Indonesia faced a high unemployment rate and poverty.¹⁸ To overcome these problems, the government launched the “Social Safety Net” programme (SSN). A part of the SSN programme was designed to help develop SMEs.

The purpose of this chapter is to explore government intervention in relation to metal-working SMEs over the period 1997 to 2004. This period is conventionally understood as a period of transition. Seven years may at first seem a short period of analysis, but it was an important period in SME development in Indonesia. First, in this period of transition, Indonesia faced the Asian Financial Crisis that itself was accompanied by a political crisis, bringing reforms in governances. Second, these periods showed that SMEs responded better to the economic crisis than larger firms (Sato 2000, Hill 2001). Third, many of the current government programmes were formed in the transition period, such as those related to entrepreneurship, revolving funds, etc.

Some scholars, both at the macro and the micro levels have discussed the impact of the crisis on metal-working SMEs (Sato 2000, Thee 2000, Narjoko and Hill

¹⁸ Bappenas [1999] *Social Safety Net* (Jaringan Pengaman Sosial), internal meeting with Parliament, pp 1
“As a result, the unemployment explosion was inevitable, both in urban and rural areas, which according to estimates has reached more than 14 million people. In addition, people's purchasing power continues to decline, so they are finding it more difficult to meet the needs of food, clothing, shelter, and access to education and health services. The total population under the poverty line has increased very sharply, estimated at 80 million people, or 40% of the entire population of Indonesia. Health and education levels decreased quite sharply, many children under five are malnourished and many children drop out from school.”

2007, Narjoko 2014). In general, metal-working SMEs are classified by ISIC 38¹⁹. Two industries dominate the ISIC 38 category: automotive products (fabricated products and machinery) and electronic products. The automotive industry has a history of high levels of protection and it was dependent on the domestic market at the time of the crisis. As demand collapsed in 1997-1998, the industry came to a standstill. The electronics industry was able to steer through the crisis more effectively because of the export-oriented activities of component assembly (Aswicahyono, Hill et al. 2010).

One of the industries in ISIC 38 affected by the crisis was the machinery and equipment industry. Due to the economic contraction, the real value added of machinery and equipment industry plunged to 3.9 percent in 1998, but eventually experienced a dramatic recovery in 2000, where real value added reached 56.2 percent (Narjoko and Hill 2007). Other studies have also shown that around 65 percent of the samples in metal-working SMEs were affected negatively by the crisis, though the performance of each sample shows a different result (Sato 2000). According to Sato's study, market orientation at the time of the crisis and the linkages that each SME had formed with buyers before the crisis became an important factor for SMEs. In addition, export-related businesses and government-related projects were market factors that contributed to the profitability of SMEs. Unfortunately, most studies, including those of Sato (2000), Thee (2000), and Narjoko and Hill (2007), are more interested in studying the impact of the economic crisis on the manufacturing sector and SMEs rather than examining the role of government at the time. Although they make passing mention of a role played by the government in SME development during the crisis period, they did not discuss this issue in detail. Departing from previous research, this study seeks to answer how and why the government dealt with metal-working SMEs in the 1997-2004 period.

It uses archival sources and the results of interviews conducted with some of the key actors in this regard. This study also outlines the situation in metal-working

¹⁹ According to United Nation, The International Standard Industrial Classification of All Economic Activities (ISIC) is the international reference classification of productive activities. Its main purpose is to provide a set of activity categories that can be utilized for the collection and reporting of statistics according to such activities.

SMEs with use of macro-economic data, archival sources and interviews. Some specific cases have been taken up in further detail in order to explore the impact of the implementation of policies on small firms.

This chapter is organized as follows: the next section explores the nature of metal-working SMEs in Indonesia before 1997 and the early transition period, in order to explain the important changes in environment faced by metal-working SMEs. The third section discusses SME policy during the period 1997-2004. It describes who initiated the programme, how the programme was implemented, and which government institution implemented it. The fourth section offers case studies of firms assisted by the government programme.

2. The Nature of Metal-working SME before 1997

Assessing metal-working SMEs in the transition period, especially after the economic crisis in 1997, is a difficult task and requires consideration of a very large number of heterogeneous firms widely spread across Indonesia's vast geographical expanse. Moreover, the entry and exit of entrepreneurs into this sector is rapid. As an example, Mr. Sanusi (Former Head of the Programme for SME secretariat in the Ministry of Industry) mentioned that when several local newspapers reported a massive number closures among metal-working SMEs, the Ministry of Industry began to devise a response only to find that a number of the entrepreneurs had resumed their productive activities²⁰. In this case, the entrepreneurs halted production due to uncertainty in the business environment, such as uncertainties related to their customers, raw materials, the business climate, government among others.

This section explores how the nature of metal-working SME changed from before the economic crisis to the early transition period, focusing on policy, industrial organization, and the position of SMEs in the metal-working industry.

²⁰ Short term overseas field research was funded by Kyoto University Asian Studies Unit on 2016.

2.1 Policy Support on Metal-working SME

Since the 1980s, metal-working SMEs received some assistance from general programmes provided by the government. These included credit and service programmes in which employers could obtain credit at a subsidized interest rate and join training initiatives organised by the government. The government also developed some metal-working clusters in specific areas across Indonesia, mainly on Java Island, such as Jakarta, Bandung, Sukabumi, Tegal, Yogyakarta, and Sidoarjo.

The development of metal-working SMEs and the automotive industry in Indonesia cannot be separated from the role of government. Metal-working SMEs in Indonesia have traditionally grown based on domestic consumption. Since the arrival of the automotive industry in the 1960s, metal-working SMEs began participating in the production chain of the automotive industry. At first, activity in the automotive industry was limited to the import of products such as cars and their distribution to consumers. As the automotive industry grew its activities evolved to incorporate car assembly, in the form of assembling Completely Knocked Down (CKD)²¹ vehicles, which meant that the industry had to be able to produce a vehicle with a local production component content of more than 50 percent.

The government introduced several policies in the 1970-1999 period in relation to the automotive industry in order to support metal-working SMEs. Automotive industry policy in Indonesia has historically been particularly subject to intervention and an orientation towards the domestic market, with the aim being to develop Indonesian manufacturing capabilities through import substitution. Thee identified some major programmes that sought to develop SMEs including the Compulsory Deletion Programme (active 1974-1993) and the Incentive Programme (active 1993-1999) (Thee 2012). The Compulsory Deletion Programme was a mandatory programme for the automotive industry in which assembly firms were required to gradually remove a number of specific parts and components from imported CKD so as to encourage procurement of

²¹ CKD is a vehicle (cars and motorcycles included) imported in a disassembled state with complete components and locally assembled

spare parts and components from local players. This programme led to the establishment of mandatory subcontracting relationships between LEs in the automotive industry and metal-working SMEs. However, this programme was limited in that it only applied to commercial vehicles (buses and trucks) and not passenger cars. As a result the subcontracting relationship could not develop into a stable and durable relationship, because commercial vehicles had small domestic market at the time.

Meanwhile, through the incentive programme, the government gave allowances to vehicle assemblers to import components and parts that were not produced domestically at the time. According to Thee, this programme was relatively successful in encouraging assemblers to increase the local procurement ratio of their production (Thee 2012). Nevertheless, the programme was not effective in terms of improving the capability of local suppliers who continued to be constrained by inadequate technological capabilities and a shortage of skilled labour (Tarmidi 1998, Hayashi 2005, Thee 2012).

In addition, in 1996 the government also launched the National Car Programme. This programme entailed a collaboration between PT. Timor Putra Nasional (TPN)²² and KIA Motors (South Korea). The appointment of TPN by the government was full of controversy, however, for Metal-working SMEs in Indonesia this policy has had a positive impact on their development. In 1996, TPN bought Completely Built Up (CBU)²³ vehicles due to the unpreparedness of production in Indonesia. In an agreement between the government, TPN, and KIA Motors, if the automotive producer can use 60 percent local content in their vehicles within three years, they can obtain exemption on import duties on parts (Gunadi in (Thee 2012)). This programme technically came to an end already when Indonesia obtained funding from the International Monetary Fund (IMF). These issues were discussed in point 39 in the Memorandum of Economic and Financial Policies between Indonesian government and IMF (Ministry of Finance 1997).

²² This firm is owned by President Suharto's youngest son and was established in 1995.

²³ CBU is a vehicle (including cars and motorcycles) that was imported in a fully assembled state.

2.2 The Industrial Organization

Almost 99 percent of all firms in Indonesia in the period 1991-1999 were SMEs. During this period, among of all SMEs, Small Enterprise (SE) comprised 99 percent of the total. In the case of metal-working SMEs (ISIC 38), the share of small SMEs is slightly lower than that of the manufacturing sector as a whole. However, the majority of establishments consist of SMEs (Table 6).

In terms of employment, the SME share of employment in the metal-working industry is not as dominant as in the manufacturing sector as a whole. Moreover, the SME share of employment in the metal-working industry has declined continuously. During the period 1991-1996, around 36 percent of employment in metal-working (ISIC 38) was at SMEs. In 1999, the share of SEs had clearly declined over the course of the 1990s, but that of medium enterprises (ME) increased.

In manufacturing as a whole, the share of SMEs in value added decreased from 1991 to 1999. This was unlike in the metal-working industry (ISIC 38), which although it declined between 1991 and 1996, by 1999, the share of this sector was again on the increase, especially among MEs.

Table 6 The share of SME (%)

ISIC	Year	The Share of SME (%)								
		Number of Establishment			Number of Employment			Value Added		
		SE	ME	SME	SE	ME	SME	SE	ME	SME
Manuf.	1991	99.3	0.5	99.8	61.5	5.6	67.1	11.8	5.7	17.5
	1996	99.2	0.6	99.8	61.2	5.6	66.8	10.7	5.9	16.6
	1999	99.1	0.6	99.7	59.2	5.6	64.8	9.0	6.6	15.6
38	1991	95.7	2.7	98.4	29.2	10.6	39.8	4.6	6.9	11.5
	1996	96.2	2.2	98.4	27.1	9.4	36.5	2.8	3.6	6.4
	1999	95.7	2.8	98.5	25.5	9.5	35.0	2.5	6.3	8.8

Sources: Calculated from BPS, unpublished data of Large and Medium Manufacturing Statistics, Economic Census (1996), and Statistical Year Book of Indonesia.

2.3 Position of Metal-working SME

The ability of metal-working SMEs to establish and maintain good relationships with MNCs became an important key for them to access the domestic market as component or

machine suppliers. Japan International Cooperation Agency (2004) stated that the development of metal-working SMEs in Indonesia is closely related to Japanese Multinational Company (MNC), which have been driving the automotive and electronics industries. As of 2015, there are five major players in the automotive industry in Indonesia, namely, Toyota, Daihatsu, Honda, Suzuki and Mitsubishi whose market shares are 31.9 percent, 16.5 percent, 15.7 percent, 11.8 percent, and 11.3 percent, respectively²⁴. There are a large number of metal-working SMEs that produce a variety of components and parts used by the assembly industry, including castings, die casts, moulds, and press working components. Many SMEs did not sell their products directly to the assembly industry.

The automotive industries as one of the leading industrial sectors in Indonesia also became important for metal-working SMEs, since more than 80 percent of automotive components and parts are processed by metal-working processes. According to Gunadi Thee (2012), PT. INDOMOBIL empowered 11 firms in first level (*tier*) where almost of them are *joint ventures* with an MNC, 225 firms in second tier, and a few firms in third tier. Metal-working SMEs take part in a small proportion of firms in the second tier, and are dominate in the third tier.

The Indonesian automotive industry also came under pressure in 1997 due to the economic crisis. Sales in 1997 reached 390,000 units but then dropped sharply to 58,000 units in 1998. The threefold rise in the price of the vehicle certainly contributed to the decline in sales. For metal-working SMEs, some sought to access other industries, especially food and beverage industries (ISIC 31). According to Mr. Nandjar (CEO of CV. Cipta Sinergy Manufacturing) and Mr. Jecky (CEO of PT. Prisa Genta Engineering), they entered the automotive industry by supporting the firms who were already on the second tier and third tier of the automotive industry chain, but then became a direct component/machine supplier in the food and beverage industry (ISIC 31).

²⁴ <http://otomotif.bisnis.com/read/20151219/46/503466/ini-5-merek-penguasa-pasar-mobil-di-indonesia> accessed on September 5th, 2016

3. SME Policy during 1997-2004 and Social Safety Net

This section describes SME policy in the period 1997-2004, including the ideas behind policy, the actors involved, and the results of the implementation of government programmes related to SME policy. In the implementation of policy in Indonesia, each ministry should coordinate with the Ministry of Finance and the National Development Planning Board in order to align existing programmes and for the preparation of adequate budgeting.

Nevertheless, at the level of macro policy, Bank Indonesia, the central bank, decided that, in the face of the crisis, Indonesia required assistance from donor countries. Faced with the currency shock in early July 1997, the government took the decision to extend the intervention of Bank Indonesia. Soedradjad Djiwandono, Governor of Bank Indonesia, proposed to Stanley Fisher, Deputy Managing Director of the Fund of the IMF, a *precautionary arrangement*²⁵ with budget planning, instead of a fully-fledged standby arrangement (Djiwandono 2000). According to Djiwandono, the proposal was based on the idea that India and South Korea had succeeded in restoring their economies through government policies supported by the IMF.

Due to the rapid deterioration in the financial position of Indonesia, the discussion quickly shifted to a *standby arrangement*²⁶ (Djiwandono, 2000). The IMF programme for Indonesia was summarized in the Memorandum on Economic and Financial Policies (MEFP) submitted to the IMF through a Letter of Intent (LoI) on October 31th, 1997. The programme consisted of a package of economic reforms in both real and financial sectors, supported by monetary policy and prudent fiscal policy.

The consequences of the signing of this LoI were that the government should commit to full privatization of all state banks; cancel 12 major infrastructure projects

²⁵ A precautionary or an extended arrangement under which the member agrees to meet specific conditions for the use of IMF resources although it has indicated to the Executive Board its intention not to make purchases (drawings).

²⁶ A standby arrangement is an agreement between the IMF and a member country in which the country is able to draw on a specified amount of credit for a specified time, usually one to two years, provided that its economic policies conform to the terms set out in the agreement.

including the Tanjung Jati-C power plant; discontinue immediately any special tax, customs, or credit privileges granted to the national automotive industry, etc.

Among 48 points that were recommended to the IMF in the LoI and MEFP, there were at least four that would affect SMEs in Indonesia. These included: Point (14) Comprehensive and transparent system of public sector finance; (23-37) Financial sector restructuring; (41) Promoting domestic competition; and (45) Assistance to the poor and community-based work programmes by Social Safety Net (SSN).

The SSN was launched due to the high unemployment rate and high poverty rates (Bappenas 1999). The SSN was a poverty alleviation programme and community empowerment was also integrated into the policy of the programme as well in order to help mitigate the impact of the crises that had occurred. This programme was implemented so as to restore the local economy through stages of *rescue* and *recovery* towards the normal level of economic development. The SSN was a temporary programme in the rescue period which could be continued into the recovery stages. Four areas of activity in the rescue stages were identified: (1) food security; (2) social protection of education; (3) social protection of health; and (4) employment.

Furthermore, as the Planning Agency in Indonesia, Bappenas stated that the SSN programme aimed to create job opportunities for the unemployed, increase income and purchasing power, increase the socio-economic welfare of society particularly affected by the crisis and to coordinate the various programmes tackling the crisis and poverty reduction. The economic crisis in 1997 triggered a sharp rise in the number of poor people in Indonesia which climbed to 49.50 million in 1998 compared to 34.01 million in 1996 (BPS 2014).

According to the National Development Planning Agency (Bappenas, 1999), the implementation of SSN was to be conducted via four programmes: (1) food security programme; (2) labour-intensive job creation programmes; 3) social protection programmes; and (4) economic empowerment programme. The economic empowerment programme, in particular, emphasized the development of SMEs and was conducted by the Ministry of Trade and Industry and Ministry for Cooperatives Small and Medium

Enterprises.

The government seemed in a hurry to implement SSN without considering some important factors such as: planning, human resources, the socialization process, cooperation with local governments, etc. These factors caused some problems in the implementation of SSN in the first year. Nonetheless, the decision to implement SSN was understandable considering the worsening of social conditions in Indonesia at the time.

According to Ananta, the implementation of SSN for the fiscal year 1998/1999 was fraught with difficulty and failed to reach targeted recipients with 45 percent of the budget going to the wrong recipients (Ananta 1999). SSN funds were distributed to the 314 district and city units across Indonesia's 27 provinces. The government received complaints from people in 196 districts/cities, with 182 of these complaints processed by the government. It was found that 27 complaints troubled and 55 were found to be not troubled—the remaining cases were still pending after the initial investigation (Bappenas 1999).

Several problems led to the misuse of funds with the 50 percent of misused funds estimated to have reached wrong beneficiaries, 25 percent of misuse thought to be the result of corruption, 21 percent fraud, and 4 percent related to cuts taken by state employees (Bappenas 1999). In general, these problems were thought to have been caused by the shortness of preparation time, including time for socialization; the lack of socialization; a lack of accurate data on target groups; a lack of institutional readiness; and misunderstanding related to the basic concepts of SSN.

In the 1999/2000 fiscal year, however, various improvements were made, including both substantive improvements (sharpening the target group, geographical allocation, and programme integration) and those related to the management of SSN (dissemination of information, complaint handling mechanism, regular reporting, independent verification, and the involvement of civil society). The implementation of SSN involved more Non-Governmental Organizations (NGO) and was handed over to the respective Ministries where appropriate.

On April 1999, Haryono Suyono as The Coordinating Minister for People's

Welfare and Poverty Alleviation announced that the total budget allocated for the programme in 1998 was IDR 17.5 trillion (Darmaningtyas 1999). He also stated that Technical Ministries were no longer allowed to use the funds of SSN that year. Financing for the programme could only be derived from the budget of each ministry (Suyono 1999).

Following on from this Rahardi Ramelan, Minister of Industry and Trade (MoIT), launched a programme for the Empowerment of SMEs in the manufacturing sector (Ministry of Industry and Trade 1998). From October 1998, the programme is fully implemented by the Ministry of Industry.

The programme provided financial and technical assistance to SMEs. Financial assistance took the form of funding for the purchase of raw materials and the procurement of new equipment and machinery. Technical assistance took the form of aid for pilot industrial business units (i.e. business incubator), a common service unit (UPT), promotion and marketing assistance, and training and internship assistance. The expectation of the SME development programme was that it would create employment opportunities and that the expansion of employment would help develop the potential of each region.

These programmes were implemented due to: (1) the disruption of the commercial Bank's role in SME lending in times of crisis; (2) the issuance of regional autonomy laws which caused disruption to the affairs of government administration in the period as many local governments were not ready for this reform neither in terms of organization administration nor human resources, etc.

Financial assistance was consisted of two programmes, one concerned with the provision of capital (allocated 70 percent of the total budget) and the other with capital loans (allocated 30 percent of the total budget). MoIT distinguished two phases for these assistances programmes: the *distribution phase* and the *rotation phase*. In addition, LPT-INDAK was appointed to implement the budget.²⁷ From late 1998 to early 2000, the Ministry of Industry had established LPT-INDAK in 14 provinces throughout Indonesia

²⁷ Minister of Industry and Trade Decree No. 585 of 1999 Integrated Development Institution for SME (LPT-Indak)

and allocated IDR 35 billion to 928 firms. All of the beneficiaries were indigenous entrepreneurs—the details are presented in Table 7.

Table 7 The financial assistance budget 1998-2000 (IDR)

No	Province	1998/1999		1999/2000	
		Number of SME (Recipient)	Total of Funding	Number of SME (Recipient)	Total of Funding
1	D.K.I Jakarta	21	475,000,000	18	900,000,000
2	West Java	91	3,970,000,000	40	1,800,000,000
3	Central Java	113	4,000,000,000	40	1,700,000,000
4	Yogyakarta	59	1,500,000,000	40	880,000,000
5	East Java	99	4,000,000,000	40	1,660,000,000
6	Bali	42	1,500,000,000	17	855,000,000
7	West Nusa Tenggara	18	400,000,000	40	800,000,000
8	Riau	10	400,000,000	20	900,000,000
9	West Sumatera	44	1,500,000,000	20	750,000,000
10	South Sulawesi	14	400,000,000	52	2,600,000,000
11	Lampung	-	-	20	900,000,000
12	South Kalimantan	-	-	25	900,000,000
13	North Sumatera	-	-	20	900,000,000
14	North Sulawesi	-	-	25	1,350,000,000
TOTAL		511	18,145,000,000	417	16,895,000,000

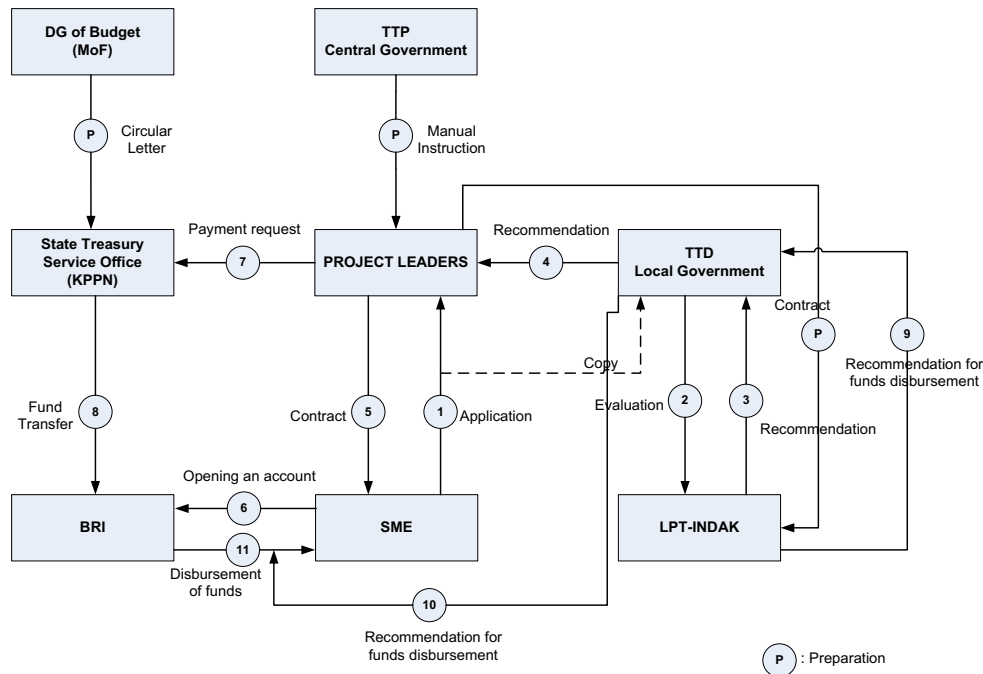
Sources: Ministry of Industry (2000)

The procedures in the distribution phase were carried out in several stages. First, an application and a feasibility study were submitted to the project leader with a copy also submitted to TTD (local government). Second, TTD assigned LPT-INDAK to analyse and assess the feasibility study of the SME. Third, LPT-INDAK provided a recommendation to TTD based on the feasibility study. Fourth, TTD provided recommendations to the project leaders about the feasibility study. Fifth, the prospective SME opened an account at Bank Rakyat Indonesia (BRI).²⁸ Sixth, the project leaders signed over financial aid to eligible SME. Seventh, the project leader submits a Request for Payment (SPP) to the local Treasury Office to disburse capital assistance to the SME. Eighth, KPPN made payments to BRI. Ninth, LPT-INDAK provided a recommendation

²⁸ BRI is a government-owned bank

to TTD for the disbursement of financial aid from BRI. Tenth, TTD informed the SME to withdraw funds from BRI; and eleventh, funds are disbursed to the SME (Figure 14).

Figure 14 Distribution phase of SME development

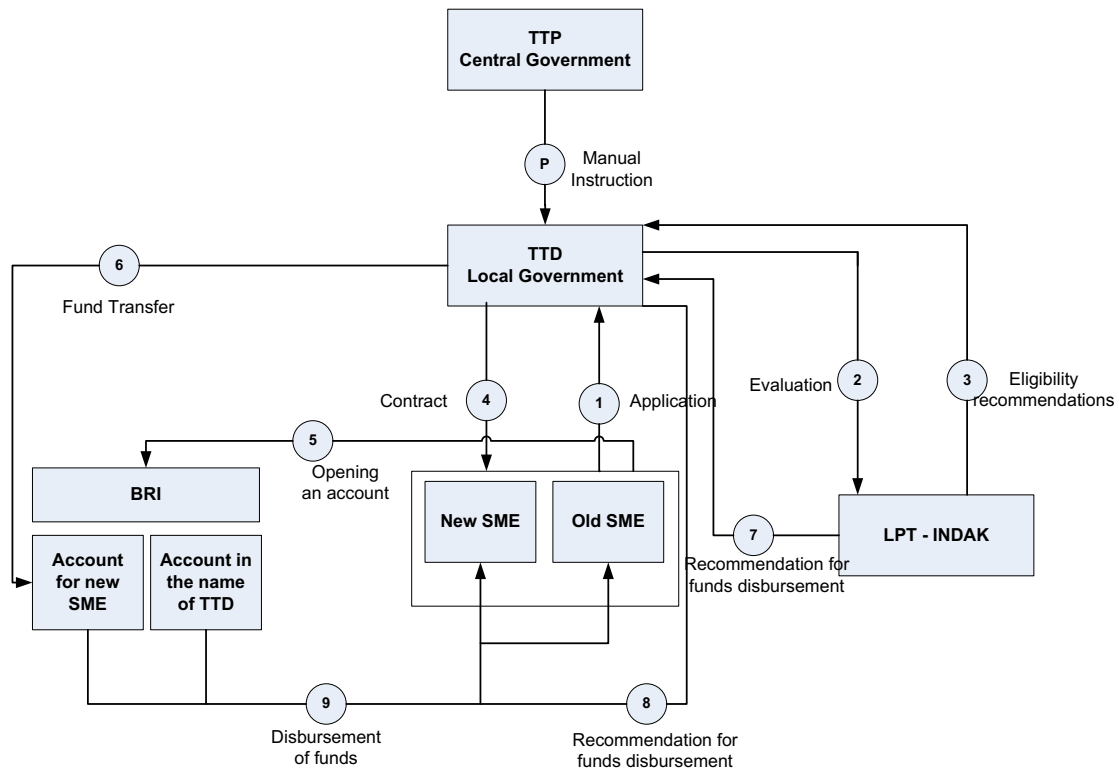


(Source: Ministry of Industry, 1998)

The procedures performed in the rotation phase were as follows: first, an application is made with an attached feasibility study which are submitted to TTD. Second, TTD assigned LPT-INDAK to conduct an analysis and assessment of the feasibility of the SMEs proposal. Third, LPT-INDAK provided a recommendation to the TTD on the feasibility of the SME proposal. Fourth, TTD signed a contract with the SME. Fifth, the prospective SME opened an account at BRI. Sixth, TTD disbursed financial aid to the SME. Seventh, LPT-INDAK provided a recommendation to TTD for the disbursement of financial aid from BRI. Eighth, TTD informed the SME to withdraw funds from BRI; and ninth, funds were disbursed to the SME (Figure 15).

In this scheme, LPT-INDAK has a responsibility to develop SMEs in the field of management, technical competence, production, marketing and loan repayment. If for some reason SME cannot fulfil their obligations, the agreement will be terminated.

Figure 15 Rotation phase of SME development



(Source: MoI, 1998)

To support the implementation of this programme, the government established the Integrated Development Institution for SME (LPT-INDAK) as a Non-Government Organization. The institution is composed of personnel from both the public and private sectors. The government/public was represented in LPT-INDAK by MoI, Bappenas, and BRI, while the private sector was represented by the Indonesian Chamber of Commerce (Kadin), and the Association for the Development of Small Enterprises (PUPUK). This institution has the responsibility of managing the revolving fund, integrated coaching and the development of SME production, capital, marketing, promotion and information. It is also tasked with the improvement of human resources and the delivery of assistance to SMEs among those which obtained government assistance.

According to Ministry of Industry, financial assistances rendered from the fiscal budget of 1998 had some positive implications for SMEs. In terms of production, among 48 SMEs in 6 provinces, 70 percent were able to increase production, 21 percent saw

production decrease, whilst 9 percent did not provide data. In terms of the rate of sales, among 71 SMEs in 6 provinces, 75 percent reported an increase in sales, 6 percent a decrease, 2 percent reported no change, whilst the rest did not provide data. In terms of employment, among 71 SMEs in 6 provinces, 42 percent increase the size of their workforce, 6 percent had to reduce theirs, and 20 percent made no change, whilst the rest did not provide data (Directorate of Small Industry and Small Trader 2000).

Regarding technical assistance there were two main programmes: the Rescue Programme and Competitiveness Improvement Programme. The Rescue Programme aimed at stimulating the growth of SMEs in times of crisis. It consisted of the establishment of new entrepreneurs, market development, and developing the access of SMEs to raw materials, markets, and technology. Meanwhile, the Competitiveness Improvement Programme aimed to strengthen the internal functions of SMEs. It consisted of efforts that sought the development of information, quality management, technology and human resources at SMEs, and institutional development more broadly. In addition, to support these two programmes, the government also facilitated the development of Intellectual Property Rights, and initiated a Business Networking Programme.

Most of those programmes were implemented in the form of training. Looking at the details of the programmes, the Rescue Programme was the most necessary of the two given the economic situation at the time of the Asian Financial Crisis.

Mr. Tjahajana as Director General of Small & Medium Industry and Prof. Toha (ITB) pioneered the idea to provide machinery assistances at ITB.²⁹ This assistance came with the expectation that the machinery could also be used by entrepreneurs³⁰. Then, in 1997, they launched an initiative for the creation of new entrepreneurs in the machining processes as a part of rescue programme. This programme included the stage of creating new entrepreneurs, the establishment of SMEs, and also monitoring and incubation stages (Irianto 2002). The stage of creating new entrepreneurs involved entrepreneurship training in which training sessions were attended by 20 - 30 participants, and divided into

²⁹ ITB is a University in Bandung

³⁰ Short term overseas field research was funded by Kyoto University Asian Studies Unit in 2016.

4-5 groups. The training took place over a period of 3 months, and included training in the technical skills required in the machining process, management skills, and an internship in automotive industries, etc. (see Figure 16). The group of participants were encouraged to establish a new firm (SME) after training was complete. Although SMEs did not yet have machines and production equipment, they could use machines and equipment at the Production System Laboratory, Department of Industrial Engineering at ITB. In this programme, SMEs did not need to pay rent for the use of machinery (only a fee for maintenance and electricity) and they can make a contribution based on their performance.

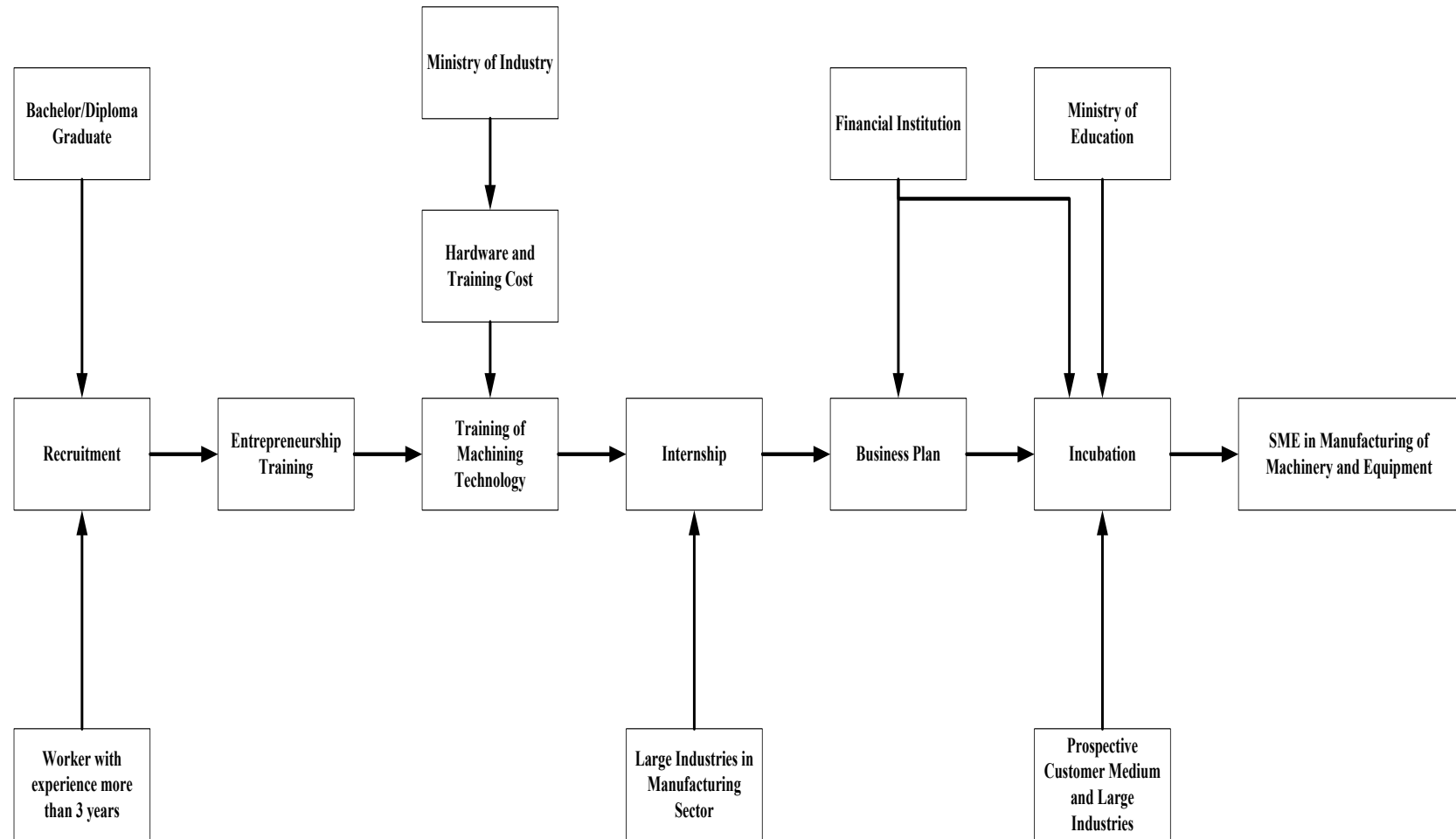
During the period 1997-2003 the programme was organized into six batches. By 2014 the programme had created at least 6 new firms operating in metal-working or the machining process.

4. Case Studies

This section draws from archival sources and interviews that I conducted with the owner of each firm in order to examine how the government programme affected firms. In total, there are thirteen metal-working SMEs in Bandung. Six of these are new firms, established by new entrepreneurs from the machining industry programmes. The selection of firms for examination was conducted in consideration of indigenous ownership, the driving forces behind the establishment of the firm, their position in the supply chain of major industries (automotive, electronic, medical equipment, etc.), their acquisition of government or MNC assistance in the transition period, and how they solved the problem in transition period.

This section also explores government assistance on two employers and their performance. Both of these firms were established after they graduated from the new entrepreneurs programme. These firms show most clearly the effect of assistance provided by government due to their own transformation having received it.

Figure 16 The incubator business in the machining industry



Source: (Irianto 2002)

4.1 Metal-working SME in some cases

All of the firms examined here were established by indigenous Indonesian entrepreneurs. Five of them existed before 1997, six were established in the transition period and the rest after 2004. Almost all of the firms are in the supply chain of the automotive industry, and two of the thirteen produce medical equipment. Three of the SMEs in the supply chain of the automotive industry, belong to third tier of the chain, and two of the owners had previously worked as directors in the automotive industry. The rest of firms support the three firms in the third tier, in this way the automotive industry itself is not the only customer for such firms.

The SMEs producing medical equipment got the chance to enter into the export market in the transition period. Most of the assistance was for accessing foreign markets by sending representatives and sales persons to participate in overseas exhibitions, and some training for improving operator skill. According to employers, by participating in overseas exhibitions, they were able to attract new customers and prospective customers, so that they could pass the period of transition without any problem. After 2008 both firms were growing in terms of production capacity and human resources. They became well established at the level of Medium Enterprise (ME) and so were rarely able to receive government assistance, including in training, thereafter.

Meanwhile, SMEs in the supply chain of the automotive industry had a different story in terms of the assistance programme that they received from the government. Their assistance was in access to technology by using the facilities in the Common Service Center (UPT), participation in a new entrepreneur training programme, and some also received assistance from MNCs through a government foundation. In this period, there were four firms that brought a halt to their production for one or two years (i.e. they had zero income). Three firms tried to seek new customers in different types of manufacture, and the rest continued to survive in the automotive industry supply chain. After 2006, six firms had been transformed into medium-scale enterprises (ME), two firms remained in the ME category and three firms remained as small-scale enterprises. As was the case

with firms in the medical equipment supply chain, all medium-scale firms were rarely given the chance to participate in government-organised training.

Government support diminished drastically for SMEs in both medical equipment and the automotive industry, after they developed into MEs. According to some MoI officials, the government does not support MEs because they are expected to develop independently.

4.2 CV. Cipta Sinergy Manufacturing (CSM) – Government Programme Directly Affecting the Development of the Firm

In mid-1997, after participating in “Training for Small Modern Industry” a course which was held by the Department of Industrial Engineering at the Bandung Institute of Technology (ITB) and Ministry of Industry, Mr. Nandjar Nugraha got an offer to manage the Laboratory of Industrial Production Systems (LSP-TI). His main task was to help students who will practice industrial production system. After serving these activities, he found that there was an opportunity to optimize existing machines in the LSP-TI that were not being used optimally. With the permission of the LSP-TI and support from Alumni of POLMAN (one of the Polytechnic state in the field of Manufacture), they tried to find orders and established CV. Cipta Sinergy Manufacturing (CSM) with 6 persons. They began to receive orders while they were still helping with the practicum at LSP-TI.

At the end of 1997, CSM received orders from a large firm, PT. INDOLAKTO, who originally imported the spare parts/components for their machines from abroad. The economic crisis led PT. INDOLAKTO to endeavour to find local partners to source parts in order to reduce the high cost of production.

In the second year, there was a leap in the CSM’s business as it received orders from the Ministry of Education to provide teaching aids for primary schools throughout Indonesia for 1 year. Then in 1999, CSM began to invest in conventional machines (milling and lathe) and in 2000 began the construction of a 225 square meter workshop in Cimahi (around Bandung). Since 2001, CSM has operated in two locations, in Cimahi and at LSP-TI. In 2002, CSM received an order from Perfetti Van Melle for the

manufacture of spare parts/components for a candy production supporting machine. In subsequent years, CSM got involved in the production of a sub-unit of the machine and engaged in design activities, especially when Perfetti wanted to upgrade the machine.

CSM also began to receive orders from the automotive industry, from PT Sinar Terang Metal Jaya and PT. Mada Wikri Tunggal (part of the third tier in the chain of the automotive industry) to produce moulds and dies for motorcycle components. In 2010, they had been regularly supplying the automotive industry producing moulds and dies for both cars and motorcycles. Until now, CSM has been picked as a supplier by three major customers: PT. Perfetti Van Melle, PT. Heinz (Food and Beverage Industry), and Pakoakuina Group (Automotive industry). CSM has also began to receive orders from the automotive industry, from PT Sinar Terang Metal Jaya and PT. Mada Wikri Tunggal to produce moulds and dies for motorcycle components. At present CSM employs 33 workers³¹.

4.3 PT. Prisa Genta Engineering (PSE) - Government Programme Indirectly Affecting the Establishment of the Firm

In contrast to CSM, PSE started in the LSP-TI incubator in 2005. Although Mr. Jecky (CEO of PSE) participated in the same training same batch as Mr. Nandjar, afterwards he chose to return to work and continue his education.

Currently, PSE is still in the incubation centre at LSP-TI even though they have already obtained land to establish workshops in 2010. This is because they have encountered problems in licensing the building of their workshop, despite the location of the land in the industrial zone of Cimahi. The delay is understandable because as a new autonomous region, Cimahi has not yet developed a permanent blueprint for regional development because previously it was a part of Bandung city.

Since its operation commenced in 2005, PSE has been run with 5 persons and has received orders from their partners, including CSM. The two major customers of PSE are

³¹ Summarized from the archival of the financial transactions from various year

PT. Ultrajaya (ISIC 31) and PT. Adyawinsa Dynamics (ISIC 38). In order to relocate to a workshop in 2015, PSE obtained working capital credit from the government and these funds were used to build a new workshop in the industrial park in the Cimahi area.

From 2005 to 2008, PSE has increased the sales turnover by up to 400 percent. According to Mr. Jecky, having customers from two different industrial sectors, namely ISIC 31 and ISIC 38, will be beneficial to the development of the firm. Indeed, when they experienced a decrease of orders in the ISIC 31 sector, this was counterbalanced by a significant increase in orders in the ISIC 38 sector.

5. Conclusion

This chapter has demonstrated that the government has provided protection for metal-working SMEs so as to maintain their development, even in a transition period. The development of metal-working SMEs in the period of transition has been of social benefit as well as part of industrial development. In terms of social benefit, the government could target a reduction in the unemployment rate in the transition period through supporting SMEs. In addition, in terms of industrial development, the government opened up opportunities for metal-working SMEs to be more active, strengthening the industrial structure in Indonesia. However, the policy making process during the transition period suggests that government support for metal-working SMEs was more directed towards social development rather than industrial development, with the prime intention being to reduce unemployment.

There was an empowerment of SMEs through SSN programmes implemented until 2003. First, the revolving fund programmes continued until 2009. The government through the Ministry of Cooperatives and Small and Medium Enterprises (KUKM) also launched a new agency to manage the revolving fund and this programme still runs at the time of writing. Second, entrepreneurship programmes, which also still run at present, were implemented in order to create new entrepreneurs and firms (micro firms and small firms) in several segments of the manufacturing sector.

Since all beneficiaries have been indigenous entrepreneurs and micro firms and small firms have been prioritised, the government's motivation can be seen as one way in

which to address the ethnic tensions that it perceived to be a “barrier to development”. The promotion of SMEs was in effect an act to encourage equality along ethnic lines.

In this chapter I have also explained that metal-working SMEs were able to grow during the transition period because of the rescue programme and competitiveness improvement programme. The rescue programme in particular triggered the emergence of new SEs and helped existing SMEs to ride out the crisis. The thirteen firms examined show that it was possible for firms to pass through the transition period, and in some cases to grow into a medium-sized firm. Government's support in terms of direct assistance has been reduced accordingly when compared to the past.

The creation of a new entrepreneurship programme in the field of the machining process has shown good synergy, not only between government institutions, but also in the production chain in the metal-working industry. CSM and PSE have had different development stories. However, government assistance encouraged the establishment of both firms and aided their development.

Studies on SME policy have discussed the role of policy in SME development with an emphasis on economic factors, and in reference to industrial development. In contrast, this chapter has shown that SME policy, especially technical and financial assistances provided by the government in Indonesia was implemented for the purpose of social development, especially in reducing unemployment in Indonesia. This continues to be the main reason for the government to preserve such programmes, especially the entrepreneurship programmes.

Chapter 5 Social and Political Factors in Tripartite Relationship between Business Group, Multinational Corporations and Small Firms: The Case of PT Astra International

1. Introduction

One of the most important issues in development debates is the role played by multinational corporations (MNCs) in economic development. MNCs can help emerging economies in the modernization of industries by transferring technology, providing access to export markets, and increasing employment (de Mello (1999) and UNCTAD (1999)). On the other hand, other scholars believe that beneficial effects are not given, and MNCs may stifle economic development by locking small- and medium-sized enterprises (SMEs) in low, value-added activities, and by alienating local investments and jobs (Caves (2007) and Buckley and Ghauri (2004)).

One of the key issues related to the role of MNCs in economic development is the way in which MNCs interact with firms and local industries, especially SMEs. This issue is increasingly important as an MNC's role in managing global economic activity and as private sector development becomes a key development priority. In this situation, it is important to ask how an MNC contributes to the development of the local SMEs.

*Partnership linkages*³²—especially SMEs acting as subcontractors to MNCs—have traditionally been subject to the most intensive interest by scholars and policy makers. The immediate benefits to host country (e.g., job gains), technology transfer due to development of channels based on supplier linkages with MNCs, training, sharing business information, financial support, and market opportunities can be passed on to SMEs. Smaller firms are not the only ones to benefit from linkages with MNCs, but many of the potential benefits are precisely those areas where the SME sector is thought to be at a disadvantage vis-à-vis other domestic enterprises. As demonstrated by the

³² The “partnership linkage” is a policy concept of cooperation between Micro, Small, and Medium Enterprises and Large Enterprises. It refers to government law where the partnership linkage is cooperation in business relations, both directly and indirectly, on the basis of the principle of mutual need, trust, strengthening, and benefit that involves the actors of Micro, Small, and Medium Enterprises with Large Businesses.

Organisation for Economic Co-operation and Development (OECD), MNCs' foreign affiliates generally seek local supplier relationships to reduce their dependence on intrafirm trade and, over the medium term, are mostly successful (OECD 2002).

Forming linkages between MNCs and SMEs remains a priority for policy makers in Indonesia. Since the 1970s, the Indonesian government has tried to encourage the development of partnership linkage between SMEs and large enterprises (LEs), including MNCs, by implementing local content policy in some industries, including machinery, electronics, and the automotive industry, as part of import substitution policies. The main objective of this policy is to encourage local industries as well as to encourage industry structure that follow the industrial pyramid model from Japan (TAF 2000). In this model, small businesses (SEs) are on base to support medium-sized enterprises (MEs), which then support LE at the top of the pyramid.

The general objective of this chapter is to explore the partnership linkage between MNCs and SMEs. It tries to deal with the research question on how the MNCs create partnership linkages with SMEs, especially metal-working SMEs who become MNC subcontractors. In this chapter, I define that there are two patterns of partnership linkage between MNCs and SMEs in the metal-working industry, namely the related and unrelated partnership linkage to the MNCs value chains. The related partnership linkage can be interpreted as an alliance between two or more parties that form a collaboration in a similar core business so that they can benefit from better results. A subcontracting relationship can be classified as related partnership linkage. Meanwhile, unrelated partnership linkage can be described as an alliance between two or more parties that have a different core business. This type of linkage can be seen from social activities of MNCs. Furthermore, this study hypothesizes that social and political elements can play an important role in establishing the strong partnership linkage between MNCs and SMEs in Indonesia, especially for related partnership linkage.

The literature discussing the role of MNCs in partnership linkage between MNCs and SMEs in Indonesia is still rather limited. In general, partnerships are described by subcontracting relationships. Some studies on subcontracting activities in Indonesia

((Sato (2000), Supratikno (2001), and Pantjadarma (2004)) concluded that the subcontracting relationship between SMEs and MNCs in Indonesia is still weak, mainly because SMEs cannot meet the required standard of quality due to their lack of technology and skills. Meanwhile, Hayashi (2002) studied the subcontracting activities between SMEs and Japanese firms in four industries, namely, diesel engines, pump units for oil, bicycles, and motorcycles in Indonesia. The study showed that the subcontracting relationship can increase productivity in metal-working SME firms in Indonesia.

SME engagement in corporate social responsibility (CSR) has emerged in mainstream academic research (Tilley (2000), Spence and Rutherford (2003), Castka, A. et al. (2004), Jenkins (2006), and Murillo and Lozano (2006). A few studies explored the partnership linkage between MNCs and SMEs in Indonesia (Urip (2010) and Bhinekawati (2017). According to those studies, a successful CSR of an organization can be established with a well-understood vision or mission supported by clear guiding principles, demand-driven process organization, integrated human resources development, and an effective monitoring and control system, led by professional skilled human resources. Both studies assumed that partnership linkage between MNCs and SMEs is part of the CSR activities of the MNCs.

This study focuses on a single case on the nonprofit foundation of an MNC in Indonesia, namely Yayasan Dharma Bhakti Astra (YDBA). YDBA is one of the foundations established by PT Astra International Tbk (Astra)³³ to support SME development in Indonesia. Astra has long realized that the role of its partners was of vital importance to the firm's success, because partners are part of the production chain and Astra relies heavily on their performance. This is the reason that Astra established a foundation, which is dedicated for SME development, namely YDBA. In addition, YDBA also has a long history with the Indonesian government in the development of SMEs. For example, YDBA relocates 40 SMEs to industrial areas in Sukabumi. Previously, the government had come up with establishing industrial estates in the same

³³ Astra is a business group consisting of some MNCs, such as Toyota, Daihatsu, and Komatsu.

place.

This study analyzes the long-term development of YDBA's relationship with SMEs by focusing on the period between 1957 and 2015. These periods consider the change of ownership structure of Astra. By considering the development of legislation on the partnerships program and key programs that have been implemented by YDBA for metal-working SME, I divide this period into three parts: (i) 1957–1984, (ii) 1985–2002, and (iii) 2003–2015. These periods show the social and political factors involved in the development of SMEs through a network of partnerships.

Specifically, this chapter hypothesizes that MNCs can encourage the transformation of the small firm to support the MNCs' production chain. The relationships were not only influenced by economic factors but also by social and political factors. Social issues, government legislation, and ownership changes are factors that affected Astra's decision for YDBA in transforming small firms. The influence of these three factors becomes crucial in encouraging the transformation of SMEs.

This study was conducted by observing various sources, such as government laws, Astra annual report, Astra magazines, YDBA magazines, and semistructured interviews with YDBA committees and the owners of firms. The remainder of the chapter is as follows. Section II reviews the development of MNC and SME partnership legislation. Section III discusses Astra and the foundations. Section IV presents partnership for social and political impetus. Section V describes the cases between YDBA and SMEs. Finally, Section VI provides implications of this study.

2. Development of MNC and SME Partnership Legislation

In 1978, the Ministry of Industry announced the linkages program between large firms (including state-owned enterprises [SOEs], large private enterprises, and MNCs) and SMEs as a national movement that must be supported by all levels of the business. This program was also known as the Foster Father Program (Bapak Angkat Program). It encouraged large firms to provide assistance for SMEs. The assistances are provided in capital, marketing, consulting, and research and development (Ministry of Industry 1993).

According to the Ministry of Industry, this program is based on the concept of “kinship” that lives in the Indonesian culture. This kinship is defined as a form of collectivity between large firms and SMEs. The Foster Father Program was famous until early 1995, and this program was used as a pattern of relationship between large firms and SMEs until recently.

The government issued Law No. 9 of 1995 on SMEs with the intention for empowering SMEs. This law explored the conducive business climate, coaching, development, financing and guarantees, partnerships, coordination and control, as well as criminal and administrative sanctions provisions. It also provided legal clarity on the implementation of the Foster Father Program and it was subsequently replaced with the term “partnership.” In addition, President Suharto launched the National Business Partnership Movement in 1996. An explanation for the pattern of partnership was discussed in government Regulation No. 44 of 1997. According to this regulation, government, business, and society should be involved in the development of production and processing, marketing, human resources, and technology.

Government Regulation No. 44 of 1997 was issued to accelerate the realization of a partnership between LEs and SMEs. Partnership is defined as a form of cooperation between SMEs and LE, which is followed by the coaching and development based on the principle of mutual need, mutual reinforcing, and mutual beneficiaries.

In 2003, the Ministry of Social Affairs launched the concept of “seat belt,” a concept of corporate social investment (Pembudi 2005) or corporate social responsibility (CSR). The Ministry of Social Affairs plays an active role to introduce the concept of CSR and advocate on various national firms. In this phase, the common form of CSR is the provision of assistance to local institutions (including SMEs) and the poor around the firm. The partnership linkages are also included in the CSR pattern.

After 2003, there were at least three regulations covering partnerships in CSR programs (Table 8), including (i) Law No. 25/2007 on Investment, detailing SME partnership; (ii) Law No. 40/2007 on Limited Liability Company obliging firms related

to implementing CSR; and (iii) Law No. 11/2009 on Social Welfare.³⁴ The three regulations were used as a guide for firms implementing partnership linkages in Indonesia until today.

Table 8 SME Partnership legislation framework

Law for partnership	Mandate	Implementation	Sanctions
Law No. 25/ 2007- Investment	• Development of SME partnership (Article 13 and 28)	Not discussed	Administrative sanctions (article 16).
Law No. 40/ 2007- Limited Liability Company	• CSR is the obligation of firm (Article 74) • CSR must be budgeted in the company's cost (Article 74)	Government Regulation No 47/2012 • Board of directors have a mandatory to make CSR annual plan • Annual work plan should contain activities and budget of CSR (Government Regulation No 47/2012).	Sanctions will be given according to the related laws (Article 74)
Law No. 11/2009- Social Welfare	• Role of business in social welfare is in their CSR (Article 40) • CSR funds for social welfare are a form of business obligation to their social and environment (Article 36)	Social Ministerial Regulation No. 13/ 2012 • CSR forum should be established at national and provincial levels	Not discussed

3. Astra and its Foundations

According to Forbes Indonesia, the best 50 corporations with sales, net income, and return on equity in Indonesia was dominated by MNCs, family business, SOEs, and business groups.³⁵ Particularly for business groups, Astra is the biggest among the other business

³⁴ According to interview result with M. Iqbal (Secretary of Astra Foundation)

³⁵ According to "Market" in Bisnis.com, <http://market.bisnis.com/read/20161021/192/594438/ini-daftar-50-perusahaan-terbaik-indonesia-versi-forbes-2016>, accessed on May 30th, 2018

groups. Some MNCs registered in Astra, such as Toyota, Daihatsu, Komatsu, BMW, Peugeot, Denso, and Fuji Xerox. As an example, Astra holds a 50% share in Toyota-Astra Motor (Toyota), 31.87% share in Astra Daihatsu Motor (Daihatsu), 50% share in Isuzu Astra Motor, and 59.5% share in United Tractors.

Mr. William Soeryadjaya or Tjia Kian Liong, his brother Tjia Kian Tie, and his friend Liem Peng Hong founded Astra in 1957. The business started in general trading and exporting and importing products in the agriculture sector. In 1990, it changed its name to PT Astra International Tbk. From 1957 until now, the ownership structure of Astra (1984–2002), and international shareholders (2002–now).³⁶ As a family business, Astra had long been held exclusively by Soeryadjaya and his children until end of 1992. At that time, Astra went bankrupt and began to release family shares. As a result, Astra and affiliate firms, apart from the founding family's ownership, came to be held by multiple owners, including the Indonesia government financial institution, domestic private capitalists, and foreign firms (Pambudi and Djatmiko 2012). Astra became the forerunner of listed public corporations, which was seen at the change of leadership from Soeryadjaya to Theodore P Grace (his nephew). Under the new leadership, Astra started to transform the management from a family business into a professional organization (Goestiandi and Pareanom 2012). In 1988, Astra was listed on the Surabaya Stock Exchange.³⁷ Jardine group shares have been dominant since 2002, and they have held 50.11% of Astra shares since 2005. This means that the majority of Astra shares, which used to be owned by domestic stakeholders, transferred to international investors (Astra (2002), Astra (2005), and Astra (2007)).

Astra has 219,715 employees in 215 subsidiaries,³⁸ associated firms, and joint venture entities operating seven business segments, including automotive; financial services; heavy equipment, mining, construction, and energy; agribusiness; infrastructure and logistics; information technology; and property.

³⁶ Astra archival record

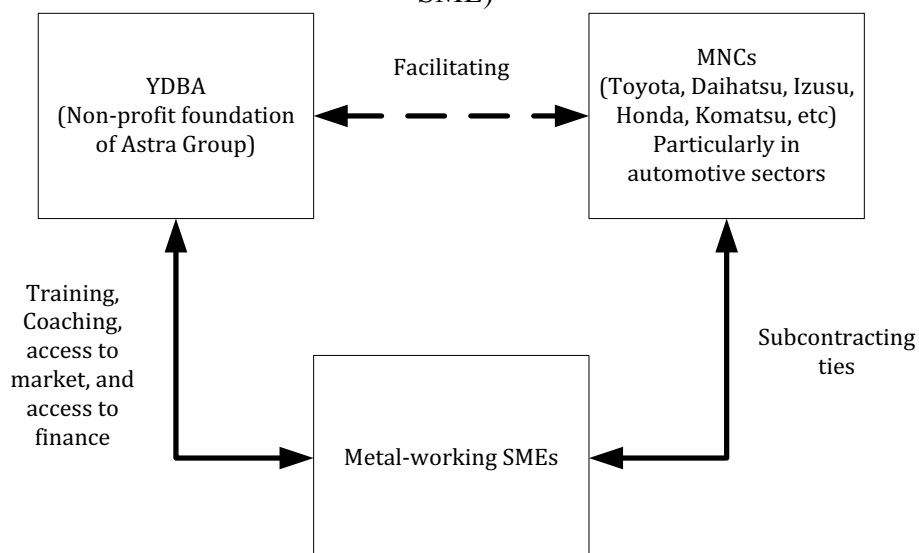
³⁷ According to history of Astra, <https://www.astra.co.id/About-Astra/History-Of-Astra>.

³⁸ According to Astra's data in 2016.

To contribute to the community, the Astra Group has established nine foundations. The ninth foundation is engaged in education, health, environment, and income-generating activity (IGA). IGA is a coaching and development program (partnership) between Astra Group and SMEs. The coaching programs provide management, technology, market access, financing facilities, and information technology by maximizing synergies on Astra's integrated value chain network. YDBA is the only Astra foundation that runs the IGA program.

The relationship between YDBA, MNCs, and SMEs can be seen in the Figure 17. In general, YDBA facilitates MNCs to find a new supplier in their production chain by promoting metal-working SMEs in Indonesia. For some cases, MNCs are directly related to metal-working SMEs before they became YDBA members. Typically, this relationship is created by the advice of the motor vehicle industry association. Meanwhile, metal-working SMEs who have become members of YDBA or at least been involved in YDBA got a chance to be fostered by YDBA. Early fostering usually begins with training and mentoring. At this point, SMEs are emphasized to improve performance. If SMEs perform well, YDBA continues to increase partnership by linking SMEs and MNCs in Astra Group (Figure 17).

Figure 17 The tripartite relationship in SME development (Case of metal-working SME)



Source: Author

3.1 YDBA: Brief profile

Mr. William Soeryadjaya founded YDBA in 1980 with the “give the rod, not fish” philosophy. When YDBA was founded, there was a wide income disparity between ethnic groups in Indonesia. YDBA is Astras’ commitment to participate actively in assisting SMEs in the supply chain business to grow and operate competitively in the national industrial structure. YDBA is supported by several departments, including planning and development, training and mentoring, value chain management, finance and general affairs, and human resources development. The whole structure of YDBA organization can be seen in Figure 18.

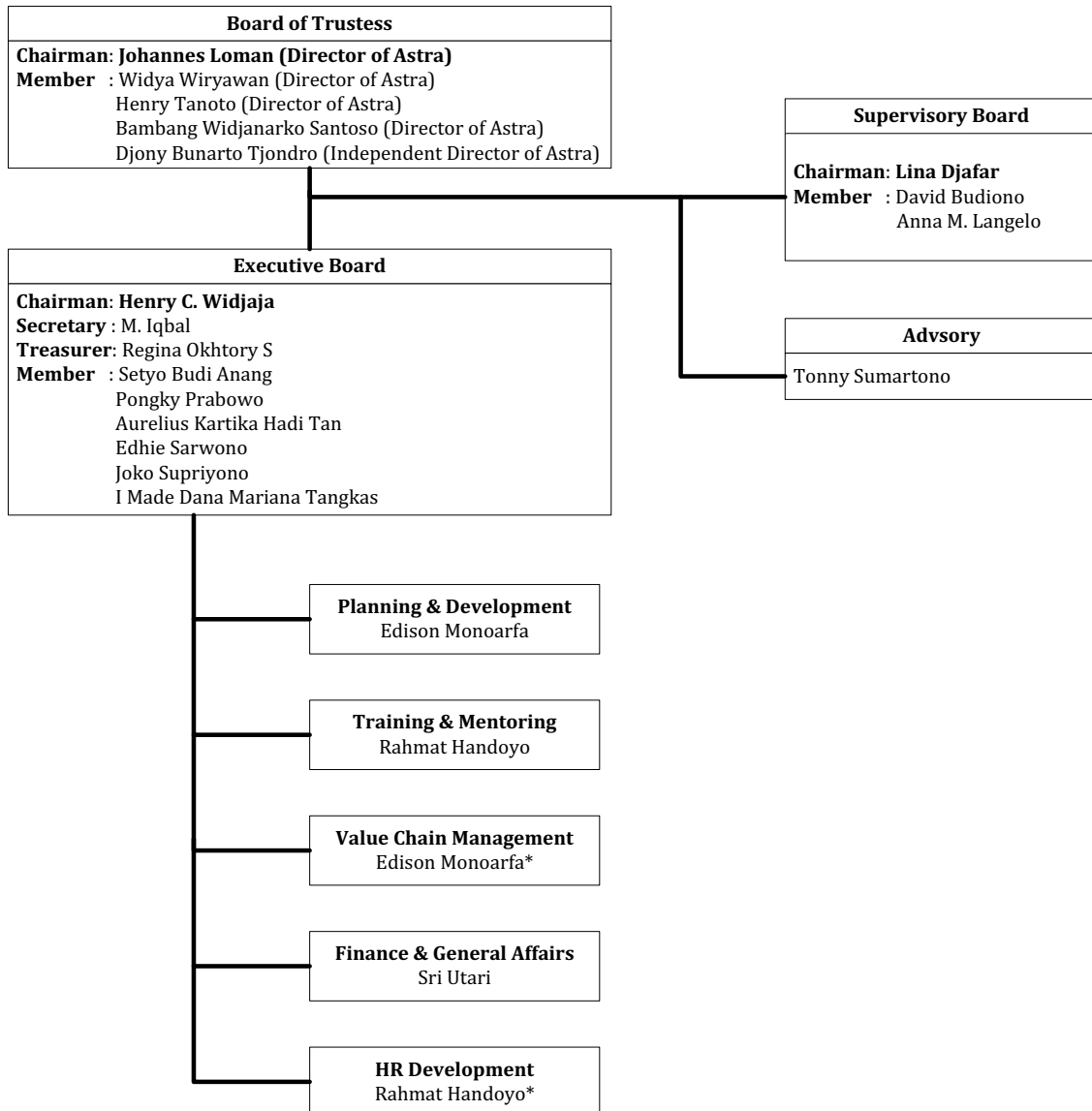
YDBA is operated by Astra employees. The operationalization of YDBA is reported to the Board of Trustees, which is made of members of Astra’s Board of Directors (Figure 18). Meanwhile, Astra’s Board of Directors is a representative for MNCs of Astra International. Most of them come from Japanese automotive MNCs. This figure shows that YDBA concerns itself on developing metal-working SMEs in Indonesia to support automotive MNCs. It is also supported by data from Table 9. Until 2016, YDBA has fostered 297 SMEs and employs 29,077 workers. On average, each of these SMEs has been able to employ 100 workers. The result shows that there has been a transformation from micro-small firms to medium firms. Here I argue that the increase in labor also shows firm transformation.

YDBA facilitates SMEs across Indonesia, both related and unrelated to Astra value chains. YDBA provides technical and managerial training and coaching to SMEs to achieve their self-reliance. Until 2016, YDBA has developed 9,828 SMEs and created 63,205 jobs through its facilitated SMEs (Table 9).

To develop SMEs in some regions, YDBA has established 14 Business Development Agencies (BDA) in Mataram, Jakarta, West Kutai, Sidoarjo, Palembang, Tapin, Yogyakarta, Tegal, Paser, Pontianak, Muara Enim, Sangatta, Bontang, and Semarang (Figure 19). Moreover, to facilitate financing for SMEs, YDBA established Micro Financial Institution (MFI) and cooperatives. Up to this year, there has been 10 MFI/cooperatives in Tabalong, Buntok, Tamiang Layang, Balangan, Mamuju, Poloho

Budong, Tapin, West Kutai, Pangkalan Bun, and Kutai Kartanegara. The MFI aims to facilitate SMEs in obtaining funds for investment and firm operations (Table 10).

Figure 18 Organization Structure of YDBA



Source: <http://ydba.astra.co.id/struktur-org.php> accessed on March 24th, 2018

Table 9 SME sector development target by YDBA

No	SME's Sector	Achievement				Accumulated (until 2016)	
		2015		2016			
		No. of SMEs	Jobs	No. of SMEs	Jobs	No. of SMEs	Jobs
1	Subcontractors Linked to Astra Business Value Chain	8	966	18	386	297	29,077
2	General Manufacturers Not Linked to Astra Business Value Chain	23	517	23	207	97	1,669
3	HONDA-Partner Service Station	0	0	0	0	60	180
4	AHASS (Astra Honda Authorized Service Station)	0	0	0	0	628	3,768
5	2W General Service Station	0	0	26	52	238	757
6	4W General Service Station	3	20	94	282	379	4,118
7	Member of BDAs	502	2,045	485	893	3,711	16,875
8	Member of MFIs / Cooperatives	0	0	0	0	4,255	5,097
9	Handicraft Makers	0	0	0	0	163	1,664
Total (Accumulated)		536	3,548	646	1,820	9,828	63,205

Source: YDBA's data (2016)

Note: 2W = 2 wheels and 4W = 4 wheels

Table 10 Financial facilitation for SME

No	Financial Institution	Achievement			
		2015		2016	
		No. of SMEs	Amount (IDR Billion)	No. of SMEs	Amount (IDR Billion)
1	PT Astra Mitra Ventura	37	51.8	30	88.1
2	Permata Bank	37	366.6	28	200.2
3	Kredit Usaha Rakyat (KUR)	0	0	34	1.6

Source: YDBA's data (2016)

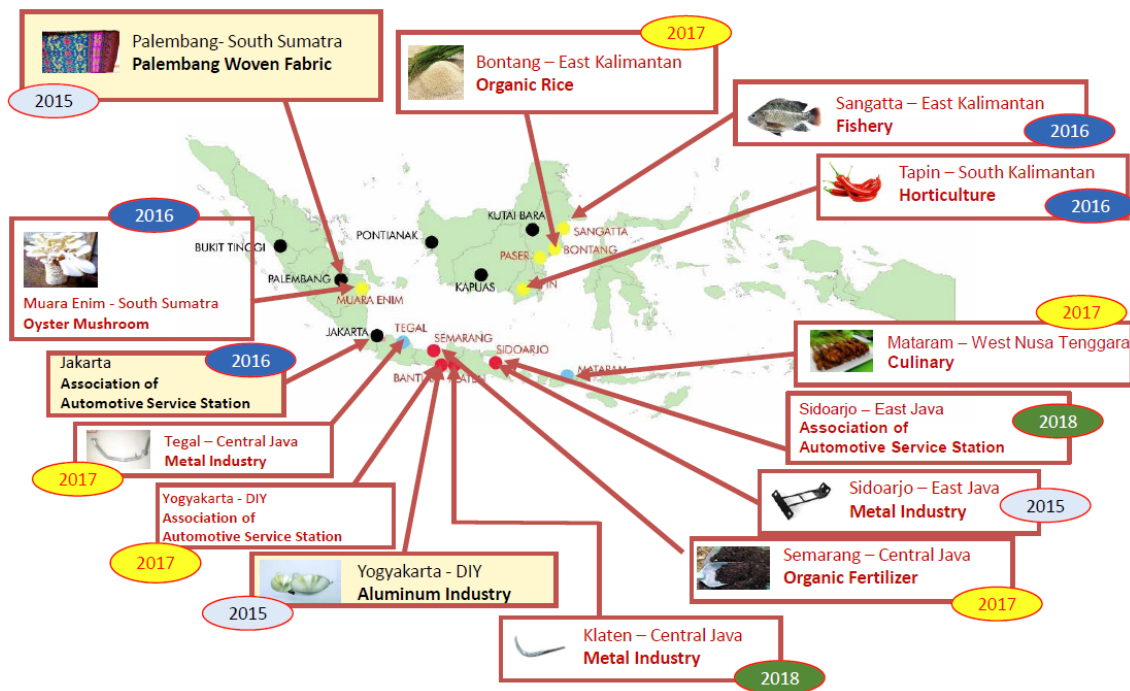
3.2 YDBA and Metal-working SME Partnership Linkages

Figure 19 also shows the leading sector of SMEs in Java Island, which is fostered by YDBA and is dominated by metal-working industries and automotive service stations. Both sectors are linked to the Astra business chain, especially the automotive assembly sector. They can appoint them as a supplier of Astra.

In choosing the suppliers, Astra uses a set of selection procedures. Here, YDBA plays a major role by continuously promoting SMEs to the Astra Group. Up to 2016, Astra worked with more than 297 SMEs, and 64 of these firms have become self-reliant

SMEs.³⁹ The appointed SMEs continuously receive development support from YDBA, mainly directed at improving the ability to meet quality requirements, cost, and delivery. YDBA nurtures the partnership with equality, independence, and transparency as guiding principles.

Figure 19 BDAs and the Leading Sector of SMEs

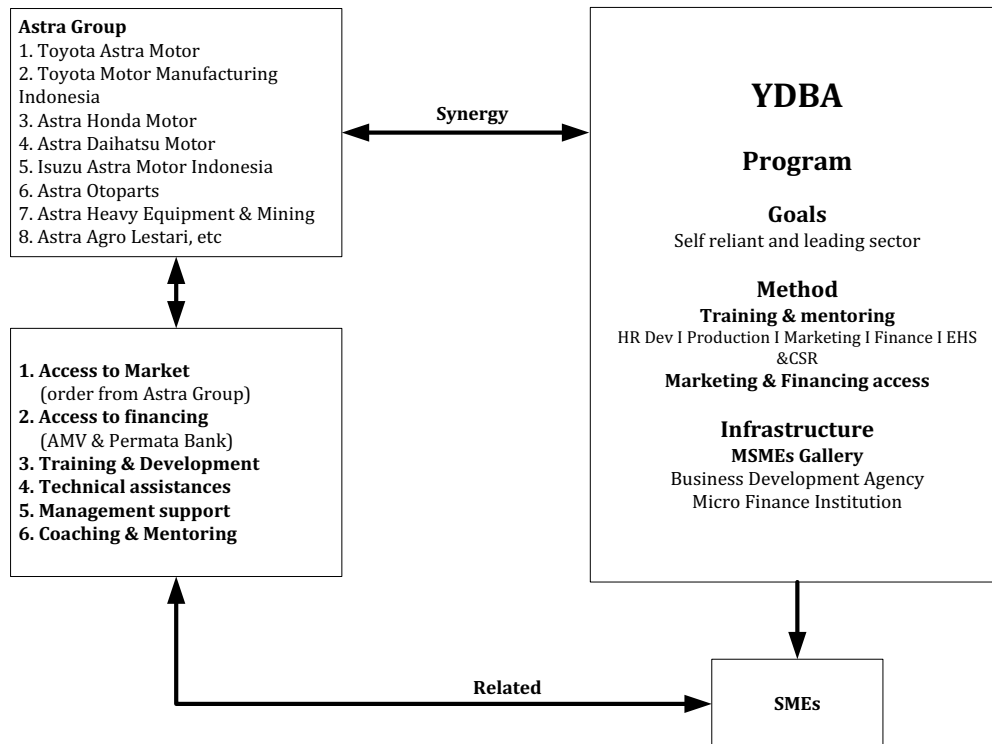


Source: YDBA's data (2016)

The main methods of SME development by YDBA are training and mentoring and marketing and financing access (Figure 20). Training and mentoring are focused on human resources development, production, marketing, finance, environmental health and safety, and CSR. Especially for CSR, SMEs are considered as self-reliant SMEs by YDBA if they can also foster other small firms. In market access, YDBA introduces the SMEs to the Astra Group as their partners. In addition, in financing access, YDBA facilitated the SMEs to Astra Mitra Ventura (AMV) and Permata Bank (Astra subsidiary in financial sector) to get loans.

³⁹ YDBA catalogs (2014)

Figure 20 YDBAs' partnership framework



Sources: YDBA's Data (2016)

4. Partnership for Social and Political Impetus

In this section, I used the change of ownership structure of Astra as the period of analysis. By considering the development of legislation on partnerships and key programs that have been implemented by YDBA for metal-working SMEs, it establishes a periodization of partnership linkage in YDBA (Figure 21). The periodization includes (i) the period of 1957–1984 as a period of donations, (ii) the period of 1985–2002 as a period of political impetus, and (iii) the period of 2003–2016 as a period corporate strategy.

The change of ownership structure describes that ownership factors can influence firms' strategy in determining the direction of development policy of partnership linkages. Meanwhile, the laws and programs run by the firm can show the motives of establishing a partnerships linkage between MNCs and SMEs. These three factors are analyzed in the following sections.

Ownership changes influenced Astra's decision to develop SMEs through YDBA.

Astra was established as a family business in 1957 and it continued until 1988. At the time, the decision for developing SMEs was made by the owner of Astra. During this period, SME development was more likely to be via donation or charity due to the social disparity in Indonesia at that time. In the next period, 1988–2002, Astra grew into a Limited Liability Company. Although the largest share is still owned by the family, the firm has been run professionally. Professional management of the firm has changed the development of SMEs by Astra. Astra chose to comply with the government to support government programs. In the next period, 2003–now, Astra has been occupied by Jardine Cycle & Carriage Ltd. Since this period, Astra has begun to position SMEs as strategic partners to support their core business.

4.1 Period of 1957-1984: No Partnership - Pure donations

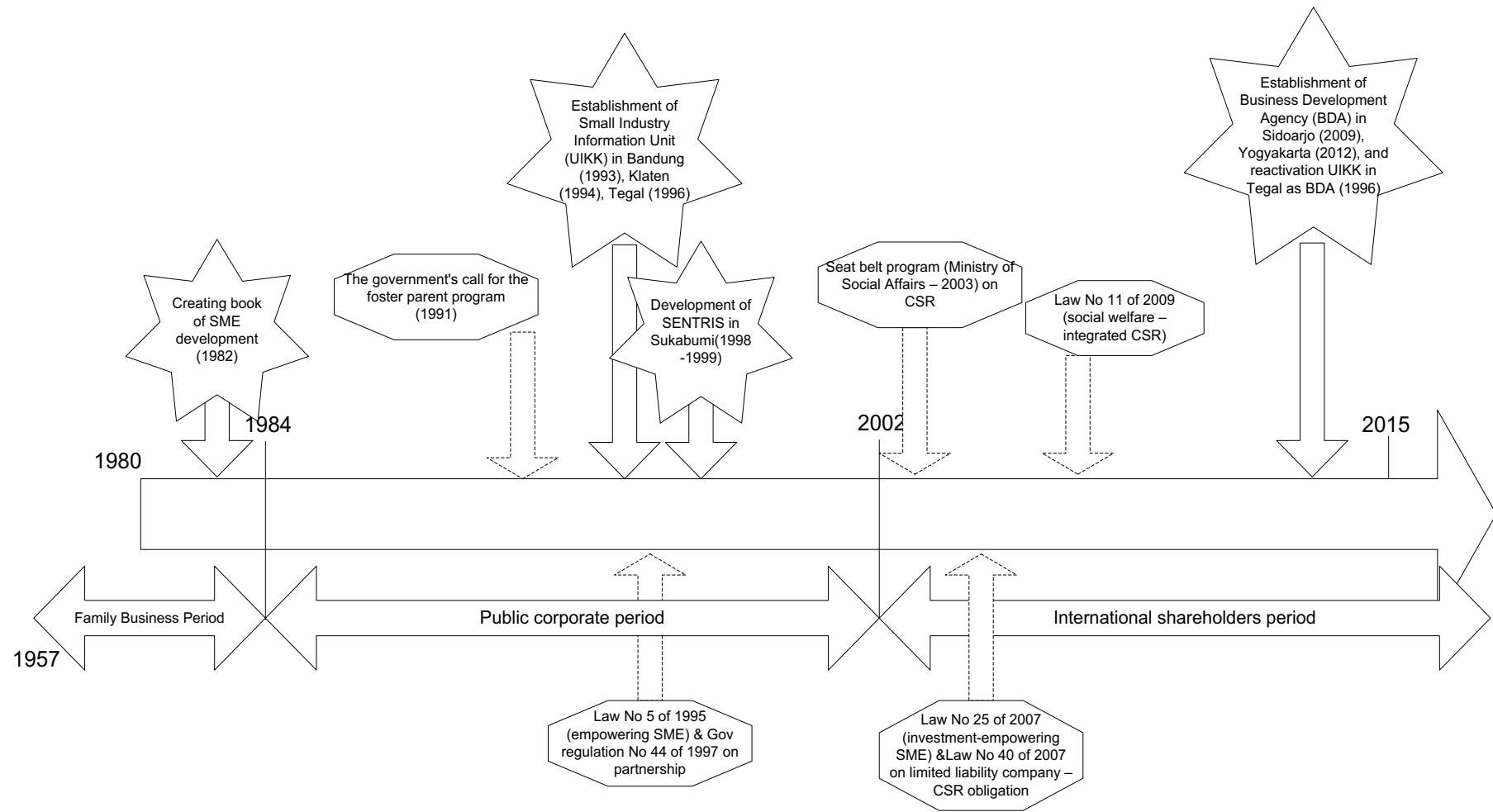
In this period, there was no partnership between YDBA and SMEs. The assistance provided by YDBA was a donation to the community. Donation was part of Astra's solution to reduce poverty and social jealousy at the time.

Mr. William Soeryadjaya or Tjia Kian Liong, his brother Tjia Kian Tie, and his friend Liem Peng Hong founded Astra in 1957. The business started as a general trading and export-import product company in the agriculture sector. During the period of 1957–1984, poverty and social jealousy and income disparity between social groups in the Indonesian society affected Astra and their business (Pambudi and Djatmiko 2012). One way to overcome poverty and social jealousy was to establish Astra foundations.

Mr. William Soeryadjaya established YDBA in 1980 to foster and develop SMEs. He provided IDR 300 million from his own fund for the establishment of YDBA.⁴⁰ At the time, most beneficiaries were farmers, blacksmiths, and fishermen, who worked in cooperatives. YDBA provided machinery (donations) and loans without interest.

⁴⁰ Interview result (Iqbal, 2016)

Figure 21 Historiography of the partnership linkage in YDBA



Mr. Soeryadjaya adopted the donations and loans without interest from a government project during this period when the government had already launched the Small Investment Credit (KIK) and Foster Father Program in 1978. Unfortunately, these assistances did not support capability building of the beneficiaries; thus, the assistances could not empower the SMEs. In addition, the loans that were provided by YDBA were not performing and the machinery was not being used properly. The assistances were stopped in 1986.

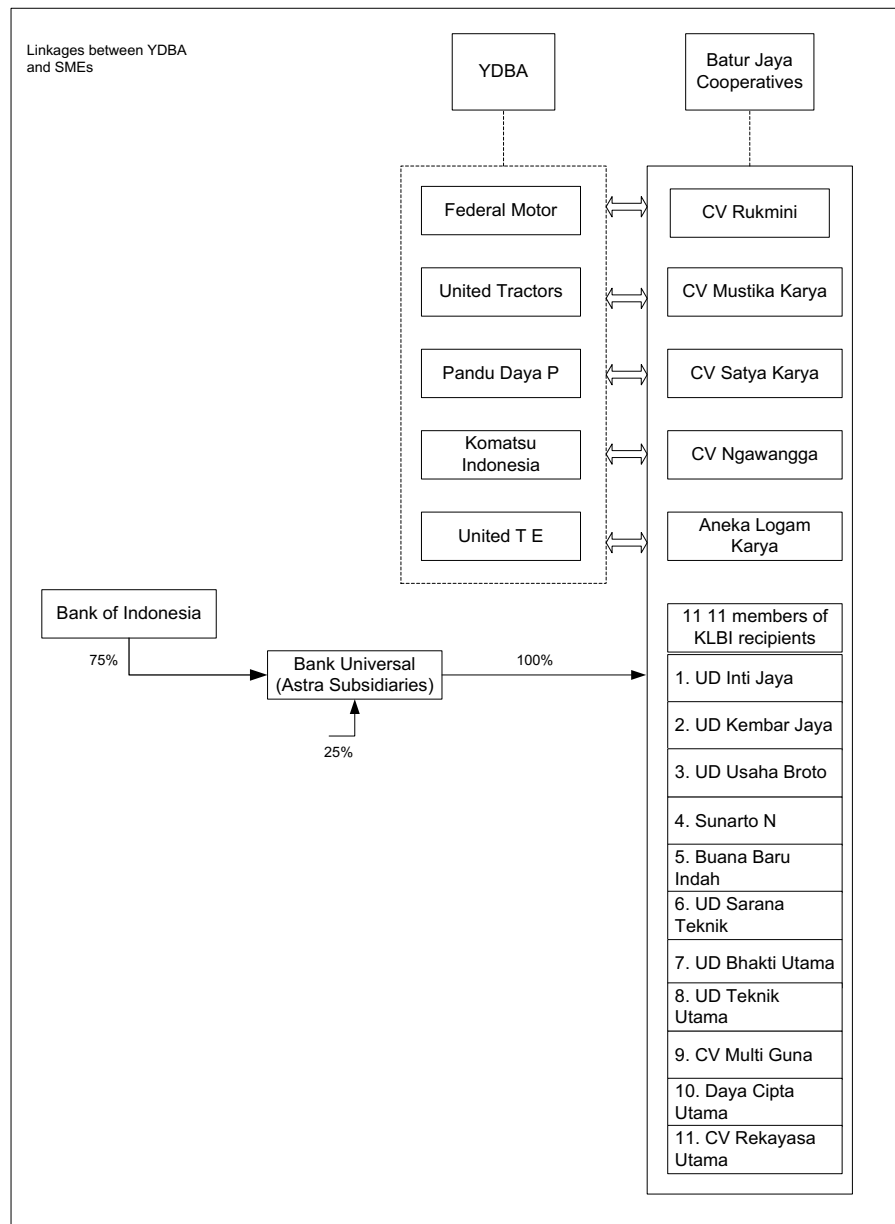
4.2 Period of 1985-2002: Partnership as political impetus

The relationship between the government and Astra in this period was very close. Astra always supported the government wherever the government established metal-working SME clusters. Jakarta, Bandung, Tegal, Waru, and Sukabumi were the centers of the metal-working industry's growth at the time.

In this period, Astra began to transform the management from a family business to a professionally run business (Goestiandi and Pareanom 2012). Family ownership was still held until 1988, and Astra started to dispose shareholdings to International Finance Corporation (IFC) in 1989 (Sato 1996). In 1990, Astra transformed into a Limited Liability Company, and Mr. Soeryadjaya's family owned 80% of the shares. The Asian economic crisis of 1997 also brought changes to Astra's ownership structure. One of the changes was that Jardine Cycle and Carriage Ltd. occupied 38.4% of Astra shares in 2000.

In 1991, Astra supported "Program Bapak Angkat" (Foster Father Program) by "Program Bina Mitra Astra." Cooperation between the government and YDBA can be seen in Figure 22. This program was implemented by YDBA as a manifestation of Astra's participation in building the national industry (YDBA 1994). Figure 22 showed how YDBA built a partnership between the Astra Group and SMEs, particularly for Batur Jaya Cooperatives. Some of the activities of this program are (i) training that includes integrated quality control, production management, engineering drawing, and materials science; (ii) apprenticeships in Astra Group; (iii) technical guidance; and (iv) plant visits.

Figure 22 The linkage between Foster Father (Astra Group) and SMEs



Sumber: (YDBA 1994)

In addition, Astra, through one of its financial institutions (Bank Universal), also disbursed loans to Batur Jaya Cooperative with the proportion that 75% of credit funds came from the government (Bank Indonesia) and 25% came from Bank Universal. Total funds disbursed to Batur Jaya Cooperative reached IDR 202 million.

In 1991, YDBA found that most SME problems were related to funding. To

overcome the issue, YDBA encouraged the formation of a new subsidiary of Astra, namely AMV.⁴¹ Later, YDBA and AMV collaborated to develop SMEs in the further period. YDBA enhanced human capability and AMV strengthened financial capabilities in SMEs.

In 1993, YDBA and the Ministry of Industry established the Small Industry Information Unit (UIIK) in Bandung. UIIK is expected to (i) collect and arrange information services from SMEs, especially technical and management issues; (ii) provide consultancy services for SMEs; and (iii) conduct business matches with potential business partners (YDBA 1993). UIIKs were also established in Klaten and Tegal.

At that time, the establishment of UIIK, located in Bandung, Klaten, and Tegal, had a strong political influence. There were two reasons for it. First, all UIIK activities were centralized in government agencies, Metal Industry Development Center in Bandung, small industrial area (LIK) in Tegal, and LIK for metal casting in Ceper. Second, the facilitator in the unit was a government employee who was trained to guide SMEs.

A national movement to build relationships between SMEs and LEs (including Astra) was established in 1996 by President Soeharto. The President gained a commitment from an LE called “Jimbaran Group” and a state-owned company that they set aside a certain percentage of their profits to develop cooperatives and SMEs (YDBA 1996).

Law No. 9 of 1995 on SMEs, with the intention for empowering SMEs and Regulation No. 44 of 1997 on the Partnership, also encouraged YDBA and AMV to relocate 40 micro and small enterprises to Sukabumi Industry Center (Sentris). Sentris land is owned by Astra and granted to SMEs with soft loans. The 40 companies are SMEs that partner with SOEs and LEs (including Astra). Relocation aims to (i) move the location of industries from residential area to the industrial area, and (ii) ease Astra (YDBA and AMV) in coaching and providing other assistance because it is concentrated

⁴¹ Interview result (Iqbal, 2016)

in one location.

The relocation of 40 SMEs was the implementation of the mandate of government Regulation No. 44 of 1997, especially article No. 3. In this article, LEs are encouraged to nurture and develop SEs through (i) the provision and preparation of land, (ii) provision of production facilities, (iii) providing technical guidance to SMEs, (iv) improvement of technology, and (v) financing.

The Asian economic crisis, which also affected the SOEs and other LEs, had an impact on programs in YDBA. UIIK in Bandung, Klaten, and Tegal stopped operating in 1999 as well as coaching at Sentris. Most of the firms in Sentris continued their business in ordinary places, such as residential areas.

4.3 Period of 2003-2015: Partnership as a part of corporate strategy

SME development is not only a social activity issue for Astra but also an important asset to be sustainable in the automotive industry in Indonesia. Before the economic crisis, Astra was heavily dependent on the components that were mostly imported from Thailand. The success of Astra to develop the SME before the crisis has prompted Astra to prioritize SMEs as partners in strengthening the Astra position as automotive industry leaders in Indonesia.

In 2002, Astra launched a 5W strategy to maintain their position as an automotive market leader in Indonesia (Astra 2002). The 5W strategy includes winning concept, winning team, winning systems, winning principle, and winning relation. Astra's financial condition improved after the economic crisis and prompted Jardine Cycle & Carriage Ltd. to control 50.11% of Astra's shares in 2005 (Astra 2005). Since then, international shareholders have dominated ownership of Astra.

Since the Ministry of Social Affairs launched the seat belt program, partnership linkages between LEs and SMEs are categorized as part of CSR program. The program was strengthened by Law No. 25 of 2007 and Law No. 40 of 2007. These laws have affirmed that LEs should prepare a budget for CSR program. The CSR program is also strengthened by Law No. 11 of 2009 on social welfare.

In 2004, Astra's priorities in CSR were focused on efforts related to the environment, education, health, and religious beliefs (Astra 2004). SME development is one of Astra's long-term CSR programs. In 2007, Astra developed a partnership with 520 component-producing firms for the Astra Group. Transactions between Astra and 520 companies reached IDR 4.3 trillion, an increase of 16.7% from 2006. Meanwhile, 396 companies were classified as SMEs (Astra 2007).

In 2004, Astra insisted that its CSR philosophy is not only charitable but also good for community development (including SMEs). Astra believes that being involved with the communities around us in a sustainable relationship benefits both parties. For that reason, Astra launched a triple bottom-line approach (financial, environmental, and social). This third component is CSR, and the partnership linkages are included in CSR framework.

For the development of SMEs as Astra Group partners, YDBA developed an SME development framework (Figure 23). By the framework, YDBA categorized the SMEs into five levels of development, namely startup level, beginner level, intermediate level, upper intermediate level, and self-reliant level. At each level, SMEs had to join in the training and coaching program that is provided by YDBA. As an example, at the startup level, SMEs had to join in basic mentality training and entrepreneurship.

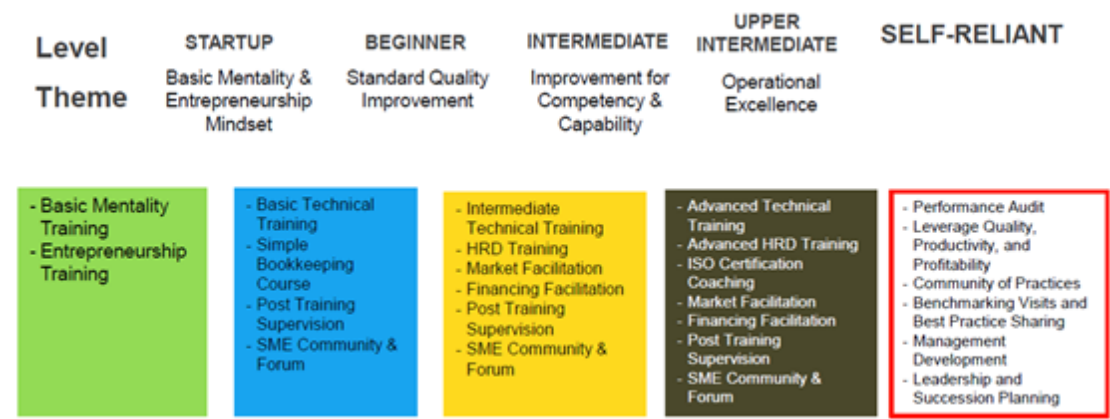
In some cases, YDBA tried to create a linkage without this framework. Firstly, YDBA introduced some prospective SMEs to Astra subsidiaries to be a subcontractor. Astra subsidiaries provided the materials and mechanical drawing of products to be manufactured by SMEs. Astra subsidiaries and YDBA assessed the quality of the product, and if the product met Astra standards, then the SMEs offered to become a member of YDBA, subsequently fostering to become an Astra Group partner⁴².

Although YDBA prepared the framework, it was the SME's decision to determine whether they became Astra Group partners or SMEs without partners. If the SMEs could improve their performance in each level, YDBA would support them and promote them

⁴² Interview result (Iqbal, 2016)

as a partner to an Astra Group member. To support the partnership linkages, Astra reactivated their facilities (ex-UIIK) to establish BDAs in some areas. BDA Sidoarjo was reactivated in 2009 and BDA Tegal was reactivated in 2012⁴³. Until 2016, there were 64 metal-working SMEs who already became self-reliant SMEs (YDBA 2014).

Figure 23 YDBA SME development framework



Source: YDBA (2015)

5. Partnership between YDBA and SMEs: Cases

One of the advantages of YDBA in SME development is that training is accompanied by coaching for continuous improvement. The assessment is carried out by YDBA, and SMEs that are willing to change are invited to attend the next training program. YDBA also facilitates SMEs with financial institutions to support their development. In addition, YDBA also paired SMEs with a subsidiary of Astra Group to serve as component suppliers. Three cases are presented to provide an overview on how YDBA engaged in SME development, particularly raising SME levels and sustainability.

In general, SMEs benefitted from their partnership linkage with MNCs. One of the important advantages was access to market. Certainty in the market and the continuity of production are what the SMEs need to develop. Then, they can improve their performance and make their organization more professional.

⁴³ YDBA's data (2015)

5.1 PT. Laksana Teknik Makmur: Adoption of Astra's corporate cultural value

This case was chosen to show that technical assistances can stimulate metal-working SMEs for the firm's transformation. PT Laksana Teknik Makmur (LTM) is one of the small firms that benefitted from partnering with MNCs to transform the firm. Mr. Suwarno founded LTM in 1998. He started this business with five employees and had initial business plan in the field of machinery design, such as conveyor machine and hydraulic press machine. However, due to the financial crisis in 1998, he shifted his business to produce automotive accessories.

LTM produces automotive spare parts from for metal and plastic, which is an original manufacturing manufacturer (OEM)⁴⁴. The main customers of LTM are Daihatsu Indonesia and Toyota Indonesia (tier 2 supplier) and other automotive assemblers. Some products that were produced were door handles, roof rails, and tank covers.

LTM became an YDBA member in 2011. One of the issues that LTM faced was the quality of human resources, wherein almost the entire staff was poorly educated. Internal training facilitated by the company was not enough to improve the quality of the employees. YDBA's involvement in employee skill development in product design, Dies technology⁴⁵, taxation, finance, and others were very helpful. Periodically, LTM facilitated employees to attend training sessions organized by YDBA.

“...In the past, we never knew about the process of workplace cooperation. Communication between employees is the basic mentality that must be possessed by every employee....” (Suwarno)

Source: Interview

In addition, training materials from YDBA and the experience of Mr. Suwarno (retired employee from one of Astra Group) encouraged LTM to adopt basic mentality, 5S (seiri, seiton, seiso, seiketsu, and shitsuke), and K3 (Occupational Health and Safety).

⁴⁴ OEM is a firm that produces parts and equipment that may be marketed by another manufacturer.

⁴⁵ Dies technology is a mold technology used to produce sheet metal components

5.2 PT Rekadaya Multi Adiprima: Joint Venture Enterprise

PT Rekadaya Multi Adiprima (Rekadaya) is a case displaying how the partnership relationship between MNCs and SMEs has a positive impact on the development of SMEs, especially in financial assistances. Rekadaya transformed from a small firm into a joint venture company. Rekadaya was founded in 1994 by Mrs. Rosalina Faried (Mrs. Lina). According to Mrs. Lina, her business was also motivated by the business climate in 1994. At that time, the government issued a policy to create a national car. This policy encouraged ATPM firms⁴⁶ to give local firms the opportunity to become suppliers.

Rekadaya's headquarters is in Cijantung, East Jakarta, and had 300 employees in 2015. It is the first local firm to produce a metal press for a tensioner guide cam chain⁴⁷ for the motorcycle. The firm was also a pioneer in producing an insulator assy dash panel⁴⁸ and door trim insulators⁴⁹ for 4-wheel vehicles. The components have been exported abroad, which are products of OEM (YDBA 2012).

According to YDBA, Rekadaya became a YDBA member in 2004 and her SME was declared self-reliant in 2012 (YDBA 2015). YDBA began its partnership with Rekadaya in 2004. Initial engagement of Rekadaya with YDBA included training and coaching sessions held by YDBA. Human resources management, production management, system management, and financial management were some of the subjects that Rekadaya's employees received training on after joining YDBA. Rekadaya gave a positive response to the guidance of YDBA and improved gradually.

In 2012, Rekadaya established a new felt⁵⁰ plant, which was also supported by AMV investment. Since then, Rekadaya has become a Joint Venture Enterprise with AMV. The category of their firm also changed from small to large firm.

⁴⁶ ATPM stands for "Agen Tunggal Pemegang Merek". ATPM is a firm appointed by the manufacturer (principle), to market their products in Indonesia. Examples of ATPM including: ATPM TOYOTA, ATPM DAIHATSU and ATPM ISUZU.

⁴⁷ A motorcycle's spare part.

⁴⁸ Automotive's spare part

⁴⁹ Automotive's spare part

⁵⁰ Automotive components that function as a silencer.

“...Financing offer by AMV is a good assistance, besides getting financial assistances; the company also gave training and coaching” (Rosalina)

Source: YDBA Magazine (2012)

Until 2015, Rekadaya had four business divisions, namely metal press stamping, nonmetal felt, printing, and plastic. They became a supplier for PT Astra Daihatsu Motor, PT Honda Prospect Motor, PT Hino Motor Manufacturing Indonesia, PT Suzuki Indomobil Motor, and other automotive component companies.

5.3 PT Prima Karya: supplier first, then a member

Prima Karya (PK) was introduced in this chapter because of the uniqueness of the partnership linkage that was formed. Meanwhile, many metal-working SMEs are competing to become YDBA members; PK prefers to convince Komatsu to become their supplier. PK became a supplier for Komatsu Indonesia and was encouraged by Komatsu to become an YDBA member to get assistance.

In 1990, Mr. Aftor Machlan (Aftor) founded PK in Tegal as a C.V.⁵¹ PK started to manufacture agricultural machinery. Currently, Ivan Kurniawan, son of Mr. Aftor, has continued his family’s leadership in PK and employed 75 employees, and presently, the firm manufactures heavy equipment components. Mr. Aftor asks his employees always to provide the best, on time service for customer satisfaction and to always be honest in everything.

“ ... If we can promise then we must also be able to keep that promise. Nothing is impossible if we are going to try and start it.” (Aftor)

Source: Interview

PK is the first SME from Tegal to become a partner of Astra Group (i.e., PT Komatsu Indonesia). In 1996, PK tried to compete with some SMEs to become a supplier for Astra Group. When PK succeeded in convincing Komatsu to appoint PK as a supplier, YDBA assisted PK in implementing the concept of continued improvement.

⁵¹ C.V. is a limited partnership not involving a legal person, and personal assets are liable for obligations.

“ ... It is remarkable the benefits we have gained from YDBA coaching, from training to mentoring, as well as market information.” (Ivan)

Source: Interview

PK now has a turnover of IDR 5.5 billion and has received several awards, such as Caterpillar International's “A” category, and entered the Global Purchasing Caterpillar and Komatsu Portal Implementation in 2007. With two awards, PK has been officially registered on the website of the International Caterpillar and Komatsu Group as a supplier. Thus, PK gains new market access for heavy equipment components.

6. Conclusion

Astra has dealt with SME development by institutionalizing the partnership linkage into corporate strategy and corporate actions. YDBA is an Astra foundation and has played this role for more than 35 years. In other words, YDBA acts as “talent scouts” in search of SMEs capable of becoming suppliers to MNCs. YDBA adheres to Indonesian voluntary and mandatory legislation on partnership linkage. YDBA promotes SMEs to Astra subsidiaries (MNCs) voluntarily, and it results in subcontracting ties between Astra subsidiaries and SMEs. YDBA also continues to coach its members and make them self-reliant SMEs. Meanwhile, YDBA also implements partnership linkages in accordance with the mandate of legislation. YDBA follows legislation for the legal protection for the implementation of partnership linkages in Indonesia.

The partnership linkages have strengthened Astra's value chain, especially for automotive assemblers. It contributed to SME development and brought new alternatives for Astra to optimize local suppliers. This study also showed that metal-working SMEs can be developed well by MNCs if they had mutually beneficial goals.

For metal-working, SMEs operate with established products in established markets and are primarily concerned with sales and profits. They usually manufacture components needed by large enterprises in their production, and, in some instances, manufacture their own products and sell directly to the consumer. It can be argued that to achieve high profit and sales, development is a prerequisite.

Studies in MNCs have been discussing the role of MNCs to encourage and to enhance the linkage between MNCs and SMEs by focusing on market economy. This study confirmed that the linkage between MNCs and SMEs in Indonesia can be explained partially by social and political factors, especially the way created cooperation played an important role in strengthening the metal-working industry structure. Social issues, government legislation, and ownership changes are factors has become important key to create partnership linkage between MNCs and SMEs.

Conclusions

1. SME development in social and political context

In this concluding chapter I summarize the main research findings of this thesis and provide a brief discussion of its general purpose and specific objectives. In so doing, I consider the specific context in which the study was conducted and from which research results were derived.

The literature review conducted in the opening part of this thesis revealed several gaps in the field concerning research on SME development in developing countries. The vast majority of previous research on SME development has been conducted on economically developed and advanced countries. As a result, not much is known about SME development in more diverse and changeable social and political contexts. To my knowledge, the number of studies that examine SME development in a similar context to the one in the present study is limited.

Considering these gaps in the literature, the general purpose of this doctoral dissertation was:

To explore the development of metal-working SMEs and the factors that influence their dynamics, including the social and political context.

Departing from this general purpose, I set three specific objectives:

1) To examine the relationship between family structures and spin-offs and to explore how generational change has influenced the transformation of metal-working SMEs.

In order to reach the first objective of the dissertation the relationship between family structures and spin-offs, and how generational change influences the transformation of SMEs have been examined taking into account social and cultural elements in Indonesian society. As a result of my analysis, I came to the conclusion that the spin-off activity of small firms was strongly influenced by succession and the division of family assets. As per social rules and norms, multiple sons receive different family assets. In general, for a firm, only one son succeeds to head the father's business and the other sons set up a new

firm or firms (spin-offs) by using other assets. These newly established firms are independent from one another, and even though their assets came from the same source, they are managed separately.

Meanwhile, generational change has also led to changes in the motivation of entrepreneurs, higher education levels among entrepreneurs, and different production systems in new firms. As a result of this new firms have become more professional in their management, more flexible in their production system, and better at networking. This study has also shown that a generational change represents one of the most important stages in the life of a family firm. It can determine whether a business continues or closes.

2) To examine the government's involvement in the development of SMEs by exploring policy ideas and implementation, and the actors involved in them.

Concerning the second specific objective of this doctoral dissertation, my analysis has revealed the importance of government intervention in SME development, though the government does not always share the same objectives as firms themselves. In the transition period following the Asian Financial Crisis, SME development was promoted by the government but policy was directed so as to promote social development rather than industrial development per se. The circumstances of the time meant that the intention of government was above all to reduce the unemployment rate and alleviate poverty, SMEs were seen as an important means to achieve this end.

Nevertheless, government intervention in the transition period showed that the government could succeed in managing revolving funds and entrepreneurship programmes. These programmes also became a new criterion for the government in designing programme related to poverty alleviation and job creation. Most of these programmes are still running at the time of writing.

3) To examine the role of MNCs in the development metal-working SMEs and to explore the way MNCs create partnership linkages with SMEs.

The third objective has been examined by utilizing cases connected with Astra. The results showed that partnership linkages between the Astra group, MNCs, and SMEs are

driven by social and political factors.

This study underlines the robust linkages between Astra, MNCs and SMEs. Astra (through YDBA) adheres to Indonesian voluntary and mandatory legislation on partnership linkage. On the voluntary side, YDBA promotes SMEs to Astra subsidiaries (MNCs), and this results in subcontracting ties between Astra subsidiaries and SMEs. YDBA also continues to coach its members and make them into self-reliant SMEs. Meanwhile, YDBA also implements partnership linkages in accordance with the mandate of legislation. YDBA was not involved in the making of legislation, and designed their programmes by themselves. YDBA developed SME programmes and selected SMEs to become members. Through membership in YDBA, SMEs are encouraged to become self-reliant firms in terms of production, marketing, and human resources.

Although YDBA is a non-profit foundation that develops SMEs in Indonesia, just like other non-profit foundations, it was established for social activities. As such YDBA engages in social activities in order to develop SMEs so as to help alleviate social issues related to poverty, income inequality, ethnicity, and others. In addition, YDBA provided funds that have been prepared by Astra as part of its corporate social responsibility activities.

2. Future Work

The present doctoral dissertation has a number of limitations but at the same time opens up further possibilities for future research. First, among several limitations, it should be noted that I have not used more than 100 cases of micro, small and medium firms. This sample size renders it somewhat debatable as to whether it is possible to make generalizations from the findings of this research, and thus how applicable they are to other contexts. However, the cases examined are meaningful in the sense that there tends to be social equality of the entrepreneurs in the SME community in Indonesia (i.e. entrepreneurs are not drawn from an aristocracy nor are they former government officials). The main characteristic of these entrepreneurs is that they use often modest personal wealth to start a business, tend to have the same level of education in the founding phase of each business, etc.

Another limitation is that the study was limited to the role of succession based on patrilineal values held by entrepreneurs. In Indonesia, there are a few ethnic groups who adhere to matrilineal patterns. These ethnic groups are spread across Indonesia. Thus, a study which incorporates observations on patterns of succession based on matrilineal patterns would make this study more comprehensive.

The part of this study on SME policy focused on the process and implementation of the SME policy. I put forward some evidence regarding the results of the implementation of government programmes. However, the results presented and their assessment need to be strengthened with clear criteria using public policy analysis. This might prove a fruitful avenue for future research and to better validate the findings here.

With regards to partnership linkages between MNCs and SMEs, especially for SMEs that are directly related to MNC's core business, further questions remain. How do partnership linkages develop between MNCs and SMEs that are not directly related to MNC's core business? Providing an investigation into this question will strengthen the analysis on SME development, in particular regarding SME and MNC linkages, in this study and make it more conclusive.

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