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## The Role of Social Capital in Maintaining the Existence of Home Industry

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**Abstract:** The existence of a home industry in the Indonesian economy is felt to be very important, especially in aspects of employment opportunities, income distribution, economic development in rural areas and others. Unfortunately, the existence of a cottage industry is now increasingly threatened with the many large industries that are almost spread throughout the city. This study identifies aspects of social capital; networks, norms and values of trust used by home industry entrepreneurs to maintain their industrial existence. This research approach uses a qualitative approach. The theory used to study this phenomenon is Coleman and Robert Putnam's social capital theory. The results of this study indicate that the main constraints faced by the home industry are the aspects of business capital and marketing. The use of social capital, trust, networks, values and norms is felt to be very helpful in maintaining the existence of a home industry.

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### INTRODUCTION

Economic problems are a problem experienced by almost all countries in the world, especially, developing countries. Until now, economic problems have been issues that continue to be discussed and evaluated by experts to get the right solution to solve the problem. Some policies have been issued by the Indonesian government with the aim that the nation's economy can become better. However, of all the policies implemented, it seems that they have not been able to massively solve various economic problems faced by the people. Economic problems such as unemployment, poverty, social inequality and others are still a common phenomenon that we can find in various places. With these conditions, the role of the community to be directly involved in developing the nation's economy is one of the alternative

ways that can be done. Several studies conducted have shown that middle to lower class companies have a considerable influence in developing the country's economy.

One form of community participation in helping the country's economy is by developing a home industry. The home industry is a small-scale enterprise unit engaged in certain industrial fields. Usually, this business only uses one or two houses as a center for production, administration and marketing at the same time. Home industry is one of the alternative ways to help the family economy or even become the main livelihood of the family. With the capabilities possessed by craftsmen, the home industry is in great demand by many, especially the lower middle class. Because in terms of capital, this company does not require substantial costs and is still accessible to the general public. The high public interest

in plunging into the home industry is supported by the many potential local resources and can be maximized into material values. With so, many home industries in Indonesia, at least it will be able to reduce unemployment and help the regional economy to become better.

Even though the home industry has many positive impacts on society and the country, it does not mean that the home industry is free from various obstacles. Some sources explained that at present the problem faced by many home industries is the threat of their existence amid the crush of macro-scale industries. Competition in terms of price, quality of goods and also ways of working often makes it difficult for home industry players to sell their goods on the market. With all the limitations and insistence of the macro industry, home industry players are threatened to stop all their activities. In the midst of conditions like this, the most likely solution is to use social capital owned by home industry players.

#### **Literature review**

**Theory of social capital:** One approach considered to be able to bridge the concept of sociology and the concept of economics is the theory of social capital. This is because social capital theory is a relatively new theoretical and research development but now social capital has been widely used in various fields<sup>[1]</sup>. According to Liu<sup>[2]</sup> the concept of social capital has been taken into consideration in various fields (multidisciplinary) in recent decades.

Social capital was first put forward by Bourdieu which is often used by other figures in defining social capital. According to Bourdieu and Wacquant<sup>[3]</sup> the definition of social capital is the amount of resources, actual or virtual (implied) that develops in an individual or group of individuals because of the ability to have a network that can last a long time in relationships that are more or less institutionalized based on knowledge and mutual recognition. The concept of definition of other social capital that is often used is according to Coleman in Yustika which defines social capital according to its function, namely social capital is not a single entity but a plural entity that contains two elements. First, social capital covers several aspects of the social structure. Both social capital facilitates certain actions of actors in the structure. While other figures, Putnam<sup>[4]</sup> stated that social capital is the features of social life networks, norms and beliefs that enable participants to act together more effectively to pursue common goals.

Social capital is the result of cooperation, developing trust and building social networks. Building social capital to develop a social environment that is rich in participation and opportunities. Like an environment that allows actors to meet frequently where sharing of social values and norms can be maintained. This then boosts the possibility of the continuity of repeated interactions in the

future, then reduces uncertainty and minimizes risk. Bourdieu views social capital as a productive asset built through investment in social relations; it takes time, effort, even money to accumulate it. Once awake, like other capital (physical or human), change social capital, depreciates by time and must be maintained, so as not to scatter and become obsolete. An individual investment in social capital depends on individual socio-economic characteristics, at a certain age, certain family background, level of human capital (education and employment) and income.

Coleman mentions at least three forms of social capital. First, the structure of obligations (obligations), expectations (expectations) and trust (trustworthiness). Second, information channels. Information is very important as a basis for action. Thus individuals who have a wider network will be easier (and cheaper) to obtain information, so that, social capital can be said to be high; and vice versa. Third, norms and effective sanctions.

Norms, Trust and Networks: Norms are a set of rules that are expected, adhered to and followed by members of the community in a particular social entity. According to Hasbullah<sup>[5]</sup> these collective rules are usually not written but are understood by every member of the community and determine the expected behavior patterns in the context of social relations. According to Fukuyama, norms are part of social capital that are formed not created by bureaucrats or governments. Norms are formed through tradition, history, charismatic figures who develop the procedures for the behavior of a person or community group, in which spontaneous social capital will arise in the framework of determining rules that can regulate personal interests and group interests. According to Liu<sup>[2]</sup> the behavior of the population's social capital is directly illustrated through the norms, values and rules that apply in the community.

Trust is a form of desire to take risks in its social relationships which are based on a feeling of confidence that others will do things as expected and will always act in a pattern of mutually supportive actions, at least others will not act harming themselves and their groups<sup>[6]</sup>. According to Fukuyama<sup>[7]</sup>, trust is an attitude of mutual trust in the community that is united with each other and contributes to increasing social capital. Francois<sup>[8]</sup> views trust as a relevant economic component attached to the existing culture in society that will form a wealth of social capital. According to Setiawati and Alam trust is able to facilitate the community to cooperate and help each other. According to Pretty and Ward<sup>[9]</sup>, there are two kinds of trust: trust in individuals we know and trust in people we do not know but will increase because of our comfort in social structure knowledge. Mutual trust in others in a community has more hope to be able to participate in solving environmental problems<sup>[2, 10]</sup>.

Network, the third aspect of social capital is networking. According to Mawardi<sup>[11]</sup> social capital is not built only by one individual but lies in the tendency that grows in a group to socialize as an important part of inherent values. Social relations networks will usually be colored by a typical typology in line with the characteristics and orientation of the group. Social groups are usually formed traditionally on the basis of repeated social experiences and religious beliefs tend to have high cohesiveness but the range of networks and trust that is built is very narrow. On the contrary, in groups that are built on the basis of similarity in orientation and goals and with the characteristics of managing more modern organizations will have a better level of member participation and have a wider network range. In the latter group typology will present a more positive impact on the group and its contribution to the development of society at large<sup>[5]</sup>.

**Home industry:** Industry in the narrow sense is a collection of companies that produce similar products where there are similarities in raw materials used, processes, end products and end consumers. In a broader sense, industry is a collection of companies that produce goods and services with a positive and high cross elasticity. While the understanding of industry according to Sandy is an effort to produce goods from raw materials or raw materials through a large-scale cultivation process, so that, the goods can be obtained at the lowest possible unit price but with the highest quality possible. From the above definition it can be concluded that the industry is processing goods from raw materials, raw materials, intermediate goods to finished goods into goods that are ready to be used with a higher value.

The processing industry is classified based on the number of its workforce into 4 types. First, large industries, namely the labor needed by large industries is more than 300 people. The number of workers is an expert and trained workforce. Apart from the amount of labor needed, large industries have very large capital. The equipment used in the production process of large industries is modern machines with technological developments, so the use of machines will be more dominant than the use of human power. Goods produced by large industries are produced in large quantities with high quality. Goods produced by large industries are not only to meet domestic needs, these products are also intended for international trade through exports. Examples of large industries include the motor vehicle industry, cement industry, fertilizer industry, electronics industry and textile industry.

Second, the medium industry is that the number of workers involved in the industry is between 10-299 people. The workers are workers with certain skills who

work with a predetermined working hours system. Wages earned by workers are wages stipulated by the regional government, namely the UMR. While the capital invested by industry players is quite large. In the production process, the industry is using equipment and the input processing method is quite advanced by utilizing better technology from small industries. The production process is carried out in a special place called a factory. So that, the industry is able to produce more quantities of products with better quality. Examples of medium industry are the batik industry (with a modern way of using a stamp) and the printing industry.

Third, small industries, namely the number of workers employed in small industries is <10 people with no specific education or expertise. Compared to the medium industry, the wages earned by small-scale industry workers are relatively small because there is no specified working hours system. In general, small industries have relatively small amounts of invested capital. The equipment and technology used in the production process are relatively simple, so the amount and quality of production are relatively low. Examples of small industries include the handicraft industry, the woven fabric industry and the batik industry.

Fourth, home industry or often referred to as a home industry is an industry that uses less than four workers with limited capital. Existing workers are usually neighbors or family members. Examples of home industries include the woven industry, handicraft industry, tempe/tofu industry and snack industry. The characteristics of home industry are small capital, small scale industry, fast turn-over rate and the products are manually processed in a simple way which are completed by a lot of workers. The general weakness that can be found in small scale industry (home industry) is that the quality of the products is usually low or under standart quality which finally causes some difficulties for the buyers to get good quality products.

Home industries are home to a variety of commercial and industrial enterprises. Among the industrial activities are welding, carpentry, building materials manufacturing and automobile engineering and rebuilding. The commercial activities include trading in furniture, motor vehicle parts, domestic appliances and other scarce and/or expensive commodities. The goods and services at home industries are always considerably cheaper than elsewhere in the urban economy. This understandably raises eyebrows about the legality and/or authenticity of the service or product in question.

## **MATERIALS AND METHODS**

This research was conducted in Kabunan Village, Tegal Regency, Central Java Province. This village is

known as a village of used tire waste craftsmen because of the many home industries in the village. The reason for choosing this location is based on the large number of families who depend on their economy from the sale of waste handicrafts. Another reason, this village has also received appreciation from the government as the recipient of an award from the Indonesian Record Museum in 2007 for the large number of craftsmen in one village. According to data obtained based on demographic data in 2017 explained that there were 515 home-based industrial entrepreneurs out of a total of 1680 households. Geographically this village has an area of 172.66 Ha. The distance of this village with the city center is 2.5 km. The regional description and population data are as follows (Table 1).

This study uses a qualitative method. The problem of this research is focused on the obstacles faced by home industry entrepreneurs and the role of social capital in maintaining the existence of a home industry. Data retrieval is done by structured and in-depth interviews, observation and Focus Group Discussions (FGD).

Structured and in-depth interviews were carried out with home industry craftsmen, laborers, traders and suppliers. Structured interviews aim to obtain information about the constraints faced by the home industry. While in-depth interviews aim to find out the role of social capital in maintaining the existence of a home industry. Interviews were conducted with people who knew about the ins and outs of the home industry from the beginning to be established until now. To ensure the success of the interview, this research requires the right time so that the informants can provide all important information related to the role of social capital in the management of home industries. Therefore, interviews were conducted by visiting the informant's house in the afternoon so as not to interfere with his work.

Observation method is carried out to find out all activities in the home industry from the production process to marketing. Efforts to run and maintain the industry in a village where most people have the same industry, certainly leads to the existence of beliefs, norms and networks that play a role in it. In addition, observations were made to obtain information about social phenomena or other activities in the home industry. Activities in the home industry are examples of data collected through direct observation. Meanwhile, the focus group discussion aims to gather information at the

community level about many aspects of data. This method is also carried out to cross check data collected through interviews and observations.

Key informants were chosen intentionally including local government officials, community leaders and village heads who understood the social and economic conditions of the village as a research location. Secondary data is obtained from village government documents and records belonging to home industry craftsmen.

## RESULTS AND DISCUSSION

**Profile of Home Industry:** Used tire home industry is a form of small company engaged in handicrafts using raw materials from used tire waste. The establishment of this industry was initiated by several villagers who used rubber tire waste and converted it into a pair of sandals. The abundant supply of used tires originated from the large number of people who used to open motorbike and car repair shops and there were also those who worked as truck drivers and public transport. With the number of motorized vehicles currently, it is certainly not inconceivable how many used tires will be produced. On average for vehicles, both cars and motorbikes, change their tires within two to three years. Therefore, it is not surprising that at that time the amount of used tires in this village was always abundant.

The manufacture of used tire craft was started by one of the families by producing only a few handicraft products but it turned out to have a positive response from the community, especially middle to lower. Finally, one by one the community learned to make handicrafts from used tires until now. Around 1988, craftsmen of used tires did not only convert used tires into sandals. However, craftsmen make trash cans, chairs and others. In the 1990's the used tire craft industry continued to stretch, the number of craftsmen who initially only tens at that time increased to hundreds. The increasing number of craftsmen makes the supply of used tires less and less. Surrounding communities that produce used tire handicrafts are starting to look for information and a network of used tire suppliers to meet their production needs out of town.

Waste from used tires comes from tire workshops and patches around this area, some are brought by suppliers from out of town. The price of used motorcycle tires ranges between Rp. 5,000 per piece while used car tires are around Rp. 30,000 per piece. Every month the average craftsman buys used tires of 500 sizes. The handicrafts were initially sold to several nearby cities. However, with the growing development of home-based industrial businesses, used tire handicrafts made the sale of handicrafts increasingly expanded to various regions in Java to foreign countries. The success of exporting starts

Table 1: The regional description and population data

Information	Amount
Total population	6499 people Man = 3270 people Woman = 3229 people
No. of families	1680 head of family
No. of home industry owners	515 people

from the collaboration with an outside regional businessman who asks to routinely send used handicraft products every month. In order to meet the demands of the international market, the craftsmen even added their supply by cooperating with each other.

The manufacture of used tire handicrafts used to not use machines, all production processes were done manually, namely using a knife to slice, nails, hammer, hammer and wooden foundation. Initially the villagers only worked on rubber orders for car seats. The development of the times also developed ideas for making household items and various kinds of crafts such as tables, chairs, ashtrays, swings, flower pots, spring beds, rubber furniture, trash cans and others. This business competition is not very visible because the craftsmen have their own customers and they also work together. One craftsman admitted that his party still survived because in order to continue the business of his parents. They involve workers to help develop their business with several tasks. First there are those who do gluing, printing, rubber press and packing. Around 1985, one of the craftsmen produced handicrafts using springs. Along with the times, in 1988 the craftsmen began designing and making machines that could be used as a tool in the production process of home industries of used tire crafts.

The marketing of the home industry products of used tire craft is increasing and the economic benefits are increasingly felt. In the end the family and a number of other residents began to participate in producing used tires into various kinds of handicrafts and later developed and even now the villagers depend their income on the home industry of used tire crafts.

**Production component:** In the production process, there are several businesses in the home industry that are interrelated with one another, including.

Craftsmen, craftsmen are owners of home industries, in other words the actors who work on the production process from raw materials (used tires) to become crafts. Craftsmen work on the production process at home in this case the house has a dual function as a residence as well as a factory. Craftsmen have workers who are ready to assist in the process of crafting and have a business relationship or relationship with the trader in marketing their products. Craftsmen also have a relationship or business relationship with suppliers in ordering raw materials (used tires) in running the cottage industry.

Worker, workers in the home industry are villagers who do not have their own industrial businesses. In addition to the surrounding villagers, there are also those who come from relatives of the industrial owners. The work done by workers is to help craftsmen produce handicrafts. Wages are given based on the number of crafts that can be completed. There is an element of

kinship in the social relations built between craftsmen and workers. This social relationship that is built still has a distinction between craftsmen and workers outside of the craftsmen relatives. Social relations between craftsmen and laborers who are actually more intensive craftsmen's relatives than those who are not craftsmen's relatives. The reason is because the social interaction between the craftsmen and the workers who are their own relatives has been for longer.

Traders, traders are industry players who have a big role in craft marketing. Traders who take goods in home industries come from various regions in Java. Between craftsmen and traders do not have official ties that are required to come to distribute handicrafts. If the trader really needs the goods, then the trader immediately contacted the craftsman concerned. The price problem depends on the agreement between craftsmen and traders. Traders are an important component in the distribution of handicrafts, because the role of social capital (trust, norms and social networks) in carrying out its role is very important as a distributor. The relationship that exists in it is not only to the craftsmen but also to suppliers.

**Home industry constraints:** Based on the results of the research obtained by involving several informants from various categories; age, experience, gender, etc. in general there are two main obstacles faced by home industry entrepreneurs. These two obstacles include business capital and marketing.

Business Capital, explains that business capital is money used as a principal (parent) to trade, release money, etc; property (money, goods, etc.) that can be used to produce something that adds wealth". Capital in this sense can be interpreted as a sum of money used in carrying out business activities. Business capital is the foundation of the establishment of a company. Therefore, business capital is considered by entrepreneurs as one of the obstacles to the development of home industries because with capital constraints it will affect the amount of raw material purchases. Automatically, the minimum availability of raw materials will have an impact on the amount of production produced. In addition to purchasing raw materials, they also use business capital as operational costs such as employee salaries and equipment maintenance.

**Marketing:** The marketing sector is considered the most inhibiting factor in the development of the home industry amid the crush of middle-upper class industries. Traditional marketing is acknowledged by many home industry entrepreneurs to be less competitive with modern marketing (online marketing). According to Ina Primiana in her book *Moving the SME and Industry Rill Sector* (2009) in addition to capital which is the main problem for SMEs related to marketing, it is more due to.

First, difficult market access due to limitations, including reading market tastes, knowing competitors and their products, positioning their products in the market and recognizing the weaknesses of their products among competing products. Second, human resource limitations. For Micro and Small businesses in general, the owners still do all their own activities or are assisted by several employees such as production or production supervision, so that the market becomes abandoned.

Third, the standardization of products is weak, this causes orders to be returned (returns) because the quality of the products produced specifically does not match the time of ordering. Fourth, the loss of customer confidence due to the inability to meet large demand, partly due to the unavailability of funds to meet the demand.

### **The Role of Social Capital in Home Industries:**

Theoretically the concept of social capital in the economy is used at the micro level. Social capital focuses on agribusiness, international trade, household income, financial transactions and exchange knowledge between investors and companies. In addition, social capital is also used to explain phenomena at aggregate levels such as regions and nationally. Based on empirical evidence and theory, states that social capital is a concept of strength that explains economic phenomena<sup>[12]</sup>.

The implementation of social capital in the home industry is used in various dimensions. The social capital of the owner of a used tire home industry in this study is seen from the three elements that refer to Putnam<sup>[13]</sup> social capital, namely trust, networks and norms. The elements of social capital determine the direction of the ability of home industry owners to collaborate with other actors who play a role in developing this craft business. Good cooperation enables the success of business. The social capital of the owner of the home industry in the village is very well utilized to build the cooperation that exists between the owners and other actors who play a role in it. Cooperation relationships are needed for the sustain ability and success of the business. Such as craftsman relations with workers, craftsmen with traders, craftsmen with suppliers, as well as craftsman relations with other craftsmen who share the same home industry. Every element of social capital, be it beliefs, norms, or networks, cannot stand alone but are interrelated. Trust acts as a lubricant or pelican in interactions in social networks. The social network moves as a guarantor for the sustain ability of the business that is strung together in the corridors of the norm. Norma itself is a reflection of trust. These three elements are created not in an instant way but through a process of repeated interactions. The following is the role of social capital in the home industry of used tire crafts.

First, to strengthen the relationship of every industry player. The existence of mutual trust between individuals (industry players) will increase the closer ties or business relationships that are intertwined in them. One informant explained that in running a home industry business, used tire craft always involves its workers in the production process, from craft innovations to the completion of its production targets. Their continuous interaction becomes stronger and fosters a sense of family. In addition to trust, norms also play a role in the cooperative relationship between craftsmen and consumers in the transaction of used tire craft products, the norm provides an overview of the ordering process where to order handicraft products on a large scale, it is preceded by advance payment.

Norms provide a good role in the relationship between craftsmen and traders. Norms are not only economic ones that support economic activities but also those concerning the norms of daily relations. The presence of norms aims not to debate each other, can give an appeal and attention to the traders and craftsmen to strengthen their social relations. Interaction can work well, mutual help will also be intertwined automatically when individuals in the home industry are aware of the appeal. Norms initially formed by accident but in a relatively long social process various rules grew which were later recognized consciously. Likewise with the norms found in an industry, home industries have their own norms in their relationship or interaction in industrial society. The norms found in the home industry community of handicraft tires for example. Existing rules or norms are not written but mutually agreed upon. One of them is between the owner and the worker seen at work time. Rules that have been agreed upon together make workers have to go to work at seven in the morning and go home at four in the afternoon. Although it is not written and monitored continuously the industrial owner but the workers remain obedient.

Collaboration with used tire middlemen has also been agreed upon, that the former tire middlemen come once a month in a predetermined amount. All rules regarding agreements between industrial owners and middlemen are not written but have been agreed upon with the provisions. Rules with traders about shipping goods, returns and payments have also been agreed upon between the owner and the merchant. Owners come every week or fortnight to deliver goods while checking the amount of goods sold and left over and damaged. Payments are made when sending the next item, so the items sent last month are paid when the owner comes back to check the goods. The role of social networks in the home industry not only plays a role in pro-productivity but also contributes to the social relations that exist between craftsmen or traders.

## CONCLUSION

Based on the results of research and data analysis on the role of social capital in the home industry community of used tire crafts, some conclusions can be drawn, namely the components of social capital (beliefs, norms and networks) are interrelated with each other, there is one component of social capital that dominates in running a used tire craft business, namely trust. The existence of a high level of trust and based on the existence of a strong network between industry players, then in the production process craftsmen can easily access capital, raw materials and labor. Social capital in the form of trust is utilized in building relationships between craftsmen of used tires for not dropping each other. Social capital in the form of an increasingly extensive and long-lasting social network with workers, customers and fellow craftsmen of used tire handicrafts that inform each other if there are excess orders or the latest innovation information about handicrafts. Social capital in the form of unwritten rules with workers and fellow bandol craft craftsmen. Written rules exist when agreements between craftsmen and traders last a long time, such as production targets, production quality and payment methods.

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