

# The Network Governance in Kasongan Industrial Cluster

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**Abstract:** *This article is based on field research in the Kasongan ceramic handicraft industry cluster. The research was conducted using qualitative research method. The results show that the development of industrial cluster is possible because of the role of social network in the process of buying and selling of products, business gain labor, and financial capital. Social networks also play a role in subcontracting, vertical disaggregation, and increasing and disseminating knowledge and skills among workers and employers. The formation of networks is influenced by the institutional environment in the form of free markets, the unique properties of ceramic products, and the uncertainty of ceramic demand.*

**Keywords:** *Industrial cluster, ceramics, social network, institutional context*

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## I. INTRODUCTION

Kasongan is one of the industrial clusters in Bantul Regency, Special Province of Yogyakarta. This cluster produces ceramic craft art with symbolic value. that is symbolic. Most successful clusters in the emerging world are accidental. Public policy is merely a catalyst but not for the purpose of forming clusters [1]. The appearance of the Kasongan industrial cluster is also coincidental. At first this cluster produces traditional ceramics made from raw clay with cookware products, simple wall hangings, water storage, etc. Kasongan industrial cluster has existed since the Dutch colonial era. The change and its development into clusters that produce handicraft art began in the late 1960s and early 1970s. The change and development of the cluster occurred as a result of the introduction of artistic decoration by artists. At present most Kasongan ceramic products are exported abroad both in Europe, North America and Australia. At this time some ceramic entrepreneurs have entered the market in Latin America.

This paper seeks to show the role of social networking in the development of Kasongan industrial cluster. There have been several writings on the Kasongan ceramic industry cluster. Raharjo demonstrates how the role of artists and internal forces (in the form of the ability of entrepreneurs in making ceramics) and external (in the form of the power of globalization, the artists and the government) towards the development of clusters [2]. Ismalina demonstrates the role of structural and structural interaction and transactional attachment to social networks in cluster development [3]. Guntur shows how a combination of artisans' abilities and the role of artists in the development of artistic decoration [4].

Questions to be answered in this paper are: (1) How does the social network within the community where the cluster is in supporting the dissemination of information on employers 'and workers' reputation and the effectiveness of the application of norms and sanctions? (2) What is the role of social network in obtaining economic capital, labor transactions between entrepreneurs and in maintaining the sustainability of business activities within the industry cluster?

## II. CONCEPTUAL FRAMEWORK

Social networks are relatively long-lasting and patterned social relationships. The once-in-one social relationships between two individuals are not social networks. Social networks are important in transactions or economic exchanges. The significance of social networks in economic transactions is shown by Macaluaay [5], Granovetter [6], Podolny [7], and Biggart [8]. A dense social network involving many people (members) within a community can prevent the occurrence of violations of the norm, facilitate the dissemination of information and increase social solidarity [9]. Communities whose communities have many solid social networks are more conducive to economic development [10].

The significance of social networks in new economic exchanges was recognized by sociologists after the writing of Granovetter was published. Granovetter criticized Williamson's view of overemphasizing the rational side of economic exchange [11]. According to Williamson there are two forms of exchange, namely market exchange and hierarchical exchange. Market exchanges are made when the exchange occurs directly, not repeatedly and does not require much time, energy, and money (transaction-specific investments). Exchange in hierarchy will be done if transactions in hierarchy can overcome the problem of time, energy and money. In hierarchical exchange the transaction process is internalized in the hierarchy for two reasons: First is the limited rationality of the individual's inability to anticipate some uncertainty. If the transaction process is internalized then the individual does not need to anticipate the uncertainty because the uncertainty can be overcome with the

existing authority in the organization so it does not require a complicated negotiation. Secondly, with such internalization opportunism (seeking interest with guile) can be overcome with authority within the organization [12].

Granovetter says that economic action (eg exchange or sale) is always attached to social relationships. Social relationships and the structure of social relations (or networks) will generate trust and prevent malfeasance by economic actors. There are reasons why: (a) In the social relations the individual will provide cheaper information, (b) the information is better, richer and more accurate, (c) the person who has a continuous relationship will have the economic motivation to be trusted, and (d) continuous economic relations will be accompanied by social content that brings strong hopes for trust and avoids opportunism [13]. Podolny suggests that network exchange is an alternative to exchange in hierarchy and market exchange. Podolny defines the form of network organization (network exchange) "as a set of actors who exchanged repeatedly and continuously with each other and, at the same time, no one has the organizational authority to arbitrate and resolve disputes arising during the exchange"[14]. This definition shows that in the form of network organization, economic exchange is attached to social relationships as proposed by Granovetter.

The business unit or organization of the production process can, at the same time, use the hierarchy, market and social network settings in exchange. Under what conditions do business units use social networking exchanges? Jones points out that there are four conditions that give rise to networking arrangements, namely [15]: (a) Uncertainty of demand will encourage companies to conduct vertical disaggregation by releasing business units that were previously part of the enterprise, primarily through outsourcing or sub-contracting. (b) On-demand transactions that require very specific expertise. This transaction creates a dependency between two parties. For example, if a buyer cancels an order then the seller has difficulty selling to another buyer, otherwise the buyer can not easily transfer to another seller either. (c) The complexity of work under time pressure. The complexity of the work points to a number of specific and varied inputs required to complete the job. The complexity of work gives rise to interdependence in behavior. The complexity of tasks with time pressures will also encourage flexible coordination. And (d) frequency of exchange. The high frequency of exchange between the parties involved encourages the use of networks as an alternative form of arrangement.

Jones points out that closed and crowded social networks can support industry activities that are order-driven, require speed and involve multiple people with diverse expertise. Such industrial activity is inefficient if done in a bureaucratic organization. Such industries are rapidly changing. In the industry information and knowledge spread easily due to the high mobility of workers from one business unit to another. In such networks information about the employee's reputation is also easily spread. Dissemination of information makes the norms of the profession and general culture easy to establish and effective application of sanctions against deviant behavior [16]. The uncertainty of the demands put forward by Jones is closely related to the competition or market free environment proposed by Nee [17] and the institutional context put forward by Powell [18]. Powell points out that strong bonding networks dominate in craft industries. These industries include construction, publishing, film and recording [19]

The context or the institutional environment that affects the industrial cluster is in the form of free market competition, the requirements to be a ceramic exporter, the policy of providing assistance to cooperatives, and government policies in the development of industrial clusters. The free market creates demand uncertainty that encourages employers to engage in vertical disaggregation and subcontracting relationships. The requirements to become an exporter and to be able to receive financial assistance from the government encourage entrepreneurs to form business units with legal entities and cooperatives.

### **III. RESEARCH METHODOLOGY**

This paper is based on the results of research on ceramic industrial clusters in Kasongan conducted using qualitative research methods. The research was conducted by interviewing 49 informants consisting of entrepreneurs, workers, sememen, village apparatus, and government officials. Field research was conducted in September-December 2011. Data that are the result of interviews and observations are then analyzed, classified and abstracted using relevant concepts.

### **IV. RESULT AND ANALYSIS**

#### ***4.1. The Density of Social Networks in the Industrial Cluster***

At first Kasongan was a traditional ceramic producing village to meet functional needs such as kitchen appliances and building materials. At that time the means of transportation to Kasongan still bad and not yet visited by people from outside the village. The ceramic craftsmen market their products by going from village to village in Yogyakarta as well as to other cities in Central Java and East Java. Then in the early 1970s began many people from outside to visit Kasongan to give ceramic art craft products. Although Kasongan now resembles the city but administratively remains a village. At this time many people come to Kasongan. They are ceramic merchants who buy large quantities of ceramics as well as tourists from other cities in Java. Many

tourists arrive on holiday or Sunday or at the end of the year. The tourists come to Kasongan to buy souvenirs and other ceramic forms to be used as decoration in their homes.

There is a solid social network within the Kasongan industrial cluster based on family relations and residential similarities. Most entrepreneurs have family relationships. These relationships manifest themselves clearly in times of family events or status transitions in the human life cycle (rite of passage) such as birth, entering adulthood, marriage and death. At those events, the households with ceremonies invite relatives, neighbors and acquaintances to attend. Another joint activity in Kasongan is a gathering of neighboring associations (Rukun Tetangga/RT). This activity is held every night every 35 days. For example, a meeting at RT 03 in Kajen is held every Wednesday Wage (Rabu Wage). The meeting was attended by heads of households or their representatives. Other activities that enable the meeting of many people such as social work for the repair of roads, splints and memorials of Indonesia's independence day Seventeen August, tomb cleansing, family welfare education, arts groups, etc.

The activities attended by many people above constitute a solid social network and an important social capital in support of industrial cluster activities in Kasongan. In Kasongan almost all employers or workers become members or are involved in more than three groups in the hamlet. Inactivity or good-badness of one's behavior in one of the joint activities will be easily known by many people. This causes people to feel the need to follow all the activities together. Knowing each other among the citizens makes the group norms that ensure the common good becomes more obedient and solidarity can be maintained. Meetings in joint activities are also an important means of disseminating information about a person's reputation or trust in a business deal. In addition to personal experience, knowledge of who entrepreneurs or workers can be invited to cooperate, new techniques of ceramic making and new designs, can be obtained through these meetings. Whether or not entrepreneurs or craftsmen in paying loans, or where they borrow, can also be known through such encounters.

#### **4.2. Getting Economic Resources**

Businessmen in the Kasongan industrial cluster mostly have family relationships such as parent-child, siblings, uncles, and so on. Some entrepreneurs who are quite successful at this time are entrepreneurs who have family relationships with one another. For example, Harnowo has a wife with a sibling with Subowo, Sartono, and Sunaryo. Harnowo has a child who is a ceramic businessman as well, whose name is Gajah Ceramic. Untung has three children who continue his business, while he himself has stopped his business in the field of ceramics and work in buying and selling land. One of Untung's sons has a wife whose mother is Mujono's younger sister, owner of Padma Ceramic. His son Untung married the son of Bowo businessman. Sartono had a son who married the owner of Hati Ceramic. Sarwono has children who manage Manyar Ceramic, etc. Radite has a sister who is the owner of Rose Square Ceramic. Membership in the family relations network can provide a source of economic capital both money and other economic capital. There are, however, certain limits to which family relationships can be a source of economic capital. Economic capital that can be obtained through family relationships in the form of capital loans, inheritances, and the use of shared facilities.

Loans in the form of money capital are usually only in small quantities. For loans in large numbers are usually entrepreneurs borrow at the bank. Loans through social relationships are usually done by an entrepreneur to another entrepreneur whose relationship is very close to misalya siblings or parent-child. Inheritance is one way of how entrepreneurs can get business capital. There are some young entrepreneurs who have inherited business units from their parents. Old, wealthy businessmen usually reduce their activities and give some of their businesses and capital to their children. Inheritance is usually preceded by a training process whereby children help with the work in the business of their parents. Inheritance of this business unit occurred for example in Laksono Ceramic and Untung Ceramic. Loans in the form of money capital are usually only in small quantities. For loans in large numbers are usually entrepreneurs borrow at the bank. Loans through social relationships are usually done by an entrepreneur to another entrepreneur whose relationship is very close to misalya siblings or parent-child. Inheritance is one way of how entrepreneurs can get business capital. There are some young entrepreneurs who have inherited business units from their parents. Old, wealthy businessmen usually reduce their activities and give some of their businesses and capital to their children. Inheritance is usually preceded by a training process whereby children help with the work in the business of their parents. Inheritance of this business unit occurred for example in Laksono Ceramic and Untung Ceramic.

Rotating Savings and Credit Association (ROSCA) is a way to get capital for many small entrepreneurs. For large entrepreneurs, social gathering is more often a means of intercourse. In Kasongan, almost all meetings are accompanied by ROSCA activities, such as Family Welfare Education, RT community meetings, the Community Empowerment Community Working Group, In Kasongan marriage relationships also play a role in obtaining or maintaining economic capital. Boys from small businessmen and have a formal education in the arts can be great entrepreneurs because of marrying girls from big businessmen.

### **4.3. Social Network for Getting Workers**

The ceramic business units in Kasongan mostly are home industries. Its workers are mostly from Kasongan itself. A large business unit employing over 100 people and using modern management also has a role as a company leader and people who are still in close contact are placed in positions that require a high degree of trust from their owners. For example a position related to money issues. Employers generally employ their neighbors in Kasongan. Workers usually gain skills based on apprenticeship by working with their neighbors or relatives who need them. While working they are trained by the owner of the business unit. Such workers are usually young and middle school graduates are not able to continue to higher education level. An entrepreneur said:

"The one who works here lives close by. The neighbors who graduated from junior high school and could not continue their studies. I teach to paint. If they are smart and skilled, I release them, let them work independently at home, work on a wholesale system. I am not binding, my purpose is to train them to work. I am developing children to work to fulfill their personal needs."

The relationship between the business owner and the new worker is usually met by patience and tolerance for errors in work. Against this apprentice the business owner usually guides to correct mistakes in doing the work. There is no action to terminate the employment relationship by the owner of the business unit. By the time the worker is more mature and skilled it will usually come out by itself. Tolerance is usually not given to dishonest acts in work. Another case with workers who have grown age. Common mistakes can result in the termination of the employment relationship.

### **4.4. Institutional Environment, Cooperatives, and Networks with Government**

There is an institutional environment that influences how social networks in Kasongan play a role in forming industrial clusters, namely free market competition in the sale of ceramics, the regulation to become a cooperative as a condition of receiving government aid, the requirement that the business unit becoming an exporter must take the form of legal entity as well as the policy of giving Capital assistance by the government. This institutional environment limits but also serves as a channel for action in the pursuit of individual or group interests. The following will describe how the institutional and social networks play a role in the economic activities of industrial clusters.

#### **4.4.1. Cooperative**

There are three cooperatives in Kasongan, the Setya Bawana Cooperative (SBC), Kasongan Usaha Bersama Cooperative (KUBC), and the Senin-Kliwon Cooperative (SKC). The formation of these three cooperatives is formally a response from government policy that government assistance is only given to cooperatives that are already legal entities. Initially all cooperatives were formed by members of social networks consisting of a number of employers and workers. Each cooperative has a different history. Here will be described about SBC. SBC stems from meeting a number of people to discuss about capital issues, supply of raw materials, and marketing of handicraft products. The meeting formed a group of about 35 members. The group started in 1987. From 1987 to 2006, after the earthquake, its members remained undeveloped. Meetings until 2006 were conducted every 35 days (selapanan). To get capital assistance from the government formed a cooperative incorporated.

Assistance was given as much as Rp 954 million with interest 0.6 percent per year. This assistance is then loaned at 1 percent interest. The cooperative determines the principal savings of Rp 50 thousand and the mandatory savings of Rp 10 thousand. In 2007 members borrowed between 10 to 15 million rupiah but eventually made an average of 3 millions. In addition to lending capital, SBC also provide firewood, organizing ceramic training for Kasongan visitors, and providing a showroom that entrepreneurs or craftsmen can use to showcase their products. In addition to providing loans, SBC also provides training assistance for entrepreneurs and workers (crafters), sells raw materials, and provides facilities to market ceramic products. For entrepreneurs who are unable to export their own products, cooperatives can also help them to export ceramic products.

#### **4.4.2. Relationship between Entrepreneurs and Government.**

The government through related institutions played an important role in the development of Kasongan ceramics industry. Initially the granting of assistance by the government was given in the form of Technical Service Unit (TSU). TSU establishment under the auspices of Office of Industry, Trade and Cooperative Bantul. By the TSU staff and experienced Kasongan origin craftsmen, craftsmen received training in combustion engineering, clay matting techniques, business management, design, packing, English training, etc. In this case TSU and cooperatives act as liaison or local organizers in providing assistance or training. Relief agencies are not all from Disperindagkop but also the Department of Tourism, the Office of Manpower, universities, and the Center for Ceramics Bandung. Having a network of relations with the government and the TSU is very important for entrepreneurs who want to expand their business. In Kasongan entrepreneurs who are now large



are the entrepreneurs who used to get help from the government. At this time, entrepreneurs with higher education are more actively developing relationships with the government. Small entrepreneurs are usually reluctant or have difficulty developing relationships with government. The opportunity cost of developing rapport with the government is large enough for them.

#### **4.5. Institutional Environment and Economic Transactions through the Network**

In Kasongan industrial cluster there are four types of entrepreneurs, namely entrepreneurs who provide clay raw materials (ECM), entrepreneurs who make terracotta ceramics (ET), entrepreneurs who make ceramic finishing and have a showroom (EFS), and entrepreneurs who make terracotta ceramics and ceramic finishing and have a showroom (ETFS). In transactions through the network, social relationships occur not only in the course of transactions but take place indefinitely. The terms of the transaction are not stated explicitly in the form of writing and there is an act of mutual support or mutual understanding between the two parties. Economic transactions through this network show how the process of transactions inherent in social relationships. Transactions through market exchanges will be risky for the entrepreneur in running his business. This network transaction is the response of entrepreneurs to the institutional environment in the form of market competition. The emergence of transactions in the form of networks here is driven by demand uncertainty, stability of input supply, and product-specific properties.

*Demand uncertainty and stability of input supply.* Businessmen in Kasongan are faced with a competitive market. Market competition, fluctuating demand, and changes in consumer tastes cause entrepreneurs can not predict how much demand for their products. In such circumstances entrepreneurs do not dare to produce in large numbers for fear of not sold. They newly produce in large quantity according to buyer demand. The owners of the showroom only display a few pieces of ceramics just for each type or shape as a sample. In the case of production input inventory it can be said that its supply is stable enough and its supply is abundant enough. For example, ETFS and EFS entrepreneurs can easily buy terracotta ceramics to ET entrepreneurs. ET entrepreneurs are easy to buy raw materials of clay and firewood on ECM entrepreneurs. They also have no difficulty in getting the workforce. The main source of demand uncertainty exists only in the demand for ready-made ceramic products. To reduce market uncertainty entrepreneurs seek to develop social networks as a means of economic transactions.

*Product specificity.* The specific properties of the product appear on the shape or appearance of ceramic decorations ready for sale or finished ceramics that have passed the finishing process. There are so many variations of finished ceramics. The specific properties of terracotta ceramics are fewer than ceramic finishing. The number of specific properties on the finishing ceramic design leads to the length of time required by the ceramic buyer finishing in making the buying decision rather than the time required to make a decision to buy terracotta ceramics. The ceramic market is a associated production market where buyers are also involved in producing end products (Asper 2006, p 12)[20]. In this joint production process the buyer proposes certain design forms that are deemed appropriate to the consumer demand in their country. The showroom owner does not dare reproduce ceramics with a certain design in large quantities at once before there is a decision from the buyer to buy. Showroom is only used to display ceramics with designs that made. Once there is a buyer's decision to buy a ceramic with a particular design and order it then the new design is reproduced with the amount according to the request. Sometimes there is a showroom that determines the minimum order quantity requirement. The subscriber whose order amount is below the specified minimum requirement will not be served. The relationship between entrepreneurs and buyers can persist for long periods of time. For example Laksono Keramik has a customer from France that has existed since the 1970's until now. Laksono Ceramic himself who runs his business is the son of the founder. Business owner Rose Square Ceramic says: "There is something like that, there are entrepreneurs who get a bayer inheritance from their parents. So his son stayed to maintain relationships with buyers who had been built by his parents. After his parents died his son continued his business. If the child can establish a good relationship with the buyer then he can continue selling. Usually if the buyer is suitable will not move to other entrepreneurs to buy ceramics."

#### **4.6. Vertical Disaggregation and Subcontracting**

Vertical disaggregation is also a response to the institutional environment of market competition and demand uncertainty. The social network in Kasongan facilitates the vertical disaggregation process between large and medium business units. For example, previous ETFS entrepreneurs also process their own raw materials of clay but because it is considered less efficient then releasing its clay processing business, then the entrepreneur builds a network with businessman ECM clay to meet their needs.

The relationships that exist between the entrepreneur and the craftsmen who have been awakened facilitate the process of vertical disaggregation. For example, the business unit of Gajah Ceramic is a business unit of ETFS. Due to the difficulty of organizing many workers and unstable ceramic demand, the Gajah Ceramic no longer produces its own terracotta ceramics and releases some of its finishing work. To meet the

needs of terracotta ceramics Gajah Ceramic develops a network with CEC entrepreneurs. The process of vertical disaggregation and exchange through network links is easily established in Kasongan because entrepreneurs or workers already know each other first's reputation respectively. This is possible because of family-based groups and various groups and joint activities based on residential similarities as already stated

The subcontracting relationship developing within the cluster is also the reaction of small entrepreneurs ET and ETFS and EFS entrepreneurs to market competition. ET entrepreneurs in the hamlet can not sell finishing ceramics to retailers or wholesalers and retail traders because in general their place of business is in the hamlets. Because they live in the hamlet, they can not open a showroom to showcase their products. ETFS and EFS entrepreneurs can not recruit large numbers of craftsmen to become day laborers because their product demand is not fixed. In such a situation, ETFS and EFS entrepreneurs at the moment there are many orders they are looking for ET entrepreneurs who can be invited to do the work of making ceramics.

The subcontracting relationship between ETFS and EFS entrepreneurs with ET entrepreneurs is informal. Subcontracting relationships may last for a long time. Violations by ET entrepreneurs against non-intolerable subcontracting relationships may be terminated by EFS and ETFS entrepreneurs. A subcontracting entrepreneur may break the relationship if the entrepreneur giving the contract is deemed to be no longer satisfactory. The relationship between the contracting entrepreneur and the contractor establishes a social relations network. With this social network the business units become more flexible and able to survive even though the demand for products is fluctuating.

#### **4.7. Transactional Characteristics Through Network**

The very specific nature of the ceramic products makes the buyer will not move from one businessman to another. In the transaction network both the showroom owners and buyers also give each other information about the product market and product quality. Mutual information is an attempt to maintain network relationships. The showroom owner provides information on the quality of the goods by explaining the raw materials and the process of making the ceramics. The showroom owner also provides information on where the buyer should go to another showroom that sells the ceramic with the desired design if the showroom does not provide the design. Showroom designated usually showroom that the owner has known both the quality of the product and personal. In contrast, in order to maintain good relationships, major merchant buyers provide information on ceramic trends with designs that are marketable.

Rarely do the disadvantaged party overcome the problem of irregularities with legal channels. Usually sanctions provided by the purchaser who feels aggrieved only in the form of demand for compensation or disconnect the network. Too often the seller's misappropriation will result in his reputation among entrepreneurs being bad and will be avoided by potential buyers. The buyer who often harms the seller by delaying payment will not be served again at the time of ordering the goods. Sanctions against irregularities in these network connections are usually only a network termination. Termination may be made by the buyer, if the seller is doing the deviation, or by the seller, if the buyer is doing the deviation.

## **V. CONCLUSION**

It has been shown how important social networking is in Kasongan ceramic industry cluster. Dense social networks arise because of several joint activities involving many citizens who also work as both employers and workers. By participating in such joint activities the entrepreneurs know each other, the entrepreneurs know the workers and vice versa, and the workers also know each other. Entrepreneurs can get information on which are good and bad workers. Entrepreneurs also get information on which entrepreneurs can be trusted in the business. Besides, the social network also develops because of the institutional context in the form of free market, uncertain demand of ceramics, and the uniqueness or specific nature of ceramics. Social networks can support smooth transactions between employers, between employers and workers, and subcontracting or vertical disaggregation. In this way, social networks support the survival and development of the Kasongan industrial cluster.

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