

What Factors Constitute Structures of Clustering Creative Industries?

Incorporating New Institutional Economics and New Economic Sociology into A Conceptual Framework

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Abstract: Creative industries tend to cluster in specific places and the reasons for this phenomenon can be a multiplicity of elements linked mainly to culture, creativity, innovation and local development. In the international literature, it is pretty well recognized that creativity is frequently characterized by the agglomeration of firms so that creative industries are not homogeneously distributed across the territory but they are concentrated in the space. Three theories are becoming the dominant theoretical perspectives in agglomeration economies theory and they are increasingly being applied in industrial clusters analysis to study the effect of clustering industries. The theories are Marshall's theoretical principles of localization economies, Schmitz's collective efficiency and Porter's five-diamond approach. However, those have adequately theorized neither the institutionalization process through which change takes place nor the socio-economic context of the institutional formations of clustering creative industries. This text begins by reviewing three main theories to more fully articulate institutionalization processes of an economic institution. Specifically, this paper incorporates new institutional economics (NIE) and new economic sociology (NES) to explain the processes associated with creating institutional practices within clustering creative industries. Both streams of institutional theory constitute that economic organizations are socially constructed. Next, this text proposes the framework that depicts the socio-economic context better and more directly addresses the dynamics of enacting, embedding and changing organizational features and processes within clustering creative industries. Some pertinent definitions are offered to be used in a conceptual framework of research about how economic institutions like clustering creative industries constitute their structures.

Abstrak: Industri kreatif memiliki kecenderungan berkembang dalam suatu kluster industri. Perkembangan industri ini identik dengan pembangunan masyarakat lokal, tradisi dan kreativitas lokal. Studi-studi internasional tentang pengembangan industri menegaskan hal tersebut. Terdapat tiga teori dominan dalam menjelaskan fenomena dinamika kluster industri, yaitu teori ekonomi lokal dari Marshall, teori efisiensi kolektif dari Schmitz dan analisis lima kekuatan dari Porter. Namun demikian, ketiga teori tersebut tidak memberikan penjelasan secara mendalam tentang proses pengembangan kluster industri sebagai sebuah institusi dimana struktur sosial ekonomi lokasi kluster tersebut berpengaruh signifikan. Kontribusi artikel ini adalah mengenalkan teori ekonomika institusi baru dan sosiologi ekonomi baru sebagai dua teori yang

dapat menjelaskan proses pengembangan institusional dari suatu industri kreatif yang berada dalam kluster industri. Dari dua teori ini, akan dikembangkan sebuah rerangka teori yang dapat menjadi basis penelitian-penelitian selanjutnya yang akan meneliti tentang bagaimana struktur industri kreatif dalam kluster industri terbentuk dan berkembang.

Keywords: clustering creative industries; institutions; structures

Introduction

In many parts of the world, the growth of creative industries derives partly from the existence of agglomeration externalities, the beneficial spillovers that accrue to firms from proximity to one another. In clustering creative industries, similar processes are resulting in local concentrations of cultural production that both provide economic empowerment for the community and reflect the traditional knowledge, skills and cultural traditions of the people (Cooke and Lazzarretti 2008). The dynamics of a creative cluster contain inter-firm relationships, or the connections between and among participating firms in a cluster as they conduct their daily business (Rabelotti 1996). They also encompass relationships between local people at different and the same stages of production activities. Creative industries could cluster to take advantage from the concentration of specialized skills, the diffusion of technological know-how and ideas and collective actions of local people. It implies that an analysis of a creative industry system that ignores the relevance of clustering provides an unrealistic picture of the nature of a clustering creative economy in many areas.

Further, clustering creative industries pertain to a dynamic process, both within the cluster and among the community members, determined by the interplay between economic and social structures (Dei Ottati 2003a). In the process, it is vital to strike a balance between economic and social relationships to attain firm development in clustering creative industries. However, relatively little theoretical consideration is given either to the processes whereby institutional practices are established or the socio-economic context that constitutes the framework that recognizes the nature of institutional change

and provides a basis for a more complete understanding of the dynamics involved in such a change in clusters. Hence, a relevant research question emerges: what factors affect institutional structures of clustering creative industries?

Three concepts are suggested by the theoretical literature as dominant theories of agglomeration economy: (i) industrial clusters depict local concentrations of certain economic activities, whose functioning can be explained with Marshall's theoretical principles of localization economies; (ii) Industrial clusters are expressed in Schmitz's collective efficiency concept. The concept is an extension of Marshall's theoretical principles of localization economies and is defined as the competitive advantage derived from local external economies and joint action; and (iii) the third definition adds some ingredients to the basic notion of spatially concentrated firms and includes countrywide business networks. This definition and subsequent analysis follows Porter's (1990; 1998) approach closely. Nevertheless, for the purpose of this contribution, this paper should adopt the definition of a cluster that describes a cluster as a socioeconomic organization. The process includes face-to-face communication between different economic players, which is strongly influenced by their socio-economic identities.

Therefore, the specific aim of this text is to propose a theory based framework for grounding and expanding institutional theory to more fully articulate institutionalization processes of structures of clustering creative industries. The objective is not to provide a comprehensive account of clustering creative industries but to concentrate on a small number of conceptual and theoretical issues that elaborate key to understanding structures of such industries. To do this, this paper intro-

duces three conceptual views that are helpful for understanding the dynamics of structures of clustering creative industries as well as provide some pertinent definitions to create a conceptual framework regarding determinants that constitute structures of a clustering creative industry.

In order to develop this argument, the unit of analysis needs to be made clear. Most economic investigations use the country or the individual enterprise as the unit of analysis. This paper focuses on groups of enterprises, in particular on clusters of enterprises in Indonesia. The decision to study the dynamics of Indonesian creative clusters reflects observations in previous research about them, which generally share conclusions about their development and importance. The clustering of small and medium-sized firms seems to be a common feature of successful industrial creative clusters in Indonesia, and the socio-territorial entity is characterized by the active presence of a community of people. Therefore, the Indonesian context is appropriate for examining creative clusters in an integrative way.

The paper is divided into four parts. After an introduction section, section two explores theoretical backgrounds that consist of the concept of industrial clusters that is most suitable for this contribution and conceptual views about the way economic institutions construct their structures. The conceptual views refer to new institutional economics (NIE) and new economic sociology (NES). Section three deals with the conceptual framework of the determinants of structures of clustering creative industries. Section four has an illustrative purpose by offering information about three different creative clusters in the Yogyakarta province of Indonesia. The work ends with some concluding remarks in section four.

Literature Review

The Nature of Industrial Clusters: The Italian District Literature

Not all-encompassing conceptual and analytical frameworks explore the functions of a regional industrial cluster including three dominant concepts mentioned above. However, the Italian district literature provides a good insight in defining a cluster as a socio-economic organization. In this perspective, inter-firm relationships within a cluster can be explained in terms of the simultaneity of competition and cooperation. Firms within a cluster compete with each other but are supported by trust and reciprocal relationships among them. Further, the Italian literature recognizes the existence of local economic institutions in coordinating collective actions among firms in a cluster and arranging roles in the managing of inter-firm relationships. An example of an institution is a local business association. The main function of the associations is to represent collective interests of a cluster community and determine the custom of cooperation among local people in a cluster.

Starting from the concept of the “Marshallian district”, the Florence School, which includes Giacomo Becattini (1990; 2003) and his associates (Pyke, Becattini, and Sengenber 1990; Sforzi 1990; Trigilia 1990; Dei Ottati 1996; Dei Ottati 2003a; 2003b; Sforzi 2003), extensively contributes to the understanding of the functioning of districts, especially in emerging economies. Becattini and his associates did intensive research in the Italian districts. They highlight some of the distinctive features of an industrial district as the model of socioeconomic organization. In their perspective, an industrial dis-

trict is a socio-territorial entity characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area (Becattini 1990). Becattini et al. (2003) claim that the framework of their analysis has its roots in the Marshallian concept of territorial external economies (Becattini et al. 2003).

Furthermore, Becattini was the first to introduce the term *industrial district* to describe the development of Tuscany, one of the industrial areas in Italy (Becattini et al. 2003). One of the important aspects of an industrial district is that local people are embedded in the same cultural environment. The working process there is determined by the social context in which the specialized firms operate and cooperate on the basis of standing customs. These customs have been extended into economic relations (Dei Ottati 2003a); the economic process can only be organized as an industrial district if customs of cooperation exist and a spirit of cooperation occurs.

Combining competition and cooperation is one of the distinctive features of the Italian industrial districts and of dynamic local production systems in general. According to Dei Ottati (2003a), in industrial districts, competition is a dynamic factor that motivates local people to obtain better results because competition will increase efficiency by saving on resources and inventing new devices. Continuous change happens when competition challenges local people to find efficient ways of manufacturing their goods or services.

There are at least three ways cooperation facilitates the economic process (Dei Ottati 2003a). *First*, it can reduce business risks faced by economic local people in a cluster, so it maintains the dynamic economic

process. For example, for those who start their own firms or decide to invest in new machinery and new products, if the business of a person collapses, he or she can always go back to being an employee at the neighboring firms or previous employer or to do subcontracting production for other firms.

Second, the custom of mutual cooperation between firms smoothes the coordination of firms with respect to the division of specialization. Consequently, manufacturing is divided up among various firms, resulting in increased production efficiency. An easy way to coordinate complementary activities is established. Third, production costs are lower because cooperation induces an efficiency of participating firms through the coordination of manufacturing. This situation enables firms in the district to take advantage of external economies as one of the natural effects of the industrial district. In fact, the productivity of single firms depends on the benefits of external economies.

The Economic Perspective of Structures: NIE

Some studies conclude that business strategy in emerging economies is strongly influenced by institutional contexts (North 1990; Hoskinson et al. 2000). A substantial literature on the interface between economic theory and business activity has highlighted the influence of the “rules of the game” (i.e., the reward structure of an economy on business activities). In practice, different incentive structures in different environments can result in economic activities that contribute to economic growth or they can result in rent-seeking behavior, a form of unproductive economic activities or may even lead to activities that are detrimental to economic growth (North 1990), whereas neoclassical

economics sees social structures as constraints on rational individual behavior (Etzioni 1988).

North (1991: 97) defines institutions as “the humanly devised constraints that structure political, economic and social interactions. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct), and formal rules (constitutions, laws, property rights)”. He argues that “institutions consist of a set of constraints on behavior in the form of rules and regulations; a set of procedures to detect deviations from the rules and regulations, and finally, a set of moral, ethical behavioral norms which define the contours and that constrain the way in which the rules and regulations are specified and enforcement is carried out” (North 1986: 233).

Therefore, NIE differs from neoclassical economics in that it ascribes a greater importance to institutions and social structures (Hodgson 1989). It generally turns away from strict individualism toward a more structural outlook, in which the social and institutional context exerts a prime influence on economic activity (Rutherford 1994).

Further, Williamson (2000) considers four levels of institutions: At the top is the social embeddedness level, where norms, customs, and traditions are located; the second is referred to as the institutional environment, which consists of formal rules, such as constitutions, laws, and property rights; the third level is composed of the institutions of governance in which the governance of contractual relations becomes the focus of analysis; and the last level is resource allocation and employment at an organization level. He argues that the top level of institutions (i.e., social embeddedness) is taken as given by most institutional economists. For this level,

North (1991: 111) poses this query: “What is it about informal constraints that gives them such a pervasive influence upon the long run character of economies?” Williamson (2000) admits that NIE is involved principally with the second (formal rules or institutional environment) and third (governance or play of the game) levels of institutions.

In line with this argument, Visser (1996) gives examples of market institutions such as the promotion of price competition to reduce performance ambiguity. Meanwhile, firms are “designed to make possible the conscious and deliberate coordination of activities within identifiable boundaries, in which members associate on a regular basis through a set of implicit and explicit agreements, commit themselves to collective actions for the purpose of creating and allocating resources and capabilities by a combination of command and cooperation” (Visser 1996: 172). Therefore, firms can be differentiated from markets in which they are socially embedded.

Further, people engage not merely in the pursuit of self-interest but also in opportunism — “self interest seeking with guile; local people who are skilled at dissembling realize transactional advantages. Economic man is thus a more subtle and devious creature than the usual self-interest seeking assumption reveals” (Williamson 1975: 255). It relates to some kind of information manipulation, by both giving distorted or incomplete information and making false promises before concluding or during the execution of a transaction (Williamson 1985).

Williamson (1975) defines opportunism as an effort to realize individual gains through a lack of candor or honesty in transactions. According to Visser (1996: 14), opportunism creates a destructive problem in the econo-

my: "Opportunism inflicts economic damage in combination with asset-specificity (which determines the losses to both parties in case of non-compliance), bounded rationality (which together with strategic distortion of information yields risks of adverse selection), as well as uncertainty about external factors." Firms that exhibit rivalrous behavior tend to perceive and structure relationships with their partner as zero-sum games, in which one firm's gain is another firm's loss (Pfeffer and Salancik 1978).

The Social Perspective of Structures: NES

By demonstrating the positive role of social relationships in modern economic life, sociologists have contributed to a time-honored research program revitalized by Granovetter (1985) with his seminal essay on the social embeddedness of economic transactions. Whereas economists typically have ignored social relations or treated them as an obstacle to attain economic rationality, sociologists have shown that economic rationality actually can be enhanced by embedding transactions in social networks that facilitate trust and diminish the risk of opportunism (Granovetter and Swedberg 1992).

Granovetter (1985) argues that the economy is structurally "embedded" in networks that affect its working. This focus on networks was soon picked up by the label of *the new economic sociology*—a term also introduced by Granovetter (Smelser and Swedberg 1994) which stresses the importance of networks. According to Granovetter (1990), there are three key propositions in economic sociology with respect to economic institutions. *First*, economic action is a form of social action. In other words, the pursuit of economic goals is accompanied by that of

such noneconomic ones as sociability, approval, status, and power. Economic action can be rational, traditional, or irrationally speculative (Weber 1922; 1978).

Second, economic action is socially situated. It cannot be explained by individual motives alone and is embedded in ongoing networks of personal relations rather than carried out by local people. As a result, the concept of people focuses on the people as a socially constructed entity, as people in interaction, or as people in society. *Thirdly*, economic institutions are social constructions. It means that economic institutions do not arise automatically in some form made inevitable by external circumstances but are socially constructed.

In expanding the three propositions, Granovetter (1990) introduces the theory of social embeddedness. This theory provides a conceptual basis for examining the benefit of collectively agreed ties. Granovetter (1985) suggests that economic activities must be considered in terms of the social structure in which such activities are embedded. Social embeddedness means that economic action and outcomes, like all social actions and outcomes, are affected by people's relations and by the structure of the overall networks of relations (Granovetter 1990). People are not like atoms; rather, they behave in their social context and are embedded in concrete, ongoing systems of social relations at purposive action of people's attempt (Granovetter 1985).

He argues that there are two dimensions of social embeddedness: structural and relational (Granovetter 1990). Structural embeddedness is the structure of the overall network of relations defined in size, density, and diversity, and relational embeddedness is the extent to which economic actions are

affected by the quality of actor's personal relations and emphasizes socially based relationships (Granovetter 1990). The structural dimension of social embeddedness refers to the structure of the network—that is, the impersonal configuration of linkages between people or units (Nahapiet and Ghoshal 1998). This can contribute differently to resource acquisition. For example, it has been argued that cohesive or densely embedded structures are conducive to creating shared frames of references, which could facilitate the transfer of knowledge (Coleman 1990).

The relational dimension focuses on characteristics such as friendships, reciprocity, and trust that people develop with one another (Uzzi 1997). In a social relation, relational governance is the deliberate inter-firm cooperative arrangement based on informal rules and unwritten codes of conduct that affect the behavior of firms when dealing with others (Poppo and Zenger 2002). Social exchange, as well as the frequency, intensity, and reciprocity of the relation, also contributes to the building of trust and shared frames of references, which influence the ease with which information and knowledge can be communicated and assimilated (Burt 1992).

Shaw (1998) reveals that social embeddedness can play both positive and negative roles in the development of a firm depending on network membership and on the nature of what flows through the social network. The development and maintenance of relational governance with a dense network of social ties in a cluster may involve considerable costs in terms of being isolated from external environment and creates the appearance of free riders. Embeddedness may restrict firm access to new information from external environments or the wider societal

context (Uzzi 1997; Gargiulo and Benassi 1999). The combination of sectoral and geographical concentration as characteristics of industrial clusters can make their locality vulnerable to exogenous shifts in products and technology. A more diversified local economy can prevent this and is less vulnerable to external shocks (Uzzi 1997; Gargiulo and Benassi 1999).

One significant obstacle to innovation in small and medium-sized firms is weakness in collecting external information and their adaptability to increased turbulence from the external environments. Particular norms that are respected within a cluster can result in over-embeddedness (Uzzi 1997), which insulates information external to the relationship. This blindfolds a cluster for new relevant information. This cost may even be greater if the uncertainty associated with the gathering of this information and the probability of maintenance of new ties is taken into account (Poppo and Zenger 2002).

That is why Sengenberger and Pyke (1991) stress the problem of many small manufacturers being isolated from their external environment. The ability to withdraw from social embeddedness that is no longer advantageous has often been recognized as an important factor in the adaptability of firms (Uzzi 1997). The more intense and productive the ties with old contacts are, the more difficult it will be to end those relationships (Gargiulo and Benassi 1999). In addition, Weber (1922; 1978) states that cozy intergroup relationships of the sort frequently found in solidarity communities can give rise to a gigantic free-riding problem. Less diligent group members can enforce on successful members all types of demands backed by the same normative structure that makes the existence of trust possible.

A Conceptual Framework

The Dynamics of Clustering Creative Industries

Three theories mentioned before provided the theoretical foundations to depict the framework, which contains two sets of elements constitute the dynamics of a clustering creative industry: economic and social structures. In this framework, some applicable definitions are offered. Thus, by using this framework, researchers would be able to investigate a more comprehensive picture of the dynamics of clustering creative industries.

Defining Clustering Creative Industries

Before outlining elements of structures, key features of a clustering creative industry should be suggested in order to understand which definitions of a clustering creative industry that is used in this framework. For the contribution of this text, the definition of clustering creative industries from the Italian district literature is the most suitable and appropriate; it not only covers forward and backward links between firms inside a cluster but also acknowledges a socio cultural identity as made up of common values and the embeddedness of local actors in a local milieu, based on trust and reciprocal relationships. Accordingly, this framework expresses the following key features of a clustering creative industry:

1. A clustering creative industry is a business and living area that comprises a large variety of firms that are relatively homogeneous in production activities and constituted by socioeconomic structures.
2. A community of firms in the area is embedded socially as a community of people, in support of trust and reciprocal relationships, that gets involved in transactions. Market relations between firms can be organized on the basis of just mutual cooperation.
3. Local economic institutions, such as local business associations and informal groups, complement the social mechanism to ensure conformity to the relational norms of social embeddedness and as a medium for collective bargaining among participating firms through decision-making processes.
4. In the decision-making process in local business associations, local actors who are acknowledged by local people as leaders push the cluster community to solve common business problems and coordinate joint actions among members.

The term instead is used indiscriminately to refer to a broad range of business arrangements. Most literature uses “industrial district” instead of “industrial cluster.” According to Schmitz (1999), the term “cluster” has the advantage of referring to a sectoral and geographical concentration of firms. Hence, the term “industrial cluster” is a better-known term than industrial districts for the purpose of this contribution.

Constructing Determinants of Structures of Clustering Creative Industries: Economic and Social Factors

As mentioned in section theoretical backgrounds, NIE emphasizes the rational behavior of economic agents in market relations between agents. Firm operations con-

nect through economic/market relations, and their behavior is determined by price and cost signals. Economic/market relations rely on the price mechanism to coordinate competing producers and anonymous buyers.

However, this behavior is limited because of uncertainty and information access. Thus, competitive behavior may encourage firms to behave opportunistically toward others (Griesinger 1990). Opportunism occurs when people wish to take advantage of their partners for their personal gains through guile and deceit. In contrast to neoclassical economics, NIE ascribes to the importance of formal and informal institutions. It recognizes social embeddedness—which consists of informal rules such as the norms, customs, and traditions—as the top level of institutions and NIE concerns on the institutional environment—including formal rules—as the second level.

Meanwhile, NES indicates that economic action is socially situated. In this perspective, the rational pursuit of people joins together with social actions of people in their social system. NES introduces social embeddedness theory, which emphasizes cohesion between parties that is supported by trust and reciprocal relationships. Social embeddedness refers to the mechanisms in which economic actions of people are affected by social construction of people's behavior. Furthermore, this theory recognizes negative roles in the development of a dense network of social ties. Embeddedness between participants in one community can be a constraint to establish contacts with external institutions, due to inter-community trust. In this situation, the communities are held together by bonding, which supports reciprocity and solidarity among the members of the communities. In addition, over-embedded-

ness can give rise to free-riding problems. Certain people copy what other people have done successfully without any contribution of the process in pursuing that achievement.

Therefore, referring to NIE and NES, this text proposes determinants of structures of a clustering creative industry that include economic and social structures. On the one side, the links between the firms in a cluster are governed by the advantages of the economic/market mechanism. This mechanism exists because there are many specialized firms for each production stage in the manufacturing cluster, and a local market develops in which firms demand or supply a given product or service. On the other side, the structures are influenced by the social embeddedness that emerges in a cluster when trust and reciprocal relationships determine inter-firm cooperative arrangements. In addition, it is important to recall that in both relations, the same mechanisms that give rise to appropriate and advantageous resources can also constrain actions or even derail companies from their original goals. Thus, an analysis of unwanted actions in inter-firm relationships is useful for understanding the functioning of socioeconomic structures in a cluster.

There might be negative effects when economic and social relations happen together. To catch up that situation since it relates to the dynamics of inter-firm relationships within a clustering creative industry, this framework classifies the negative effects as opportunistic behavior, free-riding, and isolated behavior.

Opportunistic behavior prevails when firms in a cluster take advantage of inter-firm relationships while seeking business profits, regardless of the other parties' losses. The foreseeable length of economic relations has

an important influence on opportunistic behavior. Because firms have a limited capacity to collect, store, and process information, and these processes all incur costs, exposure to opportunism is high for the firms living in a clustering creative industry. Meanwhile, free-riding behavior occurs when social embeddedness between firms exists and allows one firm to copy others' innovations, without contributing anything to the innovation processes. In other words, free-riding problems happen when some firms in their cluster imitate product designs without contributing anything to the product development process. Competition among the firms at the various stages of production ensures that there will always be some actors willing to try to manufacture a new product or use a new technique. When they are successful, other firms will try to copy their innovations. Some firms benefit from a situation in which the close relationships among participating firms enable them to copy product designs other parties create to improve their business profits.

This framework outlines inward-looking behavior as those behaviors that do not encourage participant firms to contact external environments, such as government or nongovernment institutions. Embeddedness among participant firms may help companies feel more secure and comfortable living and doing business together within a cluster. They believe they can obtain everything they need within the cluster, including information about new machines, new ways of production, new product models, and business activities.

Three Creative Industries in Yogyakarta, Indonesia

Regionally, the majority of creative clusters in all sectors are concentrated in Java, because the country's population is also concentrated in this region. Within Java, the majority of small firms are found in Central Java and the Yogyakarta province (including household enterprises, the smallest units of business; though they have on average 1–4 workers, many of them are self-employment units with family members as helpers or unpaid workers).

Three studied creative clusters are located in Yogyakarta: the Kotagede silver handicraft cluster, the Manding leather handicraft cluster, and the Kasongan ceramic handicraft cluster. The Yogyakarta province also has a long tradition of affirmative action programs fostering the development of entrepreneurs. In addition, this province is known as the cultural capital of Java and the city of education where students from all over Indonesia come to study. This makes the Yogyakarta province a multicultural province that in turn creates its own development and caters for people with different cultural backgrounds. In addition, the Yogyakarta province has a good record of SME creative clusters, and SME entrepreneurs have been recognized as the city engines of growth. The studied creative clusters are located in this province and have their own dynamics, which have influenced the way of life of people who live there.

The simultaneity of market relations and social embeddedness among participating firms emerges in the three studied clusters and constitutes socioeconomic structures of the clusters. Facing competition stimulates firms to improve productive efficiency to generate business achievement over other firms. This situation is reinforced by embeddedness among firms that facilitate knowledge development and utilization. Knowledge development and utilization enable firms to enhance resources, skills, and capabilities. Furthermore, the simultaneity of competition and social embeddedness in the clusters can prevent some unwanted actions like opportunism, free-riding, and inward-looking behavior. Opportunistic behavior can be prevented by intensive interactions among local people, and the negative effects of free-riding and inward-looking behavior can be offset by the existence of competition among them.

However, in Kotagede and Manding, the intensity of competition is more intense among small firms and among medium firms than among larger firms. In contrast, in Kasongan, the competitive pressure is felt among all kinds of firms. In the Kasongan cluster, many firms agree that small, medium, and large firms are their competitors as long as they provide the same products. Nevertheless, in the three clusters, competition among micro firms (mostly artisans and subcontractors for local manufacturers and traders) is not as high as it is among other kinds of firms.

In Kotagede and Kasongan, many of the enterprises interviewed agree that market linkages among them have dynamic effects, which may induce economic actors to introduce innovation in processes, products, or forms of organization and contribute to

the growth of the clusters. Conversely, in the Manding leather handicraft cluster, the degrees of specialization and interfirm relationships are limited primarily because of the small size of the market and low competitive pressures. As a result, many retailers get their products from outside manufacturers. However, potential for learning through spillovers/benchmarking exists because few manufacturers have connections with world-class wholesalers outside the cluster, and some local subcontractors work with manufacturers to meet the wholesalers' demand.

In the three creative clusters, most people made voluntary contributions to collective actions, as long as they were assured that others were prepared to do the same. Trust embodies the accumulated experience between participants in the cluster and helps in situations in which vulnerability increases. Trust does not only prevail in their personal life, in which they trust their neighbor firms as their friends, but it also exists when they trust neighbors as business partners on the basis of their expectations, capability and partner proof.

This strengthens the entire social tie and enables the cluster community to develop mutual-actions. This capacity also enables cluster members to deal with internal and external problems or changes. Thus, it might be expected that participating firms enjoy the advantage of cooperating with a cluster and believe they receive support from the cluster as much as they give back to it.

This is in line with what a small manufacturer in the ceramic handicraft Kasongan cluster, Mr. Basuki, explained:

"I have five retailers that order my products. I have been cooperating with them for five years. We trust each other. I value very much that partnership. It is more worth than money."

We have developed our products together since we started cooperating. Since the beginning, I have never had a loss due to them." (Interview 08/06/2008)

Although social embeddedness exists in the clusters, most of the participating firms realize that there are some firms in the cluster that take advantage of other firms for their own self-interest and benefit. They behave opportunistically in their relationships and in turn, such behavior could be destructive for both partners. In fact, opportunistic behavior will affect a firm's reputation because information on a firm's opportunistic behavior easily spreads to the other firms in a cluster. Due to close proximity, firms simply cannot collaborate with others when their reputation in the cluster has faltered.

In addition, most of them recognized that there are some firms in the cluster that imitate the design of others without contributing anything to the product development process itself. These free-riders usually exploit resources created by innovative firms, imitating successful products at lower cost and quality.

Furthermore, inward-looking behavior exists in the three clusters. There were some firms that had no links to outside institutions, which could contribute innovative ideas. Some of them had no contact at all with the training or research and technology centers the local government provides. Inward-looking behavior may prevail in the clusters because local firms can exploit the advantages of external economies and joint actions within the clusters. Knowledge spillovers among local people as well as collective actions through local business associations can contribute significantly to the success of the interactive learning process. The need to realize product and process innovation can be

fulfilled through the interactive processes that take place within the clusters.

Further, the simultaneity may help local people to solve problems that result from unwanted actions. For example, free-riding problems happen due to over-embeddedness among local people, but competition among them can stimulate participating firms to make a specific design, so it is not easy for other firms to imitate them as free-riders. Otherwise, their customers would recognize that there are no differences in the products that are sold in the clusters.

"In my cluster, I believe if somebody does not trust you anymore due to opportunistic behavior, the whole community of this cluster will not trust you anymore. You will no longer have a good reputation in social community in this cluster or in your business life." (Interview with Mr. Yono, a small subcontractor in Manding, 21/10/2007)

Conclusion

NIE and NES provide complementary insights to postulate what factors determine structures of economic institutions like clustering creative industries. The Italian district literature offers the most suitable definition of clustering creative industries when those industries are classified as socioeconomic organizations. Based on those theories, a conceptual framework is proposed. The framework contains two important factors that establish the dynamics of clustering creative industries: economic and social structures. Thus, structures consist of socioeconomic factors that can influence the way participating firms interact in doing business within an industry. The study of the Yogyakarta clustering creative industries proves the presents of such socioeconomic structures. Firms in

the studied clustering creative industries compete intensely with rivals in the same business lines while simultaneously cooperating with other firms. Social and economic structures join together to determine the dynamics of inter-firm relationships and result in the development of a creative industry and

participating local firms. Thus, it would be informative to use this proposed framework in order to specify the changes in significance and domination structures that facilitate, constrain and change over the process of institutional change of economic institutions like clustering creative industries.

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