

## **Utilization of Social Capital in the Brown Sugar Industry to Maintain Business Continuity in Sukolilo Village, Wajak District, Malang Regency**

**Devi Ernawati<sup>1\*</sup> and Razzaqi Hatmawira Rabbani Raharto<sup>2</sup>**

<sup>1</sup> Faculty of Social and Political Sciences, Brawijaya University, Malang, 65145, Indonesia

<sup>2</sup> Faculty of Animal Science, Brawijaya University, Malang, 65145, Indonesia

\* Corresponding Author: Devi Ernawati Email: [devierna32@student.ub.ac.id](mailto:devierna32@student.ub.ac.id)

### **Abstract**

Sukolilo Village is one of 378 villages in Malang Regency with various potentials, one of which is the brown sugar industry, a local identity of the local community's economy. However, the sustainability of this local industry is threatened by modernization which has an impact on socio-cultural shifts by prioritizing production efficiency that abandons traditional values. As a result, local industries are faced with business competition against large industries in terms of production resources, product competence, distribution and product prices on the market. The lack of regulations and policies from the government that support people's businesses makes it difficult for local industries to develop. This study aims to identify the efforts and the challenges faced by the local community in maintaining their businesses. This research is important to provide recommendations to maximize the capabilities of industry players in increasing the resilience of local businesses. Social capital has an important role in maintaining the resilience of local industries by transforming social resources into economic capital. The methodology used in this study is a qualitative approach with a descriptive method whose data collection is carried out through observation and interviews. The results of the study show that social capital in the form of networks, trust, and norms is a strong foundation in facing external challenges to maintain business continuity. Among them are helping to mitigate financial risks and maintain business operations. The development of a more structured and formal social capital can be the right strategic step in strengthening this industry.

**Keywords:** business sustainability, local industry, social capital

### **1. Introduction**

Referring to BPS data in 2018, it shows that the number of rural industries in villages or sub-districts in Indonesia reviewed based on the existence and type of small and micro industries at the village level cumulatively amounted to 147,662 business units divided into various types of industries [1]. Of the several types of industries that exist, including the leather industry, wood industry, precious metal industry and 5 metal materials, weaving industry, pottery or ceramic or stone industry, fabric or weaving industry, food and beverage industry, and other industries. East Java Province is one of the 36 provinces in Indonesia with various home industries, small industries, and micro industries that are developing in this region. Referring to similar data, the number of industrial distributions in the East Java Province is 24,540 business units [1]. Malang Regency is one of the areas in East Java Province with villages that have various industrial potentials in them, one of which is Sukolilo Village, Wajak District. Sukolilo Village is one of 378 villages in Malang Regency with various potentials, one of which is industry. Where in this village there are 3 types of industries developing, namely the brown sugar cane industry, the garden grass industry, and the cassava cracker industry which are managed directly by the local community. When compared to other villages in the Wajak District area which are also industrial villages, of course Sukolilo Village is superior. This is because many villages in the Wajak District area only have one type of industry that is developing in their area, while in Sukolilo Village, the industry that is developing in this village area does not only focus on

one type of industry but also has various other types of industries. In addition, when viewed in terms of industrial quantity, Sukolilo Village also has a greater number of business actors compared to other villages around it.

However, just like other rural industries, of course this brown sugar cane industry is faced with various challenges that often threaten the existence and hinder the sustainability of this business. The most prominent challenge is related to business competition with large industries, especially in terms of production resources, product competence, distribution and product prices on the market. In addition, the presence of new industries supported by the use of modern technology in each production process is increasingly tightening competition between industries. Competition is a condition where organizations compete to achieve desired results or goals, by competing in terms of consumers, market share, survey rankings or required resources [2]. In addition, the lack of regulations and policies from the government that support people's businesses weakens the bargaining position and competitiveness of local industries, which in the worst case has the potential to cause the business to go bankrupt.

Based on these problems, this study attempts to examine the use of social capital elements as a strategy to actively achieve the sustainability of the brown sugar industry, by observing and exploring the actors involved in the industry. The research objectives to be achieved are (1) to determine the description and form of social capital in the brown sugar industry, (2) to determine the extent to which social capital is used and utilized by brown sugar industry business actors. This research is important to be carried out as evaluation material that can be used to provide recommendations to maximize the capabilities of brown sugar industry actors in Sukolilo Village in utilizing social capital to increase the resilience of their businesses. By utilizing social capital as a survival strategy in facing dynamic industry challenges, this research is expected to provide practical solutions for business actors to optimize the social resources they have. It is hoped that the results of this research can contribute to the development of rural industry and support the sustainability of local businesses in order to create long-term business sustainability.

## **2. Method**

This study uses a qualitative approach with a descriptive analysis method. Iskandar (2009) defines a qualitative approach as a process in research that seeks to understand based on an investigation of a social phenomenon and problems experienced by humans. The descriptive analysis method is a method that seeks to find facts and provide a picture of an experience or event in people's lives [3]. The source of research data was obtained by conducting field observations and interviews with informants. The technique for determining informants used is the purposive sampling technique. Sugiyono (2009) explains that the purposive sampling technique in determining informants is a sampling technique as a source of research data which is carried out on the basis of certain considerations, in accordance with the criteria that have been set and are relevant to the research topic [4]. with the characteristics that are set, namely first, those who are the main actors in the industry including family members or in this case have the status of owners of the brown sugar industry itself. Second, those who are directly involved in every production process or operation of the brown sugar industry or in other words are workers in this industry. Researchers use business actors or owners of brown sugar industries, including family members, as the main informants on the grounds that these people know and understand more about the social capital in their brown sugar industries.

## **3. Results and Discussion**

### **3.1. Sukolilo Village Profile**

Sukolilo Village is one of 13 villages in Wajak District, Malang Regency, East Java. The location of Sukolilo Village is approximately 16 km from the capital of Malang Regency and 3 km from the Wajak

District office area. This village is on the same route as Tumpang District which is the main access to enter the Mount Bromo Tourism Area. With an area of 573 Ha, Sukolilo Village is the fifth largest village of the total area of all villages in Wajak District. The topography of Sukolilo Village includes lowlands, most of which are used as residential areas, village roads, agricultural land and plantations such as sugar cane, corn, and garden grass. Not to forget, in this village there are also several small livestock such as chickens, goats, and cows which are managed by several local residents.

Sukolilo Village is known as an industrial village, because this village is a center for processing local agricultural products. Various local agricultural products such as sugar cane are processed by the local community into substitute products to have a higher selling value on the market. This is done because selling processed substitute products is much more profitable when compared to selling raw products. In other words, substitute agricultural products that have gone through a processing process produce a greater profit margin than raw products. One of the several industries in the Sukolilo Village area is the brown sugar cane industry which focuses on processing sugar cane into brown sugar or the local community calls it Gulo Abang. The location of Sukolilo Village which is quite close to the Krebet Sugar Factory production area makes the brown sugar industry mushroom in this village.

### **3.2. Business Continuity of Brown Sugar Industry in Sukolilo Village**

The development of the brown sugar industry in Sukolilo Village cannot be separated from the historical nuances that have been passed down from generation to generation by the ancestors of the local community. Where the existence of the brown sugar industry still survives until now and efforts continue to be made to maintain its existence so that it can be passed down to the next generation. The production house of the brown sugar industry in Sukolilo Village has been operating since approximately 1918, with industrial activities centered in several hamlets in the village area. Based on initial review data referring to information from the people of Sukolilo Village, it shows that the processing system of the brown sugar industry in this village has changed a lot and continues to evolve following the times. In the past, brown sugar processing was carried out nomadically, namely by moving from one sugarcane plantation to another. Then the processing technology used was also still simple, namely in the form of a manual mill made of wood with its operation utilizing the driving force of animals such as cows and buffaloes. Over time, changes began to occur from the previously nomadic sugarcane processing system (moving from plantation to plantation) to becoming settled by building permanent buildings located near residential areas or adjacent to the homes of the business owners.

Research data shows that out of 35 industrial business units, some have stopped production, with only 22 remaining in this village area. It should be noted that the brown sugar industry in Sukolilo Village is a people's business that is managed independently by the community, so that in its implementation it is very dependent on the resources owned by business actors. The challenges that often arise in this industry are related to minimal capital, because the production capital used only comes from funds owned by business actors obtained from product sales. With the dependence on funds owned by business actors, the development of technology and innovation that supports industrial progress is limited. For this reason, assistance is needed from external parties such as educational institutions that act as business partners. With this assistance, it can be a solution for the brown sugar industry in terms of identifying potential sources of capital and financial management to maximize the management of limited capital.

In addition to capital constraints, limited access to information technology is also the biggest challenge in the brown sugar industry in Sukolilo Village. Most business actors do not have access to the use of the latest production technology, as a result their businesses often experience delays in terms of

increasing production quality. Limited technology produces brown sugar products that do not meet market demand standards, thus the production process must be repeated to produce brown sugar that meets standards. Therefore, there needs to be involvement from external parties such as government institutions and the private sector to provide opportunities for business actors to receive technology transfer through counseling and training. Where it is useful for the development and improvement of the production capacity of brown sugar industry business actors to carry out wider market expansion.

### **3.3 The Potential of Social Capital Utilization to Support Business Continuity of Brown Sugar Industry in Sukolilo Village**

#### ***3.3.1 Forms of Social Capital in the Brown Sugar Industry***

Putnam (1993:36) explains that social capital includes physical capital and human capital, where the term social capital can be interpreted as a feature of social organization that refers to networks, norms, and beliefs that can be used to improve the structure of society and facilitate certain actions from actors involved in the structure [5]. Tonkiss (2004:11) added that social capital can have economic value, because of its ability to transform potential into real power that can be used as a supporter of development to encourage progress [5]. Lesser (2004:121) revealed that there are several reasons behind the importance of the presence of social capital in small industries, including; (1) facilitating access to information, (2) as a medium for sharing power, (3) as a means of developing solidarity, (4) intermediary for mobilizing resources, (5) a tool for achieving common goals, and (6) forming common behavior in the organization [5].

The social capital of the brown sugar industry in Sukolilo Village can be seen from the way the local community builds networks, norms and social beliefs that apply among them. Where the three elements of social capital are formed gradually and are continuously maintained by the community in the business environment and joint production process. This social capital is the basis for the community in building mutually beneficial cooperative relationships by reducing the risk of conflict through increased coordination and participation in production activities. In running their business, the community of brown sugar industry business actors adhere to social norms, respect shared values and interact with each other in social networks, this can be seen from the process of disseminating information that takes place between them. Based on mutual trust, information received from fellow business actors is used as a benchmark for them in making business decisions. The following is a further explanation of the elements of social capital in the brown sugar industry in Sukolilo Village:

- **Social Network**

The social network in the brown sugar industry in Sukolilo Village refers to the relationship between business actors and workers involved in this business. This relationship is seen from the intensity of interaction and social contact that occurs between business owners and industry workers in one industry or with other industries. In the process, interaction and social contact occur quite intensely, resulting in a relationship that allows business actors and workers to transmit information, technology, and knowledge to each party involved in this industry. The exchange of information and knowledge that is carried out makes them have their respective roles and responsibilities to minimize risks and reduce possible industrial barriers. On that basis, the behavior of each business actor and worker in the brown sugar industry is interrelated which ultimately influences most of the choices of actions by business actors towards their brown sugar industry.

- Social Norms

Norms in the brown sugar industry in Sukolilo Village refer to the standards of behavior that must be followed by business actors and workers as parties involved in this industry. Where through these standards that become the limits in shaping their behavior. This can be seen from the actions of business actors and workers in one industry that are influenced by the behavior and opinions of fellow business actors and other industrial workers in this village area. The structure of social relations in the production activities of the brown sugar industry is mostly carried out on the basis of social norms that apply in running a business in the village. From the existing structure, decisions and thoughts between fellow business actors are interrelated and influence each other. For example, in terms of decision making regarding production periods and production time gaps, industry players tend to consider the similarity of actions from other industry players. Generally, industry players will also take a production time gap when the majority of other industry players also do the same. On the other hand, if most business actors run the production period, then other business actors will also follow.

- Social Trust

Social trust in the brown sugar industry in Sukolilo Village leads to collective behavioral habits resulting from the culture and social system of the local village. Where this trust is the basis for business actors to carry out open communication related to making decisions concerning their business. Business actors consider that with open communication it is easier for them to avoid problems and minimize business risks. According to them, maximizing communication and building cooperation will increase social exchanges that can bring more benefits. As

### *3.3.2 Social Capital and Its Relation to Business Sustainability*

Business continuity is an effort to maintain and protect resources by developing certain ways to meet the needs required for the production activities of an industry [6]. The scope of business continuity includes capital continuity, human resource continuity, production continuity, and marketing continuity. Capital continuity is related to financial resources and their allocation of use, in the brown sugar industry, the fulfillment of capital needs comes from the owner's personal funds generated after the sale of brown sugar production results. Furthermore, if there is a shortage of funds, the business owner will apply for a loan to the Bank to cover its fulfillment. This loan application is only made when there is a significant discrepancy between the low selling price of brown sugar and the high purchase price of raw sugar cane which results in the inability of the proceeds from brown sugar sales to cover the costs at the start of production.

Human resource continuity is related to the skills of each party involved, in the brown sugar industry, the fulfillment of production labor is carried out by taking and selecting people in one village who have previously worked and have experience in this industry. This is done to minimize the cost and time required. Field findings show that some of the workers interviewed had worked in one of the brown sugar industries and then after some time moved to work in another industry. Worker transfers are a natural occurrence in the brown sugar industry in Sukolilo Village without causing disputes between the actors. Production continuity is related to the fulfillment of raw material needs and production support facilities, in the brown sugar industry the fulfillment of production factors is carried out by building good relationships with suppliers. This is intended to establish long-term partnerships so that business owners do not need to worry about the availability of raw materials for production that are needed at any time. In addition, with a partnership system like this, it is easier for business owners to complain if the raw materials purchased are of poor quality and do not meet the required standards.

Marketing continuity is related to the distribution of brown sugar products on the market, in the brown sugar industry there is one industry that acts as a marketing manager. Where other brown sugar industries deposit in this one industry to finally be sold to large factories with greater profits when compared to selling them to the market. According to business actors, this system will result in faster financial turnover with minimal waiting time, so they can immediately carry out the production process again. In addition, the reason for choosing a deposit system like this is because some industry owners have limited marketing networks. As a result, they prefer to focus on the production process and hand over marketing distribution to one of the industries that has wider relations for the sake of the smooth running of their business. Because if you do marketing independently with minimal relations, the selling price obtained is not necessarily the same or can even be lower than the selling price in the deposit system.

The relationship between business continuity and social capital, namely social networks facilitate the flow of resources including the flow of information, technology transfer, or access to capital. For example, in the form of cooperation with suppliers to ensure the availability of raw materials that minimize production delays so that production activities continue to run. In addition, social networks also help support access to the provision of capital obtained from trusted funding sources from recommendations from fellow business actors. Social norms in the brown sugar industry shape the attitudes and behavior of business actors who regulate work ethics so as to minimize disputes and conflicts. For example, related to the transfer of workers between brown sugar industries, this occurs without disputes because each business actor already understands the social norms in this business. The social trust that is present in the brown sugar industry is reflected in the product deposit system to one industry to reach wider marketing. This trust gives confidence to every party in the brown sugar industry that the fulfillment of production is a shared responsibility. The existence of this trust strengthens the commitment of each industry to not only focus on personal profit but also on the shared success of the brown sugar industry in their village area.

#### **4. Conclusion**

This study shows that social capital plays an important role in maintaining the sustainability of the brown sugar industry in Sukolilo Village. In facing the challenges of the industry, the use of networks, norms, and social trust can maximize the competence of the village industry. The use of social capital helps mitigate financial risks and maintain the smooth operation of the business. However, further evaluation and development are needed regarding the use of more structured and formal social capital through the formation of social institutions. Where the formation of this institution can be used as a coordination forum to maximize participation and support collaboration in solving industrial problems experienced more optimally.

#### **5. Conflict of Interest**

The authors declare that there is no conflict of interest regarding the publication of this article.

#### **6. Acknowledgement**

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