

# Institutional and Financial Management Model of Karawo Crafters in Gorontalo, Indonesia

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## Abstract

*Karawo* embroidery is a cultural product that became the brand image of Gorontalo in Indonesian society and is one commodity that will always be developed. *Karawo* embroidery artisans are a resource that plays a role in the development of the creative industries. However, the role of the owner of an industry (employer) dominates the artisans/crafters by treating them labor with minimum wage. As a result, the crafters make it only as a side job. Based on these facts, a research is conducted aiming to identify models of institutional and financial management of *karawo* embroidery crafters. Following the observation and interviewing process with some entrepreneurs, *karawo* embroidery crafters, and designers, it is found that there are some institutional model of *karawo* needlework crafter, they are centers, cooperation, patronage and singular (Independent). The financial management model is simple, with working capital from its own funds, wages and gathering funds. The financial management model of *karawo* needlework crafters is simple. Working capital was originally sourced from its own funds, in the form of wages and gathering funds between craftsmen, and along with the development of their business, they get the capital gain in the form of loans from cooperation and businesses and grants from the government.

**Keywords:** *Karawo*, institutional model, financial management model

## INTRODUCTION

*Karawo* is embroidery from Gorontalo with powerful arts, socio-cultural and economic values. This powerful art come in the form of unique fabric ornaments as a symbol of beauty made by hand of the people of Gorontalo by high precision embroidery technique and as a product of high level creativity (Sudana, 2015). The socio-cultural value comes from *karawo* as cultural inheritance and up to today it is still a mostly female interaction object in Gorontalo (Niode, 2007:162 & Hadi *et al.*, 2015). Whereas the economic strength of this product is based on *karawo* as a product that can potentially become source of income for its crafters (Isa, 2014). As a product with many strengths, it is not unusual if *karawo* becomes the cultural product icon that is always being preserved and developed by the government and people of Gorontalo.

Nowadays, the existence of *karawo* as a cultural product in its industrialism era has transform *karawo* to be a highly economic commodity that is being purposefully developed to support the creative industry in Gorontalo (Hadi *et al.*, 2015). One of the capitals that can influence the success of preservation and development of *karawo* is the crafters in designing the motives, slicing the threads, and embroidering the *karawo* (human capital). Based on the data of the Industrial, Trades, Cooperation, and Small and Medium Enterprises Agency of Gorontalo province in 2013, there are at least 4,541 *karawo* handcrafters in Gorontalo.

The role of the crafters in developing the *karawo* is determined by their knowledge aspects, gained through informal and trainings, level of experience, skills, and creativity (Hadi *et al.*, 2015). Nevertheless, there are several weaknesses in *karawo* industry in Gorontalo, such as, the lack of handcrafters awareness on the quality of the product, lack of competitiveness of *karawo* compared to other textile crafts, lack of knowledge on access to capital, limited access to market, and difficulty in finding the appropriate raw materials (Bank Indonesia, 2013 & Isa, 2014).

*Karawo* has undergone change in social construction, from cultural symbols to product with high economic value. Based on this, in turn, a new institutional model toward the utilization framework of resources is needed. Therefore, the institutional model and financial management of *karawo* crafters becomes important to be investigated to ensure that *karawo* is a product developed through interaction of related stakeholders with different roles in achieving the common goals, to increase the arts, socio-cultural, and economic values of *karawo*.

This research aims at identifying the institutional models and financial management models of *karawo* embroiderers'/crafters. The output of this study can be used as the basis for further research to revitalize the current institutional model of *karawo* crafters hence, a new institutional model based on the local cultural values of Gorontalo can emerge.

## LITERATURE REVIEW

*Karawo* is embroidery handicraft made from fabric by slicing and pulling the threads to form the basic pattern and then embroidered using the different threads to create the background motives (Sudana, 2015). The process of *karawo* is preceded by creation of the motive design as a pattern or guidance in the process of slicing and pulling the threads of the fabric. This process is then followed by the process of *karawo* or embroidering. In general, this handicraft is made by women as their side job to earn additional income.

*Karawo* is a unique and has high level of difficulty in its process of creation. As a uniquely different embroidery than other type of embroidery in Indonesia, *karawo* had received an award as the most unique embroidery in National festival of Embroidery (Festival Sulaman Nusantara) at Gajah Museum, Jakarta (Hadi *et al*, 2015). In addition to that, *karawo* as a special product from Gorontalo has been acknowledged by the Ministry of Law and Human Rights of the Republic of Indonesia as a patent product from Gorontalo with patent ID ID 0012784 and Patent Request Number P-00200500324 (Amendment of S-00200400151).

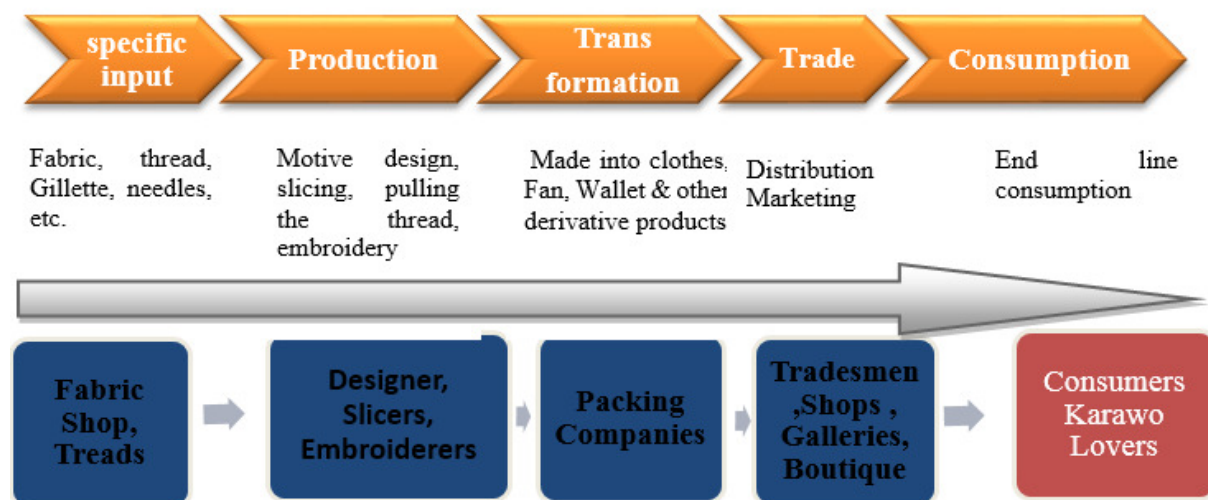
Figure 1: Patent Certificate of Karawo



Source: Industry, Trades, Cooperation, and Small and Medium Enterprises Agency of Gorontalo Province

*Karawo* has currently become the brand image and is one of the main commodities to be developed with the expectation of boosting the economy of Gorontalo especially in providing jobs for its crafters. Hence, it can bring additional income. According to Bank of Indonesia (2013), other positive impact felt by the people of Gorontalo is the increase of pride in wearing *Karawo*, Gorontalo city has been called as “*Karawo city*”, *karawo* outfit is made as uniform in government agencies and state-owned companies as well as private companies, as one of the tourism site and souvenirs from Gorontalo, increase of sales, increase of creativity in *karawo* embroidery, and emergence of new business. Below is the chain impact of additional economic values toward the emergence of new small and medium enterprises:

Figure 2: The cluster value chain of Karawo in Gorontalo



Source: Bank of Indonesia, 2013

*Karawo* has been giving additional economic values for Gorontalo. In regard to this, government agencies and other institutions such as Bank of Indonesia (BI) is encouraged to create many policies and strategies to preserve and develop *Karawo* in Gorontalo. Some of these policies and strategies are: improving the embroiderer’s skill through trainings, opening up the market access either in local, national, and international through promotions to increase the demand for *karawo*, and provide information on access toward capital for embroiderers and *karawo* businessmen.

Many have contributed toward the improvement of *karawo* either from the arts aspect, socio-cultural aspect, or economic aspects. The Provincial Representative House (DPRDP), Bank of Indonesia, Provincial Government of Gorontalo, Industrial, Trades, Cooperation and Small and Medium Enterprises Agency, Provincial Tourism and Transport Agency, Higher Education institutions in Gorontalo, *karawo* embroiderers, *karawo* businessmen, fashion designers, financial institutions, and general people who love *karawo*.

Economic resources constraints faced by the crafters in developing their business made them interact with others. The interaction pattern of the crafters and other parties is made through an establishment process of a new

institution, either spontaneously or intentionally found. The intended institution is a regulation that abides the community that conducts transaction within this institution (Chang, 2011). The institution has values to regulate its members in their interaction, which reflects the unique social life performance.

## METHOD

This research uses qualitative method with ethno methodological approach, which focuses on the institutional and financial management of karawo crafters in Gorontalo, especially those reside in Gorontalo city, district of Gorontalo, and District of Bone Bolango. This ethno methodology approach is used due the reason put forward by Rawls (2008) that ethno methodology is oriented to institutional object which focused on describing the interaction pattern of the subject.

Data are collected through unguided interview and through focus group discussion, observation, and documentation. The research instrument is the researchers that directly involved in collecting and analyzing the data. The data in this research are primary data collected during the interview and observation, and secondary data collected through documentation and relevant literature review. The interview in this ethno methodological research is conducted through responsive technique by asking the informants to describe what they know, their experience, or what they have heard from others on institutional and financial management of karawo crafters. The data are analyzed using interactive model of data reduction, data display, and conclusion drawing.

## FINDINGS AND DISCUSSION

This research finds four model of institutional and financial management of Karawo crafters in Gorontalo. They are:

### 1. Crafters Center

*Karawo* has been established as one prominent commodity in Gorontalo province. Karawo industry has been giving significant contribution for the crafters. According to Erna, Head of Industry Unit at the Industry, Trades, Cooperation, Small and Medium Enterprise Agency of Gorontalo Province, the increasing number of karawo crafters each year is because economically this activity has given additional economic value for the crafters. The increasing demand for karawo will bring impact on the increase of crafters' income.

Government of Gorontalo realizes that the development of local commodity is one of the frameworks to locally develop the socio, cultural and economic character by utilizing its potentials. Karawo is the symbol of Gorontalo. Therefore, the government of Gorontalo and other stakeholders, such as, Bank of Indonesia and Higher Education institutions implement many policies to support the development of Karawo. This is as stated by Iwan Setyawan, the manager of small and medium enterprises at Bank of Indonesia that BI cooperates with the State University of Gorontalo in conducting researches related to development of prominent cluster commodities, including karawo.

One of the government policy and BI is through institutional regulation to ease the process of supporting the karawo crafters by establishing small crafting centers in several potentials areas. Each center has in average 10 to 30 karawo crafters with one person acts as its coordinator. The karawo center was initially in Tapa sub-district, currently, there are several other areas have been established as karawo centers in the district and city of Gorontalo. The biggest center is in the district of Gorontalo with many crafters as its members. Among these centers are "Sumber Usaha Karawo" and "Rahmah" centers.



Figure 3 Karawo Centers

Source: Researchers Documentation

The assistance given by the local government, BI, and higher education institutions in developing these centers are more into assistance in improving their business, marketing management, and financial management. There are several trainings given to improve the quality of karawo embroidery and widening distribution channel in domestic, national, and international level, both through conventional and on line marketing.

According to Asni Ilham, the chairman at Rahmah karawo center, who is also a lecturer at one of the university in Gorontalo, the chairman of the center manage the center through interaction with external and internal parties of the center. Externally, the chairman of the center works to promote and look for orders from the consumers or businessmen. The chairman of the center is the person in charge of the communication for karawo orders. After the orders are received, the next task is to distribute the orders among the members of the center. In addition, the chairman also coordinates with the government and other parties related to assistance program and

trainings for karawo crafters.

The similar information is also revealed by Karsum Dunda, the chairman of the “Sumber Usaha Karawo” center who is also an experience crafter herself. She states that the chairman mostly works as the person that connects the crafters and the consumers, as well as connecting the crafters with the local government and other parties. In addition to that, the chairman also works as the person between other parties and crafters when there will be trainings conducted. Internally, the chairman also coordinates the distribution of orders among crafters. Therefore, in this center institution, the chairman plays important role in reviving the karawo production at the crafters level.

This center institution has gained acknowledgement from government and other parties. The data on the member of the center are identified by the Industry, Trades, Cooperation, and Small and Medium Enterprise Agency at the local level. The development pattern of karawo center, according to Ilham Setyawan (BI) and Erna (Industry, Trades, Cooperation, and Small and Medium Enterprise Agency) is also conducted through provision of working capital for the center. This is also acknowledged by Asni Ilham and Karsum Dunda that their centers have received grants as working capital for the development of their centers. This grant is used to buy the materials for karawo, and other tools and equipment for the centers. From this assistance, the chairmen of the centers expect that the karawo production will not rely merely on orders from customers. Through access to capital, they can market their own product.

Financial management within this center institution was initially very simple, through the working capital that comes from their own funds, wage and rolling money among crafters. Along with the growth of their business, they receive grants as working capital from the government. As means of accountability for this grant, the management of the center ought to provide financial statement, hence, the progress of their income will be known.

The relation between the chairman and the members within the center is more transactional relationship. When the chairman get orders of karawo, then the orders will be distributed among members. In this sense, the transaction is based on agreement of fee for the chairman and fee for the crafters. Hence, the crafters only obtain fee from the karawo that they made.

## 2. Cooperation

In the process of karawo production, the main obstacles for the crafters are the limited working capital to buy karawo materials. As well as to market their product, in which, crafters have limited access to the market, both to obtain orders and to sell their product. To anticipate this, there is an awareness among the crafters to organize themselves into a cooperation institution. The awareness to work together based on the same needs has made the crafters to commit to help each other.

Seruni cooperation is one of the female cooperation in Gorontalo that commits to develop the karawo products by accommodating karawo crafters as its members. The role of this cooperation in developing the karawo especially in assisting its members by providing raw materials and marketing the products.

Figure 4: Seruni Female Cooperation



Source: Researchers' Documentation

Rosmiaty Abdjul, the chairman of the Seruni Cooperation admits that this institution that is managed by females is productive to preserve and develop karawo, hence, it is known by wider society. This is also supported by its members commitment to improve the quality of karawo through improving the karawo motives as the market demands.

Institutionally, cooperation has equal position as the karawo centers. In development of karawo in Gorontalo, the cooperation is also collaborating with local government and other agencies. The partnership among cooperation, local government and other agencies is also similar to those of the karawo centers, in which, the cooperation is also receive assistances such as, trainings and grants to develop the cooperation management.

The existence of cooperation for the karawo crafters has become an object for the local government and other stakeholders in providing their assistance. The assistance program is conducted through education and trainings for the members, the management, and the advisory board. This type of program gives certain meanings for the crafters, by being the members of cooperation, aside from the additional economic values, they also receive social benefit.

Through cooperation institution, the crafters as members and management of the cooperation can directly interact with the government, both through managerial assistance for the cooperation and through development of



karawo business. The management of the cooperation is responsible for managing the cooperation, including promoting the karawo product and finding orders from customers and businessmen. The interaction pattern among the management and the members of the cooperation happen when the cooperation receives orders from the external parties and from the cooperation itself.

Financial management of the crafters through cooperation organization is more open. Each member of the cooperation has rights and access toward the financial statement of the cooperation. Financial planning of the cooperation can be used individually by the members by utilizing the cooperation in providing raw materials that are cheaper than in other places. Further, the member of the cooperation can sell their products to the cooperation.

In its operation, the management of cooperation is constantly in promotion mode in order to receive orders and to sell the product of its crafters. The orders will be distributed among its crafters. In this occasion, the crafters receive payment for their services in creating the karawo embroidery. Economically, there are several benefits of the cooperation members, such as, obtaining capital for the raw materials, benefit of selling their products to cooperation, receiving payment for their services in embroidering karawo orders that the cooperation receives from external parties, and on top of those, at the beginning of the year they will receive additional money from the total cooperation benefit from the previous financial year. Through cooperation institution, financial control is more transparent and accountable due to the annual report presented by the management in Annual Member Meeting.

### **3. Patronage System**

The higher the demand for karawo, from domestic, national and international system has opened up a new business opportunity and the emergence of new small and medium enterprises. Based on the interview with sociology expert, academia, and karawo crafters, was found that there is a transactional relationship with patronage system (patron-client) system, between the marketing businessmen and the karawo crafters. Within the context of karawo, the patron position is occupied by the karawo merchants/traders that are often called as bosses meanwhile the client position is occupied by the karawo embroiderers/crafters.

As Basri Amin (a sociology expert) explains that karawo has shifted from a socio-cultural product into an economic object for the businessmen to interact with crafters. The relationship pattern is made due to the client that has capital and marketing ability's constraint. These constraints are utilized by the patron to cooperate based on service exchange. Client's dependency on patron is paid by the patron by providing protection of capital and other facilities to the clients. In further stage, the client pay this service back by providing their services to do the karawo embroidery based on the patron's order and indirectly, this feed to the sustainability of their relationship.

Rahmatia, an academia who conducted research on human capital and social capital interaction on karawo embroidery also utter the similar tone. She notes relationship of patron-client is also understood as imbalance relationship, a personal relationship between a trader/merchant with numbers of his/her crafters. Regardless to this client-patron as a voluntary relationship, in the field, it is found that this relationship is formed in areas where there are no karawo centers are established. Patron has more freedom to do transactions with the crafters by giving low wage and binding the clients by giving them loans upfront. Based on this loan, the clients will find it hard to do transaction with other parties, including the consumers.

One of the crafters who had this experience with tradesman is Karsum Dunda. She had been a client for a karawo businessman for more than 15 years. She explains, after seeing the market opportunity for the karawo product and due to the lack of orders volume from the patron, she becomes motivated to open her own business using her own capital that she obtained by selling her motor cycle and the funds from rolling money. She finally established karawo center. In her experience, the patron efforts to maintain good relationship with her clients is by showing generosity to the clients, e.g., helping the sick family members, or giving the parcel during the Ied day, as well as giving the clients loan that should be paid back when there is a karawo order received.

Financial management of the karawo crafters are largely used for consumptive activities. The consumers cannot do the financial management. The upfront loan given by the patron to the client often made the client cannot organize their income for other productive activities.

### **4. Self-Sustainable System**

Other than those three institutional model described above, there is also a self-sustainable institution. This applied to the karawo crafters who have sufficient capital and are able to access the market. Self-sustainable crafters are those with self-confident and those who are able to make wise decisions.

The crafters who applied this system in general are those who are able to slice the fabric threads as well as able to do the karawo by themselves. Within the production process, this self-sustainable system still needs other parties, especially in creating the motive of the design. Nevertheless, to meet the urgent demand of the customers, often, these self-sustainable crafters will distribute the karawo process to other crafters and pay for their service.

In their operation, the crafters are free to select their distribution channel, directly to the small, medium and large enterprise, and even to the cooperation, or directly to the consumers. The same is also applied in their relationship with other crafters (motive designers and the crafters), the self-sustainable system treat other crafters as employees that can be given orders and paid based on the service rendered.

Based on the business management, this self-sustainable system has smaller business risk compared to other

model. As well as its financial management, this self-sustainable system is simpler, the planning process up to the management process is directly done by the crafter himself/herself. Within this self-sustainable system, the crafter tries to avoid debt to other parties. The capital to develop the business often made by utilizing the personal asset.

Those four institutional models described above can be understood that karawo as a cultural product in Gorontalo society has given positive sign for the development of Gorontalo's economy, for instance, through the emergence of new small and medium enterprises. The specific impacts of karawo industrialization for the crafters is that there has been a shift of source of income pattern, where karawo that was previously a side income has now become a main source of income, this is the sign of a social change process is currently happening (Hadi *et al*, 2015).

From the establishment aspect, the center and cooperation are formal institutions that are purposefully established by the crafters and other stakeholders. Whereas, the patronage system and self-sustainable systems are non-formal institutions that are unintentionally established.

In supporting the development of karawo business, local government and other institutions' involvement are prioritized toward the cooperation and centers institutions. This is due to the notion that in order to develop an economy of a region, the policy strategy is through establishment of formal institutions (Chang, 2011). This is also in line with Ostrom (2011) which explains that the power taken by the policy makers in order to anticipate institutional change for crafters is through establishment of regulations that encourage the cohesive aspiration and involvement of all related stakeholders.

Nevertheless, it cannot be denied that the existence of patronage and self-sustainable system also give significant contribution toward the development of karawo as an economic product. The patronage system involves the capital owner to distribute the financial resources to their clients (Ayse Simin, 2016). In this sense, there is a mutual relationship between patron and clients. The patron with capital and ability to see the market opportunity needs the embroiderers/ crafters as resources to fulfill the market demands. On the other hand, the crafters with their limited capital and market opportunity have to cooperate with the capital owner in order to earn income.

In institutional management, either center and cooperation or patronage and self-sustainable systems as small and medium enterprises in general have financial limitation. Therefore, Lopez and Hiebl (2015) suggest the factors that need to be considered in supporting the development of small and medium enterprises by increasing knowledge in accounting management as basic knowledge in financial management of the business.

## CONCLUSION

This research has identified four institutional models and financial management of karawo crafters in Gorontalo, namely, the centers, the cooperation, patronage system, and self-sustainable system. These institutions are viewed from the interaction pattern of the crafters/embroiderers and other related parties that are founded based on the economic motives, as either main source of income or additional source of income. From those four institutions, the center and cooperation are formal institutions models that are purposefully founded by the crafters, whereas, the patronage and the self-sustainable systems are non-formal models that are unintentionally founded by the crafters, in which, these systems form values and norms agreed during the transactions. In general the financial management of karawo embroiderers/crafters are very simple, where the income from karawo are mostly used for consumptive activities to support the household needs, even though there are some crafters that used the income from this business to develop their business.

It has to be acknowledged, that in this research the identified institutional models are profit oriented from the crafters perspective. It has also to be recognized that during the research, there are several types of institutions that accommodate the involvement of the crafters as development of the arts and socio cultural aspects of karawo. Therefore, identification of arts and socio cultural oriented institutional models need to be done.

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