



WISDOM *for Change*

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AGBA and NIDA***

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- **Act as a platform for the advancement of "Global Entrepreneurship". And**
- **Act as a platform for the publications of scholarship in globally respected and world-class journals.**

PREFACE

These **AGBA's " Pro ceedings" (Advances in Global Business Research)** contain all papers that have been accepted for presentation at the 15th Annual World Congress of the Academy for Global Business Advancement (AGBA) that is being hosted by the AACSB accredited National Institute of Development Administration (NIDA), Bangkok, Thailand on July 2 --- 4, 2018.

All papers contained in these proceedings were subjected to anonymous (blind review) process and were subsequently improved by the authors before accepted for inclusion within these referred American proceedings.

AGBA would like to express its appreciation and gratitude to Prof. Dr. Pradit Wanarat, President, National Institute of Development Administration (NIDA), Bangkok, Thailand for his dynamic leadership, appreciable patronage and admirable support in organizing this fabulous global conference.

AGBA also wishes to extend its heartfelt thanks to Conference Organizing Committee chaired by Mr. Wayne (John) Shabita for organizing a fabulous conference.

We place on record our sincere thanks to all delegates and authors for their participation and support, and look forward to having them with us next year at AGBA's 16th Annual World Congress.

Thank you very much.

Sincerely,

Christopher J. Marquette
Gary L. Frankwick
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SOCIAL CAPITAL ROLES IN MAINTAINING INVESTMENT SUSTAINABILITY IN LUMAJANG REGENCY

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ABSTRACT

This study aims to uncover the role of social capital in maintaining investment sustainability in Lumajang Regency. The findings of this research indicate that social capital is important for the sustainability of investment in Lumajang Regency. Norms, trust, networks and information equally play important roles. Religious norms and family values become an important basis sustaining the continuity of investment in Lumajang Regency. Trusting each other is an effective social bond. Networks and information facilitate investors' access to the process of business production. The findings of this research can be used by existing investors to consider social capital as a way of how they can sustain their business with profitable investment in Lumajang Regency. The research is original in that it is the only study in Lumajang Regency that analyzes other variables impacting investment sustainability.

Keywords : Social capital, Investor, Lumajang Regency

INTRODUCTION

High crime rate is one of the causes of weakening investment rate in Lumajang regency. In 2015, Lumajang District investment figures amounted to 5.60 to 5.40 in 2016. With regard to this condition, the regional government has made some efforts. However, a high number of criminal cases still occur, such as robbery, rape, and murder. One example of what has now become a national case is the one known as the *Salim Kancil* case - a victim of a raid and murder case by a pro-mining group in Selok Awar-Awar Lumajang District. As reported by local news agencies, such as Lumajang Online (lumajangsatu.com), criminal cases often happen in the area. For example, in August 2016, there was a robbery in the house of the village secretary of Denok. In September 2016, a floating body was found in the former sand dump in Dusun Gempar. This is also reinforced the statement of Subardi Wijaya, an informant from Wonogriyo District, which is one of vulnerable areas. He stated:

(“...*disini termasuk daerah rawan mbak*”)

... this is a dangerous area ". (source: interview Subardi Wijaya, 2016).

This is in line with the statement of the other informant, Yuli Harismati, SP:

(“...*investor masuk itu kan syaratnya dua. Keamanan dan kenyamanan*”)

"... investment require two aspects, which are security and conduciveness"(Source: interview Yuli Harismati, 2016)

This poor security condition also becomes a difficult consideration for investors to come and start their economic activities in Lumajang Regency because the criminal cases result in costs incurred by the victims, such as the cost of security, the value of property lost, the cost of treatment for accidents, the opportunity cost of work time and reduced life value. So, the costs incurred by the company is also higher and production becomes more expensive, causing losses due to decreased demands for products and more expensive products. However, when macroeconomic conditions are not able to support the sustainability of investment, non-economic factors such as social capital can be useful to help sustain the production of investors. Therefore, this research addresses the role of social capital for the sustainability of investment in Lumajang Regency.

LITERATURE REVIEW

Investment Understanding

One of key factors that affects investment, according to Kane and Marcus (2006), is the interest rate. The level of investment will be high if interest rates are low, and *vice versa*. Increasing future economic activity is one factor that investors consider when investing. Furthermore, as Jhingan (1996) argues, technological advances can help investors obtain capital and time efficiency. So, the more sophisticated the technology is, the higher profit will be obtained.

Social Capital Understanding

The dimension of social capital of social relations and social network structures within a society creates a wide range of social obligations; it creates a climate of trust, carries channels of information, and establishes norms, as well as social sanctions for members of the community (Coleman, 1999) . Nevertheless Fukuyama (1995, 2000) states that norms and values do not necessarily share reference attitude, act, and behavior. It automatically becomes social capital. However, shared norms and values are generated by trust. Trust comes from expectations of regularity, honesty, and cooperative behavior arising from a community community based on the norms adopted. The existing cooperation in social capital forms an organization in which its members voluntarily give up some of their individual rights to work together to achieve a goal based on agreed rules.

The agreement encourages individuals to carry out their obligations. This is called mutual trust, because everyone is trying to carry out a mandate. If group members expect other members to behave honestly and reliably, they will trust each other. Trust makes an organization more efficient and more efficient. Social capital is created when relationships between people undergo changes in a way that facilitates actions. Social capital has no form, but it is manifested in relationships among people (Coleman, 2008: 373 in Yustika 2013: 140). According to Lin (2001: 19-20) in Yustika (2010: 184), information is a form of social capital that provides benefits due to its strategic position. It helps the information owners reduce transaction costs in economic activities. Information is important to underlie an action, but the acquisition of harmful information. The tool that can be used to obtain information is social relations for specific purposes (Coleman, 2008: 380).

Some reference values and elements underlying social capital include: participatory attitudes, attitudes of mutual care, mutual giving and receiving, mutual trust trust and reinforced by the values and norms that support it. Another element that plays an important role is the willingness of the community to be pro-active continuously in maintaining value, forming a network of cooperation with regard to the creation of new creations and ideas. This is the true identity of social capital. Social capital can influence economic, social and cultural life if not immediately resolved. In terms of social status, wealth sometimes

can lead to individualism, causing a conflict between individuals who culminate in networks that are not good. Information is not given voluntarily, but rather in business. It then decreases the values in the community. People who are under business pressure, if they cannot survive, they will disappear and switch to other professions that are considered easier to live. If it happens to cultural or cultural preservation, fewer societies will preserve culture and gradually extinct. So, a strong social capital between communities is needed to bind good relations between them, so that people can achieve the same goal.

RESEARCH METHOD

This qualitative research employed the phenomenology approach using triangulation method. The types of data used in this study include primary and secondary data. The data collection methods used were documentation studies, interviews, and observations. The units analyzed are investors, society, and government in Lumajang regency.

FINDINGS AND DISCUSSION

Norm

As the leader of Lumajang Regency, Mr. As'at tried to convey his people's aspirations regarding the boundaries of norms in terms of religious matters. Actually, investing in Lumajang Regency is not difficult as long as investors are able to comply with the prevailing values and norms. The enforcement of moral sanctions is part of the control for the community. The good impact of the sanctions on values and norms is the creation of a harmonious society. The harmonious society can minimize conflicts and create a comfortable environment. It is also safe for investors. On the other hand, religious values and norms, especially the religion of Islam, also make people respect each other.

The few community members that give criticisms or the occurrence of social conflicts due to the informant's business, caused by respect to the informants because the informant is a religious figure in his area. The position as a religious leader, the teacher of the Koran, makes the bargaining position of M Iqbal becomes strong at the community level. Based on Sumiyati's statement, it can be concluded that the criticism or protest on M Iqbal's business is not absent altogether. The community does not criticize the informant because the informant is a religious figure and members of the society respects him. The moral penalty for the community is heavier when compared to the criminal sanction. This is because an individual will always live in the society, also acceptable to the community. For example, a person who gets a criminal sanction, but the community can accept the return of the person, then the person can return in the community. It is different when someone violates social sanctions that are unacceptable, it is difficult for the person to return to the social environment. In order to avoid the moral sanctions of the community, Mr. Subardi explained that he could not impose company rules on his employees when there was a "*slametan*" even though the company needed them. This means that everyone must comply with the values and norms of the community. In addition to maintaining the harmony, it is also for avoiding social sanctions.

The government has simplified the process of investment licensing. However, investors must comply with the rules in the community of Lumajang. If not, then the investor will face difficulties in doing their activities. As Nimin mentioned, investors who come from outside Lumajang District will experience difficulties in entering the investment area of Lumajang. Good image (corporate and personal image) is one of key investments that has a long life. Due to the presence of a good image, the community will indirectly support the existence of investment in the area although it gives adverse impact on them. Once the importance of an image, a good image can make people do not express discomfort to Nimin. Kinship is also a very strong value in Lumajang Society. This family value creates a mutual community. For example, when there is a dead cow, people will help bury it.

The role of social values, according to Huky (1982: 46) in Prambudi (2010: 16), among others, is as a tool of solidarity to encourage people to work together to achieve something that cannot be achieved alone. The family values reflected in this *gotong royong* behavior do not only help improve the production of a business, but they also help reduce the company's production cost. It is not surprising that Mr. Subardi, who comes from Chinese ethnicity, applied kinship system in his company to cooperate with people coming from ethnics of Java and Madura.

In addition to helping out and good cooperation, togetherness also has an important role. This form of kinship, such as helping and cooperation, also helps investors reduce production costs such as paying security personnel and conducting motivational training for their workers. These very strong family values support good investment. Mutual benefit, mutual respect, tolerance and help are factors that have an important role in maintaining the prosperity and sustainability of investment in Lumajang District.

Trust

Humans are social beings who cannot live alone. The roles of other social beings are needed. The more a person knows other persons - both in terms of proximity and the number of friends - then the social relationship that exists will be more widespread. Trust will arise in the society through social capital. Trust is an element of social capital that can impact not only on kinship relationships, but also on the financial aspect. For example, when trust has been established between A and B, when A needs B to keep a secret, then B will do his job well, and vice versa. Then, A and B can share personal stories. In terms of financial aspect, for example, when A will open a business and face a lack of capital, because B believe that A is trustworthy, then A will get additional loan from B.

One's beliefs will not be the same each other. The proximity of someone with others cannot guarantee that the trust received by others has the same portion. Proximity can determine how much trust will be given to others. According Fukuyama in Mawardi (2007: 7-8), belief is the hope that grows in a society which is shown by the existence of honest, organized, and cooperative behavior based on shared norms. In addition to a high level of trust in the society, the rules of society are positive, and relationships are cooperative. The statement is in accordance with the statement of three informants as below, that trust is able to build a mutually beneficial relationship in a society. Cooperation is an activity done jointly. It cannot run well if there is no trust from individuals.

Fukuyama (2002) who examined social capital and trust in complex economic societies mentioned that trust is beneficial to the creation of a superior economic order, as it can be relied on to reduce costs. If people have put trust in someone, then a sense of loyalty or loyalty to the company is also created. In this case, people not only believe in the economic opportunities they will get, but also believe that investors will directly benefit them materially and not-materially (eg in the form of good treatment).

Trusting others is a capital with the advantage of winning the trust of others. As informed by Subardi Wijaya, one informant, the company where he sells tobacco gives concession requirements such as standards and tobacco criteria because the company believes in the ability of informants in maintaining the quality of tobacco. Further, Subardi Wijaya also believes that the company performs the calculations correctly.

Network

The role of values and norms and trust as social capital has shown its role towards community empowerment of Padang Tegal. The society depends not only on values and norms, but on trust alone. Networking is an aspect of individual aides to establish relationships so as to live in the society and establish cooperation relationships. According to Hasbullah (2006) in Inayah (2012: 44-45), participation in a network is the ability of a group of people in the association and then involve themselves in a network of social relations. Networking can help someone in the field of work; social capital is an important point in addition to trust in order to gain financial benefits. The broader network of a person can facilitate the person in getting help. One informant, Nimin, started his business by getting guidance from others so that the informant is able to run the business well. Network relationship according to Fauzan (2012: 190) is the amount and form of cooperation which then raises the hope, which then will be an exchange of knowledge and other things. Network configuration describes how to build cooperation with who is the initiator. The organizations involved are organizations or actors who participate in the network. The bonds created in a network can have a beneficial effect in terms of material.

Large networks can have a beneficial impact even in the unexpected or in times of emergency, that is the functionality of the Network itself. When the financial aspect is insufficient, then this social capital can be used to achieve the goal. Relationships or friends are many and not only in one group but also in other groups and regions; this can be a very helpful network. Networks can minimize budget expenditure, also help achieve goals because of networking functions that rely on kinship relationships. So when you need help, it will make it easier to get what is needed.

Information

Information is an advantage that can be an important capital in social life. Socialization is established within the community into information traffic. The values and norms that bind the community to coexistence result in the emergence of a sense of trust to each individual so that the community is bound in a network with a community full of information that can be a new science or knowledge in order to develop themselves for the better. Community empowerment is a joint task, not only government services but also the community itself. Without community support, the government's efforts might fail. According to Sayogyo (1999: 6) in Mawardi (2007: 10-11), one of the conditions that must be met to stimulate the birth of a community movement that originates in the local community is a top-down approach that is replaced by bottom-up. Communities that were initially inactive in government activities, with the bottom-up system of society are the subject and the main actors in development activities. So, the community can accept the failure and success of the program because the community is also doing exploratory problems and needs, planning, implementation, as well as supervision.

Top-down is used by the government to run programs for the community, but the public gets the opportunity to express opinions, plans, information that can support the public needs. The system is bottom-up. In addition, based on information from the informant, Subardi Wijaya, the information also makes it easier for him to find out who his cheating tobacco farmers. This information comes from mouth to mouth even though the distance is far away. Communication is an important step to do in order to avoid asymmetric information between investors and the public. The presence of asymmetric information will cause unhealthy turmoil in the community. Thus, there needs to be a good exchange of information so that investors and communities have the same understanding and perception of something that will help harmonize their relationship.

CONCLUSION

In general, the level of investment is influenced by interest rates, technology, and increased economic activity. However, when these factors are not able to support unstable investment conditions, there is another factor that is rarely noticed in the world of investment, that is social capital. Norms, trusts, networks and information have an equally important role. Religious norms and family values have the power to be an important base in sustaining the continued investment in Lumajang District. Mutual believes can be used as a social bond capable of minimizing transaction and production costs. Network and information facilitate the access of investors in carrying out their investment activities in Lumajang District.

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