Public Entrepreneurialism and Democratic Values: How Might Local Public Leaders Pursue Successful Economic Development? Case-Studies from Indonesian Local Government

by
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Abstract

This thesis focuses on local economic development in developing countries and, on the basis of research conducted in Indonesia, it examines how local governments balance ‘public entrepreneurialism’ with ‘democratic values’.

Through four case studies, the thesis explores how the values of innovation and development are matched by concern for democratic accountability and respect for local cultures and traditions. The case-studies provide complementary and contrasting perspectives on local leadership and its impacts on local economic development, focusing respectively on development of the informal economy, exploitation of the potential of technology and the creative industries, modernisation of agriculture, and the securing of increased foreign investment.

The key finding from these case-studies is that effective leadership in local economic development does indeed call for the spirit of entrepreneurialism and innovation to be balanced by sensitivity towards local democratic values and principles. However, rather than it being necessary for the formal head of the local government personally to provide the required leadership in both respects, it may equally be feasible for two (or more) different individuals within the hierarchy of the organisation and with respective strengths in entrepreneurialism and democratic values to work together to ensure that the desired balance is indeed achieved.
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Declaration of Previously Published Work

I hereby declare that the material contained within this thesis draws in part upon the following pieces of previously published work:


Related Outputs: Conference and Presentations

1. School of Government and Society Annual Postgraduate Colloquium University of Birmingham in February 2012

2. Poster Conference in University Graduate School Research Poster Conference 2012 University of Birmingham, in June 2012


4. Presentation on PhD Showcase, INLOGOV, University of Birmingham, topic: Public entrepreneurship in local government and its role in shaping Local Economic Development, December 2012


6. Communication and Participation for Public Entrepreneurship to Strive (Best Paper Nomination), paper presented in 1st International Conference on Indonesian Development ‘Innovation-Driven Economy as the Fundamental of
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Chapter 1 - Introduction

‘It has been my cause, my duty to bring up Cimahi into a striving and prosperous city, just as my duty to my children and my family’
(Mayor of Cimahi City, Indonesia).

1.1. Background

Almost three decades ago Lewis, A. (1984) and Reynolds, L.G. (1985) each commented in their respective reports on economic growth in developing countries that one key missing factor in all the models for achieving sustainable economic development was the influence of political and governmental figures. What they then believed has been proved accurate overtime. As with many other developing countries, Indonesia craves for new visionary leadership to bring about improvement in the country’s economic development. This was strongly reflected in the public mood during the general election campaign of 2013 when the country was choosing its next president, and which resulted in the choice of JW, previously mayor of one of the cities covered in this study.

In most developing countries, local economic development has been generally treated as part of the national planning processes, with most key decisions and coordination being led centrally by national governments. However, in more recent times, and with priority now being afforded to widening and deepening democratic structures and processes in many such developing countries, significant steps have been taken to decentralise and de-concentrate (Roberts, K.M., 1989; Crook & Manor, 1994; Cheema & Rondinelli, 2007) by establishing stronger local
government with more autonomy in terms of both political and economic leadership. As a result, responsibility for local economic development has, in many developing countries, become the responsibility of newly-established or strengthened local government organisations and, much as Lewis and Reynolds had indicated, in the hands of local political leaders.

In many instances, there has also been a ‘new wave’ (Bartik, 1990) of concern within local government to become more involved in business decision-making, and to provide a range of support services, including technology and infrastructure, to help firms become established locally, to help them build their markets, and access local labour, in addition to the more traditional forms of support through financial incentives.

While the subject of local economic development is generally most closely associated with the disciplines and specialism of economics, development studies, economic geography and planning, one consequence of this shift of responsibility from national to local government in developing countries, has been the need also to consider the issues from the perspectives of public governance and public administration. Particularly important here is the need to consider how responsibility for local economic development might dovetail with, and be shaped and influenced by, public and political management processes at the local level. That, indeed, has been the ambition of this thesis and has given focus to the research on which it is based. For that reason, the theoretical underpinnings of the work draw equally on the traditions of, on the one hand, economic development studies and, on the other, public governance and management studies. In particular, the thesis centres on the question of how an appropriate balance might be struck within a local government
context between the values and practices of public entrepreneurialism and of
democratic engagement with the local communities (Bellone and Goerl, 1992; Terry,

Two guiding principles of contemporary public management that have, in
various forms, been consistently advocated, at least since the early 1990s (under the
banner of New Public Management (Hood, 1991) in the UK and by Osborne and
Gaebler (1992) in the US, are as relevant to the context and needs of local
government in local economic development in developing countries as they have
been in the reshaping of public management from traditional public administration in
western economies in the past (Hughes, 2012). Bovaird (2007) and Bovaird and
Loeffler (2012) have more recently proposed a new model of public management
through co-production which consists of wide range of activities from co-
commissioning, co-design, co-delivery and co-assessment. These are respectively, a)
the principle of public governmental agencies becoming more enterprising in
developing the local economy and pursuing wealth-creating and revenue-generating
opportunities, rather than relying so much on the spending of the proceeds of
taxation; and b) that of decentralising or disaggregating (Hood, 1991) and dividing
up the monolithic organisation into a series of more self-sustaining and specific
activity-focused ‘business units’. Importantly, both of these guiding principles were
similarly recognised and advocated specifically within an economic development
context by Blakely (1989) around the same time.

Motives for decentralisation in developing countries have generally been
based on either (or both) organisational efficiency principles or requests for greater
autonomy and powers of governance from particular territories. Such decentralisation can be thought of, like a coin, as having two sides. On the one side, it might be expected to have positive impacts on local economic development by providing both enhanced authority and sense of responsibility at community level in promoting economic development, and particularly by responding to local demand and circumstances, as such, ensuring the most economically efficient and locally beneficial forms of development (Stansel, 2004). On the other side, a focus on economic development may be at the expense of other priorities for local government and can hinder the potential for meeting other needs, or improving the performance of key public services such as community welfare programmes and the like. Often local governments in developing countries have quite limited resource capacities and the exercising of any new powers for economic development may result in a diversion of technical and administrative resources from other more basic community services (Syrett, 1993). Similarly, while decentralization may, in principle, be interpreted as representing a positive step towards “good governance”, equally, it can increase the risks of opportunistinc and rent-seeking behaviour among local bureaucrats and politicians (Kristiansen et.al. 2009).

Studies by the World Bank (1992), the OECD (1995) and Commission of the European Communities (2001) have argued the importance of strong democratic governance structures and processes to national economic performance, and the significance of political leadership here has been emphasised in this respect by UNDP (2002) as well. However, while there is plenty of evidence from developing countries to suggest the importance in accounting for success in local economic development of the quality of leadership in local government, rarely has this aspect
been measured or promoted specifically as an indicator of good governance. Kauffman et al (1999b), for example, proposed six such indicators as follows: a) voice and accountability, b) political stability and absence of violence, c) government effectiveness, d) regulatory quality, e) rule of law and f) control of corruption, and even though leadership in local government was not explicitly one of these, it could nevertheless be understood as a key part of at least one of them - government effectiveness. Indeed, this was described by the authors as referring to the quality of the bureaucracy, institutional strength and the calibre of personnel within the civil service (‘Political Risk Services’ by The International Country Risk Guide) and ‘World Markets Online’, by Global Insight).

More recently, Thomas (2010) has similarly emphasized government effectiveness as indicated by the strength in numbers and levels of expertise of public servants, together with their ability to manage shifts in policy directions smoothly between different political administrations, in so doing avoiding discontinuities and interruptions in the provision of government services. Furthermore, Thomas particularly has argued that, without such government effectiveness, it would be difficult for local government to realise successful local economic development. Of key significance for leadership in local government, of course, is the issue of decentralisation. In this respect, Serageldin et.al (2000 p.7) has argued that decentralisation enhances creativity and innovation in governance institutions because of the need to be more entrepreneurial in responding to public needs at local levels. Importantly also, they have argued that decentralisation can help improve equality in regional development, empower communities and mobilize private resources for investment in infrastructure and facilities.
But of course decentralisation is also likely to involve local government in taking on other demanding and high profile public service responsibilities besides economic development; for example, primary health care, education, transport and communications infrastructure provision, waste management and environmental protection, and various regulatory functions. In fulfilling such responsibilities, and particularly perhaps, in developing country contexts, there are likely to be significant funding challenges, with central governments being unlikely to be able to provide sufficient funding for local governments through direct fiscal transfers. Indeed, the allocations that may be made from central government are likely to be fairly crudely determined by population sizes rather than according to more sophisticated needs analyses. And the problems created by undue dependency on the centre for resourcing, only serve to underline the importance to local governments of their own initiated economic development activity in building a stronger financial base for local public service provision, and as part of the rationale for local job and wealth creation.

That said, the reality in many developing countries can vary widely, with Jones (1997) arguing that economic development in such contexts has been primarily driven by national-level policies that are often overly bureaucratic in their planning and heavily focused on national concerns (e.g. import substitution and export-led growth). He has further argued that such an approach has been less effective in achieving either sustainable economic prosperity or poverty reduction, when compared with locally-determined and locally-driven economic development policies.
Further, Macintyre (1994: p. 262) has warned that developing countries are often characterised by having weaker administrative and institutional structures. To add to this, Sowell (2004) has suggested that developing countries often operate with only weakly developed economic objectives, demonstrate limited leadership skills and excessively burdensome bureaucracy that tends to stifle, rather than support, economic activity (Sowell, 2004).

Such difficulties are in stark contrast to the ideals of successful local economic development described by Weiss (2005) and who has highlighted the importance of focus on the linked goals of job creation and poverty reduction: i.e. developing new employment opportunities to provide wealth-generating opportunities for the poor.

The case for local economic development is further underlined by the potential benefits of being able to tailor such activity to the locality and to the needs and capabilities of local people; indeed with local people themselves playing a key part in developing their own strategies for economic growth. In this way, there is good opportunity for creating sustainable local prosperity with a local industrial and employment mix that is more strongly in tune with local circumstances and community strengths.

So what of the significance of leadership in local governments in developing countries? Certainly there are vital roles to be performed in helping to define the policy objectives and priorities for local economic development, and in coordination and implementation, for which the capabilities of locally elected leaders can be a critical determining factor (Stimson, et.al (2009); Campbell & Fuhr (2004). Moreover, in a wider developing countries context, decentralisation has resulted in
the direct election by local communities of many local government leaders who, although previously without a local mandate, have nevertheless come to play a key role in overseeing significant local economic development activity. In many instances, such leaders have been able to bring to the role valuable prior experience in entrepreneurship through running their own private businesses. As such, they have not only been the initiators of new ideas and the ‘champions’ of fresh visions for local economic development, but also effective operators in mobilizing support and making change happen.

According to Syrett (1993) the primary role of local government in local economic development is that of ‘facilitator’; working both with existing local organisations and with prospective new ones, and with private and public sector bodies to generate new jobs and wealth; and particularly through the provision of subsidies and other incentives to attract and support new local enterprise. In a similar vein, Goldsmith (1992) has described local government in this context as an ‘enabler’, for which, he has argued, the key characteristics are those of responsiveness, responsibility and accountability – each of which is once again much in line with the concept of ‘good governance’.

At the outset, however, it is important to emphasise the slippery and contested nature of the concept of Local Economic Development (LED) and the lack of an agreed definition or shared understandings (Syrett, 1995; D’Arcy and Guissani, 1996), often with the result of much policy confusion. That said, there is perhaps a measure of consensus around the idea that, in developing countries at least, the core elements focus on initiatives both to promote economic growth and to address poverty alleviation at the local level (Rogerson, 1999).
For the purposes of this thesis, Blakely’s (1989) definition is taken as a helpful point of departure; this being about the process in which local governments, and/or community-based groups, engage in new partnership arrangements with private sector organisations. This is usually specifically to stimulate economic activity and to create new jobs thereby improving personal income and wealth levels within a defined territorial area. This idea has been similarly inherent in the ‘growth coalition’ concept discussed by Bennington and Geddes (1992, p.456) which focuses on key elements of local economic development strategy that are neither financed nor managed by the elected local government, but instead by non-elected agencies. In this context, it is also pertinent to bear in mind the finding from research by Wilson (1995a) that suggested the role of the central state in local economic development to have been generally declining in most developing countries over the past decade or two – largely as a consequence of policies of decentralisation – while that of local government had been steadily increasing.

But key questions that are raised by such a trend of course concern the extent to which, in practice, it has resulted in more effective local economic development, the extent of variance in this respect and, the factors at the local level that might account for relative success and shortcomings here. How much, for example, might simply hinge on the scale of fiscal transfer from central to local governments, and how much might be explained away by the qualities of the local governments themselves and to their behaviour and performance in relation to standards of ‘good governance’ (as defined, for example, by the World Bank, the OECD or the EU)?

Moreover, a further and more specific question relates to the significance of ‘leadership’ in local government in this context – which, while itself not usually
treated explicitly as a standard indicator of good governance (World Bank, 1992) may nevertheless have the potential to make a significant difference.

As the quotation provided at the beginning of this chapter from the Mayor of Cimahi City suggests, civic leaders may regard themselves as being on a mission with responsibilities akin to those towards their families. And this provides a reminder of the significant cross-over in disciplinary boundaries between, on the one hand, those of economics and geography (i.e. the roots of the subject of economic development), and, on the other, those of public administration and public governance/management, (the latter being where most of the research and discourse on personal and public leadership has tended to be focused) Arguably, insufficient attention has been devoted within local economic development studies to questions of the impact of such leadership aspects in local government and to their potential in shaping achievements and limits.

1.2. Objectives and Research Questions

While it has generally been assumed that decentralisation has brought about various benefits in terms of democracy and political freedom for developing countries, what has been less clear has been the impact of that process on regional economic growth or, indeed, the impact on local economic competitiveness. This, in fact, was an issue that Grindle (2007) (as well as several other scholars, such as Kauzya (2007), Cariño (2007), and Blunt & Turner (in Cheema and Rondinelli (eds.) (2007)) particularly focused upon in his research in Asia and from which conclusions were drawn as to whether democracy had helped or hindered economic growth in the
continent. In particular, he found only modest support for the hypothesis that electoral democracy, by itself, had increased growth and investment. However, he also found substantial support for the hypothesis that state capacity (as defined to include bureaucratic quality and adherence to a rule of law) mattered equally in democracies and autocracies.

While it has long been recognised that decentralization has usually formed a major component of democratization initiatives, there also remains uncertainty and debate as to exactly what impacts it has in this respect. Certainly, the major foreign aid agencies such as the World Bank, the U.N. Development Program (UNDP), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), and the U.S. Agency for International Development (USAID) have long argued that decentralisation should form a key part of any democratisation process. Accordingly they have generally supported decentralization initiatives in various ways, including through the development of model laws and regulations for the local level and by funding training for local administration officials.

But, others have been less sure about the relationship and have questioned whether decentralisation guarantees the benefits of democratisation. According to Nordholt (in Harriss, Stokke & Törnquist 2004) the assumed causality was incorrect and that the suggestion was more aspirational than real. Such scepticism has also been endorsed by other authors, including, for example, Aspinall and Fealy (2003); Antlöv (2003); and Syaikhu Usman in Nordholt & Van Klinken (eds.), 2007.

Different again has been the middle-ground position originally taken by Rondinelli (1981) who argued that decentralisation did matter in economic development, but that a minimum level of economic development would already
have to have occurred before the local governments could effectively assume responsibilities and begin to make further progress in developing employment opportunities locally. But this viewpoint, too, has been contested recently (Schrager, 2010; Tosun & Yilmaz, 2010) and the question of whether, and to what extent, decentralisation is an effective instrument for promoting local economic development – especially in the poorest countries – or indeed for sustaining and ensuring such development is more equitable once underway, remains very much open to debate.

From all this uncertainty and debate, then, one key question that particularly stands out to be addressed, and which links the respective subject areas of economic development and public administration, concerns the role of, and scope for, local public leaders in pursuing job creation and poverty reduction for local community benefit. As indicated, this provides the core research questions for this thesis which are:

1. What is the nature of local economic development activity and the associated initiatives in Indonesia (based on a set of case study areas) and to what extent is such activity benefitting local society?

2. How does leadership capacity impact on local economic development initiatives, and how, in particular, do the twin concepts of public entrepreneurialism, on the one hand, and democratic values, on the other, balance with one another?

As already indicated the empirical elements of this research are focused in one developing country – Indonesia – and are based on four case-study local governments of varying scale, character and longevity of existence. Thus the
research sought to examine how similar and different are the approaches being pursued in the four settings, what the role and contribution of the local government leaders had been in each such area, and how important their personal leadership proved to be in the pursuit of local economic development initiatives.

The research, then, has been particularly concerned to understand better the factors which promote and limit success in local economic development in a developing country context. In doing so, it has focused especially on the importance of local governmental ‘organisational processes’ for economic development on the one hand, and on the issue of ‘leadership capacity’ on the other (i.e. covering respectively structural and human elements or, harder and softer aspects).

As a result, this thesis examines the part played by public entrepreneurship and democratic leadership in local economic development to bring welfare to the local society being served, and doing so under a common decentralisation system (i.e. that which has been implemented across Indonesia in recent years). The central hypothesis underpinning the research is that optimal local economic development takes place when the local leaders successfully blend and balance their entrepreneurialism and their democratic values.
1.3. Structure of the Thesis

The thesis is organised into seven chapters (this being the first of them and which has aimed to provide an introduction to the subject and to the research aims and questions for the thesis).

Chapter 2 examines the concept of local economic development in more detail and provides a discussion of relevant theory and practice (in both developed and developing countries) in this respect. Three important factors of local economic development in developing countries are particularly examined: (1) the role of local government leadership (2) the importance of innovation in Local Economic Development, and (3) trust-building in Local Economic Development

In Chapter 3, the key concepts of public entrepreneurship and of democratic engagement are considered. Drawing particularly on the published literature on both subjects, the key aim of the chapter is to identify the nature and dynamics of these two contested concepts. To this end, a framework of five characteristics of public entrepreneurs, and of public entrepreneurship, is proffered and explored in terms of the potential impacts on local economic development.

In light of the contents of these two previous, and essentially-literature-based, chapters, Chapter 4 restates and explores the research questions for this study more fully before outlining the design and methodology employed for the empirical components of the study. These, as indicated, have been focused on four local governments in Indonesia. The chapter also considers ethical issues involved in the conduct of the research and reflects on the research design and methods that were deployed.
Chapter 5 then focuses on Indonesia as the context for the research. Here, the nature of local economic development activity is introduced and elaborated upon, with particular emphasis being given to the key issues for the case studies of investment policy, poverty alleviation, the role of the informal sector, and agriculture and farming policy.

Chapter 6 presents the analysis and main finding from the case-studies, doing so by addressing the research questions in turn. Here, the approach and practice aspects in relation to local economic development is elaborated more fully in relation to each case study in turn and with additional focus provided through a series of specific local economic development initiatives that are more fully detailed.

Chapter 7 returns to the two key concepts of public entrepreneurship and democratic engagement and discusses how the public leaders have been playing their roles in shaping the local economic development in the respective case studies.

Finally, in Chapter 8, the main conclusions from the research are summarised, and the contribution of the research as a whole is considered. The chapter finishes with further reflections both on the implications of the findings and on priorities for further research on local economic development in developing countries.
Chapter 2 - Local Economic Development

In this chapter, the concept of local economic development will be examined particularly with a focus on the context of developing countries. By commencing with a review of the various definitions in the literature, the chapter proceeds to discuss its practice in general and the different approaches adopted in both developed and developing countries. The elaboration of local economic development practices on both sides of the world provides the background for an understanding of local economic development, particularly in Indonesia – the focus of this thesis. This then enables a thorough analysis of the role of local government in local economic development: an analysis that is based on institutional and actor perspectives and on how these shape public entrepreneurship.

2.1. Defining Local Economic Development

Rowe (2009) has argued that the discipline of local economic development is a complex mix of concepts, practice and rhetoric. The complexity of this field of study is because ‘...the economic development field is not working in sterile operating theatres, nor laboratory conditions, nor within readily specifiable parameters of reality’ Miller (in Rowe, 2009 (ed). page 32) has further suggested that practitioners in local economic development are:

‘...trying to make this economic development stuff work amid a thousand poorly-defined and constantly shifting variables;
determined in large measure through human and social irrationalities; buffeted by continuous pressures of politics and public opinion; across thousands of community cases that vary wildly from one another in terms of size, demographics, cultures and other geographic characteristics.’

Scholars such as Bingham and Mier (1993, p.ix), Shaffer et al., (2006, p. 72) and Koo (2005, p. 100) have agreed that the theoretical underpinnings of economic development are essentially of an interdisciplinary nature, and draw on various roots, all of which need careful appreciation for a deeper understanding of the subject. One such root, but, alas, one that has often been underestimated and neglected, is public administration and yet, as this thesis seeks to show, there is much to to be gained by scholars and students from studying local economic development through the lens of public administration and public management.

Gordon (2012, p. xv) and Opp & Osgood (2013), in the journals Public Administration and Public Policy of American Society series (for Public Administration), argue that many local governments started to focus on local economic development largely because of a decline in their tax revenues resulting from economic downturn and yet at a time when demand for public services were very much in the ascendancy. For the same reason. Blair & Carroll (2009, p. 285) among others, have suggested that local government has a vital role to play in economic development, particularly through its strategic planning functions.

Most scholars in the field, including, for example, Rowe, (2012) ; Stough (2003, p. 179) and Beer et.al. (2003, p. 163) tend to agree that the primary goal of
local economic development is the creation of new jobs and, through encouragement of investment, improving the wealth and prosperity of the local community. This goal has certainly underpinned economic development practice in Indonesia – the focus of the research for this thesis. Certainly this has been the case at least since the 1980s, and through a period of significant economic restructuring from heavy dependence on traditional industries and sources of employment to more modern technology and service-based activities (Miller, 2009). Indeed, more generally, the paradigm of local economic development is seen as being about job creation, whether by bringing ‘jobs to people’ through strategies to attract new investment, or by bringing ‘people to the jobs’ through incentivising relocation. Indeed, both strategies have been dominant features of 20th and early 21st industrial and economic policy for governments around the world (Hamilton 2001 and Chernow 2004).

Universally accepted practices in local economic development that have evolved since the 1920s in the US and have become the dominant paradigm in local economic development focus particularly on job creation. There are two main approaches in this paradigm. The first is regional development Rowe theories of local economic development where the emphasis is on bringing ‘jobs to people’, while Rowe theories of local economic development the second is growth pole development where the focus is on initiatives that bring ‘people to jobs’ (a strategy that stems from the work of Alexander Hamilton, the father of economic development (Hamilton 2001 and Chernow 2004)). The industrial cluster concept, introduced by Michael Porter in 1990 remains the principal idea in this field of activity Rowe theories of local economic development (Miller in Rowe (ed), 2009). In line with this concept, Miller (2009) suggests that there should be a discussion of
‘technology-led’ or ‘innovation-based’ local economic development. However, given that technology-led or innovation-based local economic development is likely to be more characteristic of urban areas, there is a risk that the needs of Rowe theories of local economic development non-urban (rural) areas become neglected.

Koven & Lyons (2010) have identified three waves in the history of local economic development practice, as summarised in Table 2.1 below.

Table 2.1 Waves of Economic Development Strategies (after Koven and Lyons, 2010)

<table>
<thead>
<tr>
<th>Wave</th>
<th>Key Aspects</th>
<th>Authors</th>
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<tbody>
<tr>
<td>1. Business Attraction</td>
<td>Attract businesses to local community. Heavy use of incentives.</td>
<td>Bartik, 1990; Blakely and Bradshaw, 2002; Wolman and Spitzley, 1996</td>
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Blakely and Bradshaw (2002, p. 375) describe local economic development in practice as a mixture of rational planning and salesmanship; and as typically representing an exhausting role for all those involved in the work at local level. Gunder (2005) has further argued that local economic development is all about fostering and implementing an entrepreneurial philosophy that supports innovation and seeks to increase prosperity (Economic Development Administration, 2004). He has also suggested that it requires considerable ability on the part of the local
leadership not only to create a comprehensive strategic planning framework for economic development but also to win the commitment of all stakeholders and negotiate the resources needed to put the plan into practice. According to Gunder (2005) such skills are ideally reflected in a form of public entrepreneurship, and indeed the research for this thesis has sought to verify his argument, at least within an Indonesian context, by examining how important public entrepreneurship and the associated skills are to success in local economic development, specifically within this particular country, though also with wider regard to applicability in developing countries more generally.

Many local governments in such countries have adopted a strategic planning approach and sought to create master plans for local economic development. This has traditionally been the main approach that has been followed, with a focus on macro-economic, sectoral, top down, supply side, and spatial dimensions. However, an alternative approach is one that centres on community-driven development interventions, which is more micro level, still top down, supply side-focused, sectoral, and spatially targeted, but which is delivered essentially at neighbourhood level (i.e. sub-local government level).

Devising and developing a strategic planning approach in local economic development can be a complex and resource-intensive process, which many local governments can hardly afford, especially since the strategies need continuous updating and to be responsive to new opportunities, and are often dependent on the availability of financial support from national government. Moreover, research in Indonesia by Gibbs et al. (2001) has shown that while local governments have played key roles in various project developments, the involvement of the private and
voluntary sectors has been marginal, as has local community interest. Such evidence, then, suggests local economic development to be much dependent on local government in developing world. However, many local governments also face key problems in this context such as finding the necessary local revenues to support the activity, and being heavily reliant on fiscal transfers from the national government. They also have problems of limited capability, particularly with regard to expertise and experience.

The alternative to a local government-driven strategic planning approach is one that involves a range of stakeholders. In this regard, as Beer et al. (2003, p. 20) have suggested, there is every incentive for such involvement, since ‘..... local actors such as property owners, retailers, financial institutions, small business, utilities and local government leaders and key officials are dependent on the health of the local economy, and are therefore motivated to engage in activities to improve that economy’. Nevertheless, working cooperatively and seeking agreements among stakeholders can prove difficult, and the challenge here can be all the harder if the local government lacks the ability to think imaginatively or to be innovative in its approach to addressing key problems in local economic development. That said, the literature certainly supports the idea of local governments taking lead responsibility for boosting local economic activity and, to that end, creating and managing strong cooperation between stakeholders.

Achieving such cooperation in practice may prove difficult, if not unsuccessful for local governments unless they approach the challenge with a longer-term strategic approach and ensure they first build trust with the wider range of stakeholders who are engaged from the outset and at all stages in the process.
Simply following up on opportunities that happen to present themselves (‘the low hanging fruit’) risks short-lived benefits and, ultimately, possibly making the underlying problems worse. Similarly, it is important for local governments not to become too preoccupied with simply expanding the overall number of development initiatives but instead to think and plan more for diversity in their nature and suitability for the locality and its needs (Feiock & Kim, 2001).

Based on their study of Local and Regional Economic Development Agencies, Beer et al. (2003, p. 104) found that lack of effective local leadership (within the local government) was statistically related to effectiveness in local economic development. Further, like McKinsey and Co (1994) and Kenyon and Black (2001) they concluded that the quality of governance would be a critical factor in determining the prospects for success in local economic development – again, something that the research for this thesis was designed to test out within a developing country context such as Indonesia.

Blakely (1989) indicates that success in local economic development requires a shift in the perspectives of the key actors as well as in activities themselves. Furthermore, he has described local economic development as a process by which local governments manage resources to stimulate private investment opportunities in order to generate new jobs (so reducing poverty) while also creating a stronger tax base to support public service initiatives. This approach, of concurrently enhancing economic growth and reducing poverty has similarly been advocated by Rodríguez-Pose & Tijmstra (2005), although Stough (2003) has argued that the principal benefit is to the local government through revenue enhancement and the reduction in dependency on national government and foreign aid.
Ellen & Schwartz (2000), on the other hand, have defined local economic development more in terms of growth rates for jobs, firms, and incomes, i.e. with a focus on the activities and their outcomes of community benefit. Similarly Basolo (2000) has discussed the subject with a focus on the creation of local employment opportunities, but has also emphasised the importance of training/re-training provision to ensure ‘job readinesses’ for local people. This, as Carmeli (2007) has suggested, is usually accomplished by governmental financial assistance packages such as loans, grants, and tax breaks extended to businesses.

Zaaijer (1993, p. 130) have argued that local economic development should emphasize on four (4) important elements.

1. LED must encompasses a package of localised interventions that is linked with the broader urban economic environment

2. LED initiatives must use mix strategic interventions that has been identified in consultation with communities and other stakeholders.

3. LED strategy requires participatory management and empowerment of the main actors to enable them to play their role and also to the establishment of appropriate institutional structures

4. LED must also encapsulate an urban neighbourhood’s strategy with the emphasis that the development of the living environments of the poor may also mean the development of working environments for many of them. LED must acknowledge that investments in one sector can have major benefits for the other and vice versa. By integrating two or more sectors, more substantial benefits are to be derived.
More recent analysis by Rodríguez-Pose & Palavicini-Corona (2013) has provided an update on those four elements. They surveyed 898 municipalities in Mexico to assess the local economic development strategies, and from their study they identified seven different components of LED across Mexican local governments – development plan, sustainability, entrepreneurship, capacity building, participation mechanisms, development links and autonomy – all positively impacting on human development in the local areas. The first component, the development plan, they suggested, was needed by the cities to create strategic vision and to combine economic, social and environmental goals. The second, sustainability, was of concern for the quality of people’s lives and for the preservation of local resources and the environment. Third, entrepreneurship was concerned with leadership, the over-arching vision, ambition and skills to make things happen. Fourth, capacity-building, would be important in creating effective co-operation and collaboration among stakeholders in the locality. Fifth, was the participation mechanisms through which stakeholders, including local community members, would be able to play their part in defining and progressing success in local economic development? Sixth, development links would be important in facilitating implementation of the strategies, while, seventh, autonomy would imply clear sense of responsibility on the part of local political leaders for the determination of both the strategies and for their implementation into reality.

Ezcurra, Roberto & Rodríguez-Pose (2013) identified a negative statistical relationship between political decentralisation and economic growth and this was confirmed in separate research in Mexico by Rodríguez-Pose & Palavicini-Corona (2013) which found that independence from federal government (i.e. political
autonomy) had been generally detrimental for local government in terms of human
development (i.e. through the provision of public services such as education, health
care and other people-oriented services).

Drawing on the above ideas and various perspectives on the nature and
priorities of local economic development, the research for this thesis chose to focus
particularly on an approach that would prioritise the inclusivity of actors as well as
the activities involved in enhancing economic growth and reducing poverty, and
particularly by using endogenous capacity.

2.2. Local Economic Development Practice in Developing Countries

Local economic development has generally seemed an attractive option for
elected officials, because it is able to demonstrate the power and influence of the
local political systems and can make local elected officials seem more responsive to
the economic needs and to the wishes of specific constituencies (Cable, Feicock, and
Kim 1993). Moreover, economic development that prioritises the interests of the
poor (OECD 2001, UN 2000) has been a particular favourite of local politicians in
developing countries for the potential that it offers in garnering support at the ballot
box.

Transaction cost theory (Horn, 1995; Frant 1996; Maser 1998; Williamson
1999) argues that even though profit incentives may not be present in the public
sector, the desire for re-election functions in a similar manner as a high powered
incentive. Hence, it is understandable that pro-poor local economic development
policies have been widely applied as an election strategy. However, Frant (1996,
warned that when citizens are not well informed about the policies of individual candidates at elections, and perhaps especially if it is difficult for voters to monitor closely the behaviour and success of their elected leaders in governments, ‘...politicians are apt to be unscrupulous about what they do to ensure re-election...’ Hence, having been re-elected to office, politicians all too frequently abandon their pledges towards pro-poor local economic development and instead spend the public money at their disposal on more electorally-visible initiatives (Frant, 1996, 371). That said, in developing countries, it is perhaps more obvious that pro-poor economic development programmes provide fairly visible benefits for which politicians can seek to claim credit and so ensure on-going support at the ballot box (Feiock and Clingermayer, 1986; Wolman 1988).

There is general consensus among scholars in this field that LED should go beyond high capital investment programmes, business development and job creation. Success, it is argued, rests on balanced growth and pro-poor policy. Therefore the proportion of the population below the poverty level will provide one important measure of the needs of citizens and of potential redistributive demand.

Krumholz (1999) has emphasized the need for alternative policies in economic development and for developing countries with high levels of poverty to emphasise a pro-poor growth policy. Such a policy is defined as growth that leads to significant reductions in poverty (OECD 2001 and UN 2000). According to White and Anderson (2001) and Kakwani and Pernia (2000), pro-poor growth should fulfil two important objectives; first, a reduction in inequality and second, an acceleration in the rate of income growth of the poor (and hence the rate of poverty reduction) (Ravallion and Chen 2003; Ravallion 2004; DFID 2004). Under this definition then,
pro-poor economic development should be concerned both with income growth (reflecting the success of development) and poverty reduction. As Feiock & Kim (2001) have argued, economic development should also take account of the prevailing economic and financial circumstances for local governments (including, for example, the extent of fiscal transfers to autonomous local government) and the local population characteristics (i.e. the number of people existing below the poverty line) as these respectively reflect the potential redistributive capability and the extent of citizen need.

Another approach in pro-poor economic development that has been discussed by, among others, Krumholz (1999) centres on distributional equity and is concerned with equalising strategies for poverty reduction in both urban and rural areas.. In a study by Krumholz & Clavel (1994) it was found that, in some cities, reform-minded politicians and progressive urban planners and other urban administrators, had constructed alternative policies in economic development that had led to a significantly more equitable distribution of projects, costs and benefits as well as reducing overall levels of inequality.

Moreover, in another approach for developing countries Moser (1998) and Rogerson (1999) both referred to an Asset Vulnerability Framework; this offering a useful conceptual base for understanding anti-poverty formulation. Closely linked with such work on asset ownership and the adoption of a vulnerability perspective, is that of Rakodi (1995), Moser (1996 and 1998), and May (1998). The more assets that individuals, households or communities have, or to which they secure access, and the better such assets are managed, the less vulnerable they are considered to be. Or put another way, the greater the erosion of the asset base, the greater the insecurity of
local people, and their collective poverty (Moser, 1998). As Moser (1998) has argued, anti-poverty strategies need to evolve around the asset base of the poor and also to enhance their access to and ability to manage such assets for the future.

As Rogerson (1995) has asserted, local economic development strategies in developing countries tend, in any case, to be less coherent than those of developed countries. That said, some local governments in developing countries have sought to direct their local economic development approaches along the two distinct lines of poverty alleviation (through programmes for macro-economic growth) and community level programmes (targeted at the poor) (see, for example, Wegelin and Borgman (1995) and Wegelin (1996). In such contexts, economic development policies and programmes commonly focus specifically on facilitating job creation and providing assistance to poor communities. They also often address activities of the survivalist informal economy including, for example, supporting home-based enterprises and other micro-enterprise activities (Rogerson, 1999).

A local economic development approach that focuses on poverty alleviation is often the policy of choice for developing countries, including Indonesia. Further, Dawson and Jeans (1997) have argued that policy interventions in relation to sustainable informal and micro enterprise activities are of both a direct and indirect form. Direct support might typically involve facilitating or providing small business hives, incubators or innovation hubs/nurseries or making premises available for use as local business information centres or advice centres. Another form of direct support, however, might be through resourcing of, and provision of assistance to, business support agencies (Vanderschueren et.al. 1996; Rogersen, 1999). Meanwhile, indirect support usually aims to create jobs and activities here might include
development of local employment databases, creating employment zones (with tax advantages), marketing support and promotion for in-coming businesses, facilitation of periodic markets and the provision of support for vocational training (Rogerson, 1999).

In Indonesia, the concept of local economic development has been greatly strengthened by international NGOs such as GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) and the World Bank (working in conjunction with the national development planning board of Indonesia or ‘Badan Perencana Pembangunan Nasional’ (Bappenas). To date no single approach to local economic development has been agreed and adopted as preferable in Indonesia, and as suggested by (Crescenzi & Rodríguez-Pose, 2011) the LED policies of local governments have generally lacked clear and specific goals, underlying philosophies or conceptual frameworks, whether for the diagnosis of local conditions, for identifying the most appropriate actions, or for any ex-post assessment of impacts.

The general approach of Indonesian local economic development has been partially established as ‘top down’ from the national development planning board (bappenas) through the regional development planning framework (bappeda) and finally to local government. Moreover, the adoption of LED policies in Indonesia still appears somewhat random in that no one approach is characteristic of a majority of local governments.

A study in 2011 of Regional Autonomy Watch (Komite Pemantauan Pelaksanaan Otonomi Daerah) aimed to evaluate the quality of economic governance of autonomous local governments in Indonesia. This study, which forms part of a wider annual survey, covered nine aspects. These were: 1. land access, 2. local
infrastructure, 3. simple and inexpensive business licensing, 4. quality of local-level regulation, 5. transaction costs, 6. capacity and integrity of regents or mayors, 7. local government-business interaction, 8. business development programs, and 9. security and conflict resolution. While being the most comprehensive survey of economic governance ever conducted in Indonesia (and one with a framework that has been closely followed by Rodriguez-Pose & Palavicini-Corona, 2013 with their seven components) it did not, however, focus specifically on the role and approach of local government in local economic development.

Another relevant approach in local economic development in developing countries involves a focus on the informal sector. This is relevant to the local economic development approach of focusing on poverty alleviation, particularly in urban areas. As Nel (2001) has argued, local economic development in developing countries tends to be marked by the emergence or re-emergence of the informal sector, by communal farming and by various forms of community-led initiatives, often for the purposes of survival. Indeed, the form of local economic development in developing countries is often as concerned with rural survival strategies as with urban entrepreneurialism.

A key argument here is that the informal economy contributes significantly as vehicle for labour absorption (Yussuff, 2011) which is often a key aspect of local economic development because it reduces much of the unemployment deriving from urbanisation. According to ILO (2002) ‘informal employment’ is comprised of both self-employment in informal enterprises (i.e., small and/or unregistered) and waged employment in informal jobs (i.e., employment without secure contracts, worker benefits, or social protection). Further, ILO (2002) have shown that, in all developing
regions, self-employment comprises a larger share of informal employment (outside agriculture) than waged employment: with self-employment representing some 7 percent of informal employment in sub-Saharan Africa, 62 percent in North Africa, 60 per cent in Latin America and 59 per cent in Asia. Hazans (2011) used data from the European Social Survey (an extensive survey of 30 countries) for the period of 2004 to 2009 to examine patterns in informal employment. Here he found that during the survey of 2008 – 2009, one out of six employed persons in Europe had been holding an informal job during the survey period - a pattern that is very different from that pertaining in most developing countries. Whilst in developed countries there are many workers with contracts who also hold an informal job as well, in developing countries, being in an informal worker is often the only available option. The significance of the informal economy in an urban context of developing countries has been widely recognized - when there are insufficient jobs in the formal economy, there is likely to be a thriving informal economy. The concept of the ‘informal economy’ comes from a developing country context – having been first elucidated in a study by Hart (1973). Indeed, there is much larger published literature on the subject focusing on its operation and impacts in developing countries than in the developed world (Gërxhani, 2004).

In addition to the contribution to GDP, the informal sector can help to stimulate market competition, increase trade, enhance entrepreneurship, and encourage the transformation of legal, social, and economic institutions (Schneider and Klinglmair 2004). Moreover, particularly at times of economic crisis, when the numbers of poor people falling below the poverty line increase, the informal sector
can be especially important and be a survivor of recession because more poor people will turn in its direction for their basic necessities (Devas and Korboe, 2000).

Chen (2007) has argued that the informal economy is able to persist both when the rate of economic growth of a country or region is slow and/or when the rate of population growth is rapid. At a time when population growth in Indonesia has been quite successfully controlled, and in a period of national economic contraction since the Asian crisis of 1997-98, it certainly appears that the informal sector has prospered and expanded (Watterberg, Sumarto, and Pritchett 1999). Indeed, the informal sector provided a significant cushion for the labour force in several urban areas of Java during the economic crisis, with many people turning to the informal economy for work because of the lack of formal employment opportunities.

The role of the informal sector in the context of local economic development has been discussed by a number of authors, including Castells and Portes (1989) and Gallaway and Bernasek (2002) who have both defined the sector in terms of being for the most part outside government regulations. It is a sector that is essentially focused on small-scale self-employed activities such as home production and petty trading and waged employment through casual labour, contract labour and piecework (Gallaway and Bernasek, 2002, p. 314). As Todaro (2000, p. 749) has argued, it is a sector that is characterized by small competitive retail and service-providing businesses, which is inherently labour-intensive, for which there is free entry, and with market-determined product pricing. In less developed countries, the informal sector is most visibly apparent in the form of street vendors (Rachmawati in Michelle Gale de Oliveira (eds.) 2013), and a further useful discussion of the sector has been provided by Broad (1991).
It is a sector that can be understood through two contrasting perspectives. On the one hand, the sector can be viewed negatively, as marginalising the poorest and the most vulnerable people in society and for which the only remedy is through expanding the formal sector and regulating it more tightly so that it gradually withers and disappears (Moser, 1984). On the other hand, the sector may be viewed as making a beneficial contribution to the economy by providing the poorest and most marginalised people (who cannot afford to access the formal sector) with opportunities to earn at least a basic income. This latter perspective is generally perceived by Gallaway & Bernasek (2002) to be more pragmatic than ideological, and it has certainly been evident from the experience of Indonesia that the informal sector has proved a useful means of survival for many people in hard times.

Nevertheless, there has been an on-going debate in urban development planning circles about the impact of the informal economy, and particularly street vendors, on the quality of public spaces and on commercial activity in the formal sector, and in most cities in the developing world there have been constant disputes between the traders and the regulators, frequent evictions and street clearance initiatives, sometimes conducted with brutal force.

While most observers agree that, as part of informal economy, street vendors contribute to employment creation (see, for example, Watterberg, et.al., (1999); Devas and Korboe, (2000); Schneider and Klinglmair, (2004); and Chen (2007)), others take the view that street vendors are violating the access of public space by other members of the community, and regard their clearance as necessary and justified action to achieve better management and a healthier climate for investment and economic development more generally (Popke & Ballard, 2004). This created
conflict over public space between the street vendors and the resident community who feel ownership of the space. Regulating street vending and dealing with the various issues it raises, regularly presents major city authorities as the local government with considerable challenges and dilemmas.

This conflict over public space is reminiscent of those in the kinds of economic systems discussed by Karl Marx and other early socialists who talked of their creating ‘winners and losers’ or ‘villains and victims’ (Rowe, 2009). In many developing countries, the informal economic activity of street-selling has become a symbol of urban poverty, with the vendors increasingly finding themselves cast as both ‘victims and losers’. Indeed, they are mostly poor people who also lack of the capacity and skills to be involved in the formal economy or to gain advantage from it. In practice, most are left with limited options for their livelihoods and have little alternative than to stay in the poorly serviced parts of central cities (the slum areas) and survive by participating in the urban informal economy as street vendors or other such way of earning money. And in most developing countries, this has been the all too common pattern, with informal economic activity increasingly symbolising urban poverty and reshaping the character of the down-town areas.

The concept of survival entrepreneurs (Farbman and Lessik, 1989; Eigen, 1992; Rogerson, 1996; Portes and Hoffman, 2003) is helpful to an understanding of the informal sector in developing countries. Indeed, Knorringa & Bernard (2008) have argued that survival entrepreneurs are entrepreneurs who do not start their business by choice but essentially because they cannot find waged employment. Without jobs, the only choice for many people is to run their own small business by trading items either from their houses or in nearby streets.
According to Knorringa & Berner (2008) the main characteristic of survival entrepreneurs is that they defy the basic logic of entrepreneurship. Generally, entrepreneurs need to invest available capital in tools and materials, apply specialized skills and knowledge, and make a profit while bearing risk, so graduating from initial establishment into profit growth, and expansion (Turnham et.al., 1990). In some contrast, survival entrepreneurs are driven by their desire to achieve rudimentary security and to fulfil basic living requirements rather than maximizing profit. Moreover, they are more likely to opt for diversifying their activities than specializing and developing their reputation in a particular niche. Nor are they so likely to look to upgrading their business and becoming more formalised when revenues allow, for example, by developing from their food-stall to into a restaurant. Instead they are more likely simply to open another survival business (or another food stall) (Afenyadu et.al., 1990) as this will avoid ‘putting all their eggs into one basket’.

Research by Rogerson (2001) among others, has confirmed that ‘location’ is a particularly crucial issue for entrepreneurs wishing to grow their businesses. His research findings demonstrated how home-based enterprises tended to be more exposed to risk and experienced higher closure rates than enterprises located in commercial districts of cities. Further, McPherson (1995) has argued that proximity to growing markets is a significant determinant of entrepreneurial growth prospects. Location defines success in the market, and this is as true for street vendors as for more formalised business. A prominent position on the street or other public space, even though it may be violating the local regulations and restricting the access and movement of citizens, can command more custom and generate larger income than
the likely alternative of a back-street premises. And, of course, having direct access to the customers is the key to success for street vendors. From the customer’s point of view, too, there are advantages; the main streets being more convenient to many people for viewing and purchasing goods and services for everyday use and at comparatively favourable prices.

The informal sector and survival entrepreneurs such as street vendors thus represent a complicating aspect for local economic development in urban areas, while fulfilling the goals of job creation and poverty reduction, also having a negative effect on larger-scale investors and more formalised business development. In this context, Bar-El (2008) has proposed an approach to local economic development that is tailored particularly to developing countries such as Indonesia. This focuses on three key strategies as follows: (1) fighting poverty; (2) modernization of traditional agriculture and (3) creation of new opportunities for non-farm employment. Combined with all the aspects of economic development elaborated above, these three strategies provide a useful framework for this thesis through which to examine and understand local economic development in Indonesia.

2.3. Defining Factors for Successful Local Economic Development

This section discusses three key factors that the published literature suggests are especially significant in affecting performance in local economic development: (1) the role played by local government, (2) disposition towards innovation, (3) degree of trust between key actors. In the subsequent paragraphs these will be elaborated upon in turn..
2.3.1. The Role Played by Local Government

Local economic development is most widely discussed and understood in the context of advanced western countries (Perkins et.al. 2001) and theorisation in this respect tends to be most strongly rooted in western practices, and concerning both the behaviour of individuals and the work of institutions in such settings (Flyvbjerg, 2001 pp. 25-37; Moore, 1980, p.19). Rowe (2009) has argued that the various concepts and models of local economic development (e.g., industrial clusters and enterprise zones) have generally worked well in the particular locations where they have been pioneered. However he has also suggested that there is a question as to whether the models can be as effective if and when translated and applied in other less advanced economic contexts (i.e. in developing countries or those in transition). Strategies for local economic development, he has argued, need to fit the context and be particularly attuned to the values and capabilities of the local government which has a crucial role to play in this respect. This viewpoint echoes that of Feiock and Kim (2001) who also emphasised the significance of the local governmental bureaucracy in such economic development. Furthermore, they suggested that local political leadership and administrative competence were likely to be important here, though calling for more empirical research to assess their impact on success in local economic development, arguing that these aspects had been unduly neglected in development research to date. In this respect, their argument about the potential significance of leadership has been much in line with conclusions drawn several years earlier in the McKinsey Report (1994).
Goldsmith (1992) argued that the role of local governments could be categorized into two types: (1) The Clientilistic/Patronage Model and (2) The Economic Development Model. The second category implied that the local government must hold the ethos of ‘Boosterism’ – i.e. to promote the economic health of the community. Goldsmith (1990a), along with Harding (1990) also emphasised the important role of local political actors in promoting local economic development, whilst Syrett (1993), in his research, discussed the nature of activities that might be taken in this respect, defining them broadly to include any action aimed at stimulating the local economy beyond the traditional public service provision field (e.g. housing, education, social and health care, etc.).

Helmsing (2001) similarly stressed the significance of the role potentially played by local government, offering five main reasons. First, he suggested, decentralisation of the public sector generates need for more local resources to finance the transferred responsibilities and, as such, promotes interest in local economic development. Second, new rules and regulations, he argued, have reshaped the way local government operate encouraged in the direction of partnerships with the private sector (public-private partnerships). Third, he highlighted the growth of interest among local politicians in poverty reduction and with increased activity in pursuit of more local employment opportunities. Fourth, he pointed to the impact of more support programmes from the national and super-national governmental level (e.g. Europe) that now enabled local and regional government to become more active in LED. Fifth, he referred to political pressures in the more depressed regions, following the decline of traditional industries such as mining, steel and textile manufacture, for more to be done to rebuild the economic base for communities.
As Bruce (1993) has asserted, local government is the natural home for leadership in local economic development – and argument that is strengthened, he suggested, by the fact that local government is often the largest locally-based employer and, as such, used to commanding public attention, and, in many countries at least, also having the democratic credentials to legitimate its decisions in this respect. The important role of local government in local economic development has also been underlined by Hisrich & Kearney (2013) who have stressed the institution’s interest in maintaining steady economic growth and job creation for wider community benefit. They further argue that to be effective in this respect, local government needs to stimulate innovation and promote new ventures not only within the local business sector, but also within itself as the local government and in its approach to local economic development.

Based on the work of Bennet & McCoshan (1993) and also of Helmsing (2002d, and 2003), it is helpful to consider five particular roles that local governments play in relation to local economic development. First is the role of direct public service provision, which itself will potentially provide sources of employment and economic opportunity for many local people. Second, as provider of services and as ‘place shaper’ (Lyons, 2006) the local government can do much to create a strong place-based image and help enhance (or diminish) the reputation of the locality. This, in turn, is likely to be instrumental in attracting new businesses to establish there (or dissuading them from doing so). Third, the local government has responsibilities for the formulation and enforcement of particular policies that will directly affect business, especially in relation to land use planning, development control and other regulatory functions that may encourage or discourage new
business investment and create positive or negative externalities. Fourth, local governments co-operate with and co-ordinate other actors and stakeholders in defining and responding to the local public interest which is likely to have implications for, and set the main directions of, local economic development. Fifth, local governments may be able to exercise powers or to persuade other actors to contribute to the addressing of local economic development problems, through their regulatory and facilitative/enabling functions.

Local government’s role, then, is potentially significant one as a champion of, and leader in, local economic development. That said, however, as Krumholz (1999) has argued, the leadership for local economic development in a locality may equally be provided by private developers or real estate entrepreneurs seeking their own objectives, rather than elected or appointed public officials who might be expected to pursue objectives of more public value. Indeed, this has often been the experience of local economic development in developing countries, where all too frequently questions need to be asked about the public interest element of initiatives that seem more shaped and driven by the pursuit of profit.

Nevertheless, as Cochrane (1999) has pointed out, local government too might themselves usefully become more ‘entrepreneurial’, for example, by engaging in new partnerships with the private and community/voluntary sectors so as to leverage inward investment to support public provision. Even though local governments may not always acted in openly accountable (or democratic) ways, there is, as Syrett (1993) has suggested, a stronger likelihood of the political leadership being motivated by commitment to the local area and to improving prospects for citizens there. Moreover, this is especially important in developing
countries where often the key public interest is the eradication of poverty through new job creation.

Turning more specifically to the political leadership dimension of local government, the framework model of Regional Economic Development offered by Stimson et.al (2005) is particularly helpful for its focus on the processes of endogenous growth and on how regional development can be influenced by, and facilitated through, leadership, entrepreneurship and institutional factors. Within the model these are seen as intervening or mediating variables that, according to the authors, may have a catalytic effect on the endogenous growth processes, but which also account for local resources endowments and factors relating to the ‘market fit’ for the particular region. The authors of the model argue that leadership can be measured by a set variables such as: the degree of change/stability in the local political context, independent expert assessment of leadership quality, the scale of leadership resources (human as well as financial) that are invested in the region/locality, and the level of support of businesses and community organisations, among other variables. In a similar vein, Kemp (1992) and Sorensen & Epps (1996) have discussed the importance of stability within the local political leadership and in ensuring a suitably long-term and strategic approach in LED. This, they have argued, will be important in limiting the effects of political whim and short-termism in challenging or undermining the direction of development and instead ensuring that the strategy is fully embedded and institutionalised within the local government’s policy making processes.
2.3.2. Disposition towards Innovation

A central characteristic of locally based economic development is the emphasis on ‘endogenous development’, i.e. policies using the potential of local human, institutional and physical resources (Blakely, J.E., 1989). Local Economic Development aims to create high, yet sustainable, economic growth. All too often, however, local economic development proves to have been unsuccessful, usually because of unbalanced growth. According to Clingermayer & Feiock (2001) this can sometimes arise because governmental organizations tend to prioritise programmatic expansion by growing the number of development programs in the vein to which they are accustomed rather than looking more carefully to create a wider mix of activities; i.e. ranking diversity above scale in terms of overall importance. Similarly, Rowe (2009) has argued that a common mistake in local economic development practice is to direct energy at the promotion of small and minority businesses that are perhaps more likely to absorb than generate local spending power. He suggests that many local governments have followed this line, frequently because they failed to appreciate the potential of competitiveness within the locality and underestimated the need for a stronger emphasis on innovation within the collective economic system.

More than this, local economic development has been described by Krumholz (1990) as a zero-sum game creating increased disparities between central cities and

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1 The zero-sum game argument against economic development is that development policies only redistribute jobs among state or local areas. The number of jobs in the nation is unchanged, and the efficiency of the national economy is unaffected. The gains of the unemployed in one local area are offset by the losses of the unemployed in other local areas. Furthermore, state and local competition for jobs results in generally lower business taxes, making the national distribution of income less fair. (Bartik, 1991) and he further challenged this based on the ‘new wave economic development policies.
their suburbs. Such contrasting patterns of growth and decline have often been reflected in the debates and struggles over local economic development, for example, between development in downtown areas or in peripheral residential neighbourhoods; between LED as job generation versus LED as real estate development, and between further benefiting the rich and powerful versus assisting the poor and marginalized. Squires (1989) has questioned the assumption of spillover effects, suggesting them often to be of negligible significance, whether measured as the success of local downtown development or reduced poverty and unemployment levels. Wolman, Ford, & Hill, in Krumholz (1999) assert that LED has often created a development gap within and between cities and with economic disparities frequently exaggerated between the central city and suburban areas.

Local economic development activity has also frequently been criticised for creating unhelpful competition between local areas and their towns and cities for existing jobs, rather than actually increasing the total number of jobs available. As a consequence, one city’s gain implies another’s loss. Such analysis has also often been linked with Tiebout’s (1956) model that posits that people will tend to want to migrate to the local government locations that appear to maximise utility for them (i.e. satisfy their preferences with regard to public service provision and level of local taxation). In this respect also, the success of one city in attracting people will be at the expense of others. Thus a key challenge for local government in LED, concerns how best to ensure success without being at the expense of neighbouring areas. To achieve in this regard, most authors agree, calls above all for more innovation in economic development programmes.
This line of argument has been strongly developed more recently by Blair and Carroll (2009) who emphasise that fresh ideas and new ways of doing things represent the most hopeful source for sustainable economic growth. They argue that it is innovation (more so than invention) that matters most in the economic development in the contemporary context. They define innovation as the economic application of a new idea and suggest that not only is it important in itself, but also in terms of the rate at which innovations are copied, modified, and spread to other sectors of the economy – the dissemination and replication processes being key to overall economic progress.

Numerous empirical studies have considered the limits, obstacles and resistance to innovation, and examined empirical evidence about the rate of acceptance and adoption of innovations, and of the factors accounting for differential performance in these respects both within and the between the public and private sectors.

Blair and Carroll (2009) have argued that innovation in local government tends mostly to originate in metropolitan areas and that the spread of innovation occurs (1) across and down the urban hierarchy and (2) away from the innovative centre in radial patterns. For sure, there is always much debate about what constitutes innovation in a local government context, with most claims from leaders in the sector to have done something remarkable inviting questions about the provenance of the initiatives. While innovations may not always be successful, true public entrepreneurs are unlikely to be discouraged by failure, as they are usually individuals who are always prepared to take risks and to learn from their experiences.
Images that come to mind when people hear the word ‘entrepreneur’ mostly tend to be about money, profit and success. Nut in the public sector it is likely to be somewhat different and not least because the leaders are operating within a bureaucracy both driven and constrained by rules and regulations. As Ramamurti (1986) has suggested, to talk of ‘public entrepreneurs’ immediately seems like a contradiction in terms. And certainly, it must be inherently more difficult to be a successful entrepreneur within the public sector, not least because of all the formal procedural requirements and the expectations about openness and transparency that characterise public organisations.

Entrepreneurs according to Schumpeter (1949) are instinctively creative and innovative in their approach to their work. They may identify opportunities where others don’t spot them; they are willing to take calculated risks and will doggedly pursue a vision or an idea in which they see merit, sometimes against all odds. While there is, of course, no agreed set of characteristics that commonly define all entrepreneurs, and while entrepreneurship in the public sector is likely to be somewhat different from the private sector, some common traits are likely, including charisma, dedication, decisiveness, optimism, and perseverance, high levels of energy and obsession with particular pet projects.

As Blakely (1989) has suggested, local economic development has generally been shifting its focus away from “exogenous development” (which has proved to be more sensitive to shifts in macro-economic trends and shorter-term shocks to which some local areas and regions may be vulnerable) to “endogenous development”. In this way, much local economic development has become more focused on local initiatives to create new jobs and to stimulate increased economic activity. In doing
so, many actors are likely to be involved, from the public, private and community sectors, collaborating together to assess and agree the potential and each being prepared to contribute to the resourcing of the venture as well as to its design and progression.

As indicated, some of the most powerful arguments for local economic development, especially in developing countries, are poverty alleviation, reducing inequality, and generating more employment for local people. Drawing on the published literature on the subject, Lal (2000) has observed the important relationship between inequality, poverty and economic performance on the one hand and experience with land reform and rural development on the other, and has posited that ‘efficient growth’ is probably the single most effective means of alleviating poverty.

To most politicians, economic development mostly means more jobs. And as Bartik (1991) has asserted, more jobs are expected by the politicians also ultimately to lead to higher wages, increased property values, greater profitability for local businesses, more tax revenues for government, credit for themselves as the politicians who led the initiatives, and ideally, their own re-election as the reward. But critics argue, persuasively, that neither state-led nor locally-driven economic development policies can reliably achieve such benefits. In practice, as Bartik (1991) has suggested, the policies and initiatives often fail to help the unemployed or the very poor, and instead prove of greater benefit to the capitalists and the propertied. Bartik (1991) further highlights the important distinction to be drawn between economic development policies that provide direct assistance to businesses (whether financial, such as through tax subsidies, or service-oriented, through such means as
training provision or advice-giving), or indirectly by improving local infrastructure (e.g. roads, schools and health care facilities).

2.3.3. Degree of Trust among Actors

As elaborated earlier, success in local economic development also depends heavily on their being trust between collaborators and potential partners and sponsors in initiatives. Trust, indeed, represents the democratic value within local economic development and a dimension that. Helliewell et.al in Staveren (2000) found to have a particularly significant and positive impact on performance and achievements. At the community level, as Ned (2001) has argued, trust is needed to ensure that LED programmes proceed smoothly. He has also pointed out that LED initiatives at the community level rely heavily on there being high degrees of social cohesion and shared identification with, and commitment to the projects to ensure the necessary complementarities between LED and social capital. Further, Buckland (1998) concluded that trust, norms (customary behaviour) and networks, as features of social organisation, can help improve the efficiency of society by facilitating coordinated actions. Trust is also an important basis for voluntary associations (Anheier and Kendall, 2000) and as Knorringa (1992) suggests, serves to strengthen voluntary cooperation that, in turn perhaps, helps foster innovation (Knorringa, 1992).

Furthermore, and in relation to the pursuit of competitive advantage, Cox and Mair (2010) have provided examples of how local economies in the United States operate to create constructive competition among localities rather than conflict between them.
Similarly, and according to Cox and Mair (2010), success in LED depends on the co-operation of various key actors and institutions – capitalist firms, politicians, and community groups, and other individuals – and on the quality of the social relations they build together at local level. Local political leaders may sometimes over-promote development, perhaps driven by the prospect of electoral rewards for themselves. Conversely, some private sector entrepreneurs may seek to drive projects forward too fast for local people, and be reluctant to consult and engage with all the interested stakeholders; being overly-preoccupied with their own objectives and ambitions. So, as Mier (1993) has proposed, it is important that a co-operative form of leadership is created and sustained in local economic development. This he has defined as a form of leadership in which collaboration between the diverse range of interest groups associated with a particular development would be reflected from the outset, when the objectives are set, and throughout the planning and implementation stages – crucially, with all parties not only in agreement with, but also active participants in the decisions and actions about the ways forward.

2.4. Conclusion

This chapter has discussed the concepts of local economic development, reviewing a wide range of published literature on the subject, and covering definitions, modes of operation, and key practices and experiences gained, particularly in developing countries as such providing a vital background to the case-study research from Indonesia on which this thesis is focused. Further, the chapter has explored in some detail three factors that the literature argues to be especially
influential to success in local economic development in developing countries (1) the role played by local government (2) pre-disposition towards innovation (3) the degree of trust between actors.

In these respects, the chapter has highlighted the importance of leadership from local government in the pursuit of economic development activity, and particularly to ensure that political objectives such as equity and pro-poor policies are prioritised. It has also linked this with discussion of the significance of innovation, both as a way of working and as an outcome itself. Finally, the chapter has drawn from the literature a key message about the importance of trust in the processes of LED and about how successful collaborations in public entrepreneurialism are likely to benefit from the building and nurturing of cooperative forms of leadership that bring together the different stakeholder and interest groups to be actively involved together in the devising, planning and implementation of locally successful development. In the succeeding chapter this review of literature on local economic development is complemented with a review of the other key foundation subject on which this thesis is built – the nature and significance of entrepreneurship in local economic development.
Chapter 3 - Public Entrepreneurship

This chapter will discuss the contested concept of public entrepreneurship (Ostrom, 1964, Ostrom 2005; Lewis 1980 Doig and Hargrove 1987; Roberts & King, 1991; Bellone & Goerl, 1992: Schneider et al., 1995; Kalu 2003, Bernier and Hafsi, 2007; Klein, Mahoney, McGahan and Pitelis, 2010). Since the concept is understood in various ways, it is important to establish a working definition for this study. This is the first aim of this chapter and of the next section in particular, which also discusses public entrepreneurship in the context of bureaucratic leadership. The second section will elaborate the principal characteristics of public entrepreneurship, particularly the predilection for innovation, and the nature of public entrepreneurship within a local government context. The question of how it can affect local economic development is discussed in the third section before consideration of the debate about the relationship between public entrepreneurship and democratic values (Bellone & Goerl, 1992; Kalu, 2003) in the final section.

3.1. Defining Public Entrepreneurship

In the previous chapter, the role of local government in local economic development has been discussed. Some keywords that characterised public administration and public leaders and public employees in developing countries are effective leadership, leadership quality, discretion, initiative, collaboration, cooperation, trust and innovation. Those keywords may seem fairly neutral, but
mostly in developing countries they depict negative situations. Blair and Carroll (2009, p. 263) argue that ‘public employees lack incentives to meet public interest; they seek more pay, better perquisites of office, or hassle-free work environments rather than serving the citizens better.’ Public leaders and public employees face several constraints such as the difficulty of measuring public outputs, vague responsibility for performance, and the absence of success measures. To conclude, it is hard to make bureaucrats accountable whilst effective bureaucratic leadership is needed to make local economic development work.

Bureaucratic leadership can be defined as institutional leadership in the administration of public organisations and operating within the executive branch of government at all levels. Doig and Hargrove (1987) proposed a conceptual framework to understand leadership in public administration based on the principles of entrepreneurship and innovation. Hence leaders of public bureaucracies are characterised as entrepreneurs. Borrowing the dominant themes found in the business management literature, they suggested that leaders of public agencies “are individuals who possess unusual powers and qualities that enable them to dominate and conquer others” (p.12). They further implied that the effectiveness of leadership is measured by the leader’s ability to reconstruct organisational structures, functions and processes. The central conception here according to Doig and Hargrove (1987) is that effective bureaucratic leaders are risk-takers and opportunists. Gordon (2012, ch.2 p. 15) also argued that in reinventing local and regional development, and particularly focusing on long-term view and managing expectations, leadership may equate to a certain degree of risk-taking.
Even though Terry (2015) argues that innovative leaders are always needed at some point in an organisation’s history, he strongly believes that leaders in public administration should be conservators rather than entrepreneurs. A conservator is defined as the guardian of the public value, which in turn should reflect the mandate of the country. As a conservator, a public administrator has a moral obligation to preserve and sustain constitutional principles because they will have taken the oath of office to “uphold the constitution” (Rohr 1986, p. 181). When public administrators uphold the constitution, it makes them a conservator because his or her primary function is to protect and preserve the existing government and its traditions (Terry, 2015, p.24). Providing continuity and stability is an important role for the public administrator and it is of utmost interest that the public administrator acts as custodian of governmental institutions (Heclo, 1977).

The role of leaders in local economic development is believed to be important particularly in improving relationships, networks, trust and cooperation between potentially antagonistic groups. The involvement of local government is considered crucial in helping to generate business commitment (Pugalis and Bentley, 2013, Vol. 28: 665). It requires effective leadership (Nel & McQuaid, 2002 p. 68) or, put another way, leaders in local government play their roles as regional planners as well as policy makers and ‘have an important leadership role to play in promoting collaboration among fragmented and often jealous city and local governments’. Just as individual entrepreneurs must recognise and institutionalise their independencies, so too must individual political jurisdictions overcome narrow self-interest in order to define and advance a common interest. This common interest of regional and local prosperity (Saxenian 1994, p. 168) is the focus of public entrepreneurs in local
economic development. It is at the heart of the constitution of any government and need to be upheld by any public administrator as a public conservator. According to Schneider et al., (1995, p. 11) “public entrepreneurs are not just leaders but the outstanding ones”.

3.2. A Typology of Public Entrepreneurship

In this section various definitions found in the literature regarding the concept of public entrepreneurship (and of public entrepreneurs) are discussed to establish an appropriate definition for this research. In later chapters the particular chosen definition is further used as a basis for exploring and assessing public entrepreneurship in the context of the four case studies on which this research is based.

There has been much research interest in public entrepreneurship over the two or three decades and, as a result, there is now a considerable literature on the subject dated back at least to the early 1980s (see for example, Lewis, 1980; Roberts and King, 1989; Doig and Hargrove, 1987). However, such literature has provided little consensus or clarity on the meaning of the phrase ‘public entrepreneurship’. Doig and Hargrove (1987), for instance, questioned the distinction between public entrepreneurs and leaders, while Wilson (1981) used the term ‘policy intellectuals’; Angle and Van de Ven (1989) referred to ‘policy champions’, and Polsby (1984) simply talked of the role of ‘local politicians’.
In the United States, the term has similarly been used in different contexts; for example, referring variously to elected representatives as public entrepreneurs, to personnel in non-elected and non-leadership-oriented positions, and even to individuals outside government (King, 1988; Kingdon, 1984; Wilson, 1980). Indeed, the only clear area of agreement as to the nature of public entrepreneurship is that the term is widely regarded as involving risk-taking behaviour (Cohen, 1988; Kingdon 1984). Moreover, although, as indicated by King (1988), there are exceptions, for the most part, the term ‘public’ in public entrepreneurship has usually been understood as being synonymous with a role within government (Roberts, 1992; Saito, 2008).

Diefenbach (2011) has provided a useful overview of public entrepreneurship definitions found in the relevant literature, and which he divides between conceptual and personal in nature. This is reproduced in Table 3.1 below.

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
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<tr>
<td><strong>Conceptual</strong></td>
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<tr>
<td>Shockley et al. (2006, p. 205)</td>
<td>“Public sector entrepreneurship occurs wherever a political actor is a lent to and acts on potential profit opportunities, thus moving the system in which the actor is embedded toward equilibrium.”</td>
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<tr>
<td>Kearney et al. (2007, p. 277)</td>
<td>“Public sector entrepreneurship refers to state enterprise/civil service is defined as an individual or group of individuals, who undertakes desired activity to initiate change within the organization, adapt, innovate and facilitate risk. Personal goals and objectives are less important than the generation of a good result for the state enterprise/civil service.”</td>
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<tr>
<td>Holcombe (2002, p.143)</td>
<td>“Political entrepreneurship occurs when an individual observes and acts on a political profit opportunity.”</td>
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<tr>
<td>Roberts (1992, p 101)</td>
<td>“Public entrepreneurship is defined as the generation of a novel or innovative idea and the design and implementation of the idea into public sector practice.”</td>
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<tr>
<td>Author(s)</td>
<td>Quotation</td>
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<tr>
<td>Currie et al. (2008, p.989)</td>
<td>“[...], Entrepreneurship is seen as the process of identifying and pursuing opportunities by individuals and/or organizations. Further, this process is often characterised by innovativeness, risk-taking and pro-activity (Miller 1983; Covin and Slevin 1991; Morris and Sexton 1996; Morris and Jones 1999).”</td>
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<tr>
<td>Morris and Jones (1999, pp. 74 – 87)</td>
<td>“Public Sector entrepreneurship is the process of creating value for citizens by bringing together unique combinations of public and/or private resources to exploit social opportunities.” (Based on Bellone &amp; Goerl, 1992; Linden, 1990; Osborne &amp; Gaebler, 1992) “Entrepreneurship implies an innovative, proactive role for government in steering society toward improved quality of life. This includes generation alternative revenues, improving internal processes, and developing novel solutions to inadequately satisfied social and economic needs.”</td>
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<tr>
<td>Morris et al. (2008, p.103)</td>
<td>“Organizations can be characterized in terms of their entrepreneurial orientation or intensity which is a reflection both of how many entrepreneurial things they are doing, and how innovative, risky and proactive those things tend to be. These basic steps apply to both private sector and non-profit or public sector context.”</td>
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<tr>
<td>Osborne and Gaebler (1992, p. xix)</td>
<td>“[Entrepreneurial institution/public entrepreneurs] use resources in new ways to maximise productivity and effectiveness.”</td>
</tr>
<tr>
<td>Roberts and King (1991, pp. 149 – 150)</td>
<td>“‘Public entrepreneurship’ is a process of introducing innovation to public sector practice.”</td>
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<tr>
<td>Personal</td>
<td></td>
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<tr>
<td>Bellone and Goerl (1992, p. 131)</td>
<td>“Four important characteristics of public entrepreneurs – autonomy, a personal vision of the future, secrecy and risk-taking – need to be reconciled with the fundamental democratic values of accountability, citizen participation, open policy making processes, and concern for the long term public good (stewardship).”</td>
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<tr>
<td>Ramamurti (1986, p. 143)</td>
<td>“[Public entrepreneur is] an individual who undertakes purposeful activity to initiate, maintain or aggrandize one or more public sector organizations” (based on Cole, 1959, p.7)</td>
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<tr>
<td>Schneider et al. (1995, pp. 8-147)</td>
<td>“In addition to the central feature of alertness to opportunity, we also define entrepreneurs by other factors: their willingness to take risky action in the pursuit of opportunities they see, and their ability to coordinate the actions of other people to fulfil their goals.” “Political entrepreneurs – individuals who seek elective office to pursue their vision of change.”</td>
</tr>
<tr>
<td>Roberts (1992,</td>
<td>“Individuals who generate, design, and implement innovative ideas in the public domain are called public entrepreneurs.” (based on Schumpeter; deliberately without risk, which the</td>
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</table>
Entrepreneurial [public] leaders expand the goals, mandates, functions and power of their organisations in ways not foreseen by their political masters. They build coalitions that knit together public and private interests to take advantage of opportunities for entrepreneurship.”

“[...] “a person who creates of profoundly elaborates a public organizations so as to alter greatly the existing pattern of allocation of scarce public resources.”

“[...] public entrepreneur [is an] entrepreneur who contributes to building a public organization or increasing its ability to deliver services and create value.”

“Proactive, innovative behaviour and bold risk taking seem to be the hallmarks of entrepreneurial individuals who have emerged in the public sector.”

Roberts (1992), in fact, has defined public entrepreneurship as being primarily concerned with the generation of novel or innovative ideas, and the design and implementation of such innovative ideas into public sector practice. She refers to public entrepreneurs as individuals who generate, design and implement innovative idea in the public domain. Moreover, she has further distinguished between public entrepreneurs and other actors in the policy process and identified four main types of public entrepreneur as follows:

- **Policy Entrepreneurs** who introduce and facilitate the implementation of new ideas into public sector, but who are outside the formal positions of government.

- **Bureaucratic Entrepreneurs** who introduce and implement new ideas from their particular vantage point in public organisations but who occupy non leadership positions in government.

- **Executive Entrepreneurs** who occupy leadership positions in governmental agencies and departments and who generate and implement new ideas.
- **Political Entrepreneurs** who introduce and implement new ideas as holders of elective office.

To establish a better understanding of public entrepreneurship Roberts & King (1989) have developed a ‘logic tree’ to distinguish entrepreneurs from other personnel and also to differentiate various types of public entrepreneurship.

**Figure 3.1   Types of Public Entrepreneurship (After Roberts and King, 1989)**

From this logic tree, it can be identified the four categories of entrepreneur within the public sector/government (policy, bureaucratic, political and executive entrepreneurs), and using two differentiating questions: (1) does the individual have an innovative idea?, and (2) does the individual implement an innovative idea?, the authors have identified two further categories – respectively of non-entrepreneur and policy intellectual.

Then two further questions (1) does the individual occupy a formal leadership position in government?, and 2) does the individual hold a formal (but non-leadership)-position in government?) help to define two further categories – those of Policy Entrepreneur and Bureaucratic Entrepreneur (the latter being an individual who holds a formal position in government but without a formal position of leadership).

One further question is whether the entrepreneur with a formal leadership position has (or has not) been elected. This defines two additional categories of executive entrepreneur (i.e. one who assumes formal leadership but is not elected); and political entrepreneur (who holds a formal leadership position and is also elected).

As Roberts and King (1989) have suggested, by understanding such a typology of public entrepreneurship, it is possible to compare and contrast the behavioural patterns, activities and roles of different actors and to use the typology to analyse the extent to which public entrepreneurial roles are executed in different contexts of government. That, indeed, has been the intention in this thesis, with Roberts’ typology being deployed as a guiding framework by which to understand and evaluate the nature of public entrepreneurship in the four case studies.
3.3. Characteristics of Public Entrepreneurs

Following on from the above discussion of definitions, this section discusses the characteristics of public entrepreneurship and how the role is exercised by public entrepreneurs in local economic development initiatives. The literature on public entrepreneurship, as summarised in Table 3.1, provides us with four major characteristics of public entrepreneurs: the first is related to ability to take opportunities to gain (political, social and economical) profit. The second, which is at the heart of public entrepreneurship (Roberts & King (1989) and Klein et.al., (2009)), concerns willingness to take risks and which may include coordinating the actions of all stakeholders, and communicating with all stakeholders to build coalitions. These latter skills can also be regarded to include the ability to influence others which is the third characteristic of public entrepreneurs. The fourth characteristic is innovativeness in which (local and national) governments play the proactive role of generating novel ideas intended to achieve the desired change, for example, to increase productivity or effectiveness.

Other studies of public entrepreneurship have found common traits of success that include creativity and innovation; opportunism and risk taking; facilitating and synthesising; and persuasiveness (Boyett, 1997; Ramamurti, 1986; Zerbinati and Souitaris, 2005). According to Lewis (1980) public entrepreneurship is used to help account for how non-elected officials sometimes come to dominate areas of public policy ordinarily expected to be under the control of elected politicians. Furthermore, Lewis (1980) has argued that the entrepreneurial behaviour of bureaucrats runs counter to conventional wisdom and to any intuitive sense of how we might expect
things to work. Public entrepreneurs, he has argued, create new organizations or new roles for existing ones. They typically alter substantially the extant allocative patterns of some sectors of state activity and so, in rough analogical fashion, combine the two private sector functions of garnering new organizational resources and managing them (Lewis, 1980). Moreover, public entrepreneurs, he has posited, display features of the astute lobbyist, publicist, and canny politician (Lewis, 1980). But the central element in public entrepreneurship, he has suggested, may simply be that of inspiring others inside and outside the organizational boundaries to accomplish some greater public purpose Public entrepreneurs, he has emphasised, seek power rather than profits; power to accomplish their ends in the name of some public good. Public entrepreneurs, according to Lewis (1980) are of necessity political actors whose power derives from political systems, and who are willing and able to provide the scarce public resources required for the accomplishment of their vision.

While the roots of public entrepreneurship draw on ideas and traits that are commonly associated with commercial sector activity and modes of operation, it is important to recognise that there are some inherent differences that are not only about context but also about behaviour as well. Klein et al. (2009, p.6) have argued that the entrepreneurial private firm would typically have well defined objectives on which it could rely in a competitive market to survive as a going concern. Public organisations, however, have more complex objectives; they may not have access to clear signals of performance and are more prone to ‘soft budget constraints’ (Kornai 1986). Moreover they exist for reasons other than customer satisfaction and shareholder value (Mueller, 2003). Baez and Abolafia (2002) have similarly argued that the conduct of public entrepreneurship and private entrepreneurship might seem
similar but they are far from identical. Further, these same authors have discussed
three main aspects that differentiate the public entrepreneur from the private
entrepreneur. These are (1) taking risks, (2) influencing others, and (3) taking
opportunities. In taking risks, like any business entrepreneur, public entrepreneurs
take initiatives and risks for a perceived pay-off, only they do so in the context of the
existing organizational structures. Thus, public entrepreneurs not only understand the
risks but also the rewards or the benefits of their decision for the public interest. To
protect the public interest is what makes public entrepreneurship a public
conservator, as argued in previous section. Public entrepreneurs also change their
institutions by influencing colleagues to accept novel views of the situation and by
using their exceptional social skills (Fligstein 1997, DiMaggio 1988, 14-15). Another
distinct characteristic of public entrepreneurs is that, despite a degree of detachment
from their context, when an opportunity presents itself, they are more likely to be
able to envision novel routines, practices and procedures, for solving problems (Huff,
Huff and Barr (2000); Beckert 1997). Every actor who assumes the entrepreneur’s
role must understand the circumstances under which they work and both address the
weakness and seize the opportunities it provides, and the cognitive processes by
which they interpret those conditions (Baez and Abolafia, 2002). These two factors
may help to explain how educational background and life experiences affect the
public entrepreneur’s outlook and behaviour.

Klein et al. (2009) have also argued that the concept of public entrepreneurship
is imprecise because public interest tends to change over time and is difficult to
identify precisely, even under the best of circumstances. The only guarantee, or the
blueprint, of public interest that should be protected by the public entrepreneurs is
the constitution. In this sense, public entrepreneurs who uphold the constitution (Terry, 2015) will protect the public interest. Klein et al. (2009) also emphasized that, like private entrepreneurs, public entrepreneurs are likely to pursue a variety of objectives, as well as those for public interest, also perhaps some for private gain. The distinction between public and private interest is therefore not necessarily so easily defined according to Walsh, Meyer & Schoonhoven (2006) for three reasons. First, to align the individual objectives into a public interest is complex. Moreover, democratic mechanisms, such as majority voting, arbitration and consensus-building, are also highly imperfect aggregators of individual interests (Buchanan & Tullock, 1962; Downs, 1979); Riker & Ordeshook, 1973). Second, individual interests tend to be multi-faceted, and any apparent alignment may well reflect problematic understandings and temporary compromises. Third, private interests are often dynamic and changing, which may mean that certain current declarations of the public interest become less valid over time (Mahoney, McGahan & Pitelis, 2009; Stiglitz, 1998).

Bernier & Hafsi (2007) pose a helpful question to help to differentiate public entrepreneurship from private entrepreneurship. That is to ask if the objective of public entrepreneurship is to serve the public interest rather than private profit-making. In achieving public interest, public entrepreneurs may perceive gaps between actual and potential outcomes, or shortcomings in performance, and will look for resources to close any such gaps. In doing so, they typically seek to marshal resources for fulfilling public or social interests and to deploy them for better performance on public objectives (Ostrom, 1965, and Ostrom 2005).
Pitelis and Teece (2010) agree that private and public entrepreneurship share the same fundamental objectives, i.e. to capture value out of advantages, capabilities and potential for action. However, while for private entrepreneurship, the value capture is likely to be economic profit, for public and political entrepreneurs, success may not be in private/individual benefit but more in terms of popularity or some other deferred reward.

According to Teske and Schneider (1994) a public entrepreneur is to be thought of as one who propels dynamic policy and political change in a community and who performs three main functions (Schneider et.al., 1995). The first of these is to discover unfulfilled needs and select appropriate solutions to meet those needs. To be able to do this, the public entrepreneur needs to be alert to new opportunities. Second, is willingness to bear the reputational, emotional, and particularly financial, risk involved in pursuing a course of action with uncertain consequences? Third, is to assemble and coordinate teams of individuals from different organisations that have the talents and/or resources pursue the intended change.

Political scientists have long debated whether entrepreneurs within a public or political bureaucracy take office by chance (Wilson, 1989), or whether particular conditions promote entrepreneurialism (Mintrom 2000, Teske and Schneider, 1994). Ostrom (1965) has argued that freedom and openness are two key factors which provide essential conditions for the exercise of entrepreneurship in the public sector. This, plus the variety of organisational forms, may provide an enabling environment for the thriving of public entrepreneurship. Further, the capacity to engage in public entrepreneurship is defined by the political system.
Entrepreneurs, according to Brower and Abolafia (1996); Kingdon (1984); Schneider et al. (1995) are also known for their understanding of the dynamics of organisational change, and for their creativity in advocating solutions to policy problems. When faced with new problems, public entrepreneurs introduce new measures in response to their own initiatives and authority. Moreover being intimately involved in the political process means they are able to sanction and validate new programs of action and new institutional arrangements to accomplish the purposes they perceive as priorities. Indeed, Shane and Verkataraman (2000.p. 219) have argued that entrepreneurial behaviour could be used as the engine to drive organisational change (Zucker, 1991).

However, public entrepreneurs are also constrained by the organic legislation which tends to characterise the establishment of their public organisations. Holders of entrepreneurial positions within existing public enterprises are limited to the pursuit of specific opportunities, utilizing only those powers assigned to them by legislation and as interpreted by the courts. Indeed, public entrepreneurship calls for intimate involvement in the political process in order to be able to authorize and to validate new programs of action and new institutional arrangements for accomplishing the intended purposes. Public entrepreneurs, who then become public officials, are likely to be held accountable for their contribution in serving public interests only, and anyone who is found to have gained private benefits at the expense of their public role, is at risk of prosecution and sanctions.
3.4. Public Entrepreneurship and Innovation in Local Government

Schumpeter (1949) the “father of modern entrepreneurial thought”, who built this earlier conceptualisation of entrepreneurship, claimed that the ultimate task of entrepreneurs is innovation (Roberts & King, 1989). Many other authors have also suggested that creative innovation lies at the heart of public entrepreneurship (for example, Collins, Moore, & Unwalla (1964:17); Wilson (1980); Doig & Hargrove (1987); Klein et. al., (2009)) and that much depends on ‘windows of opportunity’ (Kingdon, 1995; Minstrom, 2000) being exploited for modifying the ways in which public organisations operate (Kuhnert, 2001; Mack, Green & Vedlitz, 2008; Oliver & Holzinger, 2008; Schnellenbach, 2007).

As Roberts & King (1989) have suggested, at the core of innovation, is the generation and implementation of new ideas for policy or new programmes, or new procedures or processes to alter work or activity. Such a definition signifies two crucial elements: (1) public entrepreneurship is the generation of new ideas as well as their implementation, and (2) it is important to specify what the ‘new idea’ is. Walker (1969 p.881) has defined an innovation as being “a program or policy which is new to the states adopting it, no matter how old the program may be or how many other states may have adopted it”. Down and Mohr (1979, p. 385) have similarly defined innovation as “the earliness or extent of use by a given organisation of a given new idea, where ‘new’ means only new to the adopting agent, and not necessarily to the world in general”. Similarly again, Nice (1994) regarded innovation as policies or programs new to the state adopting them, even if the policies were first adopted in other states years earlier. However as Chi (in Gargan
(2000)) has claimed, practitioners tend to define an innovation as an invention; as a brand new policy or program that has not been adopted previously by other jurisdictions, hence innovation is a creation of novelty, rather than mere replication of something initiated by others albeit in a different setting.

As indicated, Klein et al. (2009) has claimed that novelty or innovation is an important manifestation of public entrepreneurship. Further he has argued that innovation in the public sector may come in four different forms. First, innovation can be in relation to the ‘rules of the game’ such as changes in the constitution, new laws, rights or regulatory systems, (Ostrom, 1965). Second, it can involve the creation of new public organisations (Bartlett & Dibben (2002); Schnellenbach, (2007)). Third, it can involve the creation and management of new public resources (Lewis, 1980; Roberts & King, 1996). And fourth, it may involve use within the public domain of the spillover from private actions. In this respect, as Ramamurti (2004) has explained, private organisations such as the Rockefeller and Gates Foundation have pursued specific missions to support or create public agencies, particularly in developing countries.

According to Chi (2000) in Gargan (2000), innovations may take one of two forms; (1) political or policy innovations, (2) program or management innovations. Political innovation is defined as a policy or a set of policies that seem to have altered (or promise to alter) the lives of persons affected by them in substantial and fairly permanent ways (Polsby, 1984) and is not a public policy pursued exclusively by enabling legislation (Bingham, 1976). Policy innovations might include education reform laws, restructuring court systems and welfare reforms (Chi in Gargan, 2000). On the other hand, program or management innovations are initiated as creative tools
to implement political or policy goals more effectively and efficiently with or without legislation measures (Chi in Gargan (2000). Productivity and management improvement measures and technology applications provide topical examples of public administrative program/management innovations.

Borins (2008) has argued that innovation encompasses both incremental and radical innovations. Innovations, or novel ideas, can either be completely original, (as with inventions) or simply new to the particular setting, though borrowed from an application elsewhere). When a public entrepreneur seeks to solve a problem, but finds no precedent for a solution, and instead develops a solution for the first-time, she/he may be said to be innovating at the level of ‘origination’. Alternatively when an entrepreneur finds one or more solutions from other contexts and sources and modifies them to fit the particular situation, it is considered to be innovating at the level of ‘adaptation’. Finally, the entrepreneur who innovates at the level of ‘borrowing’ may find various well-developed solutions to the problem but copies just one of them without making much change (Peltz and Munson, 1982:175). Thus the originality of an idea can be distinguished from its radicalness (Borins 2008; Hage, 1980), in terms of ‘change to the inputs, processes or outputs in ways that represent a significant departure from existing technologies and their corresponding products or services (Hage, 1980, p. 189-197).

Chi ( in Gargan (2000)) have presented two models through which to analyse the origins of innovations, described respectively as (1) policy planning and (2) groping along. Golden (1990) argued that in the policy-planning model, the leaders/managers need to be careful to identify the right innovative idea, and establish the right level of support for implementation of the idea, doing so by
making policy, and forecasting any likely problems. This will require the leaders to have vision which will be translated into comprehensive planning, implementation and evaluation. This model is useful to understand political-policy innovation process. Contrary to that, Chi (2000) has further suggested that ‘groping along’ de-emphasizes initial policy planning (Golden 1990) and instead stresses flexible ways of accomplishing policy objectives through trial and error (Deyle, 1994). According to Altshuler and Zegans (1990), this model might be expected to be more characteristic of the state and local governments given the fact that they rarely invest in research and development.

Public entrepreneurship is generally regarded as a means for public organisations to be transformed into more flexible units that serve their constituencies and taxpayers more effectively (Diefenbach, 2011; Mack, Green and Vedlitz 2008; Sadler 2000; Zampetakis and Moustakis 2007). Entrepreneurship, therefore, is vital for the public sector (Caruana, Ewing, Ramaseshan 2002, and Diefenbach 2011). Interest in an entrepreneurial role within public administration has been linked to the ‘reinventing government’ literature on New Public Management (NPM) (Hood, 1991) and public sector innovation, as promoted by Osborne and Gaebler (1992). The effect of market oriented reforms and the spread of private sector values into the public sector has, indeed, been a major theme of public administration, and for all public organisations, for at least the past twenty five years (Grossi and Reichard 2008; Kickert, 2001; Mattison, Paulsson, and Tagesson, 2003; Reichard 2003; 2006a, 2008).

As local government is home for most public sector local economic development initiatives, the role of public entrepreneurs is particularly important
here (Schneider & Teske, 1992). Both Eisinger (1988) and Schneider & Teske (1992) have suggested that in local government a new class of entrepreneurs is now emerging, the trigger for which has been demand side policies to promote economic development. Both these authors have also developed a core set of ideas on public entrepreneurship, including the notion of political profits (affected by the extent of entry barriers and the strategic use of information), challenges to entrepreneurs rooted in collective action problems, and the dynamic effect of entrepreneurs on ‘the political equilibrium’. They have argued that entrepreneurs are more likely to emerge when there are circumstances making entrepreneurial profits more likely and where local conditions appear to facilitate solutions to problems of collective concern. Their research has shown that high allocation expenditures can create slack resources and tend to attract entrepreneurial politicians. Such surpluses of resources were certainly found to provide opportunities for the (political) entrepreneur to garner the local public sector’s equivalent of profit.

Teske and Scheinder (1994) have also seen the public entrepreneur as someone who would help to propel dynamic policy or political change in the community. Here they distinguished between different types of public entrepreneur operating within an elected office, notably between political entrepreneurs on the one hand and those in full-time career positions (whom they described as bureaucratic entrepreneurs) on the other, and who would need to exercise considerable leadership skill within the organisation as well as simply driving innovation in policy terms. Based on this distinction, an important question arises concerning the characteristics that might define the political entrepreneur and the bureaucratic entrepreneur within local government. Boyet (1997, p.90) has argued that public entrepreneurship and
leadership skills correlate with responsiveness being the common factor. He has suggested that public entrepreneurs are ‘susceptible to manipulation of their stakeholders and with a desire for a high level of satisfaction, who have the ability to spot top market opportunities and who are able through follower manipulation to act on them’. Chi (in Gargan, 2000) has posed a similar question in asking who innovates and why? Part of the answer here, according to Roberts and King (1989) reflects four different types of public entrepreneur. In this respect they argued that public entrepreneurs in local government could originally be elected officers, appointed managers or even ordinary workers, who just happen to have the vision, the ability to communicate it and the tenacity to mobilise support (Chi in Gargan, 2000). They would probably also need to demonstrate other qualities besides, such as aptitude and energy, persistence, knowledge of the problem, political astuteness, the ability to inspire people and the capacity to work effectively with diverse groups (Arnold, 1990).

3.5. Public Entrepreneurship and Democratic Values

As mentioned above, public entrepreneurship has come to be closely associated with Osborne and Gaebler’s treatise on ‘Reinventing Government’ (1992) and which offered ten principles that seem particularly consistent with those proffered in the wider literature on the subject of entrepreneurialism, such as Antoncic & Hisrich (2001); Bernier & Hafsi (2007); Burgelman (1984); Covin & Slevin (1991); Lumpkin & Dess (1996); and Miller (1983).
The main message from Osborne and Gaebler’s work was that governments should become more adaptable and efficient, doing so by the infusion of stronger entrepreneurial values alongside those of political responsiveness and neutral competence. In discussing this objective, the authors readily recognised the potential conflicts here with the traditional “bureaucratic values” that they understood to be deeply ingrained in most public organisations.

In similar vein, Smith (2012) referred to two managerial characteristics to explain the key ingredients of public entrepreneurship; those of autonomy and managerial working experience. Smith further argued autonomy to be an essential aspect of public entrepreneurship as it implied actions being taken freely and without organisational constraint (Boyett, 1997; Forster, Graham, and Wanna 1996; Ramamurti, 1986). However such autonomy as a trait of public entrepreneurship could also be understood as being at odds with principles of public accountability and democratic value.

Similarly, the freedom and legitimacy of public entrepreneurs to innovate could be seen as being contrary to democratic openness and accountability. Löffler (2001), indeed, has argued that “local heroes may innovate with ethical integrity but not necessarily with (political) legitimacy”. Insufficient consultation and involvement of the public and elected officials, she has claimed, could be enough to jeopardise a potentially successful innovation.

Bellone & Goerl (1992) have argued that a public entrepreneur is likely to demonstrate characteristics such as autonomy, personal vision, and risk-taking, but would perhaps also be operating with a measure of secrecy, and almost certainly without the level of openness that might be associated with the democratic ideals of
public accountability, citizen participation, transparent policymaking processes, and concern for the long-term public good (stewardship). In short, such entrepreneurial characteristics would somehow be in direct opposition to democratic processes of government. For example, the pursuit of entrepreneurial autonomy could be at odds with the notion of democratic accountability; public entrepreneurial vision could be at odds with the practice of citizen participation and their involvement in strategy-making and prioritisation; entrepreneurial secrecy would be at odds with the principle of democratic openness; and entrepreneurial risk-taking at odds with the concept of democratic stewardship.

Four further points can also be made about the contradiction between public entrepreneurship and democratic value. First, there is a tension between entrepreneurial autonomy and democratic accountability. In local democratic local government, the public entrepreneur can be better held accountable if the accountability measure is shifted from focus on inputs or processes to outputs or outcomes. For public entrepreneurs to be able to exercise their entrepreneurial skills they need to be as free as possible from constraining rules and regulations: they also need autonomy over the budget and, afforded a degree of discretion to spend the money allocated to them for the initiatives that they judge worthy of pursuit. Indeed, they are likely to want maximum discretion to spend ‘their money’ as they deem important, and on the items they themselves would choose. Therefore, if they are to be held accountable, any processes of scrutiny and calling to account should focus wholly on the results achieved.
A second conflict likely to be faced by public entrepreneurs concerns the need for entrepreneurial vision on the one hand and citizen input as part of democratic involvement on the other. For public entrepreneurs in local governments to be innovators, they need to come up with entrepreneurial visions or ideas. Such entrepreneurial ideas have to be supported or agreed by the community and the only way to achieve this is by way of democratic participation. However, entrepreneurial ideas are often unconventional and might be less readily apparent as worthwhile to the community. Hence the process of realising an entrepreneurial vision can be quite challenging with regard to public participation processes. Meaningful democratic participation can also be time-consuming, while entrepreneurial visions may have to be hastily formulated and quickly realised in response to time-limited opportunities.

Third is the contradiction between entrepreneurial secrecy (confidentiality) and democratic openness. Public entrepreneurs are bound to be somewhat secretive about their entrepreneurial decisions/actions if they are to be successful. Innovation, which is the essence of entrepreneurship, often requires secrecy from rivals, to be able to guarantee novelty in the ideas. On the other hand, democratic values require openness; that is the disclosure of information during policy-making stages, and citizens will reasonably expect to be kept fully informed at every step in the process (Bellone & Goerl, 1992 p.131). Entrepreneurial secrecy will then be compromised by the public’s right to know.

Finally, a fourth conflict is that between entrepreneurial risk-taking and democratic stewardship. One key characteristic of public entrepreneurs that is generally agreed is that they are risk-takers. However, public entrepreneurs work in a public governmental environment in which a primary responsibility is the protection
of the public from risk (Dobell, 1989). Taking risks, which, according to Dobell, can often involve delegation, decentralisation and devolution of authority to others, may be part of the day-to-day business of government, and may well result in collective negative consequences for stakeholders, including local communities. When public administrators engage in risk-taking behaviour, they may well have to confront ethical dilemmas as to whether their decisions and actions are wise and in the public interest. On the other hand, the responsibilities of public administrators involve public stewardship. Hence, the public administrator is likely to need to be sure of the public mandate to act and to be accountable to those who ultimately may have to bear the consequences if things go wrong. Dobell (1989, p.6) has also argued that, in taking risks, public administrators need to conduct proper risk-benefit analyses beforehand, although he has acknowledged that this method also has its limitations (Dobell 1989, p.6). An obvious alternative, however, in the public sector to such risk-benefit analyses is to check the level of public support and enthusiasm for ventures through processes of direct democracy such as polls or referenda.

Alongside such conflicts and tensions, of course, is the ever-present tension between the expectations on local government to provide public services efficiently and to a high standard, and at the same time the expectation that decisions will be taken on behalf of the collective interest with care, openness and in an inclusive and democratic manner, - which often means tardiness, and involves much procedural bureaucracy.

But good democratic stewardship has to be concerned with the prudent use of the public resources and must be backed by public trust. So, even when directed by legislative or executive mandates, public administrators may face professional and
ethical dilemmas if, in the name of public entrepreneurialism, they proceed with ventures that put public resources at risk or compromise the public trust in the process of government and public decision-making.

The public administrator who seeks to be entrepreneurial may be exercising additional responsibilities, through economic development, for example, in trying to generate new sources of revenue for financing public services or seeking to establish new services that will pay for themselves. But Mitchell and Scott (1987) raise questions as to how entrepreneurial in practice are the so-called public entrepreneurs, and indeed how ‘public’ they are in their ways of working?

All in all, the conflict between entrepreneurship and democratic leadership in local government’s work to promote economic development is one of the most profound for public administration.

Yet, other scholars such as Bellone & Georl (1992) and Klein et.al (2010) have argued that, despite the contradictions and the conflicts between public entrepreneurship and democratic values, these two can be reconciled. Barber (1985), for example, has suggested a strong theory of public entrepreneurship in which there should be scope for public participation and opportunity for citizen to contribute to the design and delivery of public goods and services while Bellone and Goerl (1992) have suggested a rather different concept of ‘civic-regarding entrepreneurship’. Meanwhile, Kalu (2003) has referred to a contractarian principle to assess bureaucratic accountability in public administration practice. Public entrepreneurs, he suggests, need to search for administrative efficiency and excellent performance but this should not lead to ignorance of the fundamental values of public
administration. On the other hand, over-reliance on values and procedural codes may only lead to weak capacity for innovation.

According to Bellone and Goerl (1992), civic-regarding entrepreneurship means public entrepreneurs need to take their political authority seriously and follow the principles of democratic theory in policy design and implementation as Burke (1986) and Cooper (1984) have stated. Following Cooper's line of reasoning, they have further proposed that public entrepreneurs need to be concerned with a more active approach to administrative responsibility which includes helping to facilitate increased citizen education and involvement.

Meanwhile, Barber (1985) has drawn a distinction between ‘thin’ and ‘strong’ theories of democracy (strong theories being strongly participatory in nature). In the same vein, Bellone and Goerl (1992) have suggested that only a thin theory of public entrepreneurship presently applies. Such a thin theory, which is much in accordance with liberal democratic theory, conceives of public entrepreneurship as effectively and responsibly generating public revenues in order to finance and support public service provision. This, it is argued, requires autonomy and discretion on the part of political leaders to demonstrate their economic and political talents in the public interest. However, with strong theories of democracy, much greater emphasis is placed on achieving high levels of public participation in public decision-making.

Schneider et al. (1995), on the other hand, have identified three “generic” categories of entrepreneurial activity: (1) innovation (2) leadership and (3) arbitrage, which might include the adaptation of innovation across different markets or arenas. Thus a key challenge for public entrepreneurs is to address the problem of how to
acquire and control the resources required to change the public organization from its stable, predictable and bureaucratic state into something better equipped to drive and support change and innovation.

3.6. Conclusion

This chapter has discussed the concept and definition of public entrepreneurship and its relationship with ideas of innovation in public sector practice. Building on the notions of Roberts (1992) in particular, the chapter has considered public entrepreneurs as the individuals who generate, design and implement innovative ideas in the public domain and has identified a set of defining characteristics that will be used later in this thesis to analyse public entrepreneurship in practice.

Those key characteristics of public entrepreneurship are as follows:

1) Taking risks (Cohen, 1988; Kingdon, 1984)

2) Influencing others, which signifies the ability of public entrepreneurs to assemble and coordinate teams of different individuals to pursue the intended change and requires skills such as facilitating, synthesising; and persuasiveness (Boyett, 1997; Ramamurti, 1986; Zerbinati and Souitaris, 2005)

3) Taking opportunities (Huff, Huff, and Barr 2000; Beckert 1997); Schneider et.al., (1995), (Kingdon, 1995; Mintrom, 2000)

Klein et al., 2009) by way of modifying the way that public organisations operate (Kuhnert, 2001; Mack, Green & Vedlitz, 2008; Oliver & Holzinger, 2008; Schnellenbach, 2007).

5) Willingness to bear reputational, emotional, and particularly financial, risk involved in pursuing courses of action with uncertain consequences (Schneider et al., 1995)

This chapter has then proceeded to examine the notion of innovation in more depth – this, it being claimed by Roberts & King (1989) and Klein et al. (2009) to occupy the heart of public entrepreneurship. Here two types of innovation were particularly discussed: (1) policy planning and (2) ‘groping along’, the latter of which, it was suggested, might be most apt for a local government context.

As Roberts (1992) and Saito (2008) have agreed, public entrepreneurship tends to be synonymous with a role within government, and accordingly the chapter proceeded to focus on the role of public entrepreneurship within local government and on its connection with local economic development, citing in particular the work of Eisinger (1988) and Schneider & Teske (1992). In fulfilling their public interest responsibilities, public entrepreneurs, it was suggested by Lewis (1980), tend especially to display features of the astute lobbyist, publicist, and canny politician.

Then the final section of the chapter discussed how public entrepreneurship might be reconciled with the democratic values. Bellone & Goerl’s (1992) belief in contradictory values between public entrepreneurship and democratic value was highlighted in terms of four potential conflicts: (1) the entrepreneurial autonomy/discretion versus democratic accountability issue, (2) the need for entrepreneurial vision on the one hand and, on the other, for citizen input as part of
democratic involvement, (3) the entrepreneur's desire for secrecy (confidentiality) over commercial negotiations and the democratic value of conducting the public's business through open and transparent processes and (4) entrepreneurial risk-taking and the obligation for stewardship of the public good.

Finally, the chapter discussed how such conflicts might be resolved, particularly highlighting the suggestion by Bellone and Goerl (1992) for a civic-regarding entrepreneurship and Kalu’s (2003) *contractation principle*. 

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Chapter 4 - Methodology

4.1. Introduction

As indicated in the introduction, the central challenge for this thesis has been to inquire into the role of public entrepreneurship within local government, the extent and ways in which this is balanced by regard for democratic values on the part of elected local government leaders and the implications of such balance for what is achieved in terms of effective local economic development.

There are fundamental and unresolved issues between two contested paradigms; ‘the reinventing government paradigm’, from which the term of public entrepreneurship derives (Osborne and Gaebler, 1989; Klein, 2010) and ‘the public conservatorship paradigm’ (Diver, 1982; R. C. Moe, 1994; Reich, 1990; Stever, 1988; Terry, 1990, 1993). Under the first paradigm, public entrepreneurship can arguably be conducted while also serving the function of conserving democratic public administrative values, while under the latter one, the argument posited is that they can never be satisfactorily reconciled. In addition to these two paradigms, Kalu (2003) has also suggested a middle ground based on ‘contractarian principle’ of assessing bureaucratic accountability within public administrative practice. He believes that it is important in public administration that the search for efficient and excellent performance should not lead to neglect of the fundamental values or, on the other hand, to overreliance on values and traditional ways of working that could weaken capacity for innovation. That said, it appears rare for local governments to demonstrate the maintenance of efficient and excellent performance in local
economic development while at the same time achieving success in the conservation of traditional public administrative values.

Further, from the literature review on local economic development, it is clear that the role of local government is rarely central to debate on the subject or, indeed, given due attention in deliberations on the notion of public entrepreneurship. For the most part, research on local government’s role in local economic development has tended to focus on policy issues and on the interface between private entrepreneurs and the local state bureaucracy. In comparison, there has been relatively little published research on the role of public entrepreneurship (within local government) in local economic development, particularly in developing countries.

This, then, provides the space into which this thesis seeks to contribute by exploring how much public entrepreneurship really matters to local economic development. Key questions here concern whether, and to what extent, public entrepreneurship exists in bureaucratic (local government) settings and how its existence affects the nature of success in local economic development. How do public entrepreneurs balance their responsibilities for efficient and effective performance in economic development while also respecting the democratic values of a public administrative organisation?

This chapter focuses on the methodology used to address such questions and is divided into seven sections. The first describes the choice of ontological and epistemological position for the research, and justifies the qualitative-comparative approach and case study design that has been selected. The second section discusses the particular research questions more fully and their underlying rationale. The third focuses further on research design, introducing the idea for four case studies and
establishing the settings for the empirical elements of the research. Then the fourth section focuses on the development of data collection instruments before turning (in the fifth) to the chosen methods of analysis. The sixth section considers the key ethical issues raised through the design and conduct of the research, while the final section provides some overarching reflections on the research design and methods.

4.2. Ontology and Epistemology of the Research

For any research, but particularly qualitative research, it is important to be clear about the ontological and epistemological underpinnings. For these provide directions for the conduct of the research and determine its limits. As there is no single, accepted way of doing qualitative research (Snape & Spencer, 2004) it is important to construct a strong validation of the chosen approach compared with other philosophies, theories and analytical traditions. This section therefore serves to justify the selected epistemological and ontological assumptions underlying this particular research project.

Epistemology refers to the study of knowledge and how we know things (Bernard, 2000. p.8), in other words, the assumptions that can be made about what kinds of knowledge is possible to acquire and about the best techniques for acquiring it. Different epistemologies offer different ways of knowing, and each reveals the particular manner in which the research can be conducted. In social science, epistemology has to do with the nature, validity and limits of inquiry, it defines what kind of knowledge is possible and legitimate (Feast & Melles, 2010) and refers to the systematically related components of knowledge of a given community and its
patterned activities. These activities give rise to patterns and instil them with the particular sense or meaning that enables the researcher to recognize them as relevant and usable knowledge in a given context (Cook and Wagenaar, 2012 p. 16).

Ontology, on the other hand, refers to beliefs about the nature of the social world (Snape and Spencer, 2004 p.1); it is concerned with the nature of ‘reality’ as it is understood and about the assumptions underlying such ‘reality’ - assumptions that are embodied in the different social scientific models that we might use. Different ontological and epistemological assumptions underwrite each model and the various methods that reflect different traditions of social scientific investigation. Whilst epistemology deals with the issue of knowledge, especially questions about who can be a ‘knower’, ontological issues are concerned with questions about our understanding of the kinds of things that exist within society.

There is a contested argument over the bases of knowledge in social research (Hülsse and Spencer, 2008) ranging from objectivity to subjectivity of research findings. This researcher’s particular ontological standpoint is that public entrepreneurship, as a characteristic associated with certain leaders in local government, does not exist independently from human conceptions; and the reality of a person who is regarded as having public entrepreneurial characteristics is context specific. This position is widely reflected in the political science literature on public entrepreneurship including research in which the identification of public entrepreneurs has been based on statements of others familiar with such individuals. However, at the foundationalist end of the ontological continuum, it is possible to take a fully objective position to understand the social world because it ‘exists independently of our knowledge of it’ (Marsh and Furlong, p.22). In an anti
foundationalist position, examinations of real world phenomena must be undertaken within an individual context, since, as Devine (2002 pp. 137-138) has argued, the world cannot be regarded as externally knowable, but rather is given meaning by each individual and depending on how their interpretation of context. A qualitative approach - as has been employed in this research - is mostly associated with an anti-foundationalist position. It offers the most appropriate means of gaining insight into the perceptions of individuals and their interpretations of the world around them. As such, this research is heavily guided by the author’s normative position that knowledge is only relevant within particular contexts.

It is not the researcher’s interest to acquire ‘objective’ facts about the probability of the occurrence of certain phenomena, as would be the case with a foundationalist, positivist, epistemology (Marsh and Fulong, 2002, pp. 22 – 26), but rather to understand the ways in which individuals perceive and give meaning to the world around them. It is also not the researcher’s objective to understand knowledge through abstracting and measuring via mathematics or quantification (Pittaway, 2005, pp.218), but instead to understand qualitatively why, despite the various attempts to theorize local economic development, particular contexts may account for differences in the success of particular local economic development initiatives. Such differences affect understanding of the role of context and subjective viewpoints as to how the social world of local economic development might be understood.

At the same time it should be said, the purpose of this research is not to develop a predictive theory but to contribute to society’s practical rationality in
elucidating where we are, where want to go, and what is desirable according to
diverse sets of values and interests (Flyvbjerg, 2001, p.167). Among five resources
of knowledge: traditional, authority, trial and error, reasoning and the scientific
method (Batavia, 2001, p 5-7), it is the last of these that has become the common
way for academic researchers to acquire knowledge, that is through the elaboration
and refinement of scientific concepts, theories and models, tested by empirical
research (Bengs, 2002). Using empirical case studies, this research seeks to
contribute to the furtherance of knowledge on public entrepreneurship and local
economic development.

4.3. Research Questions

The research has focused on public entrepreneurship and has particularly
sought to investigate the contested concept of the public entrepreneur as a component
of, and key player in, successful local economic development and also the potential
conflict between public entrepreneurship and democratic values and principles.

The research has been based on a single country comparative case study,
which comprises four selected local governments. All four cases have involved a
directly elected leader responsible for the design and implementation of local
government policy, including local economic development. The study has also
examined the role and impact of local autonomy in relation to local economic
development.

In particular, the investigation has focused on an over-arching question as
follows:
To what extent do public entrepreneurship and democratic values account for differences in the impact of local economic development under a common decentralisation policy framework?

In addressing this question, it has been necessary for the research to focus on the two more specific research questions that were introduced in the first chapter:

1. What is the nature of local economic development activity and the associated initiatives (as identified in the four case study areas of Indonesia) and to what extent is such activity benefitting local society?

2. How does leadership capacity impact on local economic development initiatives, and how, in particular, do the twin concepts of public entrepreneurialism, on the one hand, and democratic values, on the other, balance with one another?

4.4. Research Design

Case study research design – as was chosen for this thesis - is closely associated with qualitative research (Ritchie & Lewis (2003) and tends to be exploratory in nature (Waliman, 2006, Bechhofer & Paterson, 2000). Instead of emphasizing a ‘deductive’ approach that starts with a theory or hypothesis which is then tested by collecting and analysing data, case study research tends to take a qualitative method in which understanding and theories grow ‘inductively’ from
what is studied (Payne & Payne, 2004) and illuminate the general picture by focusing on the particular (Denscombe, 2005). However, Ritchie & Lewis (2003) argue that both quantitative and qualitative or integrated methods are equally appropriate for case study design, and indeed, in this research, both such methods of data collection were applied (in what is often referred to as ‘mixed methods’).

4.4.1. A Qualitative Research Study

A key advantage of qualitative research methodology is its distinctive empirical contribution in assessing the complexities surrounding context-specific subject matter, and the various processes shaping their historical evolution. As such, in this research, qualitative approaches were considered best suited to assess the dynamics and trajectories of public entrepreneurship in local government, as these phenomena are difficult to quantify or reduce to static numbers, being intricately tied to (and embedded in) local contexts, for which quantitative approaches would have difficulty in accounting. Moreover, since the dynamics of entrepreneurship in a local government context have so far received relatively little research attention, qualitative methods helped the researcher to remain open-minded and receptive to unexpected findings.

The study has been mainly concerned with ‘process’ issues that, for two primary reasons can also be more comprehensively addressed through qualitative exploration. First, qualitative approaches are needed to identify the key mechanisms that trigger, develop and sustain public entrepreneurship. Second, the research sought to identify how public entrepreneurship affects local economic development, both
positively and negatively. For both reasons, qualitative methods were called for to understand (a) the mechanisms by which, and the conditions, under which, particular variables became salient and (b) the importance of local context.

Preliminary research (e.g. based on analyses of published statistics, relevant academic literature, and newspaper articles from the chosen local areas) was undertaken before the more intensive qualitative fieldwork began. This helped to indicate the broad extent, range and impacts of public entrepreneurship in local economic development. This, in turn, informed the design and implementation strategies for the qualitative work that followed. Initial work involved reviewing more than 400 local governments in Indonesia, their innovation in local economic development and the state of their public services. This proved helpful to the tasks of identifying and selecting a short-list of cities and regencies as well as furthering the framing of research hypotheses and questions, and gauging the scope for additional primary data collection.

Triangulation, achieved through addressing a research problem from more than one methodological angle, gives an increased level of confidence as to the reliability and objectivity of the findings. Even though it cannot be denied that bias may be built into the research methods, this should not necessarily distort the findings. If the same answers are received in relation to the same questions more than once, but when using different methods and different approaches, one might be reasonably confident as to the reliability and objectivity of the answers.
4.4.2. Case Studies

Yin (2003) has defined a case study as ‘an empirical enquiry that investigates a contemporary phenomenon within its real-life context when boundaries between the phenomenon and context are not clearly evident’ (Yin, 2003: 13). Furthermore, Merriam (1998) has contended that a case study is an exploration of a bounded system, or a case, over time through detailed, in-depth data collection involving multiple sources of information and which is rich in context. As a consequence, it is important to give close attention to the context of any case-study (Ritchie & Lewis, 2003, Yin 2003) and also to the careful selection of the composition of each case (for example, concerning which participants are to be involved and how such involvement might vary between different cases or sites).

Case studies are commonly used in social science research for at least three reasons (O’Leary, 2004). Firstly, they are ‘doable’ because they can minimise research costs, e.g. of travel and other resources. Secondly, as rapport and trust is nurtured and developed with respondents during the research process, a more holistic form of understanding can be derived. Third, case-studies may benefit a research project by the authenticity and richness of depth that they can bring to understanding.

Within social science research, case study methodology allows an investigation to retain the holistic and meaningful characteristics of real-life situations and events (Yin, 1989). Case studies also serve the purpose of understanding the dimensions of the social phenomena (Harper, 1992 p. 139 in Ragin and Becker (1992) (ed); Lewis 2004; Schaffer 2000). Compared with other research designs, a case study design offers flexibility (Ritchie & Lewis, 2003). It is used to
‘delve deeper’ (O’Leary, 2004), to enable in depth exploration, detailed and intensive (Bryman, 2001; O’Leary 2004, Denscombe, 2005). It can take advantage of the use of multiple data collection methods such as surveys, interviews, observation, and document analysis (Cresswell, 1998; Hakim, 2000; Holloway and Wheeler, 1996; Robson, 2002; Yin, 1993, 1994; O’Leary 2004) that will result in a multi-faceted analysis rooted in one specific context (Ritchie & Lewis, 2003). It also has a potentially unique strength in dealing with a full variety of evidence (documents, artefacts, interviews and observations (Yin, 1989). These will all enable better triangulation to provide more holistic, comprehensive and contextualised understanding (Ritchie & Lewis, 2003; O’Leary, 2004, Denscombe, 2005).

However, case studies also have limits and disadvantages, notably the potential difficulty in determining what factors make a case study distinctive. Further, case study design allows only very limited scope for scientific generalization – the key difficulty being how to generalize from just a single case. O’Leary (2004) has elaborated some of the difficulties of case study research e.g. the challenge of negotiating the required levels of access, the high demands of case study conduct, and the potential problem of the researcher becoming too close to, and too involved emotionally in, the case.

In the view of positivist social scientists a single case study may particularly suffer from generalisation problems (Bechhofer & Paterson, 2000, Payne & Payne, 2004). That said, case study research design in the social sciences is not dissimilar from experimental design in the physical sciences yet, interestingly, the question of how one might generalise from a physical science experiment is seldom asked. This is because some kinds of research design are often perceived more positively than
others; experiments are typically seen above others in this respect (Bechhofer & Paterson, 2000). In defence of case-studies, Yin (1989) has argued that case studies, like experiments, are generalizable at least to theoretical propositions, albeit not to populations or universes. This is because a case study does not represent ‘a sample’ and the investigator’s goal is simply to expand and develop theories (and make analytic generalizations) rather than to enumerate frequencies.

Moreover, case studies might perhaps be seen to be representative and generalizable to the extent that they can be used to generate and develop theories. Generalisation is, after all, analytical not statistical (Bechhofer & Paterson, 2000). So, in so far as a case study may illuminate and develop theory, we may after all treat it as representative. Further, Payne & Payne (2004) argue that a test of a good case study is how well its data sustains its theoretical statements. While no case-study can definitively prove something, a single case study has the potential by itself to disprove a general statement.

Denscombe (1998) has stated that the extent to which a case study can be generalized depends on how far the chosen example is similar to others of its type. From a more practical perspective, O’Leary (2004) has argued that, to be convincing in terms of generalizability from case studies, the researcher must articulate the research goals clearly and also what and how the research will contribute to the existing body of knowledge. By doing so, researchers are likely to establish credibility and worth. While, as indicated, an individual case study can be hard to generalize from, case study research design can indeed contribute to the production of knowledge in a number of important ways (O’Leary, 2004; Payne & Payne, 2004). As stated, a case study design can have intrinsic value; it can be used to
debunk a theory, to bring new variables to light, to provide supportive evidence for existing theory and to form the basis of a new theory.

4.4.3. Unit Analysis in Case Study

It is crucial to select an appropriate case for case study research design, and doing so serves two functions in research. First, an appropriate case selection from which the data mining processes yield sufficient data will make relevant and powerful arguments for the research (O’Leary 2004). Second, defining the appropriate case is vital to articulate the boundaries for a study (Payne & Payne, 2004). In this respect, as Somekh & Lewin (2005) have argued, epistemologically, the drawing of boundaries is an important issue to be addressed, then enabling the researcher to define the limits of in-depth study of the case.

The next important stage relates to defining the unit of analysis in case study methodology and to defining the number of cases. Although the number of cases will be dependent on the particular research goals e.g. for making generalisations from case studies using samples of some or many such systems, processes, organizations, etc., there is always a need to ensure representativeness. Payne & Payne (2004) argue that the key challenge in single case study selection is to ensure that the example illustrates many cases that make up the type in question. However, for research with large variations in systems, processes or organizations, and for which it is not possible to identify representative cases with any certainty, one solution is to follow a comparative approach (Waliman, 2006) by selecting several very different ones, including perhaps ‘an outlier’ with extreme characteristics, or examples from each
end of a spectrum plus one that is somewhere in the middle, so as to match and contrast their characteristics. While O’Leary (2004) suggests that in-depth analysis of a number of cases can be undertaken to improve representativeness and generalizability, another alternative suggested by Waliman (2006) is to choose an ‘exemplifying’ or ‘critical case’ - one that provides a good setting for answering the particular research questions. Further Yin (1989) has argued that a researcher may refer to the unit of analysis as ‘the case’, which can either be a single one or multiple – as examples from which the researcher should be able to draw generalizations (Payne & Payne, 2004).

Taking into account these options, the unit of analysis for this research has, as indicated, been local governments in Indonesia which have been engaging in local economic development and which have been able to enjoy a certain degree of local autonomy in so doing. In this context four such cases were eventually selected, making for a design that is considered ‘comparative’ in nature (or as representing multiple cases) (Eckstein, 1975: George, 1979 in Yin, 1994).

The four local governments selected were chosen because they were considered to have many features and characteristics that are typical of the other 497 local governments (Cities and Regencies) in Indonesia (as per June 2009). They are respectively, 1) the City of Surakarta, 2) the City of Cimahi, 3) the Purworejo Regency and 4) the Purbalingga Regency. Despite variations between these four areas in the timing of their adoption of the decentralisation powers, in geography and socio-economic profiles, and, indeed, in the level and nature of local economic development activity, their choice is considered to have provided a relevant and generally applicable set of examples of local government across Indonesia, and
through which both similarities and differences would be highlighted. In this respect the Surakarta local government was particularly considered illustrative of a high level of public entrepreneurship and how this can impact on local economic development, particularly regarding the informal sector (this being very characteristic of local economic development in urban areas within developing countries). The city local government of Cimahi was selected because it show-cases how a recently established autonomous local government has been able to boost its local economic development. Hence, it illustrates how, under the common democratic local government framework, the nature of local economic development nature can be different. The Regency of Purworejo illustrates the impact of a weaker sense of public entrepreneurship at the local government level, on local economic development. Further, it would also illustrate how public entrepreneurship on local economic development at the lowest level of local government (the District as a sub-layer of the Regency). Finally, Purbalingga Regency was chosen to illustrate economic development potential in a more rural local government area, and a weaker one in terms of natural resources. In this case, greater emphasis has been placed on seeking foreign investment to create job opportunities and help address the poverty problems.

From all this, it can be seen that a further key rationale behind the selection of the four local governments was to ensure representativeness of the diversity, not only of context, but also of policy choices made in local economic development, and in the degree of emphasis afforded to innovative approaches and entrepreneurialism in the local government leadership.
The selected cases for this research, it was hoped, would also illustrate all three of the categories of case study discussed by Yin (1991) as follows: a) the ‘critical case’, which might challenge a hypothesis or theory; the unit for which is often chosen purposefully for its likelihood in providing evidence to support the challenge; b) the ‘unique case’, which might be selected for its intrinsic interest; and c) the ‘revelatory case’, which might provide fresh perspectives or engender new ideas.

The local government of Surakarta was chosen as one case-study partly because there was clear indication of high public entrepreneurship among the leadership and public officials. This case was considered likely to provide support for the hypothesis that high levels of public entrepreneurship positively affect the level of local economic development. As such it seemed likely, in Yin’s terms (1991) to represent an example of a revelatory case, while at the same time also being a unique one in comparison with other local governments in Indonesia. The other three local governments - the City of Cimahi, the Purworejo regency and the Purbalingga Regency were also anticipated to represent revelatory cases. While none of the four selected local governments were predicted to illustrate critical cases, it was nevertheless expected that they would at least shed light on the challenges provided by the research questions.

In line with Denscombe’s (2005) arguments for selecting cases for comparison with others in the class, the choice of the four Indonesian local governments also provided different bases for comparisons in terms of physical location, type of local governments (e.g. urban and more rural/agricultural).
Moreover, the selection of the four also offered some contrast with regard to the length of experience of operating with enhanced local autonomy following adoption of the decentralisation powers. The City of Surakarta, the Purworejo Regency and the Purbalingga Regency, for example, had each been granted autonomous power by the national government in 2004 whereas the City of Cimahi had had three more years experience, having gained its autonomy in 2001.

4.4.4. Development of Data Collection Instruments

Yin (1989) provides a very useful guide on case study methodology involving four design tests - construct validity, internal validity, external validity and reliability. Combined with the elaboration provided by Kidder& Judd (1986, pp.26-29), this was felt to provide a thorough plan to ensure the validity and reliability of the case study research design for this particular study, especially during the data collection and data analysis stages.

In the data collection phase, the researcher established the operational measures for the concepts being studied. This was done by commencing with the key factors that were hypothesised to lead to successful local economic development (i.e. public entrepreneurship and democratic decentralisation). To ensure the validity of the constructs, multiple sources of evidence were to be sought, to establish a chain of evidence and having key informants reviewing draft study reports to validate the findings. At this stage, reliability was also sought by using a case study protocol and developing a case study database to demonstrate that the procedures designed for the conduct of the research could be replicated and would generate the same results. For
this purpose, the researcher also documented all the procedures being followed during the research.

During the data analysis, it was also important to test internal validity. This was done through three steps; pattern matching within the four local government cases; explanation building; and time series analysis. The time frame for the data collection was the decade, 2001 to 2010, taking account of the fact that local autonomy had applied in Indonesia since the implementation of Local Government Act (No.22/1999) and Revenues Allocation Act (No.25/1999); these two Acts marking the first steps in the establishment of democratic local government in Indonesia. In more practical terms, given that the nature of the research was of an explanatory/causal case-study nature, it was important to identify the causal relations, whereby certain conditions could be shown to lead to other conditions. Further, to test for internal validity, every time something was observed, inferences were made and recorded. Even though this research is based in a single overarching context of the developing country of Indonesia, it benefited from its varied foci on four different case studies, chosen to provide the basis for a deeper understanding of the impacts of public entrepreneurship and democratic values on local economic development. Throughout the analysis process, the researcher used linking logic to test validity through pattern matching. In this respect, the aim was to examine and describe the key patterns apparent from the four case studies and to compare each against the standards identified in the literature to be ‘best practices’. In this way, the conclusions would be drawn more through analytical generalisation than via statistical summary.
To present as rounded and complete account and explanation as possible of the findings being derived through the research, administrative records and other official published documents from the four local governments were also systematically analysed. Further, in-depth interviews were to be conducted as well as structured surveys (or personal surveys) using questionnaires. During the research fieldwork, the researcher also undertook participant and non-participant observation.

As part of the data collection method, both participant observation and non-participant observation (Liu & Maitlis, 2010) were undertaken during the fieldwork phase of the research. In the non-participant observation, the researcher acted as a ‘third party’ in witnessing various economic development activities. She also observed the application of both public entrepreneurial skills and the articulation of democratic values (by the local government leaders) in speeches and presentations at cultural events, carnivals and, in one instance, at a ‘business incubator center’.

With regard, on the other hand, to participant observation, the researcher played a more active role in the local economic development initiatives and activities being studied. Here, for example, the researcher participated directly in several meetings of a street vendors’ association when discussions were taking place about the proposed relocation of vending activities and contributed to the discussion by raising questions and responding to comments based on her research on the subject. Similarly, she took part in a formal discussion of local economic development plans within one of the local governments, again sharing her knowledge and experience of the subject.

Yin (1994) has discussed two possibilities for analysing case studies; the first is to follow theoretical propositions that had underpinned the case study research
design and the data collection plans; second is to develop a descriptive framework for organizing the analysis of the case study. In this research project, both approaches were pursued as part of the analysis. As Yin (1994) has also argued, good social science relies on all the relevant evidence being gathered, including all major rival interpretations, addressing the most significant aspects identified through the case studies and, last but not least, bringing any prior experience and expert knowledge of the researcher to bear in the research.

In this particular research, a further research objective for data-gathering concerned the developing institutional structure of each of the four local governments being studied, and covering the periods both before and after democratic decentralisation took place. With insights in this respect, the aim was to understand the impact of the changing democratic context on the nature and scale of local economic development activity.

Table 4.1  Summary of the Four Case Studies in Democratic Decentralisation: Public Entrepreneurship Capacity and Local Economic Development
<table>
<thead>
<tr>
<th>Democratic Decentralisation</th>
<th>City of Surakarta</th>
<th>Purworejo Regency</th>
<th>City of Cimahi</th>
<th>Purbalingga Regency</th>
</tr>
</thead>
<tbody>
<tr>
<td>It has been a City Government based on Act No. 16 year 1950 on the formation of Cities in East Java, Central Java and West Java Province and Special Region of Yogyakarta (State Gazette of the Republic of Indonesia year 1950 No.45) but without any significant democratic autonomy. It became fully democratic local government since the introduction of Act No. 32/2004</td>
<td>It has been a regency Government based on Act No. 13 year 1950 on the formation of regencies in Central Java Province but without any significant democratic autonomy.</td>
<td>It has been a City Government based on Act No. 09 year 2001 on the formation of Cimahi City Government (State Gazette of the Republic of Indonesia year 2001 No.89, addendum of the State Gazette the Republic of Indonesia No. 4116</td>
<td>It has been a regency Government based on Act No. 13 year 1950</td>
<td>It has been a regency Government based on Act No. 9 year 1965 (State Gazette of the Republic Indonesia year 1965 No. 52, addendum to State Gazette of the Republic Indonesia No. 2757 about the formation of regencies in Central</td>
</tr>
<tr>
<td>Indication of Public Entrepreneurship capacity</td>
<td>significant democratic autonomy, until the introduction of Act No. 32/2004</td>
<td>Java Province. Yet, it has no significant democratic autonomy until the introduction of Act No. 32/2004</td>
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<tr>
<td>The Mayor, JW is recognized by Warta Ekonomi magazine as one of those leaders who are categorized as pioneers in entrepreneurial government</td>
<td>This regency is typical of local government in Indonesia with not so much innovation going on in the field concerned.</td>
<td>It is one of 30 local governments nominated for <em>Innovative Government Award</em> by Ministry of Home Affairs. It has developed one stop service and recognised with a</td>
<td></td>
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<tr>
<td></td>
<td>Was awarded an Investment Award (2nd rank) in the year 2009 by KPPOD (Regional Economy Watch)</td>
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<tr>
<td>Local Economic Development</td>
<td>Various economic resources that are potentials to develop local economic development has been boosted using 4 core values: product, branding, network and customer management. The mayor has succeeded in enhancing the city economic based on</td>
<td>Programs and initiatives on local economic development are done in conjunction with higher level of government, either provincial government or national government. It is rather difficult to find economic programs or activity</td>
<td>The local economic development has emphasized the establishment of creative industry</td>
<td>Purbalingga is well known by its bold approach to increasing Foreign Direct Investment</td>
</tr>
</tbody>
</table>
the cultural aspect. The city success in developing informal economy is also recognized nationally. It also develop technology based economy run in this regency that are specially designed by and for this regency
In planning the data collection fieldwork, sampling of informants was driven by the researcher’s wish to talk with as many staff as possible in each local government so as to develop a deep understanding of the nature of public entrepreneurship in the particular localities. To this end, a ‘snowball sampling’ method was used in order to identify respondents who would be likely to be able to provide relevant insights on public entrepreneurship within each local government area. Respondents were selected for their knowledge of innovative economic activity or economic programs and their experience and understanding of local government leadership in this context. At the same time it was felt important to have a balance between elite and non-elite (senior and less senior) respondents, and so the selection process in each locality involved an initial investigation and round of consultations to identify all the officials who potentially might be contacted and approached and to find out about their roles and interaction with the leaders and other key actors. This was done in two ways; first, the researcher contacted the local government leader (the Mayor or Regent) in each of the four local governments. To this end, the researcher used personal networks and contacts to help achieve access to the leaders, who in turn, then made suggestions about which other key staff might be approached because they had responsibilities for particular programmes or initiatives. Contact were also made and access achieved in relation to various staff from the Regional Development Planning Board (badan perencanaan pembangunan daerah), which plays a leading role in relation to development in each local government area. Many such individuals also provided further names and contact details for other officials and community members who were considered as additionally valuable interviewees for the research.
The research involved three stages of qualitative data collection. First was initial data-gathering on the performance in local economic development of each local government. This was done by reviewing available statistical data on economic growth, analysing local government publications, including its reports to national government, and also analysing relevant media information (in national and local newspapers, magazines and on websites). This was then followed by data-gathering on the particular theme of local economic development in each local government area. Finally, the formal and informal in-depth interviews were conducted with the selected parties involved in local economic development.

As to the particular methods of data collection, four methods were used: a) in-depth semi-structured interviews with key personnel, b) informal interviews with other officials, c) focus groups with partners involved in LED and d) participant observation. Although all four methods were important, the primary research tool was the first one – in-depth semi-structured interviews. This method was selected for three main reasons. First, as Kvale and Brinkman, (2009, p. 116) have suggested, an interview is particularly well suited for studying in depth people’s understanding of the meanings in their lived world, describing their experience and self-understanding. Second, compared with questionnaires, interviews provide the opportunity for the researcher to clarify any of the responses if the remarks are not immediately clear. Third, for particular research questions dealing with complex topics that need to be studied in a conversational and probing manner, a semi-structured interview format was best suited.
The in-depth interviews, in fact, accounted for the majority of the researcher’s field time and generated the largest component of the data gathered in this study. They were conducted in as open a manner as possible, based on a predetermined topic guide and set of key questions. However, as the interview was being conducted, interviewees were encouraged to elaborate on each aspect and to respond further to probing and clarification-seeking comments from the interviewer.

The arrangements for the interviews were made as follows: the researcher first contacted the mayor of each of the selected local governments, to request an interview and to agree a mutually convenient date and time. It is important here to emphasise the challenge involved in gaining such access to local government leaders and to winning their agreement to be interviewed for the research. In doing so, it was necessary to go through several tiers of administration before accessing the intended interviewee in person. In an instance, it was also necessary to conduct the interviews over a series of short sessions, rather than in one sitting, because of time/availability constraints of the interviewees.

Interviews were undertaken with a range of different actors involved in local economic development in each case study area and, in all four instances, with the local government leader in person. Indeed, these latter interviews were especially helpful in identifying all the other actors who might also then be interviewed on their involvement in local economic development initiatives. A full listing of the interviews conducted during the fieldwork is provided below.
### Table 4.2  List of Interviews

<table>
<thead>
<tr>
<th>Case Study Area</th>
<th>List of Interviewees and Dates of Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surakarta City  (April 2011):</td>
<td>Interviews with local government leaders:</td>
</tr>
<tr>
<td>- 27 Interviews</td>
<td>1. The Mayor – JW (11 April 2011)</td>
</tr>
<tr>
<td>- 1 Focus Group</td>
<td>2. The Vice Mayor – FXR (20 April 2011)</td>
</tr>
<tr>
<td>- 43 Questionnaires</td>
<td>3. The City Secretary - BS (5 April 2011)</td>
</tr>
<tr>
<td></td>
<td>4. Chief of Economic Affairs, Regional Board OF Development Planning, Surakarta City – SU (19 April 2011)</td>
</tr>
<tr>
<td></td>
<td>5. Assistants to Chief of Economic Affairs, Regional Board of Development Planning, Surakarta City – SA (25 April 2011), IN and EN (26 April 2011)</td>
</tr>
<tr>
<td></td>
<td>6. Chief of Cooperation and Network, City Secretariat – HP (19 April 2011)</td>
</tr>
<tr>
<td></td>
<td>7. Assistant to Chief of Public Relation – MU (20 April 2011)</td>
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<tr>
<td></td>
<td>8. Chief of Development Administration Department, The Regent Secretariat – AY (21 April 2011)</td>
</tr>
<tr>
<td></td>
<td>9. Chief of Research and Development Regional Board Planning Development of Surakarta City – HA (21 April 2011)</td>
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<tr>
<td></td>
<td>10. Chief of Economic Affairs, Surakarta City Secretary - AW (26 April 2011)</td>
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<td></td>
<td>11. Head of Regional General Election Commission Surakarta City – DW (25 April 2011)</td>
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<td></td>
<td>12. Expert staffs of the Mayor – DR and HA (28 and 29 April 2011)</td>
</tr>
</tbody>
</table>
**Interviews with Community:**

15. Academics – DTK (22 April 2011)
17. Non Governmental Organisation (KOMPIP) - EK; YA: SOE and AG (3 May 2011)
18. Non Governmental Organisation – (PATTIRO) – AL (5 May 2011)
20. Members of Street Vendors Association (Focus Group Discussion on 4 May 2011)
21. Data collection of 43 community members who accessed the public services provided by the city government in the city hall during the period of the field work (questionnaires were used)

**Interviews with local government leaders:**

1. The Regent - MZ (5 May 2011)
2. The Vice Regent – SUH (19 May 2011)
3. The Chief of Women Empowerment Program – (responsibility of the wife of vice regent) – 19 May 2011
4. The Regency Secretary – TH (23 May 2011)
5. Chief of Regional Board of Development Planning – MP (9 May 2011)

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**Purworejo Regency (May 2011):**

- 21 Interviews
- 32 Questionnaires
6. Chief and assistants to chief of economic affairs, Regional Board of Development Planning – BA, SUP, UN, NU, MK and KA (6 May 2011)

7. Chief and assistant to chief of Research and Development, Regional Board of Development Planning – BA and NH (6 May 2011)

8. Chief of Social and Cultural Affairs, Regional Board of Development Planning – SUN (on 10 May 2011)


10. Chief of rural community empowerment program – DS (28 May 2011)


13. Personal assistant to the Regent – TM (9 May 2011)

14. Assistants to Chief of organisational affairs – EW and GP (30 May)

**Interviews with community:**

15. Academics – MN (1 May 2011)


17. Data collection of 32 community members who accessed the public services provided by the city government in the regency
Cimahi City (June 2011):
- 16 Interviews
- 13 Questionnaires

<table>
<thead>
<tr>
<th>Interviews with local government leaders:</th>
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<tbody>
<tr>
<td>1. Mayor – IT (28 June 2011)</td>
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<tr>
<td>2. Vice Mayor – ER (27 June 2011)</td>
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<tr>
<td>3. City secretary – ES (13 June 2011)</td>
</tr>
<tr>
<td>4. Chief of economic affairs of Regional Board of Development Planning – AC (9 June 2011 and 10 June 2011)</td>
</tr>
<tr>
<td>5. Assistant to Chief of economic affairs of Regional Board of Development Planning – AY (9 June 2011)</td>
</tr>
<tr>
<td>6. Chief of Governance affairs, city secretariat – AMR (13 June 2011)</td>
</tr>
<tr>
<td>7. Assistant to Chief of Governance affairs, city secretariat – HE HWS (13 June 2011)</td>
</tr>
<tr>
<td>8. Assistant to Chief of Governance affairs, city secretariat – KP (15 June 2011)</td>
</tr>
<tr>
<td>9. Chief of one stop service unit – CE (16 June 2011)</td>
</tr>
<tr>
<td>10. Chief of regional general election commision – IS (28 June 2011) and NE (24 June 2011)</td>
</tr>
<tr>
<td>11. Chief of Welfare and development – ER (7 June 2011)</td>
</tr>
<tr>
<td>12. Personal assistant to the Mayor – FA (8 June 2011)</td>
</tr>
<tr>
<td>13. Personal assistant to the city secretary – RI (9 June 2011)</td>
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<tr>
<td>14. Personal assistant to the vice mayor – TS (8 June 2011)</td>
</tr>
</tbody>
</table>

Interviews with the community:
16. Data collection of 13 community members who accessed the hall during the period of the field work (questionnaires were used)
public services provided by the city government in the city hall during the period of the field work (questionnaires were used)

<table>
<thead>
<tr>
<th>Purbalingga Regency (July 2011)</th>
<th>Interview with local government leaders and staffs:</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1. Regent – TBS (16 July 2011)</td>
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<tr>
<td></td>
<td>2. Vice Regent - HS (23 July 2011)</td>
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<tr>
<td></td>
<td>3. Regency Secretary – WA (17 July 2011)</td>
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<tr>
<td></td>
<td>5. Human Resources Management Board – TE (20 July 2011)</td>
</tr>
<tr>
<td></td>
<td>7. Secretary of Regional Development Planning Board – SUR (21 July 2011)</td>
</tr>
<tr>
<td></td>
<td>8. Chief of People welfare , Regency Secretary – JA (24 July 2011)</td>
</tr>
<tr>
<td></td>
<td>10. Staff of Regional Development Planning Board – WP (24 July 2011)</td>
</tr>
<tr>
<td></td>
<td>11. Staff of Regional Development Planning Board – HI (25 July 2011)</td>
</tr>
<tr>
<td></td>
<td>12. Chief of Small and Medium Enterprise board – ESU (27 July 2011)</td>
</tr>
</tbody>
</table>

Interview with the community:

13. Data collection of 6 community members of Purbalingga Regent
As Mack et.al (2008) have suggested, in researching public entrepreneurship, it can be helpful to ask each interviewee to name other persons whom they consider to be influential in the Local Economic Development activity and in this way obtain access to the range of potentially significant individuals. This approach was indeed followed in the research and, as a result, the sample of respondents included in each case a strong cross-section of personnel, from the mayors and the regents and the vice-regent to regional and local officials and prominent members of community.

Conducting the interviews, particularly those with high ranking local leaders, would itself prove quite challenging. All the mayors/vice mayors and the regents/vice regents agreed to be interviewed, albeit after some persistence. And here it should be emphasised, most were initially somewhat reluctant, probably, among other reasons, because they feared the research topic might seem to be probing into aspects of their personal leadership performance. In several instances, the researcher was asked to supply the interview questions in advance for prior scrutiny. While the reason given for such requests was that the leaders wanted to be well prepared for the interviews, it seemed likely too that they also wanted to check beforehand the acceptability of the questions and to have their answers ready in a suitably diplomatic manner, for example, with evidence ready to hand of the ‘good news’ developments. However, in practice, any such prior planning seemed not to undermine the integrity or comprehensive nature of the interviews since, through probing with follow-up questions, the intended depth and breadth of questioning – well beyond the limits of the outline topic guide - was most certainly achieved in all cases. All the interviews were recorded (with the interviewees’ permission) each taking between 1.5 and 2.5
hours to complete (and as indicated some being conducted in more than one session). All but one were conducted on a one-to-one basis (in the exceptional case, the local leader was accompanied by a particularly knowledgeable colleague who also proved very helpful).

Focus group discussions were also conducted in each of the four selected local governments. In Surakarta City, sessions were also organised with various members of the street peddlers’ association who, at the time, had recently been particularly affected by new policies introduced by the mayor as part of his community economic development plan.

The two other components of the data collection process were the informal interviews with other officials and participants in local economic development initiatives and the researcher’s own participant observation work. The ‘informal’ interviews were conducted for two main purposes: first, to gather other relevant but ‘off-the record’ information, and second, to collect relevant comments and quotations from informal settings (e.g. in the local government canteen and in the street at a LED project site, rather than in an interviewee’s office). The researcher’s participant observation was also insightful in such contexts, for example, in noting each respondent’s confidence/cautiousness of manner in answering questions and their preparedness to talk openly and critically about problems being encountered, not just about the successes. The informal interviews also helped to establish relationships of trust which would pave the way for more formal in-depth interviews. For such informal interviews, however, there was no pre-defined sampling of respondents, or interview schedule. Rather, it was a case of every opportunity for enquiry and learning that presented itself being taken, as and when the researcher
happened to be in the company of individuals who might be expected to have some interesting contributions to make to the research. These, and the participant observations were also especially useful in gathering information from ‘marginalized’ and ‘silenced’ groups affected by some of the local economic development policies, rather than the drivers of them.

4.4.5. Methods of Data Analysis

As indicated, and ahead of the selection of the local government area case studies, the researcher undertook an initial study of media reporting of local economic development (in newspapers, magazines, press releases, various local government publications and websites). From this study, one local government, the City of Surakarta, was especially frequently cited as the most successful local government, notably for the successful re-locatation of its street vendors (and without the incidence of violence that had characterised most other local government initiatives of this nature). Surakarta’s achievement in this respect, indeed, was pivotal to the city’s eventual choice within the selection process as a case-study.

Then followed the choice of the City of Cimahi which, it was noted in the initial review of available data on LED initiatives, had similarly addressed the problem of street vendors, but, which in contrast with Surakarta, had encountered much resistance and with violent clashes with the traders in the process. On the other hand, the City of Cimahi was widely reported in the media and in other publications featuring local economic development for its successful focus on creative industries. Together as case-studies, the cities of Surakarta and Cimahi
promised some interesting comparisons – with many similarities but also some key contrasts from one another. As such, there seemed every prospect of learning directly about the significance of public entrepreneurship in local economic development and of the local leaders’ role in accounting for the different approaches adopted and the achievements in this respect.

In finalising the choice of case studies, it was also important to have objective comparisons for the two chosen city local governments. Accordingly, and drawing on some of the researcher’s contacts in local governments in Indonesia, the Purworejo Regency and the Purbalingga Regency were identified as being likely to be able to provide the two other case-studies, both typifying rural local governments in the country and, in sharp contrast to the two cities, with a strong orientation in their local economic development activity towards the agricultural sector.

The Purbalingga Regency was selected particularly because it had been successful in attracting direct foreign investment to develop the local economy and, as such, was thought to provide a potentially interesting comparison with the other selected Regency – that of Purworejo. Although Purworejo shares some similarities to Purbalingga in terms of natural resources such as fertile soil for agriculture, it has generally been regarded as less innovative in its local economic development, and so a more detailed comparison of these two local governments was felt to be potentially fruitful in helping to address the key research questions of this thesis.

On completion of the fieldwork, all the formal interview records (which as already indicated, had been recorded) were transcribed and analysed using Nvivo software for theme cluster categorisation. To the analysis generated in this way was then added other information collected through the informal interviews (field notes),
direct observation (again, field notes) and also from the data abstracted from secondary sources (the media and official local government publications etc.), with two main theme-based clusters being derived as follows:

(1) Local economic development theme – with subthemes covering: the variety of focus in local economic development (poverty eradication, agriculture modernisation and creation of new opportunities for non-farm employment) and innovation in local economic development.

(2) Public Entrepreneurship - with subthemes on: leadership and public entrepreneurship, entrepreneurial skills (such as risk-taking, influencing others, taking opportunities, innovating and willingness to bear risks), and the balancing of public entrepreneurship and democratic values.

4.5. Reflections on the Conduct of the Fieldwork

While the subject of the research was never considered to be a particularly sensitive or controversial one the process of obtaining access to respondents, particularly those at the higher ranks of the local governments, proved, as already indicated, to be quite challenging. In some respects this was somewhat surprising given that the researcher (a member of the academic staff of the Department of Public Administration at Parahyangan Catholic University) approached each local government with a formal letter of recommendation and support for the project from her Head of Department (and with the standard protocols for gaining permission for research in Indonesia being carefully followed - including first, requesting the
permission of the provincial government for the research before contacting the particular cities and regencies).

Being a woman undertaking research in Indonesia - a country where the public sphere is dominated by males, and where Islamic religious doctrines and practices forbid contact with females who are not blood-related or in marriage-based relationships – presented its own challenges, and probably went some way to explaining the initial reluctance of many of those who were contacted to be interviewed by a female researcher. Indeed, it proved necessary for some of the interviews for the researcher to be accompanied by a male member of her family or a friend (albeit remaining silent throughout the questioning process).

Such issues and obstacles meant that the organisation and conduct of the fieldwork took a considerable amount of time and required numerous follow-up letters, emails and phone calls to achieve responses to the requests for interviews. But then, once consent to co-operate in the research had been given by the four local governments, the process of conduct for the interviews proved more straightforward, with most interviewees appreciating the fact that an Indonesian female, who was studying abroad in the UK, had chosen to focus her research on their country. Many also openly acknowledged that the research could bring positive benefits of recognition for the country as a whole (e.g. through publication of findings in international journals), as well as potentially valuable insights and conclusions for consideration within the particular local governments. Moreover, the fact that the researcher herself had experience in public administration, as well as in local economic development, also helped to secure the confidence and trust of the interviewees, so ensuring, in almost all instances, full and honest responses to the
questions and, in many instances, preparedness to allow the interviews to run on well beyond their allotted times.
Chapter 5 - Setting the Context:

Indonesia

This chapter aims at providing a context in which Indonesian Local Economic Development and Public Entrepreneurship were shaped by the existing, ever changing and defining political factor that is Local Autonomy or Decentralisation which is famously abbreviated into OTDA for Otonomi Daerah. This chapter will consist of two major discussions. First is how decentralisation in Indonesia has been enable autonomous local governments to be actively worked on their local economic development and successfully providing better and greater public service to its community. Second, this chapter will also discuss how decentralisation laid a path for public entrepreneurship and public entrepreneurs in autonomous local governments to bring about innovation for the success of its local economic development. This chapter will also discuss the general overview of each case study.

5.1. Indonesia: The Improbable Nation

Buehler, Parry, Geertz, Vickers and many others has written about Indonesia and pictured Indonesia as both the world’s largest Muslim-majority country (87% or 207 million are Muslim) and also one of most ethnically diverse. It is also fourth
largest country on earth that now has more than 253 million people\textsuperscript{2}. With this high number of population Indonesia has the demographic bonus, however, Indonesia is yet to realise its potential as a democratic country. The latest sharp description of Indonesia can be found in Pisani (2015). She wrote that the Republic of Indonesia is a bewildering volcanic archipelago (some 17,500 islands, 6,000 of them inhabited), stretches for more than 3,000 polychromatic miles from Aceh in Sumatra to the jungle borders of New Guinea and the waters of north Australia, with Java and Jakarta as the epicentres of power and influence from which radiates all governance of modern Indonesia. Further she argue that even though, Indonesia is under the world spotlight for Islamic militancy, and be feared of the Islamic fundamentalist hard-line, it will continue to display the civic culture - the legendary generosity of spirit and tolerance - that has long kept Indonesia. This is in-line with Haynes’s (2001, p. 3) idea that it is not religious or cultural system that is paramount for the democratic practices and institutions can emerge and develop in Indonesia or in any other countries. This is to lessen the doubt that Indonesia will be nowhere achieving its greatness.

\textsuperscript{2} United States Census Bureau (2014)
Since, its independence from the Dutch colonisation, Indonesia has undergone three major political and governmental regimes. First is the old-order or *Orde Lama*. As an independent country, Indonesia was led by the first President – Sukarno (18 August 1954 – 12 March 1967), who, by far, was regarded as the most charismatic leader. In 1955, he was successfully initiated the prominent Asian African Conference that aims to promote Afro-Asian economic and cultural cooperation and to oppose colonialism or neo-colonialism by any nation.

Second, is the New-Order or *Order Baru*, which was led by the second president of Indonesia – Suharto. Suharto who held the office for 31 years (12 March...
1967 – 21 May 1998) established a strong, centralised and military-dominated government, believing that those are the prerequisite for successful economic development. Under his regime, Indonesia was one of the Asian Tigers, a nation which is able to maintain high level of economic growth. He was stepped down in 1998 after a huge rejection of Indonesian people, following the severe economic crisis in 1997. Despite the analysis of Robison (1986) that Indonesia has a long history of the rise of the capital and the capitalist class, the collapse of the economic proved that high level of Indonesia economic growth was not established on a strong foundation. Yet, the best available history and analysis of Indonesia’s economic development is that of Prawiro (1998). He presented a detailed and thoughtful account of three main phases of economic development of Indonesia under New Order Regime that was claimed as the great success stories of economic development. Figure 5.2 below shows the economic growth during New Order, the Asian economic crisis and aftermath.
Third, is the Reform Order or *Orde Reformasi*. Under this new regime, Indonesia has seen five presidents. Those are BJ Habibie, Abdurrahman Wahid, Megawati Sukarnoputri, the daughter of Indonesia’s first President – Sukarno, Susilo Bambang Yudhoyono and Joko Widodo, who was previously the mayor of Surakarta City, one of case studies in this research.

Under the Reform Regime, Indonesia finally launches the transition to democracy which was marked by the passage of several laws (table 5.1). These laws were aiming at deepening democracy at the local government level, giving local
governments in Indonesia greater authority to use its resources for the betterment of the community.

Table 5.1  Laws on Decentralisation

<table>
<thead>
<tr>
<th>Local Government</th>
<th>Law No. 22 year 1999</th>
<th>Law No. 32 year 2004</th>
<th>Law 23 Year 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Balance between Central Governments and Regional/Local Governments</td>
<td>Law No. 25 year 1999</td>
<td>Law No. 33 year 2004</td>
<td></td>
</tr>
</tbody>
</table>

Source: author

Democratisation in Indonesia, as also in other developing countries, is not without a flaw. Tornquist in Haynes (Ed) (2001) discussed the huge problems of Indonesia related to confronting processes of democratisation and consolidation and development. The democratisation in Indonesia was a corrective approach to the failure of democracy and of the epitome of the East Asian developmental state: economically successful, political stable and ‘a guided democracy’ (Haynes, 2001, p.2).

Democratisation is also hoped to bring about a positive change in economic governance. Decentralisation gives a considerable political autonomy to an effective and merit-based bureaucracy, and this will make an important contribution to economic well-being Painter in Marsh (ed.) (2006). Bureaucracy is then able to coordinate economic affairs in close consultation with business, further; the technocratic expertise of the bureaucracy was at disposal of a powerful executive, whose members took the leading role in managing relations with business groups.
According to Painter, it is evident that Indonesia had lack of performance-based merit principles applied in its bureaucracy. Further, Robison and Hadiz(2004, p. 42) argued that The Indonesian bureaucracy under the New Order has been characterised as ‘administrative patrimonialism’ where the authority and competency of the bureaucracy were deployed for ‘rent extraction from a disorganised business class’ but also, significantly, for the sake of economic reform when required. Regional Autonomy Watch or Komite Pemantau Pelaksanaan Otonomi Daerah/KPPOD have been doing studies on how decentralisation has impacted the Indonesian economic. For the period of 2001 – 2005 it conducted annual survey on ‘Local Government Investment Attraction’, covering an increasing number of local governments (90 local governments in 2001 to 228 local governments in 2005). This survey has been completed by a study on ‘Economic Governance’ since which was started since 2008 cover nine aspects Economic Governance: access to land, infrastructure, business licensing, the quality of local government regulation, transaction costs, the capacity and integrity of local government leaders (regent or mayor), the interaction of private (business) and government, business development, and security and conflict resolution.

5.2. Local Governments in Indonesia

Decentralisation in Indonesian has been the result of strong disappointment expression from resource rich regions which demand for more independent from central influence to manage their resource. They also demanded fairer or even to say bigger share of revenues from the exploitation of their natural resources. In political
aspect, the rising of democracy that was dominated by the struggle over powers among political elites cause the political tension. This worsened the already failing economy. Decentralisation has become one of the policies to relax the socio-cultural, political and security tensions as a result of the multi-dimensional crisis in Indonesia.

Indonesia which has become the 3rd largest democracy after India and United States, has five tiers of government, namely national, provincial, regency/municipality, sub district and village in which assemblies (or House of People Representatives) exist at all but the sub district and village (USAID 2008:2). Regencies are rural jurisdictions with an elected head and municipalities are urban jurisdictions with an elected mayor. Regency and Municipalities are located in the same tier of government (Schulte Nordholt and Van Klinken 2007: 13).

And in the local level, Indonesia has three-tier local governments. First is Provinces, which unlike other two local governments (Regency and Municipality) do not have any autonomous power. Second, Kabupaten (Regency) which has geographic characteristic of a rural area with emphasize on generation of economic based on agriculture industry with low level of population density. Third is Kota (Municipality) with the geographic characteristic of urban area in which the economic revolves around non-agricultural and more industrial economic (trade, services and financial services). Contrast to Regency, City has high level of population density. These differences affect the tasks and responsibilities assumed by both city and regency in regards to the decentralisation. Figure below explain the tasks and responsibilities by Local Government.

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3 Indonesian Government Regulation Number 38 year 2007 renewed with Law Number 23 year 2014 about allocation of task and responsibilities among government, provincial government and local government (district/city).
Figure 5.3  Required Responsibilities of Local Government

Another aspect to understand the difference between regency and City is the presence of Village/Desa. Village Desa (in contrast to Village/Kelurahan) will only be found in regencies. Village/Desa is the smallest unit of local government in Indonesia. Village in Indonesia is thought to be mirroring both regency and City in terms of the general election. The community in the villages exercise their political
rights through direct election to elect the head of the village. Hence, the head of the village is not part of the local government administrative employees. Village/Desa also has similarity to both regency and City in terms of fiscal arrangement. Village/Desa is allowed to generate its own revenue in the budget expenditure. On the contrary, Village/Kelurahan is the lowest level of City governmental structure; hence, those two aspects are not present. Many have assumed that the presence of desa can be regarded as a balancing factor for the lack of other aspects in regency such as the low performance of economic growth. The figure below presents the difference between regency and municipalities in their governmental structure.

**Figure 5.4  Indonesian Local Government's Three-Tier**

Sources: Author
5.2.1. Decentralisation: Deepening Democracy in Local Government of Indonesia

Fengler and Hofman in Ichimura & Bahl (eds.) (2009) analysed the impact of decentralisation in Indonesia, they emphasized the fact that decentralisation in Indonesia is more challenging. It has brought both positive and negative impact. As for positive impact, decentralisation has caused contentment among the people toward the public sector more than before. Whilst, fiscal consolidation continues development spending is recovered and gained sufficient funding for Poor Regions. Further, the negative side of decentralisation, then is should be regarded as more as challenges rather than hindrances. Those challenges are how to spend the resources well, the dependency of local governments on the intergovernmental transfer, how to create good investment climate, the tendency that central government is half-hearted in giving autonomy to the local government thus affected on the local governance.

In this subsection, three aspects of the impact of the decentralisation in Indonesia will be discussed: general election for the local government, catalyst for public entrepreneurs, participation, and civil society.

In Indonesia, the most agreed improvement by decentralisation is the direct general election for (1) the head of Regency (Regent); or (2) the head of City (Mayor) and (3) the head of the Village/Desa and (4) Regional House of Representatives (Dewan Perwakilan Rakyat) members. This general election is called ‘direct’ to mark the difference between the general election during the New Order Regime and the general election during the Reform Regime. Under the New Order, with the guided-representative democracy, the head of local governments
were appointed by the national government/the President/the executive power holder. This was changed by the issuance of Law no. 22 year 1999 in which the regional House of Representatives play its role in appointing the Regents and Mayors. It is the regional House of Representative that was elected by the people. Hence, the ‘indirect’ meaning stem from which showed the lack of political participation of the community in the decision of whom was the leader to be. On the contrary, direct general election leads to the improvement of local government’s accountability to their constituents (Satriyo et.al. 2004, p.8).

Direct election both in local government level as well for national government are conducted every five years. It has become one of the breakthroughs of deepening democratisation in Indonesia. The direct election enable the community in every regency or City to vote for leaders they really wants, the one that they hope will bring direct yet sustainable positive impact on their regency or City development. These leaders are then expected to be able determine the development in their own domain including in local economy further the service provided will be better than if they were provided by a distance central government. Even though Hadiz (2003:124) evaluation of the impact of decentralisation showed that that new elites emerged in local governments are ‘ambitious political fixers and entrepreneurs, wily and still-predatory state bureaucrats, and inspiring and newly ascendant business groups, as well as a wide range of political gangsters, thugs and civilian militia’. This general election however, makes it possible for somebody with great mind and great civic stewardship to step up and become the Regent or Mayor.

The general election can be regarded as the catalyst for some people who have the capacity to be a leader to become public entrepreneurs. This is possible
because, any person whoever they are can step up for the candidacy of the Regent or Mayor. There are two ways for the Regent/Mayor candidacy; first way, is those who are affiliated with a political party, and second way, is those who are not or independent candidacy. So far, there has not been any research to prove which type of candidacy that is actually perform better when they are already in their office term. However, these two types of candidacy scheme has been allowing a prominent figure coming from non-political field or even from business domain who have the concern of stewardship and have a vision to bring a betterment on how the local government is running, to step up for the candidacy and really be the Regent or Mayor of certain Regency or Municipality. As the result of the direct election by the community, members of house of representative as the legislative holders are also thought to be closer to the community and better in voicing the interest and the need of the community.

Decentralisation is hoped to provide broader channels of participation for citizens and makes the decisions of resources allocation closer to citizens than the former centralised government system in Indonesia. Under the law number 32 Year 2004, greater citizens participation is possible through the direct election of the head of the region. However, after the regional governments have been elected, they cannot be held accountable to their votes. Instead, they are accountable to the national government. So, during the office term, there is no citizen’s control over the performance of the government as there is no ‘recall’ mechanism provided for the incumbent governments if they perform badly. Consequently, the law does not elaborate in detail mechanism of participation channels, other than general election (Yappika, 2006, p.35). Further, Yappika in its report (2006) believe that generally
less attention is given by local governments to enhance the participation of citizens by the absence of the regional regulation to arrange the participation of the citizens. By participation citizen can influence the government on the public policies by voicing their preferences over certain public issues. Hence citizen needs to be able to be provided with proper participation channel to be able to control the incumbent to comply with their wishes and make the resources are allocated efficiently.

The lack of formal participation scheme in local government level signifies both positive and negative factors for any local government leaders. For public entrepreneurs who have incorporated democratic principles in its governmental office, the lack of participation channel could be seen as an opportunity to create participation platforms or public consultations to enable citizen to fully participate in the government. Hence, his/her entrepreneurial activities in the government will be much more legitimate and potentially could be used as a risk aversion. On the other side, the lack of participation schemes could eventually form a trap to for any local government leaders who have less public entrepreneurial skills. Lack of community participation and lack of public entrepreneurial skills will only make local government leaders to do the routine works of government without any innovation or breakthrough in providing services to the citizen and further to the local economic development.

As an addition to the improvement of the level of community participation in the local governance, decentralisation in Indonesia initially was intended to achieve a substantial devolution of power in order to bring government closer to the people and offer more transparency. This is possible with the existence and role of civil society organisations (CSOs). CSOs could be regarded as one of the requirement of a
Valuable report on civil society has reported how civil society in Indonesia plays their role in various aspects. CSOs can be the guard of the development initiatives in any local governments, it serve the function of control and evaluation of the local government. in Surakarta Municipalities for example, the CSOs has been working together with some street vendors associations in doing advocacies and support for them related to the policy of their prominent Mayor that period – Joko Widodo (the present 7th president of Indonesia) to relocate them to a new area.

Three ideal aspects: (1) public entrepreneurs that care for people’s participation; (2) legislative that really close and hear people’s voice; (3) the CSOs’ advocacy and control, are important condition for any local economic development in any regencies or municipalities in Indonesia to be successful.

5.2.2. Local Government Fiscal Capacity: Decentralisation and the Power to Generate the Revenue

Prior to decentralisation, for their fiscal capacity, all local governments in Indonesia would only depend on central government allocation in the form of direct subsidies for government, public servant salary and conditional grant for certain activities as defined by central government. Consequently, there would be no difference between natural resources rich regions and other regions. In fact, the allocation favoured high populated regions such as Java Island – the Indonesia’ centre of growth and allocate less to other regions even though those regions are rich resources regions. The central government controlled most of local governments’
expenditure. Hence, it is not surprising if Non-java Island regions- the periphery-wanted to have their power over their own abundant resources. Local finance was practically meaningless when the provincial and local governments could only have their expenditure autonomy through limited block grant (during the last years of New Order regime) and insignificant local own revenue.

According to law number 25 year 1999 and law 34/2000, as the consequences of decentralisation, local governments in Indonesia have two major fiscal sources: intergovernmental transfer and local own revenue. Darmawan (2008) in his research argue that Inter-governmental transfer is designed to address fiscal gap or vertical imbalance between expenditure and revenue at local governments. The transfer is also to correct fiscal inequality among the local governments, to improve the fiscal efficiency across jurisdictions, overcome spill-over and establish fiscal harmonisation.

The intergovernmental fiscal transfer consists of (1) Revenue Sharing Fund (Dana Bagi Hasil/DBH); (2) general purpose fund (Dana Alokasi Umum/DAU); and (3) specific purpose fund (Dana Aloksi Khusus/DAK). Revenue Sharing Fund is sharing fund gathered by national government from tax revenue and natural resources revenue. Tax revenue sharing is generated from property tax, land transfer tax and personal income tax. Local governments receive certain part of this respective tax revenue, but they do not have authority in setting tax rate and tax base.

Further, Regencies and municipalities have their right to generate revenue as the consequence of the devolved authorities from the central government, the local government. This is called local government own revenue (Pendapatan Asli
Daerah/PAD). Whilst, other significant taxes such as income tax, value added tax, land and property tax are all under control of the central government. Local Government Own Revenue may come from seven taxes. Those are hotel tax, restaurant tax, entertainment tax, and advertisement tax, street light tax, quarrying tax and parking tax. In addition to these taxes, regencies and municipalities can also collect charges on several types of public services such as building development right, piped water distribution charge and garbage collection. Based on Law 23 Year 2014, local governments are also allowed to generate revenue from loans and profit from local government owned enterprises.

Local governments respond to the need of generating local government own revenue was overwhelming. Many local governments exploit their right to collect taxes and charges. Regulation review of 353 Local Government Acts by Regional Autonomy Watch in 2002\(^4\) showed that 73% of Local Government Acts were problematical or not fulfilling the criterions of good local government acts based on the aspect of Judicial, Substantial and principle.

As money follows function, local governments are given monies through inter-governmental transfer to finance the responsibilities in figure 5.3, most importantly the essential responsibilities: health and education. But even to fulfil these two essentials responsibilities many local governments are not able to do. Hence, general opinion will be that the success of local governments in Indonesia is easy to be measured: when the local governments are managed to perform well in providing essential public service especially health and education, it can be said that those local governments are successful ones. The reason why it is so difficult for

\(^4\text{Regional Autonomy Watch (2002), Synthesize Analysis of 353 Local Government Acts Review.}\)
local governments to fulfil even their essential responsibilities is that most local
governments in Indonesia are responsible to pay their civil servants. This is
considered as a burden because about three-quarters of civil servants in Indonesia are
employed by local governments. This is also the case of one of the case study for this
research that is Purworejo Regency.

In most local governments’ annual budget, the amount of intergovernmental
fiscal transfer (minimal of 25%) still contributes the biggest amount of total revenue.
Landiyanto (2005) and Fengler, Wolfgang & Hofman, Bert (2009) found that most
of the budget structure of local governments is dominated by the general allocation
fund (DAU) and thus local own revenue remains insignificant. Almost 70% of
Purworejo regency’ annual budget goes to paying its civil servants, leaving not more
than 30% to finance the long list of responsibilities. This is worsened by the fact that
the local governments have little room to provide fiscal incentive for local investors.
That leaves the local revenue contributing less than 10% of local government
revenue with only very few regions (Jakarta province and Badung Regency in Bali
Province) that have significant contribution from their local revenue. Ray and
Goodpaster (2003) argue that this scheme, that allows excessive subsidies by the
national government, only makes local governments in Indonesia a spending
machine. This means that any actions of local government can be off-set by the
policies of central or state government. As a result, a local economic development
strategy can be complicated or even made redundant by central government policy
changes (Rowe, 2012).

Studies on decentralisation in Indonesia show many downsides of the
implementation of decentralisation in Indonesia. One of the example if is in forestry.
Decentralisation gives local government more power including power in manage the forest product, and this envisioned change was not without a flaw. Many local governments wants to exploit the forests as the source of local government own revenue. Local government has now able to issue permit or a small logging parcel lease. Decentralisation is thought to improve the accountability of government and national government established effort to combat corruption by establishing National Anti-Corruption Committee (KPK). However corruption is still prevalence in every level of governments. Further, in local governments, there are continued forest depletion occurs (Cabello and Farhat, 2013) Local governments tend to burden their regions with extra taxes, while they pay little or no attention to environmental issues. Forests are under the authority of local governments’ administrators who sell logging licenses, further, there is a lack of inter-regional coordination regarding national parks and forest reserves. The Forestry Department of Indonesia has opposed the claim of regencies to control forest reserves, and it seems that the environment will turn out to be the foremost victim of decentralisation.

Lack of human resources capability is the next issue on the list of downsides of decentralisation; especially those at the regency and city level where there is often little indication of readiness to take on greater powers (Seymour & Turner, 2002). Related to this, there is also a need of good leadership in bureaucracy as Indonesia is the lack of true and honest leaders. Hence, people of Indonesia is longing for a government leader with the truest, most honest yet humble attitude. Direct election which is hoped as the source of this kind of leaders has not yet shown any expected result. Therefore, Indonesia is still on its course of finding good leader with entrepreneurial skills. This type of leader is wanted run a local government with
problem of corruption and nepotism, budget inefficiency and poor quality of public services and infrastructure and low level of local economic development.

The World Bank (2005) established several characteristics of good design of intergovernmental transfer as follows:

- Transfers are determined as objectively and openly as possible, ideally by some well-established formula
- Transfers are relatively stable from year to year to permit rational sub-national budgeting but at the same time they are sufficiently flexible to ensure that national stabilisation objectives are not thwarted by sub-national finances.
- The formulas are transparent, are based on credible factors and are as simple as possible.

In accordance to that characteristic of intergovernmental design by the World Bank, Indonesia has the Law No. 25 Year 1999 that elaborate in detail the regulation and formula in deciding the amount (percentage) of monies transferred to local government. Below is the table of percentage of Indonesia intergovernmental fiscal transfer by comparing period before and after the issuance of Law No. 25 Year 1999.
Table 5.2  Inter- governmental Fiscal Transfer in Indonesia

<table>
<thead>
<tr>
<th>No</th>
<th>Type of Revenue</th>
<th>Before Law No. 22 Year 199</th>
<th>After Law No. 22 Year 199</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Central</td>
<td>Regional Gov 1st level</td>
<td>Regional Gov 2nd level</td>
</tr>
<tr>
<td>1</td>
<td>Land and Building Tax</td>
<td>10</td>
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<tr>
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<td>Land and Building Title Transfer Fee</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>3</td>
<td>Forest Product Royalty/</td>
<td>55</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>Forest Resource Rent Provision/Licensing Fee of Commercial Forest Concessions</td>
<td>55</td>
<td>30</td>
</tr>
<tr>
<td>5</td>
<td>Landrent (in mining)</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>6</td>
<td>General Mining Royalty</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>7</td>
<td>Fishery</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Oil Mining</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>Gas</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Reforestation Fund</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Income tax</td>
<td>100</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Author, adapted from Law No.25 Year 199

5.3  Local Economic Development in Indonesia

Local economic development in Indonesia has been strongly influenced by the decentralisation process. Brodjonegoro (2004) argued that there is evident that there is a lack of initiative in developing the local economy among Local governments in Indonesia. This is rooted in Law number 22 year 1999 and Law number 25 year 1999 which do not explicitly state that the local government is responsible for promoting local economic development through GRDP growth, jobs creation and improvement of personal income. Implicitly the local economic growth is just treated as the derivative of national economic growth rather than specific efforts by local governments.

Blair & Carroll (2009) believed that innovation from which ideas and new ways of doing things are major source of economic growth. Further, the rate at which innovations are copied, modified and spread to other sectors affect the economic growth.
progress. Culture of innovation and collaboration contributes to the economic advancement of a location (Gordon, 2012 p. 9).

Unlike the private sector, public servants in public organisation i.e. local governments, they innovate not because of financial incentives or personal rewards, but because of a public service ethos—the simple desire to serve the citizens, to address the real problem faced by the citizens, whilst government work through its machinery which is normal and objective. Hence, it could be understood that the focus of economic development in local government in Indonesia is to support the innovation while at the same time to increase prosperity (Economic Development Administration, 2004). While Rowe (2009) believe that local economic development is a complex process that is created from successful fusion of entrepreneurship, education and skills of the community driven by market forces, it is generally accepted that the goal of economic development is to create new jobs, investment, and improve the wealth of the community.

As it is elaborated above, that there is no clear guideline for local governments about their responsibility in Indonesia local economic development, however, the study of Regional Autonomy Watch/KPPOD about local economic governance which covers 9 aspects of local economic governance showed the most challenges and most troubled aspects in Indonesia local economic development. Therefore, innovation in Indonesia will need to be aimed at overcoming those nine challenges of local economic development in Indonesia.

It is also important to focus the local economic development initiative based on the wildly accepted measures such as jobs, investment and community wealth. Aspect of community welfare that is assigned as local government required
responsibilities/essential services (figure 5.3.) need also to be incorporated in the evaluation of the success of local economic development.

Considering those aspects, the approach used in this research to analyse the success of local economic development in Indonesia is the approach suggested by Bar-El (2008, p.44) which emphasizes in three aspects such as fighting poverty, modernization of traditional agricultural and creating new opportunities for non-farm employment. These approaches of local economic development initiative are believed to be the right approach considering the fact that local government in Indonesia that is categorized into two types of local government. First, in municipalities that have more urban characteristic, fighting poverty while fulfilling the basic service provision in health and education are considered the right approach. Whereas, in regency which has more rural characteristic, modernization of traditional agricultural and creating new opportunities for non-farm employment are much more needed approach.

Central statistical Bureau of Indonesia (Biro Pusat Statistik/BPS) Data of GRDP in 2004, 5 years after the introduction of decentralization and inter-governmental fiscal transfer showed that the average GRDP per capita in municipalities was Rp. 16.5 million, while the average of GRDP per capita in regencies was only Rp. 23.5 million per year. High scoring cities and regencies were those that have been able to expand their manufacturing base and trade in services, while low performing areas remained more closely tied to agricultural commodities. Thus decentralization still has not created a significant effect on local economy.

Further, Brodjonegoro (2004) argue that most of local governments still have some difficulties in creating their non-fiscal incentive package due to the lack of
capacity and also to lack of commitment of making GRDP growth as one of main targets. Most local governments are more interested in the local government budget issues (Local Revenue and Expenditure Budget/Anggaran Pendapatan dan Belanja Daerah) without realizing that such limited focus could jeopardise much more crucial issues such as local economic growth that eventually helps reducing local unemployment.

Decentralisation is thought to be a precondition to the realisation of competitive advantage of local governments as the creation of competitive advantage is the most important activity an economic development practitioner can pursue. However, decentralisation in Indonesia has not yet provided an appropriate level of support to improve local economic competitiveness. A research by Darmawan (2008) shows that decentralisation is only partially impacted upon particular aspects of governments’ performance among other key factors of local competitiveness such as national microeconomics, other policies at national level and market conditions. Porter contributes to the understanding of competitive advantage with his ‘competitive diamond’, yet he puts the role of local government outside the diamond. However, in developing countries such as in Indonesia where the market role has been lacked, it is the government that play the biggest part in economic growth, development and competitiveness. Indonesia is a country on the making to create its competitiveness which is indicated by the rate of investment. Hence, the ability of both national and local government to create and provide an enabling environment for business is important. However, in Indonesia, bureaucrats and politicians still have the tendency to misuse their power to extract revenues, hence any investment
projects may become the target for extracting activities to generate local own revenue.

5.4 The Case Studies

Four local governments are selected to be the case studies for this research: two municipalities and two regencies. As it is discussed in the methodology chapter, these four local governments is selected with a methodological consideration that it represent the categorisation of local governments in Indonesia: the regencies and municipalities. The selected local governments represent the characteristics of local governments in Indonesia in terms of political aspect and economic domain.

In this section, each local government will be discussed according to the sequence of field work that has been done. Purworejo Regency is the first regency that was studies during the period of March – April 2011. Surakarta Municipalities then was the next municipalities that was studied from April – Mei 2011. Even though, Purworejo Regency and Surakarta Regency both under Central Java Province, these two local governments have different characteristic in terms of the history and also the economic development. The last fieldwork done was Cimahi municipalities in Mei – June 2011. The fourth local government was Purbalingga from June – July 2011.

Below is the map that shows the geographic location of the case studies. It is the Central Java Province map in which Purworejo Regency is located within the strategic route called ‘south route’ or Jalur Selatan. An alternative route of ‘north route’ or Jalur Utara of Java Island, crossing across the administrative area of local
governments such as Tegal, Pekalongan, Kendal and Semarang (as seen in the map) which was notorious for its damaging condition and become dangerous for any motorist. This south route has become a very important route for the mobilizing goods and service across three provinces in the Java Island: West Java Province, Central Java province and East Java province.

Figure 5.5 Map of Four Local Governments as the Case Studies

This map also shows others case studies. Surakarta is mentioned there as Solo, the other old and informal name of Surakarta. This two names are interchangeable and both referring to the same local government: Surakarta
Municipality. Purbalingga can also be seen in the map. Even though its geographical location is not as strategic as Purworejo, Purbalingga regency has been doing more meaningful initiatives in its local economic development.

Below is the map of West Java Province, in which the Cimahi City is located. Selecting Cimahi as one of the case study will enable this research to have the comparison analysis between two Provinces in Java Island which is culturally different. Cimahi considered itself of having strategic location as the periphery of Bandung Metropolitan. Because of its strategic location, proximity to the capital city – Jakarta, Bandung municipalities has been growing into a metropolitan as Jakarta. Many people work in Bandung municipalities but they find it too expensive to live in Bandung area, hence the demand for housing and other services are spreading into the periphery of Bandung including Cimahi municipalities.
The two municipalities, Surakarta/Solo and Cimahi, has limited natural resources and most economic growth mainly driven by some sectors which are commonly expected in urban area such as trade, processing industries, building constructions and services, while primary sectors such as agriculture and mining become less important (KPPOD, 2001, 2005). This condition is reflected in the existence of well-established industrial zone and other business services such as ports, shopping centres, bonded zones, transportation infrastructures, telecommunication stations and the concentration of GDRP on those sectors as a main driver of economic growth. Even though these business services are the standard of urban characteristic, both Cimahi and Surakarta is different. Surakarta
has its international airport – the Adi Sumarmo airport, whilst Cimahi have no port and rely on Bandung International airport – Hussein Sastranegara airport. On the contrary, the two regencies, Purworejo and Purbalingga has characteristic of rural area as it also most local governments in Indonesia as it is argued by Rustiansyah (2015) that Indonesia is a agriculture country. Since New Order regime in 1970, agriculture sector has become the main priority in the national development and elaborated in the first five-year development plan (the prominent development agenda or PELITA). For local government that the dominant economic sector is agriculture, the economic development policies has been focused on the agriculture sector support, agriculture productivity increase, transportation of their produce from field to home and then to market, establishment of agriculture product centre to showcase local products in order to increase the income of the farmer and cattle raising to earn livelihood, providing support and better management system. It is important to note that in the case of Purbalingga, even though it is regency which generally emphasizes more on the agricultural sector than trade and industrial sector as compared to other regencies. Purbalingga has taken an approach in local economic development that focused on inviting foreign direct investment that creates jobs and wealth for the community.

Below is data about the four case studies in comparison with other Province and also the capital city of Jakarta.

Table 5.3 Human Development Index of Local Government as the Case Studies
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>West Java Province</td>
<td>68.2</td>
<td>64.6</td>
<td>65.8</td>
<td>69.1</td>
<td>69.93</td>
<td>70.32</td>
<td>70.71</td>
<td>71.12</td>
<td>71.64</td>
<td>72.29</td>
<td>72.73</td>
<td>73.11</td>
<td>73.58</td>
</tr>
<tr>
<td>Cimahi Municipalities</td>
<td></td>
<td></td>
<td>73.83</td>
<td>75.2</td>
<td>73.4</td>
<td>74.4</td>
<td>74.79</td>
<td>75.12</td>
<td>75.51</td>
<td>76.01</td>
<td>76.3</td>
<td>76.86</td>
<td></td>
</tr>
<tr>
<td>Jawa Tengah</td>
<td>67</td>
<td>64.6</td>
<td>66.3</td>
<td>68.9</td>
<td>69.8</td>
<td>70.3</td>
<td>70.9</td>
<td>71.6</td>
<td>72.1</td>
<td>72.49</td>
<td>72.94</td>
<td>73.4</td>
<td>74.05</td>
</tr>
<tr>
<td>Purbalingga Regency</td>
<td>65.5</td>
<td>63</td>
<td>65</td>
<td>68.7</td>
<td>69.3</td>
<td>69.9</td>
<td>70.4</td>
<td>70.89</td>
<td>71.51</td>
<td>72.07</td>
<td>72.5</td>
<td>73</td>
<td>73.49</td>
</tr>
<tr>
<td>Purworejo Regency</td>
<td>67.8</td>
<td>65.3</td>
<td>68.4</td>
<td>68.7</td>
<td>69.1</td>
<td>70.2</td>
<td>70.7</td>
<td>71.29</td>
<td>71.88</td>
<td>72.55</td>
<td>72.91</td>
<td>73.5</td>
<td>74.18</td>
</tr>
<tr>
<td>Surakarta City</td>
<td>74.3</td>
<td>70.5</td>
<td>73</td>
<td>75.8</td>
<td>76</td>
<td>76.4</td>
<td>76.6</td>
<td>77.16</td>
<td>77.49</td>
<td>77.86</td>
<td>78.18</td>
<td>78.6</td>
<td>79.1</td>
</tr>
<tr>
<td>East Java Province</td>
<td>65.5</td>
<td>61.8</td>
<td>64.1</td>
<td>66.85</td>
<td>68.4</td>
<td>69.2</td>
<td>69.8</td>
<td>70.38</td>
<td>71.06</td>
<td>71.62</td>
<td>72.18</td>
<td>72.8</td>
<td></td>
</tr>
<tr>
<td>Jakarta Capital City Government</td>
<td>76.1</td>
<td>72.5</td>
<td>75.6</td>
<td>75.8</td>
<td>76.07</td>
<td>76.33</td>
<td>76.59</td>
<td>77.03</td>
<td>77.36</td>
<td>77.60</td>
<td>77.97</td>
<td>78.33</td>
<td>78.59</td>
</tr>
</tbody>
</table>
5.4.1. Purworejo Regency: The City of Retired Civil Servant

The Purworejo Regency is located between longitudes 109° and 110°E and latitude 78S, about 60 km from Yogyakarta City. It covers an area of 1,834 km², spanning a diverse geographical area from the coast in the south to the mountains in the north. It has 927,813 inhabitants and about 89% of the population live in rural areas. Nawi (2010) in his research about health services in Purworejo found that clusters of poor households are located in the northern part of Purworejo Regency, which is a largely remote, mountainous area that is not easily accessed by public transportation. It has lower socio-economic development and a higher proportion of the population with low levels of education. This type of area provides considerable challenges for local government leaders (at regency level, district, sub-district and village levels). It calls for the leaders to exercise entrepreneurial skills in order to address the many and varied community problems and hardships.

The title of Purworejo as ‘the city of retired civil servant’ describes perfectly the character of this regency that was selected as one of the case-studies for this research. As Rustiansyah (2015) has suggested, Purworejo is characterised by agricultural villages with good irrigation system; hence farming can be carried out throughout the year. Farmers here are mostly commercial farmers who farm to sell their products to various markets.

While decentralisation is potentially important to the effectiveness of local government in general, there are important differences in its impact for different regencies and cities, with some benefiting more obviously than others. Purworejo is one of among 440 or more local governments in Indonesia that has never been on the
list of any award given by any public institution, unlike all three local governments in this research. This itself is perhaps indicative of local government that is relatively weak, if not ineffective.

As discussed above, there were problems in environment and forests as the negative consequences of decentralisation in Indonesia. It is found in Purworejo Regency, that at District level (Begelen District), there was initiative by one of the district leader who is considered as public entrepreneur to solve the problem of illegal logging which often lead natural disasters such as land slide and flood the the people. Bagelen District is located in mountainous area which limited provision of good infrastructure such as road and health hence made it difficult for the people of Bagelen to mobile. That public entrepreneur was able to preserve the forest and turned it more profitable yet sustainable source of income for the member of the community those of the leaders by planting the rubber tree and let the community to manage those three by themselves. Rubber tree then belong to the community, and this is solved the problem of the possible natural disaster but also no more illegal logging.

Since 2009, national government through the national planning board or Badan Perencana Nasional (Bappenas) has promoted local economic development (LED) to 35 local governments in Indonesia. LED in Indonesia mainly focus on the cluster development, one stop service for business licensing, business development services, inter-regional cooperation, business climate and public-private cooperation. It is identified that there were two business clusters in Purworejo that will need to be developed: Palm Sugar and Ettawa Goat. This identification however, has not been a complete analysis of the economic potentials in Purworejo. There are economic
potentials that should be regarded as well in the cluster development: organic rice and tourism. This will be discussed in the next chapter on how the Purworejo Regent establishes policies in the economic development of Purworejo.

5.4.2. Surakarta City – The Spirit of Java

Surakarta geographical coordinates are 7° 35' 0" South, 110° 50' 0" East covering 44.03 km square. Surakarta has taken up its pride and declares itself as the central of Java culture heritage under the administration of JW. By the declaration that Solo (nick name of Surakarta) is the spirit of Java, it rebranded and promoted itself by advancing the preservation of the cultural heritage such as the Mangkunegaran Royal Palace, one of surviving royal palace in Java Island and in Indonesia. Surakarta is also well known as the centre of Batik, which was acknowledged by UNECSO as the masterpiece of oral and intangible heritage of humanity in October 2009.

Decentralisation in Indonesia is seen as a way to remove the hierarchical bureaucracy bottleneck and assist local officials and the private sector to cut through complex procedures. Surakarta is one of the local government in which few successful reform efforts at the local level have largely been driven by a handful of exceptionally well-performing administrators (Von Luebke, 2009). Even though this may not a reflection of broader trends, learning from this can be useful in igniting the increasing performance in national wide.

While the emergent of public entrepreneur can be triggered by the lack of financial capability as mentioned above, public entrepreneurs can also be the
consequence of the existing conditions. In Indonesia case for example, a recent study found that decentralisation in general has continued to wield legal uncertainty for business sector. The motivation to fix the problem of how the local governance was being run, this is the experience of JW when he was a business man trying to get services from local government. There was a legal uncertainty that urge him to take up the challenge to take the mayor candidacy and he was selected by the community, twice.

5.4.3. Cimahi – The Army City

Cimahi City is located in West Java province, about 170 km from Jakarta the capital city of Indonesia. It has border with Bandung Barat Regency, Bandung City and Bandung Regency. Cimahi has three districts (Kecamatan): Kecamatan Cimahi Utara, Kecamatan Cimahi Tengah, and Kecamatan Cimahi Selatan which covers total area of 40,25 km² with the number of population in 2011 is 471,903. Under the colonial Dutch East Indies, Cimahi was one of main military sites. Up to now, it still hosts to several military education facility. Hence, Cimahi takes up its name as the army city.

The Law No. 32 year 2004 declare that for economic and governance efficiency reason, one or more regions can be merged if they cannot perform the regional autonomy appropriately, or conversely, a new region can emerge once it has complied with the requirements. This has been the case of Cimahi city, the third case study in this research. Cimahi was an administrative city, part of Bandung Regency. Based on Law No. 9 year 2001, Cimahi established itself as an autonomous
municipality, with a name – Cimahi City Government. The separation from Bandung Regency was based on the consideration that Cimahi had a growing population lead to growing responsibilities to provide services to its community. Take the benefit of law No.32 year 2004 that allows new autonomous local government to be created, and considering the fact that Cimahi was a major textile producer exporter, Cimahi was confident that it could be independent City government.

Seymour & Turner (2002) argued that an amalgamation of some regions into one region or a split into new regions could be not right in the political sense, because it can raise potential threats of conflict of interest among the communities to get power over new formed regions). This is true for Cimahi at the beginning of its establishment as autonomous local government. Fortunately, the conflict did not escalate into a severe one. It is understandable that Bandung Regency did not want Cimahi to be independent autonomous local government, partly because of the abundant economic resource available in the part of Cimahi area. Cimahi is an example of how new autonomous local government strive for its existence. Cimahi experienced completely different situation compared to Purworejo, Purbalingga and Surakarta.

During the first three years after its establishment as autonomous municipality, Cimahi was able to build a huge city hall. It was considered as a bold and brave decision as a new local government. It spent

In 7 March 2007, Cimahi established ‘One-Stop Integrated Service’ to overcome the problem of high cost of business licensing, complex process of business licensing, the length of time needed for business licensing. This one-stop integrated service is a
way for Cimahi to boost its economic activity. This initiative has been acknowledged and awarded with Investment Award by Indonesia Investment Coordinating Board (BKPM) in 2010. This initiative was also supported by Bandung Trust Advisory Group (B-Trust) and the Asia Foundation. Since then, Cimahi one-stop integrated service has achieved its target; in 2007 it can generate 221.16% of its goal, in 2008 reached 137.87% and in 2009 reached 127.46%. Another positive impact is the number of business investment that invested their business in Cimahi Area. In 2007, it has reached 284 companies, collecting more than 312 billion IDR. By 2009, it has attracted 506 companies and gained 1.7 trillion IDR.

Small and medium enterprises (SMEs) have a significant contribution in the economy of Cimahi and Jawa Barat. In 2012, the number of micro, small and medium enterprises in Cimahi contributes about 6% on the number of the micro, small and medium enterprises in Jawa Barat. Furthermore, the number of micro, small and medium enterprises in Cimahi grows about 5% in 2012 and the SMEs have an increase in employment absorption about 24.21% in 2012. Therefore, the performance of the micro, small and medium enterprises in Cimahi has an impact on the economy of Cimahi and Jawa Barat.

To support the SMEs in Cimahi, in June 2009, it has established a grand plan to make Cimahi as a creative city which will base on the Information and Communication Technology Development. At the time of the fieldwork, Cimahi has built Baros Ciber Creative Centre. It will be first host the animation industry development and other aspect will be following. Using the idea of creative city, and the history of army, Cimahi has the potential to develop the city as the centre of army tourism or heritage tourism.
In industrial aspect, even though Cimahi had the long history of textile industry, in 2004, middle industry (20 – 99 workers) and large industries (100 and more workers) has decreased up to 8.3%. The total number of industries in Cimahi districts is 81 large industries and 75 middle industries. The biggest number (105) of those industries is located in South Cimahi District and in the sub-district of North Cimahi there are 18 industries.

5.4.4. Purbalingga – Capital of False Eyelashes

The name of Purbalingga is only recently well known globally, and credit goes to Katy Perry the pop star. She endorse a line of false eyelashes produced by Eylure Company which uses Royal Korindah factories, one of them is in Purbalingga. As the eyelashes went global so it did with Purbalingga. Royal Korindah factory has been using satellite workshops which are scattered around the area of 5 km outside the town. Factories in Purbalingga has been making products for big brands such as Katy Perry for Eylure, L’oreal, Shu Uemuru, Make Up Forever and Meybelline. The investment was started in 2007 and it has become the second biggest false hair industry in the world after Guangzhou in China. Arifin (2008) in his research showed that the false-hair industry was the main competitive advantage in Purbalingga Regency.

Because the product of this industry went global, it then created concern and anger among global justice activists, because of the low level of salary gotten by the workers range from 2 p – 14 p for a pair of false eyelashes. Those activists believed that this is unfair trade. However, in terms of local economic development for
Purbalingga, the investment and this industry has brought improvement to the livelihood of the 11,413 poor household\textsuperscript{5} in Purbalingga. Many farmers were working in the satellite workshops, giving them alternative work as an addition to the farming activities and allowing them to gain extra money for the family.

Purbalingga have also a number of small scale enterprises. Below is the data of the types and number of small scale enterprises in Purbalingga in 2007.

\textbf{Table 5.4 Small Scale Enterprises in Purbalingga 2007}

<table>
<thead>
<tr>
<th>No</th>
<th>Type</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Knalpot (car exhaust pipe)</td>
<td>40</td>
</tr>
<tr>
<td>2</td>
<td>Sapu (broom)</td>
<td>30</td>
</tr>
<tr>
<td>3</td>
<td>Tempurung (coconut shell)</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>Anyaman Bambu (bambook weaving)</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>Batu Bata (bricks)</td>
<td>12</td>
</tr>
<tr>
<td>6</td>
<td>Genteng (roof tile)</td>
<td>20</td>
</tr>
<tr>
<td>7</td>
<td>Kompor (stove)</td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>Meubeuler (furniture)</td>
<td>14</td>
</tr>
<tr>
<td>9</td>
<td>Tralis (door/window iron frame)</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Peralatan Alumunium (aluminum ware)</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Barang dari Karet (rubbermade ware)</td>
<td>1</td>
</tr>
<tr>
<td>12</td>
<td>Paving (paving block)</td>
<td>6</td>
</tr>
<tr>
<td>13</td>
<td>Kerajinan dari Kayu (wooden craft)</td>
<td>1</td>
</tr>
</tbody>
</table>


\textsuperscript{5} Bappeda Kabupaten Purbalingga (Regional Planning Board of Purbalingga Regency), 2011
Apart from the false hair industry, these small scale enterprises are also the potential of local economic development in Purbalingga. It could be developed to a more advance enterprise. If the local government of Purbalingga was able to manage such large investment, it will be less difficult task to develop these small scale enterprises. In fact, several districts has been initiated attempts to invite investment (Pradipta, 2008) those districts are Mrebet District for soy sauce factory, Kutasari District for palm (coconut) sugar, Karangrejad District for patchouli oil (nilam), and Bukateja District for coconut. Serang Village has a horticultural centre that potential as the centre for vegetables produce. To facilitate these initiatives, the local government of Purbalingga reformed its business license and make it easier, shorter and cheaper in the application up to the issuance of licences to business establishment.

One of the consequences of the investment and industry of false eyelashes, Purbalingga has growing into a more urban area and become the magnet for retail market expansion. Almost, in every district in Purbalingga regency at least have one of this retail market. The number of modern market in Purbalingga is 54 and 35 traditional markets (Desperindagkop, 2011). And among those markets, only one modern market - Segamas- with a decent infrastructure such as parking lot and proper sewerage. Kupita & Bintoro (2012) studied the impact of retail market and the inconsistency of Purbalingga local government on the zoning law. They concluded that the number of modern market in Purbalingga is higher than the traditional market. Eventhough, it is considered as the sign of investment, adding to the existence of investment in false hair industry, it actually had negative impact on
the traditional market. Further, it will not be beneficial if Purbalingga still focus on the community based economic development.

As it is discussed above, that most of local government in Indonesia are still very much depend on the national government in terms of fiscal capacity, and Purbalingga is one example. During the period of 2008 – 2012 the independence ratio of local government budget was on the level 9.80%– 12. 82%. This signify that Purbalingga is still under instructive relation with the national government in which most of development activities done in accordance to the decision of the national government and its independent to decide on how the monies will spent on the development is still very low. Further, the routine spending (monies spent to finance all routine activity of government day to day work) of Purbalingga was 72.77%-90.20% and the development spending (monies spent to finance non-routine or development activities) was 7.15% - 24.70%. This means that the amount of routine spending is larger than development spending. Considering this fiscal capacity, it was a very reasonable decision of Purbalingga Regent to invite investment to boost its local economy. The direct impact of this investment was of course job creation. Further, an alternative works that are available for farmers and the whole community.

Purbalingga has also three local government owned enterprises (Badan Usaha Milik Daerah): water enterprise (PDAM), pharmacy (Apotek Purbahusada) and Purbalingga Ventura. If these three enterprises are managed well, they could be the source of local government own revenue and reduce the fiscal dependent to national government. When Purbalingga is able to significantly develop its infrastructure particularly its airport (Wirasaba Airport), the economic development of this regency
will be thriving more, thus bring more monies that could be spent on more development activities.

5.5 Conclusion

The experiences of local economic development in four case studies showed the significant level of role of local government. For under-resourced local governments such as the four case studies in this research, the role of strong local state is significant because it guides the policies (for investment) and the programmes for economic development. In Indonesia, strong local state or local government reflected on how the local government leaders (Mayor and Regency) exercise his leadership entrepreneurial activities for local economic development.

These four case studies could be regarded as the evidence of how decentralisation enhances the creativity and innovation of all local government institutions in responding to public needs through public sector entrepreneurship. It could help improve the equality in regional development, empower communities and mobilize private resources for investment in infrastructure and facilities (Cheena and Rondinelli (2007, p.7).

It is thought that decentralisation in Indonesia only lead to corruption, collusion and political violence that once belonged to the centralised regime of the New Order and is now moulded in existing patrimonial patterns at the regional level or local government. This could put a threat to the other positive impact of creativity and innovation in local government institution. Hence, creativity and innovation of
local government leaders need to be guarded with strong democratic values, transparent rules and control mechanism by the community.

It is the district administrator (camat), regent (bupati) or mayor (walikota) who plays the crucial role in Indonesia’s decentralisation system. He or she receives most of the funds from the centre and controls the channels through which money is distributed. Hence he or she needs to be able to establish good relations with the chairman of the regency’s parliament (the regional House of Representatives) and leading business people. Further, in a local government such as Cimahi, in which there is a strong army power presence and influence as part of the city’s history, the mayor needs also to able to accommodate the views of the military commander. In this was he or she can rule the regency and maintain the networks of patronage without too much opposition. But then this is all part of the skill set that needs to be mastered by the local leaders in addition to their entrepreneurial skills.

These are the biggest challenge considering the fact that in general, power at the regional level is still concentrated in the hands of politicians with a bureaucratic background who are mostly not familiar with creativity and innovation. Hence, Public entrepreneurs are rare in local governments in Indonesia. This is also the case of the four local governments in this research. It is only Surakarta City whose leader – JW- did not come from bureaucracy. The other three local government leaders had a long experience as a bureaucrat during their career.
Chapter 6 - Innovative Local Economic Development in Indonesian Local Governments

This chapter discusses a series of Local Economic Development (LED) initiatives in the four case-study areas in Indonesia. The chapter aims to highlight significant initiatives undertaken by the local government leaders in the respective case studies. The significance of these initiatives within the context of this thesis lies in the fact that they represent the settings from which the evidence base for understanding better the nature of public entrepreneurship is drawn and particularly by providing the basis for the key line of inquiry in the research regarding the contribution that public entrepreneurs make in determining success in local economic development.

6.1 Local Economic Development in Indonesia

Four points about LED are especially relevant to the discussion in this chapter and the four Indonesian case studies. First, it is important to emphasize that poverty reduction is a particularly strong purpose and motivation in LED initiatives in developing countries (sometimes referred to as pro-poor LED, as discussed in chapter 2). This specific focus is usually in addition to the wider objectives of LED that include boosting inward investment, wealth and job creation, that also, of course, have the potential for alleviating of poverty (Zaaijer & Sara, 1993). The case studies
in this research revealed that, both in urban and rural areas, the objectives of the LED initiatives encapsulated both goals.

Second, the objective in much LED work of increasing competitive advantage has proved especially significant in developing countries, and certainly in Indonesia. Even though competitive advantage may be understood and defined slightly differently from locality to locality in Indonesia, for the most part, being more competitive implies changing the economic base of a community towards a stronger industrial structure.

Third, many initiatives involve expanding and pooling economic resources through closer cooperation between local governments. Such regional cooperation may be regarded as a way to mitigate the problem of a ‘development gap’ as a result of zero-sum games, whereby the gains of one area can represent losses to another. Collaborative and co-operative approaches between local governments in Indonesia have been developing in recent years and have indeed become an important strand of LED programmes in each of the four case-study localities, although in each case it is still early days and the benefits have hardly yet been reaped.

Fourth, in Indonesia, as in many relatively young and emerging democratic states, it is important to recognise the role of non-governmental organisations (NGOs) in LED initiatives. In particular, the advocacy role of many NGOs, in speaking and acting for some of the most dis-advantaged communities, has often been an especially beneficial element of successful LED. The World Bank recognised that crafting local organisations and facilitating NGOs does pave the way to a conflict-free democracy (Harriss, Stokke and Tornquist 2004: 8). Hence, the
emerging role of NGOs (or NPOs) in LED initiatives has reflected a good democratic value.

These four points were strongly encapsulated in the LED initiatives of the four case studies, as indeed they were reflected in the literature review in chapter 2. In accordance to Bar-el’s (2008) categorisation of LED initiatives in developing countries, the initiatives in local government in Indonesia can be categorized into three groups as follows:

1. **Fighting poverty** which includes the establishment of a range of programmes intended for the poor, and emphasizing two core human needs: health services and education. These programmes have been the main goal of local economic development in most local governments in Indonesia.

2. **Agricultural modernisation** which addresses traditional agriculture and associated supportive services, mostly in rural areas of course, where agriculture is the main economic activity, and where there is a need to improve the livelihoods of farmers and to reform the land ownership and distribution system. Agricultural modernisation has, indeed, become a key means for addressing poverty in local governments in more rural areas across Indonesia, and certainly within the two more rural case-study areas.

3. **New opportunities for non-farm employment** which includes the development of assistance for small and medium size enterprises in informal sector and also technological/ telecommunications developments, particularly in the more urbanised case-study areas. Tourism development initiatives also fall within this category and also foreign direct investment focusing on factory-building and service sector development to provide jobs for those wanting to leave farm
employment. This type of LED initiative is able to serve the dual goals of fighting poverty and creating competitive advantage.

All three kinds of initiative can be found in local economic development in Indonesian local governments and will be discussed in turn more fully in this chapter, which also highlights each of the four points about LED mentioned above.

6.2. Setting the Context: Economic Development in the Four Local Government Case-Study Areas

As discussed in chapter 5, the country of Indonesia has been undergoing an ambitious decentralisation process since 1999 which has radically reorganised the state’s political structures and institutions. This decentralisation process has given considerably greater autonomy and power to local governments in Indonesia and has been accompanied by significant improvements in the direction of democratisation, for example, with direct elections introduced for the heads of Kabupaten (Regents) and Kota (Cities) in 2004. From national government’s perspective, such direct elections have been seen as a symbol of enhanced democratic process at the local level and as a means for introducing stronger accountability of local government to constituents within a framework of political decentralisation (Satryo et.al. 2005, p.8). Blair (2000) has argued that a range of factors together create the sense of democratic local government for communities, including: better performance in service delivery, local processes of resource allocation and mobilization, and power devolution, but of prime importance, participation and accountability.
So far as LED is concerned, decentralisation, at least under the most recent laws, has not yet created the conditions of significant support to improve local competitiveness. Indeed, research by Darmawan (2008) has shown that it would overstate the case to suggest that decentralisation has contributed to local competitiveness to date. More than that, his research found that decentralisation had only partially impacted upon issues such as local governmental performance, local competitiveness, and local market conditions. He also found, for example, that competitiveness indicators showed regional competitiveness and success in attracting investment to be largely dependent on the performance of local governments in creating enabling environments for businesses within their boundaries to support growth and higher productivity.

According to Porter (2003), the overriding objective for any region should be to create competitive advantage for its businesses in order to promote growth - the key principle being to give priority to developing local businesses, especially those with growth potential, and to encourage an enterprise culture. He has also suggested that communities should benefit through embracing ‘the smooth space’ of entrepreneurship and innovation and by developing policies that encourage small businesses to grow; the objective being to increase ‘capability’ rather than simply to grow ‘capacity’.

But such apparently simple principles are often likely to prove difficult in practice in developing countries like Indonesia, and not least because LED can often be a rather chaotic process, especially with innovative initiatives and new policy directions that do not specifically fit the local context.
Two other key factors in LED that have been much discussed in the literature and which focus particularly on the institution of local government and its capabilities are a) the nature of the LED policy framework and b) the provision of infrastructure. First, regarding the role of the policy framework, good policy has been recognised as being important in affecting a region’s competition; it can help cities and communities to adapt and to foster a dynamic economic environment; whereas ill-judged policies can deter investment and trigger local economic decline (Begg, 1999, p.9). Having good policies for LED represents one important aspect of good local governance as does capability on the part of the local government to work with other actors, including civil society and the private sector, which need to be co-ordinated in the development process.

Second, on infrastructure: a key factor, of course, is funding, and the revenue assignment in Indonesia from national to local government that has accompanied the decentralisation policy has resulted in local sources of revenue – local taxes, local borrowing and other local revenue streams - remaining relatively undeveloped and minimal, with the consequence that local infrastructure projects are often delayed and underfunded through dependence on the centre. Successful decentralisation needs local capability in funding development, and while in Indonesia in recent years there has been some improvement in this respect, for the most part, local governments around the country remain heavily dependent on national government for capital infrastructure programmes. Certainly this was the situation in all four case study areas to which attention is now turned.

The four case studies comprised two cities and two regencies; the latter providing representation for more rural areas (Purworejo and Purbalingga) in
contrast with the urban character of the two cities (Surakarta and Cimahi). Three of the case studies (Surakarta, Purworejo and Purbalingga) are in the same province of Central Java, and Surakarta is also the most urbanised economy of the four. Cimahi, in West Java, has a history that is rather different from the other three, having previously been a district administrative unit that only became independent and autonomous in 2000. It shares some similar urban features to Surakarta, both having more diverse cultural characteristics and highly heterogeneous populations comprising various ethnic groups.

The economic structure of urban areas in Indonesia is often identified by two characteristics. First, there is usually a dearth of natural resources compared with other areas of Indonesia, many of which have rich minerals deposits such as oil and precious metal ores. The second point is that, in urban areas, economic growth has mainly been driven by trade (particularly in the informal sector), manufacturing, processing, construction industries and services, while the primary activities such as agriculture and mining are less significant (KPPOD, 2001 and 2005). These two characteristics certainly apply to the city local governments of Surakarta and Cimahi, two of four study area of this research.

The mayor of Cimahi, for example, claimed that:

‘realising that Cimahi has no good natural resources or human resources, the development strategy that we use is more pro–poor than one emphasizing the attraction of foreign investment, as investors often expect certain incentive policies such as cheap labour in wage levels. This, most of time, creates social tension
which affects social and political stability and economic growth'.

The local government of Purworejo Regency, on the other hand, has few natural resources in the form of fertile soil to support productive agricultural activity. Additionally, its known mineral resources are limited to iron-sand, the extraction of which has created much social friction as a result of the stark economic differentials between miners and others within the local community. Such factors largely account for the decisions of Purworejo Regency to introduce new policies that support the development of the agricultural sector and put a stop to the iron-sand exploration, so turning the wheel of local economic development more fully towards agricultural-support activities. In this respect, MZ, the head of Purworejo Regency commented in his interview that:

‘Purworejo regency has chosen a local economic development approach that focuses on the agricultural sector and on how to modernise our agricultural activities’.7

Such claims by a local government leader indicated just how local economic development policies are shaped and tailored in accordance not only with the nature of available local natural resources but also with local viewpoints and priorities within the community. Meanwhile, another important characteristic of local economic development in Indonesian local government concerns the role of the informal sector. Indeed, some of the most visible local economic development

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6 Based on the interview with IT the mayor of Cimahi on 27 June 2011.
7 Based on the interview with MZ on 5th May 2011.
activities in Indonesian urban areas are those supporting the informal sector - notably street vendors – which will also be discussed in this chapter.

Further, in most Indonesian urban areas, there are well-established industrial zones, trading areas (for example, ports) and shopping centres as well as well-developed transportation infrastructures, telecommunications, all of which account for a high proportion of GDRP. However, in three of the four case-study areas in this research economic development was still at quite an early stage. Surakarta, for example, had only fairly recently initiated its plans to establish an industrial zone (named as Solo Techno Park). According to the interview comments of the head of regional development planning board of (Badan Perencanaan Pembangunan/ BAPPEDA) SURAKARTA\(^8\), it was said at the time of the fieldwork, that Solo Techno Park was only in its third year, and it that was too early to draw conclusions on its impact in terms of overall local economic development. That said, the Park has certainly provided an excellent laboratory for education and training (for schools/institutes and universities) in support of technological industries. One example here has been of students from one the vocational schools in the city developing skills in ‘under water welding’. Meanwhile, another notable achievement highlighted in the research was the invention of an organic/natural colouring agent to support production of batik (a traditional Indonesian cloth product that is hand-made using a wax resistant dyeing technique). The city government of Cimahi also provided an example of modern telecommunications development - the mayor having set his vision on making his city the ‘creative city’ of Indonesia – with the newly-completed Baros Information and Technology Centre (BITC) and which is

\(^8\) Interview was conducted on 21 April 2011
home for the Cimahi Creative Association focusing on multimedia creativity and technology. The next section provides a summary description of LED in each of the four case study areas in turn.

6.2.1. Purworejo Regency

An interview conducted with a member of staff of the Regional Development Planning Board of Purworejo Regency, revealed that there had been no external investment into Purworejo Regency to date, so that the area was fully reliant on its own internal investment. This was generally perceived as a significant constraint on local economic performance.

Other interviews also revealed that Purworejo Regency was facing problems in relation to economic development, investment and natural resources. The example given was of potential resources that had been of interest to small groups of potential investors failing to attract wider and more competitive offers from other potential investors. Practice of LED in developing countries has recognised the role of intermediary actors, known as middle men, not only in the market but also in public service and, in the case of Purworejo, in handling natural resource exploration rights. A middle man is somebody who, whether in farming or in other forms of production, makes a profit by helping citizens to obtain (public) services in a return for money. Often, middle men are thought of as predators, particularly in situations in which the market does not work effectively, perhaps

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9 Based on the interview with AA, the head of regional planning board of Cimahi local government, on 9 June 2011.
10 Interview with MP (9 May 2011)
11 Interviews with B, S, UN, MK, K, BA and NH (6 May 2011), and S on 10 May 2013
because there is no competition, or in localities where the public services are worsening and, seemingly, the only way to access them is to pay extra money for them through a middle man. In Purworejo, middle men have played their role as intermediaries between community, government and investors for their own personal gains.12

Whenever an investor comes to Purworejo to start an investment in natural resource exploration, the middle men are likely to have persuaded the community to approve the investment regardless of the low level of benefit it might offer to the people. With community agreement, the investor would be then be able to use their support in seeking approval from the local government. But later on, having gained formal approval, the investor may well disregard the expectations of the community and pay as little in revenue contributions to the local government (the Purworejo Regency) as possible. On the other hand, if the rights to exploit any natural resources were to be granted by the local government without the community approval, the middle men might perhaps try to convince the community about the illegitimacy of the project and encourage community protest and friction with the local government. All this highlights two important points: first, either way, middle men play for themselves in all such matters; second the community in Purworejo would benefit from greater empowerment in expressing their needs and in achieving more equal influence in relation to external developers wishing to exploit the natural resources of their regency.

As indicated, the area of Purworejo has good natural resources such as iron stone (for steel production), and manganese (which is important in metal alloy

12 Claimed by MP during the Interview on 9 May 2011
industries, for example, for stainless steel) and gold. Under the Indonesian mining law No. 4/2009, these three resources was chiefly managed by ANTAM, an Indonesian mining and minerals processing company. When the Purworejo Regency was established as an autonomous local government, a bill on regional law mining was passed to curb the minerals exploration that had been having serious effects on the local environment and infrastructure (such as damage to the main road). Despite the anticipated benefits, through, include ‘trickle down effects’ for the local economy, and improvements in standards of living for communities to levels never previously realized, Purworejo Regency decided to deny ANTAM exploration rights and accordingly all mining activity was stopped meaning that the regency also lost a potentially significant source for local revenue (Pendapatan Asli Daerah).

Having done so, economic development in Purworejo began to shift towards other resources which involved agriculture and farming. In farming for example, a key development was of small enterprises in goat milk production from Etawah in Kaligesing sub-district (Etawah being an imported breed goat originally from Indian Subcontinent). Kaligesing is one of district in Purworejo which has rich soil suitable for Kaliandra grass, a scrub plant grown as a forage crop on slopes reaching up to 8m and on which the Etawah goats can be grazed. In this area alone there were some 66 Etawah goats already and with plans for a breeding programme being made. Knowing of the potential for Etawah goat breeding, of the rich soil for fodder crops and the successful initial experiences of farmers, the prospects for a thriving milk production industry seemed very promising indeed.

Purworejo Regency has many typical characteristics of rural areas relying on agriculture-agribusiness for their economic development. This has been something
that the Bupati (Regent) himself confirmed in an interview\textsuperscript{13}, and which he felt to be particularly appropriate given the high fertility of the land and the long tradition of farming among the majority of the population. Further, there had been a programme to commence organic farming in Ngombol and Purwodadi District. The possibilities and potential of organic rice farming have been much discussed over many years among agriculturally-oriented countries as part of a green revolution, and in response to previous problems of land depletion, uncontrolled pest blight and poor harvests. Organic rice farming was seen as a potential cure for such problems, and if indeed it proves successful, it should contribute significantly to realising food security for the locality. Accordingly, the organic farming venture has been accompanied by a supportive programme involving the creation of cooperative (POKJA) to avoid the problems of middle men / intermediaries distorting the market.

Other local products such as crystal sugar, palm sugar and corn in Bagelen District, and tropical fruit (such as Durian and Mangosteen) in Bagelen sub-district have been regarded as the new alternatives for economic growth in the area even though they will probably not generate especially high revenues for the locality.

Even though the Bupati felt that any shift in the focus of economic development towards other manufacturing or processing industries would be premature for Purworejo, because of the lack of infrastructure to support such industrial development, he believed that there was a need for the agricultural sector to be supported by basic facilities to enable it sufficient access to the markets. Hence, Purworejo Regency has initiated the building of an agribusiness centre called \textit{Sub-Terminal Agri-business/STA} which serves as a market hub to accommodate and

\textsuperscript{13} Interview with MZ, the head of the Purworejo District on 5 May 2011.
showcase agricultural products and which is located in Bagelen District. To conclude, the LED in Purworejo Regency is particularly focused on the second group of LED initiatives; that of agricultural modernisation.

6.2.2. Purbalingga Regency

The focus of economic development in Purbalingga Regency is at the community level with main economic activity also being in the agricultural sector. LED here strongly emphasizes agricultural development, in a similar manner to Purworejo Regency. However, there are also significant differences between the two areas. Purbalingga Regency, in fact has eight quite distinct and innovative development programs that are unique to the area. These are: a) The Labour Intensive Programme (Program Padat Karya Pangan), 2) The Matching Fund for House Renovation Programme for the Poor (Program Stimulan Pemugaran Rumah Keluarga Miskin), 3) The Free Health Services for the Poor (Jaminan Pemeliharaan Kesehatan Masyarakat), 4) The Village Comprehensive Health Programme (Desa Sehat Mandiri), 5) General Funds Allocation for Villages (Dana Alokasi Umum Desa/Kelurahan), 6) The Centre for Main Agriculture Products (Pusat Pengolahan Hasil Pertanian Utama), 7) The Industrial Zone for Organic Compost (Kawasan Industri Kompos Kandang Unggulan), and 8) The One Stop Service for Business License and Investment (One stop service Perijinan Usaha dan Investasi).

In addition to these eight programmes, a particularly outstanding achievement of Purbalingga Regency in terms of LED is the success of the regency in attracting direct foreign investment and indeed being awarded recognition by the Ministry of
Home Affairs as the ‘pro-business locality’. The investment which comes from South Korea was initially for the establishment of factories producing fake eyelashes and wigs. Previously this was a household industry that involved many local people in the production of eyelashes and wigs in their own homes but could now re-locate, and grow as a business specialism in the new factories. An update to the fieldwork shows that in 2015 there are now some 24 such factories which provide employment for up to 40,000 people, including the supporting industries.

Hence, economic development in Purbalingga falls into the third group category of LED in Indonesia – that is the creation of non-farm employment which seeks to maximise the use of endogenous resources, in this case the local work force, to create competitive advantage. Purbalingga, then, shares with Purworejo the same focus on poverty eradication (the first group category of LED in Indonesia), with its programmes targeted on improving the quality of life for citizens in the locality.

Programmes in public health service provision and education, for example, have become the responsibility of the recently decentralised local governments in Indonesia, including in the four case studies. Whilst, Surakarta is economically better off and has done more to provide better public health services for its locality, the other three local governments (Purworejo, Purbalingga and Cimahi) are still struggling to finance such programmes. Indeed, with very limited budget support from Anggaran Pendapatan dan Belanja Daerah (APBD), combined with the constrained tax resources of the local areas, most local governments remain too dependent on fiscal transfers from the national government. And such dependency and resource constraints risks creating a climate in which opportunities for manipulation, corruption and bribery can develop within the local government. As
was said by MZ in the interview, it is necessary to go to Jakarta (the capital city) quite frequently to negotiate with the national government (ministry of home affairs) to try and secure a larger portion of the available fiscal transfers (General Purpose Grant/Dana Alokasi Umum and Specific Purpose Grant/Dana Alokasi Khusus).

6.2.3. Surakarta City

Reflecting its understanding of, and concern for, levels of poverty in the city, Surakarta has committed significant resources towards community level economic development with a strong ‘pro-poor’ dimension to its LED activities. Its focus then, is on fighting poverty, in ways that emphasize three core human needs: health care, educational advancement and food security. In health care and education, JW, the mayor has created a system resembling credit cards. Health and education cards have been made available, ranging from silver and gold to platinum, which respectively signify different levels in service provision. Citizens who are at the lowest level of poverty are eligible for platinum card which allows them to access more comprehensive services, either in education or health care and without charge. Citizens who are better off, yet still below the poverty line, are eligible for gold and silver cards which entitle them to rather fewer services for free. Issuing the cards means that JW has established a system which lessens, or even avoids, complicated bureaucratic procedures and documentation for poor citizens in accessing health and education services. The system has continued even though, in 2015, he was no longer Mayor of Surakarta City, and this is because the costs have become embedded in the

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14 Based on the interview with JW conducted on 9 April 2011.
local government budget allocation. Other local governments in Indonesia generally provide health and education services to the extent that available budgets allow, and free services can only be provided if the local government has the money or if the politicians in the Regional House of Representatives agree to the proposed budget by the Mayor.

From the interviews in Surakarta, it was evident that the Mayor there had personally given particular commitment to establishing these priorities for community economic development. Indeed, to finance those programmes; the Mayor had had to negotiate hard with the city council to win a sufficient budget allocation for the initiative.

Borrowing skills and understanding from his business background, JW, as mayor of Surakarta, introduced a four-fold strategy for economic development based on: (1) product management, (2) brand management (3) network management (4) customer management. In his interview, he explained how each such aspect had been developed. With regard to ‘product management’, for example, the city had focused on the management of its people. This was particularly reflected in the way the city managed its street vendors and the traditional market traders. JW, appreciated the importance of ‘positioning’ the city for competitive advantage, and his vision of ‘the past Surakarta is the future Surakarta’, (the city also often being named as Solo) aimed at exploiting its culture and traditional values for its future development. Traditional and cultural show programmes such as Solo Batik Carnival, Solo International Ethnic Music Festival and Conference, Solo Menari (Solo dancing, 24 hours of dancing shows taking place throughout the city) are all longstanding events but ones that now also reflect how Surakarta approaches its ‘brand management’.
‘Network management’ has been undertaken by considerable effort dedicated to building trust among various stakeholders in Surakarta; within the city government, between the bureaucracy and the city council, with the private sector and also with the community. With extensive and continuous communication, Surakarta city government had, as a result, succeeded in reducing the frequency of protests in the year of the fieldwork to zero, whereas previously, they were happening almost every week. Better communication with the citizens has been approached by holding ‘refleksi tahunan’ or annual presentations and evaluation sessions and by providing all stakeholders in Surakarta with access to a communication system through which their voice can be heard. Based on the interview with the vice-mayor of Surakarta15, improved ‘customer management’ has been initiated by providing more training in customer hospitality for street vendors, traditional market traders and various craft producers.

Another key focus of LED in Surakarta is in relation to the informal sector - Surakarta being widely regarded as the first city government in Indonesia to have successfully addressed the problem of unlicensed traders on the city’s streets – i.e. street vendors. In the next section this initiative will be examined more closely as a case-study in local government-led economic development, both at Surakarta City and at Cimahi City which has faced similar issues. Managing street vendors, it is suggested, forms a key element of any pro-poor policy in most developing countries.

15 Interview with FXR on 20 April 2011
6.2.4. Cimahi City

Similar to Surakarta City, Cimahi is categorised as an ‘urban area’, as defined in the population census of Indonesia (1990 to 2000) because of its (1) high level of population density (2) low ratio of the people in farming and (3) the territorial size of its region. At the time of the research, it had been just over 8 years since Cimahi City became an autonomous local government, following a long debate and difficult struggle in the National House of Representatives (DPR) leading to the eventual passing of the draft of the Act No. 9 of 2001 that heralded its autonomous city status on 21st May 2001. As such, Cimahi became the smallest decentralised local government in Indonesia at the time, with only 3 districts (Kecamatan), but free from domination by Bandung Regency.

In several interviews with the mayor and staff of Cimahi City\textsuperscript{16}, it was made clear that Bandung Regency had been reluctant to free Cimahi as the administrative city (and in effect become equivalent in status to regency) because it was perceived as providing an important source of local revenue for Bandung Regency through its textile factories and other industrial activity. For this reason, the change would have negative effects on Bandung regency and its capacity for its own local economic development, which illustrates again the ‘zero sum’ problem in LED.

With this new law, IT, who was previously the Regional Secretary (Sekretaris Daerah) of Bogor City (another autonomous local government in the same West Java Province) was appointed as the Acting Mayor of Cimahi City and within a year he had taken on many responsibilities including the formation of the regional house

\textsuperscript{16} Interviews were conducted with the Mayor and the staff of the local government of Cimahi City during the period of the fieldwork June 2011
of representatives (meaning that he had to run an election for the Cimahi City citizens to select their representatives in the regional house of representatives), the establishment of a regional budget, the formation of a new organisational structure (STOK/struktur organisasi dan tata kerja), the establishment of land borders and the inheritance of the city assets from Bandung Regency.  

Cimahi City was also different from the other local governments in this research in that IT, as the Mayor, had never been himself directly elected by the people but instead had been appointed by the Ministry of Home Affairs according to the Act No.9 of 2001. As the first appointed Mayor, he was immediately in charge of the formation of the Regional House of Representatives that eventually agreed to his candidacy for the Mayorship, therefore ensuring, in effect, his election by the members for the period of 2002 – 2007, albeit without the votes of the people as a whole, and therefore with rather less democratic legitimacy than elsewhere.

The interview with the head of KPU revealed that, at that time, there seemed to be no other suitable candidate among the leaders in Cimahi City, and so until the mayoral elections in 2007, when IT was re-elected on a full electoral ballot, his leadership, and that of his vice mayor, ER, was always qualified somewhat by their appointed status.

As relatively young autonomous local government area, Cimahi City has also faced a number of challenges, each of which have proved quite difficult. The city had significant natural resources compared with other autonomous local governments in the eastern parts of Indonesia. Therefore, two strong focii in economic development there were naturally trade and the informal sector. Three principal sources of

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17 Based on the interviews with the Mayor of Cimahi City and the chief of Regional Commision of General Election Cimahi City on Chief of regional general election commision – IS (28 June 2011) and NE (24 June 2011) and IT (28 June 2011)
revenue for Cimahi are: tax, retribution (charge), and profits from enterprises owned by the local government. In their published documentation\textsuperscript{18}, the City claims that the banking sector is a significant trigger for economic performance. The industrial sector, however, accounted for 63.99\% of GDP in 2004, with oil & gas extraction being important here, albeit without making a contribution to the local government and therefore being peripheral to the city’s challenge of funding local economic development. Accordingly, much effort has been devoted towards identifying other means to this end.

As indicated above, one such challenge was similar to Surakarta City, that being the longstanding existence of a well-developed informal sector of street vendors. However, the approach taken in Cimahi City has been somewhat different from Surakarta City, and this difference will also be elaborated upon in the next section.

Without many natural resources, Cimahi has diverted the focus of its economic development into other areas. Based on the interview with the AC, Chief of the Economic Department – Regional Planning Board, Cimahi City had set the vision in 2004 to become a cyber-city and had marked this by the establishment of Cimahi Techno Residential Park which would be the home for the Faculty of Computer Science of the Bandung Institute (a prestigious public university in Indonesia). However, the plan was soon abandoned for environmental conservation reasons - the site where the park was to be built having been categorized as a protected area. Further, in 2006, as a result of techno park establishment, Cimahi

\textsuperscript{18} Analysis based on Cimahi City Documents: Pendapatan dari realisasi karcis terjual dari PJKA thn 2003 – 2004 ; Pendapatan dari lalu lintas gerbang tol baros thn 2004 ; Realisasi pendapatan daerah otonomi cimahi thn 2002 – 2003 ; Realisas pengeluaran daerah otonomi cimahi thn 2002 – 2003
City was able to produce 500 of the pieces making up a laptop computer but had failed to make a profit selling such devices because developments in, and the market for, laptops had proceeded and grown rapidly and Cimahi had been unable to keep up with the latest innovations. In 2007, another initiative was made to try and achieve the goal of a cyber-city by developing training in information technology and multimedia. Further, this initiative was supported by establishment of the Baros Information Technology Creative (BITC) Building and also the launch of Cimahi Creative Association. By the time of the fieldwork for this research, Cimahi had some 80 animation creators at work with local and national television companies. In the future, these people are expected to transfer their knowledge on to others and to create a pathway for ‘techno-preneurship’ in the city. Technology training specialists at national level acknowledged the status of Cimahi in this respect and the capability now established here that should serve the future well.

6.3. The Informal Sector in Local Economic Development

Whilst Indonesia is Asia’s fifth largest economy, the fourth most populous nation in the world, and one that is endowed with an abundance of natural resources, there persists a significant funding shortage among local governments in relation to economic development. With the introduction of the Local Autonomy Policy of the Local Government Act No. 22 & 25 of year 1999, it was expected that better performance in terms of LED would be achieved across local governments of Indonesia. However, financial capacity has been a major constraint on success in this respect.
The policy of decentralization requires local governments to be able to generate their own revenues and, of course, having strong self-generated local revenue streams is key to local governments being able to behave autonomously. Quite simply, the more local revenue that a local government can generate, the more autonomy it will be able to exercise in practice. Yet the reality in Indonesia is that the majority of local governments still rely heavily on fiscal transfers from national government. Officially, the amount of such fiscal transfers follows a government formula that includes factors such as the size of population and geographical area. However, in practice, in addition to the formula-based allocations, local governments tend to lobby the national government for higher levels of fiscal transfer, creating potential not only for inequitable and inconsistent treatment between local governments but also questionable methods of influence, including bribery.

Decentralization, it seems, can also create higher costs for the economy primarily because of the tendencies of local governments to increase their locally-based revenues (Pendapatan Asli Daerah) and, for political and bureaucratic reasons pursue rent-seeking behaviours (Fitrani, Hofman, and Kaiser 2005). The new power of autonomy held by local governments allows them to introduce policies that generate revenues, either through taxation on local exploration and extraction of natural resources or through more general taxation policies. The power for local governments to levy taxes, and the need to generate more local revenues, has often resulted in a plethora of taxes and taxed activities, implying an ever widening tax base and one that increasingly overlaps with the tax policies of national government (meaning that, sometimes, the same activities are taxed twice). Unsurprisingly then, the informal sector of street vendors has increasingly been seen by local government
as a potential target for additional taxation as well as, or rather than an activity to be regulated.

In the next section, the focus is placed particularly on the two cities of Surakarta and Cimahi and, particularly on the contrasting ways in which the problems of a large informal sector of unlicensed street vendors have been addressed as part of the cities’ respective LED programmes. As indicated, whilst, both cities have faced much the same problems of unlicensed trading and tax avoidance, and while both local governments have sought to address the problems by relocation policies, in Surakarta City, the emphasis, as indicated, has been placed on a positive approach that reflects pro-poor thinking while in Cimahi City street vendors have been seen only as a problem and with little potential for contributing economically, with very different outcomes as a result.

These different approaches are examined in two parts. First, the focus is on the contribution of the informal sector to local government revenues in general, while in the second part the discussion centres on the respective approaches to relocation of street vendors. But by way of introduction to those discussions, it is probably appropriate to provide a little more context on the informal sector in Indonesia and its policies for decentralisation.

6.3.1. The Contribution of the Informal Sector to the Economy

Even though the informal sector is generally perceived as inferior to the formal sector of the economy in terms of levels of earnings, worker-security, and protection from exploitation regarding such things as labour standards, lending
terms, and other contractual arrangements, it does contribute significantly to national output.

Recent calculations for developing countries suggest that the informal sector varies from between about 20 per cent of GDP in Indonesia to around 67 per cent in Bolivia; and that it accounts for over 40 per cent of GDP in twenty-four of the fifty-five countries (Alm and Martinez-Vasquez 2003).

According to the Indonesian National Work Force Survey (Survei Angkatan Kerja Nasional) by the Statistic Indonesia, in 1998, 65.40 % of work force was operating in the informal sector and this increased to 69.63% in 2002. Further, the data showed that, in 1998, 85.61% of the work force was in the informal sector related to agriculture, forestry and fisheries and with 82.48% of the sector being trading-related while, by 2002, the proportion working informally in agriculture forestry and fisheries had increased to 91.92 % while a rather smaller figure - 78.07% - was trading-related.

In addition to the contribution to the GDP, according to Schneider and Klinglmair (2004) the informal sector can help to create markets, increase financial resources, enhance entrepreneurship, and transform the legal, social, and economic institutions necessary for accumulation. Moreover, particularly at times of economic crisis, when the numbers of poor people falling below the poverty line increases, the informal sector can be especially important as a means of survival, not least because more poor people will turn to it for their basic necessities (Devas and Korboe, 2000). This, for example, was very evident during the period of Asian crisis that hit the Indonesian economy in 2008.
Chen (2007) has argued that the informal economy is able to persist both when the rate of economic growth of a country or region is slow and/or when the rate of population growth is rapid. Since control over population growth in Indonesia has been quite successful, it seems that the informal sector has grown more because of economic contraction, and especially since the Asian crisis of 1997–98. A survey conducted by the World Bank, the Ford Foundation and Statistic Indonesia found that urban areas and Java had been the hardest hit by this crisis (Watterberg, Sumarto, and Pritchett, 1999). In fact the informal sector was to provide a significant cushion for the labour force in several urban areas of Java during the economic crisis, with many turning to work in the informal economy because of the lack of jobs available in the formal sector. The contribution of the informal sector to Surakarta City, for example, is revealed in the interesting numbers shown in Table 2.
Table 6.1 Surakarta City Revenue from Informal Sector
(By year and IDR/Indonesian Rupiah)

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution of Informal Sector to Surakarta City Revenue</th>
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<tbody>
<tr>
<td>2002</td>
<td>140,000,000</td>
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<td>2008</td>
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<td>2009</td>
<td>140,000,000</td>
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<tr>
<td>2010</td>
<td>140,000,000</td>
</tr>
</tbody>
</table>

Source: KOMPIP 2011 in Rachmawati (2013b)

Although such data has been used as a justification for the local government policy on relocating street vendors (Rachmawati, 2013b), it also highlights the potential revenues that local government can generate if the taxing of street vendors is effectively managed and enforced.

A report on the realisation of Surakarta City’s regional budget for 2008 showed the amount of money generated from the informal sector tax as being around IDR 208.25 million, but concluded that a further IDR 2.4 billion could be generated by better management of the sector (street vendors) and taxation arrangements. However, while the costs of managing the informal sector have been estimated to take up a significant amount of the regional budget, the contribution received from it in practice was only about 8.6% of the total city revenue.
Ideally, the budget for developing the informal sector might be thought of as an investment that could be expected to cover itself from the yield of future taxation revenues and which might be expected to increase further once the sector matured and grew into a more formalised sector. That said, Johnson, et. al (1998) have reminded us that high taxes in countries with large informal economies are only likely to induce non-compliance by the informal sector and so risk losing potential government revenues (in turn undermining capacity to help and support market development or the provision of public services and public administration more generally).

6.3.2. To Tax or Not to Tax

From the fieldwork interviews with the Mayor and Vice Mayor of Surakarta it was clear that the leaders of the City’s local government recognised the importance of the informal sector and of its contribution to the local government revenue base (interviews conducted on 9 April 2011 and 10 April 2011).

An illustration of the potential of the sector was to be found in the experience of one food street vendor – Adek - who ran his business twice daily. Adek, a middle-aged trader, sold a chicken porridge in the morning and meatball soup in the afternoon from his mobile cart. Street vendors like Adek can be found throughout cities in Indonesia and, by selling their products twice daily, they are potentially liable to twice the local tax. However, as Livingstone & Charlton (2001) have pointed out, informal sector employment and incomes are notoriously difficult to tax,
particularly street vendors, many of whom will exploit the mobility of their stalls and keep repositioning themselves to avoid the local officials (Joshi and Ayee in Brautigam, Fjelstad and Moore (eds.), 2008).

In fact many professional revenue collection specialists tend to be somewhat sceptical of the value of chasing such traders, knowing that the costs of doing so, and which will have to be borne by taxpayers, can be quite high in relation to the amounts of money at stake, especially if formal prosecutions are pursued (Joshi and Ayee in Brautigam, Fjelstad and Moore (eds.), 2008).

Alm and Martinez-Vasquez (2003), on the other hand, have suggested that losses from failing to tax the informal sector could amount to as much as 35% – 55% cent of total tax revenues in some countries. According to Terkper (2003), however, rarely are such issues addressed in the tax reforms of developing countries and, for the most part, little has been done to make significant in-roads into tax collection in the informal sector (Smith 2003; Stiglitz 2003). This is an obvious challenge for governments, albeit doing so while simultaneously ensuring that the costs of collection are kept as low as possible.

Another perspective again on this issue, however, has been provided in a study of the informal sector by two of Christian Aid’s partners in Ghana (Caroll, 2011), where the conclusion reached was that the current tax system was rarely fair and inclusive in informal sector, and particularly for women, who were more likely to pay the taxes due than their male counterparts, but who were often denied the level of service provision by local government to which they were entitled.
6.3.3. How Best to Tax?

Recognising the complex challenges and characteristics of the informal sector, Pimhidzai and Fox (2010) have argued the importance of getting the policies in this respect right and not unintentionally pushing so hard that informal sector businesses become subject to formalities that are perhaps driven elsewhere and potential tax revenues lost in the process. Their research also concluded that, with a progressive tax structure, many businesses in the informal sector could fold and push people who are already poor into deeper poverty.

Schneider and Klinglmair (2004) argued that many small scale business enterprises are likely to continue to trade informally, avoid as many government rules and regulations as possible, and particularly to escape high taxation. In other words, the high cost of compliance with formal regulation tends to increase the scale of informal sector activity. Joshi and Ayee in Bräutigam, Fjeldstad and Moore (eds.) (2008) have argued that one potential method of collecting taxes from the informal sector involves using the unions who serve businesses in this context as collection agents - for example, the union of street vendors – as they are likely to have the most detailed knowledge of the activities and whereabouts of their members.

Further, they discussed how tax collection is managed under the control of the unions in Ghana and how the task was undertaken only on the days the traders actually worked. A similar method could, it is suggested, be applied to tax collection from food street vendors like Adek (in the example above). It could also be considered as a way of implementing a fairer tax system for such street vendors since the tax revenues would be collected from the vendors who actually run the
businesses on a particular day. In the Ghanaian example, in fact, the taxes were initially collected on a daily basis but then, to save on the costs of printing receipts, on a weekly basis, and for which the union was incentivised by a payment of a 2.5 per cent share of the total collection.

However, if the informal sector is not already unionised, setting up such arrangements is itself unlikely to be an easy or short-term task, as a strong level of trust and understanding is called for and for the benefits of membership need to be clearly articulated to the traders, for example, in terms of stronger bargaining power with the local government and access to the various services and other entitlements and privileges that might result.

Research on building political voice within the informal economy (Jo Beall, 2001; Moser 1996; AbdouMaliq Simone 2001, 2004; and Ilda Lourenco-Lindell 2002, 2002 and Mark Granovetter, 1983) mostly concludes that the way forward lies not only in creating networks and associations in order to facilitate participation in local governance structures, but also in empowering those associations to make effective claims on government.

The establishment of informal sector unions does not necessarily imply the provision of representation in institutional channels. Dickovick in Bräutigam, Fjeldstad and Moore (eds.), (2008, pp. 200) has studied collective action by informal enterprises in the transport and street-vending sectors in Peruvian cities – in three localities of Lima, and also in Chicalayo. This study showed that in circumstances where the local government was under pressure to raise revenues, it would tend to resort to confrontational means to enforce tax collection rather than negotiating with the informal sector. Unless there is strong and city-wide membership of the union,
there will probably also be little opportunity for collective action and, without such collective action, it will be hard for the union to achieve anything on behalf of the traders, even with regard to ensuring provision of the services to which the tax-paying enterprises are entitled. Conversely, when the local government has not been under pressure to generate revenues, it is likely to be more receptive to negotiation with the informal sector. In one of Dickovick’s Lima-based case studies, the City had been able to negotiate with street vendor associations and achieved mutually satisfactory outcomes including: an agreement not to levy taxes in light of the ‘extraordinary economic crises in exchange for agreement to move from the highly valued city centre sites to less prestigious areas (ibid. 19). A similar kind of bargaining was highlighted in Surakarta City within this Indonesian-based research (Rachmawati, 2013b).

From the above discussion, then, it is clear that street vendors, who form a very important part of the informal sector, and the most visible one, do contribute significantly to the economy within a locality. They contribute to the growth of the local economy through their reliance on locally available resources and services. They also have the potential to contribute to the local government revenue, although this potential is only likely to be realised through better tax collection and tax management systems. Their presence is also likely to result in better public service provision for the community as a whole and is likely to play a key part in increasing financial capacity of the local government. Good management of local economic resources, and increased local revenues as well, should create favourable and stable conditions for this form of local economic development.
On a national scale, a country is in a strong position when its exports exceed its imports, and the informal sector can play a significant role in this respect through supporting and sustaining more local production, therefore creating a greener economy. The informal sector also relies heavily on, and supports, low cost production using locally available resources, including scrap materials. While this has often been regarded as disadvantageous because it may seem to infringe safety and hygiene regulations, it should also be viewed positively for the conservation and recycling benefits for the environment that it brings about.

A fairer tax collection will only happen when local governments are able to ensure better support provision for the informal sector, for example, in the form of better infrastructure and other services. Hence, the negative impact of the informal sector on the environment (the street or public space as their working environment) is reduced to a minimum level. Better infrastructure service provision will also discourage the informal sector from using unauthorised vacant public or private spaces and from constructing structures and buildings without the necessary legal permits.

6.4. Surakara City and Cimahi City – Relocation of Street Vendors as An Local Economic Development Initiative in the Informal Sector

The Local Government Acts No. 22 and 25 of 1999 have provided the foundation and context for much discussion about social and economic development within Indonesian Local Governments. Decentralisation in Indonesia has brought about crucial political and economic change. The most important such change has
been the increased level of citizen participation in governance and decision-making, and particularly the direct elections for local leaders, and public involvement in consultation processes for new developments and policy proposals at local level. Such involvement has become the driving force for democratisation. Moreover, the more localised scale of governance that has resulted from decentralisation is generally regarded to have provided a more suitable environment for the pursuit of better economic prosperity and poverty reduction (Saito, 2008; Stansel, 2004).

Decentralisation has also provided a stronger justification for local government’s need for LED as leaders at the local level are in a better position and better equipped to respond to local expectations and needs and to act to ensure the provision of economically efficient and effective public goods and services (Stansel, 2004). In each and every local authority, the options to develop local economic development range from the attracting direct investment (both domestic and foreign investment) to pro poor economic community development.

Without doubt, the contribution of informal small enterprises such as street vendors has become more significant to economic development in many Indonesian local authorities and, particularly during the Asian economic crisis that hit Indonesia in 1996, when it provided a security net for many poorer households and an antidote to mass unemployment. Indeed, it is anticipated that the informal economy will be continue to provide the foundations of sustainable local economic development and sustain itself robustly into the future as the on-going economic challenges persist.

The existence of street vendors has proved a bitter-sweet experience. They are acknowledged and accepted for their durability and endurance through a period of crisis, but most of the time is viewed as a hindrance to urban (physical)
development. For this reason, many local authorities have been trying to establish programmes to manage their street vendors, and actions in this respect have often culminated in violent clashes between local government officials and groups of vendors. A common objective for local governments has been to re-locate street vendors to new places or areas by creating new market buildings or by providing new shelters. To support these objectives, the World Bank has given many Indonesian local authorities loans to build up-to-date market buildings or new trade shelters. But such initiatives have not necessarily been welcomed by the vendors and angry clashes have often followed attempts to enforce relocation, which in turn have hardly helped the public reputation of the local governments as democratic institutions, sensitive and responsive to local opinions and expectations.

Recently, a local authority that had been particularly successful in re-locating its street vendors claimed that the process had been a smooth one involving high degree of participation. The outcome for this program was clear; the decreasing number of street peddlers doing their business on the street and the increasing number of street peddlers now trading in a modern market building. Moreover, the expected impact of this program was that more public space would be available for the community so helping to strengthen social cohesion. However, the impacts of the program on the particular target group – the street vendors - were under-researched at the time and a further evaluation of the decision to accept the loan from the World Bank was waiting to be conducted.

From the observations and interview with the Surakarta City staff, re-location of the street vendors was regarded successful from the local government’s viewpoint, but it is important also to understand the extent to which it affects the livelihoods of
the vendors themselves and enables them to sustain their livelihoods and avoid falling into poverty. It is also important to understand the consequences of the loans (for building new market buildings) on the local authorities’ finances and whether the addition of another financial burden to be repaid impacts negatively on capacity for other local economic or social development for local areas.

Since the wave of structural adjustment programmes, international donor agencies now usually require governments around the world to provide local governments with a certain degree of autonomy, and decentralisation policies have in turn generally brought more development aid to local governments. This has certainly been the case in Indonesia according to the OECD Review 2004. However, a follow-up study by Crook and Sverrison (2001) emphasized that donor support should focus on the links between decentralisation and pro-poor outcomes more explicitly. This argument has also provided the main foundation for the World Bank in offering development aid to the Cimahi City, one of the four case-study areas in this research. Like all international donor agencies, the World Bank believes that providing development aid to local governments will enable them to establish and sustain best practices in handling issues such as street vendors effectively and sensitively and encourage learning through the dissemination of experiences between local governments.

Local governments, being close to the people, are well placed to understand and respond to issues of local concern, although there is also a need to be committed to listening and learning from the people as well. In this respect, the first move of

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19 The four areas of such links are Pro-poor economic growth, pro-poor service delivery, income distribution for reducing disparities within localities, redistribution of resources from wealthy to deprived areas within the country (OECD 2004:26)
the Mayor in Surakarta City was to commission a small committee to gain insight from the community about their priorities and about the key problems to be addressed. The indication from the preliminary research was that citizens prioritised the issue of street vendors occupying public spaces and this provided the new mayor with the legitimacy to act, knowing that he enjoyed the backing of citizens in addressing this sensitive matter.

Indonesia Constitution Article 27 guarantees that all citizens have equal status before the law and in government and shall abide by the law and the government without any exception and that every citizen has the right to work and to live in human dignity. That article posits an obligation for the national government, which is now delegated to local government as the result of decentralisation, to make sure that all citizens have the rights to work and have adequate means of livelihood. Furthermore, local government has the obligation to protect the right of every part of the community, including street vendors, whose livelihood involves trading on the streets. Local government also needs to recognize its contribution to society in this respect and to see its actions here as potentially important in the alleviation of urban poverty.

6.4.1. Surakarta City’s Relocation of Street Vendors: the City Council’s Perspective

In the interview with the vice mayor of Surakarta, it was asserted that economic development in the city focused primarily on community economic development and that one of the aims was to improve the image of the street vendor
from that of ‘villain of the community’ as is commonly the perception in such cities. But in Surakarta the street vendors had been treated as ‘partners’ in the process of local economic development, with their needs and opinions being taken into consideration in deciding the best way forward for policy-making on this sensitive issue.

In its publication, ‘Memboyong 989 PKL : dari Banjarsari ke Semanggi’, Surakarta City argued its case for relocating the street vendors as follows; the rapidly growing numbers cluttering the streets and occupying public space that is not provisioned for them, and the conflict this creates with use of public facilities, the traffic congestion caused, the need for green public space to provide a good quality of life for citizens, and the fact that the majority of citizens had cited street vendors as the most urgent problem for the new Mayor and Vice Mayor to address. Moreover, the Vice Mayor also emphasized the financial aspects of the issue of street vendors; namely that, with some 5,817 street vendors in the city, the revenues to be derived from licenses should exceed IDR 2 million, yet the money actually generated was only IDR 155,000. Either a significant number of street vendors were not paying their licences (retribution tickets) or that much of the revenue was being corruptly siphoned off rather than being paid into the city government’s exchequer. While a majority of the Regional House of People’s Representatives was initially doubtful about the financial wisdom of the relocation program the Mayor demonstrated his skills in political communication and was able to convince the Regional House that the program would not be counterproductive but would be for the betterment of the city and its economic development.
It is important to understand that Surakarta’s street vendor relocation program, which started in 2006, was never intended to marginalize this important sector of the informal economy, but to guarantee its continuing existence and to ensure its business security and sustainability. The plan from the outset was for a humane relocation and one that emphasised four aspects: relocation, provision of shelter/tents, provision of carts and the maintenance of order. The program has indeed aimed to provide a better and more regulated environment for the vendors, in some cases by transferring them to more suitable locations, or in others by allowing the sale of goods in the same places but with better carts provided; and with better quality shelters and tents to improve the visual aspect of the trading areas. The City formalised the relocation program by constituting a special regional regulation draft no.3/2008 which, at the time of the research, was awaiting implementation.

The success of this first re-location made the Surakarta City legalize the program by constituting a regional regulation draft no. 3/2008 that at the time of the interview was still pending implementation. In some contrast, at Cimahi City, as elsewhere, the street vendors were re-located in a more typical manner that involved force and created some violence, being backed up by the Army/Indonesian National Armed Forces. In the researcher view, this was an intimidating way to re-locate the street vendors, even though the Cimahi City Government believed it to be a good way of responding to the community and reflective of the tradition of good cooperation between local governments and the military that has existed historically in this city.
6.4.2. Cimahi City’s Relocation of Street Vendors: the City Council’s Perspective

In Cimahi City Government, as also in other cities of Indonesia, the issues of street vendors violating access to public space have again been much discussed. Here the vendors occupied the main commercial part of the city causing traffic congestion and lowering the quality and safety of the street and wider environment. Unlike Surakarta, Cimahi’s main objective was to create thriving local economic development based on creative industries. Therefore, it was easy to understand why street vendors were not treated in the same was as in Surakarta.

Cimah City government is part of the Urban Sector Development Reform Project and under this consortium; the World Bank has been supporting two main missions: a) bureaucratic reform and b) investment leading to local economic development. Along with four other local governments in Indonesia, Cimahi has been provided with a loan from the World Bank to build infrastructure (including a new market building, improved public transportation and a new railway station) all to boost local economic development.

As part of its programme of street vendor management, some of the loan facility was earmarked for the building of a modern market building on which work started in 2007. The aim has been to re-locate the street vendors here and to incentivise their move through subsidized pricing of kiosks and with additional space reserved for new vendors. Since the funding is by a loan and with repayments expected over a period of 20 years, it was considered impossible for the city
government to provide the market facility free of charge. Accordingly, the plan has been for sufficient charges to be paid by the street vendors to cover the monthly repayments of the loan.

In fact, in the interview with the Mayor of Cimahi, it was explained that a second modern market building was also under construction, financed by a second loan. This building was said to be 90% finished and already some of the areas had become occupied by traders. In this case, the loan had been arranged some years earlier, and for just a five year period, which had meant that the City Government now had to make its re-payment (and despite the fact that the loan had not been large enough to cover the full costs involved in construction). Accordingly, this market building was now an additional financial burden for the Cimahi City Government budget.

6.4.3. Relocation from the Street Vendor’s Perspective

The Street Vendors’ Association disputed the Surakarta City Government’s claims regarding the size of the financial contribution to the local government revenue by publishing figures on the amount of money annually generated from the street vendor retribution tickets (see Table 2, which shows the amounts the vendors claim to have paid year by year). In the year in which the mayor commenced his term of office in 2005, it was confirmed that the contribution amounted to only IDR 153.000.000 but that this amount had increased to IDR 208.250.000, by 2008, two years after the re-location. However, in 2009, the amount of money generated decreased to only IDR 98.474.800, this being the year that the Surakarta City
Government happened also to have issued the regional regulation draft no. 3/2008. The street vendors association indicated that they suspected that the decrease was fabricated by the city government to justify its controversial regional regulation draft. Two further objections were raised by the Street-Vendors Association. The first related to the requirement for each street vendor to have an Identification Card on their possession at all times when trading within area the city (these being issued only to citizens of Surakarta City to ensure that all vendors are indeed from Surakarta). The second concerned the harsh sanctions (financial penalties of up to three months charge plus large fines) for any street vendors caught violating the rules of the regional constitution. Such aspects of the new regime were felt by the Street Vendors Association to be potentially damaging to the community, especially the poorest people who might be denied their livelihoods. Indeed, the Association argued that the new regulations were contrary to the Indonesia Constitution Article 27.

The Association also disputed the purpose of the new regime as making space for new urban development, instead believing it to be more about making the streets look tidier in terms of physical appearance in order to attract higher investment into the city (Popke & Ballard, 2004).

Whilst the street vendors acknowledged the benefits of certain aspects of the programme, notably the provision of shelter and new carts, they did not agree that re-location was in their best interests in terms of protecting their livelihoods. While it was said by the City Government that the program had been supported by most of the street vendors cooperatives/association, an interview with a representative of the Street Vendor Association and KOMPIP and LPH YAPPHI (local NGOs in Surakarta) revealed that it was only the first re-location that was felt to have been
successful and that, in his view, the City of Surakarta needed to re-evaluate the re-location program throughout the region because, as the representative said, many of the relocated vendors over the preceding 5-6 years had failed to survive in business. Such failures, it was said, were for various reasons, but including the fact that the provision of public transportation as promised by the Mayor to carry local people to another market area of the city had resulted in reduced custom for the street vendors. It was also suggested that street vendors believed they needed to be near the city centre to sell the small and cheap articles most were able to offer because their customers were unlikely to want to spend additionally on transportation.

Perhaps as might have been expected, many street vendors were less than complimentary about the establishment of a new market building (as at Cimahi City). Previously they had simply occupied a space in the street to do their business and only for the price of a license fee of around IDR 1000 to IDR 5000 per session; yet after their re-location to the new market building they had to pay much more money to the city government. In fact, again as at Cimahi City, despite the new building, many vendors continued to do their trading on the streets and, in doing so, were creating traffic jams throughout the day. Furthermore, although the new building contained three floors for trading, most of the vendors occupied only the first floor with the rest of the floors remaining empty or having been converted to temporary or permanent living quarters.

Interviews with several street vendors revealed that the reason for this was that too few customers were prepared to climb to the higher floors for shopping, so there was little opportunity for profit to be made above the first floor, and those
unable to find space on the ground or first floors had decided instead to take their chances back on the streets.

As for the local community, the relocation of the street vendors was certainly felt to improve traffic flow which had the benefit of reducing travel times to work and for other purposes. The provision of more public space was also seen as beneficial in giving the community more opportunity to enjoy outdoor activity and social contact. However, for those members of the community who relied on street vendors for much of their shopping, there were clear disadvantages of additional travel time and costs in getting to the new market buildings. So, overall, it might be suggested that the case for relocating the street vendors was finely balanced and inconclusive when all opinions are taken into consideration. That said, the success of street vendor relocation without involving force or violence at Surakarta City must be regarded as a rarity in this context and itself an impressive achievement; certainly so within an Indonesian context where this has been such a fraught issue for so many cities.

Provision of a new and purpose-designed market building for re-located street vendors can offer many advantages to local communities and to the city governments as well as affording more comfort and safety to traders. But the viability of business for the vendors is paramount and local government has to ensure that the consequences of such relocation plans do not jeopardise livelihoods and trade, for example, by distancing the customers from the vendors. Easier and cheap transport is therefore an imperative if relocation plans are to be successful, and it may well be necessary to offer other inducements to vendors such as access to better schooling and health services in return for risking their trade and disturbing their livelihoods, as
Indeed was done in Surakarta— and probably another reason for the peaceful acceptance of the change there on the part of most vendors.

Returning at this point to the discussion earlier in this chapter about the role of NGOs/NPOs in Indonesian LED, in Surakarta City, the street vendors received sufficient support from the local NGOs/NPOs by way of advocacy that eventually strengthened the bargaining power of street vendors vis a vis the Mayor as the initiator of the relocation program. The peacefulness of the street vendors’ relocation in Surakarta city is generally thought to have been an especially innovative feature of the approach towards the informal sector as part of LED there. However, for the program to be continuously implemented and to achieve the objective of good management of the informal sector, the Mayor needs to be able to gain the trust from the street vendors as well as the wider community. Only when street vendors are empowered with the help of local NGOs/NPOs, can this innovative approach in LED be said to have reflected democratic values as well as entrepreneurial ones.

In contrast, the approach in Cimahi City, where the role of NGOs/NPOs has been absent, has resulted in less power and representation for street vendors vis a vis the city government. Indeed, the fact that they have been relocated to a modern market building with a requirement to pay much higher rents has been in stark contrast to the earlier city government offer to make space available in the building at affordable rent levels.
6.5. Finding New Opportunities for Non-Farm Employment in Purworejo Regency

In addition to the elaboration of the general economic development context in the previous sections of this chapter, the case study presented in this sub-section tells us how a District Head (Camat) who worked in a key function within the local government. Though at a lower level in the administrative hierarchy, is established a different LED initiative within the locality.

Bagelen District is one of the vulnerable districts in Purworejo Regency because it has been exposed to problems related to logging exploitation and deforestation that has led to depletion of forest timber supplies and also to increased frequency and intensity of flooding and landslides in the rainy season. High levels of devastation have become a regularly occurring catastrophe for the community and placed a significant financial and management burden on local government in terms of disaster relief and mitigation. KM, as the district head understood the needs and priorities of his local community in relation to these problems and has actively led on local economic development with a program specifically designed to address them. However, he perceived the problem in his community as an opportunity and set about pursuing a holistic approach to understanding the problem and addressing the many aspects with a comprehensive solution. He understood the existence of national policy that could be beneficial to his initiatives to solve the local problems, notably that the Indonesia National Land Agency had established a program called Proyek Operasi Nasional Agraria (PRONA) or the National Agricultural Operations Project and PRODA or Regional Agricultural Operations Project for the provincial
level. This program aims to give poor people the opportunity to register their land formally and legally at much cheaper cost than in the past.

In the interview, KM explained his view of how the PRONA program could contribute to solving the problem of impacts of logging exploitation by protecting the forests and land assets. With legal land certification, the community would be able to use the assets to access financial credits, and eventually the community might become better empowered and self-sustaining. In social policy terms, it was also seen as a good solution to longstanding family conflicts over land ownership. Whilst such conflicts of land ownership were commonplace among family members, land without certification would always worsen the arguments because of the lack of formality and legal evidence of title ownership, triggering friction of between individuals claiming ownership. However, with proof of legal ownership, it seemed likely that scope for such conflicts would greatly lessen.

The programme has focused particularly on the assets of areas including significant forested land that had been badly denuded by large-scale logging exploitation in recent years, as indicated, areas that have also been badly affected by increased frequency and intensity of flooding and landslides. The implementation of PRONA program was seen as just a first step in a larger innovative project and KM also discussed human resource management and economic development as part of a wider policy that would promote more sustainable forestry and livelihoods. To this end, he had initiated sixteen training sessions for district officers in 2008 – amounting to some 50 days in total.

A particularly pertinent factor in this district of Bagelen is that the forests are community-managed rather than state-managed, and as a result, KM had been able to
establish a community programme of rubber tree planting, with shorter harvesting cycles than for many other woodland products. For this programme, he had also secured assistance from members of Bagelen community who had been successful in rubber tree plantation in other regions of Indonesia. The programme had, at the time of the interview, already started to show positive results, with some 200 trees having begun to be harvested – following their plantation over the preceding 3-7 years. The market for the rubber product (milky latex) was, as a result, increasingly buoyant in and around the Purworejo Regency, earning around US $4.2 per kilo at the time, and bringing a particularly welcome income stream for the community.

The other valuable impact of this programme is that the reforestation is also helping to overcome some of the problems of flooding and landslides in the locality, and generally the future for rubber plantations seems bright – with plans for further forestation of some 300 hectares of rubber trees and for a rubber processing mill in the area too.

Another important economic initiative of KM’s has been the development of tourism in the Bagelen area. This is in an area called Bapangsari which has been quite isolated, being in a mountainous area with difficulties of access other than by foot because of blockages by huge volcanic rocks. Despite such geographical disadvantages, the potential for tourism is felt to be significant – with some 27 ancient fortresses and other sites of archaeological and historical interest. Recognising this, KM had issued an invitation to the community to propose innovative ideas to overcome the problems and to realise more tourism potential. In this respect, the community responded with a proposal to seek financial aid for the Purworejo regency to fund a project to crush the volcanic rock and, in turn, KM
launched a competition to attract contractors to undertake this rock-crushing work (a competition won by a 3-person team who bid to complete the job in 27 days). More than this, KM then managed to secure a grant from the National Program for Community Empowerment (PNPM Mandiri) for road improvements to improve access to the area (worth IDR 217 million), with the outcome being that Bapangsari is now no longer an isolated area but one with good communications, with the much improved potential for tourism now being actively exploited and with strong community support.

6.6. Conclusion

This chapter has discussed LED initiatives in four local governments in Indonesia with an emphasis on the informal sector and the agricultural sector - which are characteristic of economic activity in, respectively, urban and rural areas of Indonesia.

The analysis of local economic development initiatives in Surakarta City highlighted a pro-poor development approach having been successfully implemented. It has focused on poverty eradication but also covers health, education and community economic development. Similar to other smaller urban local government in Indonesia, the key economic activity in Surakarta City concerns with trading and particularly within the informal sector. The important role of NGOs/NPOs in advocacy on behalf of the community in the sector was also apparent and signifies a balancing influence between local government and citizens, reflecting democratic values in play.
Similar to Surakarta City, at Cimahi City economic activity is also dominated by the non-agricultural and non-natural resources sectors. With many factories located in Cimahi, the tax and retribution collected contributes significantly to local revenues of the city. However, again, community economic activity also revolves heavily around the informal sector and street vendors in particular. With the vision of becoming a cyber-city, Cimahi City has chosen to pursue an economic development approach that emphasises communication technology and multimedia. It is just 6 years since the concept of Cimahi Cyber City was initiated, and the success and benefit of this approach is still to be realised.

Purworejo Regency is the case study where strong emphasis has been placed on agricultural development. It has established the infrastructure such as an Agribusiness Centre (Sub Terminal Agribusiness/STA), initiated expansion of agriculture produce such as organic rice and also promoted specialist farming (e.g. the Etawah goats). As discussed, one particular district in Purworejo has developed a comprehensive economic development plan that seeks a solution to local problems of landslides and flooding, while at the same time creating better opportunities for economic development of poorer people through land ownership certification and increased job creation through tourism development.

Finally, Purbalingga Regency has provided an interesting case study of a further different local economic development approach; in this case based on attracting direct foreign investment. The fact that Purbalingga Regency is also characterised as primarily an agricultural area made it all the more interesting to find that the government of Purbalingga Regency had decided to embark on a strategy to win such foreign investment. It was claimed that the investment would be attracted
by a locally available workforce and with good prospects, although, at the time of the fieldwork, the project was only at the initiation stage and therefore there was, as yet, little evidence of impact or benefits.

Having examined these contrasting local economic development initiatives in the four case studies, respectively focusing on fighting poverty, agricultural modernisation, developing technological and telecommunications industries, tourism development, and attracting direct foreign investment, the research particularly analysed how the key actors involved within the local governments were playing their roles and the impact of both their exercising of public entrepreneurial skills and prioritising democratic values. In this respect, it was interesting to note not only how JW in Surakarta City had initiated the humane relocation of street vendors in his locality but also how he had brought and applied business values to local government business. Then the courage of IT in Cimahi City in pursuing an alternative approach to LED to realise a vision of becoming the cyber city was similarly fascinating. Different again was the approach of KM in Purworejo Regency in developing and implementing a more holistic approach towards the economic problem of his community and how this might work within the relatively limited role of MZ as regent. Finally in Purbalingga, the analysis focused on another strategy altogether – that of seeking direct foreign investment and this will be further considered in the succeeding chapter.
Chapter 7 - Public Entrepreneurs and Democratic Values in Local Economic Development

This chapter focuses particularly on the two major themes underpinning the research - public entrepreneurship and democratic values, and on how the two are reconciled in local government leadership for local economic development. The chapter begins with further discussion of decentralisation in Indonesia and then in the next section the analysis is developed as to how personal background experiences can influence the ways in which local leaders shape and pursue their roles with regard to local economic development. Further, the five characteristics of public entrepreneurship, as introduced in Chapter 3, are further discussed in relation to the four case studies. Then in the succeeding section the focus is on success and failure in public entrepreneurship, and on the conditions for surviving and thriving in a local government context. The chapter also examines the significance of public entrepreneurship at lower levels in the local government hierarchy, before offering an analysis of how public entrepreneurship and democratic values can be reconciled to ensure success in local economic development.

7.1. Decentralisation in Indonesia

Discussion of decentralisation in Indonesia always triggers a question as to the extent to which it guarantees the realisation of democratisation (Indonesia being...
both (as both the world’s largest Muslim majority country and also one of the most ethnically diverse).

There is neither an easy answer to, nor clear consensus on, this question. However according to Nordholt (in Harriss, Stokke & Törnquist, 2004 (eds.)), the linking of the process of decentralisation with that of democratisation and the rise of civil society (Aspinall and Fealy 2003; Antlöv 2003) is itself very questionable. In so concluding, Nordholt has argued that the shift from a centralised to a decentralised government system is not synonymous with a shift from authoritarian to democratic rule nor does it automatically imply the shift from strong state to strong civil society. Indonesia, which has become the 3rd largest democracy after India and the United States, now has five tiers of government, namely national, provincial, regency/cities, district and sub-district/village in which assemblies exist at all but the district and sub-district/village levels (USAID 2008:2). Regencies are rural jurisdictions with an elected head while cities are urban jurisdictions with an elected mayor, although regencies and cities are located in the same tier of government (Schulte Nordholt and Van Klinken 2007: 13). Schulte & Nordholt (2004) have also argued that the weakening of a strong state does not necessarily lead to more local democracy. Particularly for autonomous regencies like Purworejo, which is under-resourced in various aspects particularly in economic resource and human capacity, the role of a strong national state remains important because it provides guidance on policies as well as funding for many of the programmes.

The Purworejo Regent, Bupati MZ, acknowledged this and commented on the dependence of his local government on the fiscal transfers from national government to finance development projects in the locality, point out that:
Purworejo Regency is still heavily reliant on the national government money allocated for autonomous local government and, as the Regent, I have to do something about this, because it is impossible to run development initiatives with such a limited amount of money from the local government’s own revenues.\textsuperscript{20}

The situation is worsened by the fact that in regency like Purworejo, the majority of employment opportunities are in public administration which means that a large share of the local government budget has to be allocated to pay the public officials. This, of course, impacts negatively on budget spending for other services and development activities; hence the local government has to look towards national funding for most of its development programmes. For example, a poverty reduction programme which was implemented in Purworejo as part of the local economic development programme is probably better described as a part of the national program (that was also cross-sectoral and cross-regional). In this respect, MZ pointed out during the interview that:

\textit{This morning, I have just had a meeting to discuss a program to give financial assistance to mothers who are about to deliver their babies and this program will be applied nationally under the coordination of the ministry of health.}

During the research fieldwork in Purworejo Regency, moreover, it became apparent that one of the reasons why local economic development activity was quite limited, was because of the lack of infrastructure. Here MZ\textsuperscript{21}, the Purworejo Regent emphasised that:

\textsuperscript{20} Interview with MZ on 5 May 2011.
\textsuperscript{21} Interview conducted on 5 May 2011
‘Purworejo is such a small regency, but it is located in the busy hub that connects West Java Province and Central Java Province and other parts of Java Island. Every road in this regency is travelled by all modes of transportation and, as a result, our roads, big and small, deteriorate quickly and our limited financial capacity leaves very little room to repair or to maintain them. The community always complains that the local government does nothing, but in a reality this is the problem we are facing now.’

Here again, without significant revenue assignment on fiscal decentralisation the burden on the local tax of the costs of local borrowing would be unreasonably high for the community and well beyond other available revenue resources. As a consequence, the quality of local infrastructure - such as main roads, public transportation and other capital-based public services - is quite poor and this in turn presents an unfavourable situation for business and a negative impression for potential inward investors in the private sector. This concern was supported by the chief of Regional Development Planning Board (Bappeda) Purworejo who pointed out that:22

‘There is a long ancient road built along the Java Island by the Dutchman, Daendels, and it also runs across the area of Purworejo Regency up to our neighbouring government – Yogyarakarta Province. However, we often envy our neighbours because the Daendels road which belongs to them and is much better than ours. Moreover, there are many criminal acts taking place in that part, making it hard for our local government to

22 Interview conducted on 9 May 2011
attract investment, whether domestic or foreign. This, for sure, has slowed down our economic growth.’

Despite the fact that Purworejo and Purbalingga share similar characteristics as more rural areas, the research identified considerably less innovative economic activity in Purworejo compared with Purbalingga. If Purbalingga was able to attract foreign investment and so create new jobs, why was Purworejo less able to do so? One possible answer was discussed in chapter 6, i.e. the negative effect of middle-men whenever new proposals for investment were made in Purworejo. As Turner & Seymour (2002) argued, a key challenge of decentralisation at the regency and municipality level is the inadequacy of human resources capability, and this is also the case of Purworejo in relation to the skills of the local workforce. Also, as discussed in chapters 5 and 6, Purworejo is not so well endowed with natural resources; with iron-sand being the only known mineral to be extracted locally. The interview with MS the head of Regional Planning Board of Purworejo, in fact, revealed that there had recently been an expression of interest from the private sector for exploring the possibility of building windmills to generate renewable energy. As a result, there are hopes that such a project will come to fruition although the planned location of the development site was said to present a big challenge. Moreover, some previous negative experiences with iron-sand exploration, and with few apparent benefits for the local community, were also fuelling anxieties among local people as to the potential impacts of a wind-farm development. It was also evident from the interview how reluctance on MZ’s part to look to innovate more was a constraint when he pointed out that:
‘Yes, we expected to get the adipura award\(^{23}\), but we did not get that award. And yes, like everybody else, I wish that everything I do is acknowledged and rewarded, but in reality I do not get any such feedback, so what can be done about it? Nothing...!’

One of the particular devolved responsibilities created through decentralisation is the duty of a local government to manage staff who, although formally officials belonging to national government, are now located and managed within the local government where they are also paid their salaries. This reality of staff inherited from central government but now having to be financed and managed at local level, applied in all four case-studies (Purworejo, Purbalingga, Surakarta and Cimahi). That said, and to assist the financing of such devolved staffing, the local governments were in receipt of subsidies from the centre in the form of various financial transfers (partly from a general allocation fund (DAU), partly from a specific allocation fund (DAK), and partly from revenue sharing (tax and non-tax).

In light of Purworejo’s high reliance on such fiscal transfers, Brodjonegoro (2002) have highlighted the negative impact of this situation and have suggested that for many local governments it is unsustainable to continue on this basis with such a weak local taxation framework and dearth of other local sources of revenue. They have argued that local governments have to find alternative local funding sources and for which success in local economic development initiatives will be vital in creating new sources of revenue. In fact the average proportion of locally-raised revenues of most local governments in Indonesia has increased only very gradually since

\(^{23}\) Adipura award is an award for clean and green cities/districts in Indonesia launched in 1986.
decentralisation, and still some 93% of all regencies expenditures continue to be covered by transfers from the central government (Von Luebke, 2009: 203).

Decentralisation in Indonesia has been executed in three different ways, which also represent three types of decentralisation (Dormeier- Freire and Maurer in Nordholt, Arend van Klinken, 2002). First is the *delegation* of specific tasks while the centre retains its overall responsibility, which is comparable with the Law of 1974. Second is *de-concentration*, which refers to a relocation of decision making within a centralised state, which is reflected in the Law of 1957. And third is *devolution*, which concerns the actual transfer of power to lower levels of government, and this was implemented in 2001.

The Revised Law No. 22/1999 has brought some significant improvements in the political life in local governments in Indonesia that is the existence of direct elections of both parliamentary members and the heads of provincial/regency/municipality governments. It was intended to achieve a substantial devolution of power in order to bring government closer to the people and offer more transparency. Direct elections represent a stronger democratic process at local level and an improvement in local government’s accountability to its constituents as a result improved political decentralisation (Satryo et.al. 2005, p.8). The revised Law no. 32 of 2004 opened the door to increased citizen’s participation, especially through the direct elections of the heads of the region. However, after the regional governments had been elected, they were hardly held accountable to their voters. Instead, they remained accountable to the higher levels of government. So, during the office term, there was little in the way of citizen control over the performance of the local governments and no ‘recall’ mechanisms to challenge the
incumbent governments if they were to perform badly. In fact the law did not elaborate in detail the mechanisms for public participation other than establishing elections (Yappika, 2006, p.35). Further, with the introduction of this law, regional parliamentary members are now elected directly by the local voters together with the national parliamentary members. Prior to this, the Indonesian parliamentary members had been indirectly elected since basically the voters had the right to elect the political parties and subsequently the parties had the right to name their members to be placed in national and regional parliaments. Now, however, with the new scheme of direct local elections, political decentralisation in Indonesia has developed significantly and the regional parliamentary/DPRD members should be held accountable to their local voters, instead of simply to their political parties. Regional parliaments might also propose the impeachment of a head of a local executive too, although all such procedures have to go through local voters’ approval. Hence, with both local legislative members and heads of executives held accountable to their local voters, they have to be particularly cautious and sensitive to local viewpoints in making policies and activities related to the local budget (APBD). Related to the direct election process, as elaborated above, the next section will discuss how local government leaders in the case studies were elected and came to office.

7.2. The Background of Public Entrepreneurs

This section will elaborate how the leaders (the Mayors and the Regents) in each case study came to public office and how each of them exercises leadership, in order to ascertain whether any common patterns are discernible between the route to
power and the approach demonstrated in leadership – given that one of the assumptions behind the decentralization policy was that it would be likely to bring more dynamic leaders to take charge of economic strategy at the local level. Table 6.1 below, provides an overview of the leaders in each case study, which is followed up by pen-sketches of each.

Table 7.1 Overview of the Leaders in Four Case Studies

<table>
<thead>
<tr>
<th>Name of the locality</th>
<th>Name of the Local Leaders (Mayors/Regents)</th>
<th>Background and Experience</th>
</tr>
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</table>
| City of Surakarta    | Mayor: JW  
|                       | Vice Mayor: FXR  | Business association |
| Purworejo Regency    | Regent : MZ  
|                       | Vice Regent: SUH | Faith organisation and actively involved in a political party |
| City of Cimahi       | Mayor: IT  
|                       | Vice mayor: ER  | Public sector (the City Secretary of Bogor) |
| Purbalingga Regency  | Regent: TBS  
|                       | Vice Regent: HS  | Public sector (The Ministry of Agriculture, and Ministry of Home Affairs) |

JW: Leader of Surakarta City

What is especially striking is that, of the four case studies, only one of the mayors or regents was without previous working experience or a background in government, politics or public administration

In Surakarta City, the first case study, the mayor, JW came from the business world. He is the owner of a company that exports furniture worldwide. Having
experienced at first hand the difficulty of dealing with local government, particularly in terms of getting permission to set up a business or acquire any kind of license, he was motivated to run for mayor in the Surakarta City elections. His experience of the bureaucracy was typical, but in his case he had the funds and the organisational ability to put himself forward as a serious candidate. The rules and regulations governing local government leaders’ elections required the candidates wanting to run for election to be supported by at least one political party. According to the interview with the mayor for this research, initially no political party wanted to support JW as their candidate. Most political parties already had their own candidates for mayor and his only chance was to be supported as candidate for vice mayor. However, as luck would have it, the biggest political party in Surakarta City, the Indonesian Democratic Party (‘PDI Perjuangan’) had as their only candidate for mayor a catholic who decided that, given that the electorate were overwhelmingly Muslim, he would not have any chance of winning, so instead offered his full support to JW if he would agree to stand as mayor. Also revealed from the interview was the fact that prior to the candidacy of mayor, he was the general manager of ASMINDO (Asosiasi Mebel Indonesia), a wood products exporter association (2002 – 2005) and among this network, there was full agreement that none would step forward and challenge JW in the mayoral elections. However, one person from the network did eventually break the agreement and stepped forward to provide a challenge. So there was a democratic contest in which JW was successful.

Whilst the emerging emphasis on public entrepreneurship can be seen as a response to the lack of financial capability as mentioned above, public entrepreneurs can also be the consequence of changing the existing conditions in other respects as
well. In Indonesia case for example, a recent study found that decentralisation in general has continued to create legal uncertainty for business sector. The motivation of JW to stand for election to address the problems that he perceived in the leadership of the local government began when he was practicing in business and struggling to obtain better public services from at local level.

MZ: Leader of the Purworejo Regency

MZ was the The Bupati or the Regent of Purworejo Regency at the time of the research. In his background he had been the head of department in the representative office of the department for religious affairs in the same Regency and he was also actively involved in a political party, namely the Party of Functional Groups. He was also considered to have a ‘clean’ background (i.e. without any indications of involvement in crime or corruption). He also had a strong religious background, having been educated in an Islamic Boarding School (Pesantren) and maintained frequent contact with many Koran-reciting groups in the area. This played an important role in his popularity as a candidate and in his winning a substantial majority in the election. His case illustrates the potential significance of religion as a determinant of people’s political views and voting preferences in Indonesia.

MZ was previously the Vice- Regent of Purworejo for five years (2005-2010) and during the last 6 months of his term he became the Acting Regent after the previous Regent -Kelik Sumrahadi, was convicted for corruption (i.e. misusing Rp 2.7 billion from budget funds). For the past two decades in Purworejo, there seems to
be repeated instances of the vice-regent having to step up to the top role in response to criminal charges being brought against the Regent. As stated in the Local Autonomy Act No. 32/2004 article 34, in such situations where the Regent is prevented from performing his or her duties for more than 6 months, it is the Vice-Regent’s duty to become the replacement.

From one of the research interviews (this with Mulyadi Nitisstra, a local academic in Purworejo), MZ was considered a strong candidate with a good track-record of managing large organizations, but that, in terms of exercising political leadership, he was considered something of a novice. During the elections, he had emerged as the candidate with the highest popularity among the public (in the research interview with him, MZ referred to a survey of Party of Functional Groups in which he had been ranked the highest, with 43 per cent of the vote which had led to him being supported in the polls by the Party of Functional Groups). Once inaugurated as Regent, people had high hopes for his leadership. However, according to other respondents, after just one year of his term, there was discontent that so few new initiatives had been launched to improve and enhance Purworejo Regency and, indeed, the widespread view was that the Regency was stagnating rather than developing.

Based on the interview and observation with staff and officials in the local government in Purworejo Regency, a picture emerged, then, of the Regent as a somewhat disappointing leader – with a rather timid personality. Also, in response to open survey questions criticisms were levelled at the on-going number of senior posts that were vacant within the administration, for example the lack of a regional secretary at the time of the research.
Another widely shared point of criticism was the slow pace of response from the Regent to problems reported to the local government and of an overly-bureaucratic organisation. Indeed, the Purworejo local government was among the largest contributors to the local economy but was perceived as being a poorly managed organisation, with many lower level staff seemingly under-occupied and often waiting for instructions from their supervisors.

Regarding developments in Purworejo under MZ’s term of office, field observations by the researcher (who lived there for a while before and during the fieldwork) suggested that little new initiatives were being taken for the betterment of the regency, other than programs originating at provincial or national level.

**IT: Leader of Cimahi City**

IT had been an acting official mayor for Cimahi City since 2002. At that time Cimahi City had been a newly-created city, having previously formed part of Bandung Regency. Its status had been enhanced as it had been realised that it possessed the potential to be a city in its own right rather than a district. In terms of size of population and geographical area, Cimahi sub-district fulfilled the requirements for the new local autonomy (according to government regulation PP No. 78/2007 which replaced government regulation No. 129/2000 concerning the proliferation of (administrative) regions.

Then in 2007, IT was appointed Mayor by the council committee (it was called a council committee as it was not a directly elected office within a regional council structure). However, upon his appointment, the new mayor was able to
prepare and appoint a local election committee to run a proper local election for the selection of members of local council. Next, upon the formation of the city council, there was a further election that enabled people to cast their votes for a mayor with IT winning the poll. In the case of Cimahi City, then, there was a certain chicken-and-egg question about the mayorship – the incumbent having won the election at least in part because he was already the first leader for the city.

IT himself came to office with twenty five years’ prior experience in bureaucracies as the City Secretary of Bogor and having held various positions in the Public Works Department and with the Regional Development Planning Board in the local governments of Bandung, Sumedang and West Java Provinces. He also has an educational background in business studies. During his term, he had been considered a tenacious and fast-paced performer (according to an interview with the Head of Government Division of Cimahi City). In his first term of office, when Cimahi City was still in its infancy, as mayor he undertook huge responsibilities in establishing strong administrative and regulatory foundations for the new local government He also led in the organising of the local city council elections, as mentioned above and within just three years of his first term, the Cimahi City local government was able to build itself a town hall.

As a mayor, he is widely considered to have good communication skills and to work well with colleagues in the legislature as well as in the city council. Moreover, in each of the last three years, unlike in many Indonesian cities, the Cimahi government budget was finalised and agreed by the city council in good time.
TBS: Leader of Purbalingga Regency

TBS had been the head of Purbalingga Regency since 2000 and, like JW in Surakarta City and IT in Cimahi City, at the time of the research he was in his second term of office. He has had extensive prior experience as a public official in government at both local and national levels, including a period working in the Home Affairs Department of the Local Development Division. He is also the indigenous Prince of Purbalingga Regency so is a very well-known figure locally. Both of these two circumstances proved to be assets for him when he put himself forward to lead Purbalingga Regency.

The research interviews with staff in Purbalingga Regency revealed that, during his period of office, TBS had been widely regarded as responsive, adaptive, productive and decisive (Mugiyarto, 2007), as well as being seen as a pioneer for the development of Purbalingga Regency. From the interview he claimed that he had been successful in eradicating poverty among the poor farmers by buying their crops and obliging all the staff of Purbalingga to buy their rice from these farmers. This initiative was also aimed at eliminating the role of middle-men (known as tengkulak in Bahasa Indonesian) who bought farmers’ crops when they were not quite ready for harvest, hence at a low price and sub-optimal incomes to the farmers. Most such farmers who are already quite poor would thus potentially forever remain in poverty. Further, TBS initiated other policies focusing on improving agricultural products. He was awarded Food Security Development Award by Central Java Province Government for these initiatives.
Another achievement of his was an innovative programme to renovate the regent square to provide the community with more access to public space. He also built better infrastructure, including a public library, museums and a grand mosque. According to the interviews conducted with community members, these initiatives were all considered beneficial.

7.3. Factors Affecting Public Entrepreneurship in Local Economic Development

Chapter 3 considered the nature of public entrepreneurship and public entrepreneurs, the characteristics that influenced entrepreneurial behaviour among leaders in local government and how the spirit and practice of innovation was cultivated. In that discussion five particular characteristics of public entrepreneurship were identified as follows:

1. Taking risks (Cohen & Eimicke, 1998; Osborne & Plastrik, 2000, Currie et al. 2005, Miller 1983; Covin and Slevin 1991; Morris and Sexton, 1996; Morris and Jones 1999), i.e. committing resources to pursue opportunities.

2. Influencing others (Boyett, 1997; Ramamurti, 1986; Zerbinati and Souitaris, 2005), i.e. signified by the ability to assemble and coordinate teams of differently skilled individuals to pursue projects and in so doing, demonstrating the key skills of facilitation, synthesis; and persuasiveness.

3. Spotting and seizing opportunities (Huff, Huff, and Barr 2000; Beckert 1997); Schneider et al., (1995), Kingdon, 1995; Mintrom, 2000) i.e. the skill
of sensing when and how a new initiative might be progressed, pursuing the chances positively to make it happen and with alacrity and determination.

(4) Innovating (Cohen, 1988) Baez and Abolafia (2002) (Roberts & King, 1989; Collins, Moore, Unwalla, 1964:17; Wilson, 1980, Doig & Hargrove, 1987; Klein et.al.,. 2009) i.e. doing things differently, whether addressing a particular challenge and experimenting with a completely novel approach or by replicating an existing approach from another context but which would nevertheless represent a change from previous practice (Kuhnert, 2001; Mack, Green & Vedlitz, 2008; Oliver & Holzinger, 2008; Schnellenbach (2007).

(5) Willingness to bear the reputational, emotional, and particularly financial, risks involved in pursuing a course of action with uncertain consequences (Schneider et.al. (1995), i.e. accepting accountability and responsibility for leading the organisation in a particular direction or for taking particular decisions.

In the literature review, no one particular model could be identified satisfactorily to explain the characteristics of public entrepreneurship particularly in local governments. Thus these five characteristics (separately proposed by various scholars) were adopted to examine the phenomenon within the case-study organisations as part of the empirical evidence from the research. Together these five characteristics, then, have been used as a framework for analysis of public entrepreneurship in practice. In the subsequent sections each such characteristic of that framework is discussed in turn in relation to the findings from the case studies.
7.3.1. Taking Risks

As Cohen (1988) and Kingdon (1984) have argued, the ability to take a risk is a key hallmark of public entrepreneurship. One example of how local government leaders in the case study areas take risks was provided by the mayor of Cimahi City who initiated the idea of building a grand new city hall. For a newly formed autonomous local government as small as Cimahi, with only three sub-districts (kecamatan) and limited economic resources, it was considered a bold and brave action. In the interview with AC, the Head of the Economic Department, Regional Development Planning Board of Cimahi, it was mentioned that once the city hall building was completed, it took the Audit Board of the Republic of Indonesia (BPK) three years to finish auditing the project. Further AC said that in the BPK audit report there was evidence indicating some budget misuse (and the possibility of corruption). Building a new city hall was indeed a risky decision for the Cimahi City government, considering its financial capacity. With the support of the Regional House of Representatives (DPRD), eventually, the Cimahi City government was able to clarify the position and satisfy the BPK in relation to the potential corruption suggestions. Even though IT, the mayor of Cimahi, had tried to take a risk boldly, it may be considered that this example of public entrepreneurialism was perhaps one that merited more caution if only to protect the public reputation of the organisation (Gomez P & Korine H. (2008) p. 32).

That said, risk taking behaviour should not simply be understood as being that of ‘a gambler or thrill seeker’ (p. 261). It is more a reflection of a desire to take chances. For public entrepreneurs, it will mean understanding and weighing up the
risks involved in pursuing innovative programmes or policies. JW, then the Mayor of Surakarta City, for example, understood well the key risks involved when he first came into the office. Without prior experience of working in, or with, a political party, it seemed most unlikely that JW would be able to garner sufficient support from the Regional House of Representatives. This was true particularly in relation to the discussion on how in the era of decentralisation in Indonesia; the Regional House of Representatives was in the more powerful position to evaluate the performance of a mayor or a regent. Without support from the House of Representatives, any policies or programmes initiated by mayors or regents simply would not take place. With prior experience of working in government or other public bureaucracy, therefore JW would receive little support from the staff responsible for executing the policies or programmes that he had initiated. Yet, from his business experience, JW understood these risks and claimed that, even though he had earned enough votes to win the election, it would probably not be enough to earn him the respect and legitimacy of all the members of the Surakarta community.

For this reason, despite his apparent popularity, he commissioned a team to conduct a survey to identify from the public the key problems, priorities and perceived needs and interests of the community relating to the city. In the interview with JW, it was suggested that the results of this survey were used as background for the establishment of the programme for street vendor relocation and to shape the informal sector management programme. As Greaves, B.B. (ed.) 2006 p. 55) has argued, every step of progress and change-making involves risks, and this is something of which JW, from his business background, was only too well aware. Following many decades in which street vendors had occupied the streets and
regarded them as the legitimate place for running their businesses, despite their official designation as ‘open spaces’. The decision to pursue the relocation was indeed a bold and brave one with huge political risks involved. But JW’s keen understanding (and political reading) of the situation and of the risks involved, served to ensure that his actions were measured and well planned – with risk-minimisation a key part of the strategy to be followed.

Taking risks is regarded as necessary for local government leaders, according to the interview with MP, the head of Regional Planning board of Purworejo, and precisely what he expected from the Head of Purworejo Regency head/Bupati MZ. But there was acknowledgement that, as Greaves (2006 p. 55) has argued, only a relatively few people are endowed with the requisite abilities to risks within a bureaucratic setting like a local government, and that most such leaders will prefer to stay on the safe side and be doubly sure of the case for any action. As Sitkin and Pablo (1992) have argued, that much organisational control has been conceptualised as a deterrent to risk-taking behaviour and there is usually an organisational preference for certainty and the potential for punishment if risk taking behaviour does not pay off. This is widely true in local government and was certainly the case of Purworejo, where two previous Heads of the Regency had been sent to prison for making mistakes in their management of the routine procedures relating to the running of the local government organisation. In the interview with MN (who provided academic perspectives on the issues under study), it was confirmed that the previous experience of the two Bupati had served to discourage the current incumbent (MZ) to take an innovative approach to the Regency's programmes and policies.

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Moreover, bureaucracy does indeed have effects on employee’ risk taking according to Bozeman and Kingsley (1998); with the red tape and compliance monitoring, formalisation and rule conformity expectations all part of the culture and all serving to suppress any aspirations or ambitions to take risks (Moon, 1999).

7.3.2. Influencing others

The ability to influence others is a key and necessary characteristic of successful public entrepreneurs who usually need to assemble and coordinate teams of different individuals to pursue the intended changes and for which the human skills of facilitating, synthesising; and persuading are especially important (Boyett, 1997; Ramamurti, 1986; Zerbinati and Souitaris, 2005). IT, the Mayor of Cimahi City showed such abilities in assembling and coordinating his teams for his main change programmes/policy. Again, from the interview with AC, the Head of Department in Regional Development Planning Board of Cimahi, it was revealed that the Mayor preferred to set up his teams on a hoc basis –specifically tailored to each project. Such a team was created, for example, for the initiation of ‘Cimahi as the Cyber City’ and this was regarded by the Mayor as a much better option than establishing a permanent new agency.

In Surakarta City, similarly, one of JW’s was strengths was perceived as being his ability to influence staff positively, including officials at lower levels in the hierarchy. Several of the interviews with officials there revealed that JW had set a good example in how to work more efficiently and effectively for the organisation. They had learned from him and been influenced to follow his example and approach
to working on the various tasks assigned to them. Whenever they worked on a new proposal or a new programme or policy, they had learned from him the importance of analysing the situation both before and after the change so as to be able to understand and evaluate the impact and present the assessment in a suitably scientific manner.

The importance of communication skills was also recognised as vital in this context of influencing others. As was suggested, winning support for new ideas required those ideas and their potential benefits to be explained in ways that would inspire and motivate others to want to be an active part of their realisation rather than as passive implementers, dutifully carrying out instructions. In Purworejo Regency, the Mayor acknowledged that:

‘When faced with a situation in which the fiscal transfer from the national government is insufficient, I normally go to Jakarta [the capital city] and negotiate with the ministry of finance, of course not by bribing them, but with proposing a good proposal. I think it is down to our ability to communicate with them that matters. If a Regent goes to Jakarta very often, they [the national government] will recognise us better and there will be an opportunity for negotiation.’

With regard to team work, JW cited several examples from his experience of how to ensure effective teamwork and of how to build teams of individuals who can harmonize and be successful together. Similarly from some of the other interviews with respondents in Surakarta City it was made clear that the city was felt to have an ideal combination of leaders, a perfect duo in the Mayor and the Vice Mayor – each mutually supportive of one another. During the interview with the Vice Mayor it was also suggested that, between the two of them, there had never been a clash of
difference of opinion about workloads and duties, responsibilities or money. In this case, both Mayor and vice mayor were supported by the same political party but this, it was explained, was not always the case among local government leaders and deputies. But more than that was the personal commitment between the two figures to each other and to the roles and responsibilities they felt they shared. They listened to each other and respected each other’s perspectives and such rapport and shared outlook were felt to be vital ingredients of the nature of the political leadership at Surakarta, and not ones nearly so apparent in the three other case-studies.

7.3.3. Spotting and Seizing Opportunities

Public entrepreneurs are also characterised as always being ‘on the lookout’ for opportunities to invest and realise a return. Stevenson and Jarillo (1990) defined this as opportunism and having a keen eye for a ‘future situation which is deemed desirable and feasible’. Opportunity-taking is of course a relativistic concept, and one that must also be contextualised according to the particular economic, social and political system in which it happens. In the light of local economic development, for example, much depends whether a locality is, or is not, well endowed with natural resources for which the opportunities for exploitation and development arise.

As argued by Jae Moon (1999) and by Currie et.al. (2008), the pursuit of opportunity is closely associated with risk-taking behaviour because uncertainty is embedded in the opportunity. However, in public organisations like local governments certainty tends to be generally stronger if not inherent; hence new (and risky) opportunities may seem less common and hard to capture.
The case study of Purbalingga Regency provided a good example of how a local government did, however, seize an opportunity, and doing so despite the controlled nature of the environment and the constraints on available resources. Because Purbalingga has no natural resources and, indeed, that the only resource that is available in abundance is a supply of fairly cheap labour efforts here were directed at the opportunities of for winning foreign investment for the building of factories and the creation of employment. Accordingly, success was achieved when a Korean business agreed to establish a branch site in the Regency for its commercial undertaking in the production of false eyelashes, so creating many new jobs and bringing fresh income and improved prosperity to the area.

Such investment and development opportunities can of course be identified and pursued by individuals operating at all levels of the organisational hierarchy (Currie et. al. 2008 p.995) – this aspect for entrepreneurialism is not necessarily the sole province of the elected leaders in local governments. And indeed, this was precisely the case in Purworejo Regency where the Regent/Bupati was cautious and reluctant to take a risk with his budget in pursuit of new. However, the leaders in district -i.e. at a lower level of the hierarchy - showed preparedness to identify and pursue such opportunities and were eventually able to garner the leader’s support and provide the impetus for new job creation through inward investment there too.

7.3.4. Innovating

Several authors have argued how innovating is the key characteristic of public entrepreneurs (Cohen,1988) Baez and Abolafia (2002) (Roberts & King,
Innovation in a public sector context can be defined as making modifications to the way that public organisations operate, as discussed in chapter 5. In the case studies, the changing environment of the local government in Indonesia resulting from the decentralisation reforms, however, provided particularly strong potential for innovation on a grand scale in relation to the nature and functions of local governance. The question was: would that potential be exploited and would the case-studies reveal a new spirit of innovation in local economic development, in place of the traditional culture of administrative bureaucracy?

In the case study of Surakarta, the interview evidence suggested that there was indeed much concern to pursue innovative local economic development initiatives and that this had become quite well embedded in the organisational culture, irrespective of who was in the formal leadership role. In interview, the Vice Mayor discussed his particular concerns that such innovations would be sustainable would survive a change of political leadership if and when this came about. He talked further of how he and the Mayor, had established a kind of blue print - what he referred to as the strategic plan - , that he regarded as ideally forming the legacy of their leadership in Surakarta. As Berry and Wechsler (1995) have argued, one of many reasons to do such strategic planning is for it to act as a symbol of personal leadership and that innovation is always likely to form a key element of any such personally-envisioned and crafted plan.
It is in rapidly changing environments that strategic planning becomes particularly important (Brews and Purohit (2007), Obeng and Ugboro (2008)) especially for public organisations like local governments, and may be argued that public organisations tend to be motivated above all by the need and desire to set policy and define program direction, rather than simply responding to constituents’ demands and the other say-to-day pressures, for example, to control or reduce expenditure (Berry and Wechsler, 1995).

Further, Bryson (1995) has argued that having a strong strategic vision enables leaders to be more effective as operational managers and for the formal (written) plan to be used as a tool in communicating the vision, in engaging participation in its enactment, and in garnering support – even from divergent interests - to carry it through.

An important component of implementing innovatory ideas is overseeing the development of action plans for different parts of the organisation and for different services involved. From the interview with the Head of the Chief Section of Government Affairs in Surakarta, it was made clear that the leadership style of the mayor was to bring all the staff from the different departments together to share their ideas and discuss their respective contributions to the planned new programs. Whenever there was a new program to be launched, the Mayor would require all the chiefs of sections and sub-sections to provide presentations on the nature of the challenge to be addressed as they saw it, and about how their contribution to the overall program would be undertaken and managed.

This dominant role of the Mayor in this context appeared to confirm the view of Elcock (2001), who argued that vision in local government, had to come from the
organisational leader - who needed to play the dominant role in defining the vision and promoting it to others who would need to be involved.

This was also clearly demonstrated in the case of Cimahi City, where the Mayor had identifies a potentially enriching economic future for the city despite its lack of natural resources. While the city had been prosperous in the past in times when its textile industry had been booming, in the wake of the recent economic crisis, half of the city’s textile industry had collapsed leaving a much depleted revenue base for the city government as well as the loss of jobs and source of income for so many residents. So having developed the vision for turning Cimahi City into an Indonesian version of ‘silicon valley’, the Mayor had commissioned a team to prepare a feasibility study and to initiate developments in information technology in the city. The grand scheme of ‘Cimahi Cyber City’, according to the interview with the chief of Economic Development Department in Regional Planning Board of Cimahi City, was still embryonic at the time of the research (being only in its second year) so it was too early to know of its impact in terms of success. Nevertheless, the example provides a striking example of innovative visioning, and the commitment to radical transformation for a city whose profile had hitherto being fairly traditional.

In contrast to Surakarta and Cimahi City, commitment to innovation was much less apparent in the leadership observed in Purworejo Regency. Here the Regent or Bupati seemed to lack the equivalent clarity of vision as to how Purworejo Regency might be led towards greater prosperity. Again, like Cimahi City and Surakarta City, this was regency without obvious outstanding natural resources with which to boost local economic development. So whatever potential there was to be exploited was more likely to lie in the area agricultural development and modernisation, where
indeed, some developments had been taking place. And yet the discussions with various respondents there suggested little in the way of a strategic vision from the Regent/Bupati concerning the economy of Purworejo Regency and the notion of innovation as a component of public entrepreneurialism seemed quite faint and hardly a defining characteristic here.

7.3.5. Willingness to Take Risks

Schneider et.al (1995) argued that the willingness to bear reputational, emotional, and particularly financial, risk involved in pursuing a course of action with uncertain consequences is the characteristic of public entrepreneurs. JW in Surakarta City was acknowledged to be an outstanding local leader when it came to willingness to demonstrate commitment and personal risk. This is symbolised and typified by his well-known refusal to draw his salary as the mayor of Surakarta City. On one occasion, when there was a speech from the President of the Indonesian Republic which mentioned about how little salary he received and how it has not been raised since decades, the national media presented JW who was boldly refusing to use his salary at all. In interview he claimed that he had indeed signed the receipt of his salary every month but that he gave the money to his officials to be used for other allocated programs.

The next case concerned the official cars given to him as a mayor. Whilst other local and national government leaders and other high ranking officials in the country tend to demand newer, bigger, better cars, JW did not use his right to demand a new car, but used the same old car previously used by former mayors of
Surakarta. In the interview he claimed that as long as the car can be driven he would keep on using it. These two examples showed how JW demonstrated commitment to the task rather than to the status, even at his own personal expense.

7.4. Public Entrepreneurs: What Can We Learn from Them

This section considers lessons that emerge from the practice of public entrepreneurship by local leaders in Indonesia, and what can be learned from their successes and failures. The first section will discuss those who are failed and then will be followed by discussion of those who survived and are seen as succeeding as public entrepreneurs.

7.4.1. Failed Public Entrepreneurs

Failure for a public entrepreneur in local government Indonesia typically manifests itself in terms of corruption/graft and even imprisonment for misuse of public funds. This phenomenon is so widespread and visible that it has even placed in jeopardy the decentralisation and democratisation process in Indonesia which had been launched by the implementation of the Local Autonomy Act 22/1999. Not only decentralisation, but the whole image of what we have termed public entrepreneurship has suffered as a result, despite the fact that the public entrepreneurs concerned had made a positive contribution towards the development of local government.
An important process of learning starts with failure. By failing then one can evaluate what has been wrong and make necessary improvement for the future. However, it will be costly for public entrepreneurs to fail, for they are working toward the realisation of public objective, which is the interest of a large number of people in their locality. In Indonesia, there are examples of how leaders in local governments who were regarded as to be innovative (which represent one of the characteristic of public entrepreneurs) failed to maintain their success and were found instead to be violating democratic values.

The Indonesia Corruption Eradication Commission (KPK) reports that since 2004 thirty-one Regents and Mayors have been found guilty of corruption and bribery (Tempo, 2012). Despite the charges and the guilty verdicts, observation of the localities concerned suggests that the mayors concerned had actually been skilful in their running of local government and had initiated useful innovations for local development.

In particular one may refer to three distinguished figures, the heads of three local governments in Indonesia who are regarded as pioneers in the betterment of local government performance, local development (especially its economic aspect) and introduced positive changes or innovation in their locality.

The first figure is KS, the Regent (Bupati) of Purworejo for the period of 2005 – 2010. He was found guilty of corruption and jailed for three years. According to interviews carried out with key persons (academics) in Purworejo Regency the picture of KS that emerges is that of a leader who had been admired and respected by the people in Purworejo Regency for his humility and his performance in running the local authority. However, he had not controlled closely enough his own staff’s
actions, and those other middle-ranking officials in the Purworejo local government bodies who had allowed criminals to misuse the local government budget, for which, as head, KS was to be held accountable. Lack of control over staff and lack of communication within the body of the local government, combined with the lack of participation from the community complicated the problem. Purworejo is one of relatively few local governments in Indonesia where there is an absence of any Non-Governmental Organisation performing the role of standards watchdog regarding budgetary expenditure. This, it was said, reflected the passive character of the community in Purworejo, which also made it difficult to engage the local population in the direction of more participative control over local government activities.

The experience of KS seems to a traumatic one that hinders the present Bupati to embark on innovative programmes in Purworejo. Interviews with officials and staff in Purworejo Regency office have shown that they perceived the present Bupati to be too careful and hesitant.

The second figure is UW, head of Sragen Regency for the period 2003 – 2010. He had been proven guilty of corruption regarding the Sragen Regency budget by as much as IDR 11.2 billion and he received seven years’ imprisonment. Previously, UW has been acknowledged as the new rising star (Bukan Bupati Biasa) nationally, who had successfully introduced information technology into the local government service and an excellent one stop shop service which raised the rate of investment in Sragen Regency. These are only two among a range of innovations he brought to the locality. He was also well-known for his novel approach of using his skills in the traditional Javanese art of shadow puppetry to collect additional financial support from his staff for various local development activities. The Jakarta post (13
July 2012) reported that under his leadership, Sragen regency has made a total of eighty-eight achievements at the regional, national and international level. UW also received an award from the Turkish government for his involvement in educational development. UW was later also found guilty of using fake documentation (fake diplomas) to run for the second time as Head of Sragen Regency (The Jakarta Post, 13 July 2012). Despite all his achievement during his term as the Bupati, UW had an ethical problem as a public entrepreneur.

The third figure is FM, governor of Gorontalo Province for the period of 2001-2007 and 2007-2012 (in 2009 he was selected as the Minister of Marine Affairs and Fisheries), who was under suspicion of corruption and misuse of local government budgetary funds totalling IDR 5.4 billion. FM, whose background was in business, had written a book ‘Reinventing Local Government: pengalaman dari daerah. This book was based on his experience as governor of Gorontalo Province. His appointment as the minister of Marine Affairs and Fisheries was also regarded as the proof of good leadership, and his positive legacy for Gorontalo Province is regarded as beyond dispute.

FM claimed that he was innocent and that it was in fact the members of the Regional House of Representatives (DPRD) that had made him hand over to them the money in question, from the provincial budget. Even so, the affair damaged the reputation that he had built up in the course of a successful career as governor.

As Terry (1998) argued, public entrepreneurs often bend or break the rules or manipulate their authority for private gain has been and this continues to be a threat to democratic governance. Further, Frederickson (1999) argued that the failure of public entrepreneurs is mostly because they run public organisations like private
organisation. Hence, public entrepreneurship should comply with ethical public entrepreneurship. These two arguments are in line with the finding of Nordholt (2004). He believed that the regency administrator, or bupati, plays a crucial role in this system. He receives most of the funds from the centre and controls the channels through which money is distributed. If he manages to cooperate with the chairman of the regency parliament and leading businessmen, and if he is able to accommodate the military commander, he can rule his regency and maintain his patronage network without encountering much opposition. They are indeed public entrepreneurs in local government. Power at the regional level, on the other hand, is in general still concentrated in the hands of politicians with a bureaucratic background – and reform measures are doomed to fail if they depend on the support of those bureaucrats and politicians who stand to lose power if they are implemented (Rohdewohld 2003).

Hadiz (2003:124) evaluated the impact of decentralisation which brought local autonomy to the local governments. He believed that new elites emerged in local governments are ‘ambitious political fixers and entrepreneurs, wily and still-predatory state bureaucrats, and inspiring and newly ascendant business groups, as well as a wide range of political gangsters, thugs and civilian militia’. In their different ways, the three leaders referred to may be seen as either contributing to, or as victims of, this phenomenon.

Although the three leaders concerned may not be regarded as presenting the right image of public entrepreneurs, due to their corruption problems but they have also been highlighted here as examples of the paradox whereby those most successful as public entrepreneurs appear to share a tendency to fall foul of public
administrative ethics or democratic values. On the other hand one should not exaggerate the correlation between the two characteristics – while several of the most celebrated public entrepreneurs have been found guilty of corruption, only a small minority of those local leaders thus found guilty have been public entrepreneurs.

7.4.2. Successful Public Entrepreneurs

In Purworejo Regency – Indonesia, the Head of Regency (bupati) presented a much less entrepreneurial figure. However, a particular leader from the -District of Bagelen - a lower level of administration within Purworejo regency – demonstrated leadership attributes of public entrepreneurship.

As it is discussed in chapter 5, this individual, KM, showed clarity of vision regarding the needs and priorities of his local community and was actively leading on local economic development with a program specifically designed to address the economic problem of the locality. Here, he performed what might be seen as the function of the public entrepreneur function, which is to discover unfulfilled needs. During the interview, he justified the reasons of his actions. He claimed that what he has done was a form of repayment to the country and the community for the opportunity that has been given to him to enjoy period of leave to pursue education with a government scholarship. He acknowledged that while he was studying, he had been freed from his main duties as a public official to do the job serving the country and the community. Therefore, he was determined to work harder in return for the privileges received. This may have been a too-good-to-be-true reason for a bureaucrat as it is not uncommon in Indonesian bureaucracies to find public officials
who are very unproductive and only do the minimum requirements of the job and do not reliably prioritize the community they are supposed to serve. Yet according to Schneider et.al (1995) public entrepreneurs can be motivated by community service, and in Asian value, paying back is general social norm by people, and also for entrepreneurs as argued by Berger (1991).

KM’s ability to identify an integral aspect of a problem which led him to different layers of opportunity reflects a characteristic of public entrepreneurs. If the problem of land slide and illegal logging took place in other Sub-Districts/Districts in other Indonesian local governments, it may have been responded differently. Problems such as landslides are often regarded as natural disasters; therefore the approach taken may be a singular and short-term curative approach rather than a more holistic long-term one. Similar to this, the problem of illegal logging has tended to be understood simply as an offence against the law rather than as a more fundamental problem of poverty. KM also proved himself to be knowledgeable with international issues such as sustainable development and climate change.

One of the characteristics of bureaucracy, particularly in developing countries, is a low work performance. This is due to the fact that bureaucracies create job stability and internal routes of advancement (Sørensen, 2007, p. 390). Therefore, it can be understood if there is resistance when changes were introduced. It is important to note that these are officers in the lowest level of administrative government, in Purworejo, one of many underdevelopment local governments in Indonesia. As working in bureaucracies may hinder development of the skills necessary for successful entrepreneurship (Sørensen, 2007, p.390), learning new things to upgrade the knowledge and expertise level is one of many difficult
programmes to be done by the local leader. Yet, KM has succeeded in ensuring the officers and targeted actors to enrol in training.

KM also talked of his promotional work with the government of Central Java Province and of his success in securing development assistance in a form of rubber seedlings for 1,200 rubber trees. This has proved how KM’s communication skills have helped him to achieve good result.

KM most urgent challenge to initiate all his innovation is that the regency simply did not have enough financial capability to do it. Whilst, the purpose of the transfer of power is to have more effective and efficient public services, particularly for disadvantage part of the community who cannot access the public services like isolated rural community in Bagelen, the delegated power from the Regent should expedite the decision making process in regards to community and public interest, particularly for a sensitive and conflict potential issue as land right.

Land certification is a complex and difficult process. It involves many stakeholders with different interest. Each wants to be acknowledged that they are the legitimate owner of the land, hence result in open conflict. It is the duty of the District head to satisfy all stakeholders within this process. Yet, since the assets approach in local economic development is the approach taken by KM, he need to ensure that the process bring advantage to the most vulnerable community. To perform this, he needed to have a strong leadership.

A District Head (Camat) is part of the executive therefore he cannot make any political decision without consulting the Regency government. When the Regent is keener on maintaining regular and traditional government activities, lack of breakthrough in community development and reluctant to find innovative solution to
the community problems, it can become difficult for KM to get support to do those innovative development activities in the area.

KM also faced a common problem in bureaucracy: morality and values. Even though from the interview, it can be understood that KM has maintained a position of good morality and values with respect to his role and work in serving the community. This did not, however, appear to have been followed by other officers in the district. Based on the interviews with community members in Purworejo Regency and the researcher’s own observations, many officers in the district were considered to perform quite poorly, reflected in their late arrivals and early departures to and from work. Indeed, it was also hard to gather information about public services from them as few were forthcoming or helpful in response to questions about particular public services. Perhaps reflecting also the relatively low levels of salary paid to them (of 2,624,300 IDR\textsuperscript{24} or equal to 189 US\textsuperscript{25}S per month), several respondents indicated that commitment was generally low. This was particularly said to be the case for officers in rural areas. The situation was also said to be worsened by the fact that the transfer of power had not been accompanied by effective human resources management nor by sufficient training of personnel which only served to undermine the whole morality and ethics of the bureaucracy.

In PRONA programme implementation, there is a potential for bribe, corruption and gratification during the process of the certification, particularly in the district where there is lack of transparency or technical guidance or available from the Regency regarding the fee and charge for the land certification. Further, the Head of Sub-District has a new role as the Land Titles Registrar, and with this new role

\textsuperscript{24} Based on Government Regulation Number 34 Year 2014
\textsuperscript{25} 1 US$ equal to 13,905 IDR
KM will be exposed to more opportunity for bribe and corruption. Few non-governmental organisations are present in Bagelen – Purworejo, therefore there is little in the way of check and balances to ensure that the implementation of PRONA is corruption free.

In response to his successes, the Head of Purworejo Regency chose to appoint KM to be in a position as the Head of Governance Department in the Regency Government. KM is working in local government characterised as a local government which has very limited natural resources that hinders the area to be fully developed in terms of economy. This, combined with the condition of the bureaucracy describe above, it can be understood if KM faced many obstacles in his innovative development programmes. Yet, he was able to bear the risk – of that being resisted by his team, the local officers, and also the risk of being rejected when trying to get support.

Although from the interview, KM claimed that he has done all the innovation not to gain recognition but as a form of paying back to the community, this appointment shows the second function of public entrepreneurs. As reward to his innovative development program, he has gained good reputational/image reward.

7.5. Communication and Participation by Public Entrepreneurs

This section discusses how public entrepreneurs survive and succeed in the context of Indonesian local government. Whilst it is challenging task to be innovative in local economic development initiatives, the democratisation in local government in Indonesia which gave more autonomous power had not provided an enabling
environment for public entrepreneurs to perform better. Some leaders in four case studies however, showed that they do survive and able to thrive, exercising their entrepreneurial skills and this tends to be where they have integrated themselves more effectively into community and civic institutions. This can be done through improved communication with the legislature on the one hand and with the community on the other.

7.5.1. Political Communication with the Legislature

The members of the regional legislative power, the DPRD have the right to pass any proposed bills, so they, and not the executive, are the ultimate policymakers who can make or break any locally-initiated innovation or reform in the region.

However Regional parliaments are slow in initiating legislation and have only a limited capacity for doing so. There are few mechanisms to resolve conflicts between DPRD and the executive administrators, while members of the DPRD do not demonstrate much eagerness to represent their constituencies. Ryaas Rashid (2003) remarked in this context that DPRD are by and large controlled by party bosses who protect in the first place the special interests of their own party. There are indications that members of regional parliaments prioritise substantial increases of their own salaries and travel budgets at the cost of education and health care (Dormeier-Freire and Maurer 2002; Syaikhu Usman 2002). The regional parliament therefore presents potentially a major obstacle for public entrepreneurs in local government.
Based on the interview with IT, the mayor of Cimahi, local governments have an incentive to have fewer formal policies, because fewer policies means less money from the local government budget will be allocated to the members of Regional Parliament who will have to attend many assemblies to discuss the policy proposals, given that it is the right of the Regional Parliament to agree and pass the proposed bill.

As a result of the political reform of 1996, the balance of power shifted from the executive to the legislature regional parliament (Bunte & Ufen, 2009, Nordholt (2004) Aspinall and Fealy (2003). Before 1996, the pendulum of power had swung heavily towards the executive power. In this period, the balance of power between executive and legislature did not function, checks and balances were only a formality and the legislature was voiceless on every aspect of politics and development. Since 1996, as the wave of decentralisation swept Indonesia whereby local governments were given autonomous power, the pendulum of power has swung back to the legislature, in both national and Regional Houses of People’s Representatives who, according to several interview respondents in the case studies had become more abusive of their power, particularly toward the local leaders. Knowing that at any moment and any appoint the Regional House of People Representative might be questioning them; the local leaders have become too cautious and hesitant in performing their duties. If this trend continues, it can be a major constraint on the development of public entrepreneurship in local governments in Indonesia.

Given this situation, and the more general point made by Bellone & Goerl (1992) that public entrepreneurship needs to be more civic in its approach and more in line with democratic values (Benjamin & Barber, 1985), it is clear that
communication skills are likely to be fundamental to the survival and success of public entrepreneurship in Indonesian local government. Communication skills represent the ability of the local leaders to communicate their ideas of program and political innovation to other stakeholders and then to gain acceptance from the political party and the regional parliament, without whose support the innovation cannot survive.

As part of an executive power structure, the Mayor and Head of Regency are expected to work together with the Regional House of Representatives. In the daily politics and work of government, it is important for both power holders to cooperate, yet the regional parliament as the representatives of the people are expected to have stronger position to ensure control and accountability. Yet as discussed earlier, there is a tendency from the Regional House of Representatives to abuse this power over the executive and its public entrepreneurs.

Rachmawati’s (2013b) analysis of the success of JW’s management of the street vendor issue provides an example of how a mayor with strong communication and negotiation skills used these to carry through a local economic development initiative, winning over both the Regional Assembly and the street-vendors themselves with a ‘hearts and minds’ campaign involving fifty-four lunch-time meetings. This was a JW initiative and involved inviting all the street vendors that occupied space in the city centre and who were creating traffic and environment problems as a result. JW’s aim was to relocate those street vendors to other places, allowing the City Government clear up the vacated spaces, and make them more accessible for all community members. From the interview JW claimed that during
the lunch meetings he did not convey the real purpose of the invitation, but only sought to win their goodwill through the hospitality. Some members of the community said during the interviews that these meetings had been smart way to win the hearts of the street vendors – and reflected his understanding of the value to poor vendors of a free lunch and the persuasive effect this might have in winning their compliance over relocation.

A lunch invitation from the mayor in the city hall without any hidden agenda was for street vendors something rare. Furthermore, people have grown used to the idea if they are invited by the public officials in a public office that means the officials want something in return that would be detrimental to their interests. However, the mayor claimed that he did not discuss nor request anything from the streets-vendor related to the planning of re-location. This is considered as a polite form of influence, according to the principle of Javanese leadership style whereby the more you know about people the more you will accept their opinion. Only on the last lunches the mayor disclosed his plan to re-locate the street vendors. Although some, especially members of the non-governmental organisation involved might consider this conduct as manipulative or deceptive towards the street vendors, this type of communication proved to be successful.

The strategy JW applied when the local council questioned his decisions, policies or programs was to try his hardest to provide all the necessary information, the analysis of the program, the outcome and impact of the program. Therefore, during the audience and presentation with the local council, he would have already anticipated all potential questions and objections from the local council. JW was able to convince the regional house of representatives who had the right on the decision of
agreeing the budget allocation to finance the street vendor’s supporting programmes for re-location. The Regional House of People Representatives of Surakarta thought that the financial support as part of the street vendor management program (street vendor relocation) was too generous to the street vendors. However, JW explained to the Regional House of People Representatives that the financial support cannot be considered as a cash giveaway but as an investment towards the betterment of the street vendors, an illustration of what Stevenson (1990, p.19) argues, that apart from being innovative, a (public) entrepreneur is also aiming at advancing the economy to qualitatively higher levels.

Comparing JW with other local government leaders outside the case studies reinforced the conclusion that communication skills can be usefully applied to resolve apparently unmovable obstacles. TR, one of few female mayors in Indonesian local government, also experienced difficulties in dealing with the regional parliament. During her first year of leadership she decided to increase the tax on the large semi-permanent advert banners which were crowding the city. This decision led to outrage on the part of the private companies in Surabaya who then filed a complaint to the Regional House of Representatives of Jawa Timur. As a result the Regional House issued a recommendation to terminate TR’s term of office. The political party which supported her candidacy also took the view that she had betrayed the party because she had made the decision without consulting them. She was saved only when the Minister for Home Affairs over-ruled the Regional House of Representatives’ recommendation of termination. According to a politician interviewed from the Indonesian Democratic Party – Struggle (PDI/Perjuangan),
Armudji TR learned from this episode and is now much better at managing relations both with the regional house and the political party.

With more harmonious relations, she has been able to gain political support for her policies for the development of Surabaya. She has introduced innovative programmes ranging from the creation of forty-five city parks as public spaces to closing down twenty-two prostitution establishments in the infamous ‘dolly street’, a problem that had existed for centuries in Surabaya and which none of the local leaders had been able to solve. This example (TR) shows both that an innovative civic leader is likely to come into conflict with the regional legislative power but that if the leader concerned is able to survive the initial conflict and build a more constructive relationship with the legislature then there need be no contradiction between public entrepreneurship and observance of democratic values (in the form of the supremacy of the legislative power).

The mayor in Cimahi City also revealed a quality that represented good communication skills particularly with the Regional House of People Representatives. Historically, the creation of regional assembly in Cimahi City was pioneered by IT (by law in the first stage of the formation of Cimahi City) which may hinder the power of check and balances of the regional parliament toward the mayor/executive compare to other local governments in which the regional parliament was formed as a result of public election. But indeed that was not the case. IT also faced challenge to ensure the regional parliament who did not agree with the plan of building grand city hall. Nor the establishment of Baros IT centre to support the realisation of Cimahi as the cyber city. Regional parliament of Cimahi
City did not at all agree to those two plans, but eventually IT was able to clear the disagreement and proceed with the plan.

From these three examples of mayors in Indonesia it is clear that successful public entrepreneurship depends not only on vision or the ability to manage innovation, but also on the political and leadership skills involved in communication and collaboration with stakeholders.

7.5.2. Novelty of Community Participation

Broad participation is a necessary pre-condition for the decentralisation process and it has also been the goal itself to be achieved through decentralisation. Through participation citizens can influence the government on public policies by voicing their preferences. Hence citizens need to be provided with a proper participation channel to be able to control the incumbent to comply with their wishes and make sure the resources are allocated efficiently. On the other hand, decentralisation provides broader channels of participation for citizens and brings decisions on resources allocation closer to citizens than was the case with the former centralised system, with limited citizen’s participation. This trend towards greater public participation should also encourage and benefit public entrepreneurship, so long as would-be public entrepreneurs are prepared to engage with it.

In the interview with JW, the mayor of Surakarta he indicated the importance of maintaining good relations and mutual trust with the local council. His experience in running private business had shaped his understanding of the ways in which bureaucracy stifles innovation and the lack of opportunity to do innovation in
bureaucracy due to red tape, procedures and normative rules. Similarly, when it comes to policies and programs for the betterment of the city many innovations are simply halted along the way merely because of the perceived need for them to follow and comply with established rules and the procedures. Furthermore, the need for approval from the local council for all new programs and policies was a further constant challenge for JW as he needed a political support as well as the support of legitimacy from the community.

JW expressed the view that the establishment of trust was crucial in gaining the agreement and support of the local council and also the legitimacy from the community for all his innovations. Furthermore, he stressed the importance of keeping all the promises he had made during the campaign for the mayor election so that people would trust that ‘what is said is what will be done’, which serves as proof of the determination of the mayor to achieve for the community. By maintaining the trust from the local council, the result is minimal resistance to the new ideas and innovations.

JW had also held an annual general meeting with all the citizens in the City of Surakarta. It was called ‘annual reflection day’, a day in which all members of the community were invited to attend and voice not only their appreciation but also their criticisms to JW and his vice mayor FR. JW and FR in the interview claimed that this the first meeting of its kind by a mayor or regency head in Indonesia.

For her part, TR has used negotiation and in overcoming difficulties in getting her innovative programs implemented. For example, the creation of the city Green Park, something that Surabaya desperately needed to cool down the weather because of the hot climate. This was rejected by the Islamic leaders in Indonesian
Ulema Council (Majelis Ulama Indonesia) Jawa Timur, as they were afraid that if the city green park opens 24 hours, that place may be used as another prostitution complex that would lower the moral standing of the community. TR was able to negotiate successfully with those leaders by taking on board their concerns and establishing a 24 hour security system with improved lighting.

JW has instituted regular visits every Friday morning (called as *mider projo*) to the places throughout Surakarta city, on his bike accompanied by his staff, and these *blusukan* or impromptu visits have become the signature of his leadership style. HS, the head of Banjar Regency, has adopted the same practice as JW in Surakarta. HS is a general medical practitioner who was elected as head of Banjar Regency (2008-2013) with a vote of over 92 per cent (the highest among all mayors/head of regency in Indonesia) and was awarded an Innovative Government Award in 2011 by the Ministry of Home Affairs. Every Friday, he will be on his bike visiting each part of Banjar Regency area, accompanied by his staff, following a route as long as 35 km, and gathering opinions and information about unmet need and concerns of the community.

In Surabaya, TR has taken a much more avant garde approach, setting up schemes to enable citizens to voice their needs through *e-sapawarga* (for communication), *e-toko* (online shopping), *e-health* (online health services), email, telephone and even facebook. To keep contact with her staff she will even carry a walkie-talkie even to her bedside table.
7.5.3. Discretion for Public Entrepreneurs

Apart from maintaining good political communication with the Regional House of Representatives, other local leaders in Indonesia such as YW in Keerom Regency – West Papua has shown one of the most important characteristics public entrepreneurs should have, namely discretion. However YW did not seek this discretion simply in order to have more autonomy to exercise his entrepreneurial skills but because Keerom Regency has been such a disadvantaged area in terms of development compared to other areas in Indonesia because of its isolated location that it needs special treatment to advance the development of the area and the community. Whilst in other areas of Indonesia, direct cash aid has been the least favoured programme; YW thought that direct cash aid is exactly what the community in Keerom Regency needed. The direct cash was to finance the development of infrastructure such as housing, health, water provision, road and electricity. The result was impressive, Tempo (2012) recorded that Keerom Regency is now able to easily transport the 390 tons of cocoa beans and 12.6 ton of betel nuts to the central market in Jayapura, the capital province. Statistic Indonesia (BPS) 2012 recorded that 34.8 percent out of 867.31 kilometres of the road has been asphalt paved and 2000 houses has been renovated. It was the discretion that he had over budgets that allowed him to give direct cash aid.

7.6. Conclusion

The four local leaders in the case studies did reflect characteristics of public entrepreneurs. However, among leaders in the four case studies none of them in
particular really reflected true public entrepreneurs. Only one local leader – JW-could perhaps be said to have illustrated all five of the characteristics of public entrepreneurs. Of the other local leaders, KM also seemed to reflect most of them, although this was in a lower level of local government where the scope and scale of innovative program/projects in local economic development, and the potential impacts, were significantly smaller.

There are two important lessons that can be learned from the examples of public entrepreneurs in Indonesia elaborated in this chapter. Whilst some local leaders who are innovative enough failed, others survived because they knew how to maintain good political communications with the legislative power, the regional parliament, and they have established good methods of participation, enabling every citizen to voice their opinions, their aspirations and their needs.

The national government of Indonesia has, via the Ministry of Home Affairs instructed all local governments to have a standard means of gathering public/citizen opinions on development planning through Musyawarah Perencanaan Pembangunan (musrenbang) or the deliberation of development planning. This also serves as to provide a participation channel for the community. Most of the local governments have thought that having musrenbang as a bottom-up approach to development planning is enough to raise awareness and participation from the citizen. However, those local leaders who have the characteristics of public entrepreneurs tend not to be satisfied with this scheme and have gone beyond the standard method of participation. One common feature of all the leaders of the local governments who have been discussed above was their apparent preparedness to be available almost 24 hours a day for 7 days a week to respond to any complaints or reports from the
community, and in whatever ways would suit citizens and communities. This, itself, seemed to be a most impressive reflection of their commitment to the democratic values that alongside entrepreneurship have provided such a key source of interest in the research for this thesis.
Chapter 8 - Conclusion

8.1. Thesis summary

This thesis has been instigated by the fact that relatively few local governments in developing countries like Indonesia provide the leadership to improve life for their communities through local economic development. Mostly, economic development is undertaken by the private sector, and in this respect the role of public sector organisations, and of local government in particular, is usually thought to be more regulatory than developmental, more cautious than creative, and more about sanctioning than about driving change.

However, the research undertaken for this thesis found that leaders of each of the four case-study local governments in Indonesia (two cities and two regencies) did indeed take on leading roles in economic development and did so by each practicing at least one of the five main entrepreneurial skills: risk taking, influencing, innovating, opportunity seizing, and reputation bearing, (Baez and Abolafia, 2002; Huff, Huff and Barr 2000; Beckert 1997: Fligstein 1997, DiMaggio 1988, 14-15).

The main findings of this research have provided valuable fresh insights on the factors governing both the achievements and limitations with regard to local economic development. And while the empirical evidence has been gathered from just one country (Indonesia) and, indeed, from just four local government settings within it, the likelihood is that many of the insights and lessons will be of wider relevance in other developing country contexts as well.
Two types of factor in particular were found to be significant in this context: respectively, hard and soft factors. The hard factors were found to relate to the local governmental ‘organisational processes’ for economic development while the soft ones were more concerned with ‘leadership capability and capacity”. In relation to these second types of factors (the soft ones), the research has particularly highlighted the importance of the balance struck between public entrepreneurialism and democratic engagement (i.e. leadership that is concerned, on the one hand, with poverty eradication (both in rural and urban areas), innovation, enterprise and business partnerships, and, on the other, with relationships, communication and involvement with local communities and other stakeholders).

Given the important need for stronger economic development in most developing countries, the findings of this study, particularly in relation to these hard and soft types of factor, are of significance because of what they reveal about success in realising not only economic and other benefits for local communities, (in accordance with national and local government development priorities). Moreover, the research has also highlighted the benefits for the local governments themselves of focusing on local economic development and seeing this as a key strategic function for local leadership. In this respect, the research for this thesis has provided much insight and learning about the nature of public entrepreneurialism and the importance of its relationship with democratic values above all, how best to balance these two potentially competing priorities. In this context the research has identified from the experiences – both positive and negative – in the case-study areas the kinds of strategies and actions that might be pursued or which are best avoided by local governments as they seek to evolve from the traditional and overly-bureaucratic
forms of organisation by which they are so often caricatured into more effective, flexible, modern and forward-looking public organisations that are more likely to achieve success in building stronger local economies for their citizens and communities.

As stated at the outset, it has been the main goal of this thesis particularly to understand local economic development processes from the perspective of public administration and particularly from a local government standpoint, rather than, as more typically with regard to economic development studies, in terms of the perspectives of economic geography and business development. The hope is that the lessons of success here can inform and inspire the better practices in local governments around the globe and also assist national governments in their steering and leadership of policy-making for sub-regional economic development.

By way of conclusion, then, it is appropriate to summarise in more detail the rationale underpinning this thesis and the contribution that it makes.

Chapter one provided the background and context for the research by establishing the key issues for the thesis and by formulating the research questions to be addressed. The starting point was recognition of the reality that success in local economic development in many developing countries has often been deterred or retarded by a lack of leadership within the local governments. Whilst, entrepreneurial spirit has long inspired progress and advancement in the world economy, it has only relatively rarely characterised local public organisations and particularly local governments. This research, then, aimed to understand better how the existence or lack of, entrepreneurial spirit in local governments might shape strength and weakness in local economic development. Subsequently, the research questions
focused on how public entrepreneurship in the (increasingly) decentralised world of local governments might balance with democratic values and how such balance itself would affect success or otherwise in local economic development.

Chapter two focused on the nature of local economic development as a function, its definition and the practices involved in this respect, particularly in developing countries. It was defined for the purposes of the research as an alternative approach to traditional economic development, with emphasis on a more inclusive approach in terms of engagement with a range of actors as well as the pursuit of activities specifically to address local issues such as poverty through stimulating and supporting local economic growth and by drawing on endogenous capacity. Poverty eradication initiatives through empowerment of the informal sector and economic growth through agricultural modernisation have become two closely related key issues in most developing countries and elected politicians are generally interested to exploit whatever opportunities arise to address such issues and so present a positive and progressive profile to the voters. Further, the chapter emphasised the significance of the informal sector and its contribution to local economic development in developing countries where the formal job market tends to be quite limited. This research employed the local economic development approach Bar-El (2008) proposed local economic development approach that is applicable to local economic development for developing countries such as Indonesia both in rural and urban area. His approach focus on three strategies as (1) fighting poverty; (2) modernization of traditional agriculture and (3) new opportunities for non-farm employment. These strategies can be found in the four study areas as elaborated in empirical chapter.
Chapter three focused on public entrepreneurship and its role in local economic development. Using the typology of public entrepreneurs suggested by Robert and Kings (1989), public entrepreneurs were defined in terms of innovation, the translation of the innovative ideas, the provision of formal and informal leadership in local government, whether by elected politicians or paid officials. In this chapter, the framework used to understand public entrepreneurship comprised five main characteristics of public entrepreneurship: (1) taking risks; (2) Influencing others, which signifies the ability of public entrepreneurs to assemble and coordinate teams of different individuals to pursue the intended change and requires skills such as facilitating, synthesising; and persuasiveness; (3) Taking opportunities; (4) Innovating by modifying the way that public organisations operate and (5) Willingness to bear reputational, emotional, and particularly financial, risk in pursuing courses of action with uncertain consequences. This chapter also discussed a key paradox of public entrepreneurship and democratic values; that certain attributes and circumstances are required for public entrepreneurship to thrive, yet these same attributes and circumstances also tend to be at odds with democratic values (the common attributes of entrepreneurship here being those of autonomy, vision, secrecy and risk taking which would each often contradict the values of democratic accountability, citizen engagement openness and transparency, and the sense of public stewardship).

Chapter four discussed the methodology for the research. A case study research design with a qualitative analysis was selected and a set of four case studies was chosen – each a local government in Indonesia; with some shared characteristics in terms of democratic structures but also some differences with regard to rural and
urban context and in respect of the particular issues and priorities for local economic development. The four areas (Surakarta City, Purworejo Regency, Cimahi City and Purbalingga Regency) were selected to provide a basis for understanding how in practice public entrepreneurship was balanced with concern for democratic values and with what impacts on the shape and success of local economic development activity.

Chapter five discussed the Indonesian context and how this was especially relevant to the understanding of the local economic development in the specific setting of Indonesia. It gave a contextual background on how Indonesia is in now on its fast track of realizing its democratic government system through the implementation of political decentralisation to local government levels and how it affect the local economic development. Being one of developing countries in the south-ease asian region, with the 5th highest population in the world with so much diversity, Indonesia are faced both with challenges and opportunity. In this chapter, local economic development approaches taken by each of local governments were discussed in the context of how local economic development initiatives form alternatives to address not only the challenges and but also take up the opportunity.

Chapter 6 provided an analysis of local economic development in the four local governments in turn. In doing so, it particularly highlighted three different aspects of practice: (1) fighting poverty programmes (and developing basic public services such as health and education), (2) modernising traditional agriculture and (3) creating new opportunities for non-farm employment, particularly promoting and supporting development of small medium enterprises, the establishment of new
factories for employment development and encouragement of innovative activity in the creative industries.

Chapter seven then examined how public leaders in the four case-study areas approached their local economic development role and how they struck their particular balances between entrepreneurialism and democratic values (for which the analysis centred on three main characteristics of democratic values: (1) distributing responsibility among the membership, (2) empowering group members, and (3) aiding group decision making processes.

8.2. Findings

From this analysis three key findings in particular were identified as follows:

1. Effective leadership in Local Economic Development requires an effective balance to be struck between entrepreneurialism and democracy.

Perhaps contrary to expectations, those leaders with strong instincts for public entrepreneurialism tended (from these four case studies at least) also to be strongly committed to democratic engagement. This suggests that the key issue is less about the balance that leaders strike between public entrepreneurialism and democratic values and more about the overall quality of leadership for the local government.
2. **Ensuring there is effective ‘leadership’ at one or more levels of the organisational hierarchy is more important than having a strong ‘leader’ at the top.**

Success in local economic development may not just hinge on the personal skills and abilities of the top-serving individual – the one who has been elected to hold the formal office of leader of the local government - or, indeed, that such an office holder must necessarily demonstrate excellence in both entrepreneurialism and with regard to democratic values. However a key finding from this research is that, to be successful in local economic development, the organisation as a whole does need to present a strong balance in this respect and to offer not just skills and expertise but also natural instinct and clear commitment in relation to both. While this may sometimes be through a single individual within the organisational hierarchy; whether by the mayor/other elected head or by a senior executive or other paid official, it is equally possible that the roles may be shared between two (or more) differently skilled actors occupying different (though equally influential) positions within the organisation. This suggests that the key issue here is more one of ensuring high quality leadership within the organisation in relation to both entrepreneurialism and democratic engagement rather than one of necessarily electing or appointing an individual who has the expertise and the instinctive commitment to provide strong and decisive leadership in both such respects.
3. It is important to align public entrepreneurialism and democratic value in the policies and practices of local economic development.

Success in local economic development calls for a predisposition on the part of local government leadership towards public entrepreneurialism, and particularly with a preparedness to innovate and to take calculated risks in pursuit of objectives of potential community benefit, though doing so in an open, democratic and accountable way in order to ensure the support of those local parties and groups whose interests are most at stake. This suggests that the nature of public entrepreneurship needs to be closely aligned with democratic values and that, achieving such alignment, probably represents the best strategy for survival and success among local government’s entrepreneurial leaders.

8.3. Reflections on the Research

Looking back, having undertaken the research and, through the case-studies, gained a stronger understanding of the drivers behind local economic development in the four local government areas of Indonesia, as indicated, it is concluded that, even though there would always be limitations in terms wider generalizability, many of the findings are likely to have resonance and relevance elsewhere in developing countries, and certainly in other parts of Indonesia given the common context and framework of a recently decentralised state and relatively immature and emerging local government processes and practices.
Theme-wise, the subject of public entrepreneurship that focuses on the actors (i.e. the public entrepreneurs) is inevitably time and context specific. Public entrepreneurship is fast developing and is always likely to be subject to significant change and discontinuity. Not least this is because elected leaders come and go at election time and officials also move within and between organisations. The Mayor of Surakarta, for example, who, during the research period, had presented impressive levels of entrepreneurial skills, moved on to a higher position at provincial level in Jakarta, the capital city of Indonesia, one year later and has now become the President of Indonesia. Furthermore, local economic development is itself also a fast changing subject and one that necessarily evolves in response to the changing needs of communities and expectations of citizens. It was; for example, very apparent during the research just how dynamic was the economic and social context of Indonesian local government. However, this only serves to underline the importance of researching the topic and understanding better the forces at work in local economic development, particularly from the perspective of public administration and local government.

With regard to reflections and learning points for future research, an obvious limitation of the work undertaken for this thesis would be the relatively small scale of the field-work (not least for such a large developing country as Indonesia), and so there would be additional interest and considerable value in gathering equivalent evidence from other parts of the same country, and still more through a comparative analysis also involving other developing countries. This seems especially so given that the subject of public entrepreneurship is inevitably so focused around specific places and around particular individuals (the public entrepreneurs), each bringing
their own personalities and attributes to the role, each following their own priorities and contributing their own senses of innovation and leadership, and each, as a result, leaving their own legacy of achievements in terms of local economic development.

A very different, though no less significant, learning point from the research concerned the challenges of undertaking such studies in a developing country context. In particular, the challenge of gaining access to, and being able to spend sufficient time with, busy political leaders to gather, through frank discussion, much sensitive information, and often with delicate political overtones. There is no doubting the fact that while the leaders interviewed in this research were content to be part of a research project that might promote their localities and their achievements to a wider international audience, they were also very concerned about having their contribution assessed and evaluated, and might well have preferred to keep silent on many of the topics covered in the interviews. The delicacy and sensitivities involved in undertaking research of this kind can hardly be overestimated. However, despite such challenges, this research experience has shown that, subject to careful planning and design, the very limited amount of published information on achievements and limitations in local economic development in developing countries can be significantly augmented through carefully conducted conversations and discussions with political leaders and senior officials in local governments and that doing so can provide a very rich source of insight for research in this subject area.
8.4. Further research

This research has focused on understanding the public entrepreneurship in local governments in Indonesia in shaping the successes and disappointments of local economic development track-records. Hence, as indicated, the focus of the research has been particularly on the individuals and their entrepreneurial skills and limitations. There would, however, be much additional value in focusing further research on seeking to understand entrepreneurship as a phenomenon within the organisation and focusing on the institutional capacity and capability in this regard. Combined with a further set of new case studies, such research could surely be expected to provide interesting and complementary insights to this thesis on public entrepreneurship.

As discussed in the earlier chapters, most research on the role of public entrepreneurship has been undertaken in more advanced and developed countries such as the United States or the United Kingdom, while relatively few studies have focused on the subject in the context of developing countries. This research set out to address this shortcoming and to provide clearer insights on the nature and impacts of public entrepreneurship in developing countries as a whole through a focus on Indonesia as one such state. To progress this line of research, it would be interesting also to examine the nature and achievements of public entrepreneurship in larger public organisational settings where one might expect to encounter more complex policy-making issues and dilemmas and perhaps with more contradictions and tensions between the political and executive roles as a result; and where bureaucratic behaviour might well be more deeply embedded, with consequent tendency to
harbour inefficiency, ineffectiveness and, worse, corruption. Young and emerging democratic states such as Indonesia provide many rich and on-going opportunities for learning about local economic development, as well as providing some significant new insights on the subject, and this research study has most certainly inspired the author to want to learn more about the fascinating and dynamic nature and contribution in this respect of public entrepreneurship.
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Appendix 1 - Interview Guide

RESEARCH QUESTION

Despite the existence of a common decentralisation system differences are apparent in the impacts of local economic development.

• What part does public entrepreneurship play?

• What part does public entrepreneurship play in achieving positive impacts of local economic development?

INTERVIEW GUIDE

DECENTRALISATION

To understand the decentralisation system in Indonesia, assuming that there would be no difference among local governments in Indonesia. This would serve as the background of process by which and a local leader comes to office.

a. When did the local government become decentralized?

b. What is the background from which and process by the local leader came to office?

Note:

- Local leaders are mayors (walikota) or district leader (bupati)
- From this question, information about the background of the local leader will be revealed, whether he/she nominated by political parties for his/her political aspirations, or he/she coming from business background, or he/she is is purely bureaucrats. This will give insight on the possibility of the public entrepreneurship originality

**LOCAL ECONOMIC DEVELOPMENT**

To understand the nature of local economic development

- *What is the primary source of local economic growth in this locality?*
- *How is the idea of local economic development understood and adopted here?* (from this question, the model and approach of local economic development adopted in the locality would be understood)
- *To what extent does local economic development involve partnership with other stakeholders and who are those other stakeholders?*
- *To what extent does local economic growth here have positive impact on poverty?*

**PUBLIC ENTREPRENEURSHIP**

a. If “opportunity” is conceived simply as a better way of doing things, then opportunities are everywhere including in the political sphere (Schuler, Rehbein & Cramer, 2002).

- *How do you define opportunity in the context of public entrepreneurship?*
• *is it doing things in a better way to fulfill the public interest rather than to pursue economic profit?*

• *is it beyond that?*

b. In public entrepreneurship, a breakthrough innovation requires making investments under uncertainty, which may yield major returns for the public, but which also risks leading to failure. The subsequent success or failure, in turn, will impact negatively to the popularity or credibility or reputation of the leader of the kabupaten/city (a private interest) (Klein et.al., 2009)

• *Are you concern about the risk and uncertainty in pursuing innovation?*

• *Have you recently experienced failure in pursuing innovation?*
  
  *To what extent did that failure impact on your personal reputation as a leader?*

c. Schneider & Teske (1994) argue that all public entrepreneurs tend to demonstrate non-routine managerial behaviour (Boyyet, 1997) as

• *Are local leaders able to identify unfulfilled needs and select appropriate solutions to meet the needs?*

• *How prepared are leaders to bear the reputational, emotional, and particularly financial risks involved in pursuing a course of action with uncertain consequences?*
• Do local leaders prefer to assemble and coordinate teams or networks of individuals and organization that they see as having talents and/or resources necessary to undertake change?

d. Public entrepreneurs create new role and new organisations (Lewis, 1988), further combine this with private sector

• To what extent do local leaders (through the authorised body/agency within the legal structure) seek to refashion/reshape organisation aiming at achieving better economy growth?

• To what extent local leaders seek to create new organisation aiming at achieving better economy growth?

e. As Mudd (1984) argue that a way to understand public entrepreneur is from innovation, three characteristics of public entrepreneurs are astute lobbyist, publicists and canny politicians (Lewis, 1988)

• In what ways and to what extent do local leaders lobby stakeholders in local economic development to win the changes they suggested as part of the innovation and risk taking behaviour?

• How do local leaders communicate to the public the innovation and risk taking behaviour they are taking?

• How do the public/citizen/local stakeholders react to such innovation and risk taking behaviour?

• How do local leaders respond to that public reaction?
Note: public reaction can vary in different form of action; from silent opposition (resistant) to refusal action.

f. Central element of public entrepreneurship is the act of inspiring others inside and outside of the organization to accomplish public purpose (Lewis, 1988)
   - To what extent do the local leaders inspire others (inside and outside the organisation) to accomplish the new public purposes in local economic development wanting to be achieved?
   - How do that happen? In what ways? Can you illustrate an example?
   - What are the results of that inspiration?

g. Public entrepreneurs are also defined as individuals who change the direction and flow of politics (Schneider&Teske, 1992)
   - What do you see as the main impacts of public entrepreneurialism on the local government politics here?

h. Public entrepreneurship conflicts with democratic leadership (Bellone&Goerl, 1992)

**Entrepreneurial autonomy versus democratic accountability**

Question:

- How much independence do the leaders have over budgeting?
• With that level of independence, how much are the constraints in terms of financial/legal rules and regulations?
• With that level of independence, what do you think of the leader’s scope for achieving public goals effectively and efficiently?
• With that level of independence can the leader select his or her own priorities in budgeting over others?
• How is the leader held accountable? Is it processed based or output based?
• How effective do you regard the accountability here?

Note: the discussion that public entrepreneurs are to have autonomy and discretion means the application of thin theory of public entrepreneurs (Barber, 1985). Whereas in strong theory of public entrepreneurship, there should be any participation from the citizen as below.

**Public entrepreneurial vision versus citizen participation**

• Do the public entrepreneurs come with their own vision?
• How well-developed was the vision for economic development of the public entrepreneurs when coming into the office?
• What was that vision with regard to economic benefit for the locality?
• How innovative do the leaders, all local economic development stakeholders and community think of that the vision to be?
Entrepreneurial confidentiality versus democratic openness

- How open are leaders with information at different stages of the policy making process on local economic development?
- How do the leaders manage the balance between confidentiality of public private partnership and the public right to know in?

Entrepreneurial risk taking versus democratic stewardship

- To what extent are the leaders mandated (on behalf of the public) to take the risk to achieve certain goals in local economic development?
- How the risk taking behavior is managed?
- What level of risk taking behaviour is accepted to achieve goals in local economic development?
- If the risk is unwise, do the leaders think he/she face some kind of ethical and professional dilemmas?
- If the mandated risk behavior taken proves to be unwise, how are the leaders held to account?
- How much discretion do the leaders have in risk taking behavior regarding local economic development?
- How this behavior viewed in the context of stewardship for public purposes on behalf of the public?
- How much public information, discussion, and reaction would that be should leaders risks failed?