

# Creative Industry's Startup: How Can Investors Indicate Important Factors to Fund It?

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**Abstract**— Creative-economy has become center attention of the Indonesian government, by establishing The Indonesian Agency for Creative Economy in 2015. However, funding or economic is still considered as the main obstacle for the creative-industries startups, as the driver for creative-economy, in developing their business. The difficulties faced by the creative industries actors to get funding from banks or financial institutions, because the majority of the actors hold intangible assets. This study focuses on creative industries sub-sector which dominantly holds intangible assets which are application, and game developer sub-sectors. Moreover, the objective of this study is to examine the parameters of loans, credit, and funding in organizational and institutional. These contain indicators that will be analyzed whether these might influence the funding to the actors. The study was conducted by interviewing the investors who were speakers and pitching judges at the Go-Startup Indonesia event on October 26, 2018, in Bandung. Explorative research is carried out by using a deductive approach. Triangulation is used for checking the validity of data. The result of the analysis shows 13 indicators influence investors in determining their investment. By optimizing these indicators, it is expected that creative-industries startups become easier in obtaining funding for their business sustainability.

**Keywords**—Creative Industries; Funding Indicators; Startups; Investors

## I. INTRODUCTION

The creative economy is an economic activity based on creativity, skills, and individual talents to build creativity and creative power of individuals who have economic value and influence the welfare of society [1]. The creative economy has become a center of attention of the Indonesian government. The evidence is the establishment of the Indonesian Agency for Creative Economy (Bekraf) in 2015. The creative economy is a strategic sector for future national development because of its significant contribution to the national economy. The contribution of GDP by the creative economy in 2016 reached IDR 922,59 trillion, which has increased by 8,21% from the previous year which amounted IDR 852,56 trillion. The number of creative economy workers in 2016 was registered at 16,91 million which has increased by 5,95% from 2015 which was 15,96 million. The creative economy business actors were dominated by women at 54,96% and the remaining men at 45,04% [2].

In its development, the creative economy is driven by the industrial sector called the creative industry. The creative industries are the industries that emerge from

the utilization of creativity, skills and individual talents to create welfare and employment opportunities through the creation and utilization of the creativity of these individuals [3]. Bekraf itself divides the creative industries in Indonesia into 16 sub-sectors, including culinary, fashion, craft, television and radio, publishing, architecture, applications and game developers, advertising, music, photography, performing arts, product design, fine arts, interior design, film, and visual communication design.

However, funding or capital is still considered as the main obstacle for the creative industries startups in developing their business. Based on statistical data and result of the creative economy survey in 2017, 74,90% access to creative economy capital comes from the business actor itself, while 24,44% from bank loans and 0,66% from venture capital. The difficulties faced by the creative industries actors to get funding from banks or financial institutions caused by the majority of the creative industries actors hold intangible assets so that banks and financial institutions are difficult to calculate the credit risks.

One of the creative industries sub-sectors which dominantly holds intangible assets are sub-sector application and game developer. In 2020, according to business research institutions, digital startups in Indonesia will grow 6.5 times from 2017 which is 2000 digital startups; this is supported by predictions that 40% of the total population in Indonesia has used the internet. However, the constraints faced were in access to finance for the sub-sector industry players. Funding access can only be given to application industry players that have been established for a long time and have a track record, while the problem is the lack of information about application products because they are intangible and also contain intellectual property [4].

To cope with the difficulties of the banking sector, the next alternative is through venture capital. The US Small Business Administration defines venture capital as a type of equity financing that addresses the funding needs of entrepreneurial companies which because of the size, assets, and development stages cannot seek capital from more traditional sources, such as public markets and banks [5]. The limited amount of funding channeled through venture capital has resulted in not many creative industries being helped so that the percentage through venture capital is still below 1%.

Both of these financial institutions, both banks, and ventures, have rules that are quite strict in lending; it is quite difficult for new entrepreneurs who do not have a track record.

To overcome this problem, Bekraf's Deputy for Access to Capital has sought to help access funding through various programs, including *Kredit Usaha Rakyat* (KUR) and Creative Economy Fund, one of which comes from funds obtained through angel investors [6]. Angel Investors are individuals who have wealth that provides capital assistance to businesses of startups or companies that are growing, in exchange for convertible bonds or ownership equity in the company [7].

Research on funding in a creative industry startup is still not widely found [8]. To get external funding outside of its funding such as venture capital, angel investors, and so on, several indicators need to be known and met by industry startups that are the center of attention of investors. Cunningham et al. (2008:81) state that the funding model for the creative industries would have different parameters in each country depending on where the funding was provided and the bank requirements of each country. According to Cunningham et al. (2008), they give two examples of financial parameters, the first one is the requirement for loans, credit, and funding; in a startup, loans are lent at either startup or growth phases of the business cycle and initial loans are restricted to income-generating activity [9]. Meanwhile, microcredit offers a viable model for financing micro-business in the creative industries-especially in terms of developing or kick-starting ideas. Funding in startups is a collective effort of various individuals, who come together to pool the funds, to support new potential projects, organizations, and businesses, commonly referred to as crowd funding [10].

The second parameter by Cunningham et al. (2008) is based on the organizational and institutional parameters; to see the capacity of an organization to deliver loans. These two parameters contain indicators that will be analyzed whether these might influence the funding to the actors. The parameters later continued by Hatammimi and Rizal (2018) by analyzing relevant articles that address the indicator which affects the funding in the creative industries startup. The studies by Hatammimi and Rizal (2018) found that in a loan, credit, and funding indicator consist business stage, investment period, and financing model. Meanwhile, in the organization and institutional indicator consist of positive expectation, networks, market feasible idea, concept innovation, endorsement, time to IPO, sustainability, transnational, value-added, IPR, and portfolio's company's profile. [8-16]

This study is aware of the absence of definite indicators that can be used by investors in choosing a company to be invested in Indonesia. This also can become a problem for startups in fulfilling the criteria desired by investors to obtain funding. This study confirms indicators drive-by Hatammimi and Rizal (2008) to find out whether these indicators affect funding the creative industry startups in Indonesia, especially in the subsector of application and game developer. Theoretically, it is expected to be able to provide knowledge and insight into the indicators used by

investors before investing their funds in creative industry startups. The results of the study can be used as reference material for further research that has similar research topics. Practically, investors are expected to be able to use information and research results as a consideration in making investment decisions. This study also facilitates startups or new businesses by using information and research results to develop their business following the criteria of investors to get access to the funding.

## II. RESEARCH METHOD

This study used the explorative qualitative method. Data obtained through interviews, observations and related research that will be analyzed using triangulation by checking data from various sources at various times. Using a convenience sampling method, there are three selected respondents. These respondents under criteria that it must be investors under Badan Ekonomi Kreatif (Bekraf) that coming to the Go-Startup Indonesia event on October 26, 2018, in Bandung. Furthermore, respondents must have the experience of investing in creative industrial startups especially the subsector of application and game developers. Lastly and most importantly agreed to be interviewed and become part of the research. The respondents were contacted by phone and invited to participate in an interview and were asked to sign a consent form. All participants accepted to have an audio record interview. Each interview followed a semi-structured script which contains several questions about the indicators used in this study.

A deductive approach is applied using existing theories to find out whether the indicators contained in existing parameters can be implemented in Indonesia. The study used Cunningham et al. (2008) that divide factor that influenced creative industry funding into 2 variables which are parameters of loans, credit and funding and organizational and institutional. These variables contain indicators obtained from a literature review conducted by Hatammimi and Rizal (2018). These indicators will be analyzed whether they can be applied as the indicators that influence the funding to the startups in Indonesia. The research variable and indicators can be seen in table 1.

**Table 1.** Research Variable and Indicators

<b>Variable</b>	<b>Indicator</b>
Loan/ Credit/ Funding	Business Stage
	Investment Period
	Financing Model
Organizational & Instiutional	Positive Expectation
	Network
	Market Feasible Idea
	Concept Innovation
	Endorsement
	Time to IPO
	Sustainability
	Transnational
	Value Added
	Intellectual Property Right
	Portfolio Company's Profile

Open coding was conducted and quotations were labeled into 1 to 4-word labels. After that, close coding was conducted to reduce the number of codes eliminating repetition of similar codes, comparing with original data for accuracy and validation. To gain a better understanding of each indicator, the analyst asked several questions depending on the research need to form a conclusion. Some examples in the business indicators include: Does the business stage of a company affect investors in providing funding? What business stages are most considered in funding?. The main idea of the narratives is to know whether these indicators affect funding the creative industry startups in Indonesia.

### III. RESULT AND DISCUSSION

As said earlier, triangulation was used to achieve validity and reliability of the data. At this stage, the results of interviews in the form of audio will be converted into text or commonly referred to as verbatim transcription. After the transcription, the data will be reduced and put into a category according to the research objectives. Data that has been reduced and presented systematically will be concluded and verified. Lastly, the researcher gives his views and perspectives on the research findings. The results of the study can be seen as follows:

#### **Business Stage**

The results of the study show that in terms of business stage, investors will see the stage of the product is it still an idea, already has a prototype, whether it has entered into industrialization or already for expenditure. According to respondent 2, *"At what stage the product is, whether the product has a prototype or still an idea, it is not the wrong thing if it still an idea, a lot of people who are looking for ideas, because of what? cheap. So the product stage it is, is it still an idea, is there a prototype already, or has it even been entered into industrialization or indeed already for expenditure."* This is suitable with the research of Kuschel et al (2017) which states that an entrepreneur obtains capital based on the stages of his startup (product development, prototype, market validation, scaling), difference stage and type of startup industry (seed, series A, series B, and so on) will require different amounts of capital as well as the differences in the problems they faced.

#### **Investment Period**

The results of the study indicate that the estimated refund must be notified to investors because it is part of the investment condition, investors must know all the risks. While regarding the period time needed for a refund, it depends on the type of investor, whether short term, medium or long term investor. Respondents 2 explained, *"The estimated return must be notified because that is part of the investment condition, every investor need to know all the risks"*. Respondent 3 added, *"Yes, it depends on the type of investor. When he exits, he has to know when he leaves, how much he gets."* This is suitable for the research of Stankevičienė and Žinytė (2011), they used an investment period as a way to calculate company valuation.

#### **Financing Models**

The results of the study show that investors look at the capital structure by looking at the data of those who have previously invested. According to respondent 3, *"Yes it is important, the person (investors) entered because of whom who have invested before. The investor needs data on who has invested first. For example, if a large company has already invested, I will also participate."* This is suitable for the research of Stankevičienė and Žinytė (2011) which also used financing models as a way to calculate company valuations in terms of investment track record.

#### **Positive Expectation**

The results of the study show that it is important for an investor to know the capabilities of the company and the team in dealing with the possibilities that can occur in the future. Respondent 2 explained, *"Yes, it was part of the team whether the team was able to carry out the vision and mission or the blueprint that already existed. I think if we get to this stage we have agreed with the existence of a blueprint of the products we will work on, not a year and two years, but a long term period."* This is suitable for the research of Botric and Bozic (2017), which states that future expectations are often seen from previous experience.

#### **Networks**

The results of the study indicate that it is important for investors to know far the companies that will be funded already has networking because the network is considered as an asset that increases the valuation of the company. A network is considered important to get potential partners, mentors, and investors. According to respondent 2, *"Because the network can be considered as an asset that increases the valuation of the company, various types including such as marketing partners, HRD."* This is suitable with the research of Kuschel et al (2017), which stated that networks are one of the most important success factors of new entrepreneurs because they can substitute for lack of experience in business, startups also benefit from partner expertise in various markets.

#### **Market Feasible Idea**

The results of the study indicate that a startup will be rated good by the investors if it can be scaled up, has a wide market reach, and also has a large user. Besides, if a startup already has market reach, it will add to the valuation of a startup. The potential targeted a market to be achieved is also a rating factor. Respondent 2 explained, *"A good startup is the one that scaling up, the market must be wide, the user must be large. Another respondents explained, "If they already have it (good market reach), it adds to their valuation, the valuation of a startup."* Then respondent 3 added, *"The higher the potential solution that they can offer to be applied, to scale up (the company), I will be more interested (to be their investor)." This is suitable with the research of Shah and Shah (2017), which states that market conditions and opportunities attract the attention of*

investors and make it easier to get success in obtaining funding.

### **Concept Innovation**

The results of the study indicate that it is important to be known by investors, whether product ideas or concepts offered can be fit with the market or can meet the needs of the community. Respondent 2 explained, *"Investors must know whether the product will fit to the market, is it nice to have, or it is only a gimmick, or the product really suitable for the needs of many people, that is different, so ideally we are investing in a product that can be the answer to people's needs."* This is suitable with the research of Shah and Shah (2017), which states that the concept of innovation that can meet market needs also attract investor attention and make it easier to get success in obtaining funding.

### **Endorsement**

The results of the study show that it would be good if the company has a collaboration that can help develop the business. It is important how a startup can find other mentors, partners and other startups who can be invited to work together. Respondent 2 explained, *"Of course, (a company) requires (endorsement) that can help in its business, for example, startup applications must have partners who can connect with related parties."* Respondent 3 added, *"That (endorsement) is one of the most important (thing) to be considered for the investors, how the company will collaborate (to others) like finding a mentor, looking for partners, sometimes (the company) also looking for other startups that can be cooperated with."* This is suitable for the research of Choi (2014), stated that employers try to reduce the view of the magnitude of uncertainty in new businesses by gaining legitimacy from respected individuals and organizations.

### **Time to IPO**

The results of the study indicate that for a company to have an objective to issue an IPO is not something that necessary so that it is not included in the assessment. The IPO is only interpreted as one of the strategies in obtaining funds, which of course will have its pluses and minuses. According to respondent 1, *"That (IPO) is just a strategy, actually, it's just one of the option, so there are many choices."* Respondent 3 added, *"The IPO is an exit, there are pluses and minuses. If the company has a plan for an IPO, the financial statement must be disclosed, whether they want it or not to be disclosed. For example, the company has been invested by investors, whether investors who have invested want it to be disclosed."* This is suitable for the research of Choi (2014), which stated that there is a difference between the time mechanism for IPO by resource owners and evaluation of company value.

### **Sustainability**

The results of the study indicate that the survival of a startup or sustainability is considered a necessity. This can be seen by looking at the stability of market demand. Respondent 1 explained, *"A company must maintain its*

*survival continuously, not only at the present, but also in the future, so the term is to be able to sustain or continue."* Then respondent 3 added, *"We have to look for startups that have demand."* This is suitable with the research of Dumitrescu (2014), which stated that to obtain thematic funding opportunities, small and medium enterprises need to present sustainable, transnational, and value-added.

### **Transnational**

The results of the study show that investors will invest in a product that can be the answer to people's needs, to what extent the potential of the product can be scaled up so that it can meet the needs of the wider community. Respondent 2 explained, *"So ideally, we invest in a product that can be the answer to people's needs, the main thing is being the answer to the needs of the wider community"*. Respondent 3 added, *"I (investors) need to know the solution can be descaled up to what extent, only in one region, national or global. The higher the potential solution offered can be applied to the scale, the more I will interest."* This is suitable with the research of Dumitrescu (2014), which stated that to obtain thematic funding opportunities, small and medium enterprises need to present sustainable, transnational, and value-added.

### **Value Added**

The result of the study shows that investors need to see what the value of the product is. Investors do not want to fund startups that mimicking the others because if the company has its uniqueness to its product, it will give added value to the company. Respondent 1 explained, *"Yeah right, that (must have an added value) is right. If there is a problem there is an opportunity."* Respondents 3 added, *"It's important when I invest, I don't want any startup to imitating any other companies, because if we imitate it, it will die, unless it is really good."* This is suitable with the research of Dumitrescu (2014), which stated that to obtain thematic funding opportunities, small and medium enterprises need to present sustainable, transnational, and value-added.

### **Intellectual Property Right (IPR)**

The results of the study indicate that companies that are considered advanced are companies that already have patents on their products. IPR is a company asset and is also considered one of the most important because it is the character of the creative industry company itself and it can be used as a guarantee to gain funding. Respondent 1 explained, *"The advanced company is a company that has a patent. If he has that ability (to have a patent) he can monopolize."* Respondent 2 explained, *"IPR is a matter that must be managed because that is the asset of a company. Investors will appreciate if the company already has an IPR."* Then respondent 3 added, *"There are many kinds of IPR, there are patents or just brands or prototypes, but patents are important, right? ... IPR is the character of the creative industry company itself, and can be used as a guarantee (to the investors)."* This is suitable with the research of Cooke (2017), stated that inventors who will develop into

innovators will be encouraged to exploit their own IPR (intellectual property right).

**Portfolio Company’s Profile**

The results of the study show that an investor must know all the potential that might occur such as risk and minimize the risk as much as possible. Respondent 1 explained, "One of the tasks of the company must do is to explain all the risks to the investors. The risk most investors fear is to not be able to get their money back." Respondents 2 added, "There is a risk in business, of course, it must be minimized." This is suitable with the research of Stankeviciene & Zinyte (2011) which uses the risk level as one of the sub-criteria of the investment valuation factor.

The result of the indicators is also shown in table 2.

**Table 2.** Result

Variable	Indicator	Effective	
		Yes	No
Loan/Credit/ Funding	Business Stage	✓	
	Investment Period	✓	
	Financing Model	✓	
Organizational & Institutional	Positive Expectation	✓	
	Network	✓	
	Market Feasible Idea	✓	
	Concept Innovation	✓	
	Endorsement	✓	
	Time to IPO		✓
	Sustainability	✓	
	Transnational	✓	
	Value Added	✓	
	Intellectual Property Right	✓	
	Portfolio Company's Profile	✓	

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