The Influence of Crowdfunding Financing Models on Creative Industries in the City of Bandung - Indonesia

[1]Rivani Rivani, [2]Muhamad Rizal, [3]Rudi Darwis
Universitas Padjadjaran

_____

Abstract - **The development of the creative industry in the city of Bandung Indonesia is very good, although there are several obstacles, one of which is the financing aspect. The majority of creative industry players in the city of Bandung use personal funds for their business development. This study aims to determine the correlation between crowdfunding models on the performance of the creative industries in the city of Bandung. The research method used is quantitative with a simple linear regression analysis and t-test as a hypothesis test. The sample of this research is 236 creative industry practitioners in Bandung taken by snowball sampling. Through the hypothetical test it was concluded that the crowdfunding financing model did not significantly influence the performance of the creative industry in Bandung.**

keywords - **Crowdfunding, Creative Industries**

_____

1. Background

Currently the creative industries in various developed and developing countries are growing. In Indonesia alone, the results of the BPS survey in 2015 showed the creative industry grew 4.38 percent. The contribution of the creative industries to the Indonesian economy reached 7.38 percent of the total national economy. If converted, the value reaches Rp.852.24 trillion. The industry is able to provide employment for at least 15.9 million people and contribute to the export value of US $ 19.4 billion. Based on research (Bekraf, 2017) there are various problems that can hamper creative economic growth, namely: the qualities of human resources, technological aspects, market access, stakeholder collaboration, and what is quite dominant is minimal access to capital. The lack of access to capital due to the unique and risky characteristics of creative industries causes the majority of actors to capitalize on their own businesses, very few are able to access banks, and less than 1% is financed from venture capital. Therefore, this creative business requires an unusual type of capital access, which does not require guarantees, a full level of trust, and can tolerate a high level of business failure risk. Generally, alternative capital for creative business startups is obtained from angel investors, or utilizing government grants / CSR (Corporate Social Responsibility) from large companies. Therefore, research on the analysis of alternative crowdfunding financing models is needed to improve the performance of the creative industries, so that an alternative financing model is expected to be found that can better suit the unique characteristics of this creative industry.

2. Literature Review

2.1. Creative Industry Concepts

Creative industries are defined as industries that originate from the use of individual creativity, skills and talents to create prosperity and employment by producing and empowering the creative power and creativity of the individual. More simply, it can be said that the innovation of a company can be categorized as a creative industry (Green et al, 2007). The definition of Creative Industries based on the UK DCMS Task Force 1998 (in Siti Nurjanah, 2013) is: "Creatives Industries as those industries which have their origin in individual creativity, skills & talents, and which have a potential for wealth and job creation through the generation and exploitation of intellectual property and content ". The creative industry is one of the fields that is highly considered in the current era of the creative economy. Creative industries have enormous potential for prosperity and job creation. Many studies on the creative industries state the contribution of the creative industries to the economy, especially on job creation, regional development and urban dynamics. This creative industry activity relies on individual creativity, expertise and talent. Unlike most other industries whose main output is material products or services that are immediately used, the creative industries output is in the form of intellectual property. The definition of creative industry that is most used as a reference to date is the definition of the Creative Industries Task Force of DCMS, namely: "Creatives Industries as those industries which have their origin in individual creativity, skills & talents, and which have a potential for wealth and job creation through the generation and exploitation of intellectual property and content "(Development of Indonesia's Creative Economy 2025, 2008: 4). The understanding of the creative industries in Indonesia refers to the understanding of the Creative Industries Task Force of DCMS as follows: "Industries originating from the use of creativity, skills and individual talents to create welfare and employment through the creation and utilization of the creative and creative power of the individual" (Development of the Indonesian Creative Economy 2025, 2008: 4). So from the understanding of the creative industry above states that the core of the creative industry is the use of creativity, skills and individual talents as output with the process of change through creative power and creative power so that the output is in the form of creative products. Furthermore, another understanding is expressed by (Bilton and Leary, 2002 : 50). "Creative industries" produce "symbolic goods" (ideas, experiences, images) where value is primarily dependent on the play of symbolic meanings. Their value is dependent upon the end of the usr (viewer, audience,

reader, consumer) decoding and finding values within these meanings; the value of "symbolic goods" is therefore dependent upon the user's perception as much as in the creation of original content, and that value may or may not translate into a financial return ". The above understanding states that the creative industries produce symbolic goods that in the form of an idea, experience or image where the perceived value depends on the end user such as audience, reader, listener or consumer and sometimes cannot be translated into financial gain. Creative Industries are also "defined as a collection of economic activities related to the creation or use of knowledge and information, which is also known by other terms as the Cultural Industry or the Creative Economy (Hesmonddhalgh, 2002; Howkins 2014). In addition to the above classification, the UK uses the Creative Business Model Framework approach to interpret the creative sector by gathering it into four circles: Creative Content, Creative Services, Original Creative and Creative Experiences.

2.2. Crowdfunding Financing Source Concept

According to Riyanto (2002), there are two types of financing sources: Internal (from within the company), and from external (from outside the company). More specifically explained that the types of business financing are as follows:1. Own funds, 2. Joint ventures (joint shares), 3. Loans, both from the formal sector (banks, microfinance institutions, etc.) and informal (loans from relatives, etc.), 4. Grants, both from the formal sector (government programs, etc.) or informal (grants from families, etc.).One alternative source of financing in the current era is: crowdfunding, where experts define it as: ".... a way for entrepreneurs to fund their projects or businesses with small contributions from large numbers" (Collins & Pierrakis, 2012). The Crowdfunding Model, Gedda et.all (2016) defines it as: "... A way of crowdfunding a project that defines what will be invested, loaned, or donated by funders, and what the funders receive in return." Crowdfunding can be distinguished into 4 main categories, namely (Husain & Root, 2015):1. Donation-based, usually based on donations for social purposes.2. Reward-based, similar to donations, but project makers offer prizes for donations.3. Lending-based, this fundraising is a loan that offers profit or profit sharing.4. Equity-based, this fundraiser offers a portion of the company's shares.Then, Steinberg et.al. (2012) more specifically explains the relationship between the four types of crowdfunding in relation to the variety of features, risks, and motivations in the context of their need to be built on a digital platform based on the following figure:
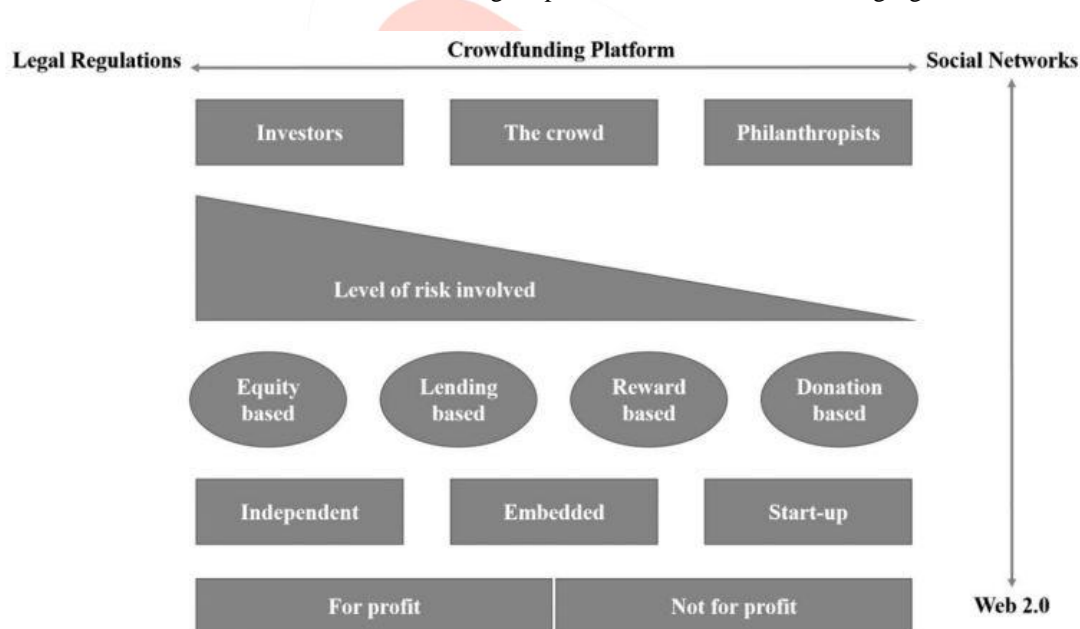

Figure 1. Main Features of Crowdfunding

In Figure 1 it can be seen that the types of donations and rewards tend to be more appropriate for the level of startup business, or business startup. At this stage, of course, there is no need for complex legal business levels with relatively low business risks. When based on the method of payment, this crowdfunding model according to Tomczak and Brem (2013) can be divided into 4 models, namely:

1. All or nothing: If the pre-determined goal is not met, the funding project will be deemed unsuccessful and the   money will be returned to the funders.
2. All and more: Even if the pre-determined goal is not met, the entrepreneur will receive the accumulated amount of money, at the cost of a higher platform fee for the entrepreneur.
3. Holding: The funder buys equity in a fund-seeking firm.
4. Club membership: The funder pays a fee to join a club, where experts invest or buys equity on behalf of others. This payout model exists to avoid legal issues, because equity crowd funding is illegal in some countries. The four models certainly have different levels of preference on the part of the entrepreneur and the donor

2.3. Creative Industry Financial Strategies

One aspect that has been overlooked in the formation of corporate strategies, especially in micro, small and medium enterprises, is regarding financial decisions. Financial analysis and planning is a basic factor that can support a company's strategy that is not found in micro, small and medium businesses, and even becomes a constraint imposed when making financial decisions of the company. Financial strategy is a way to achieve goals, directions or alternatives designed to improve and optimize financial management in order to achieve company results (López, 2006).

The financial strategy consists of three types of interrelated decisions, namely investment decisions, funding and profit sharing (Ross, Westerfield & Jordan, 2000). Investment decisions related to the allocation of capital to carry out valuable investment opportunities (carrying value) to the company, taking into account the magnitude, opportunities and risks of future cash flows from investments. The funding decision involves a specific mix of long-term debt and capital that the company uses to finance its operations, namely the optimal capital structure. The profit sharing decision is a decision to determine the percentage of profit distributed so as to increase the wealth of the capital owner. Assuming the company's goal is to maximize profits, it is important for companies to find the optimal combination of the three types of financial decisions. Mallette (2006) argues that an organization's financial strategy is very important for companies that must be evaluated and adjusted for operational strategies. Mallette (2006) also said that the evaluation of financial strategies must be consistent with the operations, needs and specificity of the business. Jog and Srivastava (1994) conducted research by observing the financial decision making process of Canadian companies, as well as the techniques used by these companies to make decisions about capital budget, costs and sources of funding, and dividends. Their results show that investment decisions are closely related to funding opportunities, and that the method used for capital budgeting is internal rate of return and net present value. They also find that most Canadian companies determine optimal debt and equity ratios. With regard to dividend decisions, current and future earnings are the company's most important consideration factors when deciding dividend policy.

Other research groups analyze companies using certain financial analysis techniques. Lazaridis (2002) and Pohlman et. Al (1988) investigated the way in which companies produce information to calculate cash flow, and found a large number of companies used subjective methods to forecast cash flow and only a few companies adopted sophisticated techniques. Kamath (1997) studies long-term funding decisions in large companies and finds that most companies do not maintain goals in their debt and equity structure, preferring a financial hierarchy. They also point out that the main problem in financing decisions is related to maintaining financial flexibility and ensuring long-term survival. Zopounidis and Doumpos (2002) examined a technique called "Multi-criteria decision Aid" (MCDA) that helps with financial decision making, by evaluating aspects such as company performance, investment, financial and credit issues, and similar studies have been conducted. focusing on the analysis of financial decisions and their impact on value creation for investors, Escalera and Herrera (2006) in Lovez (2012) study the relationship between financial decision making and economic value creation in Mexican companies They found that companies that use supplier financing are more likely to create economic value as long as they do not have problem loans, and that investment decisions must take an inventory into account. However, their research is based on the perception of small business owners about the importance of the decision, leaving aside the study of variables such as business performance and competitiveness when implementing financial strategies. This is why financial strategies need to be studied in more depth because they are closely related to financial decisions to be taken by companies, especially with regard to investment decisions, funding decisions, and profit sharing decisions. Conditions in small businesses will certainly be different from conditions in large businesses so the financial strategy in small businesses will certainly be different from the financial strategies used in other large businesses.

2.4. Business Performance

Performance (business performance) refers to the level of achievement or achievements of the company within a certain period of time (Suci, 2009), whereas according to Moeheriono (2009), the notion of performance is a picture of the level of achievement of the implementation of an activity program or policy in realizing goals, the goals, vision, and mission of the organization as outlined through the strategic planning of an organization. The company's performance can be seen from the level of sales, the level of profit, return on capital, the level of turnover and the market share achieved (Jauch and Glueck, 1988). Keeh, Tat, Nguyen, and Ping (2007) explain the link between business performance and income, where performance is the desire to grow which is reflected in income. According to Riyanto (2002) the factors that influence funding decisions are the interest rate, earnings stability, asset structure, risk level of assets, the amount of capital needed, the state of the capital market, the nature of management and the size of the company. Weston and Brigham (1997) revealed that the factors that influence funding decisions are sales stability, liquidity, asset structure, operating leverage, growth rates, profitability, productivity, taxes, controls, management attitudes, financial market conditions and financial flexibility. According to Sartono (2001), the factors that influence funding decisions are the level of sales, asset structure, level of company growth, profitability, profit and tax variables, company scale, company internal conditions, and macroeconomics.

3. Research Methods

This research uses quantitative methods, where the focus of this research is to find a profile of crowdfunding financing models and the performance of creative industries in the city of Bandung, and to find out how far the influence between these two variables. Data sources used are primary data and secondary data. While data collection techniques use: observation, questionnaire and unstructured interviews. The population of this research is all of the creative industry players in the city of Bandung whose numbers are unknown. While the sample size taken was 236 creative industry players in the city of Bandung, taken by snow ball sampling. In this quantitative study, the stages of data analysis that will be carried out are as follows:

a. Descriptive analysis on crowdfunding model variables and the performance of the creative industries in the city of Bandung, using frequency distribution and with proportional interpretation of intervals.

b. Simple Regression Analysis is accompanied by measuring the coefficient of determination to measure the level of influence of crowdfunding models on the performance of the creative industries in the city of Bandung. This statistical calculation uses the SPSS version 25 application.

c. Hypothesis testing is done using one-party t test, so that later it can be concluded whether the results of this study can be generalized to the population or not.

4. Discussions

The discussion begins with a description of the crowdfunding financing model for creative industry players in the city of Bandung, where the results of the data recapitulation are as follows:
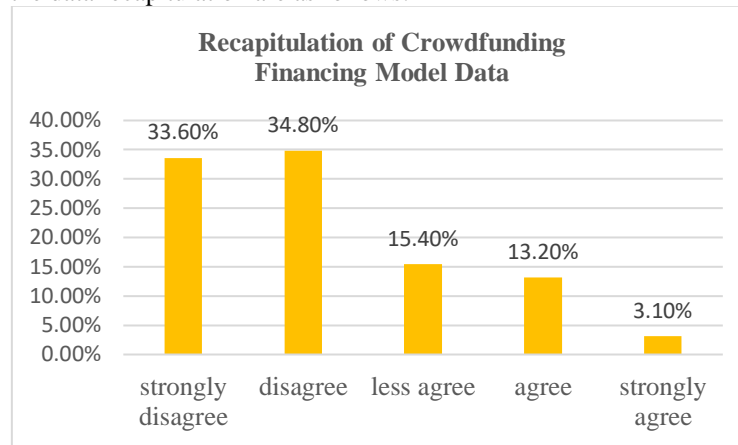

Figure 2. Recapitulation of Crowdfunding Financing Model Data

Based on this figure, it can be concluded that the majority of respondents respond to disagree and strongly disagree (34.8% and 33.6%) of the various statements in this crowdfunding financing model variable. This means that the crowdfunding financing model has not been widely used by the majority of creative industry players in the City of Bandung for business development. Then the following will be explained about the results of the recapitulation of questionnaire data distribution regarding the business performance of the respondents who are the creative industries in Bandung:
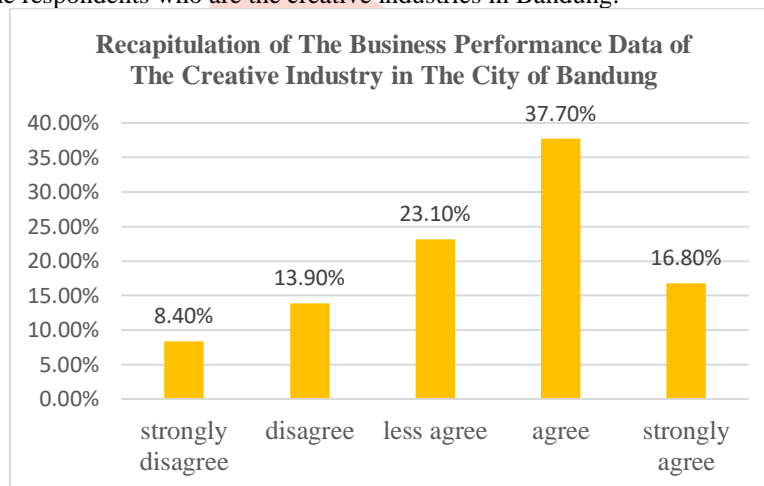

Figure 3. Recapitulation of Business Performance Data

Based on this figure, it can be concluded that the majority of respondents answered agree and strongly agree (37.7% and 16.8%) to various statements related to business performance evaluation. This shows that more than half of the creative industry players in the City of Bandung who were respondents of this study stated that they did indeed experience an increase in business performance when compared to the previous year.

Crowdfunding financing model is one of the aspects of leverage that can be utilized by the creative industries in Bandung in developing their businesses. With good business financing management will provide opportunities for creative industry businesses to improve business performance, both in the field of marketing, operations and human resource management. The following is an exposure to the data regarding the effect of crowdfunding financing models on the business performance of creative industry players in the city of Bandung by using a simple linear regression analysis calculated using SPSS ver.25, where the output of the calculation is as follows:

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	model of crowdfunding[b]	.	Enter

a. Dependent Variable: creative industry performance
b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.083[a]	.007	.003	6.62697

a. Predictors: (Constant), crowdfunding model

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	71.732	1	71.732	1.633	.203b
	Residual	10276.518	234	43.917		
	Total	10348.250	235			

a. Dependent Variable: creative industry performance
b. Predictors: (Constant), crowdfunding model

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	25.648	1.326		19.348	.000
	model crowdfunding	.061	.048	.083	1.278	.203

a. Dependent Variable: creative industry performance

Figures obtained 0.083 means that the correlation between variables crowdfunding models with the performance of the creative industries is 0.083, this means that there is a weak relationship because the value is far from 1.

R^2 (coefficient of determination) of 0.007 means that the percentage contribution of crowdfunding model variables to the performance of creative industries is 0.7% while the rest is influenced by other variables not included in this model.

The simple linear regression equation is as follows:

$$Y' = a + bX$$

Then the values in output are then entered into the regression equation as follows:

$$Y' = 25,684 + 0,061 X$$

Where the meaning of these numbers is:

- o The constant value (a) is 25,684; this can be interpreted if the crowdfunding model value is 0, then the performance of the creative industry is worth 25,684
- o The regression coefficient of the crowdfunding model variable (b) is positive, that is 0.061; this can be interpreted that each increase in crowdfunding models by 1 unit, the performance of the creative industries will increase by 0.061 units.

Hypothesis Test (t test)

The t test in this case is used to determine whether the crowdfunding model has a significant or no effect on the performance of the creative industries. The test uses a significance level of 0.05 and 2-sided. The steps of testing a hypothesis are as follows:

1. Formulate a hypothesis
Ho: The Crowdfunding model has no significant effect on the performance of the creative industries.
Ha: The Crowdfunding Model has a significant effect on the performance of the creative industries.
2. Determine t arithmetic and significance
Through SPSS output obtained t count of 1.278 and significance of 0.203
3. Determine t table
Based on statistical tables at the significance of 0.05 / 2 = 0.025 with degrees of freedom df = n-2 or 236 - 2 = 234, the results obtained for t tables amounted to 1.97.
4. Testing criteria:
   - o If -t table> -t arithmetic or t arithmetic <t table then Ho is accepted
   - o If -t table <-t count or tcount> ttable then Ho is rejected
5. Based on significance:
   - o If significance> 0.05, Ho is accepted
   - o If the significance is <0.05 then Ho is rejected
6. Make conclusions
Because the value of t arithmetic <t table (1,278 <1.97) and significance> 0.05 (0.203> 0.05) then Ho is accepted. So it can be concluded that the crowdfunding model does not significantly influence the performance of the creative industries. A positive t value means that if the crowdfunding model increases, the performance of the creative industry also increases.

5. Conclusions

Based on the results of this research discussion, there are several things that can be concluded as follows:

a. The crowdfunding financing model in general has not been highly implemented by the creative industries in Bandung. This can be seen from the majority of responses from respondents who answered disagree, strongly disagree or other negative attitudes towards statements that have taken advantage of existing crowdfunding financing models, be they grants, grants with gifts, loans or investments. This shows that the majority of creative industry players in the city of Bandung still rely on their own capital or finance in the aspect of financing for business development.

b. The business performance of the creative industries in Bandung in general has increased. This can be seen from the majority of respondents who answered agree and strongly agree with the statements of the measuring dimensions of business performance such as financial aspects (turnover, assets, profit), HR (salary and amount), market and production. This shows that although Indonesia's macro-economic growth is still below 5%, the majority of creative industry players in the city of Bandung can still improve their business performance.

c. The correlation between crowdfunding model variables with the performance of the creative industry is 0.083, this means that there is a weak relationship because the value is far from 1. In addition, the value of R2 (coefficient of determination) of 0.007 means that the percentage contribution of the influence of the crowdfunding model variable on the performance of the creative industry is 0, 7% while the rest are influenced by other variables not included in this model. Through hypothesis testing it is also known that the crowdfunding financing model does not significantly influence the performance of the creative industries in the city of Bandung.

Based on these conclusions, there are some suggestions for improvement in the future as follows:

a. There is still a need for massive outreach to creative industry players in the city of Bandung about the variety of crowdfunding financing models. Thus the creative industry players in the city of Bandung have alternative financing strategies for business development, other than their own capital.

b. In the era of the industrial revolution 4.0 where everything had been supported by technology, there needed to be an application or platform for crowdfunding financing models specifically for the Indonesian market. Because until now the crowdfunding platform specifically for creative industries is still dominated by foreign companies that are difficult to exploit by creative industry players in Indonesia.

c. The positive development of the general performance of the creative industries in Bandung needs to be continuously supported and facilitated for the synergy pattern, thus this will accelerate the equal distribution of positive performance improvement for all creative industries in Bandung. This can be done by increasing affordable co-working facilities for creative industry players and also expanding affordable internet access throughout the city of Bandung.

References

Badan Ekonomi Kreatif Indonesia (2017). Data dan Statistik Hasil Survey Ekonomi Kreatif, Kerja Sama Badan Ekonomi Kreatif dan Badan Pusat Statistik. Bekraf, Jakarta.

Brigham E.F. Dan Weston J.Fred. (1997). Dasar-Dasar Menejemen Keuangan, Edisi Sembilan Jilid 1, Jakarta; Erlangga.

Creswell, John W. (1994) Research Design : Qualitative And Quantitative Approaches, California, Sage Publications.

Collins, L., & Pierrakis, Y. (2012). The Venture Crowd: Crowdfunding Equity Investment into Business. London: Nesta.

Green, L., I. Miles, J. Rutter (2007), Hidden Innovation In The Creative Industries,Nesta Working Paper, London

Gedda, David., Nilson, Billy., Sathen, Zebasthian., Soilen, Solberg, Klaus., (2016) Crowdfunding: Finding the Optimal Platform for Funders and Entrepreneurs, Technology Innovation Management Review,Volume 6, Issue 3, 31-40.

Husain, S., & Root, A. (2015). Crowdfunding For Entrepreneurship. Alliedcrowds. London: Alliedcrowds.

Higgs, P. & Cunningham, S. (2008). Creative industries mapping: where have we come from and where are we going? Creative Industries Journal, 1(1), 7–30.

Jayne, M. (2004). Culture that works? creative industries development in a working-class city. Capital & Class, 28(3), 199-210.

Jauch, L. R., and Glueck, W. F. (1988). Business PolicyandStrategic Management. New York : McGrawHill

Keeh, Tat, H, Nguyen, M., and Ping. (2007). The Effects of Entrepreneurial Orientation and Marketing Information on the Performance ofSMEs. Journal of Business Venturing. 592-611.

Lazzeretti, L., Boix, R. & Capone, F. (2008). Do creative industries cluster? Mapping creative local production systems in Italy and Spain. Industry and Innovation, 15(5), 549–567.

Markusen, A. et al. (2008). Defining the creative economy: industry and occupational approaches. Economic Development Quarterly, 22(1), 24-45.

Moeheriono.(2009). Pengukuran Kinerja Berbasis Kompetensi. Jakarta : Ghalia Indonesia.

Riyanto, Bambang (2002) Dasar-Dasar Pembelanjaan Perusahaan, Edisi 4. Yogyakarta: Bpfe.

Sartono, Agus. (2001). Manajemen Keuangan Teori Dan Aplikasi. Edisi 4. Yogyakarta; Bpfe-Yogyakarta

Siti Nurjanah (2013) Analisis Pengembangan Program Bisnis Industri Kreatif Penerapannya Melalui Pendidikan Tinggi, Jma Vol. 18 No. 2.

Steinberg, Scott, Rusel De Maria, & Jon Kimmich (2012) "The Crowdfunding Bible: How to Raise Money for Any Startup, Video Game or Project," online
<http://www.crowdfundingguides.com/The%20Crowdfunding%20Bible.pdf> (last accessed 20 September 2016).

Suci, R. P. (2009). Peningkatan Kinerja Melalui Orientasi Kewirausahaan, Kemampuan Manajemen, dan Strategi Bisnis (Studi pada Industri Kecil Menengah Bordir di Jawa Timur). Jurnal Manajemen dan Kewirausahaan 11 (1: Maret): 46-58

Tomczak, A., & Brem, A. 2013. A Conceptualized Investment Model of Crowdfunding. Venture Capital, 15(4): 335–359.