

## Business Performance of the Creative Economy: Its Driving Factors and Challenges

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### Abstract

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The purpose of this article is to measure the role of the factors that activate or trigger the creative economy in the business performance of creative industries in 94 cities in Indonesia. The measurement method uses log-linear regression with cross-section data from the results of a creative industry survey in 2016. The research findings show that the activating factor of creative economic business income performance is the strength of the local culture; use of ecommerce in the form of online sales; and the role of urban locations in Java as center for the development of creative economy businesses, while the share of inspiring entrepreneurs is still relatively small. The role of the government has not provided a positive impetus for the development of creative economic ventures. The limitations of the development of the creative economy are that most are micro and small companies, and the use of technology has not been prominent in both the business scale and the length of time the business is. Therefore, the government needs to provide space for stakeholder participation in collaborating and adopting creative economic forces at the local level.

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Keyword: industrial performance, creative economy, trigger factors

### 1. Introduction

Program policy of the ministry of trade for the new creative industry began in 2009, to establish a development plan Indonesia's creative industries, 2025. Although the new get "attention," the development of creative industries in Indonesia can be said rapidly. In 2015, the government felt the need to form the Indonesian Creative Economy Agency (BEKRAF), through Presidential Regulation No. 6/2015, whose task was to assist the President in formulating, establishing, coordinating and synchronizing policies in the creative economy. A critical aspect of the development of the Creative Economy is the availability of data and statistical information, which is the basis for decision-making. To meet these needs, the Creative Economy Agency and the Central Statistics Agency (BPS) compile a database of Creative Economy statistics and analysis of the 2016 Economic Census (SE2016). The results of the 2016 Creative Economy Macro database can be an essential study material for the formulation of the further development of creative economy ventures. One of the studies that can be done is how is the business performance of the creative business at the city level? The Indonesian government has decided to adopt the definition of creative industry developed by the British DCMS, which emerged in 1998 (Simatupang, 2010). The DCMS defines creative industries as "industries that originate from individual creativity, skills, and talents and that have the potential for wealth and job creation through the generation and exploitation of intellectual property. DCMS establishes thirteen creative industry sectors, namely: architecture; art and antique markets; crafts; design; fashion designers; films; interactive recreation software; music; performing arts; publishing; computer software and services; and television and radio, which were poured into the 2001 Creative Industry Mapping Document. Then, in 2015, BEKRAF set 16 creative economy subsectors, namely architecture; interior design; visual communication design; product design;

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movies, animation, and video; photography; crafts; culinary; music; fashion; application and game developer; publishing; advertising; television and radio; performance art; and fine arts.

The development of the creative industry is caused by a variety of different "trigger" factors. World Economic Forum (2016) identified five factors triggering, i.e., the local strengths, the technological enablers, the inspiring entrepreneurs, the role of government, and the power of place. Factors "trigger" the first is the local strengths, where the success of the creative industry found near the centers of academic, research, and culture. Residents of communities of cities, which have educational and cultural centers, will find new ideas and thought in developing new businesses. Cultural values and social contexts in developing countries are different compared to America and Europe. Therefore, the same creative industry policy cannot produce the same creative industry development. Local institutions influence the success of industrial development policies and the creative economy (Fahmi, 2014). Fahmi(2016) also found that differences in characteristics and potential of the creative industry, so that the treatment and strategies of the creative industries must differ. However, the central government forced the application of creative economic ideas by providing guidance to local governments rather than encouraging "grassroots" movements that could form the structure of creative economic institutions. The second "trigger" factor is the technological enablers, which enable creative efforts to be developed on a cross-regional scale, such as Silicon Valley. Silicon Valley has been known as the most productive innovation center. Silicon Valley gains the strength of Berkeley and Stanford University academic institutions. The condition of developed countries is very contrasting with the conditions of developing countries. The characteristics of regional economies in developing countries are experiencing technological innovation difficulties to hinder intellectual processes and creativity, while high-income countries already have more resources to innovate (Yusuf and Nabeshima, 2005). Maryunania and Mirzantib (2015) stated that most of Indonesia's creative industries employ less than ten people (small scale) and have low technology so that the technology spillover is low.

The third "trigger" factor is the inspiring entrepreneurs, where the ability of these individuals will inspire and train other creative entrepreneurs, such as San Sebastian. Starting from fishing villages into culinary tourism, and developed into a cultural business (San Sebastián International Film Festival) and other businesses. The concept of creative cities can grow from cultural groups by combining tourism as a flagship project, such as a festival (Landry, 2008). Hesmondhalgh and Pratt (2005) show that cultural policy has fostered the development of creative industries. In Indonesia alone, Dynand Fariz, a fashion designer born in Jember district, has changed the Reyog Ponorogo Group procession into a cultural festival in Jember Fashion Carnival (JFC). The fourth "trigger" factor is the role of government, in using policies (regulations and incentives) to help create the right conditions for the development of the creative economy. The Buenos Aires government actively supports the creative economy developed from the cultural heritage and architecture of the city through investment regulation and investment, infrastructure development, university funding, and expansion of internet access. This success has provided 9.3% of the city's GDP and 9.1% of the city's workforce. In addition to policy, the government can encourage the development of creative industries through the development of necessary infrastructure, in the form of electricity, roads, and seaports (Maryaningsih, et al, 2014). The government carries out entrepreneurship care and creates an infrastructure to support entrepreneurship (Minniti, 2008). In addition to infrastructure, the creation of a conducive environment for entrepreneurship is to increase harmony between high education curricula and the business environment, expansion of business or venture capital loan services, and access to digital technology (Minniti, 2008). The government can create professional and sustainable training and apprenticeship programs, sending abroad to get an education, marketing expansion that is genuinely carried out both government and private (Pangestu, 2008; Sukaya, 2016). The fifth trigger factor is the power of place, where the creative economy is in a place of international hub where people live and settle. The city of London, which has a high level of immigration and more than 300 languages spoken, has attracted skilled and educated citizens to develop creative industries and as regeneration and revitalization of the economy. In this context, there is a difference in motivation to develop location forces between developed and developing countries. Developed countries, the idea of a creative economy are mainly used as a tool for economic regeneration, and revitalization of the slums, deindustrialization, as well as for innovation strategies. Meanwhile, developing countries tend to prioritize creative economic ideas to achieve comparative advantages in production costs and cultural products rather than a new generation (Evans, 2009). After triggering factor already worked, the development of the creative industry should continue to be developed on an ongoing basis with the collaboration between other institutions known as the triple helix (Maryunani, et al., 2015). In the perspective of educational institutions, Bandung is known as an education city, because there are many schools or educational institutions that

offer subjects in technology, information, science, management, and entrepreneurship. Bandung City has benefited as a creative city supported by the climate and conditions created by the local government.

The business community builds networks and new business collaborations by utilizing the availability of facilities and infrastructure, access to finance, and a skilled and educated workforce. For the Indonesian state, the creative economy is used as a safety valve, when the national economy is experiencing a crisis. During the monetary crisis (1997) and financial crisis (2007), the creative industry in Indonesia contributed 104.638 trillion to the Gross Domestic Product (GDP) above the average contribution from the transportation and communication, building and electricity, gas and water sectors. Labor that can be absorbed by 5.4 million workers and labor productivity reaches 19.5 million per worker annually. While the number of companies engaged in the creative economy sector until 2006 reached 2.2 million, around 5.17% of the number of companies in Indonesia. Also, in 2006, the creative industry exported 81.5 trillion rupiahs, reaching up to 9.13% of the total national exports. In the 2016 economic census, the number of creative business companies was 8,203,826 businesses.

## 2. Literature Review

In the context of the creative economy, Potts and Cunningham (2008) examine four models of approaches that are commonly used as a basis for analyzing the creative industry. First, the welfare model, this model explains that the creative industry is a merit good sector, but the creative industry actually has a negative influence on the economy, this is because the creative industry consumes more resources than they can produce. Second is the competition model, this model explains that the creative industry does not have significant differences from other industries. That way the creative industry must not have certain privileges or attention separately. The development of the creative industry must be accompanied by the development of the industry as a whole. Third, the growth model, this model considers that the creative industry as a driver of economic growth is not due to its multiplier effect, but because of its role in adoption, retention and absorption of new ideas and technology. The last model is innovation (Innovation model), this model assumes that the creative industry will not be able to encourage economic growth directly but can be done by facilitating more conditions of change in the economic order. Of the four models proposed by Potts and Cunningham (2008), the facts show that models 3 and 4 are more appropriate than models 1 and 2. From the perspective of economic growth, in the period 1999 - 2006, the creative industry grew faster than aggregate growth economy in several countries such as US, Britain and EU. This fact supports the assumptions found in model 3. From the company perspective, in the span of 2000 - 2005 the proportion of creative industries from the total companies in Australia has grown from 5.9% to 6.6%. This means that what is assumed in models 1, 2 and 3 can be justified based on track and data records.

Marinaityte and Kregzdairė (2015) found that there are three levels of variables influencing the development of creative industries in the majority of developed countries. The variable with the highest level in influencing the development of the creative economy is private spending on culture and creative index, both of which have a positive relationship to the development of creative economy, especially in Lithuania and Estonia. Meanwhile, the variable that influences the middle level towards the development of creative industries is the government's budget allocation to culture, the number of patents, the level of labor (the number of workers) in R & D and the level of tolerance. The last variable that also affects the development of creative industries that is quite low is the number of workers in the creative industry, exports for the production of the creative industry, government spending for research and development (R & D) and the last is the number of people with higher education levels. While the variables in the study that have no effect are the level of participation in cultural activities. Meanwhile Fahmi et al (2015) conducted a study on how creative economic discourse can be interpreted and implemented in developing countries with case studies in Indonesia. This study used three major cities in Indonesia, namely Yogyakarta, Surakarta and Bandung. In this study, there are several main factors that are considered as strengths in the development of creative industries, such as population, social character differences, initiatives, character / type of major creative industries, position of creative industry development in government policy, role of universities and the subsidy provided. This study found that each region has a different way in interpreting the development of creative industries. In addition, this study also found that Bandung is the best example in the development of creative industries in developing countries. The development of creative industries in Bandung provides an illustration that developing countries like Indonesia have many possibilities to do. This can be done by reshaping local institutions to encourage the development of creative industries. As a developing country, Indonesia is certainly expected to optimize the potential of the existing creative industry. Based on the above studies, this study aims to do cluster mapping and analysis of areas that meet the

category of development of creative industries that are quite good. The final output of this research is expected to produce a local government policy in the development of creative industries.

This study specifically uses the creative industry as a dependent variable, this refers to the model in the study of Potts and Cunningham (2008) which shows that an increase in the creative industry is expected to affect economic growth in the aggregate. The expected output from this research is the idea of fiscal decentralization policy with the aim of increasing the creative industry in each region in Indonesia.

### 3. Method of the Trigger Factor Approach

This study uses the concept of the world economic forum, which states that the five triggers of creative economic success, namely (1) local academic, research and cultural strength (SCH), which allows ideas and people to mingle to create a creative economy; (2) technology strengthening (E\_COM), which enables creative businesses to be developed by utilizing technology for profit; (3) entrepreneurs (N\_BUS) who inspire and train the community to develop creative economic activities; (4) the role of the government (FCI) which provides incentives and conditions for a developing creative economy through regulations and policies; and (5) the strength of the location or point (ST\_LIV), where people want to take place to stay because of the location and amenities. The five triggering factors are effect to the development of the creative economy in 94 cities in Indonesia. The development of the creative economy is approached with a year's creative business income (BUS\_INC). Then, the model equation is denoted:

$$BUS\_INC = f(SCH, N\_BUS, E\_COM, FCI, ST\_LIV)$$

The model of research is:

$$\begin{aligned} \text{Log } Y_i &= \alpha + \beta X_i + \varepsilon_i & (1) \\ \text{Log } BUS\_INC_{it} &= \beta_0 + \beta_1 SCH_{it} + \beta_2 N\_BUS_{it} + \beta_3 E\_COM_{it} + \beta_4 FCI_{it} + \beta_5 ST\_LIV_{it} & (2) \\ &+ \beta_6 DUMM + e_{it} \end{aligned}$$

Where:

- $\beta_0$  = Constant
- $\beta_1, \dots, \beta_6$  = Regression/estimator coefficient
- $e_{it}$  = error term
- $i$  = Regency/ City
- $t$  = Time (year)

In general, additional creative business income is also determined by the scale of the business, length-time of business, and type of business sector (sub-sector). In the analysis of the business scale of the creative economy, creative economy business scale is divided into three, namely: small and micro creative industry (N\_SME) with the number of personnel working 1-4 persons; medium creative industry (N\_MME) with a workforce of 5-19 persons; large creative industry (N\_LME) by the number of a working over 20 people. Model of log-linear regression to scale the business into:

$$\begin{aligned} \text{Log } BUS\_INC_{it} &= \beta_0 + \beta_1 SCH_{it} + \beta_2 (N\_SME_{it} + N\_MME_{it} + N\_LME_{it}) \\ &+ \beta_3 E\_COM_{it} + \beta_4 FCI_{it} + \beta_5 ST\_LIV_{it} + \beta_6 DUMM + e_{it} \end{aligned}$$

Where, N\_BUS (number of creative industries) = N\_SME (1-4 workers) + N\_MME (5-19 workers) + N\_LME (> 20 workers). For the creative business subsector, this study took the top 3 sub-sectors, namely: culinary, fashion, and craft subsectors. The log-linear model used is:

$$\begin{aligned} \text{Log } BUS\_INC_{it} &= \beta_0 + \beta_1 SCH_{it} + \beta_2 (CRAFT_{it} + CULINARY_{it} + FASHION_{it}) & (4) \\ &+ \beta_3 E\_COM_{it} + \beta_4 FCI_{it} + \beta_5 ST\_LIV_{it} + \beta_6 DUMM + e_{it} \end{aligned}$$

Where N\_BUS (number of creative industries) = CRAFT (craft industry) + CULINARY (culinary industry) + FASHION (fashion industry).

For length-time of the creative economy business, this study uses an approach when the creative business was established. When creative ventures began before 2014, they were classified as old creative ventures, while new creative ventures were established after 2014. The log-linear model for long ventures is:

$$\begin{aligned} \text{Log } BUS\_INC_{it} = & \beta_0 + \beta_1 SCH_{it} + \beta_2 ST\_LIV_{it} + \beta_3 N\_BUS_{it} + \beta_4 E\_COM_{it} + \beta_5 (\lambda DFD_{it} \\ & + \gamma DFI_{it} + \delta DGCE_{it} + \theta FCI_{it}) + \beta_6 DUMM + e_{it} \end{aligned} \quad (5)$$

Where N\_BUS (number of creative industries) = BEF\_2014 (the creative economy industry that had been established before 2014) + AFT\_2014 (the creative economy industry that had been established after 2014). The research uses data from the results of 94 creative economy surveys in Indonesia in 2016, conducted by BPS and BEKRAF. The research data used are:

Explanatory Variables	Description		Source Data
BUS_INC	business income (Billion Rupiahs)	The income performance of creative economy business enterprises	BPS and BEKRAF
SCH	mean years of schooling (years)	Local strength factor approach	CPM
E_COM	Percentage of ecommerce usage in the creative industry (%)	Digital technology factor approach	BPS and BEKRAF
N_BUS	number of businesses (unit)	The factor approach to inspiring entrepreneurs	BPS and BEKRAF
FCI	fiscal capacity index (ratio)	Approaching the government's role factor	Financial Ministry
DUMM	Dummy variable (value of Java = 1, outside java = 0)	The location strength factor approach	BPS and BEKRAF
ST_LIV	standard of living as measured by regional real per capita GDP (Thousand Rupiahs)		BPS and BEKRAF

#### 4. Drivers of Creative Business and Business Scale

Before discussing the regression results, the heteroskedasticity test, normality test, and the stability diagnostic (CUSUM test) exam the regression results. Test results on the coefficient and residual of regression show that the regression results meet classical assumptions. Regression results have a constant residual variant (homoscedasticity), normal distribution of residuals, and stable model parameters. On a business scale, 93% of creative economic businesses employ 1-4 people, while those employ 5-9 people amount to 6%, and above 20 people are 1% (BPS, 2016). The creative economy business is a micro and small business and is still synonymous with the limited use of technology. The results of the log-linear regression of creative economy business income performance on a business scale are as follows:

**Table 2. Regression Results for Supporting Factors and Business Scale**

Variable	Coefficient		Coefficient		Coefficient		Coefficient	
SCH	0.416	***	0.407	***	0.413	***	0.416	***
	<i>10.110</i>		<i>9.398</i>		<i>9.747</i>		<i>10.145</i>	
E_COM	0.010	**	0.010	**	0.010	**	0.010	**
	<i>2.407</i>		<i>2.186</i>		<i>2.287</i>		<i>2.418</i>	
N_BUS	1.12.E-05	***						
	<i>6.946</i>							
N_LME			7.09.E-04	***				
			<i>5.911</i>					
N_MME					1.54.E-04	***		
					<i>6.403</i>			
N_SME							1.23.E-05	***
							<i>6.998</i>	
FCI	-0.178	***	-0.184	***	-0.181	***	-0.178	***
	<i>-3.325</i>		<i>-3.217</i>		<i>-3.262</i>		<i>-3.327</i>	
DUMM	0.785	***	0.828	***	0.816	***	0.782	***
	<i>4.437</i>		<i>4.454</i>		<i>4.501</i>		<i>4.433</i>	
ST_LIV	2.11.E-04	***	2.30.E-04	***	2.19.E-04	***	2.10.E-04	***
	<i>5.384</i>		<i>5.627</i>		<i>5.445</i>		<i>5.377</i>	
R-squared	0.730		0.701		0.715		0.732	
Durbin-Watson stat	1.626		1.678		1.654		1.623	

Note: numbers written in italic type are t-statistics

\*\*\* = significant at 1%

\*\* = significant at 5%

Factor of local strength, which was approached by mean years of schooling, explain that educated society allows developing new ideas. The community, which has a high education index, has local power to develop creative economic ventures. The local strength factor contributes to the second largest, namely 0.416. It tells us that every 1-year increase in mean years of schooling will increase the revenue of Rp2.61 Billion. Compared between business scales, the larger business scale shows that the contribution of local strength factor is smaller but remains dominant compared to other trigger factors. This condition indicates that the success of the creative economy is still biased towards the closeness of local cultural forces rather than the closeness of academic and research forces. The strength of local culture is the primary driver of the development of the creative economy in 94 cities in Indonesia. In the technology factor, which is approached by the use of e-commerce, showed no different role between large and small business scale, i.e., 1% increase in the use of e-commerce creative economy would increase the income of Rp1.02 Billion. This finding further strengthens the strength of local culture, which is an activator of the creative economy. In the technology factor, which is approached by the use of e-commerce, showed no different role between large and small business scale, i.e., 1% increase in the use of e-commerce creative economy would increase the income of Rp1.02 Billion. This finding further strengthens the strength of local culture, which is an activator of the creative economy.

In this context, the use of e-commerce has not yet led to the development of business centers and innovations, because differences in business scale do not make a difference in the contribution of e-commerce usage. The use of e-commerce still restricted to pragmatic or traditional for buying and selling online, that is e-commerce for business to consumer. The use of e-commerce - (business to business) to form a network of business cooperation and innovation and to develop creative products - have not been widely used. Likewise, the use of business-consumer e-commerce - to sell personal and unique products to each of the different communities - has not been widely practiced. Meanwhile, the scale of the business, measured by the number of workers, provides a positive contribution. However, this condition indicates that the creative economy entrepreneurs still prefer to add workers rather than upgrading technology when there is an increase in output demand.

In other words, these conditions indicate that there is no prominent technological difference between large and small business scale. That is correlated with the ILO report on the application of automation in industry 4.0. The ILO report (Chang et al. 2016) mentions that digitizing and robotization in manufacturing will give a high risk to 56% of workers who will be laid off. Unemployment will increasingly provide pressure to the more burdensome creative economy efforts to upgrade technology. The role of the regional government has a central role because the local government has the authority and autonomy to make decisions, determine regulations, and provide incentives to determine the direction of creative economic development in the region. In this study, the role of government, which is represented by the index fiscal capacity, indicating the influence of negative. The greater the scale of the business, the negative effect of the government's role is the higher.

This finding supports the findings of Fahmi (2016) that shows that the implementation of the creative economy is still top-down. To trigger the development of the creative economy, the central and local governments implement creative city pilot projects, which do not trigger the creative community to interact among stakeholders. Factor strength of place or location will make a creative economy are in place to be a "hub" of national and international where people reside and settle, such as the city that has high levels of immigration compelling high-skilled and high-educated residents to come and to develop the creative economy industry. The indicator used in this study is a dummy variable to distinguish between Java and Outside Java. The regression results show that Java is still the location of a national "hub" by providing the most significant support for the development of the creative economy, especially large-scale creative ventures. Location factors contributed 0, 828 for medium and large scale, and 0.782 for micro-scale. Meanwhile, regional economic support, as indicated by real GDP per capita, is relatively small to the development of creative economic activities, both on a small to large scale. That shows that the creative business community still chooses cities in Java, even though the city is not prosperous. In other words, the creative business community prefers low-income towns in Java rather than high-income towns are outside Java.

## **5. Drivers of the Creative Economy Subsector**

The distribution of creative economy businesses according to the island is still dominant in Java as much as 65.37 percent while according to the province is dominated by West Java province as much as 18.33 percent. The dominant creative business sub-sectors are culinary 67.66 percent, fashion 15.00 percent, and crafts 14.56 percent. Creative economy companies that have revenues less than or equal to 300 million rupiahs are 92.56 percent of the total creative economy businesses in Indonesia. Meanwhile, creative economy ventures that have income above or more than 50 billion rupiahs per year are found to be 0.04 percent of the total creative economy businesses in Indonesia. However, the subsectors that have income above 50 billion a year are crafts, culinary, fashion, application and game developers, publishing, and advertising. Comparing the business income performance of three creative industry sub-sectors (craft, fashion, and culinary) are presented in the results of regression table 2. The role of local strength in the craft subsector is slightly higher than that of culinary and fashion. Every 1-year increase in mean years of schooling will increase the performance of Rp. 2.71 Billion for the craft subsector, Rp 2.59 Billion for the culinary sector, and Rp 2.54 Billion for the fashion subsector. Similarly, the role of using e-commerce is felt more by creative entrepreneurs in the craft subsector than the fashion and culinary subsector. Every an increasing in 1% of ecommerce use adds value to the creative subsector's creative economic performance of IDR 1,026 Billion, fashion for IDR 1,023 Billion and culinary IDR 1,021 Billion, if it is associated with the application of industry 4.0 based on digital technology, it will make a positive contribution for the development of the creative economy, especially the marketing of craft, fashion, and culinary products.

**Table 3. Regression Results of the Performance of the Creative Business Subsector**

Variable	Coefficient		Coefficient		Coefficient	
SCH	0.433	***	0.413	***	0.404	***
	<i>11.107</i>		<i>9.790</i>		<i>9.626</i>	
E_COM	0.011	**	0.009	**	0.010	**
	<i>2.702</i>		<i>2.152</i>		<i>2.247</i>	
CRAFT	2.45.E-04	***				
	<i>8.140</i>					
CULINARY			1.39.E-05	***		
			<i>6.461</i>			
FASHION					5.34.E-05	***
					<i>6.401</i>	
FCI	-0.150	***	-0.157	***	-0.178	***
	<i>-3.032</i>		<i>-2.881</i>		<i>-3.220</i>	
DUMM	0.746	***	0.755	***	0.833	***
	<i>4.484</i>		<i>4.122</i>		<i>4.608</i>	
ST_LIV	1.78.E-04	***	2.17.E-04	***	2.28.E-04	***
	<i>4.672</i>		<i>5.402</i>		<i>5.729</i>	
R-squared	0.762		0.717		0.715	
Durbin-Watson stat	1.640		1.764		1.667	

Note: numbers written in italic type are t-statistics

\*\*\* = significant at 1%

\*\* = significant at 5%

On the factor of inspiring entrepreneurs, the creative economy entrepreneurs in the subsector of crafts get the highest income compared to the creative economy for fashion and culinary entrepreneurs. However, Zulaikha (2017) found that rural artisans faced complex problems including limited human and financial resources, availability of traditional materials and technology (Zulaikha, E. 2017; Zulaikha, E. and Brereton, M. 2011). In this context, the role of government and universities is significant, as revealed by Furkan and Odake (2014). Furkan and Odake explain that the government and universities act as intermediaries for the transfer of knowledge from governments, universities, international institutions, companies, and other small to medium tourism companies that have a significant impact on the development of a craft industry cluster. In the ILO report (Chang et al. 2016), in addition to the high fixed costs of upgrading technology and the skills gap of workers, Indonesian companies have difficulty finding workers who have foreign language skills, innovating strategic thinking, and creative. The degree of fiscal independence continues to contribute negatively to the development of the culinary subsector, craft, and fashion. The fashion subsector has a more negative effect on the government role rather than the culinary and craft subsector. As it is known that most of the fashion raw materials are imported so that the fashion subsector is more fragile than culinary and crafts which rely more on domestic raw materials. Location factor, Java, which has become a "hub," provides significant support for the development of the fashion and culinary sub-sector. That is related to the concentration of population that is still concentrated in cities in Java. The higher the population, the higher the demand for fashion and culinary. Meanwhile, the craft subsector, which is more hedonic in nature, is more related to the number of tourists who come. The higher the tourist visit, the higher the demand for handicraft products. Bali and Yogyakarta still dominate craft products for souvenirs.

## 6. Factors Establishing Creative Economy

The majority of creative economy businesses operate in the range of 1990-2014, amounting to 74.81 percent, while businesses that were established after 2014 were found to be 19.79 percent, and creative economy businesses operating before 1990 were 5.40 percent. In this study, when was the creative economy founded was divided into two, namely companies established before or after 2014. Regression results of establishing creative economy before and after 2014 are:



**Table 4.** Regression Results of Establishing Creative Economy before and after 2014

Variable	Coefficient		Coefficient	
SCH	0.420	***	0.414	***
	<i>10.336</i>		<i>10.030</i>	
E_COM	0.010	**	0.010	**
	<i>2.471</i>		<i>2.383</i>	
AFT_2014	5.28E-05	***		
	<i>7.226</i>			
BEF_2014			1.42.E-05	***
			<i>6.846</i>	
FCI	-0.187	***	-0.176	***
	<i>-3.517</i>		<i>-3.262</i>	
DUMM	0.826	***	0.775	***
	<i>4.778</i>		<i>4.349</i>	
ST_LIV	2.06.E-04	***	2.13.E-04	***
	<i>5.294</i>		<i>5.415</i>	
R-squared	0.738		0.727	
Durbin-Watson stat	1.670		1.615	

Note: numbers written in italic type are t-statistics

\*\*\* = significant at 1%

\*\* = significant at 5%

The creative economy company, which was established after 2014, gives a higher role to the local strength factor. That implies that creative companies, which were established after 2014, need a more skilled and educated workforce. In logically, the creative company also provides the role of location power. In the regression results, it also appears that the role of location strength factors is higher for the establishment of creative companies after 2014. Cities in Java are relatively able to provide skilled and educated workforce, as well as the necessary amenities. In the use of e-commerce, both the old business unit (which was established before 2014) and the new business (which was established after 2014) make the same level contribution. Conditions indicate that technology has not changed much. Technology, which was used by creative companies before and after 2014, produced the same business revenue performance. It can be said that the establishment of creative companies after 2014 has relatively not used innovation or newer methods of production. The establishment of creative economy companies after 2014 indicates a rebranding. The level of fiscal independence continues to contribute negatively to the development of creative businesses that have only begun in 2014 and earlier. The new creative economy companies are more burdened with disincentives of rule and policy of government than the old creative economy. Likewise, the new creative economy business still chose Java as the location to start a creative industry business.

## 7. Best Practice Policy of Creative Business

We conducted a Focus Group Discussion involving creative business stakeholders in Bandung. Bandung is one of the cities with the best ecosystems in terms of developing the creative economy. There are various sub-sectors of the creative economy that can be easily found. Starting from fashion, culinary, digital and several other sub-sectors are developing very well here. Government support, universities, and the many creative communities that exist also encourage the good development of creative businesses in Bandung. In order to deepen the study in this study, we conducted a Focus Group Discussion (FGD) involving several parties, such as business actors, government and universities. Through this FGD, we did an in-depth study of the development of the creative economy in Bandung. From the results of the FGD, we found several points on how Bandung can optimize its creative economic potential well. A large number of business actors may be one of the strong factors in the successful development of the creative economy in Bandung. Bekraf Information System and Mobile Application (BISMA) data by the Creative Economy Agency in 2018 showed that there were 16 creative economy subsectors with 604 businesses in the city of Bandung. Various factors determine the number of creative businesses in Bandung. For crafters, fashion and culinary businesses, the many tourism destination in Bandung and surrounding areas, encourage people to offer products that are thick with elements of local wisdom. Therefore, in West Java, especially in Bandung, fashion, culinary and craft become the most dominant creative sub-sector.

In addition, the presence of many garment and textile factories makes the price of raw materials for fashion products cheaper. Even the original brands of Bandung with good quality can be easily found. Various brands are competing to innovate to dominate the fashion market in Indonesia. Thus, the quality of these local brands is getting better. Local brands are also supported by the existence of shopping centers that only sell fashion products. Therefore, fashion is the most dominant sub-sector in Bandung. Meanwhile, other sub-sectors can still be easily found in Bandung. Music, photography, performance art, fine arts, architecture, television and radio, product design, and so on are also developing quite well. In addition, there are also quite a large number of digital businesses, although not as much as fashion and culinary. This is inseparable from the creative culture and the dominant role of youth in Bandung. Public awareness of the potential of the creative economy also encourages them to form communities of fellow creative entrepreneurs. Through this community, activities aimed at developing creative businesses, such as financial management, innovation, market introduction to product marketing techniques, are routinely carried out. The existence of communities that accommodate the number of creative entrepreneurs is even quite a lot. Based on the explanation from FGD participants, one businessman even joined more than one community. If we often find communities that are only established or operate when there is assistance from the government, not with communities in the city of Bandung. The majorities of these communities are founded and operate completely on the initiative of business people. Thus, the contribution of the existence of the community to the development of creative business is quite significant. The existence of universities in Bandung also makes the creative business ecosystem even better, especially for businesses based on digital technology. Universities such as the Bandung Institute of Technology (ITB) which offers technology-based majors, design, architects and so on, encourage the growth of creative entrepreneurs in the digital technology sector to become more and more. University also provides assistance such as programs that support the smooth running of creative business in Bandung. These activities are quite varied, such as seminars, mentoring programs, and quality testing. Higher education is very aware of the creative economic potential possessed by this city. Therefore, these programs are routinely carried out.

While from the government side, the assistance provided is also quite a lot, such as capital, halal certification, business assistance, marketing and encouragement to export. Compared to other regions, Bandung is one of the cities that routinely conducts creative economy-themed seminars. This activity is carried out to encourage the community, both those who have started businesses and those who have not, to develop creative businesses in Bandung. The target audience even reaches students. Bandung city government routinely provides assistance to creative businesses. Creative entrepreneurs acknowledge the synergy that is carried out by government institutions greatly fosters the development of creative business entrepreneurs. Every entrepreneur not only gets help from one institution but also gets help from other institutions. The Bandung government also built a building called the Bandung Creative Hub (BCH). BCH aims to encourage creative businesses in the city, by providing assistance to develop creative businesses. Apart from the Bandung city government, support was also present from the West Java provincial government. Thus, a businessman can get assistance from both the Bandung government and the province of West Java. Companies such as banking also contribute to the development of creative businesses, as has been done by BJB Bank. The assistance is in the form of business assistance. However, in contrast to other monitoring programs, the assistance program conducted by Bank BJB is really carried out intensively. According to the explanation of one of the participants, he was even contacted to be asked for news of his business development. After knowing the business development of the participants, BJB Bank will analyze and evaluate the problems experienced. Bank BJB will then provide solutions and steps that must be taken by entrepreneurs. That way, businesses will really be encouraged to be able to increase business sales. The participants acknowledged that this program greatly helped the development of their business. What has been done in Bandung reminded us of the Quadruple Helix (QH) model. The QH model is a development from the previous model, Triple Helix (TH) which only involved three parties, namely entrepreneurs, government and academics. In contrast to the TH model, in the QH model, the community is involved in developing the creative economy. Moreover, the QH model focuses more on the bottom-up development paradigm. In this way, the development of the creative economy is no longer seen as a duty of the government, but is an opportunity for the community to sustain their economy.

## 8. Conclusion

The relatively rapid development of the creative economy has brought blessings in employment absorption. Triggers for the development of the creative economy are the strength of the local culture, the use of e-commerce (although it is only limited to online sales), and the role of the location of cities in Java as a "hub" of creative economic development, while the role of inspiring entrepreneurs is relatively small. The role of the government has not yet provided a positive impetus for the development of creative economic ventures in 94 cities in Indonesia.

The limitation of the development of the creative economy is that most are micro and small companies, and the use of technology has not been prominent in both business scale and length-time of business. In the sectoral, the fashion subsector has a greater disincentive effect compared to the craft and culinary subsector. On the other hand, these small and micro companies are more flexible in dealing with the challenges of economic structure and changes in policies and regulations established by the central and regional governments. The implications of this finding are in agreement with Fahmi's suggestion (2016) which says that: (1) provides different policies between traditional businesses that are promoted as creative industries and new development creative businesses. (2) Providing space for the presence and collaboration of stakeholders to play an intermediary role or institutional. (3) Providing creative economic space for adopting strength at the local level.

### Acknowledgement

We would like to thank for the trust and funding of Indonesian Ministry of Research and Higher Education. Thank you also to Fauzan Husaini and IlhamHasuraMaulana as our research assistants.

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