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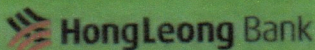International Islamic University Malaysia

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# THE EFFECT OF FINANCE ON WORK PERFORMANCE OF CREATIVE INDUSTRIES IN CENTRAL JAVA

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## ABSTRACT

Creative industries become current important national issue to study, considering that this factor is important for developing SMEs. However, only a few studies concerned with this development sector. Therefore, this study aims to analyze the dominant variables affecting the performance of the creative industries. This study is explanatory research which becomes the first step of developing a concept. The population of this study is the actors of creative industry based SMEs in Central Java. The sampling is conducted through purposive sampling technique, while the data are analyzed by using regression analysis. Based on the analysis of the findings, it is known that the variables of cost production credit and transparency have effect on the performance of creative industries. While the variables of capital credit and loans do not have effect on the performance of the creative industries.

**Keywords:** Capital Credit, Production cost credit, Transparency, Loans, and Performance

## Background

To manage capital in small creative industry is not easy. Small industries are very difficult to get capital, have effective and efficient capital management, and lack of access and information. Capital for small and medium industry is a major issue that needs to be addressed. One solution to address the problem of capital financing is through corporate social responsibility (CSR) which will grow strong synergy

After getting credit disbursement, the small and medium businesses actors of creative industry are expected to improve business performance. Many experts agree that

performance measurement can provide a good foundation for the management of the organization and for the purpose of the organization as a whole.

**Literature Review**

**2.1. Creative Industry**

Creative industry is an integral part of the creative economy (Frankl, 2010). According to the Ministry of Commerce of the Republic of Indonesia (2008), the creative industries are industries that come from the use of creativity, skill and talent of individuals to create wealth and jobs through the creation and use of creativity and creation of the individual.

Creative industries can contribute in some aspects of life, not only in terms of purely economic point of view, but also on other aspects such as improving the image and identity of the nation, foster innovation and creativity of the nation. There are several directions of the development of creative industries, such as the development which concerns on industry based on: (1) cultural creative industry, (2) creative industry, (3) copyright industry. In Indonesia, the role of the creative industries gave a significant contribution to the gross domestic product in 2002 - 2006 by 6.3%, equivalent to Rp. 104.6 trillion (constant value) and Rp. 152.5 trillion (nominal value). The industry sector had absorbed the labor of 5.4 million with a participation rate of 5.8%. If viewed from the export side and the sub-sector classification, the role of creative economy to the total export average from 2002 - 2006 was amounted to 10.6% (study of the creative industries in Indonesia, 2008).

Nowadays, there are 3 (three) main obstacles faced by creative workers in Indonesia. Firstly, Creative human resources-based artistic still do not understand the context of creativity in the era of creative industry as a whole. Thus, people see the artistic world as an exclusive world and not populist. Secondly, Creative HR-based non-artistic (science and technology) are still too microscopic to view their profession, so that they become too mechanistic in thinking and less innovative. Thirdly, creative HR-based artistic and non-artistic are still lack of means to experiment and express themselves, so that their works are less creative and innovative.

The government through the Ministry of Commerce has identified the scope of the creative industry which includes 14 sub-sectors of Advertising: creative activities related to advertising services which include; the process of creation, production and distribution of the ads produced; Architecture: creative activities related to the service of building design, planning, construction costs, conservation of heritage buildings, construction supervision at both macro and micro level; Markets art: creative activities related to trade of authentic, unique, rare and have high aesthetic goods through auctions, galleries, shops, supermarkets and the Internet, i.e., musical instruments, printing, craft, automobile, film, art and painting; Crafts: creative activities related to the creation, production, distribution of products produced by artisans originated from the initial design to the process of settlement products; Design: creative activities related to the creation of graphic design, interior design, product design, industrial design, and production of packaging and packaging services; Fashion: creative activities related to the design of clothing, footwear and other fashion accessories, clothing production and fashion accessories and other fashion products distribution; Video, Film and Photography: creative activities related to the creation of video productions, film, photography services, scriptwriting, dubbing the film, cinematography, film, opera and exhibitions; Interactive games: creative activities related to the creation, production and distribution of computer and video games; Music: creative activities related to the creation / composition, performance, reproduction and distribution of sound recordings; Performing arts: creative activities related to the development of content, production of contemporary performances (e.g., drama, traditional music, musical theater, opera, music and ethnic), design and manufacturing fashion shows, sets and lighting; Publishing and printing: creative activities related to content publishing and publication of books, journals, newspapers, magazines, periodicals and digital content as well as the activities of news agencies and news search; Computer services and software: creative activities related to the development of information technology services, including computer, data processing, database development, software development, systems integration, systems analysis and design; Television and radio: creative activities related to the creation, production and packaging of television programs, broadcasting and transmission of television content and radio; Research and development: creative activities

related to business innovation that offers discovery science and technology for product improvement and the creation of new products, new processes, new materials, new tools, new methods, and new technologies that meet the needs of the market.


## 2.2. Financing Creative Industries

As the industry which puts forward the creativity, talent and ideas, Creative Industries tend to rely on intangible assets as wheels. The lack of mastering tangible assets has become one of the obstacles to obtain funding from the banking and other financial institution. Therefore, the Creative Industries need better alternative financing scheme to fit the nature of its business that qualifies on creativity but lack of capital, especially in the Independent Creative Industries (Indie) (Dedy Kurniadi, 2010)

## 2.3. Corporate Social Responsibility (CSR)

CSR is not just a charity event, it requires companies in the decision process to seriously consider the consequences for all stakeholders of the company, including the environment. This requires a company to make a balance between the interests of diverse stakeholders of external parties and the internal shareholders, as one of internal stakeholders. A broad definition by the World Business Council for Sustainable Development (WBCSD), a global association which consists of about 200 companies which specifically engage in "sustainable development," states that: CSR is an ongoing commitment by the world as an effort to act ethically and contribute to the development of the economy of the local community or society at large, along with the increase in the standard of living of the employees and their family."

Sustainable CSR program is expected to be able to form or create a society that is more prosperous and self-sufficient. Each of these activities will involve the spirit of synergy from all parties in sustainable manners to develop and create welfare, which, in turn, can ultimately create self-reliance of the communities involved in the program.

The CSR program is not always the promotion disguised of the company, if any advertising or activities on CSR conducted by a company emerge, it is an appeal to the business world in general which explain that the activity is a must for any entrepreneurs. As a result, it can attract other entrepreneurs to be able to do the same thing for the public

interest, and then, sustainable development can be well-realized. To create a prosperous society and all independent businesses, all parties should jointly support activities related to it. If so, the business world will automatically enjoy the sustainability and continuity of their business (Eka Tjipta Foundation, 2006). The implementation of CSR is a process of continuous and sustainable manners. This will create an ecosystem that benefits all parties *(true win-win situation).* In this situation, customers will get excellent products that are environmentally friendly and manufacturers (company) will also get the appropriate profit that will eventually be returned to the hands of people indirectly. To achieve success in CSR programs needs a strong commitment, active participation, and integrity of all parties concerned with CSR programs. The CSR program is very important because it is a human duty to take responsibility for the integrity of the living conditions of the humanity in the future.

### 2.4. Business performance

Performance is the ability to work which is shown by the work. Hawkins (The Oxford Paperback Dictionary, 1979) suggests the notions of performance are as follows: *"Performance is: (1) the process or manner of performing, (2) a notable achievement or action, (3) the performing of a player of entertainment".*

The company performance is something that is produced by a company in a certain period in accordance with established standards. The company performance should be an outcome that can be measured and illustrate a company condition empirically from any criteria agreed. Company performance is based on how well a company oriented to the market and its financial goals.

The effective performance appraisal should contain performance indicators, namely: (1) paying attention to each organization's activities and emphasis on the customers' perspective, (2) evaluating each activity by using performance measurement tools that verify the customer, (3) paying attention to all aspects of the comprehensive performance affecting customers, and (4) providing information in the form of feedback to help members of the organizations to identify problems and opportunities for improvement. Performance assessment contains tasks to measure the activity levels of the organization which result the information feedback to improve organization.

The organization repair implies improved management organizations which include: (a) improved planning, (b) process, and (c) evaluation improvement. The evaluation of company performance can be measured by the measures of financial and non-financial. The measures of financial is to determine the actions that had been done in the past and such financial measures which are completed by non-financial measures of customer satisfaction and cost effectiveness of business processes or internal and productivity.

**RESULTS AND DISCUSSION**

Respondents in this study are small and medium enterprises (SMEs) that are more focused on the business and creative products. In accordance with the government's program, namely *Indonesia Kreatif*, this research focuses on the creative industries, especially in the province of Central Java. This study uses a purposive sampling method by selecting districts in Central Java province that have many creative industries. Those districts are Kudus, Magelang, Semarang, Banjarnegara, Pekalongan, Klaten, Demak and Brebes. The products produced include ceramics, printing, traditional music instruments, *batik*, handcraft, fashion, dolls, sculptures, calligraphy, Monel, building accessories, furniture, striped, woven, consultants, and interior design.

Respondents who participated in this study are categorized based on age which consists of 7 (9%) respondents are 21 - 30 years old, 35 respondents (44%) are aged 31 - 40 years old, 30 respondents (37%) are aged 41 - 50 years old, 8 respondents (8%) are aged 51 - 60 years old. Based on the education, in which 7 respondents (9%) are elementary school, 20 respondents (25%) are secondary school education, 43 (54%) respondents are high school education, and 10 (12%) respondents are diploma. Based on the business period in which 50 (63%) respondents are 2 - 10 years, 18 (22%) respondents are 11 - 20 years, 10 (12%) respondents are 21 - 30 years, and 2 (3%) respondents are over 30 years. (for detail, it can be seen in Table 1).

**Normality Test**

Normality test examines whether the independent variables and the dependent variable in the regression model are distributed normally or not. The test in this study uses the Kolmogorov-Smirnov test. Test results of the normality test of the data are as follows:

**Table 1**

**Normality Test of Normal Data**

**One-Sample Kolmogorov-Smirnov Test**

|  |  | Unstandardized Residual | Unstandardized Residual |
|---|---|---|---|
| N |  | 80 | 80 |
| Normal Parameters[a] | Mean | ,0000000 | ,0000000 |
|  | Std. Deviation | ,01286243 | ,14095225 |
| Most Extreme Differences | Absolute | ,204 | ,176 |
|  | Positive | ,204 | ,176 |
|  | Negative | -,167 | -,095 |
| Kolmogorov-Smirnov Z |  | 1,291 | 1,116 |
| Asymp. Sig. (2-tailed) |  | ,071 | ,166 |

a. Test distribution is Normal.

Based on the TABLE above, the model is normal, because the Kolmogorov-Smirnov value is significant to 0.071 <0.05 and 0.166> 0.05.

**Multicollinearity Test**

It is a test to identify the presence of multicollinearity by considering the correlation matrix generated during data processing along with its VIF (Variance Inflation Factor) and Tolerance. The value of VIF of less than 10 and tolerance of less than 1 indicate that there is no evidence of multicollinearity (Imam Ghozali, 2013).

**Table 2**

**Multicollinearity Test**

| Model |  | Collinearity Statistics | |
|---|---|---|---|
|  |  | Tolerance | VIF |
| 1 | (Constant) |  |  |
|  | Capital Credit | .861 | 1.161 |
|  | Production Cost Credit | .874 | 1.144 |
|  | Transparency | .808 | 1.238 |
|  | Capital Assistance | .683 | 1.465 |

a.  Dependent Variable: Performance

The results show that VIF value for each variable is less than 10 and the value of tolerance for each variable is less than 1. Thus, it can be concluded that the model in this study is free from multicollinearity.

**Heteroscedasticity Test**

This test uses the scatterplot graph. It is the detection devices to check for the presence of heteroscedasticity. If there are points that form a regular pattern, they have become heteroscedasticity. Moreover, if there is no clear pattern of the points which spread above or below 0 on the Y axis, it means there is no heteroscedasticity (Ghozali, 2013).

**Graph Results Analysis of Heteroscedasticity Test**
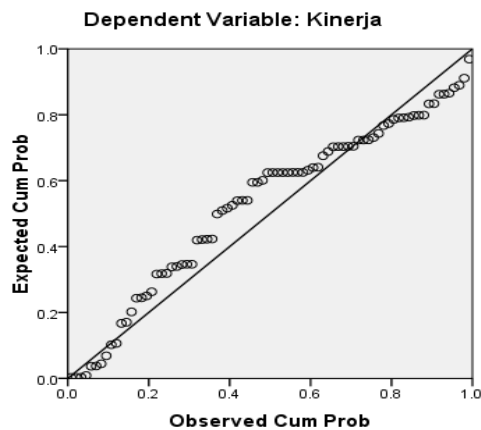


From the scatterplot chart above, dots spread randomly and both above and below the 0 and on the y-axis. Therefore, it can be concluded that there is no evidence of heteroscedasticity.

**Autocorrelation Test**

According to Ghozali, to test autocorrelation is by using Durbin Watson Test. If there is no inter-residual correlation, then it can be said that the residual is random. Here are the results of autocorrelation test in the regression model:

## Table 3

## Autocorrelation Test

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .409[a] | .167 | .099 | .991 | .167 | 2.440 | 6 | 73 | .033 | 1.922 |

*Change Statistics* spans: R Square Change, F Change, df1, df2, Sig. F Change

a. Predictors: (Constant), capital credit, capital assistance, Production Cost Credit, Transparency,

b. Dependent Variable: Performance

The DW value of dependent variable is 1.922, which is between (du) = 1.6000 and 4-du = 2.4000. Therefore, this model does not have a problem of autocorrelation.

## Hypotheses Discussion

The results of hypotheses test by using multiple regression were as follows:

## Table 4

## Hypotheses Testing

**Coefficients[a]**

| Model | Unstandardized Coefficients B | Std. Error | Standardized Coefficients Beta | T | Sig. | Collinearity Statistics Tolerance | VIF |
|---|---|---|---|---|---|---|---|
| 1 (Constant) | 2.149 | 1.004 | | 2.140 | .036 | | |
| Capital Credit | .001 | .117 | .001 | .007 | .995 | .861 | 1.161 |
| Production Cost Credit | .214 | .105 | .234 | 2.049 | .044 | .874 | 1.144 |
| Transparency | .273 | .133 | .245 | 2.064 | .043 | .808 | 1.238 |
| Capital Assistance | .021 | .166 | .016 | .123 | .902 | .683 | 1.465 |

a. Dependent Variable: Performance

**The effect of capital credit on business performance**

Capital variable has a positive effect but not significant on the business performance with significant value of 0.995, which is> 0.05. Therefore, we can conclude that $H_1$ is not supported. The capital credit variable does not affect business performance. Financing capital is loans facility granted to meet the needs of working capital depleted in the business cycle and working capital requirements or specific needs as to finance inventory / receivables / project or other special needs. The actors of creative industry need credit facility for working capital. Because of the nature of the credit facility expires in one business cycle, therefore, it does not have great impact on business performance. Business performance will continue to rise if the company is able to continuously process the capital funding. In addition, credit is given only to replenish working capital, it still requires additional efforts to improve the business performance of the creative industry actors.

**The Effect of production cost credit on business performance**

The variable of production costs credits has significant positive effect on business performance with significant value of 0.044, which is <0.05. Therefore, it can be concluded that $H_2$ is supported. The variable of production costs credit affects business performance. Costs Production credit is credit to cover the cost of production of the companies, such as the cost of raw materials, supplies, advertising and promotion, product packaging, and distribution. The increase in credit to finance production will expedite the process of goods production as a whole. If the production process is smooth, then it will increase sales. The increased in sale will improve business performance. The improved business performance will enable companies to compete more and more. The actors of creative industry are aware of the competition which cannot be avoided. Therefore, management of the company must always explore both internal and external forces to compete in at least the same scale industry in order to survive.

**The Effect of transparency on business performance**

Transparency has significant positive effect on business performance with significant value of 0.043, which is <0.05. Thus, we can conclude that $H_3$ is supported. Transparency has significant effect on business performance. The openness of the business actors about the condition of the company will ease them to get financial

support from financial agency. This is called as transparency. Transparency is important to run a business, not just in times of crisis, but during the course of business. Patterns of open communication on customers, suppliers and employees of the company will be able to create a lasting professional relationship. Transparency will create interpersonal relationships and form a strong company. The benefits of transparency for the creative industry actors are to build trust, improve customer service, maintain the company's reputation and reduce employee *turnover*. Transparency will improve the company's business performance. The more open the company about the condition, the more positive value will be generated. So, the performance of the company will increase.

**The effect of credit from other institutions on business performance**

The variable of credit from other institution has a positive effect but not significant on business performance with significant value of 0.902, which is> 0.05. Therefore, we can conclude that $H_4$ is not supported. The variable of credit from other institutions does not affect business performance. An attempt to get the flow of funds from lending institutions will increase working capital. More funds obtained should improve the production process, which is indicated by the increased sales. Yet, if the processing flow of funds is not appropriate, business will fall. If this happens, then the trust of lending institutions will decline. As a result, the lending institutions will judge such company as untrusted because it is unable to process the funds that have been provided by the lending institutions. A fallen trust is difficult to repair, if not showing a noticeable improvement.

**CONCLUSION**

The creative industry actors are aware of the need for additional funds to improve the production process. One of them is by applying credit from credit providers. Financing scheme for creative industry actors is expected to address the granting of the loan disbursement. Through the scheme of corporate social responsibility of the company that is devoted to the creative industry actors, it is hoped to encourage the disbursement of loan granting. After the granting the loan, it is hoped that the next business can be well-improved. Some of the factors examined in this study include capital loans, production costs credit, transparency, financial assistance from other agencies and business

performance. Only the variables of production cost credit and transparency that have significant effect on business performance.

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