

INSTITUTIONAL DESIGN AND TRANSACTION COSTS TOWARD THE GROWTH OF CREATIVE ECONOMY IN MAKASSAR, SOUTH SULAWESI, INDONESIA

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Abstract- Creative economy (creative industry) is economic activities that developing in the new economic era where information, creativity, ideas, and stock of knowledge as the main support and positioning of human resources (HR). In Indonesia, the creative industry has been with us since a long time. However, due to the government support and attention, the creative economy now plays important contribution to the growth. One of many cities in Indonesia that has a great potential of creative economy is Makassar, South Sulawesi. However, studies that examine the creative economy in this city have been limited. For this reasons, this study aims to examine several variables that allegedly affect the growth of creative economy. These variables are specifically institutional design and transaction costs. Using partial least square method, the study found that the better institutional design of the creative economy, it can improve growth of creative economy. Similarly, the lower transaction costs incurred by creative industry players, this will encourage the growth of creative economy.

Index Terms- Creative economy, institutional design, transaction costs, partial least square, Makassar.

I. INTRODUCTION

Creative economy is economic activities that growing in a new economic era where information, creativity, ideas, and stock of knowledge as the main support and positioning of human resources. The concept of creative economy has been initiated by Schumpeter since 1911 through *Theorie der wirtschaftlichen entwicklungen*. In that theory Schumpeter proposed an idea of "creative destruction", which states that new companies that grow with the spirit of entrepreneurship and creativity, they will no doubt replace the less innovative companies.

The creative economy was further popularized by John Howkins in 2001 through his book "*The Creative Economy: How People Make Money From Ideas*". Howkins (2001) recognizes the birth of a new wave of creative economy after he found the Intellectual Property Rights of the United States are valued 414 billion dollars in 1997. In Indonesia, however, the creative economy grows through State policy as outlined in the Mid-Term Development Plan (RPJMN) 2015 – 2019. This economic activity has also

been supported by the Presidential Decree No.2 year 2015. Whilst the government has been given attention to creative economy, this does not mean that creative economy activity is a new business activity. In fact, this activity has been with us since many years ago.

One of the cities in Indonesia that has a large potential of creative industry is Makassar, South Sulawesi. In Makassar, the creative industries can easily be found especially in the culinary, advertising and application development sectors. Culinary sector has shown rapid growth in this city. This can easily be seen from the growing number of restaurants in the city. Similarly, it is also with the advertising sector as can be seen from the increasing number of ad space installed along the main road of Makassar. However, the number of companies in these sectors are still relatively small. This is not so surprising as there are still various problems faced by these creative industries.

It is argued that institutional design has an important position in promoting economic growth. According to Erani Yustika (2013), in the last decade there has been a more intensive discourse about the importance of "institutional" factors as a variable that promotes the economic growth of a State. Acemoglu (2003:27) characterized good institutions into three things. First, it is enforcement of property rights. Second, to limit the behavior of politicians, elites, and other influential groups attempted to gain an economic advantage without proper procedures. Third, giving equal opportunity for all individuals to undertake economic / investment activities.

Apart from institutional issues and transaction costs, creative industry is also faced with the growing market competition. Transaction costs arise as a result of information asymmetry, where the informed party will tend to be opportunistic and hence causing high transaction costs. If transaction costs are too high, then trade will not happen and the economy becomes stagnant (Coase, 1998; Williamson, 1981, 2010; North, 1991). Positivistic thinking is also embraced by the opinion of Cordes et.al (2011), which says that transaction costs become significant when limited rational behavior comes along with opportunistic attitudes.

Based on the above background, this study aims to see the influence of institutional design and transaction costs on the growth of creative economy in Makassar, South Sulawesi. However, before discussing the results of the study, section 2 first highlights the conceptual and hypotheses of the study. Section 3 addresses the sources of data and the methods of analysis. Section 4 then discussed the findings of the study. Finally, concluding remarks are drawn in section 5.

II. CONCEPTUAL FRAMEWORK AND HYPOTHESES

The conceptual framework of the study can be seen at Figure 1. From this Figure it can be seen that institutional design and transaction costs are assumed to affect the growth of creative industry.

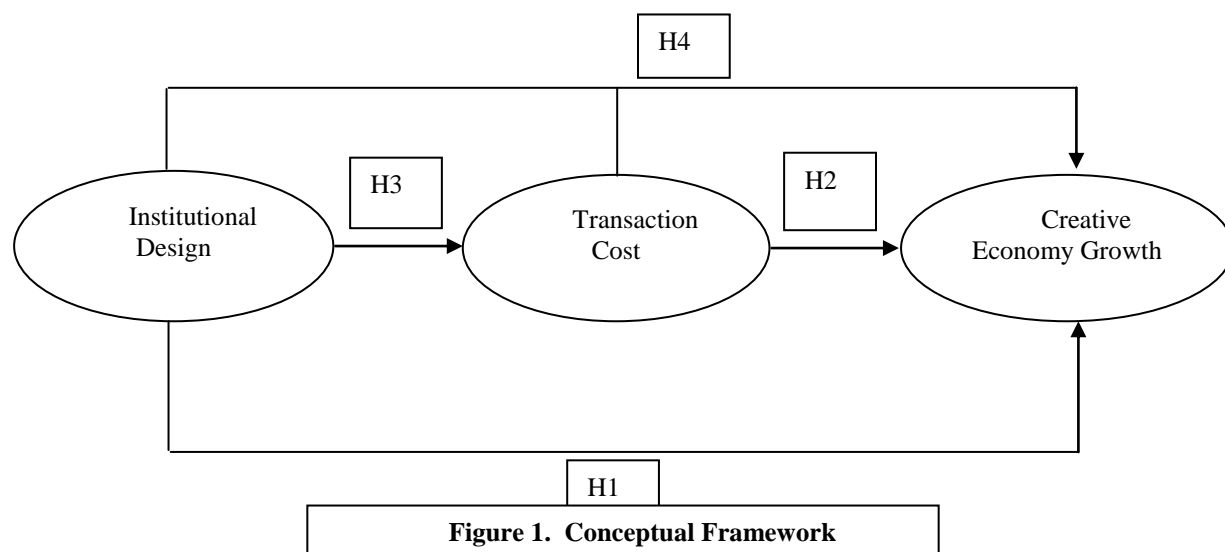


Figure 1. Conceptual Framework

From the Figure 1, there are four hypotheses that are going to be tested. These four hypotheses are as follows:

- H1 : Institutional design has a significant effect on the growth of creative economy
H2 : Transaction costs have a significant effect on the growth of creative economy
H3 : Institutional design has a significant effect on transaction costs
H4: The institutional design affects the growth of creative economy through the cost of transaction.

III. RESEARCH METHODS

The method used to collect the data is by using questionnaires. These questionnaires were given to respondents who are engaged in creative industry activities from various sub sector in Makassar, South Sulawesi. These creative industry activities are culinary, advertising, game and game development. The total number of these creative industries are recorded about 317 (Industry and Trade Office and Digital Lounge of Makassar City 2016) . Of these total number of creative industries, this study using simple random sampling collected only 76 respondents as the study sample.

Apart from the quantitative survey, a qualitative survey was also conducted by direct observation in the field work and interview with respondents who works in creative economy activities. Note that, the data collected using questionnaires was analyzed using Likert scale analysis. These data were then estimated using the Partial Least Square method (PLS) using SmartPLS version 2.0.

The variables in this study consisted of three variables. The independent variable is the growth of creative economy which has five indicators, that is, Sales Growth, Marketing Growth, Manpower Growth, Capital Growth, Profit Growth. The variable of transaction cost is also indicated by three indicators, that is, cost in pre-production stage, post production stage, Cost Standardization. The variable of Institutional Design consists of Policy and Government Programs, Access to Capital, Market Access and Marketing, and Property Rights. Detail variables and indicators under study are exhibited at Table 1.

Table 1. Variables and Indicators

Variable	Indicator	Scale
Transaction costs	<ol style="list-style-type: none"> 1. Costs at pre production stage 2. Costs at Post Production Stage 3. Costs Standardization 	Ordinal
Institutional Design	<ol style="list-style-type: none"> 1. Costs at pre production stage 2. Costs at Post Production Stage 3. Costs Standardization 4. Rules and regulation that Business Friendly 5. Training Program 6. Access to capital and financing 7. Business location and information 8. Own Capital 9. Bank 10. Investor 11. Ability to market preference 12. Knows competitors and its products 13. Able to know the weakness of its own product 14. Limited human resources 15. Product Standard 16. Ability to fulfill demand 17. Ability to market penetration 18. Product economies of scale 19. Ability to convince consumers 20. Permit License owner 21. Own Production location 22. Intellectual Property Right/Patent Right 	Ordinal
The growth of	<ol style="list-style-type: none"> 1. Sales growth 	Ordinal

Creative Economy	2. Capital growth 3. Additional Workers 4. Market growth and Marketing 5. Profit Growth	
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IV. RESULTS AND DISCUSSION

As it has been stated that the respondents of this study are those business players of creative industries from various sub-sectors in Makassar. The characteristics of these respondents are grouped based on gender, age, marital status, educational level and other occupations. In terms of gender, for instance, it was found that about 68.4 percent are male. Whilst in terms of the age group, about 47.4 percent are between 21-30 years old. Furthermore, in terms of educational attainment, most of the respondents was dominated by those with bachelor degree at about 39.5 percent.

The study found that transaction costs can be explained directly by the institutional design. This indicates that if the institutional design will be better if there are government policies and programs that are capable of encouraging the development of creative industries, access to capital for creative industry players, market access and marketing of good creative industry actors, and the right of ownership for creative industry actors. The results of this study, however are slightly different from the study conducted by Erani Yustika (2013) which states that the better institutional design will be able to suppress the transaction costs as opposed to those shown in Table 2. In Table 2, the coefficient values show a positive but not statistically significant effect.

Furthermore, the study also found that the effects of institutional design tend to be positive on creative economic growth in Makassar (Table 2). This explains that the existing institutional design performance has been able to give positive contribution to the growth of creative economy in Makassar city. Although without the support from the government, creative entrepreneurs are able to develop their business successfully, as evidenced by the increase in business in terms of capital growth, market growth, profit growth, labor availability and marketing growth in the last three years showed an increase.

Table 2. Coefficients and Hypothesis Testing Results

Variable Relationship	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
InstDesign -> TransactionCost	0.001	0.001	0.002	0.002	0.23
InstDesign -> CreativeEcoGro	0.000	0.000	0.000	0.0	0.0
TransactionCost -> CreativeEcoGro	-0.000	-0.000	0.000	0.0	0.0

In terms of the effects of transaction cost on the growth of creative economy, it was found that transaction costs have a negative effect on the growth of creative economy especially for the culinary sub-sector in Makassar city shown in table 2. This is perhaps because of the low transaction costs as a result of technological advances in both mobile communications technology and the increasingly widespread digital technology that makes culinary subsector is able to reduce the cost of information search related to raw material information and availability of quality raw materials, while in the process of negotiation and final decision making almost no one to incur transaction costs. This matter Illustrates the low transaction costs so as to have a positive effect on the creative economic growth of the culinary sub-sector The low transaction costs arising in the activities of the culinary sub sector actors are inseparable from the role of institutional design that has been formed today. So it can be concluded that the transaction costs can directly affect the creative economic growth in the city of Makassar.

Finally, the study found that the institutional design and transaction costs of creative industry have direct effects on the creative economic growth in Makassar city. This finding differs from the view of the Solow-Swan theory which sees that in many ways the market mechanism can create a balance so the government does not have to intervene the market. Government intervention is limited to fiscal policy and monetary policy. This makes their theories and the views of other experts in line with their thinking called neo-classical theory. In this study it was revealed that the role of government is needed by the creative industry players in the form of policies (regulations) and programs, access to capital, as well as the provision of business location and information. Also, it was found that transaction costs can moderate the institutional design in influencing the creative economic growth of creative industry players in Makassar.

V. CONCLUDING REMARKS

This study aims to examine the interrelationship between institutional design, transaction costs, and creative economic growth in Makassar, South Sulawesi. The study found that institutional design has a positive effect on transaction costs. Also, institutional design has a positive and significant impact on the growth of creative economy. These findings suggest that government policies and programs are important to support institutional design and transaction costs. Due to the policy and programs, these can encourage creative industry to be more develop, will have easy of access to capital for the creative industry players, the availability of market access and able to marketing of creative industry products and able to have the right of ownership for creative industry. The study also found that transaction costs have positively influence toward creative economic growth. However, the institutional design cannot be moderated by the transaction costs of creative economic growth. Of the three subsectors only the application subsector and game development transaction costs can moderate the institutional design of creative economic growth.

Based on the above findings, this study suggests as follows. First, creative industries must continue to develop its ability in the use of information technology in order to reduce transaction costs in every transaction activity undertaken. Second, collaboration by applying the concept of 'Quadruple helix' between creative industry actors, government, banking sector and the investor and the community as the user of creative products is also needed to accelerate the process of formation of creative industry. Finally, the role of government should be enhanced in terms of regulations to support creative industry players, the provision of regular training programs at least twice a year, government's facilitation in access to capital either to the banking sector or to investors, and to provide production sites like special zone or co-working space for creative industry players to grow well.

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