



Conceptual Model for Digital Startup Policy to Accelerate the Success Rate in Indonesia

Sonny Hendra Sudaryana, Budisantoso Wirjodirdjo, and Agus Windharto

Institut Teknologi Sepuluh Nopember (ITS), Surabaya, Indonesia
sonnysudaryana@gmail.com

Abstract. Indonesia is currently one of the top five countries with the highest number of digital startups and increasing company valuations. The digital economy is largely driven by the startup ecosystem, which contributed approximately 5.7% in 2021 and is projected to reach 18% in 2030. However, the success rate of digital startups in Indonesia is low, accounting for only 1% to 5%. Therefore, there is a pressing need to increase the success rate of digital startups to spur economic growth through government policies and interventions. This research aims to develop a conceptual model for digital startup policy to enhance the success rate. This study will employ a systematic literature review (SLR) and in-depth interviews for secondary and primary data analysis, respectively. The conceptual model will be based on the factors that influence the success of digital startups in Indonesia and will consider the different stages of the digital startup life cycle (seed stage, early stage, growth stage, and expansion stage) and the three levels of analysis (micro, meso, and macro).

Keywords: Conceptual Model, Digital Startup Success Rate, Digital Startup Policy.

1 Introduction

Indonesia's digital economic sector, particularly the digital startup industry, has been exhibiting exponential growth over the past decade. Consequently, Indonesia currently boasts the distinction of being the largest digital economy in Southeast Asia, with a Gross Merchandise Value of USD 77 billion in 2022 [1]. Indonesia has also garnered recognition as one of the most significant startup ecosystems globally, ranking fifth in terms of the number of companies, with a total of 2,347. Furthermore, it is important to note that the country has been making considerable efforts in supporting the growth and development of its startup ecosystem, which has led to a positive impact on the overall economy [2]. Regrettably, the proportion of digital or technology-based startup ventures in developing countries that achieve success is often quite low [3]. With a success rate lower than 5%, India, as the second largest startup ecosystem, faces significant challenges in achieving widespread success [4]. Furthermore, it is noteworthy that in Indonesia, the success rate of digital startups is relatively low, with statistics indicating that only 1% to 5% of such ventures achieve success [5]. On the other hand, in advanced economies such as the United States, the United Kingdom,

France, Canada, and Singapore, the average success rate for startups is 24% or higher than the global average success rate of 10% [6,7].

However, the digital startup sector presents a huge opportunity to be the economic pillar of Indonesia. Startup enterprises significantly contribute to economic growth and national competitiveness through employment development and renewal in job creation, innovation, productivity, and economic growth [8]. Based on the research conducted by Daksa et al. [9], Digital startup technology has a substantial impact on job creation and economic growth at both the national and regional levels by driving innovation in existing markets. In fact, the digital startup sector has been instrumental in creating employment opportunities, with estimates indicating that it has contributed to generating up to 60-70% of new jobs. Furthermore, small and medium-sized enterprises play a crucial role in this process, accounting for 95% of all companies in OECD countries [10].

Digital startups have garnered widespread attention due to their profound influence on economic growth, and are expected to serve as the primary drivers of future economic expansion globally. Neumann [11] Entrepreneurship not only has an impact on economic growth, but also on social and environmental welfare. The endogenous growth models demonstrate that entrepreneurship influences economic growth through the creation of new knowledge and technological advancements [12,13,14]. Entrepreneurship can drive innovation, stimulating economic activity and increasing economic growth [15]. Several scholars explain that entrepreneurship introduces innovation, advances rivalry, and creates competition to drive economic growth [16,17].

Digital startup firms are seen as the only agents that can create business opportunities through rapid innovation. Research conducted by Igamo et al. [18] proves that technology, information, and communication positively impact business in Indonesia. Adopting the Internet of Things (IoT) promotes profitability and productivity. The investment for the digital startup can be the new economic growth engine for Indonesia aside from traditional economic factors (capital market, FDI, and trade), revealing that financial technology (fintech) has a significant effect on the economic growth in Indonesia [19]. The high growth of the digital economy during the pandemic of COVID-19 has helped Indonesia to escape from the economic downturn.

Government policy plays a significant role in establishing a supportive environment and infrastructure for the entrepreneurial ecosystem [20]. However, Indonesia still needs to develop a specific policy to regulate digital startup technology. Currently, a digital startup in Indonesia follows the regulations based on the type of business under different institutions. Moreover, the current policies related to digital startups primarily focus on increasing the number of entrepreneurs and companies rather than maintaining the survivability of the companies. That is why persistent problems often occur after starting up the business, leading to the low success rate of Indonesia's startups. Therefore, the government of Indonesia must develop a policy that tailors every startup stage and emphasize the stage where the valley of death exists.

2 Method

This research is qualitative research that combines secondary and primary study to build the conceptual model. This research starts with the secondary study through systematic literature review (SLR) to develop the initial conceptual model. Then, the study is followed by the primary study of in-depth interviews with thematic analysis is used to find the theme to find deeper insight and validate the model. The detail for key experts in in-depth interviews shown in Table 1 as follows:

Table 1. Key Expert for the Interviews.

Key Expert	Institution	Description
Key Expert 1	1000 Startup Indonesia	Government Bodies
Key Expert 2	Impactto	Incubator
Key Expert 3	SIRCLO	Startup Companies
Key Expert 4	Kendali	Startup Companies
Key Expert 5	Alpha JWC	Venture Capital

3 Result and Discussion

Refer to the conceptual model of digital startup policy in Indonesia. Following a systematic literature review and in-depth interviews, it was determined that there are four distinct startup stages in Indonesia, including the seed stage, early stage, growth stage, and expansion stage. However, there is no consensus on these stages among institutions, with each one having its own criteria for classification. Additionally, the common practice in Indonesia is to categorize startup life cycles based on activities, valuation, and profit.

The conceptual model of digital startups' success in Indonesia comprises three levels of analysis. Furthermore, it is imperative to utilize a formal tone when communicating [16]. The first level of analysis in this study is the micro level, which examines the individual factors that contribute to the success of startup companies in Indonesia. The human capital/workforce variable is used to assess the personal characteristics of the founders and talent that determine the success of these companies. This variable includes several sub-variables, such as industry experience of the founders, previous startup experience of the founders, managerial experience of the founders, industry network of the founders, world top university graduate, venture capital path mindset, availability of high-tech workers, and outsourcing availability.

The second variable at the micro level focuses on the capability and skills that are necessary for personal development, which includes four sub-variables: technological and business skills and capabilities, leadership skills and capabilities of the founders, communications skills and capabilities of the founders, and innovation skills and capabilities.

Process/support system is a crucial component of startup success, and this study identifies four sub-variables in this area: incubators, accelerators, initial funding for tech ventures and legal and finance due diligence.

The Meso-level analysis scrutinizes the organizational factors that impact the prosperity of digital startup companies, encompassing three variables: product, market, and the regulatory framework for digital startup companies. The paramount products that provide exceptional satisfaction to customers are of utmost importance to the success of a startup [21,22, 23]. The variable "product" produces sub-variables which are Business Model Scalability, Value creation of product, Functionality of product, Novelty / Innovativeness, and Product-oriented [24,25,26,27]. Furthermore, variable market also play significant role which includes four sub-variables: Potential Untapped Market, User Satisfaction, Marketing and Promotion, and User Experience [28,27]. Lastly, the regulatory framework for digital startup companies, which pertains to the government's intervention to support digital startups through regulations, is comprised of eight sub-variables. These include Agile Business Regulations, Tax and Fiscal Incentives, Regulations of Foreign Investment (PMA), Exit Barriers/Deregulation, Entry Barriers/Deregulation, Intellectual Property Rights, and Industrial Clustering [28,29,23].

To increase the success of the digital startup success rate, intervention at the macro level should be made [28]. The macro-level analysis in this study pertains to the external factors that impact the success of digital startups. Specifically, the analysis considers three primary factors: Digital Startup Culture, Digital Startup Infrastructure, and Digital Startup Education. The variable "digital startup culture" underscores the critical role of culture in shaping the higher success rate of startup companies, which comprises four sub-variables: Success Stories, Startup's Social Status/Positive Image of Entrepreneurship, Technological Readiness, and Deeper Digital Literation for High Technology [23,30]. Moreover, the government must also provide a supportive infrastructure for the startup ecosystem to increase the success rate. There are four sub-variables for digital startup infrastructure: Venture Capital, Angel Investor, Internet Accessibility, and Capital Market [31,23]. Lastly, education is vital in proliferating knowledge about digital startups in the Country. This variable includes three sub-variables: Major Universities Promoting a Culture of Respect for Entrepreneurship, Entrepreneurship-Specific Training (Hard and Soft Skills Development), and Major Universities Playing a Key Role in Idea-Formation for New Companies [31].

4 Conclusion

In summary, the conceptual model for digital startup success in Indonesia seeks to advance the formulation of appropriate government programs aimed at fostering a supportive digital startup policy environment in Indonesia, with the ultimate goal of enhancing the rate of digital startup success in the country. It is important to note that this model requires further refinement through future research, which will involve identifying key success factors through expert insights and developing targeted interventions for each of these factors.

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