PROMOTING ENTREPRENEURSHIP RESEARCH AND EDUCATION ABOUT BUSINESS ANGELS IN INDONESIA

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BACKGROUND

- Indonesia is shifting its focus from small business development to entrepreneurship development
  - Indonesia’s President Instruction number 06 / 2007 on SMEs
  - Law number 41/2009 about youth include a chapter on youth entrepreneurship
- Practice on financial support for youth entrepreneurship development is limitedly known
RESEARCH QUESTION

How do investors (BA and VC) operate in emerging economies that lack of required fully-developed institutions?

- Financial (banks and stock markets)
- Legal (protect minority shareholder)
- Political (stability and corruption)
VENTURE CAPITAL (VC)

Value-added money used to finance high-growth, small- and medium-sized, unlisted companies.

VCs create institutional funds and are experienced entrepreneurs.

- Add equity and strategic/operations advice
Business Angels (BA)

- High net-worth entrepreneurs
- Invest personal funds & experience
- Focus on early-stage investee companies
- 300K-400K Informal venture capitalists
- Invest $30-40B/yr. in US
RESEARCH METHODOLOGY

- Institutional theory
- Interviewed 29 BAs at Philippine, 20 BA at Thailand and 6 BAs at Indonesia
- Interviewed 1 VC at Indonesia
- Judgment sample of investors
- Structured interviews

Challenge is to find BAs
## INSTITUTIONAL ANALYSIS
### THE GLOBAL COMPETITIVENESS REPORT (2010-2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Pillar 1. Institutional Score (rank)</th>
<th>Pillar 8. Financial PE Score (rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>3.98 (61)</td>
<td>4.23 (62)</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.14 (125)</td>
<td>4.04 (77)</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.95 (64)</td>
<td>4.43 (51)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>3.80 (74)</td>
<td>4.21 (65)</td>
</tr>
<tr>
<td>Singapore</td>
<td>6.13 (1)</td>
<td>5.76 (2)</td>
</tr>
<tr>
<td>USA</td>
<td>4.67 (40)</td>
<td>4.67 (31)</td>
</tr>
</tbody>
</table>
## Business Angel Ranking

<table>
<thead>
<tr>
<th>Country</th>
<th>Venture Capital</th>
<th>Informal Sector</th>
<th>Protect Minority Shareholders</th>
<th>Time to Start a Business</th>
<th>Access To Loans</th>
<th>Business Angel Score (mean rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>18</td>
<td>114</td>
<td>9</td>
<td>113</td>
<td>6</td>
<td>52.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>79</td>
<td>76</td>
<td>50</td>
<td>81</td>
<td>78</td>
<td>72.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>42</td>
<td>42</td>
<td>35</td>
<td>48</td>
<td>47</td>
<td>42.8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>65</td>
<td>50</td>
<td>59</td>
<td>86</td>
<td>87</td>
<td>69.4</td>
</tr>
<tr>
<td>Japan</td>
<td>23</td>
<td>16</td>
<td>31</td>
<td>42</td>
<td>38</td>
<td>30.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>13</td>
<td>1</td>
<td>22</td>
<td>6</td>
<td>16</td>
<td>11.6</td>
</tr>
<tr>
<td>USA</td>
<td>1</td>
<td>28</td>
<td>16</td>
<td>3</td>
<td>11</td>
<td>11.8</td>
</tr>
</tbody>
</table>

INSTITUTIONAL VOID

Absence/underdevelopment of institutions in an economy.

Increase transaction costs

Characteristic of emerging economies

Analyzing SE Asian emerging economies

- Thailand
- Philippines
- Vietnam
- Indonesia
<table>
<thead>
<tr>
<th>Categories</th>
<th>Thailand (n=20)</th>
<th>Philippines (n=29)</th>
<th>Indonesia (n=6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment size (range in US$)</td>
<td>1 – 1.25M</td>
<td>100 K-250 K</td>
<td>500-1.2M</td>
</tr>
<tr>
<td>Avg # of years investing</td>
<td>15.1 years</td>
<td>18 years</td>
<td>&lt;10 years</td>
</tr>
<tr>
<td>Investor/angel</td>
<td>3.6 partners</td>
<td>3 partners</td>
<td>2 partners</td>
</tr>
<tr>
<td>Avg investment</td>
<td>2.95 companies</td>
<td>8.2 companies</td>
<td>2 companies</td>
</tr>
<tr>
<td>Level of education</td>
<td>50% master</td>
<td>66% master</td>
<td>80% bachelor</td>
</tr>
<tr>
<td>Performance vs expectation</td>
<td>25% below average</td>
<td>14% below average</td>
<td>20% below average</td>
</tr>
<tr>
<td>Sector of investment</td>
<td>Retail Trade</td>
<td></td>
<td>Agriculture</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td></td>
<td>Trade</td>
</tr>
<tr>
<td></td>
<td>Agribusiness</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial services</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rank</td>
<td>Thailand</td>
<td>Philippines</td>
<td>Indonesia</td>
</tr>
<tr>
<td>------</td>
<td>----------</td>
<td>-------------</td>
<td>-----------</td>
</tr>
<tr>
<td>1</td>
<td>Competitive environment results in low profitability</td>
<td>Attract investors</td>
<td>Difficult to find trustable partners</td>
</tr>
<tr>
<td>2</td>
<td>Unstable political environment</td>
<td>Finding the right people</td>
<td>Too much political influence</td>
</tr>
<tr>
<td>3</td>
<td>High financial risk cost</td>
<td>Difficult to find opportunities</td>
<td>Investment along value chain</td>
</tr>
<tr>
<td>4</td>
<td>Weak legal framework</td>
<td>Poor economic performance</td>
<td>Dealing with bureaucracy and non transparent government</td>
</tr>
<tr>
<td>5</td>
<td>Inefficient government</td>
<td>Dealing with red tape &amp; bureaucracy</td>
<td>Lack of institution that safeguard the investment</td>
</tr>
</tbody>
</table>
INVESTMENT STRATEGIES
PHILIPPINES & THAILAND VS INDONESIA

- Focus on seed- and early-stage
  - 47-85%: seed/early-stage
  - 8-22%: growth-stage
- Hands-on investors
  - Spend 69-70% of time monitoring investees
  - Removed 16 CEOs
  - Removed 99 functional managers
- In depth due diligence

- Focus on start to grow stage
- Hands-on investors
  - Spend 20 - 80% of time monitoring investees
- Due diligence vary from one investor to another, from one sector to another
INVESTMENT CONSIDERATIONS

- Financial
  - Deal size & potential returns
- Management
- Market Opportunity
- Technology
- Understand the business/industry
- Location
- Give back (not only profit)
- Low profile
BA RECOMMENDATIONS TO IMPROVE PE INVESTING

- Business Angel Club
  - Improve deal flow
  - Develop a deal database
    - Identify success & failures
  - Do bigger deals
  - Spread the risk
  - Better due diligence

- VC Association
RECOMMENDATIONS (CONTINUED)

- Better entrepreneurship program coordination and alignment across ministries and among three government levels.
- Education institutions take role in the entrepreneurship research and development
  - Use alumni to support student enterprise development
  - Research on the promising sector for growth
  - Improve teaching method by using more case studies
  - Develop youth entrepreneurship support service center
RECOMMENDATIONS (CONTINUED)

- Better institutions
  - Improve political stability
  - Improve corporate governance
  - Reduce corruption/red tape
  - More equitable legal system for SMEs

- Improve the investment climate
  - Protect foreign and domestic investors
  - Public/private funds for start-ups
THANK YOU