



Indonesian Entrepreneurs' Barometer 2004 (First Paper of Two)

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ABSTRACT

This year, for the first time, Ernst & Young Indonesia and School of Business and Management (SBM), Bandung Institute of Technology (ITB) conducted Indonesian Entrepreneurs' Barometer survey. This first Indonesian Entrepreneurs' Barometer, surveyed Indonesian entrepreneurs to get the views of entrepreneurs who are qualified as outstanding amongst their peers. Survey respondents were selected by Ernst & Young Indonesia panels. The survey covers motivations, future plans and perceptions about Indonesian business environment. The results are presented in four sub-chapters under the following title: "Successful Entrepreneurs and their Business", "Funding & Wealth Realization", "Entrepreneur's Outlook" and "Business Environment". This paper covers the first two chapters.

Introduction

Entrepreneurs are exceptional people who help in creating part of the world's most dynamic businesses. They are a source of innovation and they stimulate the economic growth throughout the world.

This year, for the first time, Ernst & Young Indonesia and the School of Business and Management (SBM) of the Bandung Institute of Technology (ITB) conducted an Indonesian Entrepreneurs' Barometer survey. This first Indonesian Entrepreneurs' Barometer surveyed Indonesian success entrepreneurs who are qualified as outstanding among the peers. The aim of the survey is to provide a better understanding on the Indonesian entrepreneurial background and to help in providing a foundation for discussion among entrepreneurs, entrepreneurship experts, governments and policy makers.

The survey consisted of 53 questions, which were adapted from a similar survey conducted by Ernst & Young Australia. The survey asked about their motivations, future plans and perceptions regarding Indonesian business environment.

Survey respondents were selected by a panel from Ernst & Young Indonesia and they represent the best of the very best of Indonesian entrepreneurs. In total 100 entrepreneurs were surveyed and 35 responses were received. The data were processed using descriptive statistics and cross tabulation.

Certain findings, such as the importance of strong entrepreneurial vision and the ability to plan the path for achieving their visions, seem to confirm our hypothesis on what yields successful entrepreneurs. Other findings, such as the importance of long term planning and strategy surprise and challenge some common views about genuine entrepreneurship.

The Indonesian political and economic conditions provide unique challenges for Indonesian entrepreneurs. On the other hand, the Indonesian population, which is about 10 percent of the world's population, can be considered as a significant potential market. There all challenges Indonesian entrepreneurs to be more dynamic in overcoming political and economic conditions, and in many cases to grow businesses with less access to the level of funding that many of their foreign competitors have. Combined with the rapid acceleration in information technology and the commoditization of global markets, these factors suggest that to succeed, Indonesian entrepreneurs need to be more innovative, faster and more focused than ever before.

Structure of the Report

This report consists of four chapters:

1. Successful Entrepreneurs and their Business. This part covers entrepreneur's motivation, entrepreneur's vision and strategy, entrepreneur's management style, the role of technology on business & entrepreneur's

education and experience

2. Funding and Wealth Realization. This part covers funding hurdles, the use of funds & wealth realization and succession plan

3. Entrepreneur's Outlook. This part covers entrepreneur's business, economy outlook and business outlook

4. Business Environment. This part covers Indonesian culture, entrepreneur's family, government supports & university supports

This paper covers the first two chapters of the report.

1. Successful Entrepreneurs and their Business

1.1. Entrepreneur's Motivation

Many people choose to be self-employed because they see an opportunity to improve their lifestyle when the business environment is buoyant. A true entrepreneur spot an opportunity as well as a vision of the future that such an opportunity can offer. A successful entrepreneur has the ability to plan a path to achieve his vision and to manage risks along the way to achieve sustainable profitability.

Respondents were asked to select their most important motivation in becoming an entrepreneur, and subsequently, what it was that continued to motivate them. 28 percent of the respondents (56 percent) saw their original motivation as 'to create a business' (Table 1.1). Contrary to some community perceptions the most obvious answer, 'to generate wealth', was not the top reason;

Table 1.1 Motivation to Become an Entrepreneur

No	Motivation	Original	Current	Direction of Changed
1	Create a business	28%	20%	↓
2	Commercialize an idea	18%	22%	↑
3	Generate wealth	18%	12%	↓
4	Manage a team of people	17%	22%	↑
5	Social responsibility	14%	21%	↑
6	Others	5%	1%	↓

For most successful entrepreneurs, the drive to "commercialize an idea", "manage a team of people" and "social responsibility" came after their vision had become a reality. Asked about their current ambitions, about 65 percent of successful entrepreneurs nominated those three factors as their main motivation. Interestingly for many entrepreneurs (20 percent), the vision of "creating a business" remains a key motivational factor even after they achieved their success. These entrepreneurs feel their vision is not yet complete, and that there is yet more to achieve.

1.2. Entrepreneur's Vision and Strategy

Vision reduces risks that are created by uncertainty and without vision, business becomes uncertain and the success is left to the chance. However, with a clear vision, focus is refined and an entrepreneur is set on a path towards achievement.

When asked to nominate what they view as their greatest contribution to their business, the majority of successful entrepreneurs believe that the greatest contribution to their business is their "ability to see the big picture" or in other word they "have the vision" (Figure 1.1). Successful entrepreneurs have a strong view about what they want their future to be and for many of them this clearly becomes a self-fulfilling prophecy. In contrast to common perceptions, successful entrepreneurs admit managerial skills are generally not a strong point. Only 14 percent surveyed said people skills were their biggest contribution to the business.

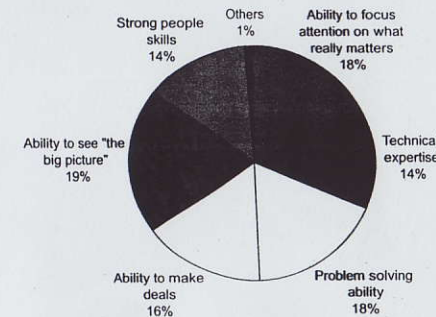


Figure 1.1 The Greatest Contribution to the Organization

A strong vision is an essential part of entrepreneurship but successful entrepreneurs are also required to have the ability to plan the journey towards achieving their vision. The survey found that 24 percent of successful entrepreneurs nominated "effective strategy" as the key factor in the success of their business (Figure 1.2).

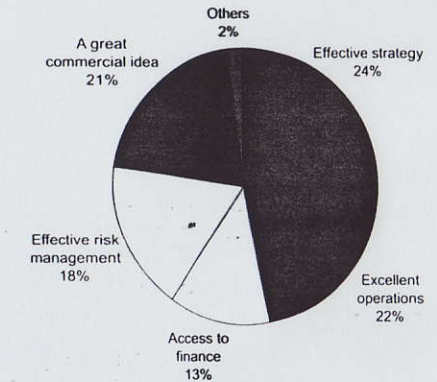


Figure 1.2 The Most Instrumental Factor to the Growth of the Business

Furthermore, how their business differentiates themselves from their competitors is very important for supporting their vision and strategy. The "quality of service or product pricing" and "innovative products" gives the greatest contribution to such business differentiation (Figure 1.3).

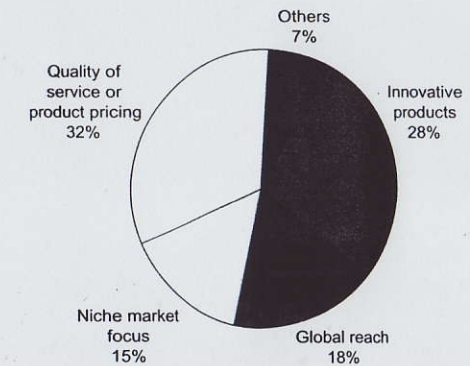


Figure 1.3 The Business Differentiation from the Competitors

1.3. Entrepreneur's Management Style

Although entrepreneurs are the creators of their business, it doesn't necessarily mean that they play a key role in the ongoing decision-making process. In fact, the survey found that only 8 percent of successful entrepreneurs make most decisions on the business themselves, while 40 percent are willing to take advice from others but always keep the final decisions for themselves and 52 percent indicated they were comfortable letting other managers or stakeholders make all or most significant decisions (Figure 1.4). One of the innovative aspects common to successful entrepreneurs is the ability to pick the brains of people that bring a different set of experiences to the vision, strategy and operations of the business

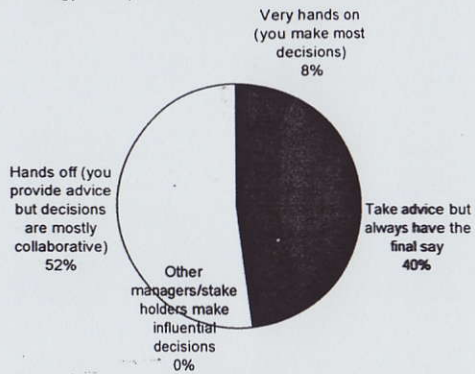


Figure 1.4 Entrepreneur's Management Style

The majority of entrepreneurs with diplomas and senior high school educational backgrounds tend to take advice before making decisions, while entrepreneurs with higher education tend to be "hands off" (Table 1.2). They tend to just provide advice, but delegate the final decision to their subordinate.

Table 1.2 Entrepreneur's Management Style Based on Educational Qualifications

Motivation	Diploma + Senior High School	Undergraduate + Graduate
Very hands on (you make most decisions)	8%	8%
Take advice but always have the final say	50%	31%
Other managers/stakeholders make influential decisions	0%	0%
Hands off (you provide advice but decisions are mostly collaborative)	42%	62%

The majority of entrepreneurs who have less than 1000 employees tend to take advice before taking decisions, while entrepreneurs who have more employees tend to be "hand off" the decisions (Table 1.3). The bigger the company is, the more difficult it is for the entrepreneurs to take all decision by themselves. Therefore, they tend to just give advice, while delegating the final decision to their subordinates.

Table 1.3 Entrepreneur's Management Style Based on the Number of Employees

Motivation	1000 or less	Over 1000
Very hands on (you make most decisions)	17%	0%
Take advice but always have the final say	50%	31%
Other managers/stakeholders make influential decisions	0%	0%
Hands off (you provide advice but decisions are mostly collaborative)	33%	69%

Therefore, the most significant internal challenge nominated by successful entrepreneurs for their business over the next financial year is attracting and retaining high quality staff (Figure 1.5).

Entrepreneurs appreciate the fact that they don't have all the answers and intuitively seek to develop great teams of people to help bring their dreams into reality. Finding and retaining sufficient key personnel is therefore the key challenge.

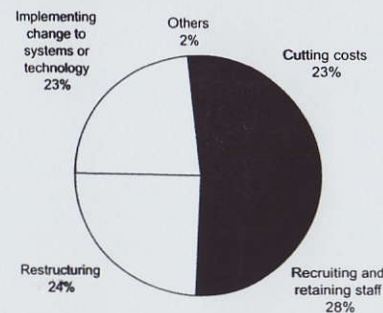


Figure 1.5 The Most Important Internal Challenge for the Business over the Next Year

1.4. The Role of Technology on Business

None of the respondents says that there is no benefit of technology within their business. However the value which they put on technology within their business varies (Figure 1.6). 42 percent of them say that technology is important to the success of their business.

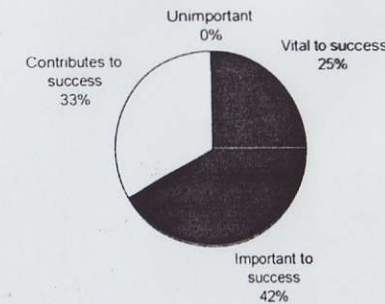


Figure 1.6 The Value which Entrepreneurs Place on Technology within Their Business

The entrepreneurs who are younger than 45 years tend to value the technology higher than the entrepreneurs who are older than 45 years (Table 1.4). The young generations are more familiar with technology and recognize its contribution to their business. They tend to implement technology widely and take the benefit from them.

Table 1.4 The Value which Entrepreneurs Put on the Role of Technology on Their Business Based on Respondent Age

Option	26-35 years	36-45 years	46-55 years
Vital to success	33%	33%	11%
Important to success	50%	44%	33%
Contributes to success	17%	22%	56%
Unimportant	0%	0%	0%

Although the entrepreneurs see that technology bring benefit to their success, only 36 percent of them put more than 5 percent of their total expenses for research and development (Figure 1.7). They concern less on the contribution of development of new products and improvement of existing products on their business.

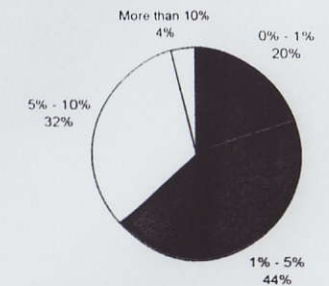


Figure 1.7 Percentage of the Company's Total Expenses for Research & Development

Entrepreneurs with undergraduate or graduate educational background tend to spend more money for research and development (Table 1.5). Their formal education give them knowledge about the importance of research and development for the long term sustainability.

Table 1.5 Percentage of the Company's Total Expenses for Research & Development Based on the Respondent Educational Background

Option	Diploma + Senior High School	Undergraduate + Graduate
0% - 1%	25%	15%
1% - 5%	50%	38%
5% - 10%	17%	46%
5% - 10%	8%	0%

1.5. Entrepreneur's Education and Experience

The survey found many successful entrepreneurs share common characteristics including the findings that:

- 100 percent of the successful entrepreneurs surveyed are over 35 years old (Figure 1.8). This means that Indonesian entrepreneurs achieve their peak of success at a mature age after they have been running their business for a number of years.

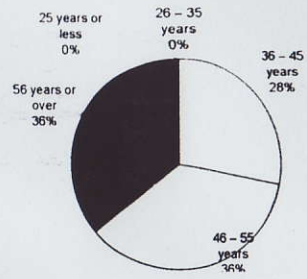


Figure 1.8 Entrepreneur's Age

2. 80 percent of the successful entrepreneurs surveyed have operated in business for more than 15 years (Figure 1.9). They demonstrate tenacity and endurance and have a proven track record in growing their businesses through both adverse and buoyant markets. They have built a business for the long term, around basic fundamentals of sustainable profitability and measured risk taking.

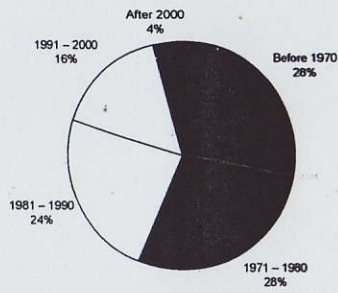


Figure 1.9 The Year when the Business was Established

3. 52 percent of the successful entrepreneurs surveyed have completed undergraduate and graduate study (Figure 1.10). This shows that the educational levels of successful entrepreneurs vary and that their success doesn't solely depend only on their education level. However successful Indonesian entrepreneurs are more highly educated than the average Indonesian people.

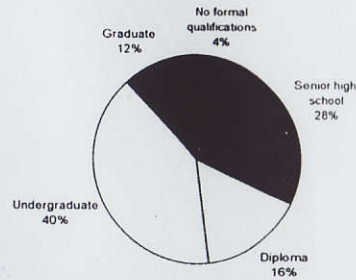


Figure 1.10 Entrepreneurs's Educational Backgrounds

2. Funding and Wealth Realization

2.1. Funding Hurdles

One of the most demanding challenges an entrepreneur faces is the source of funds to start and grow the business. Conversely, an established fast growing business finds it is easier to attract funds. The survey found that funding is the most significance challenge faced by successful entrepreneurs (24 percent) at the start up period, but once the business has been established the challenge continued to be significant for only 16 percent of successful entrepreneurs (Table 2.1). For an established business, the biggest challenge shifts to finding the right people/partners (22 percent) & bureaucracy (21 percent).

Table 2.1 Entrepreneur's Biggest Challenge

No	Challenge	Original Challenge	Current Challenge	Direction of Changed
1	Funding	24 %	16 %	↓
2	Bureaucracy	17 %	21 %	↑
3	Poor work/life balance	11 %	15 %	↑
4	Finding the right people/partners	19 %	22 %	↑
5	Unpredictable income	14 %	10 %	↓
6	Unable to sell product/ service	12 %	12 %	=
7	Others	3 %	5 %	↑

Funding is a major issue for entrepreneurs, with 72 percent of the respondents raising significant funds within the past two years and 84 percent planning to raise funds over the next two years (Table 2.2). This finding is consistent with the entrepreneur's expectations for increases in revenue, where many of

them have raised significant funds to be able to finance that growth. Even 12 percent of the entrepreneurs who have not raised funds for their business in the past two years, are planning to raise funds for their business over the next two years.

Table 2.2 Funds which Were Raised in the Past Two Years and over Next Two Years

No	Raises Fund	Fund Raised Past Two Years	Fund Raised Next Two Years
1	Yes	72%	84 %
2	No	28%	16%

This change of behavior, especially came from the entrepreneurs who younger than 35 years. They have not raised funds for their business in the past two years, but they are planning to raise funds for their business over the next two years (Table 2.3).

Table 2.3 Funds which Were Raised in the Past Two Years and over Next Two Years Based on Respondent Age

Option	26-35 years		36-45 years		46-55 years	
	Past Two Years	Next Two Years	Past Two Years	Next Two Years	Past Two Years	Next Two Years
Yes	43%	86%	78%	89%	89%	78%
No	57%	14%	22%	11%	11%	22%

32 percent of entrepreneurs who have raised funds for their business in the past two years, raised more than Rp. 50 billion, while other entrepreneurs raised less than Rp. 50 billion (Figure 2.1)

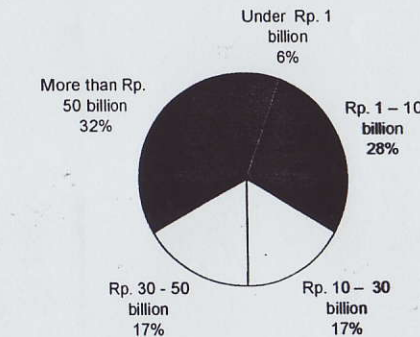


Figure 2.1 Amount of Funds Raised in Past Two Years

The size of the company influences the amount of funds raised by entrepreneurs. The company which has more than 1000 employee tends to raise bigger funds (Table 2.4).

Table 2.4 Amount of Funds Raised in Past Two Years Based on the Number of Employee

Option	1000 or less	Over 1000
Under Rp. 1 billion	0%	9%
Rp. 1 - 10 billion	83%	0%
Rp. 10 - 30 billion	0%	18%
Rp. 30 - 50 billion	0%	27%
More than Rp. 50 billion	17%	45%

Early stage funding is difficult to come by for start up businesses, forcing entrepreneurs to rely on traditional methods of raising funds via bank loan (Table 2.5). Recently, bank loan has been a ready available resource in Indonesia. Low interest rates means that bank loan is a relatively cheap way to fund business growth. By contrast, Indonesian global equity and venture capital markets are not strong, although they are now showing signs of improvement. For these reasons it is not surprising that businesses tend toward traditional bank loan as their source of funding.

While obtaining funding is necessary for growth, successful entrepreneurs understand the value of control over their business. The preference for bank loan as the funding source also shows the reluctance of successful entrepreneurs to relinquish control of their business as a result of raising funds through equity issues.

Table 2.5 Sources of Funding

No	Sources of Funding	Past Two Years Sources of Funding	Preferred Sources of Funding	Direction of Changed
1	Capital markets	19 %	46 %	↑
2	Private investors	7 %	7 %	=
3	Bank debt	44 %	18 %	↓
4	Venture capital/private equity	0 %	11 %	↑
5	Family	15 %	7 %	↓
6	Others	15 %	11 %	↓

However, nowadays the use of capital markets as source of funding is growing. The entrepreneurs become more familiar toward these sources of funding, in addition to the traditional one, bank loan.

Table 2.5 also shows that a capital market was the preferred source of funding for 46 percent for entrepreneurs followed by bank loan (18 percent). Capital market tends to be a favored and trusted source of funding in Indonesia as further working capital is needed in the more mature stages of the company's lifecycle

The companies, which were established after 1970, tend to borrow money from the bank as their sources of funding in the past two years. However, this behavior will change. Capital market is the most preferred sources of funding for the company, which is established before 1990 (Table 2.6). While venture capital is the most preferred sources of funding for the company, which is established after 1990. Nowadays, venture capital is less widely used but it is growing.

Table 2.6 Sources of Funding in Past Two Years and Preferred Sources of Funding Based on the Time When the Business Was Established

Option	Before 1970		1971-1990		After 1990	
	Past Two Years	Preferred	Past Two Years	Preferred	Past Two Years	Preferred
Capital markets	20%	45%	15%	64%	33%	20%
Private investors	10%	9%	0%	0%	0%	0%
Bank debt	20%	18%	52%	18%	67%	20%
Venture capital/private equity	0%	9%	0%	0%	0%	40%
Family	20%	0%	15%	18%	0%	0%
Others	30%	18%	8%	0%	0%	20%

2.2. The Use of Funds

Different types of businesses offer different ways to grow. Because entrepreneurs operate in various field and type of businesses, each of them faces a unique set of growth opportunities. To gain insight into the growth path favored by entrepreneurs in different industries, the survey asked them to nominate how they planned to use additional funds raised. 91 percent of successful entrepreneurs that indicated they intended to raise capital said that the funds would be used for organic growth rather than acquiring other businesses (Figure 2.2).

This indicates a strong belief in their own business models

Model and sees most opportunities in growing it rather than acquiring the business model of a competitor or

partner. It also suggests recognition that growth by acquisition presents integration challenges, alongside rapid growth potential, which can increase the risk profile of that growth strategy.

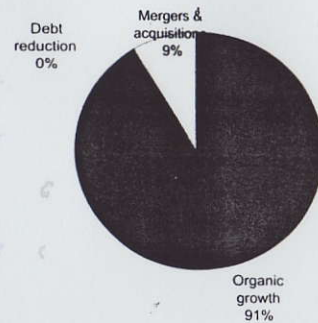


Figure 2.2 Entrepreneur's Expectation to Use the Additional Fund

2.3. Wealth Realization & Succession Plan

Many successful entrepreneurs nominate wealth creation as a key motivational factor. More than 50 percent of successful entrepreneurs indicated they planned to realize their wealth over the next year (Figure 2.3). Interestingly, 12 percent indicated they had no intention of realizing their wealth.

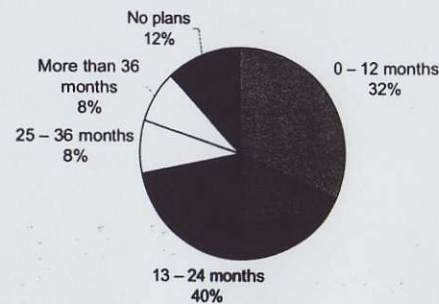


Figure 2.3 Time to Achieve Wealth Realization

The younger entrepreneurs plan to achieve wealth realization faster than the older entrepreneurs (Table 2.7). They would like to create a new business or expand their existing business, therefore they hope to get source of funds.

Table 2.7 Time to Achieve Wealth Realization Based on Respondent Age

Option	26-35 years	36-45 years	46-55 years
0 - 12 months	57%	33%	11%
13 - 24 months	29%	33%	56%
25 - 36 months	0%	11%	11%
More than 36 months	0%	11%	11%
No plans	14%	11%	11%

The entrepreneurs whose business were established after 1990 plan to achieve wealth realization faster than the business which established before 1990 (Table 2.8)

Table 2.8 Time to Achieve Wealth Realization Based on the Time When the Business Was Established

Option	Before 1970	1971-1990	After 1990
0 - 12 months	43%	23%	33%
13 - 24 months	57%	38%	0%
25 - 36 months	0%	15%	0%
More than 36 months	0%	8%	17%
No plans	0%	15%	17%

Entrepreneurs with undergraduate & graduate educational backgrounds plan to achieve wealth realization faster than the entrepreneurs with diploma & senior high school educational background (Table 2.9)

Table 2.9 Time to Achieve Wealth Realization Based on the Respondent Educational Backgrounds

Option	Diploma + Senior High School	Undergraduate + Graduate
0 - 12 months	25%	38%
13 - 24 months	50%	31%
25 - 36 months	8%	8%
More than 36 months	8%	8%
No plans	8%	15%

Figure 2.4 shows that the entrepreneurs who had considered an exit strategy nominated a public listing as the most likely path to wealth realization (68 percent), followed by a trade sale (16 percent), then sale to current management (4 percent) as well as liquidation of business (4 percent).

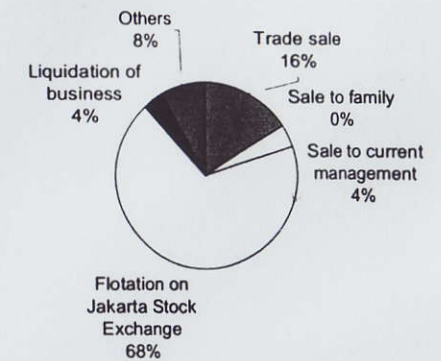


Figure 2.4 Preferred Path to Wealth Realization

The majority of successful entrepreneurs (96 percent) indicated they preferred not to realize all their wealth and 83 percent said they would prefer to keep majority control to their business (Figure 2.5).

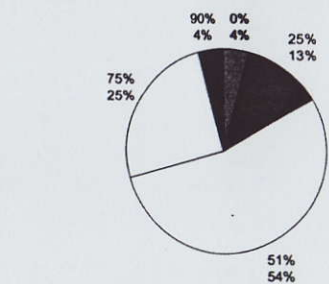


Figure 2.5 Preferred Number of Equity to be Retained

However, in the event of wealth realization, the entrepreneur would prefer to retain different number of equity. This difference is influenced by the number of employee (Table 2.10). The company with less than 1000 employee tend to retain bigger number of equity than the company with more than 1000 employee.

Table 2.10 Preferred Number of Equity to be Retained Based on the Number of Employee

Option	1000 or less	Over 1000
0%	20%	0%
25%	20%	15%
51%	0%	54%
75%	40%	31%
90%	20%	0%

The survey also found that many successful entrepreneurs already have a succession plan in place (48 percent) while 40 percent indicated that a plan was in development (Figure 2.6).

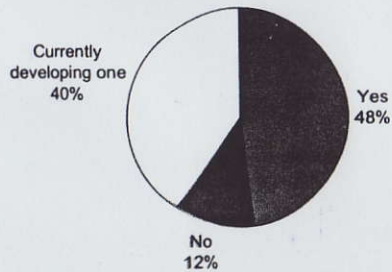


Figure 2.6 A Succession Plan in Place for Entrepreneur's Business

Majority of entrepreneurs who older than 46 years already have a succession plan in place for their business (Table 2.11) While majority of entrepreneurs who younger than 35 years still don't have a succession plan. The age of 35 is turning point for Indonesian entrepreneurs to start prepare their successor

Table 2.11 A Succession Plan in Place for Entrepreneur's Business Based on Respondent Age

Option	26-35 years	36-45 years	46-55 years
Yes	29%	33%	100%
Currently developing one	14%	67%	0%
No	57%	0%	0%

In line with entrepreneur's age, the entrepreneur's educational backgrounds also influence entrepreneurs succession plan. Majority of entrepreneurs who have diploma and senior high school education already have a succession plan in place for their business, while entrepreneurs with undergraduate and graduate education still currently developing the succession plan (Table 2.12).

Table 2.12 A Succession Plan in Place for Entrepreneur's Business Based on the Respondent Educational Backgrounds

Option	Diploma + Senior High School	Undergraduate + Graduate
Yes	75%	23%
Currently developing one	25%	54%
No	0%	23%

Concluding Remarks

The first Indonesian entrepreneur barometer was done to map Indonesian entrepreneur condition and results in some important finding which is on the contrary to the common assumptions and strengthen the common assumption on other things. The overall results can be summarized as:

1. Successful Entrepreneurs and their Business

The survey asked the entrepreneurs to nominate the key motivational factor that led them to embark on the difficult journey towards becoming a successful entrepreneur and then asked if the same factor motivated their current ambitions. The survey found that the "commercialization of an idea" (18 percent) and "wealth creation" (18 percent) were two important triggers for many entrepreneurs but that 28 percent of the respondents said they were originally motivated by the idea of "creating a business". In contrast to common perceptions, the most obvious answer 'to generate wealth' was not the top reason.

The majority of successful entrepreneurs (19 percent) believe the greatest contribution they make to their business is their vision and focus

The most significant internal challenge nominated by successful entrepreneurs for their business over the next financial year is the recruitment and the retaining of high quality staff (28 percent)

All of the successful entrepreneurs surveyed are over 35 years old and over half have operated in business for more than 15 years. This shows the tenacity and endurance of successful entrepreneurs to create and sustain a long-term business

2. Funding and Wealth Realization

When the entrepreneurs were asked how they sourced their capital in the past two years, the survey found that the majority (44 percent) relied on a traditional method such as bank loan, other sources were capital markets (19 percent), and family (15 percent)

Capital markets tends to be a favored and trusted sourced of funding in Indonesia as further working capital is needed in the more mature stages of the company's lifecycle.

The survey indicated that the majorities (91 percent) of successful entrepreneurs believe in the strength of their business models and many prefer to use their funds for organic growth rather than for mergers or acquiring other businesses. This suggests entrepreneur's strong beliefs in their own business model

Most successful Indonesian entrepreneurs have a plan in place to realize wealth from their businesses although most expect to retain a controlling interest.