

Indonesian Entrepreneurs' Barometer 2004 (Second Paper of Two)

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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 last two chapters of the report.

III. Entrepreneur's Outlook

III.1 Entrepreneur's Business

The survey found that successful entrepreneurs are very much involved in their business. Nearly 84 percent of successful entrepreneurs (Figure 3.1) are still actively engaged in the day to day operations of their business; even though many are in a position to step back and enjoy the fruits of their success. This is such an important finding because it shows that successful entrepreneurs are distinguished by their commitment to the vision of a successful business over a long term rather than fast won wealth.

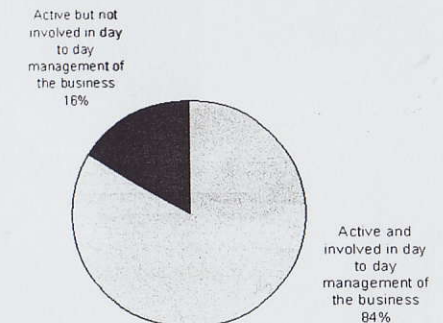


Figure 3.1 Entrepreneur's Current Role in Their Business

It is also important to note that these entrepreneurs are already operating substantial businesses in terms of revenue and employment. 88 percent employ more than 100 people, of which 24 percent employ more than 3000 people (Figure 3.2).

Abstract

This year, for the first time, Ernst & Young (E&Y) Indonesia and School of Business and Management (SBM), Institut Teknologi Bandung (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 4 chapters under the following title: "Successful Entrepreneurs and their Business", "Funding & Wealth Realization", "Entrepreneur's Outlook" and "Business Environment". The second paper covers the last 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 (E&Y) Indonesia and the School of Business and Management (SBM), Institut Teknologi Bandung (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.

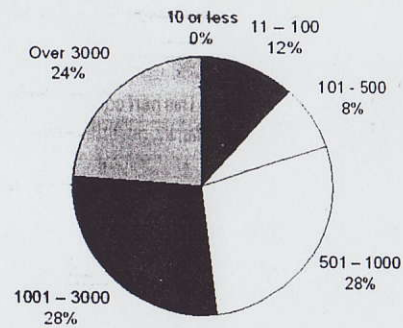


Figure 3.2 Numbers of People Currently Employed by The Business

96 percent of the business has the annual turnover in the last financial year more than Rp. 10 billion, of which 64 percent has the annual turnover more than Rp. 100 billion (Figure 3.3).

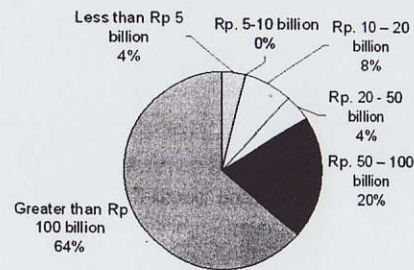


Figure 3.3 Size of Business by Revenue

III.2 Economy Outlook

Majority of the entrepreneurs say that the most important external challenge for the business over the next year is general economic conditions (Figure 3.4). Indonesian general economic condition depends on the Indonesian political stability. In 2004, for the first time in the Indonesian history, Indonesian people give their vote directly to elect President and Vice President in addition to elect parliament member. They see there is uncertainty whether the general election will be going smoothly, without any conflict. Furthermore, the

presiden who was elected really influences the economic policy.

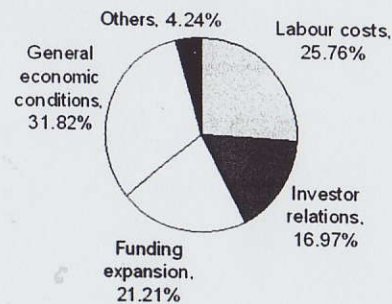


Figure 3.4 The Most Important External Challenge for the Business over the Next Year

Figure 3.5 shows that 80 percent of Indonesian entrepreneurs are optimistic about the Indonesian economy for the next 12 months. They believe that next year's Indonesian economy will be more conducive for doing business than the current situation

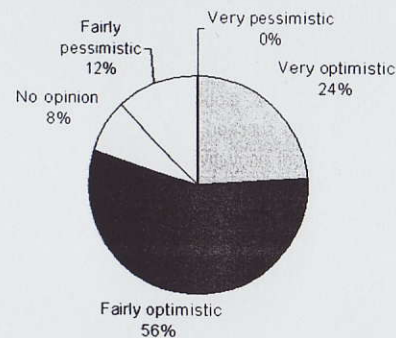


Figure 3.5 Entrepreneur's Optimism about the Indonesian Economy for the Next 12 Months

The majority of entrepreneurs who establish their business before 1990 (Table 3.1) are less optimistic than the entrepreneurs who establish their business after 1990. Their long experiences in doing business in Indonesia make them be careful for predicting Indonesian economic condition.

Table 3.1 Entrepreneur's Optimistic Based on the Time When the Business Was Established

Option	Before 1970	1971-1990	After 1990
Very optimistic	11%	21%	67%
Fairly optimistic	86%	46%	0%
No opinion	0%	8%	33%
Fairly pessimistic	0%	21%	0%
Very pessimistic	0%	0%	0%

The majority of entrepreneurs who have less than 1000 employees (Table 3.2) are more optimistic than entrepreneurs who have more than 1000 employees.

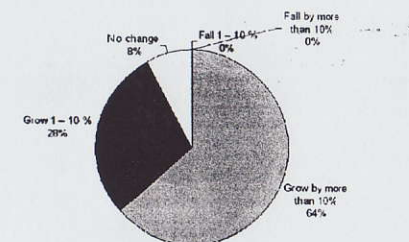
Table 3.2 Entrepreneur's Optimistic Based on the Number of Employees

Option	1000 or less	Over 1000
Very optimistic	55%	0%
Fairly optimistic	27%	85%
No opinion	0%	8%
Fairly pessimistic	18%	8%
Very pessimistic	0%	0%

III.3 Business Outlook

Respondents demonstrate a high level of business optimism. A large majority forecasts a significant growth in revenue, 64 percent of entrepreneurs forecast the growth more than 10 percent per year (Figure 3.6). These growth rates are considerably greater than the national averages, reinforcing the entrepreneur as a critical driver of national growth and wealth creation. Although successful entrepreneurs do not pursue growth at the expense of profits, growth ambitions are a characteristic of most successful Indonesian entrepreneurs.

Figure 3.6 Expectations of Growth



The majority of entrepreneurs who are older than 45 years tend to be less optimistic than the younger entrepreneurs. 56 percent of them predict that their revenue will only grow between 1 - 10 percent in the next year (Table 3.3). The younger entrepreneurs tend to set the target higher since they have great ambition for realizing their target.

Table 3.3 Expectations of Growth Based on Respondent Age

Option	Less than 35 years	36-45 years	More than 45 years
Grow by more than 10%	86%	67%	44%
Grow 1-10%	0%	22%	56%
No change	14%	11%	0%
Fall 1-10%	0%	0%	0%
Fall by more than 10%	0%	0%	0%

Majorities of entrepreneurs say that the most important competitive challenge for their business over the next year is better marketing of the existing products (Figure 3.7). They tend to focus for improving their existing products/services to win the customer rather than to diversify their products/services. They also confident that their existing product can compete with their competitor from overseas

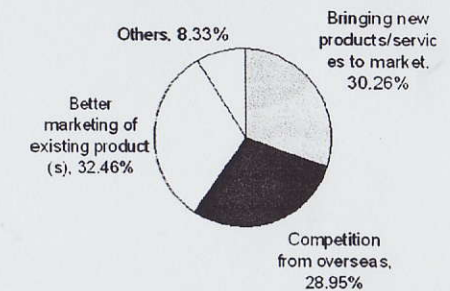


Figure 3.7 The Most Important Competitive Challenge for the Business for the Next 12 Months

The survey (Table 3.4) found that 67 percent of Indonesian entrepreneurs are still playing in the national & regional markets, while they expect to shift their market from national and global markets to Asia Pacific markets in the next two years. They see the bigger opportunity in Asia Pacific market than in national and global market.

1. TOTAL	4%	4%	-
2. NATIONAL	4%	4%	0
3. REGIONAL	25%	34%	-
4. INTERNATIONAL	4%	31%	6
5. GLOBAL	25%	17%	0

Table 3.4 The Current Reach and The Next Two Years Reach of Entrepreneur's Market

44 percent of the entrepreneurs say that they will need to undergo a corporate restructuring within the next two years in order to achieve its growth ambitions. They see their company need to be restructured for improving its efficiency. While 16 percent of the entrepreneurs are still unsure whether they will do corporate restructuring or not (Figure 3.8).

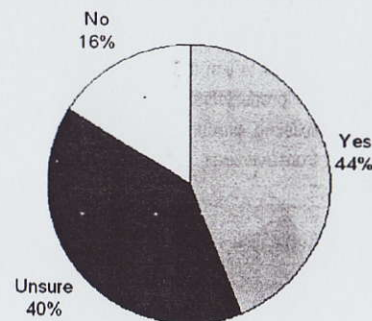


Figure 3.8 The Need of the Business to Undergo A Corporate Restructurization within the Next Two Years in Order to Achieve Its Growth Ambitions

The majority of entrepreneurs with diploma and senior high school educational background will need to undergo a corporate restructuring while majority of entrepreneurs with undergraduate and graduate educational background still unsure (Table 3.5). The entrepreneurs with undergraduate and graduate educational background tend to take into account many considerations to decide for doing a corporate restructuring.

Table 3.5 The Need of the Business to Undergo A Corporate Restructurization Based on the Respondent Educational Background

Option	Diploma + Senior High School	Undergraduate + Graduate
Yes	58%	31%
Unsure	25%	54%
No	17%	15%

The majority of entrepreneurs who have more than 1000 employees will need to undergo a corporate restructuring while majority of entrepreneurs who have less than 1000 employees are still unsure (Table 3.6). The entrepreneurs who have more than 1000 employees feel that they need to improve the efficiency of their company; therefore they implement a corporate restructuring.

Option	1000 or less	Over 1000
Yes	44%	54%
Unsure	56%	38%
No	0%	8%

Table 3.6 The Need of the Business to Undergo A Corporate Restructurization Based on the Number of Employees

IV. Business Environment

IV.1 Indonesian Culture

Entrepreneurial activity breeds better entrepreneurs but sadly Indonesia lacks the cultural support that presents entrepreneurship as a desirable career choice.

One of the disappointing findings from the survey is that the majority of successful entrepreneurs (48 percent) believe the Indonesian culture actually discourages entrepreneurship, perhaps due to a general not acceptance of risk taking and business failure (Figure 4.1).

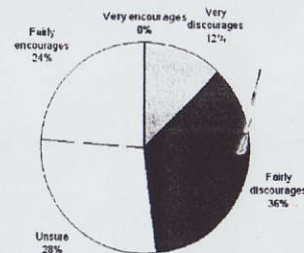


Figure 4.1 Indonesian Cultural View about Entrepreneurships

While the majority of old generation thinks that Indonesian culture fairly discourages entrepreneurship, the young entrepreneur generation chooses to have neutral opinion about it (Table 4.1). This imply that there is shift in Indonesian culture about their appreciation toward entrepreneurs.

Table 4.1 Indonesian Cultural View about Entrepreneurships based on Respondent Age

Option	26-35 years	36-45 years	46-55 years
Very discourages	20%	11%	0%
Fairly discourages	11%	33%	56%
Unsure	43%	33%	11%
Fairly encourages	11%	22%	33%
Very encourages	0%	0%	0%

Entrepreneurs with diploma or senior high school education background think that Indonesian culture discourages entrepreneurship, while their colleague with undergraduate or graduate education background choose to stand in neutral position. (Table 4.2)

Table 4.2 Indonesian Cultural View about Entrepreneurships based on the Respondent Educational Backgrounds

Option	Diploma + Senior High School	Undergraduate + Graduate
Very discourages	8%	15%
Fairly discourages	58%	15%
Unsure	17%	38%
Fairly encourages	17%	31%
Very encourages	0%	0%

The survey found that 58 percent of successful Indonesian entrepreneurs believed the community did not appreciate their contributions. (Figure 4.2) As a community, Indonesia needs to accept that risk is a part of business and that successful entrepreneurs are very good at assessing risk and turning it into opportunity. Entrepreneurship is not about getting rich quick, it's about taking measured calculated risks that allow a business to exploit opportunities and grow quickly.

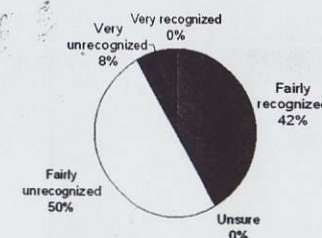


Figure 4.2 Recognition toward Entrepreneurs Contributions

The interesting result is shown for company with less than 1000 employee. They think that the entrepreneur's contributions make to the economy are fairly recognized in Indonesia (Table 4.3). While the company with more than 1000 employee think another way around.

Table 4.3 Recognition toward Entrepreneurs Contributions based on the Number of Employee

Option	1000 or less	Over 1000
Very recognized	0%	0%
Fairly recognized	64%	23%
Unsure	0%	0%
Fairly unrecognized	27%	69%
Very unrecognized	9%	8%

This lack of social acceptability of entrepreneurship in Indonesia can be caused of several reasons: general community misunderstanding, a cultural aversion to risk, fear of change and the inability to view an unsuccessful attempt as anything but a failure.

Business failure is a fact of life. As a community, Indonesia needs to accept that risks is a part of business and that successful entrepreneurs are very good at assessing risk and turning it into opportunity. Entrepreneurship is not about getting rich quick, it's about taking measured calculated risks that allow a business to exploit opportunities and grow quickly.

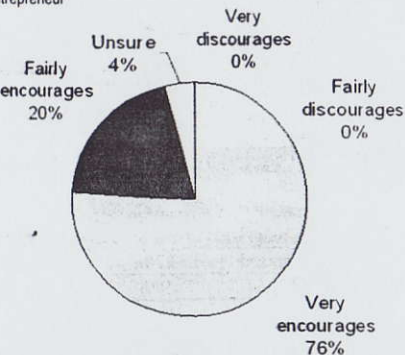
Furthermore, the culture, which place government officer (priyayi) higher social status level than other professions (includes entrepreneurs), should be shift. All of the profession, either government officer, private employee, professional or entrepreneurs should be seemed in the same level of profession. It is not a matter of higher or lower level, but it is the matter of life choice.

IV.2 Entrepreneur's Family

The paradox emerging from the survey is that successful entrepreneurs exist in an environment that discourages entrepreneurship, yet they love their job and would recommend it to anyone. Although many

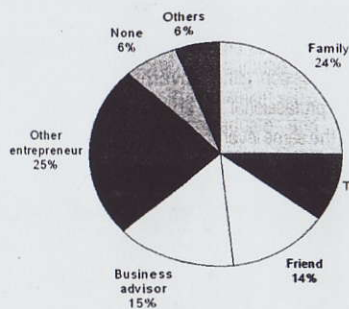
entrepreneurs do not believe the Indonesian culture supports entrepreneurship, they (76 percent) see it as a very rewarding career choice and encourage family and friends to walk the same path (Figure 4.3).

Figure 4.3 Entrepreneurs Encourages Family & Friend to Become an Entrepreneur



Entrepreneurs inspire others to succeed in a world that is increasingly competitive. The survey found that entrepreneurship in Indonesia is clearly nurtured by Indonesian entrepreneurs. Others entrepreneur & family are the most influential mentor for Indonesian entrepreneurs. Asked to nominate their most influential mentor, 25 percent of successful entrepreneurs said other entrepreneurs played that role with the next most influential mentor coming from within the family (Figure 4.4).

Figure 4.4 The Most Influential Mentor



IV.3 Government Support

The survey found that the majority of successful Indonesian entrepreneurs are unhappy with the level of Government support for entrepreneurial businesses in Indonesia. Here in Indonesia, 48 percent of the respondents say they do not consider the Central Government is doing enough to encourage entrepreneurial business (Table 4.4). Local Government doesn't support fared better in the eyes of entrepreneurs than Central Government support. Majority of entrepreneurs thinks that the Local Government is generally not supportive of entrepreneurial business.

Table 4.4 Government Support

Option	Central Government	Local Government
1 Yes	26%	21%
2 No	48%	46%
3 Unsure	26%	33%

The interesting result came up from the entrepreneurs with diploma & senior high school education background. Majority of them thinks either government support entrepreneurs or unsure about the government role (Table 4.5). While their colleague with undergraduate and graduate education background says that both central and local government don't give enough support for the entrepreneurs.

Table 4.5 Government Support based on the Respondent Educational Backgrounds

Option	Diploma + Senior High School		Undergraduate + Graduate	
	Central Government	Local Government	Central Government	Local Government
Yes	45%	36%	8%	8%
Unsure	18%	36%	33%	31%
No	36%	28%	58%	62%

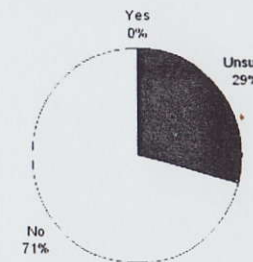
The entrepreneurs who owns company with more than 1000 employee think that both local and central government is generally not supportive of entrepreneurial business, while entrepreneurs who own company with less than 1000 think either government give enough support for entrepreneur or unsure about government support (Table 4.6)

Table 4.6 Government Support based on the Number of Employee

Option	1000 or less		Over 1000	
	Central Government	Local Government	Central Government	Local Government
Yes	11%	50%	23%	15%
Unsure	57%	50%	14%	48%
No	32%	0%	62%	46%

One of parameters, which can be used to assess government support, is tax system. The majority of entrepreneurs think that Indonesia's business tax system is not fair for entrepreneurs (Figure 4.5)

Figure 4.5 Indonesia Business Tax System Fairness



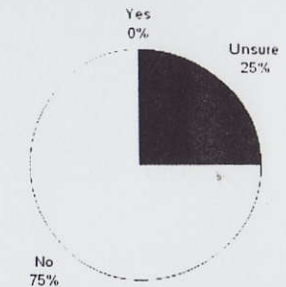
The entrepreneurs who own company with more than 1000 employees think that Indonesia business tax system is not fair enough. While the entrepreneurs who own company with less than 1000 employees tend to have neutral position regarding business tax system fairness (Table 4.7).

Table 4.7 Indonesia Business Tax System Fairness based on the Number of Employee

Option	1000 or less	Over 1000
Yes	0%	0%
Unsure	100%	23%
No	0%	77%

In addition to tax system unfairness, majority of entrepreneurs also think Indonesia's tax system doesn't offer enough incentives to encourage entrepreneurial business (Figure 4.6).

Figure 4.6 Indonesia's Tax System Encourages Entrepreneurial Business



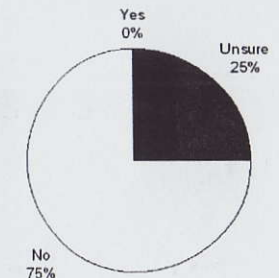
The majority of entrepreneurs with more than 1000 employee, think that the Indonesian tax system doesn't encourages entrepreneurial business, while their colleague with less than 1000 employee, tend to have neutral position regarding the Indonesian tax system (Table 4.8)

Table 4.8 Indonesia's Tax System Encourages Entrepreneurial Business Based on the Number of Employee

Option	1000 or less	Over 1000
Yes	0%	0%
Unsure	100%	15%
No	0%	85%

Furthermore, the majority of entrepreneurs also think that the Government doesn't give enough support for research and innovation in Indonesia (Figure 4.7). It causes the small number of new products are launched in Indonesia compare to the new products which are launched in USA, Europe, Japan even in China and India. In Indonesia, slow but sure, the local brand is losted compare to multinational brand. Furthermore only few local brands can compete in foreign market.

Figure 4.7 Government Support Research & Innovation



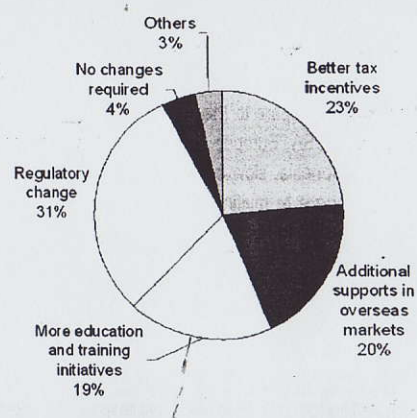
The majority of entrepreneurs who own company with more than 1000 employee think that government don't give enough support for research & innovation, while the entrepreneurs with less than 1000 employee tend to have neutral opinion regarding it (Table 4.9).

Table 4.9 Government Support Research & Innovation based on the Number of Employee

Option	1000 or less	Over 1000
Yes	0%	0%
Unsure	100%	23%
No	0%	77%

The key area identified by entrepreneurs where Government support could improve was regulatory change. A better regulatory change was nominated by 31 percent of entrepreneurs as the best change the Central Government could make to assist entrepreneurs (Figure 4.8). This compared to 23 percent who nominated better business taxation, 20 percent who nominated additional supports in overseas markets, and 19 percent who nominated education and training incentives.

Figure 4.8 The Preferred Government Support

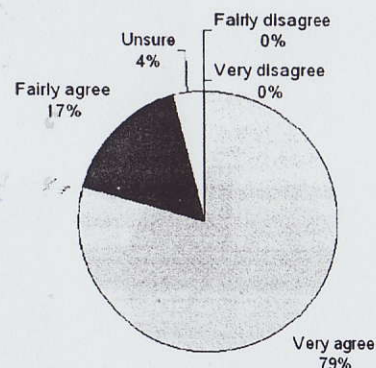


IV.4 University Support

Majority of entrepreneurs support if there are universities or education organizations which focus in

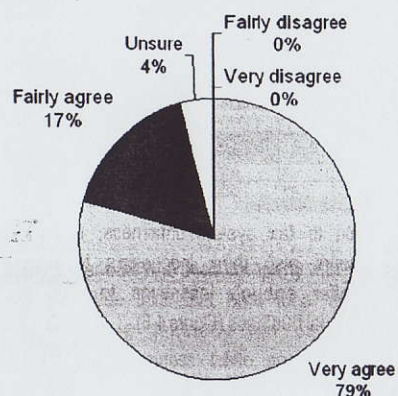
the entrepreneurial development in Indonesia (Figure 4.9). They see the university can encourage their student to become entrepreneurs after they finish their study. Furthermore they think that university can shift the public opinion to encourage entrepreneurs in Indonesia

Figure 4.9 University Support



However they think that the existing education organizations/universities in Indonesia are still unable to produce great entrepreneurs (Figure 4.10). The universities in Indonesia produce more "employees" than "entrepreneurs".

Figure 4.10 University Ability for Producing Entrepreneurs



The entrepreneurs who established their business before 1990 tend to pessimistic that university are able to produce entrepreneurs. While the entrepreneurs who establish their business after 1990 still unsure about it (Table 4.10). The younger generation see there is improvement of university role for enhancing entrepreneurs, but they think it is still not enough.

Table 4.10 University Ability for Producing Entrepreneurs Based on the Time When the Business Was Established

Option	Before 1970	1971-1990	After 1990
Very able	0%	0%	0%
Fairly able	0%	17%	0%
Unsure	0%	23%	67%
Fairly unable	86%	50%	0%
Very unable	14%	8%	33%

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. Entrepreneur's Outlook

Nearly 84 percent of the successful entrepreneurs are still actively engaged in the day to day operations of their business

Indonesian entrepreneurs are optimistic about the future of the economy, and large majorities are forecasting significant growth in revenue numbers well above national averages

29 percent of businesses run by successful Indonesian entrepreneurs were already reaching into Asia Pacific and global markets while nearly 40 percent expect to be selling into a Asia Pacific and global market within the next two years;

2. Business's Environment

The majority of successful entrepreneurs (48 percent) believe that Indonesian culture actually

discourages entrepreneurship. Despite the discouraging environment, an overwhelming number feel rewarded and would recommend a member of their family or a close friend to become an entrepreneur

Entrepreneurs believe the Indonesian Government could provide additional support to entrepreneurs through regulatory change.