

**AN EXPLORATORY INVESTIGATION OF
INFORMAL VENTURE CAPITALISTS IN SINGAPORE**

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ABSTRACT

The paper presents a tentative profile of Singapore's informal venture capitalists (business angels) resulting from case analysis of 29 investee businesses. The inquiry closely referenced the research designs of previous international studies of business angels, but with due regard to the cultural distinctions of Western and Singapore societies, developed its own methodology and survey instrument. While application of inferential statistical techniques is not possible, results of the investigation find their value in their ability to underpin structured hypotheses for future research and the challenge they deliver to traditional ways of thinking about capital provision to new ventures in the Singapore environment.

INTRODUCTION

Resource acquisition is fundamental to the success of every company. It is one of the eight factors of the Dynamic System Planning Model (DSP) proposed by Hendrikson, that every entrepreneur needs to monitor as his/her business grows. (Hendrikson & Psarouthakis, 1992: 1-8). While equity capital is only one resource among many that a venture requires, to most startups it is the most vital. This paper reports an inquiry into the people, sometimes called business angels or informal venture capitalists who provide this most vital of startup resources. The study's objective was to determine, if possible, an initial descriptive 'profile' of Singapore business angels in order to articulate their key attitudes and behaviour with respect to their provision of informal venture capital. The investigation was a modest,

exploratory attempt at augmenting, be it ever so slightly, the growing body of research into business angels undertaken in countries such as the UK, U.S., Sweden, Australia and elsewhere. From the research and theory development points of view, it seemed desirable to at least begin the process of Angel investigation in Singapore, in a way that maximised the comparability of any resultant findings with international Angel research.¹ From a more immediately practical orientation, it was hoped that the study might make a contribution towards creating an environment conducive to developing an angel-entrepreneur introduction service in Singapore.

The general consensus of existing angel research is that the target market is very difficult to identify (Harrison and Mason, 1996: 64). There is no list of angels in local directories. It is unlikely that these people would be interested in being listed as investors. Informal investors are essentially individuals of means and successful entrepreneurs. They are a diverse and dispersed group with a preference for anonymity. The nature of the informal venture capital market in Western cultural milieus has been described as ‘a giant game of hide-and-seek with every one blindfolded’. (Harrison & Mason, 1996: 24). In Singapore, with its predominantly Asian social mores, the game is similar but the blindfolds are blacker. In addition to a strong preference for privacy and anonymity, Singaporeans have developed a well known attitude called ‘kia-su’ - literally translated as ‘afraid to lose’ (Lee & Low, 1990: 191). There is no scope in this paper to describe or explore the social, economic and cultural origins of the ‘kia-su’ attitude among Singaporeans but it is uncontroversial to say that the over reliance on simplistic meritocracy in the various strata of the Singapore society has contributed much towards it. In this context, ‘kia-su’ people tend to withhold information for they fear that others will know more than them or will use the information against them. Given the above scenario, any attempt to obtain personal information from the average Singaporean is bound to be difficult.

¹ Business angels or informal venture capitalists in this paper are defined as non-institutional equity investors who are neither part of the regular management team nor related to any members of the management team in a business. This includes all individuals who at one time or another provide direct equity funding for businesses that are managed by others. While it may be inferred from the results of the investigation presented in this paper that most of these investors are high net worth individuals, the criterion of net worth was not used in the definition of Singaporean Angels (as it is in most Western definitions) as such data was not captured by the survey instrument.

In general, all research surveys on any topic in Singapore suffer from low response rates. Thus, the task of seeking financial information from private investors was deemed 'impossible' by many members of the Singaporean financial community consulted by the researchers at the outset of their study. However, the field is so important that the researchers decided to try to till it, however imperfectly.

The necessity of seeking private equity finance for business ventures is a perennial problem faced by entrepreneurs worldwide. According to Drucker, lack of capital is the 'most crippling ailment of infant enterprises'.(Lee & Low,1991: 199). This global point is supported locally in a study by Tan Chew Suan on Singapore graduate entrepreneurs. It concluded that the lack of capital is the major factor inhibiting startups. (Tan, 1993/1994: 7). In another study by Ghosh, Teo and Low, on the success factors of SMEs, the lack of capital is ranked the number one problem faced by 'emergent businesses'. (Low & Tan: 1996 p 30-43). Although the venture capital industry plays a major role in providing equity financing for businesses, formal venture capital funds have the tendency to move away from startup or early stage ventures (Harrison and Mason, 1996: 6). This tendency appears to be corroborated in the Singapore venture capital industry where it was reported that only 12% of funding goes to seed and early stage projects. (Singapore Investment News, 1996: 2). One of the reasons for this is that the cost of performing due diligence and monitoring may not make it worthwhile for formal venture funds to consider early stage investments. There is considerable evidence from previous studies in U.S., U.K., Canada and Australia that funds from the informal venture capital market are substantial. Singapore Angels exist. Any attempt to describe them is better than none and there are some precedents to help structure an investigation. So, the task was begun.

METHODOLOGY

Research Design Limitations, Referents and Decisions

For reasons discussed in the introduction, Angel research is not a fruitful domain for those who demand elegant inferential statistics employed to develop causal

relationships. It is more often a field where, politely, Timmons says: 'Creative techniques are required to identify and reach [Angels]. Invariably they are found by tapping an entrepreneur's own network of business associates and other contacts.' (Timmons:1994 p 482). Less politely, it is a crude field in an early stage of development where convenience sampling is often a necessity and statistically valid generalisation is nearly always impossible.

A research paper that was specifically chosen as a direct frame of reference for this study was Hindle, Wenban and Jennings (1996). This Australian study attempted to answer three primary questions:

- (i) Who are Australian Business Angels?
- (ii) How do they behave?
- (iii) What are their investment criteria?

Those questions were at the heart of this investigation but, unlike the Australian paper, this study did not use the criteria of net worth or household income to define business angels. In deference to the pronounced cultural differences distinguishing Singapore from Western business environments, this research focused instead on the characteristics of Singapore business angels' *mindset* by emphasizing the process of deal making. It addressed the three primary questions established in the Australian paper, by an approach involving five areas of analysis; (1) defining characteristics - gathering and comparing descriptive data on Singapore's angels; (2) the 'awareness' issue - how does a prospective angel become aware of a prospective deal; (3) the attraction issue - what characteristics of a prospective deal are most appealing; (4) the control & concern issue - what role will an investor want to take in the investee company and (5) description of the characteristics of the actual investments made.

Without access into an extensive personal network, it was difficult for the authors to get a close up profile of business angels in Singapore. This was largely due to the confidential nature of private equity investments. After pilot testing and 'culturally tuning' several investigation techniques and areas of inquiry, the authors chose to refrain from requesting information that was considered too personal. To probe further

than the cultural milieu would permit for information on private income and risked alienating potential respondents. Furthermore, the dynamics of management and ownership in businesses might not have made it worthwhile to do so. The intent was limited and modest. It was, via a convenience sample, to begin explore the mindset and characteristics of Singaporean angels at the stage of their considering an investment opportunity. ‘The trick is to figure out what the devil they think they are up to’. (Neuman, 1997: 335).

Again in deference to an Eastern culture and at the jeopardy of further weakening, in Western eyes, the credibility of a non-random, exploratory study, the prime unit of analysis was not even the Angels themselves. Information about them (see below) came from the entrepreneurs in whose ventures they invested. Singaporeans can accept a profile constructed in this manner, ‘at a respectful distance’, as a realistic appreciation of business angels’ thoughts and actions. The western research tradition may dismiss it as so much hearsay from secondhand sources. One thing which the researchers can attest with confidence is that the environment favouring discretion over disclosure is so potent in informal venture capital in Singapore that it was secondhand or no-hand. Direct access to angels is virtually impossible without family connections.

Given these limitations and differences, the research design was based on the model of the Hindle, Jennings and Wenban (who, in turn, followed the design specification principles recommended by Low and Macmillian for entrepreneurship studies (Hindle, Jennings and Wenban: 184-185). The research was designed to define the profile of business angels in Singapore so as to initiate a formalized understanding of the nature of private equity funding for businesses. This would, it was hoped, help to create the appropriate environment to further enhance the matching process in the informal venture capital market to alleviate the funding crises faced by budding entrepreneurs and SMEs. The research was also designed to complement existing studies done on business angels. The research is descriptive and exploratory in nature. The scope of this paper did not embrace explanation or causation but it was hoped that

its findings might serve as a predicate to theory building on the subject of informal venture capital in Singapore.

Key aspects of the Survey Instrument

The questionnaire that was used as an instrument to survey business angels in Singapore had been extensively modified to suit the local Asian culture. As discussed, questions such as net worth and household income, common in other studies (e.g. Hindle, Wenban and Jennings 1996) were omitted as the indirect approach method could not capture such information. Instead of a 'top down' approach of defining business angels and selectively eliminating those that did not meet the net worth criteria, the questionnaire adopted a 'bottom up' approach. It traced the investments made and then determined the characteristics of the people who made the investments. The emphasis of the questionnaire was to determine the thought process and the actual decision made when these angels were considering investing in a business.

The method adopted in this convenience sample survey was similar to the 'investee introduction method' utilised by Hindle, Wenban and Jennings. The investees were requested to provide their descriptions of the 'business angels' in their business. This required them to provide only verifiable information that were objectively demonstrable. For example age and how much the investor supplied to the venture (available on registration of the investment) were asked but 'guesstimates' as to personal parameters of the investor's more private personal information such as net worth, income and education were not. The pilot phase of this survey revealed that the targeted respondents may not have any business investors in their business but they themselves may be business angels. The definitive survey instrument allowed them the option to complete the questionnaire as business angels. In this way, the survey casts a wider net of qualified respondents. Another aspect of the survey was to identify 'potential investors' by trying to gather how many of the respondents would be interested in investing in a business if presented with a suitable opportunity the opportunity. The approach in this study emphasised actions that had already taken place not respondent intentions.

Data Collection and Analysis Strategy and Execution

After designing the questionnaire, a pilot test was conducted. The questionnaire was given to ten business 'associates of one of the authors (Lee) all of whom had intimate knowledge of equity investors in the Singapore Market. Four questionnaires were returned completed. The fifth associate provided a thorough verbal assessment of the suitability of the questionnaire. After feedback from the associates the questionnaire was modified and made ready for distribution. Prior to sending it, a letter was mass mailed to 574 newly registered businesses and 1,000 established local companies to request their participation in the survey. An incentive in the form of psychological assessment of entrepreneurial characteristics was used to attract more participants for the research. However the responses were not encouraging. There were only 18 replies from the newly registered companies and 20 replies from the established companies. This 2.4% response rate conveys some measure of the enormous difficulties involved in conducting surveys in Singapore. The questionnaire was sent to the 38 positive responders and to another 155 companies from co-author Lee's network of contacts. Of a total of 61 usable responses only 29 had either an equity investor in their business or were themselves private equity investors (2 of these questionnaires were excluded for technical reasons). 32 responses did not fulfill either condition but indicated that they would like to invest if given the opportunity. The tentative profile of Singaporean business angels was thus eventually derived from data supplied by the 27 qualified respondents. These form the main focus of this research. The rest of the 32 responses were used to form an idea of potential business angels.

It is less useful to think of the resultant respondents as a 'sample' than as 59 mini-case studies. Aggregating data analysis can only consist of simple tabulations and frequency and percentage counts. No inferential statistical techniques are valid. Nevertheless, limited as such basic analysis is, it does permit the creation of a tentative profile of Singaporean angels.

FINDINGS

The appendix, provides a suite of graphs which give pictorial form to the profile of Singapore Business Angels described here in words.

Singapore business angels are mostly middle aged with more than 75% falling between 40-59 years of age. Approximately 89% of the business angels are male. Female business angels constitute about 10%. There are three female angels captured in this study. Two of them fall in the 20-30 age group. Racially, most of the business angels are Chinese. Occupationally 72.4% of them are in an entrepreneurial capacity i.e. they are directors or managing directors of their own business. 13.8% are employed by others and 6.9% are professionals.

62% of the business angels knew their entrepreneur for more than 3 years before investing. More than 80% of the investors knew the entrepreneur or the investee for at least a year. The most common source of deals, 76%, came from close friends or from the workplace environment. The majority of the business angels preferred to communicate in English. About 65% of the business angels had invested before and were considered experienced. The requirement for a business plan was not a major consideration: with 58.6% being reported as having a preference for (but not necessarily an insistence upon) a plan and 41.4% being indifferent to it.

Market potential is the most important marketing factor in attracting business angels to invest. This is followed by the 'proven and unique product' factors. Capital gain and the rate of return are considered the two most important financial factors. Tax benefits are considered unimportant by a majority. The exit mechanism factor received mixed results with roughly 38% reported as regarding that it was not important and about 27% that it was. About 53% of the business angels regarded payback period as important as opposed to 3.6% who considered it unimportant.

Approximately 73% of the business angels have a seat on the board of directors of their investee business. The average size of investment was approximately

S\$350,000. The average shareholding percentage was 37% but no preference for any particular percentage of shareholding was revealed. Most business angels prefer to accept the share percentage offered to them. More than 72% of respondents reported that their investor did not negotiate for a different deal than what was offered. The findings were mixed for those who requested representation on the board and those who do not. This is compatible with the finding that trustworthiness of management - not a concept easy to define operationally - was of prime concern to all the investors. The commitment and track record of the management team were associated areas of major concern for the business angels. The management team was reported as being ranked high in importance by 80% of the business angels. Only 3.8% thought that it was not important.

DISCUSSION

This research has mapped some patterns and relationships among a group - the word 'sample' is deliberately avoided - who are part of the very private and reticent Angel market of Singapore. Opinions, feelings, thoughts and relationships characterize the nature of subjects being studied. The question is whether the data gathered about the group is adequate for any valid knowledge gain. In the words of Randall Collins, 'much of the best work in sociology has been carried out using qualitative methods without statistical tests...'. (Neuman, 1997: 418- 419). In a qualitative and exploratory context, the data obtained in this research is considered potentially useful for generating hypotheses about the Singapore angel market. Prior to this research, there was nothing but anecdotal suspicions about the profiles of informal venture capitalists on the island. Now there is evidence and structured inquiry to underpin formal hypotheses which might form the basis of ongoing research. For instance, data from the authors' study group are more than sufficient to justify the assertion that that there is a significant private fund of potential informal venture capital in the Singapore market. The mean investment amount of approximately S\$350,000 supplied to the each of the 27 investee companies compares favorably with mean amounts of startup investments reported in the USA and other nations' studies. The 29 business angels reported in this inquiry invested a total of

S\$7,340,000. The total sum of funds available for investment from the 59 potential angels is S\$26,960,000. According to a report released by the Department of Statistics the number of SMEs in Singapore as of 1994 is 94,027. From this figure, the number of entrepreneurs who own or have an equity stake in two or more companies should be substantial, if we consider the study by Teo Sock Kim on women entrepreneurs in Singapore as an indication.

So there are now valid grounds for believing in a substantial angel market. But does the profile distilled from the group really tell us anything reliable? Well, the Singapore business angel profile of this study conforms quite closely to those in other countries indicating at least the possibility of some criterion validity for what was observed.

Another interesting finding was that of the three female business angels in the study: two of them in the 20-30 age group. The study did not uncover any male business angels in that age range. There were only two from the list of potential angels but not from the 'actual' angel's list. In a study by Teo Sock Kim on women entrepreneurs in Singapore it was revealed that '25% of the female entrepreneurs owned two businesses, 27% owned three businesses and 10% owned more than three businesses.'(Low & Tan 1993/1994: 268). The reason could be that they are more entrepreneurial, that they could have higher disposable income or that they could have accumulated more wealth earlier. This is just one sequence of hypotheses that can now be anchored to established regional research.

Most of the investment opportunities among the studied group were made known through direct contacts with people who were close to the investor. Approximately 51% of the business angels know the investee for over 5 years and over 80% for at least a year. The workplace accounted for 76% of the relationship formed. The fact that most people spend a substantial amount of time in their work suggests that the interaction level between the investor and the investee should be frequent. This would mean that the degree of closeness should be high. The level of closeness suggests that prior relationship is an important factor in the partnership. This supposition aligns

well with the Tennessee study by Mary Kay Sullivan where it was revealed that '47% of investment opportunity came primarily through sources close to the investor' (Harrison & Mason, 1996: 94-95). This illustrates that hypotheses for future investigation may now be credibly grounded with respect to both established findings in other countries' informal venture capital markets.

In Singapore, the Department of Statistics recently released a 10-year study showing that 48% of jobs comes from SMEs. (Straits Times, 1997: 78) The Ministry of Trade and Industry in Singapore in 1985 commissioned a study on entrepreneurship development. It was reported that ' typically, small businesses employ a substantial portion of the workforce, provide most of the essential support services and products required by large business units and cater to mundane but necessary needs of customers. The entrepreneur is also recognized as a catalyst for social and technological change in the community'. (Tan,1993/94: 15). Traditional funding for initial startups in Singapore has been identified to come from four major sources. These are (a) personal savings; (b) equity from family and friends; (c) personal loans; and (d) loans from financial institution (Lee & Low, 1990: 131). Subsequent to this study, there are grounds for rethinking the tradition.

In summary, the exploratory research of this study has value as a stimulous to future research. The profile of a Singapore angel it delivers may be blurred and even distorted but it throws a useful shadow.

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APPENDICES

A. Identification Characteristics of Singapore Business Angels

Figure A1 – Age

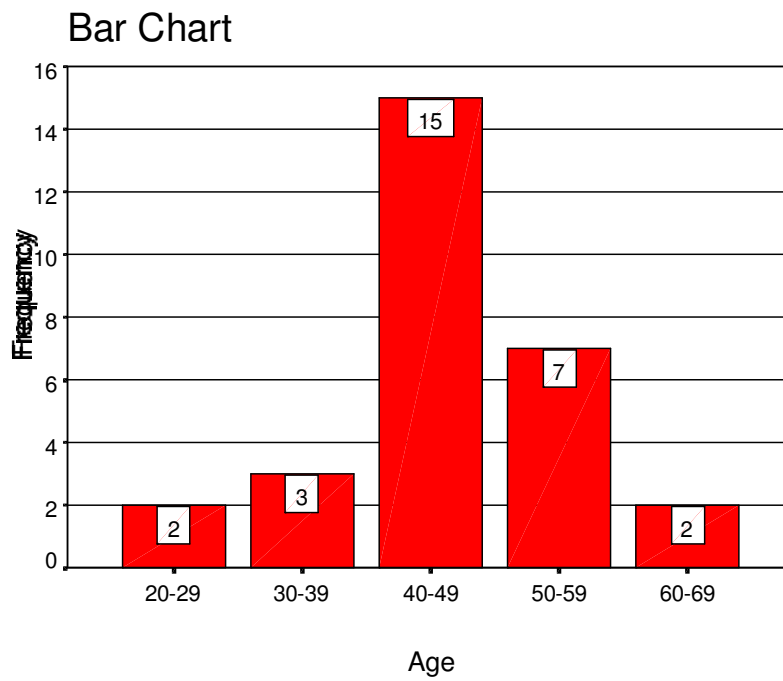


Figure A2 - Gender

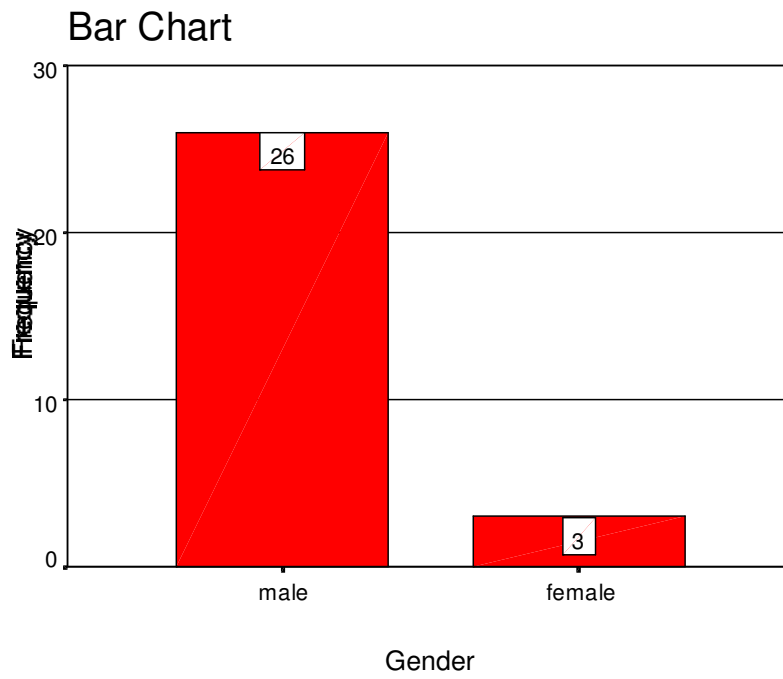


Figure A3 - Race

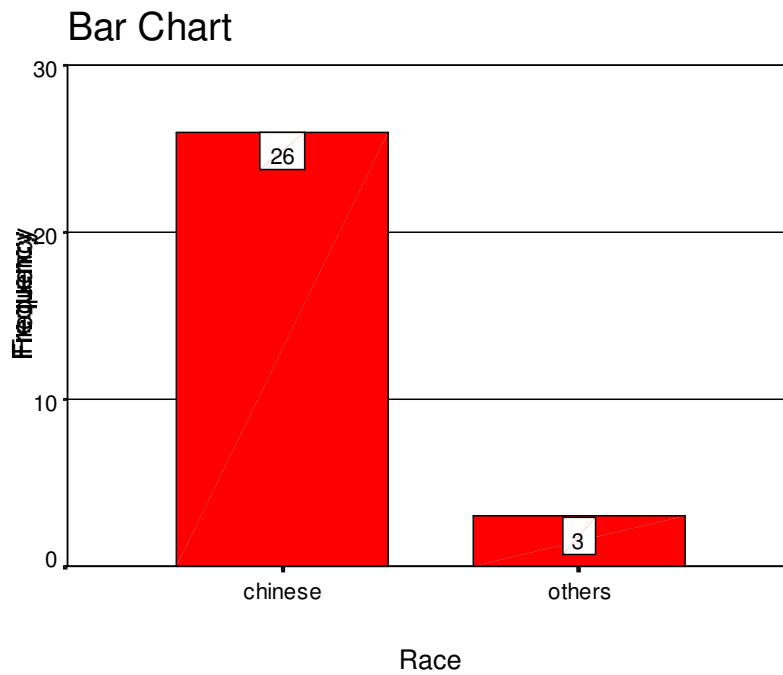
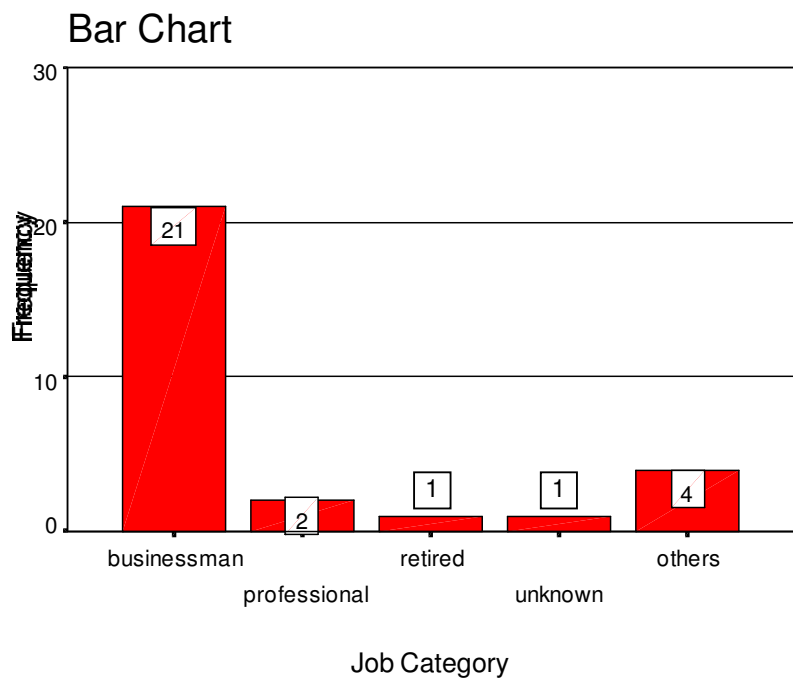


Figure A4 - Job Category



B. Awareness Factors of Singapore Business Angels

Figure B1 - Acquaintance Level Between Entrepreneur and Angel

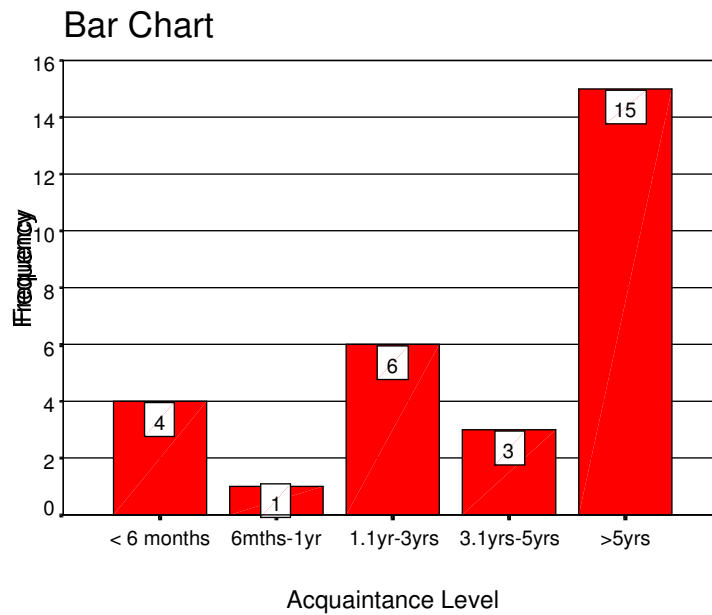


Figure B2 - Language Preferred

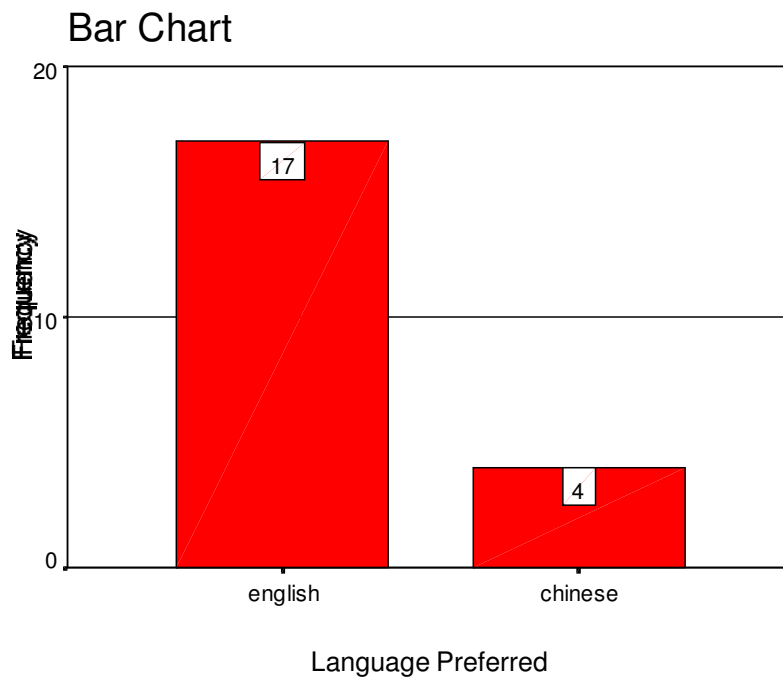


Figure B3 - Awareness Of Business Opportunity

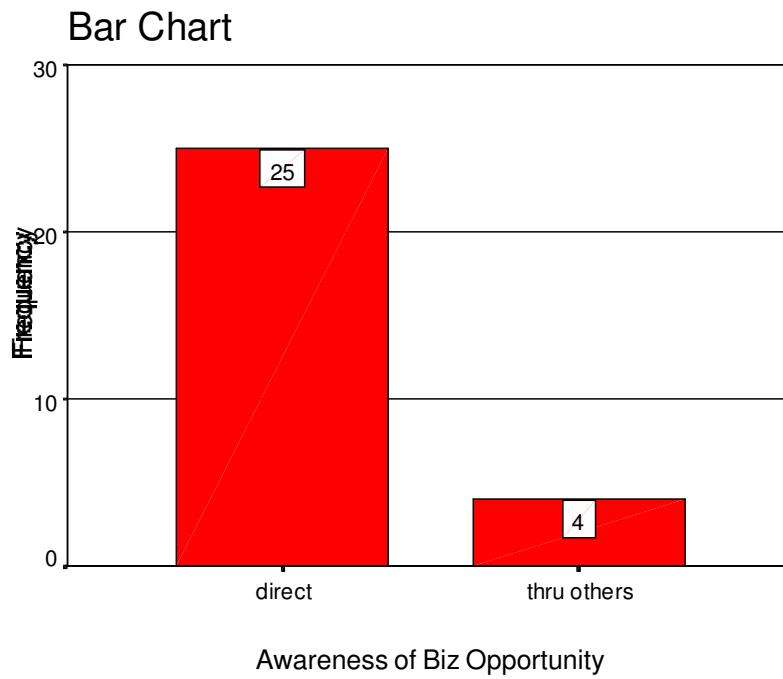


Figure B4 - Friendship Ties

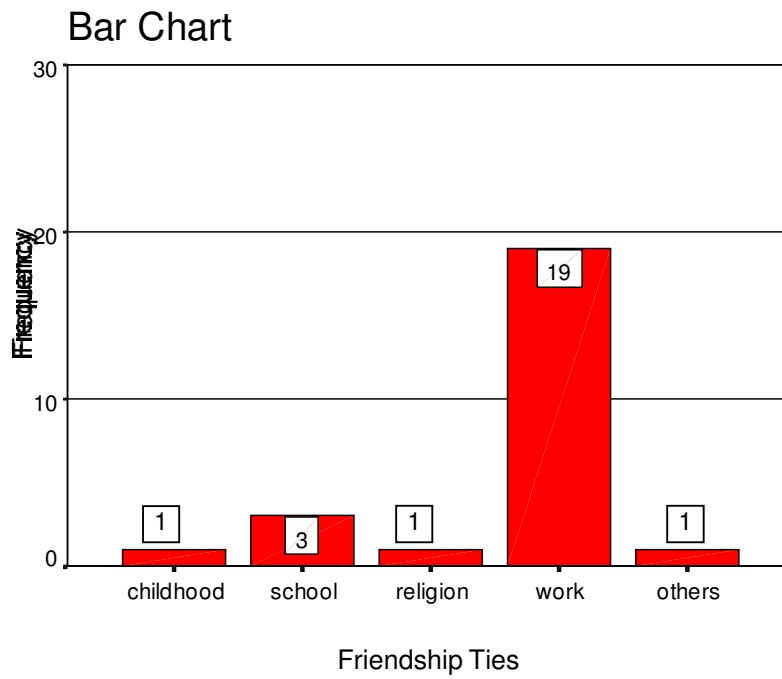


Figure B5 - Business Experience

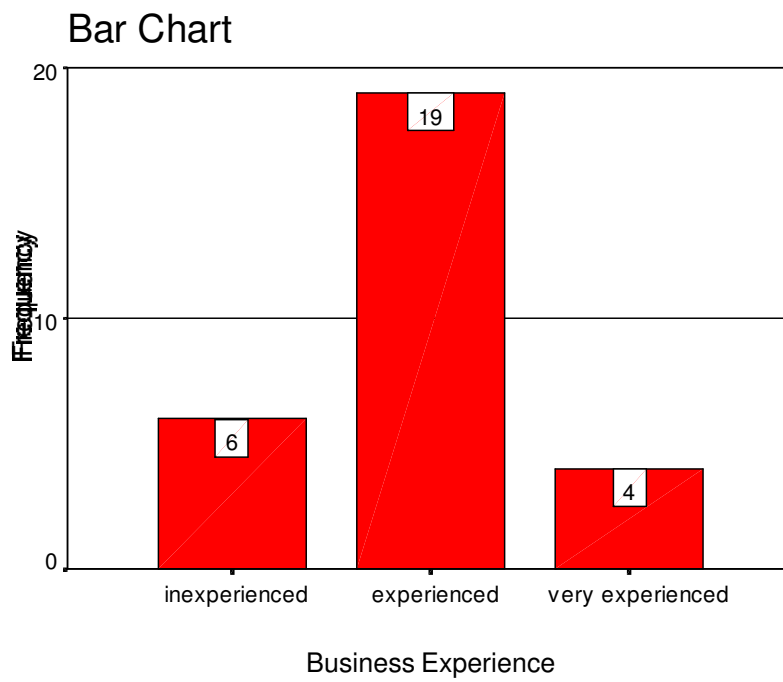
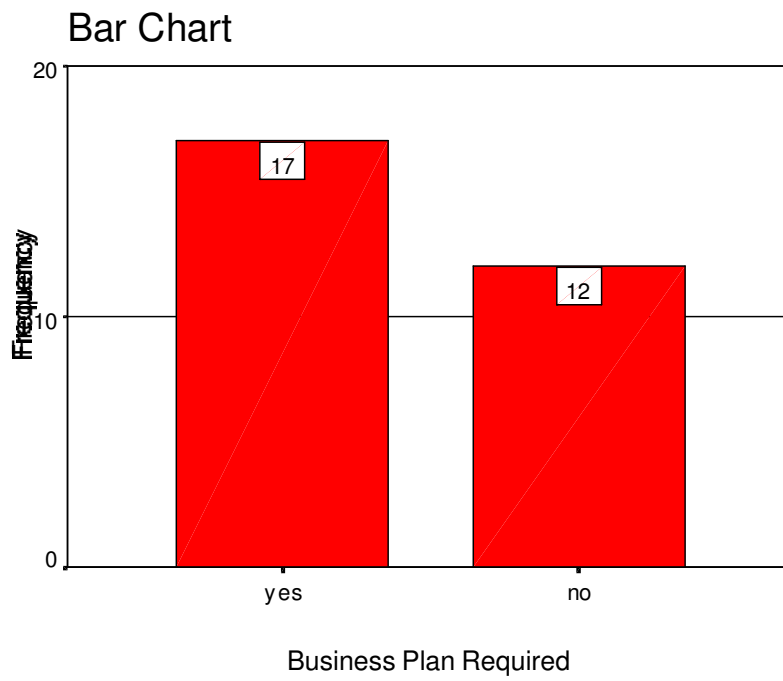


Figure B6 - Business Plan Required



C. Venture Attractiveness Factors for Singapore Business Angels

Figure C1 - Marketing Factors

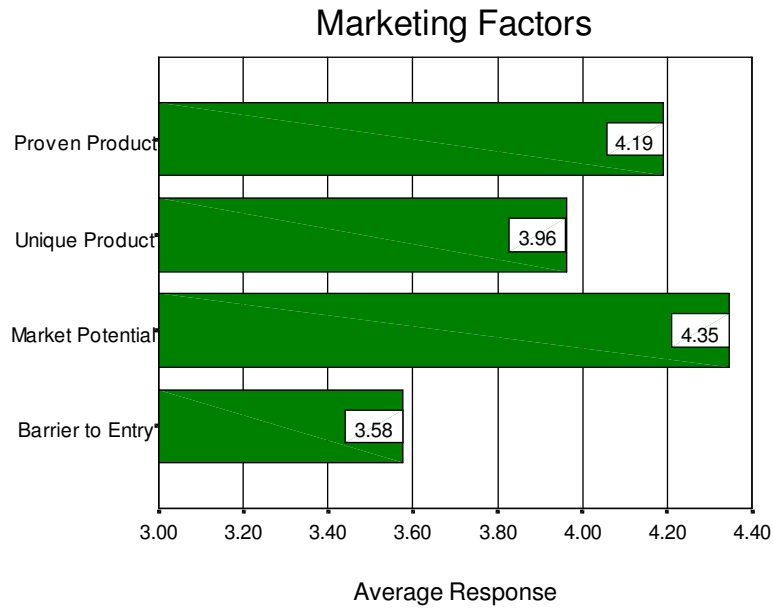


Figure C2 - Financial Factors

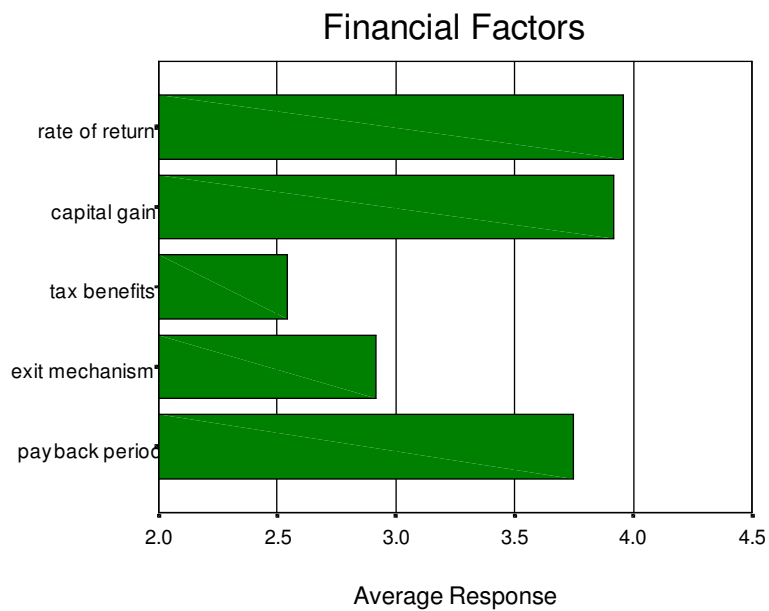
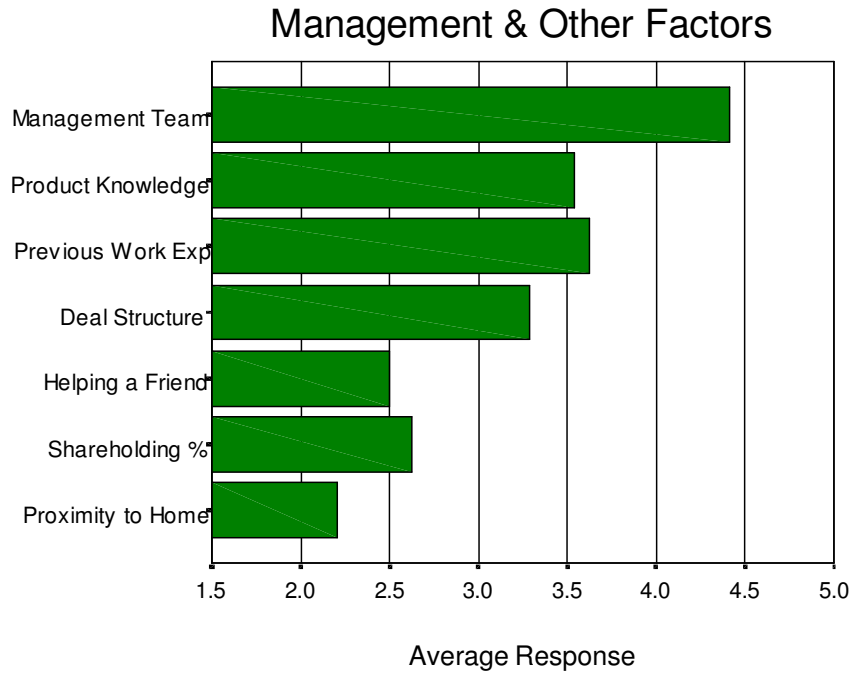


Figure C3 - Management & Other Factors



D. Concern & Control Factors of Singapore Business Angels

Figure D1 - Percent Share Offered

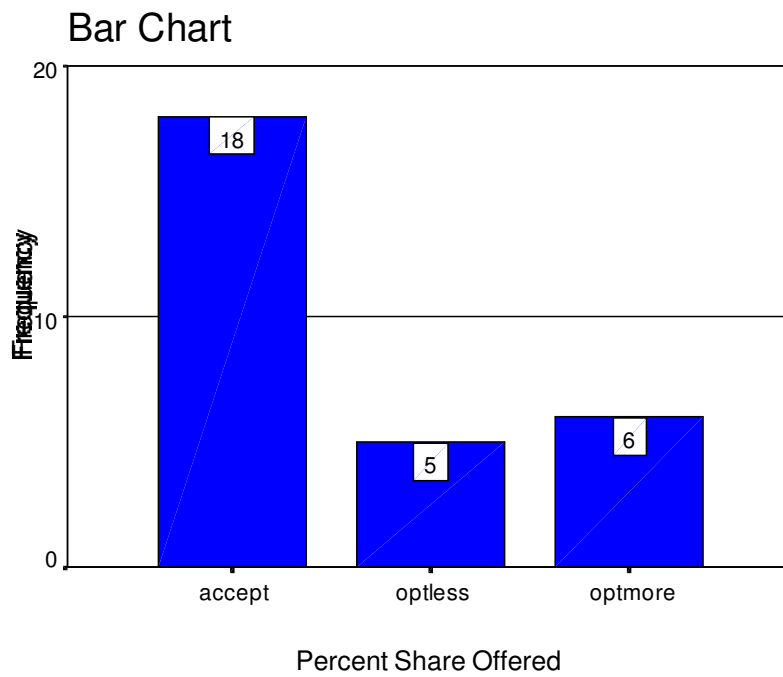


Figure D2 - Negotiate Deal

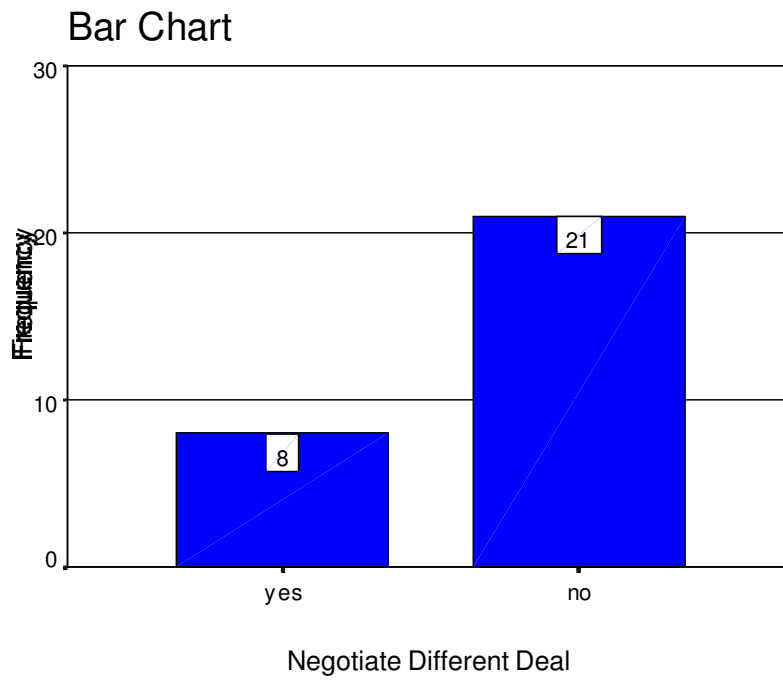


Figure D3 - Request Board Seat

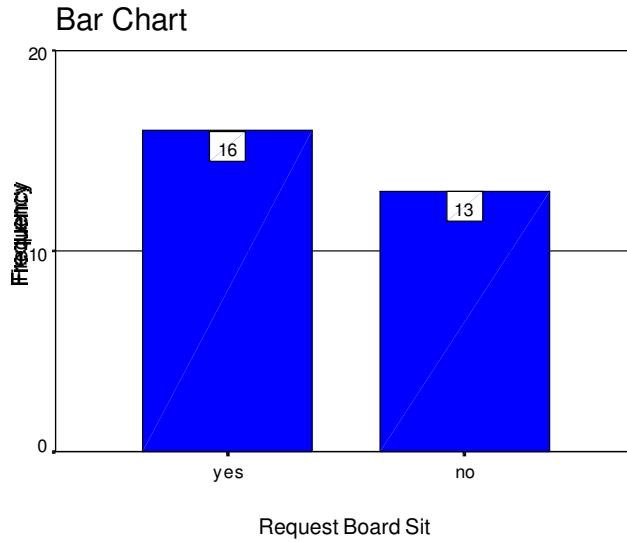
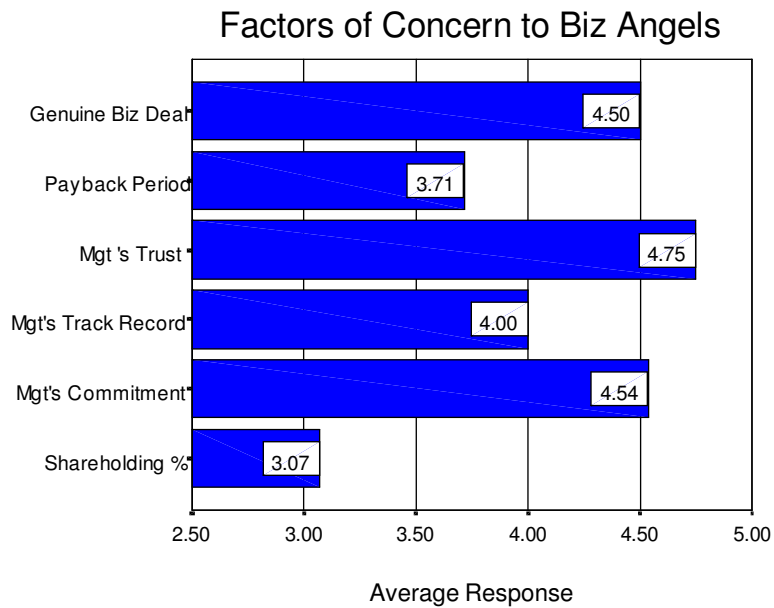


Figure D4 - Factors of Concern to Business Angels



E. Actual Investments of Singapore Business Angels

Figure E1 - Seat On Board

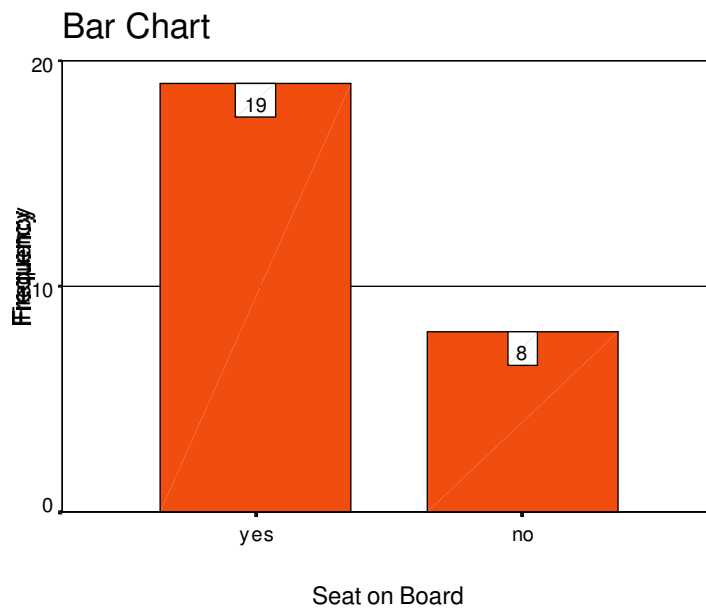


Table E2 - Table of Actual Deals

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