SUMMARY

ANDI BUCHARI. Analysis of Industry and Capital Structure of Venture Capital Firms in Indonesia. Supervised by NOER AZAM ACHSANI, MANGARA TAMBUNAN, and TUBAGUS NUR AHMAD MAULANA.

In accessing funding sources, most of Micro, Small and Medium Enterprises (Micro and SMEs) as well as start up business are widely viewed as non-bankable and have many weaknesses, such as poor management and lack of collateral. As non-bank financial institution, Venture Capital (VC) in Indonesia is expected to become alternative solution for it, so that the capital structure is very important for the VC firms. Moreover, in recent years it is known that many foreign-based VC firms with a strong capital backing have been entering the Indonesian market to finance Micro and SMEs as well as start up, especially e-commerce and digital business. This triggered many discussions and questions about the role of existing local VC firms as well as the profile of Indonesian VC industry.

This study aims to analyze the capital structure of VC firms in Indonesia by using econometric model which include ANOVA, difference test, bivariate analysis, and panel data regression. The research of capital structure using secondary data in the form of monthly financial statements of VC firms during a period of 6 (six) years or 72 (seventy two) months consecutively (January 2009 until December 2014) of 27 VC firms sampled from the total population of 58 VC firms registered in the Financial Services Authority (FSA) as per Quarter II 2015 to forming 1944 observations. Debt to equity ratio (DER) is a proxy of the capital structure and in the panel data regression as the response variable (dependent variable). As the explanatory variables (independent variables) are total assets (SIZE), return on equity (PROF), current ratio (LIQ), non-performing investment (ASQUL), and earning assets ratio (EAR).

Given the company’s capital structure in an industry related to the industry profile is concerned, the quantitative research on VC firms’ capital structure is followed by the qualitative research on VC industry analysis in Indonesia. In this study, primary data collection is done through Focus Group Discussion (FGD). The panelist/participant of FGD consists of individuals who are considered to have the expertise, experience and knowledge pertaining to the VC as well as elements that represent stakeholders of VC industry in Indonesia, such as the regulators/supervisors, government, users, association, and industry players. FGD results are summarized and described in the discussion coupled with secondary data from other sources which are expected to be complementary. Analysis and discussion is done by using the approach of Porter’s Five Forces Model (PFFM).

The research on capital structure finds that there is a variance in the capital structure of VC firms in Indonesia, which is generally dominated by debt/loans rather than capital, with an average DER = 136.95%. In addition, there is a significant difference between capital structure of the government-owned VC firms and the private VC firms, where the government-owned VC firms have a stronger capital structure (DER = 122.16%) compared to private VC firms (DER = 260.70). The study also reveals that the estimation of panel data regression by using Fixed Effect Model (FEM) shows an equation that the capital structure of VC firms is simultaneously influenced by firm size, profitability, liquidity, asset
quality, and earning asset structure, with a coefficient of determination 0.8910 or variables studied could explain 89.10% of the overall effect, while the remaining 10.90% by other variables not studied.

The analysis of VC industry in Indonesia shows that “the level of competition in the VC industry” and “the threat of new entrants” are high, while “the threat of substitute products” is in moderate/medium to high level. “The bargaining power of suppliers” to be ranked high for funding and human resources, IT is medium, and professional/support institution is categorized as low. “The bargaining power of buyers (users)” can be distinguished in which for the feasible-nonbankable investee has low bargaining power, while the feasible-bankable investee has moderate/medium to high. Thus, the VC industry in Indonesia in an "unattractive" for local VC firms/registered in FSA, where the combination of PFFM can reduce profitability and growth, even the possibility of failure of the certain local VC firms to survive if there are no strategic initiatives and immediate actions to revitalize the industry. This condition is in line with the FSA statistic data that there has been a decline in the number of local VC firms in recent years as well as the slow growth of assets and portfolio of the VC firms. The study results are also consistent with the research findings on VC firms’ capital structure that indicates a need for capital increase (improvement of the capital structure) and the improvement of financial performance. Thus, the results of these studies reinforce the notion/previous research which stated that the level of leverage (the capital structure of VC firms in Indonesia) could affect the competitiveness in the industry (the profile of VC firms/industry in Indonesia).

As implication, the improvement of capital structure and the availability of appropriate fund sources (venture funds) should be a priority along with the improvement of financial performance (factors on the firm level). In addition, stakeholders of the VC industry need to synergistically take strategic measures and initiatives to increase the attractiveness of the industry as part of the revitalization of the VC industry in Indonesia (factors on the industry level).

Key words: capital structure, Indonesia, micro and SMEs, start up, venture capital