



# Beyond institutional voids and the middle-income trap: The emerging business angel market in Malaysia

Richard Harrison<sup>1</sup> · William Scheela<sup>2</sup>  ·  
P. C. Lai<sup>3</sup> · Sivapalan Vivekarajah<sup>4</sup>

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**Abstract** Emerging economies are characterized by the presence of institutional voids which challenge and constrain the behavior of economic agents. In this paper we report on one set of agents, angel investors, in Malaysia, which investors fear is experiencing a middle-income trap whereby economic growth and new venture formation stalls due to persistent institutional voids. This research addresses this question through interviews with 19 Malaysian business angel investors in 2015, utilizing a mixed-methods approach. Results indicate that business angels in our sample generated strong returns, though they did find it a challenge to invest in and monitor new ventures in a highly uncertain and competitive environment where there is high political uncertainty, weak legal and financial support for investors and SMEs. In order to overcome weak institutional support, business angel investors develop informal institutions by co-investing and networking with family members and government officials. They also conduct careful due diligence before investing and closely monitor their investee

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✉ William Scheela  
wscheela@bemidjistate.edu

Richard Harrison  
R.Harrison@ed.ac.uk

P. C. Lai  
laiconsultancy@gmail.com

Sivapalan Vivekarajah  
drsivapalan@gmail.com

<sup>1</sup> Business School and University of Edinburgh, Edinburgh, UK

<sup>2</sup> College of Business, Bemidji State University, 1500 Birchmont Avenue, Bemidji, MN 56601, USA

<sup>3</sup> Innovation & Business Development and University of Malaya, Kuala Lumpur, Malaysia

<sup>4</sup> Malaysian Business Angel Network, Kuala Lumpur, Malaysia

companies after investing. This research provides several theory and practice contributions with respect to business-angel investing in emerging economies with weak formal institutional regimes.

**Keywords** Business angels · Institutional theory · Emerging economies · Malaysia · Entrepreneurial ecosystems · Institutional voids · Middle-income trap

How do business angels (BAs) effectively invest in entrepreneurial firms in emerging economies, which often lack the supporting institutions for early-stage investment (Bruton, Ahlstrom, & Obloj, 2008)? In this paper we analyze the recent development and activities of angel investing in Malaysia; an emerging economy that has impressively moved from lower-income to upper middle-income status over the last two decades (Asian Development Bank, 2016). Angel investment has its origins in the United States (US) (Bruton, Ahlstrom, & Puky, 2009; Gompers & Lerner, 2001; Kelly, 2007), the United Kingdom (UK) (Avdeitchikova, Landstrom, & Mansson, 2008; Mason & Harrison, 2002; Paul, Whittam, & Wyper, 2007) and Scandinavia (Avdeitchikova, 2008) where financial and legal institutions play a strong supporting role. In recent years, however, there is growing evidence in the internationalization of angel investing (Harrison, 2017; Landstrom & Mason, 2016; Lo, 2016a; May & Lui, 2016). However, in spite of the increasing economic significance of emerging economies, there has only been a little scholarly research focusing on the impact that BAs have on their invested firms, in Asia (Bruton, Ahlstrom, & Yeh, 2004; Ding, Sun, & Au, 2014; Scheela, 2014; Scheela et al., 2015).

While recent research on Asian BAs has focused mostly on the developed economies of Japan and Singapore (Hindle & Lee, 2002; Kutsuna & Harada, 2004; Tashiro, 1999; Wong & Ho, 2007), researchers have gradually started to examine BA investing in emerging Asia, including China (Liu, Wang, & Chen, 2016; Lo, 2016b; Wang & Chen, 2016; Wang, Tan, & Liu, 2016; Xiao & Ritchie, 2011; Xiao & North, 2012), Indonesia (Scheela, 2014), the Philippines (Scheela & Isidro, 2009), Thailand (Scheela & Jitrapanun, 2012) and Vietnam (Scheela, 2014; Scheela et al., 2015). Thus, Asian BA research represents a bifurcation of countries; initial research on high-income countries and recent research analyzing low-income and lower middle-income countries. Malaysia represents the opportunity to analyze BA investing in an upper middle-income country, which has begun to aggressively support BA investing.

A major challenge for BA investors in emerging economies, including Malaysia, is the lack of financial and legal institutions necessary to support private-equity investing in general and BA investing in particular (Ahlstrom & Bruton, 2006; Ahlstrom & Ding, 2014; Scheela, 2014; Scheela et al., 2015). BA investors in emerging economies typically operate in environments that are experiencing solid economic growth with significant investment opportunities, yet may also have challenging institutional voids (Ding et al., 2014; Khanna & Palepu, 2010) resulting in high commercial transactions costs (Acemoglu & Robinson, 2012; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). To further exacerbate this investment challenge in many emerging economies is governments' inability to effectively develop and support both BA and venture capital (VC) investing (Lerner, 2009; Scheela, 2014; Scheela et al., 2015). Thus, more specifically we ask how BAs effectively invest in and help develop entrepreneurial firms in emerging economies, which often lack the key supporting institutions for seed- and early-stage investments?

This paper analyzes the investing characteristics, challenges and outcomes of Malaysian BAs. A mixed-methods methodology was used to analyze the interview data from which we developed summary tables based on analyzing and coding the data (Creswell, 2014). As such, this research seeks to contribute to theory in both the BA and institutional theory literatures by identifying BA investment context and outcomes in emerging economies broadly characterized as having significant institutional voids. In addition, this research also contributes by showing that BAs can effectively invest without fully supporting institutions that are thought to be necessary for effective private-equity investing. Finally, we provide contributions to the practice of angel investing by analyzing the challenges facing BAs in an emerging economy and their navigation of the challenging institutional environment (Ahlstrom, Young, Nair, & Law, 2003) and resulting successful investment strategies.

## Literature review

Institutional theory attempts to explain the impact institutional systems have on individuals, groups, organizations, and professions (DiMaggio & Powell, 1991; Hoskisson, Eden, Chung, & Wright, 2000; Scott, 2013), such as providing the rules of the game in a society (North, 1990). In analyzing BA investing, we use institutional theory to focus on the impact that institutions have on market activity (World Development Report, 2002). Institutions, especially legal and financial institutions, tend to be more developed and effective in developed countries, especially in comparison to emerging economies (Peng, 2003; Ramamurti, 2000; Zoogah, Peng, & Woldu, 2015). A major impact of the lack of institutional support in emerging economies is a higher cost of doing business (North, 1990; World Development Report, 2002) increasing the importance and salience of informal institutions to support market activity (Ahlstrom & Bruton, 2010; Bruton & Ahlstrom, 2003; Peng & Heath, 1996; Peng, Sun, Pinkham, & Chen, 2009). Bruton & Ahlstrom (2003) further proposed that informal institutions may increasingly support private-equity investing in emerging countries exhibiting significant institutional voids (Bruton, Dattani, Fung, Chow, & Ahlstrom, 1999). More specifically to VC and BA investing, informal institutions can be created through networking by developing “strong ties to government officials and other key sponsors to safeguard them from excessive interference” (Ahlstrom, Bruton, & Yeh, 2007: 252). Ahlstrom et al. (2007) further found that VCs networked in China with government officials and larger state-owned enterprises (SOEs) to find good deals for investing. BAs in the Philippines and Thailand also network, but primarily with other BAs, to find deals and then co-invest to spread market risk and share in post-monitoring of investee companies (Scheela & Isidro, 2008; Scheela & Jittrapanun, 2012).

More fully developed institutions can also reduce transaction costs in developed economies by reducing uncertainty and establishing a stable structure to facilitate interactions, such as formal and informal (angel) VC negotiations between investor and investee (Meyer, 2001). Conversely, in emerging economies, transaction costs for formal VC firms and BAs (informal VCs) will be higher than in developed countries because of a lack of a formal institutional structure (Ahlstrom & Bruton, 2006; North, 1990). Bruton, Fried, and Manigart (2005) characterized emerging Asia’s institutions as generally poorly developed and not effectively enforcing laws and

regulations. As we have indicated, very little research has analyzed the development of BA investing in emerging Asian economies, whose regulatory institutions would better fit the above description as “generally poorly developed” (Scheela, 2014; Scheela & Isidro, 2008; Scheela & Jittrapanun, 2012; Scheela et al., 2015).

Institutional theory is increasingly recommended as the basis to evaluate both VC and BA development in Asian emerging economies (Bruton et al., 1999; Bruton & Ahlstrom, 2003; Scheela, 2014; Scheela et al., 2015; Wright, Pruthi, & Lockett, 2005). While research has shown there are significant differences in the development of BA investing between developed and emerging economies (Scheela & Isidro, 2008; Scheela & Jittrapanun, 2012), we are interested in exploring potential *differences among* emerging Asian economies (Meyer & Peng, 2016), that is, between lower and upper middle-income economies (Bruton, Ahlstrom, & Singh, 2002; Bruton et al., 1999). Based upon our analysis employing an institutional lens, we expect differences in institutional development will provide significant challenges for BA organizational effectiveness in Asian emerging economies such as that of Malaysia. More specifically, we propose there may be significant differences in the development and strategies of BA investing within emerging economies.

### **Institutional voids**

It is increasingly being recognized that emerging economies are characterized by institutional voids, under which conditions economic actors have to respond to unpredictable and frequent events (such as political instability, macroeconomic fluctuations, violence and conflict) without recourse to the stabilizing influence of specialized intermediaries that can analyze market information, facilitate transactions and confer signals of credibility (Gao, Zuzul, Jones, & Khanna, 2017; Khanna & Palepu, 2010; Khanna & Rivkin, 2001). The importance of institutional voids arises from the fact that institutions, and the institutional environments of economies, are more than just background conditions but directly influence the actions available to and behavior of economic actors (Ingram & Silverman, 2002; Meyer, Estrin, Bhaumik, & Peng, 2009).

The presence of institutional voids is manifest in the absence or underdevelopment of institutions that can facilitate market transactions—for example, banks cannot always guarantee access to credit, courts cannot enforce intellectual property rights, and auditors cannot reliably certify a firm’s accounts (Gao et al., 2017; Khanna & Palepu, 2010). As such, and given that the operating environment, its demands, challenges and constraints, for economic agents in emerging economies is very different to that in the more developed ones (Henisz, Dorobantu, & Nartey, 2014; Luo & Chung, 2013; Mair, Marti, & Ventresca, 2012). It thus cannot be assumed that theories, methodological approaches and findings from more developed market settings will be applicable in emerging economies under conditions of institutional voids (Bettis, Gambardella, Helfat, & Mitchell, 2014; Khanna, 2014; Marquis & Raynard, 2015). There is, in other words, a tension between universalist accounts of economic activity which assume the diffusion, adoption and applicability of developed economy models, frameworks and theories and more contextualist views that see market evolution and economic actor response as a local (i.e., national) response to local conditions that needs to be researched and theorized on its own terms (Harrison, 2017; Jack et al., 2013).

Previous research has examined the impact of institutional voids at the business strategic level on business groups (Manikandan & Ramachandran, 2015), business strategy (Meyer et al., 2009) and corporate social responsibility practices (Amaeshi, Adegbite, & Rajwani, 2016). Other research has covered broader topics such as supply chain management (Silvestre, 2015), global finance (Anheier, 2014), and economic and commercial development (Ahlstrom, Levitas, Hitt, Dacin, & Zhu, 2014; McCloskey, 2013). There is also work at the entrepreneurial and innovation levels including market entry (Ahlstrom & Bruton, 2006; Puffer, McCarthy, & Boisot, 2010), social entrepreneurship (Stephan, Uhlaner, & Stride, 2015), entrepreneurial processes in bottom of the pyramid markets (Mair & Marti, 2009; Mair et al., 2012), and innovation (Liu, Chen, & Wang, 2017; Wang, Ahlstrom, Nair, & Hang, 2008).

Notwithstanding this work, it remains the case that we know little “about how institutional voids are constituted, how they relate to existing institutional arrangements, and how they matter for local populations” (Mair et al., 2012: 821). There have, however, been a number of attempts to refine the situationally-specific research into institutional voids, and develop typologies and theoretical frameworks to guide further research. For example, Mair and Marti (2009) summarized prior research as recognizing and elaborating on three types of institutional void: those that hinder market functioning, those that hinder market development and those that hinder market participation. In the analysis below, we will explore the first two of these categories, as they are most closely related to angel investing.

There is widespread acceptance of the view that institutional voids constrain the development of angel markets in emerging economies in spite of government to support for BA introduction services or tax incentives to mobilize investment capital by shifting the risk-return profile for would-be investors (Harrison, 2017; Lo, 2016a, 2016b; May & Liu, 2016). Our purpose is to assess for the first time the impact of institutional voids on the development and functioning of the market and identify the strategies used by investors to overcome, circumvent or fill these voids.

### **The middle-income trap**

The existence of institutional voids is closely associated with and reinforced by the middle-income trap (Gill, Kharas, & Bhattasali, 2007). While rapid growth has allowed a number of countries to reach middle-income status over the past several decades, very few have followed economies such as Japan, Korea and Taiwan to become high-income economies (Agénor, 2017). Rather, they have fallen into the middle-income trap (Gill et al., 2007; Kharas & Kohli, 2011) characterized by a sharp deceleration in growth attributable to rising costs and declining competitiveness (Aiyar, Duval, Puy, Wu, & Zhang, 2013; Griffith, 2011). These countries are caught in the double bind of being unable to compete with low-income low-wage economies in manufactured exports or with more advanced economies in high skill innovation: in other words they cannot easily make a timely transition from resource-driven growth, with low-cost labor and capital, to productivity-driven, more innovation-based growth (Ahlstrom, 2010; Asian Development Bank, 2011). Indeed, countries falling into the middle-income trap are more likely to have relatively lower levels of secondary and tertiary education and have high-technology products account for a relatively small proportion of exports (Eichengreen, Park, & Shin, 2013). This is confirmed by other research (Felipe, Abdon, & Kumar, 2012) suggesting

that countries stuck in the middle-income trap, compared to those that graduate from it, show less change in the structure of the economy (shift from low-productivity to high-productivity activities), have a different product mix in their exports (lacking the products have the same consequences for growth and development), and experience less diversification of the economy (Agénor, 2017).

While performing better than, for example, Latin American countries in the middle-income trap (Aiyar et al., 2013), Malaysia shows many characteristics of the middle-income trap (Cherif & Hasanov, 2015; Yusuf & Nabeshima, 2009). Following rapid growth in the 1980s and 1990s, and notwithstanding a rebound from the Asian Financial Crisis of the late 1990s (Woo, 2009), national income levels stalled at the end of the 1990s. In 1980, national income levels were equivalent in purchasing power parity (PPP) terms to 17% of those in the US, by 1995 this proportion had peaked at 27.5%, falling to 24.8% in 2000; despite a slight recovery to 25.2% of the US level in 2005 and to 27.5% in 2009, there has been virtually no net relative improvement in national income levels since 1995 (Lee, 2013). In part this reflects the impact of the New Economic Policy formulated in 1970 under very different international conditions (Gomez, 2013; Woo, 2009): Private sector investment fell from 32.7% of gross domestic product (GDP) in 1995 to 9.3% in 2007; ethnic quotas on ownership structure limited the realization of growth plans by Chinese- and Indian-Malaysian entrepreneurs; there was little support for firms to move from producing import-substituting goods to become major exporters; and the economy was characterized by the perpetual infant industry syndrome, the supposition that emerging domestic industries need protection against international competition until they become mature and stable (Tendulkar & Bhavani, 1997).

The existence and persistence of the middle-income gap is attributable to a number of factors (Agénor, 2017): Diminishing returns to physical capital, exhaustion of cheap labor, exhaustion of imitation gains, insufficient quality of human capital, poor contract enforcement and intellectual property protection, distorted incentives, misallocation of talent, lack of advanced infrastructure and lack of access to finance and to entrepreneurial risk capital in particular. For a country to exit middle-income status requires successful structural change driven by proximity considerations—expansion into related industries, making use of existing productive skills—concomitant with accumulating more advanced capabilities, in other words the simultaneous evolution of both industrial structure and framework conditions (Jankowska et al., 2012).

Two further connected issues, together with institutional voids, must also be addressed if an economy is to escape the middle-income trap. The first of these is a commitment to pursue technology and innovation-based growth (Ahlstrom, 2010; Aiyar et al., 2013; Cai, 2012), that is, a technology-, innovation- and entrepreneurship-oriented strategy identified as one of seven key intergenerational issues for Asia (Asian Development Bank, 2011). Specifically, given that trade-based specialization is more beneficial for low-income countries, and that middle-income countries fail in part because of weak innovation systems and their impact on lower international competitiveness, the focus should be on developing specialization in sectors that rely least on existing technologies (Lee, 2013). In this the cycle time of technologies—the speed at which technologies change or become obsolete or new technologies emerge—plays an important role. Short-cycle technologies, which are associated with successful economies, offer a country the possibility of technological leapfrogging by the disruption of incumbents by opportunities arising out of new technologies (Lee, 2013).

This leads to a second issue—financial transformation and access to the finance necessary to bring about these key innovation and new venture creation activities. The availability and continuity of funding to the private sector has strong implications for productive development, and limitations in access to finance can severely reduce movement into new productive activities and thereby constrain growth (Jankowska et al., 2012). This occurs through both the asymmetric information-based increased cost of monitoring innovation activities and by altering incentives to acquire skills, leading to a misallocation of talent (Agénor & Canuto, 2014). While there is growing concern that there may in fact be “too much money” crowding out effective market development (Law & Singh, 2014), the paradox is that there is at the same time “not enough of the ‘right finance,’ that is, the type of finance that may promote riskier activities in innovation” (Agénor, 2017: 781). Access to such financing—in the form of bank lending, VC, crowd-funding, and BA investment—will be associated with more intensive innovation, increased R&D and the promotion of financial intermediation, innovation and economic growth (Agénor, 2017). Given the targeting problems of direct subsidies, measures that reduce monitoring costs and mitigate asymmetric information, such as bodies and organizations that collect and disseminate information about potential investees/borrowers to investors/lenders are likely to be more effective in both the debt and unquoted equity markets (Harrison & Mason, 2000; Mason & Harrison, 1997; World Bank, 2014). Indeed, given the weak institutional environment and the existence of institutional voids in middle-income trap countries, improvements in access to finance while avoiding over-reliance on market self-regulation and excessive central control of bank dominated systems are likely to be particularly appropriate (Asian Development Bank, 2011).

### **Business angel investing in emerging Asia**

We use the standard definition of BAs who are typically high-net worth individuals with considerable business experience who invest both their personal funds and managerial experiences into primarily seed- and early-stage, unlisted companies (Morrissette, 2007; Sohl, 2003). BA investing has been a fairly recent phenomenon in Southeast Asia; commencing in Singapore, a developed economy, and expanding slowly to lower and upper middle-income neighboring countries (Scheela, 2014). Within emerging markets, Southeast Asia represents one of the fastest growing regions (Asian Development Bank, 2014). More specifically, Malaysia, the Philippines, Vietnam and Thailand have shown impressive GDP growth rates during the past decade (Asian Development Bank, 2016) and represent a significant opportunity for private-equity investors (Preqin, 2011).

Initial research on emerging Southeast Asian private-equity investors focused on VC investing in Vietnam (Scheela & Nguyen, 2004), Thailand (Scheela & Jittrapanun, 2008) and the Philippines (Scheela, 2006). This was followed by more recent BA research analyzing the Philippines (Scheela & Isidro, 2009), Thailand (Scheela & Jittrapanun, 2012) and Vietnam (Scheela, 2014). All three of these emerging countries are classified as lower-middle income while Malaysia, the focus of this paper, is upper-middle income (Asian Development Bank, 2016). In Table 1, we compare these four emerging Asian countries and Singapore, a developed economy, both in terms of economic development (gross national income [GNI]) for 2014 and 2016 (Asian Development Bank,

2014, 2016) and attractiveness for private-equity and VC investing (Groh, Liechtenstein, & Lieser, 2013; Groh, Liechtenstein, Lieser, & Biesinger, 2015). For both measures, Malaysia (shown in italics in Table 1) is much more advanced economically and more attractive as a country supporting private-equity investing than the three lower middle-income countries. However, compared to Singapore, Malaysia is not yet a developed economy or a top 10 ranking for supporting private-equity investing. Interestingly all five countries show improvement economically and supporting private-equity investing over a two-year period. Analyzing Malaysian BA researchers will fill an important gap in better understanding BA investing in an emerging Asian economy.

The Malaysian government started to lay the foundation for a knowledge-based economy in the mid-1990s with the vision for the country to become a completely knowledge-based economy by 2020; one way for the government to achieve this is through supporting the growth of the VC industry (Malaysian Economy in Figures, 2017). Subsequently, VC has played a vital role in Malaysia's economic buoyance and development along with many funding and research grants provided by the government (Bruton et al., 2004; Science and Technology Information Center, 2017; Mani, 2004; Wong & Enoch, 2011). Increasing entrepreneurial activities in Malaysia have also encouraged the growth of VC investing and the development of other funding sources in Malaysia. In order to fill the gap between typically larger VC investments and smaller start-up investing, BAs increasingly play an important role in informal VC financing in Malaysia. To support increased BA financing, the Malaysian government recently provided an Angel Tax Incentive to encourage high, net-worth individuals to become BAs and to actively invest in start-up companies (*Accountant Today*, 2014). These programs and incentives have greatly contributed to the growth in VC financing in Malaysia, which can also be seen in Table 1.

## Methods

A mixed-methods approach is employed, “which combines qualitative and quantitative approaches in the methodology of a study” (Creswell, 2014; Tashakkori & Teddlie, 1998: ix). Mixed methods are especially effective in emerging economy research where

**Table 1** ASEAN country analysis

Country	GNI <sup>a</sup> per capita 2012 US\$	GNI per capita 2014 US\$	VC <sup>b</sup> rank 2013 (Index)	VC rank 2015 (Index)
<i>Malaysia</i>	9820	11,120	17	12
Philippines	2500	3500	66	42
Thailand	5210	5780	32	30
Vietnam	1550	1890	64	56
Singapore	47,210	55,150	6	4

<sup>a</sup> Asian Development Bank, 2014, 2016; *GNI* Gross national income

<sup>b</sup> Groh et al., 2013, 2015



context can have a challenging impact on data collection (Hurmerinta-Peltomaki & Nummela, 2006). We applied an exploratory designtype of mixed methods whereby we constructed items and scales from our field-research interviews to develop tables and weighted frequency distributions that represent both qualitative and quantitative results (Creswell & Plano Clark, 2007).

A major challenge in studying BAs is to find them (Amatucci & Sohl, 2006; Morrissette, 2007) because BAs tend to prefer a low profile almost to the point of being invisible (Harrison & Mason, 2008; Wetzel, 1983). Because of the lack of BA public databases in Malaysia, collecting primary data from individuals who wish to remain anonymous is a difficult task (Amatucci & Sohl, 2006; Mason & Harrison, 2008). Therefore, developing a representative random sample of BAs from an “invisible” population is extremely problematic (Avdeitchikova et al., 2008; Farrell, Howorth, & Wright, 2008) especially in an emerging Asian country (Scheela & Jittrapanun, 2012). Coviello and Jones (2004) recommended using a judgment sample when it is difficult to identify firms or individuals in the population of interest. Mason and Harrison (2008: 322) identified BA networks as “the only visible part of the informal [BA] venture capital market,” which could be a potential source to collect data. Of course, using such networks increases bias as the sample would not be representative of the population.

We developed a purposive sample (Bruton et al., 2009) of Malaysian BAs who are all members of a recently established Kuala Lumpur-based, government-sponsored BA network. Interviewees were selected based on being or becoming active investors in unlisted SMEs. All interviews were conducted by two interviewers, in English, lasted approximately 72 minutes on average and were tape recorded and transcribed.

## Measures

In March and November 2015, semi-structured interviews of Malaysian BAs were conducted in Kuala Lumpur, Malaysia. The semi-structured interview format was developed from an early and significant study by Gorman and Sahlman (1989) analyzing, via a mail questionnaire survey, US VCs’ investment strategies and value-added activities. Because of the exploratory nature of this research due to the formative stage of BA investing in Malaysia, we used the questionnaire to develop 34 in-depth questions for face-to-face, semi-structured interviews (Bruton & Ahlstrom, 2003; Bruton et al., 2009; Hurmerinta-Peltomaki & Nummela, 2006; Wright et al., 2005). We have previously tested the reliability of the interview questions and subsequently used this interview format to interview BAs in the Philippines, Thailand and Vietnam. We coded the data in multiple categories: BA profile, characteristics and challenges of investing in Malaysia and BA investment performance.

Because the Malaysian BA sample is small, judgment-based and, therefore nonrandom, we analyze the data using descriptive statistics (Tashakkori & Teddlie, 1998). We used pattern coding (Miles & Huberman, 1984) to transcribe and reduce our field notes (data reduction) so as to identify and describe the most significant patterns. We developed tables based on a content analysis of the data by constructing both weighted and un-weighted frequency distributions based on tabulating the different patterns (Creswell & Plano Clark, 2007; Miles & Huberman, 1984; Yin, 2013).

We interviewed 19 BA investors (18 men, 1 woman). Each interview was tape recorded and lasted an average of 72.4 minutes with a range of 35–95 minutes per interview. Each interviewee was provided a copy of the interview questions both before and during the interview. One angel investor was not able to attend the interview so submitted written responses to our questions, which was the subject of a follow-up conference call interview for clarification and expansion of the written responses. Of the 19 BAs, two have not yet participated in an investment, although one of these BAs did attempt to make an investment, but was unsuccessful. Two interviews did not cover all 34 questions due to either time constraints placed on the interview or a lack of investing experience of one of the two BAs who had not completed an investment. Consequently, the sample size, as shown in the data tables, will range from 17 to 19 depending on the BAs ability to answer the question because of “too early” in his/her investing career or a lack of time to address some of the questions.

### **Business angel profile**

As expected, given the early-stage of the evolution of angel investing in Malaysia, these BAs are relatively new to angel investing averaging only five years of investing in unlisted new ventures (see Table 2). All 19 BAs have developed an investment strategy when doing deals and 16 BAs either have experienced an exit or have an exit strategy in place when that event occurs. Most BAs have used or will use a trade sale as their primary exit strategy.

Most BAs (17 out of 18 who were able to address this question) are active investors, allocating, on average, 14% of their time on a weekly basis for working with their investee companies. This is a significant commitment, and may reflect the nature and quality of the businesses and the entrepreneurs along with the private-equity investing environment in Malaysia. The only passive BA indicated his/her lack of a hands-on strategy has been a weakness and plans to become an active investor in future deals. Based on education and business experience, these 19 BAs have impressive credentials (100% college graduates, 58% with graduate degrees and 100% with significant business experience) to become successful value-added investors when working with their investee companies. BAs in this sample also typically network and co-invest with, on average, 2.6 other BAs. Thus, BAs invest as a team of highly-educated and experienced investors who are capable of providing both significant funding and business acumen to their investee companies. Many BAs also take a seat on the board of directors (more than two seats/BA) in order to further control their investments and directly influence the entrepreneur and the management team. The BAs are long-term investors with an average reported investment horizon of 5.2 years.

In terms of investment activity 17 (two have not yet invested) BAs have invested in a total of 85 companies or five companies per BA, which is impressive given their short time frame of investing. Each BA was asked how much investment capital they managed or had access to for specifically investing in private companies. The range is very large ranging from US\$20,000 to \$5 million. The average individual investment fund size in total committed to angel investing (including both investments made and capital available) is \$791,000 with a median fund size of \$440,000 per investor. The median is a more accurate descriptor of a BA investment capital fund because there are six very large funds (\$.75M, 1M, 1M, 1.5M, 1.75M and 5M) that skew the mean/average, which does not accurately describe the 13 smaller funds

**Table 2** Malaysian angel Investor summary profile

Number of investors interviewed in the study	20
Number of investors included in this table (unless otherwise noted)	19
<hr/>	
Investment strategy/Investor	
•Yes, I have one	19
•No, I do not	0
•Yes, I have an exit strategy ( $n = 18$ )	16
•No, I do not	2
•No time to discuss	1
Level of involvement/Investor ( $n = 18$ )	
•Passive investor	1
•Active investor	17
•Avg. % of week spent with investee	14%
Number of years investing/Investor	
•Range of years	.5–18
•Average/Mean	5.0
•Median	4
Funds managed (US\$)/Investor	
•Range	\$20K–5M
•Mean	791K
•Median	440K
Level of education/Investor (more than 1 grad. degree for 1 LLM)	
•Bachelors	9
•Masters	7
•Law degree/LLM	3
•PhD	1
Previous work experience	100%
Number of investing partners/deals	
•Range	0–10 investors
•Mean	2.6
•Median	2.5
Number of investments (total for 17 investors)	85
•Range/Investor	0–11
•Mean/Investor	5
•Median/Investor	4
Years held for investments	
•Range	2.5–open
•Mean Years	5.2
•Median Years	5
Number of board seats/Investor	
•Range	0–6 seats
•Mean	2.1
•Median	1
Stage of investment (total investments)	$N = 85$

**Table 2** (continued)

Number of investors interviewed in the study	20
Number of investors included in this table (unless otherwise noted)	19
•Seed/Early-stage investments	37/37
•Growth stage investment	10
•Mature/Buy out	0
•Other/none yet (too early)	½
Initial investment range (US\$, <i>n</i> = 18)	
•Range	\$3K–1M
•Mean	66K–168K
•Median	25K–82K
Later investment range (US\$, <i>n</i> = 11)	
•Range	\$10K–500K
•Mean	138K–168K
•Median	80K–120K
Source of funds (can be more than source/investor)	
•Personal savings	19
•Other	0
Geographical focus for investments (can be more than one focus/investor, <i>n</i> = 18)	
•Malaysia	9
•ASEAN	10
•China	1
•Kazakhstan	1
•Asia	2
•Europe	1
•Australia	1
•No preference	2

(\$20,000–\$590,000). Collectively, the 19 BAs have invested, or could invest, approximately \$15 million dollars in unlisted companies. The BAs exclusively invest money from their personal savings. This is, in other words, personal wealth being recycled into the Malaysian entrepreneurial economy.

We asked each BA to classify each company investment by investment stage (seed, early, growth, mature/buyout and other). BAs, in this sample, invested overwhelmingly in seed- and early-stage companies as these two stages combined represented 87% of total investments, while growth-stage consisted of 12% of investments, with no investments in mature companies, one “other” category (fund of fund investment) and two BAs have not yet made an investment. These BAs typically invested in very young companies, which, in terms of investment risk, are also categorized as “high risk, high return.”

On an individual level, BA’s initial median investment range into an investee company is \$25,000 to \$82,000. Eleven BAs report a later-round median investment range of \$80,000 to \$120,000. Seven BAs either have not yet made a later-round investment or do not make later-round investments as part of their strategy. In terms of

pursuing a geographical focus for their investments, nine BAs prefer to invest exclusively in Malaysia because they want to be close to their investments. Ten BAs have a broader geographical focus whereby they will invest in Malaysia, but are also open to potential investee companies outside of Malaysia; especially ASEAN (ten countries comprising the Association of Southeast Nations) deals. Many BAs were open to global investing because of their personal global business experience whereby they personally know, or had co-investors who know, entrepreneurs operating outside Malaysia. For some investors, this wider focus was in search of better investee-company deal flow than they believed was obtainable in the local Malaysian market.

## Results

### Characteristics and challenges of BA investing in Malaysia

Each BA was asked to identify, in two separate questions, the major characteristics of angel investing in Malaysia and the major investing challenges facing Malaysian BAs. As can be seen from Tables 3 and 4, the problems or challenges of investing are closely related to the characteristics of the BA industry.

BA investing in Malaysia, as shown in Table 3, is comprised of five main characteristics: angel investing is a new phenomenon; investment opportunities do exist; however, the investment ecosystem is perceived as weak; many active BAs are looking for deals, but access to high quality deal flow is a concern; and government plays both a positive and negative role in angel financing.

Given the short time frame of investing for the 19 BAs in this sample, the first characteristic (newness) is not surprising, and neither are the corollaries from Table 3 of a lack of understanding about angel investing, very few BA success stories and concerns about a lack of professionalism among BA investors. BAs are very interested to invest because they perceive many investing opportunities due to start-ups seeking funding, which represents the possibility for high returns. This has resulted in increasing interest in BA investing from high net-worth individuals; especially Chinese-Malaysians. BA networks are also increasing along with growing interest from foreign BAs. On the negative side, and reflecting the institutional voids problem, BA's perceive the entrepreneurial ecosystem as weak because of ineffective entrepreneurs and difficulties in both doing a deal and exiting; especially in comparison to Singapore, which, as shown in Table 1, ranks much higher than Malaysia in VC attractiveness. The Malaysian government is portrayed as playing both a positive role via providing tax incentives for BAs to make investments, but also a negative role by not adequately developing legal protection for minority shareholders, an institutional void issue which is common to many emerging economies.

Relatedly, the investing challenges (Table 4) are a direct function of the characteristics: deal flow is weak, the entrepreneurial ecosystem is undeveloped, entrepreneurs are inexperienced and the legal and financial regulatory environments are both weakly developed. BAs report that the most challenging problem is finding quality deals. Conversely, many entrepreneurs are not able to find BAs. Basically, there is a lack of a matching platform to make the connection between investors and entrepreneurs resulting in a poorly developed entrepreneurial ecosystem corroborating the "poor

**Table 3** Characteristics of investing in Malaysia

Frequency (number of citations)	Characteristics
27	BA investing is new <ul style="list-style-type: none"> <li>•Many investors do not know they are BAs</li> <li>•Investors do not understand BA investing</li> <li>•BA investing is in its infancy</li> <li>•BA investing is not very competitive</li> <li>•Lack of success stories about BA investing</li> <li>•Huge discrepancy in BA professionalism</li> <li>•Some BAs lack business experience &amp; understanding technology</li> <li>•Professional service providers do not understand BA investing</li> <li>•Term sheets in Malaysia are US centric</li> <li>•Crowdfunding is a new and good idea, but difficult to understand</li> </ul>
21	Many investing opportunities <ul style="list-style-type: none"> <li>•Many opportunities in traditional industries</li> <li>•Many start-ups are looking for money</li> <li>•Very interesting to invest</li> <li>•High-risk investing</li> <li>•Potential for high returns</li> <li>•BAs want to control risk</li> <li>•Now in the 3rd wave of BA investing (artificial intelligence)</li> <li>•Many top quality management teams and successful exits</li> <li>•Easy to incorporate</li> <li>•Improving entrepreneurial ecosystem</li> </ul>
17	Poor ecosystem <ul style="list-style-type: none"> <li>•Many BAs become passive investors</li> <li>•Malaysia is a small market</li> <li>•Entrepreneurs lack a regional perspective</li> <li>•Managers are weak in execution</li> <li>•Weak entrepreneurial ecosystem</li> <li>•Difficult to IPO so go to Singapore</li> <li>•Difficult to conduct due diligence</li> <li>•Difficult to access good public data on deals</li> <li>•Difficult to commercialize university projects</li> <li>•Investing outside Malaysia to avoid tax</li> <li>•Some entrepreneurs have become “professional fund raisers”</li> <li>•Some company cultures can be a barrier to doing a deal</li> </ul>
16	Many BAs in Malaysia <ul style="list-style-type: none"> <li>•Many high net-worth experienced investors</li> <li>•Increasing number of BA associations and networks</li> <li>•Most BAs are Chinese Malaysians</li> <li>•Increasing VC and BA investors in Southeast Asia</li> </ul>
9	Government <ul style="list-style-type: none"> <li>•Government provides BA support via investment tax incentives</li> <li>•Lack of legal protection for minority shareholders</li> </ul>

ecosystem” characteristic in Table 3. Once a quality deal is found, due diligence is challenging due to the lack of public data and the hesitancy of entrepreneurs to share their business plans. In other words, these respondents are highlighting to existence of institutional voids that hinder market functioning (Mair & Marti, 2009).

Further exacerbating the poor ecosystem are the difficulties of scaling a business in Malaysia because it is a small market and entrepreneurs lack a regional focus beyond

**Table 4** Challenges of investing in Malaysia

Frequency (number of citations)	Challenges
27	<p>Weak deal flow</p> <ul style="list-style-type: none"> <li>•Lack of quality deals</li> <li>•Entrepreneurs cannot find BAs</li> <li>•Lack of investment platforms like crowdfunding</li> <li>•Difficult to scale businesses in Malaysia</li> <li>•Takes too long to complete a deal; too much red tape</li> <li>•Entrepreneurs pitch too much, but still afraid to share business plans</li> <li>•Hard to invest in companies</li> <li>•Difficult to find good deals for trade sales/exit</li> <li>•Difficult to find quality investors and ethical companies</li> <li>•Entrepreneurs prefer younger, tech-savvy BAs</li> <li>•Difficult to access risk</li> <li>•Lack of high-tech talent</li> </ul>
19	<p>Entrepreneurial ecosystem is undeveloped</p> <ul style="list-style-type: none"> <li>•Lack of BA education</li> <li>•Lack of knowledge of BA investing</li> <li>•Lack of high-tech brand visibility</li> <li>•Old-style, low risk investing mentality for many BAs</li> <li>•Not a good country for start-ups</li> <li>•Too much crony capitalism</li> <li>•Difficult to exit</li> <li>•Stock options are not available; lack of IPOs</li> <li>•Banks are slow in online payments</li> <li>•Financing gap, RM500K–1.5M (\$150K–450K)</li> <li>•Too much focus on high tech</li> </ul>
10	<p>Entrepreneurs are inexperienced</p> <ul style="list-style-type: none"> <li>•Entrepreneurs have poor skills; especially negotiating</li> <li>•Difficult to monitor investee companies</li> <li>•Entrepreneurs do not understand term sheets</li> <li>•Entrepreneurs are weak in execution</li> <li>•BAs are perceived as inflexible</li> </ul>
9	<p>Weak government leadership</p> <ul style="list-style-type: none"> <li>•Too much dependence by entrepreneurs on government subsidies</li> <li>•Too many government agencies causes confusion</li> <li>•Lack of transparency in government regulations</li> <li>•Political environment creates uncertainty</li> <li>•Government corruption</li> <li>•No government support for a national tech brand</li> <li>•Lack of protection for minority shareholders</li> </ul>

Malaysia. Businesses that do attempt to significantly scale their operations in the growth stage face a financing gap (US\$150K–450K) that is not served adequately by BAs or VCs. Exits are also difficult both for trade sales and IPOs in Malaysia requiring BAs to look to Singapore to for an IPO exit.

Entrepreneurs are perceived as being poorly educated about BA investing (especially not understanding term sheets), lacking high-tech skills and very weak in business execution, which relates to scalability issues. Finally, as also discussed in “Characteristics,” BAs perceive the government as a major problem because of the lack of developing effective institutions to support private-equity investing. Undeveloped

financial and legal institutions make due diligence and post-investment monitoring very important, but BAs report financial monitoring is difficult because of the low status of being a minority shareholder resulting in entrepreneurial resistance to BA's input. As a result market development is significantly hindered by institutional voids in the regulatory and financial markets domains.

### Investment outcomes

We asked each BA to evaluate their returns on two levels: first, compare the actual returns of their individual investee companies versus their expectations at the time of the investment (average/meeting expectations, below expectations, above expectations); second, compare the actual returns of their overall investment fund versus their expectations when they initiated their investment strategy (average, below, above). Table 5 shows the data for investment performance. The results are positive in that BAs report that 58% of their investee companies and 70% of their investment funds are meeting or exceeding their expectations after approximately five years of investing. Not surprisingly, 5% of their companies and 12% of the funds were classified as "too early." BAs reported that 37% of their investee companies are not meeting their expectations, but overall, on an investment fund's basis, only 18% are not meeting expectations. A significant reason given for this disparity is that some BAs indicated that a single investment generated very high returns ("hitting a home run") that caused their fund to perform above expectations. This is in keeping with evidence from the UK and US on returns.

### Business angel investing in ASEAN emerging markets

It is possible to compare Malaysian BA investing data from this study with similar studies of emerging Asian BA investing (Scheela, 2014; Scheela et al., 2015) in the ASEAN countries of the Philippines, Thailand and Vietnam. In Table 6 we show comparative data for these three countries plus Malaysia. Malaysia is the newest country to BA investing based on years of angel investing as can be seen in the bottom row of Table 6. BAs in the Philippines and Thailand are the most seasoned investors having been involved in angel investing for 18 years and 16 years respectively while

**Table 5** Malaysian angel investment performance

Investee company's performance:	
Above expectations:	20 companies (25%)
Average vs. expectations:	26 companies (33%)
Below expectations:	29 companies (37%)
Too early:	4 companies (5%)
Angel investor's aggregate investment fund performance:	
Above expectations:	6 investors (35%)
Average vs. expectations:	6 investors (35%)
Below expectations:	3 investors (18%)
Too early:	2 investors (12%)



**Table 6** BA investing: Four ASEAN countries

*Investing challenges:* (ranked in order of significance based on number of responses)

1. Convince foreigners to invest – Philippines (P)
  - Very competitive business environment – Thailand (T)
  - Weak deal flow – Malaysia (M)
  - Weak legal protection for minority shareholders – Vietnam (V)
2. Finding the right people (P)
  - Unstable political environment (T)
  - Undeveloped entrepreneurial ecosystem (M)
  - Dealing with government corruption (V)
3. Finding opportunities (P)
  - High financial risks increase costs (T)
  - Entrepreneurs are inexperienced (M)
  - Unprofessional entrepreneurs and board members (V)
4. Poor economic performance (P)
  - Weak legal framework (T)
  - Weak government leadership (M)
  - Takes time to restructure a business (V)

<i>Fund performance:</i>	<i>Philippines</i>	<i>Thailand</i>	<i>Malaysia</i>	<i>Vietnam</i>
Below expectations	14%	25%	18%	13%
Meeting expectations	38%	40%	35%	38%
Above expectations	41%	35%	35%	50%
Too early	7%	0%	12%	0%
Average years investing	18	16	5	6

Data for the Philippines, Thailand and Vietnam were taken from Scheela et al., 2015

Vietnam and Malaysia are relatively newcomers with six years and five years, respectively of investing experience.

All four countries experienced fairly similar BA investing challenges, which are generally problematic in emerging countries lacking fully-developed legal, financial and political institutions. While each country exhibits some unique investing challenges, most challenges cross borders. In all four countries it is challenging to do deals in an environment characterized by institutional voids, an undeveloped entrepreneurial ecosystem, weak government leadership, limited protection for minority shareholders, weak deal flow and a very competitive business environment.

In spite of these significant investing challenges, BAs in all four countries report very positive performances (meeting or exceeding expectations) for their investment funds. Positive results (% meeting expectations + % exceeding expectations = positive performance) range from 70% positive performance for Malaysia to 88% for Vietnam. Similar to these three countries, Malaysian BAs have also developed an investment process based on hands-on, active investors providing many pre-money (intensive due diligence) and post-money (close monitoring) value-added services besides equity resulting in positive investment returns.

This raises an important question: how, given the impact of institutional voids on hindering the functioning and development of the market, have Malaysian BAs been able to secure such apparently good returns? From the institutional voids literature, we can posit three explanations. First, in incomplete and inefficient markets characterized

by institutional voids knowledgeable, known and trusted economic agents—in this case angel investors—can exploit arbitrage opportunities, avoid competition from other investors for deals and invest at more favorable (lower) valuations. Second, drawing on the business groups literature (Manikandan & Ramachandran, 2015) it is clear that incomplete markets provide profitable opportunities for economic agents (investors) with preferential access to resources (investment capital), and that coordination failure caused by incomplete markets in particular means that opportunity can inhere in novel combinations of existing resources (Denrell, Fang, & Winter, 2003). Exploiting such opportunity (investment) is facilitated by the existence of social solidarity, social structure and a strong logic of reciprocity (Smangs, 2006) among the agents in the market. In essence, in building up strong informal networks, BA investors are to some extent able to bridge institutional voids and in so doing see a governance logic based on reciprocity, shared social context and shared identity replace a context low on opportunism with one based on trust, cooperation and knowledge sharing (Manikandan & Ramachandran, 2015: 600–601). Third, drawing on the strategy and business history literature (Gao et al., 2017), in emerging markets characterized by institutional voids reputation becomes a key strategic asset. Reputation comprises three elements: prominence (the visibility of investors to potential investees), perceived quality (the competence, experience and trustworthiness of the investor) and resilience (the ability of the investor to withstand shocks—e.g., financial crisis, macroeconomic downturns). Institutional voids hinder “potential transaction partners from credibly signaling, accessing, and validating relevant information, [and] a key structural feature that deters welfare-enhancing transactions ... [is] ... *potential transaction uncertainty*” (Gao et al., 2017: 3). In the absence of institutional credibility enhancers and adjudicators, it is the investor’s reputation that provides transactional confidence. How that reputation is developed, maintained and signaled in emerging markets, and the implications for the design and implementation of policy initiatives designed to improve the functioning and development of the angel market, remain fruitful avenues for further research.

## Discussion

### Contributions

We have contributed to both the institutional theory and BA literatures by increasing the BA database and findings of emerging Asian BA investors operating in institutional voids. Based on Table 6, we are beginning to see similar characteristics and trends in multiple emerging countries that will allow governments to develop policies to further strengthen institutions supporting private-equity investors. We have corroborated previous institutional theory and BA investing research (Scheela, 2014; Scheela et al., 2015) that legal and financial institutions clearly can make a positive impact on both increasing and improving BA investing in emerging economies. We have also further shown how emerging-economy BAs operating in low- and middle-income countries have developed effective investment strategies based on extensive networking, in-depth due diligence and hands-on post investment monitoring of investee companies. However, there appears to be a middle-income trap confronting BA investors. BAs investing in an upper middle-income country acknowledge many

institutional challenges similar to those facing BAs operating in lower middle- and low-income economies. This is surprising in Malaysia given the government's efforts to aggressively improve the entrepreneurial ecosystem, yet BAs in our sample report significant institutional challenges, which are characteristic of institutional voids.

Our research contributes to an emerging reconsideration of the nature and role of BA investing. Once thought of as a phenomenon restricted to the advanced industrial economies of North America and parts of Western Europe, it is increasingly the case that BA investing occurs much more widely (Lo, 2016a, 2016b; May & Liu, 2016). This spread of the BA investing phenomenon demonstrates, first, the great diversity of this phenomenon in response to variations in economic, political, social and institutional circumstances, and second, the importance national and regional/local governments attach to stimulating and supporting angel investment through regulatory change, tax incentives, and support for angel networks. This attention reflects one crucial fact: an effective and impactful economic development process requires the development of a well-configured and functioning entrepreneurial and innovation ecosystem, within which the new firms that will transform industries and markets, drive the emergence and exploitation of new technologies and create new employment and wealth can emerge and grow (Harrison, 2016; Spigel & Harrison, 2016).

This research also contributes to practice in that it suggests ways in which BA investing and other entrepreneurial finance can improve growth entrepreneurship (Chen, Chang, & Bruton, 2017). This is particularly crucial in helping countries avoid the middle-income trap whereby an economy gets stuck in the middle-income range and cannot move up into more developed economy status (Liu, Serger, Tagscherer, & Chang, 2017).

## Limitations and future research

BA research in emerging economies tends to be based primarily on non-random-purposive small samples resulting in external validity issues. Future studies are necessary to increase the scope within emerging countries (larger samples) and between emerging countries (more countries). Within ASEAN, expanding BA research to include the emerging but under-reported economies of Cambodia, Indonesia, Laos, Myanmar and Vietnam (only a small pilot study has been completed) is needed to provide a more comprehensive understanding of BA investing in emerging economies in general and, more specifically, investing in emerging ASEAN economies. With the increase in BA networks (BANs) in emerging economies, researchers will be able to build larger and more credible data bases. This paper was able to access BAs who are members of a newly developed BAN, which will allow further research as both the BAN membership and number of deals significantly increase.

These new and growing firms on which the economic development process depends do not emerge in a vacuum. Neither are they just the creation of the talented, visionary and heroic entrepreneurs that establish and develop them. Rather, they are the outcome of a systematic and systemic process of development set in a context—the entrepreneurial ecosystem—that encourages the start-up process, supports business venture growth and nurtures entrepreneurs in realizing and implementing their visions (Spigel, 2015; Stam, 2015). Ecosystems are the economic and social environment surrounding and supporting the new venture creation and development process and support a

particular kind of high-quality, growth-oriented entrepreneurship as opposed to simply raising the overall rate of venture formation (Chen et al., 2017; Su, Ahlstrom, & Cheng, 2013). That is, the characteristics of an ecosystem do more than just encourage people to start new firms; they create the environment in which entrepreneurs can discover untapped market niches and draw on the resources, support, and financing they require to structure and grow the firm into a globally competitive player. In this sense, ecosystems are key “actors and factors” that facilitate high quality, innovation-based entrepreneurship (Ahlstrom, 2010; Wang et al., 2008).

Research on entrepreneurial ecosystems has identified a wide range of factors and elements that need to be in place to support entrepreneurial development and subsequent effective governance (Liu et al., 2017; Spigel & Harrison, 2016; Young, Peng, Ahlstrom, & Bruton, 2003). These can be grouped into six interconnected domains; three of these are the micro-conditions for a successful entrepreneurial ecosystem and three are the macro-level conditions for success. The micro-conditions include access to finance; availability of human capital; and access to markets. First, and the subject of the analysis in this paper, there needs to be access to available sources of entrepreneurial finance from BAs and VCs. Second, there must be relevant human capital availability and investment, such as skilled labor, serial entrepreneurs and entrepreneurial training programs. Third, there is a need for markets for products that are venture friendly, with early adopters and reference customers. The macro-conditions are: facilitating policies; institutional supports; and a supportive culture. First, there must be a range of facilitating policies in place, including an appropriate regulatory environment, intellectual property, and corporate governance regime (Peng, Ahlstrom, Carraher, & Shi, 2017; Young et al., 2003).

Second, institutional and infrastructural supports are essential, ranging from a skilled and knowledgeable professional advisor community through to entrepreneurship support organizations. Third, there needs to be a supportive culture, reflected in a positive image of entrepreneurship, a positive social status of entrepreneurs and a willingness to tolerate risk and mistakes. Our research on the recent evolution of the BA market in Malaysia, from an institutionalist perspective, demonstrates the important role of government and quasi-governmental innovation and development agencies, working with private sector bodies, in improving access to finance by stimulating the development of the BA market. The Malaysian experience also demonstrates the importance of taking other measures, such as human capital improvement (through mentoring programs), facilitating policies (such as angel investor tax incentives), institutional support (public and private sector entrepreneurship and innovation support organizations) and wider initiatives (such as media campaigns and high profile conferences). BA investing does not exist and cannot develop in a vacuum. They are and must be seen as an integral component in the entrepreneurial ecosystem.

Entrepreneurial ecosystems represent an insightful framework to understand the relationships between the entrepreneurship process and its local environment, and provide a powerful policy tool to help regions catalyze sustainable, entrepreneurship-led economic development. Entrepreneurial ecosystems emphasize the importance of entrepreneurial resources, such as knowledge of how to start and grow a business, early stage investment capital, entrepreneurial mentors, and employees used to start-up environments. This is a relational approach emphasizing that entrepreneurial ecosystems are more than regions with high start-up rates but instead driven by interlocking attributes that help to sustain each other over time.

BAs play an important role in such ecosystems. Directly, they provide the finance to support venture formation and growth, and make a value-added contribution to the strategic development of the business and the entrepreneur. As the formal VC industry moves away from small scale and early-stage investment, as has been the case in most Western economies, BA investment becomes ever more important in underpinning entrepreneurship-led economic growth and development. Indirectly, BAs also contribute to and enhance other elements of the entrepreneurial ecosystem: they support and educate entrepreneurs through their value-added contribution; they recycle the benefits of their own entrepreneurial successes as investment in the next generation of entrepreneurs; they and the entrepreneurs they support provide highly effective role models and help build an entrepreneurship-friendly culture; and through their activities they can encourage government and its agencies to implement regulatory and legislative changes that support rather than constrain entrepreneurship. This paper has demonstrated that angel investing is indeed becoming a global phenomenon. It also demonstrates, using detailed new evidence for Malaysia and comparative data from other ASEAN economies, that each country is different: while the investment process is in many ways generic, the nature of the entrepreneurial ecosystems and the relative strengths of their elements varies considerably. What is clear is that a strong and active BA investment community can be the anchor point around which entrepreneurial ecosystems can develop and economic development take place.

## Conclusion

Results of an in-depth exploratory study of angel investors in Malaysia indicate that angel investors in our sample generate strong returns, though they do find it challenging to invest in and monitor new ventures in Malaysia's highly uncertain and competitive environment where there is high political uncertainty, weak legal and financial support for investors and inefficient government support for SMEs (Lerner, 2009). In order to overcome weak institutional support, BA investors develop informal institutions by investing with family members and government officials, when permitted. They also conduct careful due diligence before investing and closely monitor their investee companies after investing. Our research also corroborates the small though growing number of studies that angel investors can make significant contributions to the economic development of emerging economies by investing in and developing potential high-impact new ventures. Relatedly, and of some concern, our research also identifies that Malaysia may also be facing the middle-income trap, which has hampered many lower- and middle-income countries as they strive to improve their economic status. Aiding and improving angel investing by reducing institutional voids and encouraging innovation and new venture creation is necessary for the continued commercial and economic development of the full spectrum of emerging economies from lower- to middle-income countries.

## Compliance with ethical standards

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**Richard Harrison** (PhD, Queen's University Belfast, UK) is Professor of entrepreneurship and innovation at University of Edinburgh Business School, Scotland, UK. His research concentrates on business angel and early stage venture finance and he has advised governments, development agencies and business groups internationally on risk capital and venture finance issues. He has lectured, advised and consulted on the development of the business angel and early stage risk capital market in the UK and internationally and is a regular speaker at business angel conferences, including those organized by EBAN, Business Angels Europe, UKBAA, Angel Capital Alliance (US) and Asia Business Angel Association. In recognition of the importance of this research he is the 2015 recipient of the ESRC Award for *Outstanding Research Impact on Business*. He is co-editor of the research journal *Venture Capital: An International Journal of Entrepreneurial Finance*, the leading publisher of academic research on risk capital.

**William Scheela** (PhD, University of Minnesota, Carlson School of Management) is Professor Emeritus of business administration at Bemidji State University, which is part of the Minnesota State University system in the United States. Professor Scheela's research focuses on venture capital and business angel investing in emerging Asian economies and he is the author of *Venture Capital in Asia: Investing in Emerging Countries*. He was visiting lecturer at The Chinese University of Hong Kong and visiting professor at both National Economics University of Vietnam in Hanoi and the Asian Institute of Management in the Philippines.

**P. C. Lai** (PhD, University Tenaga Nasional, Malaysia) is the Head of Innovation and Business Development with the University of Malaya (UM) Centre of Innovation and Commercialisation as well as Research Fellow with UM Deputy Vice Chancellor (Research & Innovation) in Malaysia, and was the Scholarship Holder for both her doctorates (DBA and PhD cum laude). Her research areas are in venture capital, technology management, consumer engagement management, and behavior analysis. She has won numerous Asia Pacific ICT awards and is the only ASIAN voted 1 of Top 3 favorites at Next Bank Asia in 2014. Her mission is to build a positive environment and contribute to the Caring, Loving and Sharing (CLAS) society where dreams become alive with business ventures and the technologies that make life special.

**Sivapalan Vivekarajah** (PhD, University of Edinburgh, UK) is the President of the Malaysian Business Angel Network (MBAN) based in Kuala Lumpur, Malaysia. He is an active Angel investor, mentor and coach and runs a Malaysian government sponsored 12-month coaching program called the Coach and Grow Program (CGP). Over the last 6 years CGP has coached 1,300 entrepreneurs in the technology sector. Siva is also a regular speaker, moderator and panelist with a specialization in entrepreneurship and investment. He has also authored two books: *Blue Sky Innovation*, a book on business innovations and *Startups to Scaleups: Spurring the Next Generation of Asian Tech Tigers*. He is passionate about creating a robust ecosystem for entrepreneurship in Malaysia and has written numerous white papers and submitted recommendations to, and consulted for, the Malaysian government in the areas of angel investing, equity crowd funding and venture capital investing.

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