

# CHAPTER I

## INTRODUCTION

### 1.1 Research background

The phenomena of venture capital investment originated from United States in late 1940s (Mueller, 1972). Venture capital investment (VC) entered the Asian market in the late 1960s with Japan being the first to attract foreign venture capital investment followed by China and Singapore (Mueller, 1972; Bruton et al. 2004; Naqi & Hettihewa, 2007). By 1980s, venture capital activity started to grow at an impressive rate in Asia. The Asian VC market reports an annual average growth rate of 15% over the last 15 years compared to 6% in Europe and 4% in United States (Naqi & Hettihewa, 2007). This growth mainly attributed to the major economic development within the region during this period.

The global startup economy continues to grow, valuing US \$ 2.8 trillion between 2016 and 2018, indicating a 20.6% increase over the previous period and more than double the growth five years ago (Pramana et al., 2020). Until 2018, VCs worldwide have invested a total of US \$ 220 billion on one occasion. (StartupGenome, 2019)

Based on CB Insight research, as of 2021, the number of start-ups in ASEAN with a valuation of over US\$1 billion has reached 21 entities, comprising 17 unicorns and four decacorns. In 2018, Indonesia already has four market companies that passed Unicorns phase. Companies such as Gojek, Traveloka, Bukalapak and Tokopedia have reached \$1 billion without entering the stock

market. Start-ups in the F&B sector in Indonesia have also received an injection of funds from venture capital to develop their business. Kopi Kenangan, which was founded by Edward Tirtanata, which received the first round of series C funding worth 1.3 trillion from Tybourne Capital Management, has also succeeded in obtaining the status of the first Unicorn F&B company in Indonesia and Southeast Asia (Vlora Riyandi, 2022).

The Minister of Communication and Informatics said that the digital economy in Indonesia in 2020 will reach US\$ 130 billion or Rp. 1,831 trillion (Kominfo,2010). This will affect Indonesia's gross domestic product. Therefore, investment by venture capital is needed so that start-ups can grow and develop.

Venture capital is the resource that commercializes an idea through specialized investors, and venture capitalism has been instrumental in providing the necessary financing to entrepreneurs over the past several years (Hellmann and Puri [2002], Cumming and Sofia [2012], Gompers [1996]).

Norton (1996) found that almost half of the proposals proposed by entrepreneurs got rejected by venture capitalists because it does not meet the criteria. About 60% of the proposals are rejected in the first phase, and only less than 3% of the rest are undertaken by venture capitalist to invest (Simic, 2015).

Empirical studies have found that of 100 proposals, more than 50 do not fit the selection criteria and are rejected by potential venture capitalists (Albers [2006], Norton [1995]). It is important for a start up to understand the investment criteria of VCs to assure their access to financing (Hall and Hofer [1993]).

According to Hall & Hofer (1993) knowledge of investment criteria is important for start-up seeking funding from venture capital. Investment criteria that are considered important by venture capitalists for assessing and selecting start-ups are stated in many studies (Tyebjee and Bruno., 1984; MacMillan et al., 1987; Hall and Hofer., 1993; Zacharakis and Shepherd., 2007)

Therefore, many studies that already classified the investment criteria. Macmillan et al. (1985) conducted the study on venture capitalists in the United States and considered five classifications of investment criteria: entrepreneur's personality, entrepreneur's experience, characteristics of the product or service, characteristics of the market, and financial consideration. Based on study, it also found that the characteristics that used by the venture capitalist are do not differ significantly from the criteria applied in United States (Zutshi et al., 1999).

Investment criteria is important to help start up to get financing from venture capital. Also, understanding the decision-making process is also help the start up to prepare themselves before submitting their proposal to venture capitals.

Cope (2004) argued that the venture capital decision-making process is heterogeneous, and many studies have been conducted on the selection criteria used by venture capitalists for investment in entrepreneurial firms (Tyebjee & Bruno, 1984; Hall, 1989; Fried & Hisrich, 1994)..

Understanding the investment criteria and decision-making process can help startups tailor their strategies, pitches, and business plans to increase their chances of securing funding. It also will help startups to find out what criteria considered crucial so they can make them a priority.

Authors worldwide try to answer the question what the most important investment criteria are within specific main categories of business evaluations that venture capitalists consider when making decisions, but no research has come to unique conclusion. Moreover, the same authors in different studies have come to different conclusions. Most studies go to multiphase estimation that considering five basic categories: entrepreneur or management characteristics, product or services, market, financial and other characteristics . Further, there is lack of literature in the past has attempted to mapping the most investment criteria and decision-making process.

Based on the description above, researcher interested to conduct research with the title "Mapping investment criteria and decision-making process of the Venture Capital"

## **1.2 Problem statement**

The formulation of the problem of this research to mapping the investment criteria and decision-making process of venture capital

1. To mapping the investment criteria of venture capital.
2. What are the investment criteria that have been most discussed in the literature?
3. To mapping the decision-making process of venture capital.

## **1.3 Research Objective**

The objective of this research is intended to:

1. To mapping the investment criteria of venture capital.

2. To mapping the the specific criteria in investment assessment cluster and what is the frequency with which each of them has been considered in the literature.
3. To mapping the decision making process of venture capital.

#### 1.4 Research Benefits

This research is expected to have benefits for some parties as follows:

1. For Researcher

This research is expected to give knowledge about the mapping of investment criteria and decision-making process of venture capital.

2. For Company

This research will be useful for company as a consideration in obtaining an investment from venture capital.

3. For Further Research and Others

This research is expected to be a reference and additional literature for future research within the same topics.

#### 1.5 Writing Systematic

Writing systematics used to give a clear picture of this research, so that the readers can understand the content of this research. This research contains 5 chapters that will be explained as follows:

Chapter 1: Introduction

This chapter contains the general description about the topic of research, which consists of the research background, problem statement, research objectives and benefits, scope of research, and writing systematic.

## Chapter 2: Literature Review

This chapter contains the explanation about basic theories underlying to this research which are gathered from different sources such as opinions from the experts, books, journals, and review of previous research to support the hypothesis generation of the study.

## Chapter 3: Research Method

This chapter provides information of an overview of the plan in doing the research including the research design, research model, operational definition and research variable, population and sampling, data and data collection method, and analysis method.

## Chapter 4: Analysis and Discussion

This chapter gives explanation about the data processing result based on research methodology and analysis as well as discussion of the research results regarding the mapping of the investing criteria and decision-making process of Venture Capital.

## Chapter 5: Conclusion and Suggestion

This chapter describes the conclusion from analysis of data, limitations of this research, research implications, and the suggestions for further research.

