

How Do Venture Capital Make Investment Decision A Case Study of PT XYZ

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Abstract. Due to the very low start-up success rate, venture capital is required to be more careful when it comes to investment decisions. An understanding of how venture capital evaluates startups is important, so startups can know the criteria that are considered important to make that startup a priority. This study wants to explore how PT XYZ makes funding decisions, how criteria they set before funding a start-up. Interview was the only instrument used in this research. The results of the interview show that PT XYZ uses an investment analysis they design themselves, namely the 5P to assess whether the start-up is feasible to fund. 5P are people, product, potential market, performance and potential upsides. This research is expected to be useful in the field of accounting, especially funding.

Keywords : Venture Capital, Startup, Investment analysis, Decision making theory.

1 Introduction

The level of investment risk faced by venture capitalists is still relatively high. According to the website wartaekonomi.co.id, 2019 [1], Yudi Candra, a digital economy observer, stated that the success rate for start-ups in Indonesia was only 1% while the rest failed. Due to the very low start-up success rate, venture capital is required to be more careful when it comes to investment decisions. Investment decisions in venture capital companies made by managers are reflected in a serious investment analysis, especially to assess the expertise of the founders and start-up teams in managing funds as potential investment recipients [2]. An understanding of how venture capital evaluates startups is important, so startups can know the criteria that are considered important to make that startup a priority [3]. Based on these reasons, this study will explore how PT XYZ make investment decision, how selection process on PT XYZ and what are ideal criteria they set for start-ups before investing in them.

Research related to collaborative ventures between venture capital and start-ups is still very rare, especially in Indonesia. Even though Indonesia has the highest number of start-ups in ASEAN region and sixth in the world. In 2022, there will be 2387 start-ups in Indonesia [4]. Especially in this research will focus on the PT XYZ company as the first Corporate Venture Capital (CVC) in Indonesia that is registered with the OJK and agrees to comply with domestic regulations.

This research is expected to be useful in the field of accounting related to capital or investment. This research is also expected to contribute to the gap of previous research conducted by Bocken [5] and Monika and Sharma [6] considering object of previous research are in other countries so the difference in further research lies in the object of research where there are differences in organizational culture and there are no regulations governing how venture capital should make investment decisions so each venture capital has a different investment decision design.

The results of this study are expected to provide benefits to start-ups by providing information so that start-ups can find out ideal criteria and become a concern when the selection process is carried out by venture capital companies before making investment decisions.

2 Literature Review

2.1 Decision Making Theory

This theory was first used by Herbert A. Simon in his book entitled Administrative behavior: A Study of Decision-Making Processes in Administrative Organizations, which was published in 1947. Based on Rogers [7] in Widyantoko, Prasetyo and Rosidah [8] states that there are three main stages in decision making, namely intelligence activities, design activities, and choice activities.

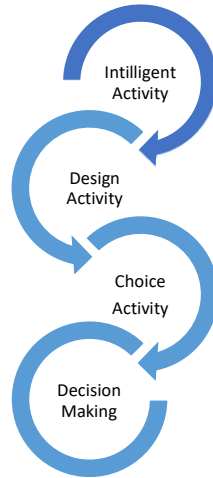


Figure 1: Decision Making Model

Source: Rogers [7] in Widyantoko, Prasetyo and Rosidah [8]

In intelligence activities, this activity is carried out by studying the environment in which a decision is needed. This activity is related to the analysis stage in looking for signs of a problem. In the design activity, the activities carried out are finding, developing, then analyzing the possibility of an action to be taken. At this stage of design activity, it must be in accordance with the stage of identifying and evaluating the best alternative to go to the next stage, namely the selection activity. Then the last is the selection activity, namely choosing among several alternatives that have been compiled and developed and analyzed based on the problems that have been identified.

In this study, we will see how the funding decision process is carried out by PT XYZ in selecting start-ups to be funded. This theory is used as a reference whether the decision-making process related to funding at PT XYZ has passed the stages as Simon's theory of decision-making.

2.2 Venture Capital Funding Decision

Buchner et al. [2] explained that investment decisions in venture capital companies made by managers are reflected in a serious investment analysis, especially to assess the expertise of the founders and start-up teams in managing funds as potential investment recipients. Venture capital funding decisions are different from banks and other financial institutions. Maristiana et al. [9] said that before providing funding, banks and other financial institutions must pay attention to the 5C elements (Character, Capital, Capacity, Collateral, and Condition). At the bank, prospective customers will also provide collateral or guarantees which are usually worth more than the amount of credit given. Venture capital has a different analysis from Banks so that venture capital does not need collateral in the funding they provide to partners [10]. Funding decisions made by each venture capital have a different analysis depending on the geographical conditions, the investment sector and how much funding will be provided. Causing the funding decision process to differ from one venture capital to another [6]. This study will analyze how the funding decision process is carried out by PT XYZ and what the funding criteria are. In addition, researchers also use research conducted by Bocken [5]. This study aims to understand how venture capital can support the development of a start-up business. This study provides insight into how venture capital can contribute to start-up success by investigating the roles, motivations, and barriers and drivers for start-up success. Based on the limitations of the research, it is recommended for further research using samples in developing countries because they have the opportunity to develop sustainable businesses and industries from the start. Then, for further research PT XYZ was selected to be an object to fill the gap in previous research.

3 Method

This research is a case study research that uses a qualitative approach because it wants to see and understand the events that occurred from the respondent's or participant's point of view. Research instrument in this study was an interview conducted in a semi-structured manner. The selected respondents are respondents who understand the flow of investment and the development of start-ups at PT XYZ. Research questions are based on the theory from this research and to answer research questions regarding the investment process at PT XYZ and what are the ideal criteria

that start-ups should have in order to make it easier for them to get funding. Based on the data obtained, then the data analysis process is carried out with descriptive qualitative analysis including content analysis, and constant comparative analysis and processed using the NVivo12 Pro software application.

3.1 Participant/Sample

Interviews were conducted with four resource persons from PT XYZ who were the objects of analysis. The informants were selected based on the positions described in Table 5.1 so that the selected speakers were more aware of the investment process carried out by PT XYZ and were suitable for answering research questions.

Table 1. Characteristics of Respondents

Interview Respondents	Gender	Role
Respondent#A	Female	Investment Associate
Respondent#E	Male	Head of Investment
Respondent#K	Male	Venture Fund Specialist
Respondent#MA	Male	Investment Associate

4 Result

The main word that became the focus of the interviewees during the interview was founder. The fact that happens is the factors of success and failure are very dependent on the expertise of the founder. The founder must have the managerial ability to form a solid team.

"Founders are very influential to form a solid team with bright ideas, we also value the compatibility between the founder and the product". (Respondent#A, 2021).

Founders are the key to the success and failure of start-ups, products and markets can still be developed but it is difficult to change the characteristics of a person. Even for successful start-ups, if the founder has problems, the start-up will also experience failure.

Based on the results of interviews with four respondents, there are several differences and similarities by PT XYZ in determining the factors of failure and success as well as the minimum criteria that start-ups must have to make it easier for them to obtain funding. In terms of failure and success factors, three respondents agree that the founding factor is the main key to the success of a start-up so that the founder must have a clear vision and mission and have good managerial skills. The three respondents also agreed that with mentoring, the founder and team could further hone their managerial and product development skills so that they could overcome the risk of failure. While one respondent said that the time factor is very influential.

"No matter how great the founder, the most important thing is don't miss the timing, which is the momentum of the business." (Respondent#E, 2021).

5 Discussion

The investment decisions in PT XYZ were designed by themselves using the 5P approach. The 5Ps are people, product, potential market, performance, and potential upsides. People can see the solidity of the team members, the background of the founder and then also whether the founder is suitable to develop the product. The next P is a product. Assessment of the product is seen whether the product is in accordance with market needs, the product must also be able to develop according to market needs and not stagnate. The third P is a potential market. This aspect assesses which market they will enter. In this aspect the founders are also very important to decide which market to enter. For performance, it is assessed whether they are able to achieve the targets set by PT XYZ. Finally, the last P is potential upside. The start-up is assessed with future growth prospects, because for PT XYZ the most important thing for a start-up is its valuation to increase.

Based on decision making theory by Simons, PT XYZ has gone through the three stages of the process where in the first stage PT XYZ first analyzes the factors that often experience problems in developing start-ups, namely the founder, product and market. After identifying the problems that will arise, then PT XYZ creates or designs an assessment indicator before funding a start-up, namely the 5Ps (people, product, potential market, performance, and potential upsides) where start-ups that wish to obtain funding must be assessed against five indicators. It can be said that before deciding on which start-up will receive funding, PT XYZ has gone through the stages of the investment decision-making process according to Simons.

The 5Ps described above are also indicators of investment assessment by PT XYZ. The ideal criteria to make it easier for start-ups to get funds from PT XYZ is that the start-up must get a perfect score from the 5P which is an investment analysis tool for PT XYZ. If start-ups are able to meet the five indicators above, it will make it much easier for them to get funding from PT XYZ. Based on information obtained from MA sources, PT XYZ is still considering accepting start-ups that are unable to meet the five indicators provided that they meet the minimum criteria that are very important to be met in order to obtain funding, every P on the 5P indicator is worth 5 points, start-ups must be able to get 3.5 points from each of the most influential 3Ps, namely people, products and potential market. If the start-up fails to score 3.5 for every P of the 3P's it will be very difficult to get funding.

Information about the ideal criteria and minimum criteria that must be possessed by start-ups is expected to be useful for start-ups later to prepare themselves when they want to obtain funding for venture capital, especially PT XYZ. By knowing this information, it is hoped that start-ups will be able to find out what must be a priority in preparing to obtain funding so that later start-ups will easily excel in the competition.

6 Conclusion

The findings in this study have answered a research questions regarding investment decisions, the ideal criteria that must be owned by start-ups. Analysis of investment decisions carried out by PT XYZ uses an assessment of 5P indicators, namely people, product, potential market, performance, and potential upsides. The five Ps must be owned by start-ups in order to make it easier for them to obtain funding so that the five Ps are also ideal criteria that must be owned by start-ups. Further research is recommended to add startups that are directly funded by PT XYZ so that they can directly confirm the contribution of PT XYZ.

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