

CHAPTER I

INTRODUCTION

1.1 Research Background

Venture capital, in the form of capital funding, is now widely seen as an essential component of effective economy, allowing the establishment and growth of enterprises that may be unable to secure funds through debt or other methods (DTI, 2005). Over the last few decades, venture capitals have been incredibly valuable in funding business venture (Hellman and Puri, 2002). Gompers and Lerner (2001) stated that venture capitalism has emerged as one of the driving forces of economic and industrial growth in developing nations as well. The level of economic development, liberal trade policies, technological advancement, the existence of national systems of innovation, the level of entrepreneurship, labor practices, corporate ownership regulations, educational achievement, legal system, and business culture are all factors that influence the venture capital industry in every country (Çetindamar, 2003).

By offering additional value services to entrepreneurs, venture capital also adds to and enhances a nation's national economic growth in terms of sustainability, GDP growth, and employment (Dhochak and Sharma, 2016). Due to the fact risk of investing in a new business venture, venture capitalists weigh several factors before making decisions, including the characteristics of the entrepreneur, gender, brand or service characteristics, the characteristics of the market, managerial skills, financial considerations, economic considerations, and

institutional & regulatory surroundings. Before deciding to invest any project, venture capitalists go through severe evaluation processes in order to make the best investment choice and reduce the risk related to the new business (Batterson, 1986). They use a variety of evaluation methodologies, including quantitative and qualitative methods, to achieve this goal.

Venture capital is frequently invested in small businesses that deal with scientific research and the application of contemporary technologies, which are high-risk ventures. The venture capitalist offers the funds understanding that the company's future profitability and cash flow are affected by significant risk (Meena., L.K. et.al, 2018). Due to high degrees of uncertainty, adverse selection, and moral hazard difficulties associated in financing fledgling enterprises, traditional sources of funding are limited since the venture capitalists hold an essential role in new enterprise funding (Tykvova, 2007). However, if they attain a successful market cooperation, they will gain a high degree of profitability when compared to other start-ups. Companies engaged in the manufacture and development of computers were considered risky ventures in the 1970s (Ramadani & Gerguri, 2011).

Lins & Lutz (2016) stated that the notion of staged financing, a venture capitalist can revalue an investment on a regular basis and quit it if the estimated net present value (NPV) falls below zero. This strategy overcomes agency conflicts between the venture capital firm and new enterprises since the new firm's founders have a higher motivation for making their business more successful than if all of the funding required is delivered instantly. The startup grows is becoming less risky

over time, and the venture capitalist receives a correspondingly less ownership interest for a certain investment amount with each successive step. With advances in psychology, an attempt has been made to investigate the complex decision-making system by better understanding several broad and micro-level factors, as well as their merged impact on investment decisions.

Early research has largely focused with venture-specific qualitative characteristics while considering venture as the asset in focus (Kollmann & Kuckertz, 2010). Gender's role as in banking business has received plenty of attention in the news and public discussions over recent years. A lawsuit alleging gender discrimination toward Kleiner Perkins Caufield and Byers in 2012 brought attention to the venture capital sector. Kathryn Trucker, the founder of RedRover, and Rachel Sklar, the founder of Change the Ratio, are two of noteworthy women who have expressed issues about gender discrimination by venture capital firms. Those entrepreneurs discuss their experiences with venture investors who have supposedly remarked to be wary of investing in women businesses. These examples highlight the practical significance and relevance of the scientific issue (Lins & Lutz, 2016).

Wanigasekara and Surangi (2011) elaborates that the majority of studies have discovered a substantial correlation between business experience, education, and success. Enterprise funders aspire high-growth company ventures more likely to be founded by better educational attainment business owners since education is strongly related to the profitability and growth of a new venture (J.R. Baum & Locke, 2004). The institution recognizes the business owners as a 3rd party with a

higher background, such as a bachelor's degree. Businesswomen with bachelor's degree should have less difficulties than the one without bachelor's degree. Women got socialized in the challenging climate of higher education in the same way as male counterparts, which must have qualified them to seek for the outside funding. Furthermore, because it functions as a verifiable qualification certificate, the third-party signal should eliminate investor discrimination.

According to (Hebron, 2018), Indonesia provides a vast market for foreign enterprises and the localization sector, with a population of 265 million people (the country's 4th largest country) as well as a rising middle class and teenagers. In order to boost Indonesia's economic progress, the government invests heavily in both public and private sectors. Investment in infrastructure and manufacturing, in particular, is being made with the goal of establishing links across the nation and reducing Indonesia's traditional reliance on (raw) export markets. In addition, thanks to the large population that is increasingly linked to the Internet, Indonesia has a strong digital economy and creative economy.

Even though the Indonesian coworking space is still relatively new, it has begun to expand swiftly and is showing a favorable trend for Indonesian Venture Capitalist. According to the (Cuaca, 2019), Indonesian startup funding totaled US\$3 billion in 2017, more than double from the prior year. Transactions and capital values are led by the e-commerce and transportation industries, with the largest fundraising rounds headed by Indonesia's own company unicorns such as GoJek, Tokopedia, and Traveloka. Indonesia's venture investment development isn't just due to government help, with the Indonesia Creative Economy Agency

playing a key role and a slew of legislation aimed at making it easier for entrepreneurs to get funds.

Overseas buyers grew more active in Indonesia's startup scene in 2017-2018, accounting for 95 percent of total investment value. Gojek, Tokopedia, and Traveloka, three Indonesian tech unicorns, have received money from Chinese investors. Tencent Holdings is one of the Foreign buyers in Indonesia's startup. Tencent has invested billions in several startups since 2016. Gojek, an Indonesian ride-hailing firm, is one of them. In 2017, Tencent Holdings invested US\$1.2 billion in Gojek, followed by another US\$1 billion in early 2018 from Tencent and Warburg Pincus. The funding would apparently be used to help Gojek's development into other Southeast Asian nations. Shopee, Airpay, Pomelo, and Tiki are among Tencent's other ASEAN businesses.

Out of many venture capital groups in Indonesia, Navanti and Venturra Capital are available to invest in future business. Venturra support entrepreneur to develop their business in Indonesia which until today, there are lots of business successfully build in Indonesia. The following is a list of portfolios from Venturra Fund 1: Zilingo, RuangGuru, First Circle, Luno, ShopBack, Prenetics, Kaodim, Fabeliocom, Iprice, Fave, Sociolla, TADA, Telunjuk.com, OkieLa, Grab, Bride Story. Portfolio on Venturra Discovery funding: Antler, Smart Clinic, Ekrut, Cove, Med247, Podcast Network Asia, Vui Apps, Prixia, Mio, and Infina (Mahadi, 2021). We can see that Venturra success to see the opportunity business especially in tech sector. Beside that, Venturra also do partnership with overseas investor which the reason to do this interview is understanding the company success in building a great

portfolio and this is the reason to dig from great business. Aside that, it can motivate people to keep on innovating and looking for opportunity at any side.

Navanti group do focus on investing several sectors starting from property, F&B, creative and service sector which is based from Australia (CNBC, 2020). Lots of business do provide opportunity for Asian investor especially Indonesia to be part of Australian market. Navanti Venture Capital Group do success to build lots of success business in Australia and until today, Navanti keep looking for opportunity seeds. Navanti have a very great organizational culture, which for them honesty is very important to build relationship with the investment customer. As the world is keep on changing, Navanti always update the information to follow the trend and keep up with the pace so that Navanti can provide the world what they need.

According to (Job, 2021), Navanti aggressively expand their company which the group focus on asset management and developing Indonesian to invest in Australia which is like a running incubator. They do provide program, education and also affiliate with the local government to effectively benefit most side. One of their biggest achievements is having startup technology of property in Singapore which is managing about 400 condominiums. From here we could see that Navanti trying to be the role model for the people. We choose Navanti as the interview target because we wanted to learn on how success venture group that able to link both Indonesian and Australian investor work. As they are always able to look for opportunity especially in looking for future prospect. From the website of [SparkLabs Incubation - UPH | Universitas Pelita Harapan - UPH | Universitas Pelita](#)

[Harapan](#), we can see that Navanti even able to prepare for investing in any opportunity done by Universitas Pelita Harapan student. This is clearly showing that Navanti is preparing for the future steadily.

In this research, the writer analyzes the factors that contribute to the decision of venture capital in giving funds to start-ups. The example of the data analysis can be seen as follows:

Q : Based on education level, is it a factor that determines the funding decision at Navanti, Sir?

A : Oh, hmm... Last education level?

Q : Yes.

A : Hmm, it's quite fair.

Q : So, it's quite fair.

A : It's quite fair if they cannot balance out with enough experience. We are pretty welcome to them, for example let's say his/her last education level is high school. Okay, but tell me what is your experience after you graduated from high school, what did you do? That's it, right? If we know.. Oh, it's equivalent to the experience that you might get at Bachelor degree, then we don't mind. But, if you are not a Bachelor graduate, just a high school graduate, and you don't have any experiences, not even relevant to the start-up that you are trying to build, so.... sorry to say, but we just cannot accept it.

Q : So, it means that founder's education level quite determines the

funding decision to be accepted or rejected. Is that true, Sir?

A : Yes, that's right.

Q : So, a founder with low education level, for example SMP or SMA will face a difficult situation to get the capital funding at Navanti?

A : Yes, mostly like that. Because mostly with the low education level, only graduated from SMA or still at SMA, we cannot expect them to work full time in doing the start-ups, although they will continue it to S1 (Bachelor). We are not talking about dropout. It will be really hard, because start-up business is a full dedication working hours, which cannot be taken as a part time work. So many people think it can be done as a part time work. No, it's worse than nine to ten jobs actually.

Q : I see, Sir. So, the founder's education level is something really important at Navanti? What is the reason of it?

A : Yes. The reason is because the proper education level that they got will bring them into maturity, bring them to a sufficient knowledge, at least it will be useful to start and interact with all the stakeholders needed. In other words, we don't need to teach them anymore. At least, they already know how to work as a team, how to do a leadership. At least, they have seen or they have experienced themselves to become a leader at school or while in college. So, it is very important to learn how to interact with other people and socialize with them, respecting other people, and they must have

learned it all throughout the school level. Isn't it?

From the data above, it can be concluded that venture capital companies are more likely to choose applicants with a good level of education. It is undeniable that the level of education tends to determine a person's way of thinking, life experience, and business experience in the future.

In this study, the researcher goal is to examine the factors that influence venture capital and write it in this thesis entitled “**Factors That Contribute to the Decision of Venture Capital in Giving Funds to Start-ups**”.

1.2 Research Question

Based on the background of the study, the research question in this study is:

- 1) How do the factors contribute to the decision of venture capital in giving funds to start-ups?

1.3 Research Objective

Based on research question stated, the research objective in this study is as follows:

- 1) To understand how the factors contribute to the decision of venture capital in giving funds to start-ups.

1.4 Research Contribution

The result of this study is expected to give contribution for the improvement of venture capital in giving funds to start-ups, that can be divided into two:

1.4.1 Theoretical Contribution

Theoretically, the findings of this study could help to enhance management theory, particularly in terms of factors that contribute to the decision of venture capital in giving funds to start-ups. Moreover, this study can give an overview of management and knowledge, especially on the factors that contribute to the decision of venture capital in giving funds to start-ups.

1.4.2 Practical Contribution

This study is intended to be used as an example of how to give greater attention to the factors that can influence venture capital on giving funds to start-ups, especially Gender, Education Level and Firm Innovation aspects. Moreover, the findings of this study are likely to be utilized as a reference source for those who are interested in undertaking related research forward.

1.5 Research Outline

The writer compiled the writing with the following details:

CHAPTER I : INTRODUCTION

This chapter contains research background, research question, research objective, research contribution, and research outline.

CHAPTER II : THEORETICAL FRAMEWORK

This chapter contains theories that are related to the main research problem and result. Theories include Venture Capital, Start-up, Education Level, and Firm Innovation.

CHAPTER III : RESEARCH METHODOLOGY

This chapter will discuss the type of study, data collecting method, unit of analysis, and data analysis method.

CHAPTER IV : RESULT AND DISCUSSION

This chapter consists of research findings from observation and in-depth interviews. Along with the result, a model will also be developed together with existing theories.

CHAPTER V : CONCLUSION AND SUGGESTION

This chapter contains the conclusions of what has been described in the previous chapters and suggestions for improvement for research development related to this study.