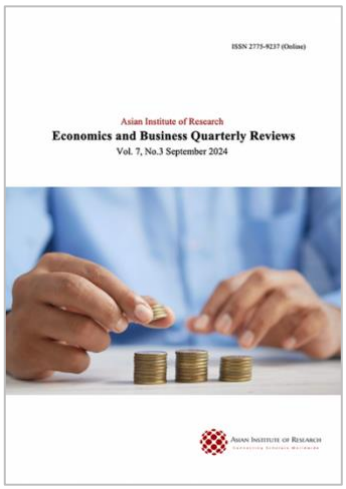

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How Do Venture Capital Firms in Southeast Asia Make Investment Decisions on Early-Stage Start-Ups

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Abstract
VC investment has undergone a substantial transition, particularly in emerging countries, where there is a growing entrepreneurial culture. Southeast Asia (SEA) has emerged as an image of trust due to its remarkable accomplishments in venture capital funding. Notwithstanding, the VC success rate is quite low, with up to 75 percent of venture-backed businesses failing to return cash to their investors and 30 to 40 percent of those 75 percent liquidating their assets, resulting in their investors losing their entire investment (Ghosh, 2012). In light of this context, this study sets out to investigate the behavior of venture capital firms in Southeast Asia and the complex decision-making processes involved. This research aims to enhance the success rate of VC firms and contribute to the advancement of VC literature by precisely identifying the relevant parameter. This study seeks to analyze the complex landscape of venture capital activities in a highly dynamic entrepreneurial ecosystem, using the complete framework created by Gompers et al. (2023). A case study, a widely recognized method in exploratory research, is used as the primary methodology to reveal novel themes and insights obtained from respondents in venture capital firms. Using a semi-structured interview, this study implies that VC fund structure and strategy, start-up screening criteria, start-up valuation, exit, and risk management have a significant effect on determining SEA VC firm investment decisions. This study is one of the first efforts to utilize Gompers et al.'s (2023) framework in the specific setting of Southeast Asia. This study contributes to the current research on venture capital decision-making by providing innovative measurement parameters, with a particular emphasis on the notion of "runway." These features, which relate to a startup's expenditure rate and its long-term viability offer a broader understanding of the financial factors that impact investments made by SEA VC companies.

Keywords: Venture Capital, Alternative Investment, Start-Up, Emerging Economies

1. Introduction

1. 1 Problem Statement

Venture capital (VC) funding has grown exponentially, particularly in emerging countries, and start-up fundraising in Southeast Asia outperformed all other emerging markets by raising US$8.2 billion in 2020, according to Rudnik and Zhvirbo (2021). In 2021, it continued to perform well, raising US$6 billion in venture capitalist (VC) funding in the first quarter alone, setting a record year.

Based on the Startup Ranking report, in 2022, Indonesia has 2,346 startups throughout the country. This number places Indonesia as the leading country in Southeast Asia. This number even exceeds Singapore's record of 1,013

startups. The Philippines and Malaysia are in third and fourth place with a total of 308 startups and 307 startups, respectively. Then, Vietnam and Thailand followed with a total of 173 startups and 147 startups, respectively.

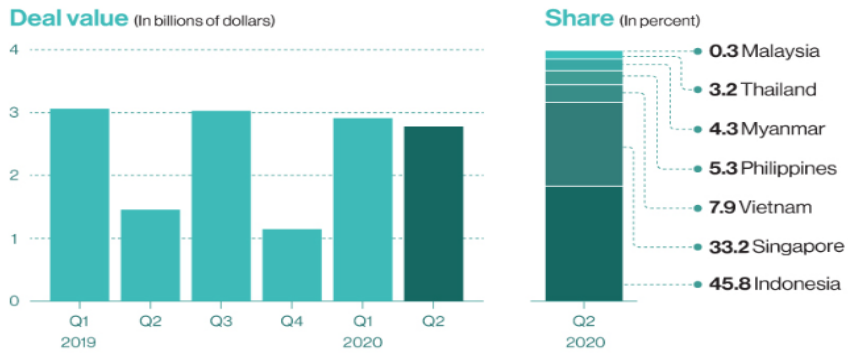

Figure 1: Start-up Fundraising Deals in Southeast Asia (Rudnik and Zhvirbo, 2021)

This paper is an extended version of the Gompers et al. (2023) framework. To gain a deeper understanding of VC firm investment decisions, this study has research objectives, which are to determine measurement parameters of venture capital (VC) firms in evaluating investment decisions in emerging countries, particularly Indonesia.
This research assumes that the participants will provide accurate and reliable information regarding VC investment evaluation in Indonesia. However, we cannot entirely rule out potential response bias and incomplete disclosure. Furthermore, the study focuses primarily on the perspective of VC firms and may not capture the viewpoints of other stakeholders, such as entrepreneurs, government bodies, or limited partners. Additionally, as with any research, limitations in generalizing the findings to a larger population may exist due to the specific context and sample size.

1. 2 Research Objectives

The objective of this research is to understand the behavior of venture capital firms in evaluating investment decisions. To gain insight into the decision-making process of venture capital firms, this study outlines the primary research questions as follows:

- What are the parameters that influence VC firms in SEA to make investment decisions?

1. 3 Summary of Research Framework

This study will adhere to a well-organized framework consisting of the following components: introduction, relevant literature, research design, findings and analysis, conclusion, limitations, and suggestions for future research. The literature review will include a comprehensive summary of the current research on the appraisal of venture capital investments and the criteria that are considered by venture capital firms. The study design section will detail the establishment of this research, including the framework, methodology, and a comprehensive profile of the respondents. The findings and analysis section will summarize the results obtained from the interviews, followed by an analysis that examines the findings, compares them to the current literature, and resolves gaps in the study. The conclusion section will include an informative summary of the main findings, along with a comparison to the current literature and a modification of the decision model. Following that, we highlight the limitations and potential directions for further study.

2. Related Literature

According to Metrick and Yasuda (2011) and the European Venture Capital and Private Equity Association (2004), private equity comprises a significant portion of the alternative investment market. Private equity is a type of unregistered equity, and equity-linked instruments issued to financial buyers by private and public firms or partnerships (Vanacker & Manigart, 2010). It comprises venture capital, buyout financing, and restructuring

capital. On the other hand, venture capital, a subcategory of private equity, comprises equity or equity-linked investments in startups, early development, and expansion.

Gompers et al. (2023) focus on 8 indicators, which are: deal sourcing; investment selection; valuation; deal structure; post-investment value-added; exits; internal firm organization; and relationships with limited partners. Deal selection is the most critical indicator. Particularly important in deal selection and understanding ultimate deal outcomes is the preeminence of the team in the minds of the VCs. When it comes to investment, the management team holds greater importance than business factors. In terms of valuation, the exit plan consideration ranks higher than the start-up company valuation itself. VCs rarely use financial theories such as net present value (NPV) or discounted cash flow (DCF) techniques. The most popular methods are cash-on-cash multiples (63% of the sample) and internal rate of return (IRR) (42% of the sample). Only 22% of VC investors use NPV methods. In conclusion, VC firms appear to make decisions in a way that is inconsistent with the predictions and recommendations of finance theory. Traditional valuation methods, like DCF, are ineffective for start-ups due to uncertainty and a lack of data. Reinfeld (2018) recommends alternative methods, such as the Venture Capital and Real Options methods, that account for these challenges and emphasize qualitative factors. Other researchers, Subroto and Sukarno (2019), use the Demodaran and First Chicago methods to value a corporate venture backed by a parent company. However, it does not address firms with other funding structures, such as those supported by limited partners or institutional investors.

Related to exit parameter, Bayar and Chemmanur (2010) studied the correlation between IPOs versus acquisitions and the valuation premium puzzle. They said a private firm is run by an entrepreneur and VC who desire to exit partially from the firm, so there are two sets of concerns regarding their exits. There are three factors driving private firm exits, which are: competition in the product market, differences in asymmetry characterizing the two-exit mechanism, and the private benefit of control accruing post-exit. The product market is the key factor driving their exit decisions. Smith et al. (2010) have different considerations for exit criteria. They mainly talked about venture capital fund performance and exit effects. This study establishes a significant relationship between performance, IPO, and M&A outcomes and suggests that fund IRR, or the total value of paid-in capital, influences fund outcomes.

Sahlman (1990) referred to the process of VCs sourcing potential investments as generating deal flow, while Kaplan and Stromberg (2004) selected venture capital investments. Their study considers, among other things, market attractiveness, strategy, technology, product or service, customer adoption, competition, deal terms, and the quality and experience of the management team. Kaplan et al.'s (2009) study identifies more consistent factors over the course of a successful VC investment. The meaning of "Jockey" They provide details about the entrepreneurial team and outline the strategy and business model. Gompers et al. (2010) identify past entrepreneurial success as a significant factor in attracting potential investments.

In Indonesia, Widyasthana et al. (2016) focused on CVC (corporate Venture Capital) investment selection. Geographic location, market conditions, country circumstances, investment timing and stages, intellectual capital, management, Team or Founder, Cooperation with Other VCs, Product Nature, and Coherence are the parameters derived from their research. Gompers, Kaplan, and Mukharlyamov (2016) discuss the claims made by private equity firms. In this paper, they focused on private equity investors' behavior. At some point, investors in venture capital and private equity employ the same strategy. Numerous investors in private equity use the IRR (Internal Rate of Return) as a metric for evaluating investments. The same holds true for venture capitalists, as they also prioritize IRR (Gomper, Gornall, Kaplan, and Strebulaev, 2016). Similarly, to venture capitalists, private equity investors utilize the DCF and NPV techniques infrequently. This is also supported by (Reinfeld, 2018), which states that traditional valuation methods, such as the DCF method, trading multiple method, and transaction multiple method, cannot be used to conduct valuations. Table 1 summarizes each relevant parameter for making investment decisions.

Table 1: Summarize of Factor that determine VC investment decisions.

Author	Factor
Gompers et al. (2023)	There are 8 indicators which are: deal sourcing; investment selection; valuation; deal structure; post-investment value-added; exits; internal firm organization and relationships with limited partners.
Gornall & Strebulaev (2022)	The parameter are focused on financial contract, valuing the financial contract, and company valuation
Kaplan and Strömberg (2001)	pre-investment screening (sourcing evaluating and selecting investments), structuring investments, and post-investment monitoring and advising
Kaplan and Strömberg (2004)	Their study considers factors that include the attractiveness of the market, strategy, technology, product or service, customer adoption, competition, deal terms, and the quality and experience of the management team.
Sahlman (1990)	How VCs source their potential investments, a process also known as generating deal flow
Kaplan et al. (2009)	Factors which are more constant over the life of a successful VC investment. The concept of "Jockey" The entrepreneurial team and the "horse" the strategy and business model are detailed by them.
Gompers et al. (2010)	past success as an entrepreneur is crucial when attracting potential investments.
Widyasthana et al. (2016)	Nine important variables should be measure by CVC when they are investing in startup in Indonesia as follows: Geographic Location, Market Condition, Country Circumstances, Investment Timing / Stages, Intellectual Capital, Management, Team / Founder, Cooperation with Other VC, Nature of Product, Coherence

According to Fuhrmann and Lamba (2023), venture capital investments provide "seed" or start-up capital, early-stage financing, or mezzanine financing to enterprises in the early stages of development that require additional funding for expansion. Businesses then use these funds to support their growth and product development.

Janjigian (2023) divides the life cycle of a corporation into four distinct stages, each with distinct cash flow, business risk, firm status (private vs. public), and financing requirements features. Startups consist of more than just a concept and a business strategy. The founders provide the initial funding. If additional funding is required, the founders may appeal to friends and relatives, who may purchase a stake in the company or provide a loan. People sometimes refer to early-stage equity investors as venture capitalists or Series A investors. The company will require even greater amounts of capital as it advances through the growth stage. Most likely, while revenues and cash flows may be improving, the company is still not profitable, so it cannot yet rely on internally generated earnings to fund growth. It might raise more capital through a Series B or even a Series C issuance (i.e., additional rounds of capital raises). This is also the time the company might consider "going public" in an IPO.

Sandeep Dahiya and Korok Ray (2012) found that staged financing is an effective method for mitigating financial risk. They implied that staged funding introduces uncertainty into the early stages by creating the possibility of termination after the initial phase. This uncertainty reduces the anticipated surplus in stage one; hence, it is prudent to invest less in stage one. According to Susan Chaplinsky and Swasti Gupta-Mukherjee (2016), the percentage allocation of investment in the early stage correlates with the exit return, but there is no association between the early and late stages in terms of return on investment.

3. Research Design

3. 1 Design

To begin with, the study of literature is necessary. We utilize bibliometric analysis from Haris and Rahadi (2023) research's to identify venture capital trends in Asia. These studies present the most discussed topics, receive the most citations, and feature the most influential journals. We also analyze a literature review to identify the initial parameters used by VC firms in start-up screening, building on the bibliometric analysis. We selected the research

by Gompers et al. (2023) based on its relevance and the completeness of the parameters that represent VC behavior in making investment decisions.

The author synthesized the Gompers et al. (2023) framework and expanded its parameters, including those not addressed in the research. These included the objectives of each investment round, the sources of funding, the parent company's influence on investment decisions, strategies for monitoring start-up performance over a specific timeframe, and conditions that necessitate exiting the investment. The author then incorporated these parameters into a series of interview questions to enhance the depth of the response. In contrast to Gompers et al. (2023), this research employs interviews to uncover nuanced and comprehensive data.

The interview method enables the following parameters to be deepened: Qualitative Assessment of Founders and Teams: Insight into the Perceived Qualities of Successful Entrepreneurs (Leadership, Resilience, Experience, and Communication Skills) We can deepen our understanding of how VCs evaluate the dynamics and cohesion of founding teams, as discussed by Widyasthana et al. (2016). The impact of regional market conditions and their variations throughout Southeast Asia warrants further examination. Gornall & Strebulaev (2022) concentrate on financial contracts for risk mitigation, which includes due diligence processes. Gompers et al. (2023) mention the prioritization of different investment criteria, such as financial metrics, but they can also extend this concept to understand alignment with the firm's investment thesis. An interview approach can also explore variations in criteria based on the stage of the investment, such as seed, Series A, and growth. Gompers et al. (2023) discuss post-investment involvement, such as the engagement between VCs and portfolio companies, and could potentially elaborate more on exit planning strategies to minimize investment risk.

To determine the sample of VC firms, we first identify VC firms located in the SEA region, classify them based on the firm's asset under management (AUM), and then concentrate on VC firms that invest in Indonesia and Singapore. This is because, according to Rudnik and Zhvirbo (2021), Indonesia and Singapore have the highest proportion of VC deals compared to other countries in the SEA region. We obtain a list of VC firms by examining private VC databases, such as Crunchbase. Initially, we compiled approximately 25 lists of potential venture capital firms. From the initial list of 25 potential venture capital firms, we identified only 18 VC firms with AUM data from Crunchbase, which we then narrowed down to 12 potential firms with an AUM exceeding $100 million and a history of exiting their initial investment. The detailed information about the company's number of funds, AUM, investor type, number of investments, and number of exits is presented in Table 2.

Table 2: VC Firm Profile based on Screening Result

No	***Company***	***Number of Funds***	***Total Fund Raised (in Millions)***	***Investor Type***	***Investment Stage***	***Founded Date***	***Number of Investment***	***Number of Exits***
1	MDI venture	5	$830.00	Corporate Venture Capital, Venture Capital	Early Stage Venture, Late Stage Venture, Seed	2016	84	11
2	BRI venture	2	$271.20	Corporate Venture Capital	Early Stage Venture	2018	28	1
3	SMDV	*No data*	*$1000*	Venture Capital	Early stage, late stage	2014	49	5
4	Alpha JWC Venture	4	$606.00	Venture Capital	Early Stage Venture, Late Stage,Venture , Seed	2015	97	5
5	AC Venture	4	$575.00	Venture Capital	Early Stage Venture	2020	75	1
6	East Venture	7	$1,100.00	Venture Capital	Early Stage Venture, Seed	2010	538	51

7	Kejora Capital	4	$172.00	Venture Capital	Early Stage Venture, Late Stage Venture, Seed	2014	24	4
8	Venturra	1	$150.00	Venture Capital	Early Stage Venture, Seed	2015	37	3
9	Northstar Group	3	$2,200.00	Private Equity	Early Stage Venture, Late Stage Venture, Private Equity	2006	33	1
10	Insignia Ventures Partner	5	$808.00	Venture Capital	Early Stage Venture, Seed	2017	108	2
11	Golden Gate Ventures	3	$170.00	Venture Capital	Early Stage Venture, Seed	2011	111	10
12	Open space	5	$625.00	Venture Capital	Early Stage Venture	2014	83	6

Using those companies' lists, we began to contact and distribute the set of questions to the VC firm in early 2023. We contacted a total of 12 VC firms, then sent a set of questions linked to these firms' representatives who expressed an interest in the interview section. Of these, only six respondents represent five VC firms that are willing to do a face-to-face interview. We finished conducting our last interview in Q4 of 2023.

3. 2 Methodology

3.2.1. Research Methods

(Cumming et al., 2022) have mapped the preferred method for research in venture capital and private equity from 2001 to 2021. The overall nature of the research involves an empirical approach, with a preference for quantitative methods. For data collection, the scholar primarily relies on archives, as opposed to surveys, interviews, or even case studies. Based on that finding, this study attempts to use a different approach than previous scholars to gain a better understanding of the subject by focussing on the VC firms that employ them (Levasseur et al., 2022).

In alignment with the research question, which is to determine parameters that influence VC firms in evaluating investment decisions, this research adopts a qualitative method for research design. We consider this method appropriate for addressing the research questions due to the interpretive philosophy inherent in qualitative research (Denzin and Lincoln, 2005), which necessitates a thorough investigation with a limited data set (Saunders et al., 2019). The qualitative method is also associated with exploratory studies, which is relevant to this research approach. The qualitative method employs the three coding stages (Strauss & Corbin, 1998): open coding, axial coding, and selective coding. These coding processes are helpful to define parameters that influence VC firms until they integrate these parameters to produce an investment decision framework for VC firms.

In terms of research methods, this study employs a case study approach. We can treat each VC firm we interview as a single case. This approach can deeply investigate and describe each firm's practices, experiences, and unique characteristics. For the data sample, this research uses primary data collected via semi-structured interviews. The respondent is a venture capitalist from a different VC firm in the SEA region. Semi structured interview is also in line with the exploratory study (Saunders et al., 2019). Based on a literature review, we expect this method to explore the qualitative parameters that influence VC investment decisions, particularly in the early stages.

This research uses the Gompers et al. (2023) framework to determine the initial measurement parameters. The researchers then use these parameters as a baseline to formulate a set of interview questions. Gompers et al. (2023) reveal a comprehensive study regarding how venture capitalists make investment decisions. The decision model by Gompers et al. (2023) is considered holistic since those studies are extended from several previous studies, including pre-investment screening (sourcing, evaluating, and selecting investments), structuring investments, and post-investment monitoring and advising by Kaplan and Strömberg (2001). Sahlman (1990) referred to the process

of VCs sourcing potential investments as "generating deal flow." Kaplan and Strömberg (2004) conducted a study on VC investment selection decisions. Kaplan and Strömberg (2004) also discuss market attractiveness, strategy, technology, product or service, customer adoption, competition, deal terms, and the quality and experience of the management team. The concept of "Jockey" The entrepreneurial team, concept of "horse" the strategy and business model are detailed by Kaplan et al. (2009). Another important factor identified by Gompers et al. (2010) is past success as an entrepreneur. The Gompers et al. (2023) study gathered and refined all these parameters, thereby enhancing their comprehensiveness.

The primary data from Gompers et al. (2023) are particularly noteworthy, as they include 1110 individual responses in total, which they filtered down to 885 institutional VC respondents, representing 681 VC firms. Given the data-driven nature of the venture capital challenge study, we selected Gompers et al.'s (2023) decision model as the baseline for this study due to their provision of primary data and comprehensive analysis.

However, this research addresses a gap in those parameters by separating them based on the stages of a start-up firm. The study divides the parameter into two general stages: the early and late stages. This study, however, separates those parameters as per detailed stages: early, pre-series, series A, series B, series C, and pre-IPO. The literature review highlights that each stage of a start-up firm possesses unique characteristics, necessitating the adaptation of VC firm strategy to each stage's start-up conditions.

3.2.2. Semi Structured Interview

This study used semi-structured interviews for data collection. We selected this approach to identify patterns of behavior over time and observe respondent behaviors during their engagement activities (Cressweel, 2018). It is necessary since the research objectives are to understand venture capital firm behavior in evaluating investment decisions. We need to conduct semi-structured interviews to gain a detailed understanding of the parameters that influence venture capital firms' investment selections.

The author then developed a set of questions based on a literature review, which resulted in 13 parameters. Table 3 presents the detailed parameters. The author initially tests the questions on several professionals and lecturers to reflect anomalies in focused questions, then continues with iterations to obtain the optimum set of questions. The set of questions is then linked and delivered to 12 targeted companies, where only 6 representatives are willing to get an interview scheduled.

Table 3: Themes and Parameter Definition

Themes	**Definition**	**Parameter Measurement/ Code**
VC Fund Structure & Strategy	Elaborate VC AUM, Funding Round	AUM
Start-Up Stages/ Investment Timing	Define Start-Up life stage including ticket size per size	Pre seed, seed, pre series, series A, B, C, Pre-IPO, IPO
Start-Up Value (EV, PMV, etc)	Elaborate Start-Up Valuation based on historical data	Enterprise Value, Post-Money Valuation, Cost of Capital
Start-up Performance/ Benchmark (Risk & Return)	Elaborate Start-Up performance based on historical financial statement	IRR, Hurdle Rate, DPI, Runway
Management Team/ Founder	Qualitative metrics to understand founder background and team coherence	Founder history, team coherence, etc
Business Model	It refers to company's plan for making a profit	Significantly reduces costs while maintaining quality, demonstrated profitability
Industry	Identify Industry of start-up that VC invested in	Finance, Education, Agriculture, Telco, etc.

Product/ Services	Analysis product/ services toward market acceptance	- Superior technology with large market potential, - Has built a robust, scalable system that can meet the current market demands, - Best product on the market.
Attractiveness of Market/ Trend	Understand market trends, how attractive it is toward the product/ services, the urgency to be scaled or etc.	Market trend, product-fit to the market, market segmentation
Ability to add Value	Identify value creation to Start-up	Deal selection, VC value added
Due Diligence/ Financial Contracting	Understand DD/ financial contracting that affect investment decision	Convertible preferred stock, liquidation preference, participation, cumulative dividends, stock option, convertible notes, SAFE, venture debt
Start-up Valuation Method	Determine the suitable and important method that frequently used by VCs per stage	NPV, MOIC, EV/EBITDA, EBIT, Revenue, Monthly Active users, PMV, etc
Exit	Determine parameter that effect exit timing for investment	Start-Up Value, Performance, Market condition
Risk Management	Approach of control and reduce total risk	Diversification

3. 3 Respondent Profile

3.3.1. Respondent profile

We have meticulously selected a diverse group of respondents from leading venture capital firms. The respondents' profiles encompass various levels of seniority and functional roles within their respective organizations, ensuring a comprehensive and multi-dimensional view of the decision-making processes. The respondents range from junior associates to senior executives (CEOs and managing directors), capturing a wide spectrum of perspectives within the VC firms. This diversity allows for an exploration of both strategic decision-making at the executive level and operational processes at the associate level.

Table 4: Respondent Profile

Respondent	**Position**	**Company**
Respondent 1	CEO	VC Firm A
Respondent 2	Senior investment associate	VC Firm B
Respondent 3	Junior investment associate	VC Firm B
Respondent 4	Investment professional	VC Firm C
Respondent 5	Investment professional	VC Firm D
Respondent 6	Managing Director	VC Firm E

Each respondent is involved in early-stage investments, aligning with the research focus. Their experiences and insights provide specific knowledge about the unique challenges and opportunities in funding early-stage startups, which differ significantly from later-stage investments.

3.3.2. VC firm profile

We have compiled data from the Crunchbase database on several key venture capital (VC) firms operating in the region. This data includes the assets under management (AUM) and the total number of funds raised by each firm; see figure 2. These metrics are critical in understanding the scale, experience, and capacity of these firms to invest in emerging markets.

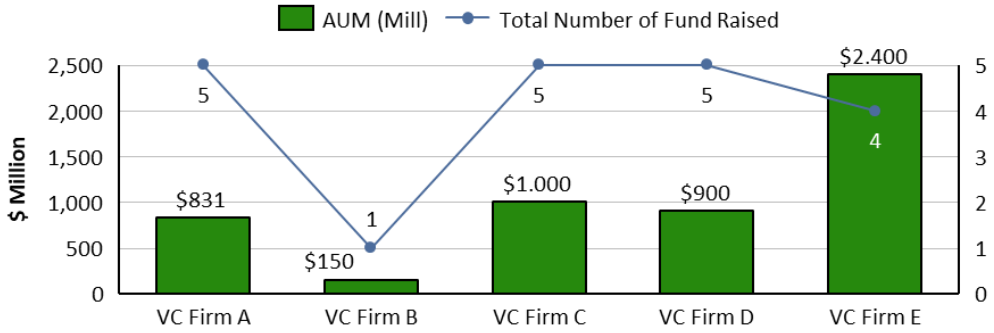

Figure 2: VC Firm Respondent Profile based on AUM and Number of Fund Raised

The selected firms exhibit a range of financial capabilities and experiences, as indicated by their Assets Under Management (AUM) and the number of funds raised. These range from smaller firms, such as VC Firm B, with a modest AUM of $150 million and a single fund, to larger entities, such as VC Firm E, which manages $2.4 billion across four funds. This variation provides a comprehensive view of how different levels of capital and fund management experience influence strategic investment choices.

We then conducted the ticket size interview, revealing significant variability in their investment scales, reflecting diverse strategies and risk appetites within the Southeast Asian emerging markets. VC Firm A exhibits a wide range, with a maximum investment of $40 million and a minimum of $0.1. VC Firm B and VC Firm D have a more conservative maximum ticket size of $15 million, suggesting a focus on smaller, potentially less risky investments. VC Firm C stands out with the highest maximum ticket size of $50 million. Conversely, VC Firm E maintains a more modest range, with a maximum of $10 million (see figure 4). The consistency in the minimum investment across most firms, at around $1 million, highlights a common baseline for early-stage start-ups.

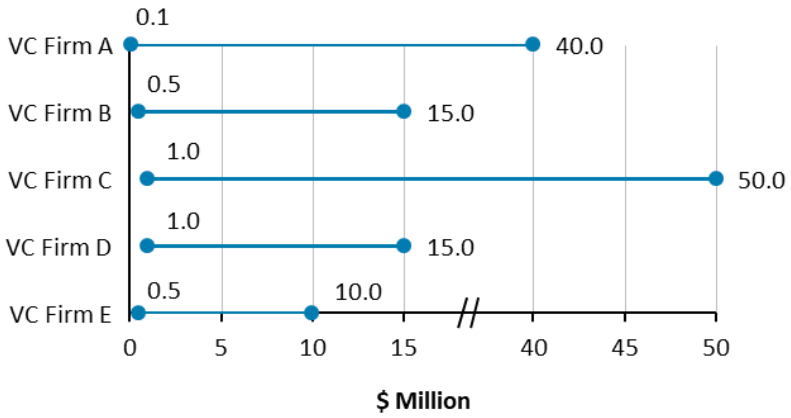

Figure 3: VC Firm Profile based on Ticket Size (in $ Million)

3.3.3. VC firm investment scope

We then inquire about the portfolio that each venture capital firm has invested in. Firms in Indonesia, such as VC Firm A, VC Firm B, and VC Firm C, primarily invest in Indonesia, but they also make investments in nearby countries like Vietnam and the Philippines. Conversely, Singapore-based firms, including VC Firm D and VC Firm E, maintain a substantial focus on Indonesian markets but also extend their investment portfolios to include other regional markets and international opportunities. See table 5.

Table 5: VC Firm Investment Scope Profile

Parameter	VC Firm A	VC Firm B	VC Firm C	VC Firm D	VC Firm E
Office Listed Location	Indonesia	Indonesia	Indonesia	Singapore	Singapore
Portfolio diversification geographics	• 60% Indonesia • 40% SEA, Japan, Australia, etc	• 60% Indonesia • 40% SEA: Vietnam, Phillipines, etc	• Indonesia (Majority) • Japan • US	• 60% Indonesia • 40% Vietnam, Phillipines	• Indonesia (majority) • Vietnam and Singapore

4. Finding and Analysis

4.1 Industry Preference

Industry is a parameter that represents investment segmentation. It also represents the business's trend and appeal. Every VC has different perspectives regarding their industry preferences. The VC fund structure may influence their preferences, as it shapes their objectives. Table 6 presents the results of this interview.

Table 6: VC firm Industry preference profile

Parameter	VC Firm A	VC Firm B	VC Firm C	VC Firm D	VC Firm E
Industry Preferences	Agriculture, Logistics, Edu-Tech., Healthcare, Fintech	**Mostly**: fintech, Health-tech. **Rarely**: Edu-Tech, renewable energy	All sector	**Tech Enable Companies**: E-commerce, fintech, agrifood	All sector

4.2 VC fund structure & strategy

We use the VC fund structure's theme to map the source of funding and type of VC. Since different VC fund structures affect their investment decisions, The interview led to the division of the VC fund structure into three categories: GVC (government venture capital), CVC (corporate venture capital), and IVC (independent venture capital). The commonality between CVC and GVC is that their fund sources come from their parent company. The distinction is that GVC fund parent companies are government companies, whereas CVC parent companies are private companies. The IVC does not have a parent company. This type of fund source affects a variety of investment strategies. Table 7 presents the VC fund structure of each company.

Table 7: VC fund structure and strategy

Parameter	VC Firm A	VC Firm B	VC Firm C	VC Firm D	VC Firm E
VC Investment Type	Equity Fund - Direct Investment - Start-Up	Direct Investment - Start-up	● Direct - Nonstrategic investment ● Direct - strategic investment Fund of Fund	Direct Investment - Start-up	Direct Investment - Start-up
Reason behind Industry selecting	Direct order form LP, based on parent Business Industrial Scope	No Direct order from LP, based on company expertise	Direct order from LP	No Direct order from LP, based on internal company assessment	No Direct order from LP, based on internal company assessment

This table illustrates the impact of VC fund structures on industry selection. We group the respondents based on the type of fund structure. GVC: VC firm A; CVC: VC firm B and VC firm C; IVC: VC firm D and VC firm E

4.3 Start-up valuation method

The start-up valuation method serves as a framework for interpreting company valuation. It is important because each stage has its own set of values and financial structures. This theme exemplifies the appropriate and crucial approach that venture capital firms frequently employ. The several financial ratios that represent valuation are: NPV, MOIC, EV/EBITDA, EBIT, Revenue, Monthly Active Users, PMV, etc. Table 8 presents the results of the interview for this theme.

Table 8: Start-up valuation and financial metrics

Parameter	**VC Firm A**	**VC Firm B**	**VC Firm C**	**VC Firm D**	**VC Firm E**
Valuation	Comparable analysis	Comparable Analysis: Average Revenue Multiple for Private and Public Companies in the Same Industry	Multiple factors in same industry	Comparable Analysis for Valuation per Industry	comparable analysis in similar industries (P/E and P/S)
Other Financial Metric (1)	Revenue	Projected EBITDA	• Revenue Projection • Recent Valuation	Income Projection/ Valuation Comparison (4-5 years)	Revenue and EBITDA
Financial Metric (2)	-	Burn Rate	-	Ownership upon entry & company valuation upon exit	-
Financial Metric (3)[1]	-	Runway	Runway	Runway/ Cash Level	runway

**Findings for this research*

4.4 Exit

The theme of exit is associated with factors such as investment duration, timing, and market conditions. It is a theme that is significant for VC firms to achieve their investment goals. Start-up post-money valuation and start-up recent performance are two of the factors that contribute to exit judgment. Every type of VC firm has set different criteria for their investment exit. Table 9 presents the results of the interview on this theme.

[1] When the VC firm respondent values the start-up and considers the runway number, they reveal the financial metric (3) in the interview.

Table 9: VC funds exit preferences

Parameter	VC Firm A	VC Firm B	VC Firm C	VC Firm D	VC Firm E
Type of Exit	IPO, Pre-IPO	Private Sales, M&A Deals (Acquisition: Share Swap), IPO	IPO, Private Sales	Private sales	IPO/ Private Sales
Investment Duration	8 years (3 years: investment, 3 years: portfolio management, 2 years: diversification)	3 - 5 years	2 - 3 years	-	7 year
Factors that Contribute to Exit	-	Reach Firm Target	Reach Firm Target, Mediocre Growth	Reach firm target ($1 Mill valuation)	Depend on entry point, revenue target: ± $100 Mill

4.5. Screening Criteria

The management team and founder's background are two important qualitative metrics for venture capitalists. It is a theme that measures intangible assets, such as team coherence. The founder's historical background is also important since the founder is the leader of the team. Table 10 presents the results. In Table 10, we can see several parameters that become considerations for each VC firm. Every VC firm mentions the founding team, including their experiences, educational background, and skills, as one of the essential factors that affect the firm's investment decisions.

Table 10: VC fund structure and strategy

Parameter	VC Firm A	VC Firm B	VC Firm C	VC Firm D	VC Firm E
Founder, history, team coherence, etc	• Geographic Location • Market Condition • Country Circumstances • Investment Timing/ Stages • Intellectual Capital • Management Team/ Founder • Cooperation with Other VC • Nature of Products • Coherence	• Founder Industry Experiences • Cohesive Team • Enterpreneurial Experiences	• Management Team • Founder Skill • Product • Market • Business Model • Trust - sense of enterpreneurship	• Number • Founder Experiences • Market	• founding team (experiences, educational background) • business model (has this model it's been invested by our VC firm, match or now with our investment thesis) • market size (is the market size are big enough?) •traction

4.6. Risk management

Risk management is a theme that represents how VC firms manage total risk in order to achieve their investment goals. Measurement parameters for risk management include monitoring activity (strategy, period, etc.) and financial ratios related to risk management (runway, cash on hand, etc.). We then translate those measurement parameters into a set of interview questions. Table 11 presents the resulting interview.

Table 11: VC firm risk management criteria

Parameter	VC Firm A	VC Firm B	VC Firm C	VC Firm D	VC Firm E
Financial/ report monitoring period	monthly	monthly	monthly	monthly	monthly
Start-up monitoring/ risk mitigation	Monthly report monitoring	Maintain Revenue	Cash balance monitoring	• Report to Insignia If startup want to withdraw at certain of money • Director Salary must report to VC firm • Financial audit by reputable auditor	• milestone crosscheck • validate runway number with milestone achievement
Financial Metric to be monitored	Runway	Runway	Runway	Runway	Runway

5. Conclusion

We have identified five key criteria of VC firm decision parameters to evaluate investment decisions for start-ups in the SEA region.

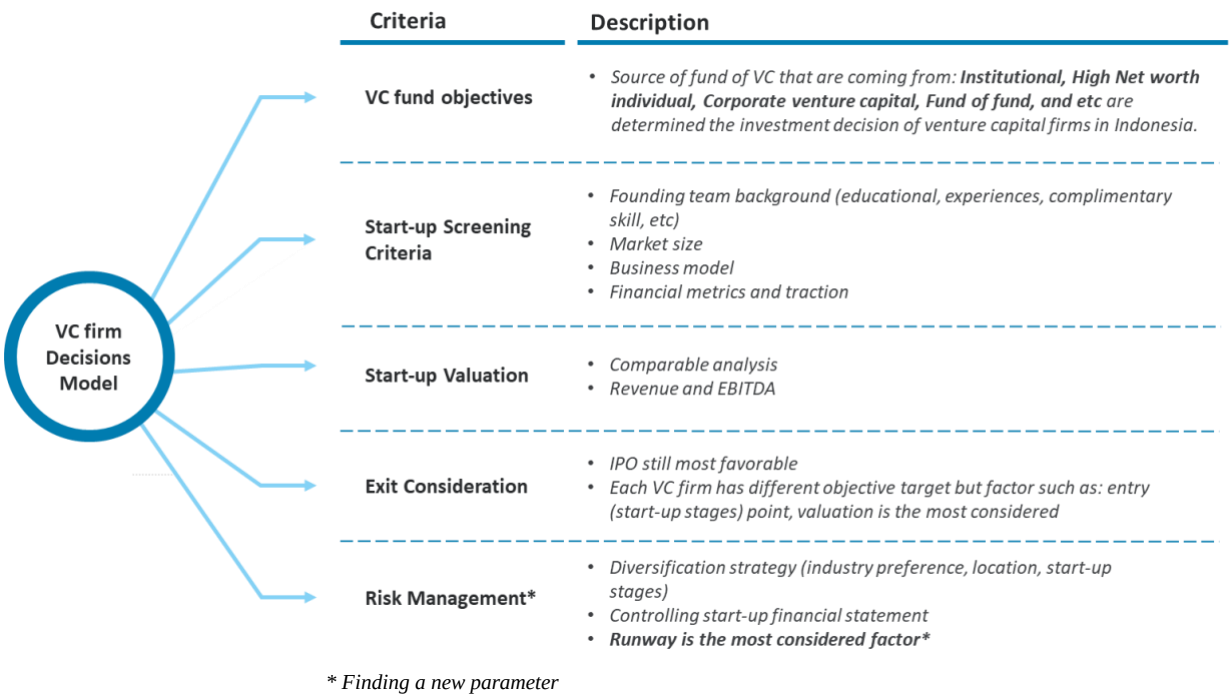

Figure 4: VC firms decisions model

This study presents extended evidence from the Gompers et al. (2023) framework. There are 5 parameters or themes that affect VC firm investment decisions; see figure 4. The determination of these themes relies on measurement parameters. This parameter is a qualitative metric. This study also presents a new theme, which is risk management. As previously discussed, the measurement parameter pertains to monthly monitoring activities, which they view as a crucial financial metric for close monitoring and evaluation. Runway refers to the company

lifeline because it gives information about the amount of time, in months, a start-up has before it runs out of cash, which is important for VC firms to consider in making investment decisions.

6. Limitation and Future Research Suggestion

This study focuses primarily on the perspective of VC firms and may not capture the viewpoints of other stakeholders, such as entrepreneurs, government bodies, or limited partners. Additionally, as with any research, limitations in generalizing the findings to a larger population may exist due to the specific context and small sample size. Since getting an interview with VC firms is very difficult, it could be an obstacle to doing venture capital research.

This study gives an understanding of the parameters that affect VC investment decisions in Indonesia. Future research could separate the analysis of parameters at each stage. Early stages have different behavior compared to series A, B, and late stages, so the researcher should focus on each stage's behavior.

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