

CRITERIA OF VENTURE CAPITAL FOR CONSIDERING INVESTMENT IN START-UPS IN THAILAND

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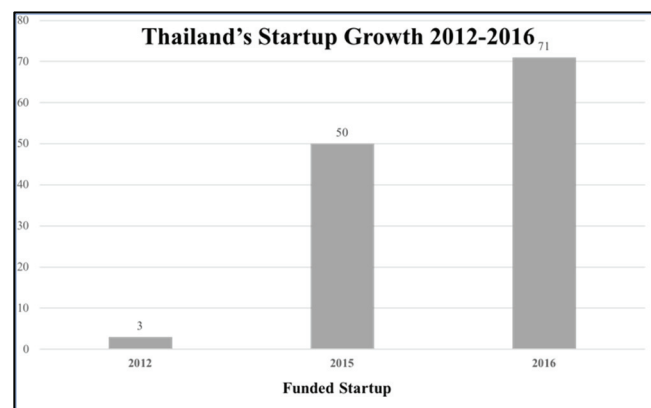
Abstract:

This research study is a quantitative study that aims at investigating criteria of venture capital for considering investment in start-ups in Thailand. There are four main methodologies that include 1) literature review, 2) content validation – expert interview to examine context consistence, 3) empirical study through observation and in-depth interview with six samples: venture capital investing in start-ups at seed stage, early stage, and later stage, two companies each, and 4) analysis, synthesis, and conclusion through content analysis. The research findings show that there are fourteen criteria with seven dimensions the venture capitals consider for their investment in start-ups, which are 1) market, 2) product or service, 3) business, 4) people, 5) financial, 5) risk and 6) government. These findings are as guidelines for self-preparation of the Start-ups toward fundraising capacity, including business development for sustainable competition.

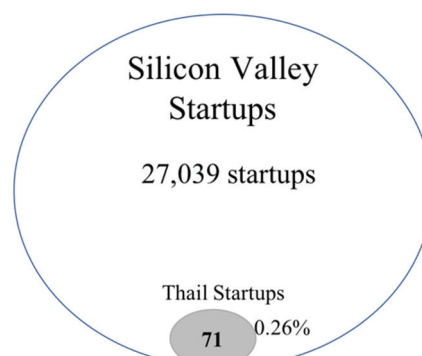
Keywords: venture capital, start-up, fundraising

1. INTRODUCTION

Thailand has changed economic models for many times, “Thailand 1.0” with an emphasis on agriculture, “Thailand 2.0” with a focus on light industry, and “Thailand 3.0” giving importance to heavy industry. However, Thailand 3.0 Model was not able to propel the nation for more development. It caused Thailand stick at middle income trap, inequality trap, and imbalance trap. The present Thai Government has launched a policy to reach “Thailand 4.0 Model” using digital technology to propel Thailand with the main strategy of change by supporting Small and Medium Enterprises (SMEs) and start-ups since the government believes that the newest economic engine of Thailand is start-up. There are a lot of start-ups in Thailand now, and the majority are tech start-ups (Entrepreneurs, 2016). However, the statistical data presents that the number of start-ups in Thailand is still less compared with other international nations. In 2016, there were only 71 start-ups in Thailand (picture 1), while Silicon Valley, an international company, had 27,039 start-ups (picture 2) (techsource, 2016).



Picture 1: The number of funded start-ups in Thailand Short description



Picture 2: The number of funded start-ups in Thailand compared with international nations

To increase quantity and quality of start-ups, there should be studies of influential factors on successful start-ups. Bill Gates, a successful businessman in building up more than 100 start-ups, proposed five factors for the success of start-ups, which are ideas, team, business plan, fund, and right time (Gross, 2015). However, Gelderen, Thurik, and Bosma (2005) stated that fund is the most important factor for a successful start-up. The starting point of start-ups is not tangible asset like buildings, land, or engines, but the asset of start-up is idea or business model waiting for testing for product or service model development. The fund of start-ups is therefore not institutional asset. It has fund from two main types of investors, Angel Investor and venture capitalist (VC). However, the main important source of fund for start-ups is VC (Afful-Dadzie & Afful-Dadzie, 2016). As a result, this research study was interested in studying the criteria that the VC used for investing in start-ups in Thailand as guidelines for the ones who are interested in doing start-ups or start-ups that desire fund from the VC to prepare and develop their businesses to be successful in fundraising.

2. THERETICAL FOUNDATION

2.1. Venture capital evaluation criteria

International research studies (in America, Europe and Asia) studied various criteria VC used for considering investment with start-ups which can be concluded as follows: Tyejee and Bruno (1984) found that the criteria VC used for investment evaluation in start-ups are 1) marketing attraction – market size, market growth, and accessibility, 2) differences of products – identity, copy right, technical limitations, and profits, 3) administrative and managerial capabilities – marketing skills, management skills, and financial skills, 4) resistance to environmental harms – technological cycle, competition handicap, understanding of business cycle, and business risk protection, and 5) potential of cash flow such as opportunity for making a profit from merger, incorporation, or public offering. In 1985, MacMillan, Seigel, and Narasimha studied the criteria later-stage Venture Capital used for considering in investing in start-ups. They found that those criteria are 1) personality of entrepreneurs, 2) experience of entrepreneurs, 3) characteristics of products and services, 4) characteristics of market, 5) finance. Forty percent of venture capital in National Venture Capital Association in USA emphasizes the personality of entrepreneurs the most, focusing on all details with skills of risk prediction; then characteristics of products and services and marketing respectively. In 1997, Boocock and Woods studied the criteria venture capital in England used for considering start-ups. The research findings present that most start-ups have information towards required fund, details of fund use, growth of market, competition, and management skills of entrepreneurs. Mason and Stark (2004) expressed that business plan is the most important factor for fund request as it is what the investor prefers to see before making decision. The problem is the investors are not interested in these plans. The question is what they are looking for in the plan. This research study therefore studied influential factors on investment decision. The research findings show that the investors had the same criteria in making decisions, which can be divided into nine groups: 1) entrepreneurs and team, 2) operational strategy, 3) working process, 4) products and services, 5) target market, 6) finance, 7) investment appropriateness, 8) business plan, 9) others. The business plan, entrepreneurs and team, and investment appropriateness were emphasized the most. Chen, Yao, and Kotha (2009) studied passion and preparedness of entrepreneurs that affect investment decision of VC about business plan consideration. They found that preparedness towards business plan presentation, business operation, and venture business of entrepreneurs affect decision about Venture Capital.

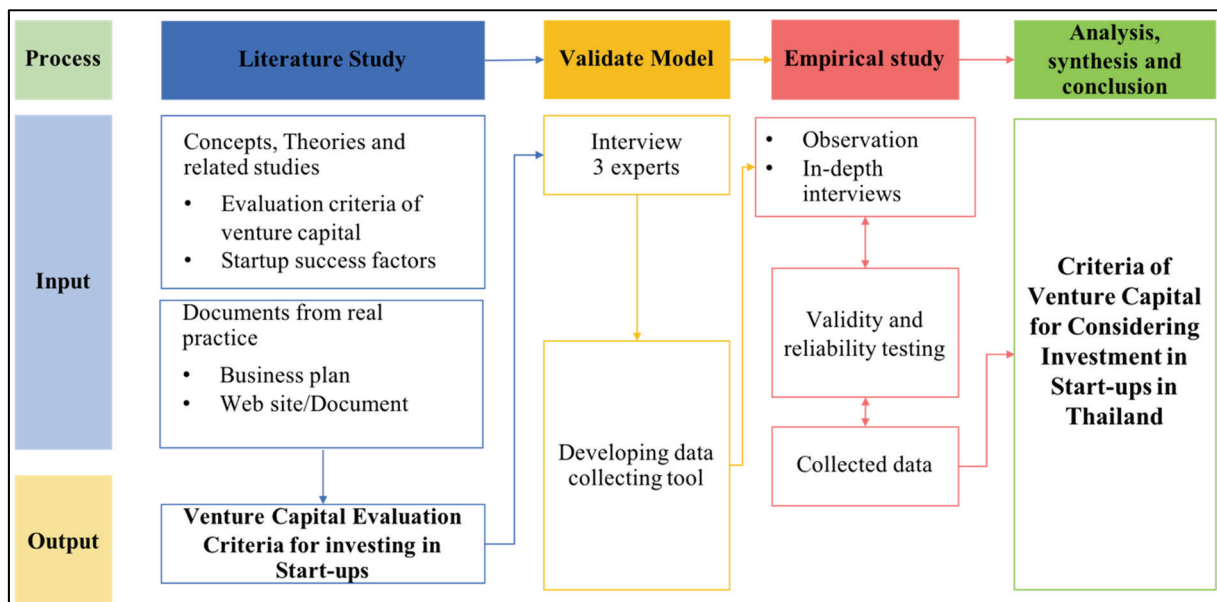
In 2012-2016, there were many research studies aiming at studying influential factors on investment of VC in start-ups. In 2012, Zhang investigated the criteria of venture capital in China used for investment consideration in start-ups. The research results present that those important factors are 1) administrative management – management potential, working plan and responsibilities of staff, compensation of staff, and information and report management, 2) operation – income and profit plan, expenditure management, operational plan, and quality and effective production process, 3) strategies – marketing trend, strategies and client management, 4) business connection – awareness of value, taking over, and marketing strategies, 5) capital – financial capital, ratio of income and expenses, and asset structure. Rasmussen and Sorheim (2012) investigated methods to increase opportunities for gaining external fund of early-stage start-ups. The research findings present that there are significant factors that help increase the opportunities, 1) fund access of entrepreneurs, 2) business model making profits, 3) business network, and 4) funding history. In 2017, Bernstein, Korteweg and Laws studied reasons of investors for early-stage investment as the early stage is very important to company's growth and national economic growth. There have not been any research studies studying methods and criteria for company selection for investment. This research's findings show that successful experienced investors who invest in start-ups consider: 1) information about establisher such as experience and abilities, and 2) information about team such as related skills. This study concluded that human is the most important factor for early-stage start-up operation. Afful-Dadzie, Oplatkova, and Nabareseh (2015) found that potential start-ups joining with VC failed more than private Venture Capital. This study therefore aims at designing criteria for considering investment in start-ups towards information system and information communications technology (ICT) in developing countries to increase opportunities of venture capital in considering more and more potential start-ups. The findings show that there are six criteria: 1) characteristics of products and services, 2) employment creation, 3) personality of entrepreneur/management team, 4) experiences of entrepreneur or management team, 5) characteristics of market, and 6) financial characteristics. The most important factor is financial characteristics, especially payback. Moreover, Afful-Dadzie and Afful-Dadzie (2016) investigated the criteria for considering investment of government venture capital in start-ups. They found out that the criteria for successful business operation of the venture capital joining start-ups are 1) personality of entrepreneur or team, 2) experiences of entrepreneur or team, 3) potential products and services, 4) financial characteristics, 5) characteristics of market, and 6) societal impact or contribution that was mostly focused in this study.

2.2. Success factors of start-up

Start-up is a type of business that quickly grows by leaps and bounds. It is repeatable and scalable. It also applies technology and/or innovation as the heart of business operation in order to solve daily life problems. However, there are not many successful Start-up. VC has high ratio of business failures in start-ups, that is, 9 in 10 start-ups are failed for business operation (Bocken, 2015). In addition, Bocken (2015) specified that influential factors on success of start-ups are 1) innovative business plan, 2) cooperating among networks, 3) capabilities in creating new needs, 4) good team, 5) government support, 6) attitude of business owners, 7) speed of launching products and services in the market, and factors affecting failure of start-ups are 1) insufficient knowledge, 2) high competition, and 3) short-period business operation. Moreover, Janakova (2015) stated that factors causing success of start-ups in Slovakia are 1) appropriate business conditions, 2) ecosystem and appropriate services, and 3) preparation of supporting fund.

3. RESEARCH METHODOLOGY

This study is a quantitative research. Collecting data through participant observation and in-depth interview of six Venture Capitals which investing in each stages of start-up: seed stage, early stage and later stage. Two per each venture capital to select for collecting data. The research procedures are as presented in the picture 3.



Picture 3: Research process

The researchers used the sample sampling criteria based on the research of Yin (2003) and Pries (2001) that consist of 1) appreciation of giving in-depth information, 2) prominence in market, 3) more than two-year operation, 4) progress enterprises, and 5) having continuous investment. The six selected Venture Capitals (VC) are shown in Table 1.

Table 1: Informants characteristics

Informants	Stage of investment in start-up	Company descriptions	Years of experience
VC A	Seed stage	Operating in an industry and technology network, business, and information technology and communication group with registered capital at 133,474,621,856.00 Baht.	8
VC B	Seed stage	Operating in an industry and technology network, business, and information technology and communication group with registered capital at 5,000,000,000.00 Baht.	12

Informants	Stage of investment in start-up	Company descriptions	Years of experience
VC C	Early stage	A successful transnational venture capital with registered capital at 300 million US dollar, investing in 1,600 tech start-ups in 60 countries around the world.	7
VC D	Early stage	It is a business company, the investment is not mainly on finance business with register capital at 3,440,000,000 Baht.	8
VC E	Later stage	It is a Transnational Venture Capital focusing on investment in tech start-ups with register capital at 450,000,000 Baht.	6
VC F	Later stage	It is a later-stage Transnational Venture Capital that is expert in investment in Asia with register capital at 550,000,000 Baht.	7

4. RESULTS

The research findings show that criteria of venture capital used for considering investment in start-ups in Thailand can be divided into fourteen criteria with seven dimensions as shown in Table 2.

Table 1: Criteria of venture capital for considering investment in start-ups

Dimensions	Criteria
Market	Market potential
	Competitor
Product/ Service	Product/service potential
	Product/service development
Business	Business plan
	Business growth
People	Entrepreneur/Team characteristics
	Understanding of product/service
Financial	Amount of funding requested
	Use of funds
	Return of Capital
Risk	Risk of new technology
	Risk of new market
Government	Government support

5. CONCLUSIONS

This research study investigated the criteria of venture capital for considering investment in start-ups in Thailand. It focuses on the study of start-ups in Thailand, which operate technology businesses to be as guidelines for preparation of start-ups that prefer to get fund from the venture capital. The research findings are from the studies of related theories and research and practical document, including observation and in-depth interviews; then synthesis of criteria of the venture capital used for considering investment in start-ups in Thailand. There are fourteen criteria with seven dimensions. The future research should further the study towards criteria considering investment in each stage in detailed.

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