



**GTAR-14**

**Angel Investment as a Source of Startup Capital: A Case Study in Indonesia  
(Comparative Study in Jakarta and Bandung)**

Chintia Febrianti S<sup>1\*</sup>

*Telkom University Bandung*

**Abstract**

Funding is essential for the operation of a business. There are many businesses that difficulties in obtaining financing, especially for startup businesses. But there is a type of financing called Angel Investment to support the existence of a startup. This study aims to look at how the impact of the implementation of Angel Investment as a source of startup capital in Indonesia in terms of its association with a particular performance output market sales volume and market share after obtaining startup funding and reviewing compliance with existing theories . This study used qualitative methods to conduct interviews, documentation and questionnaires. The results of this study is known that angel investment can impact directly or indirectly on the output market performance of a company. It really depends on the strategy adopted of their respective companies. In addition the level of importance of each character angel investment in providing different financing where the average angel investor attention to the emotional aspects such as the level of enthusiasm of an entrepreneur, the management team and the quality of the products of the business. There is also a different funding schemes at each startup, which most startups receiving funding from the scheme that is incompatible with the theory. The end result is the angel investment affect the growth of the business of a company is able to increase sales volume and market share, depending on the strategy of each company. Angel investment can ultimately affect indirectly to an increase in profits of a startup company.

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*Keywords*— SME, Development, Angel Investment, Startup

**Introduction**

Capital is one of the important things in running a business. Minister of tourism and creative economy of Indonesia declares that there are still many obstacles to the development of creative industries in Indonesia. One of these obstacles is the lack of funding. He stated that many banks are still reluctant to provide capital for the creative industries (Tempo, 2012). This constraint is due to the creative product has a short life cycle, high-risk, high-margin, high diversity, high competition and easily imitated (Simatupang 2008). Creative industry is an industry that usually relies on the idea as their assets. In Indonesia still few

\*All correspondence related to this article should be directed to Chintia Febrianti S, Telkom University Bandung

Email: [febriantichintia@gmail.com](mailto:febriantichintia@gmail.com)

investors are willing to finance business based on the idea alone. Finally, they tend to ask for help from foreign investors to finance their business or event.

Then came the new funding alternatives that are considered capable of facilitating access to capital for micro units, small and startup. This allows one to get financing and capital to start a business just based on the idea alone. Angel investment is an alternative funding. Unfortunately, current government policy does not support the growth of angel investment in Indonesia. There have been many studies done to prove that the angel investment has good prospects in Indonesia. From a number of studies that have been conducted, there are no studies that quantify the relationship between these premises funding with business performance. . Where performance usually associated with sales volume, market share, production value, profit and number of employees as well as technological innovation, organizational innovation and efficient use of investment (Sun in Mao, 2009)

### *Business Angel Investing*

Obstacles that comes to the creative industries one of them is a problem of funding. According to the UK DCMS Task Force is "Creative industries as industries that rely on individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property and content". In Indonesia, industrial defined as a creative industry that focuses on the creation and exploitation of intellectual property such as works of art, movies, games or fashion design and creative services including inter- company such as advertising (Simatupang *et al*, 2008). The funding problem faced by the Micro, Small and Startup. However, the amount of assets held by micro and small enterprises have been able to use to access capital from banks or funding schemes such as venture capital. While the startup or new businesses have not been able to access such funding. Startup is a new company that usually moves in the field of information technology and using the internet as a platform. The company produces digital products such as web applications or services via the website (Nugraha, 2010).

Angel investment funding is considered in accordance with industry in Indonesia because of the growing number of startup. Angel investment is an investment that comes from rich people, usually businessmen who invest in companies that are just starting out and have equity in the company. While Angel Investment by Zimmerer (2009) is an investment that comes from rich people, usually businessmen who invest in companies that are just starting out and have equity in the company. According Stathis (2004) angel investors is a unique individual who invests in early stage scale using his personal money. Global Entrepreneurship Program Indonesia / GEPI ( 2011) suggested that angel capital investment is given by an individual who has the financial strength and are willing to give a cash injection for the new company.

Sumarsono (2010) thinks that angel investment is funding is done by non- bank parties that could be a place to seek additional capital or capital. These parties can be

relatives, friends, acquaintances or other groups that are willing to provide assistance is not based on material or reward but because it wants to help to have a business or additional capital. But it is possible if industry players are also offered cooperation profit sharing or stock. In providing funding, angel investors set a number of criteria on which it is to provide funds to the business. Angel investment is said to be the startup financing alternative for being able to provide funding in the early stages of a business.

To see whether this funding can be used as an alternative funding for a new business, it is necessary to benchmark the development of a business. It can be seen from the company's growth and performance. Sun in Mao (2009) states that "The company's growth is a combination of quantity and quality. Increased quantity is realized by an extension of the company such as sales volume increase of scale, market share, production value, profit and employee growth and quality. Embodied in improving the quality of the company, which include technological innovation ability of plants has not been with a mature production technology, optimum efficiency of investment and output, organizational innovation and reform ". Darmon *et al.* (2013) revealed that things like sales, profits and market share are included in the output market performance category.

### *Investment Criteria*

The depiction of angels and angel investment funding system is associated with Osnabrugge investment research on angel investment criteria in providing funds for business and the research base. This is done to see if the criteria in accordance with the business climate in Indonesia. In addition, the researchers also asked the investors to provide sequence angel investment criteria based on Osnabrugge research to see if these criteria apply in Indonesia and then compared with the criteria of Osnabrugge represent England and the United States represent Sudek Research.

Table 1:

#### *Investment Criteria by Van Osnabrugge (2008)*

<b>Selected Investment Criteria</b>	<b>Ranking</b>
<b>People or entrepreneur</b>	
Enthusiasm of the entrepreneur	1
Trustworthiness of the entrepreneur	2

Expertise of the entrepreneur	4
Investor liked entrepreneur upon meeting	5
Track Record of the entrepreneur	10
<b>Market or Product</b>	
Sales potential of the product	3
Growth potential of the market	6
Quality of product	7
Niche market	9
Informal competitive protection of the product	12
Nature of competition in the industry	17
Overall competitive protection of the product (patents)	27
<b>Financial used to screen for potential gains</b>	
Perceived financial rewards (for the investor)	8
Expected rate of return	11
High margins of the business	15
<b>Financial to monitor the operating firm</b>	
Low overheads	16
Ability to break even without further funding	18
Low initial capital expenditures needed (on assets)	19
Size of investment	20
Low cost to test the market initially	22
<b>Other business attributes (vital to hands-on role)</b>	
Investor's involvement possible (contribute skills)	13
Investor's strengths filling gaps in business	14

Local venture	23
<b>Other business attributes (miscellaneous)</b>	
Potential exit routes (liquidity)	24
Investor's understanding of the business or industry	25
Presence of (potential) co-investors	26

Source : Osnabrugge (2008)

### *Methodology*

This research is a comparative study by comparing the results of research among startup located in Jakarta and Bandung. Startup interviewed was that angel investment funds. Interviewed object in this study is the founder of any startup. The focus of this study is to address how the development of angel investment in Indonesia and how angel investment as a source of startup capital by comparing startup in Jakarta and Bandung. This study is a qualitative study that describes the opinion of the speakers according to their angel investments, how business developments after acquiring funding. In this case the developments related to market performance output indicates growth.

The informant will be given a questionnaire to measure the response first speaker on angel investment as a source of startup capital in Indonesia. The results of this questionnaire is also used as a basis for measuring the characteristics of the comparison between angel investment funding system in Jakarta and Bandung based on geographical location of the startup. After administering the questionnaire, interviewees will be given a number of questions related to the characteristics of angel investment angel investment to describe systems in Indonesia. Researchers use a recording medium in conducting this research. And researcher to triangulate the data sources to ensure the validity of this study. Triangulation is given to the investors and academics.

### Results

#### *Investment Criteria in Jakarta*

*People or Entrepreneur:* This aspect is the first thing seen by investors to provide funds. Angel investment in Indonesia is informal caused investors to look at the personality of the entrepreneur to decide provide funds. Investors require a high level of confidence of entrepreneurs. Another thing is the level of enthusiasm when entrepreneur describing their business idea. According to the results of the interview is known that 99% of investors see the personality of the business and the rest of the first to offer entrepreneurs business idea.

*Market or Product:* The next thing that is seen for funding after the personality of the entrepreneur is a business product. Investors pay attention to the prospects for market growth of product to be sold and the quality of the product

*Financial:* Financial aspects related to the company's profit after receiving the funds. To startup in Jakarta is known that the feedback received by the investor will not be noticed at time of funding. Usually investors expect growth occurred after at least two years of funding and expects revenues to increase in the third year after the administration of funds

#### *Other Business Attribute*

Another aspects, is a co-investor. Investors who provide startup funding in Jakarta allows for co-investors. In addition, most investors do not pay attention to the geographical location of the startup. If investors consider the geographic, this was done to facilitate the monitoring of the startup. The main thing is the best exit strategy scheme which can be done by investors after giving funds. Investors who provide funds also pay attention to whether entrepreneurs understand business.

#### *Market Output Performance:*

Startup was the object of the study stated that the sales volume, market volume increased after they obtain funding. This affects the profits earned by the startup. But the scale and the achievement of every startup is different according to their respective startup industry.

#### *Investment Criteria in Bandung*

*People or Entrepreneur:* For startup located in Bandung is known personalities affect when investors to provide funds. Things are seen, among other things, the nature of leadership and how the existing management team in the company.

*Market or Product:* The second thing that seen is the product. The uniqueness and quality of the product becoming a major concern. For products related to Intellectual Property Rights, investors also pay attention to patents and legality of the business. What is important is the company's vision.

*Financial:* Financial aspects are illustrated by the startup entrepreneur in Bandung is not much different from those in Jakarta. But the startup funding by formal basis in Bandung affecting the amount of a given investment. Where investment size pegged in the range of \$ 30,000

#### *Other Business Attribute*

Another aspect to looked at is the exit strategy where most of the schemes were chosen because the stock distribution scheme is allowing employers remain independent

position. The geography is not considered as a startup located in Bandung has investors who are in Jakarta. Moreover there is no agreement about the existence of co-investors, but the startup does not usually obtain investment from other investors. But not all startup reject the presence of a co-investor, if it would be helpful for lack of capital, the presence of co-investors are expected to employers. Investors are also expected to help employers only. They only provide input, while the final decision is given to employers.

### *Market Output Performance*

After startup fund increased sales volume and market share volume. This depends on the entrepreneur's decision to use the funds received to repair production or marketing. From that decision will affect the profit of the business. According to sources, they can increase sales by up to 20% -30%.

### Description

According to Fung (2014) angel investment is a network of people who have high wealth or have the money and are interested in investing. They invest in companies started or is still in its early stages. Meanwhile, according to Adez (2014) angel investors so called because when the others are not willing, when the angel investors that the first step in to provide funding at an early stage. This is what distinguishes the type of angel investment with other funding. Currently angel investment in Indonesia has begun to evolve as it follows the trend in Silicon Valley. Angel investment in Indonesia is informal and based connection system.

When providing funding, angel investment establishes a number of criteria Business personality criteria perpetrator is most often seen an angel investor with a percentage of 90%. Matters relating to, among other personalities such as track record, vision, open-minded, the nature of leadership, extrovert, to develop networking and trustworthy. The next thing noticed by angel investor is unique and the market potential of a startup. Also based on the description of the informant is known that the amount of growth expected by investors is on average about 10-15 %

Type angel investors varying influence of financial variables that are applied by the investor on the business finances. Reports and meetings requested by angel investors regarding financial used to monitor the developments in the business that they fund and the application of the use of funds provided. Angel investors do not impose the existence of the financial projections of a business or margins. But angel investors expect a refund of at least the equivalent of at least a given amount of investment. For a given investment angel investor in Indonesia at this time and yet still vary according to the existing theory. It is no less important is the exit strategy scheme required by angel investors to obtain a refund or feedback from its investments. Schematic exit strategy consists of a variety of ways depending on the agreement between the two parties.

Table 2:

*Comparison of Criteria Angel Investment In Jakarta and Bandung*

Criteria	Jakarta	Bandung
People or Entrepreneur	<ul style="list-style-type: none"> <li>The personalities that affect when investors to provide funds are track record and Enthusiasm of the entrepreneur</li> </ul>	<ul style="list-style-type: none"> <li>Leadership and how the existing management team at the company are a major concern</li> </ul>
Market or Product	<ul style="list-style-type: none"> <li>Investors viewed the prospects for market growth products that will be sold and the quality of products</li> </ul>	<ul style="list-style-type: none"> <li>The uniqueness, quality, patents and legality business of the product becoming a major concern</li> </ul>
Financial	<ul style="list-style-type: none"> <li>Investors expect growth occurred after at least two years of funding and expects revenues to increase in the third year after the administration of funds</li> </ul>	<ul style="list-style-type: none"> <li>Investment size pegged in the range of \$ 30,000</li> </ul>
Other Business Attribute	<ul style="list-style-type: none"> <li>The magnitude of the possible presence of co-investors</li> <li>Investors do not pay attention to the geographical location of the startup</li> <li>investors pay attention to scheme exit strategy that can be done after providing funds</li> </ul>	<ul style="list-style-type: none"> <li>Most of the exit strategy schemes were chosen is stock distribution scheme</li> <li>Geography of startup are not a big deal</li> <li>Startup does not usually obtain investment from other investors</li> </ul>
Market Output Performance	<ul style="list-style-type: none"> <li>The sales volume, market volume increased after they obtain funding</li> </ul>	<ul style="list-style-type: none"> <li>There is an increased of sales volume and market share volume that depends on entrepreneur's decision to use the funds received to repair production or marketing.</li> </ul>

With the increasing number of startup projected forward then it is certain that the startup is entering the stage of early stage and it would be certainly in need of funding. One can access funding that is given to the angel investment funding scheme. Respondents said that this funding provides improved in some sectors such as the production of which can further increase the volume of sales and profit. It also can increase the boost in corporate



marketing sector. Respondent stated that after obtaining the funding, advantage to increase between 20-30 % and the production can be increased up to 10-fold. However this is highly dependent on the execution of entrepreneurs in running and developing the business. If the entrepreneur can make good use of a given investment, both directed to the production or marketing process, it will increase the performance of the company and the effect on revenue is received. That's because generally people consider factors angel investors or entrepreneurs in providing the funding. This is evident from the angel investment criteria are put 4 things related to the personality of the Top 5 things entrepreneurs in providing funding.

From the above it can be concluded that the angel investment can be used to be one of the funding schemes for a business, especially those in the early stages of the stage. This happens because the angel investment proved to be successful to make companies that are at the stage of early stage gain more revenue and continues to experience positive growth. Future is expected to be a growing number of angel investment association that provides opportunities for other businesses to obtain funding In order for this funding no longer is informal and can only be accessed by those who have networking , but also can be accessed by other businesses .

Based on the above data it can be seen that there are 5 main things seen in providing funding by angel investors that track record of entrepreneurs, the level of enthusiasm of entrepreneurs, confidence in the entrepreneur, the first impression upon seeing the entrepreneur, and the potential for product sales. From this it can be seen that for investors, important matters relating to the provision of funds depends heavily on the then new businesses to switch to products and other things. Here are 5 priority comparison between this study conducted in Indonesia by Osnabrugge research conducted in the United Kingdom and by Sudek study conducted in the United States.

Table 3:  
*Investment Criteria in Indonesia*

Selected Investment Criteria	Ranking
Enthusiasm of the entrepreneur	2
Trustworthiness of the entrepreneur	3
Expertise of the entrepreneur	8
Investor liked entrepreneur upon meeting	4
Track Record of the entrepreneur	1
Sales potential of the product	5
Growth potential of the market	7

Quality of product	11
Niche market	21
Informal competitive protection of the product	23
Nature of competition in the industry	22
Overall competitive protection of the product (patents)	27
Perceived financial rewards (for the investor)	17
Expected rate of return	14
High margins of the business	10
Low overheads	16
Ability to break even without further funding	25
Low initial capital expenditures needed (on assets)	18
Size of investment	15
Low cost to test the market initially	12
Investor's involvement possible (contribute skills)	19
Investor's strengths filling gaps in business	26
Local venture	24
Potential exit routes (liquidity)	6
Investor's understanding of the business or industry	13
Presence of (potential) co-investors	20
Management Team	9

Source: Data Processing

Table 4:  
*Comparison of the criteria angel investment*

Ranking	Van Osnabrugge	Sudek	This Research
1	<i>Enthusiasm of the entrepreneur</i>	<i>Trustworthiness/honesty of the entrepreneur</i>	<i>Track Record of the entrepreneur</i>
2	<i>Trustworthiness of the entrepreneur</i>	<i>Management Team</i>	<i>Enthusiasm of the entrepreneur</i>
3	<i>Sales potential of the product</i>	<i>Enthusiasm/commitment of the entrepreneur</i>	<i>Trustworthiness of the entrepreneur</i>
4	<i>Expertise of the entrepreneur</i>	<i>Potential exit routes</i>	<i>Investor liked entrepreneur upon meeting</i>
5	<i>Investor liked entrepreneur upon meeting</i>	<i>Revenue potential</i>	<i>Sales potential of the product</i>

### Conclusion

During angel investment funding system in Indonesia has been done yet in progress informally. Funding system based on kinship Appears angel investor organization that is intended to provide a formal angel investment funding so hopefully all parties can access the funding. Going forward, angel investment will continue to grow along with many startups with good ideas who want to access the funds in its initial financing. The possibility that in the future will be increasingly prevalent funding by angel investors from outside Indonesia.

### Limitation

This research is a case study conducted on startup in Indonesia. It is expected to further research can use other objects with population studies that have been known for certain in order to measure the influence of angel investment funding to market the output performance so mind the statistics

To analyze the angel investment as a source of startup capital, the authors relate the output market analysis startup performance. It is expected to further research, could use another variable to know the influence of angel investment funding to the development of a startup

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