

Level of Health of Investee Company of Handicraft Small Enterprises after being funded by Venture Capital

R. Ait Novatiani, Economy Faculty, Widyatama University, Indonesia. E-mail: ait.novatiani@widyatama.ac.id*

R. Wedi Rusmawan Kusumah, Economy Faculty, Widyatama University, Indonesia.

E-mail: wedi.rusmawan@widyatama.ac.id

Abstract--- Small enterprises are spearheads for national industry. However, main problem that is often faced by them is funding. Venture capital has role to give funding in order to investee companies could expand their businesses. The more company is growing, the more profits the company gains. This profit growing is an indicator for level of health of Investee Company. In determining level of company partners' healthiness, venture capital use project condition assessment guideline, that is financial performance. Purpose of this research is to analyze level of health of Investee Company of handicraft small enterprises after being funded by venture capital. This research used descriptive methodology, using simple random sampling with total of 22 small enterprises of Investee Company, and secondary data collection technique. In summary, venture capital funding to Investee Company of handicraft small enterprises improves their level of health.

Keywords--- Level of Health, Investee Company and Venture Capital.

I. Introduction

Small enterprises are small company, either it is individuals or business entities that have been doing their businesses with maximum revenue of IDR 600 million or maximum assets of IDR 600 millions excluding land and buildings [1].

Small enterprises are also employment provider for millions of Indonesians, pay taxes, spearheads of national industry, intermediary trader, producing a lot of basic needs for many people and exist on every corner of the nation that are estimated 39 millions across the country [2].

Generally, small enterprises have weakness in managing business and human resource quality, and there is a limitation in accessing financial institutions, especially in term of banks [3]. Besides, there is no transparency in financial management. Moreover, there is a fact that they lack of financial and managerial skills [4].

Main problem that often being faced by small enterprises are funding, that is they have difficulty in terms of getting loans from banks, capital market, or any other financial institutions. Several companies that encounter this problem try to overcome this by making loans and merging, or in contrast, shut the company off [5].

As been found in community service event of Training of Small and Medium Enterprises (SME) of Batik Industries in Tasikmalaya, that had been held in January 30, 2015, where SME of batik industries in Tasikmalaya encountered difficulties in funding from banks or other financial institutions.

Based on fact that small enterprises are encountering problems in funding from banks or other financial institutions, therefore according to Presidential Decree No. 61/1988 clause 1-11 about funding institutions, Indonesia initiate funding institution called venture capital.

Venture capital is a business entity that funds companies as capital in exchange to company's equity for a period of time. The company that has been funded is called business Partner Company. Benefit of this venture capital for funded company is company's success, distribution success, increase in profits, and increase in liquidity [6].

Venture capital has function to give funding help so that partner companies could expand their businesses. As company growing, company partners' profits are also increasing. This profit increasing is an indicator that the company partner is in healthy condition. Company's health is the most important thing to preserve company's existence. This healthiness is related to company's ability to manage its financial performance [7][8].

In determining level of company partners' healthiness, venture capital use project condition assessment guideline, that is financial performance. The financial performance that are being assessed including profitability,

liquidity, and leverage. Investors are highly-analyze information that are gathered from financial report to understand financial condition of a company [9].

Venture capital activity is to inject capitals to company partners in order to catalyze small enterprises development with principle of needing each other, strengthening and profitable through partnership with big enterprises, pushing small and medium enterprises to be independent, having wide marketing networks, having a strong competitiveness, increasing profits, and decreasing cost of company interests, and also improving company partner level of health [18-21].

Previous descriptions show that funding from venture capital is important, so that company partners could expand their business, such that there is an increase in their profits. This profit increasing is an indicator that the company partner is in healthy condition [10].

As for previous research that had been done by Yulianto (2013), has result that liquidity positions that are measured using current ratio positively correlated to banking health rate.

Furthermore, research that had been conducted by Rahayu (2013), shows that profitability is a main predictor that push health rate increasing of a bank. The higher probability position of a company, the higher bank ability in constantly generating profits.

On the basis of previous descriptions, author is interested in researching this topic with title: “**Level of Health of Investee Company of Handicraft Small Enterprises after being funded by Venture Capital.**”

II. Health of Investee Company of Handicraft Small Enterprises after being funded by Venture Capital”.

This research formulate research question that is how is level of health in company partner of crafting small enterprises after they are funded by venture capital? The purpose of this research is to analyze level of health in small enterprises company partner after they are funded by venture capital. As for the benefits of this research are:

1. For author, it is hopefully to add insight and widening knowledge about level of health for company partners in crafting small industries after they are funded by venture capital.
2. For venture capital and investee partner company, it is expected could give inputs and improvement in terms of their level of health.
3. For others, it is hopefully could be used as a reference for next researches.

III. Literature Review

Level of Health

Level of Healty According to [11]

“This healthiness is related to company’s ability to manage its financial performance”

Level of Healty According to [12]

“Investors are highly-analyze information that are gathered from financial report to understand financial condition of a company “

Company health level can be known by doing analysis to financial report

IV. Financial Statement Analysis Definition

Financial report analysis definition according to Prastowo (1995)

“Financial statement analysis is a process to dive into financial statement to its elements, reviewing each of them, in order to gain good and precise understandings of the report itself.”

Financial statement analysis could be done by using many methodologies and techniques. One of them is called ratio analysis [13]. According to Munawir (1983), ratio analysis is: “ration analysis is a analysis method to obtain relationship among certain posts in balance sheet or income statement individually of combination between the two.”

V. Types of Financial Ratio

According to Husnan (1994), types of financial ratio are as follows:

“In general, any ratios that are calculated could be categorized into 4 (four) basic types, that are: 1.) profitability ratio, 2.) liquidity ratio, 3.) leverage ratio, and 4.) activity ratio.”

VI. Profitability Ratio

According to Bambang (1992), “probability ratio is a tool to Measure Company’s ability to gain profits, where profitability ratio consists of net profit margin, gross profit margin, return on total asset (ROA), and return on equity (ROE).”

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Net Sales}}$$

Equation 1 Net Profit Margin

$$\text{Gross Profit Margin} = \frac{\text{Net Sales} - \text{Cost of Goods Sold}}{\text{Net Sales}}$$

Equation 2 Gross Profit Margin

$$\text{ROA} = \frac{\text{Earnings Before Interest and Taxes (EBIT)}}{\text{Total Assets}}$$

Equation 3 ROA

$$\text{ROE} = \frac{\text{Net Profit After Tax}}{\text{Total of Capital}}$$

Equation 4 ROE

VII. Liquidity Ratio

According to Bambang (1992), “liquidity ratio’s function is used to measure company’s ability in fulfilling its financial obligation, where one of liquidity ratio is current ratio”

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

VIII. Leverage Ratio

According to Bambang (1992), leverage ratio’s function is used to measure how far a company is financed by its debt, were one of leverage ratio is total debt to equity ratio.”

$$\text{Total Debt to Equity Ratio} = \frac{\text{Current Assets} + \text{Longterm Debt}}{\text{Total of Capital}}$$

IX. Research Methodology

Methodology that is used in this research is descriptive method. Descriptive method is a method that is used to describe or analyze result of research but not used for making wider conclusions (Sugiyono, 2012).

X. Variables Operationalization

This research is only using one variable (variable x). This could be seen on

As for calculation of level of health with financial condition aspect that is used by venture capital Company to Partner Company is as following:

1. Calculate budget and actual from level of health indicators
2. Calculate ratio with this formula: $\frac{\text{Actual}-\text{Budget}}{\text{Budget}} \times 100\%$

3. Give assessment in form of number in accordance to predetermined criteria
4. Calculate level of health score with formula: **Score × Scoring Weight**. Where scoring weight could be seen as follows:
 - a. Profitability ratio : 10%
 - b. Liquidity ratio : 30%
 - c. Leverage ratio : 30%
5. Sum up level of health indicators, then it will gain total of company’s health score for one period. Criteria for determining partner company’s health is as follows:
 - a. Healthy : 74 - 90
 - b. Unhealthy : 60 - 73
 - c. Sick : 48 - 59
 - d. Bad Debt : 40 - 47

Variable	Indicator	Scale
Level of Health (Variable X)	1) Profitability	Ratio
	$Net Profit Margin = \frac{Net Profit After Tax}{Net Sales}$	
	$Gross Profit Margin = \frac{Net Sales - Cost of Goods Sold}{Net Sales}$	
	$ROA = \frac{Earnings Before Interest and Taxes (EBIT)}{Total Assets}$	
	$ROE = \frac{Net Profit After Tax}{Total of Capital}$	
	2) Liquidity	
	$Current Ratio = \frac{Current Asset}{Current Liabilities}$	
	3) Leverage	
	$Total Debt to Equity Ratio = \frac{Current Assets + Longterm Debt}{Total of Capital}$	

XI. Research Population and Sample

Population in this research are focused on small enterprises partner companies who are in crafting industry that are funded by PT Sarana Jabar Ventura Bandung, with the total of 45 partner companies[14].

On the basis of PT Sarana Jabar Ventura Bandung and company partners’ request, identities of partner companies are kept secret, such that name of partner companies are not provided in further sections. Each partner company will be given a code, such as A, B, C, etc. the company naming and order is not based on the partner company’s name of involved small crafting enterprises. As of the samples, the companies are chosen using simple random sampling, so that samples total in this research is 22 partner companies of small crafting enterprises.

XII. Data Collection Technique

Data collection technique that is used in this research is secondary data, using literature study or library research, financial statements of 2013 and 2014 (before companies are funded by PT Sarana Jabar Ventura) and Partner Company’s financial statement of 2015 and 2016 (after companies are funded by PT Sarana Jabar Ventura).

XIII. Result of Research and Discussion

Level of Partner Company in Crafting Industry’s Health After Funded By Venture Capital

Assessment of level of health that is used by venture capital company, in this case is PT Sarana Jabar Ventura Bandung to partner companies in small crafting enterprise use project condition assessment guideline, that is financial performance. The financial performance that are being assessed including profitability (consists of net

profit margin, gross profit margin, return on total asset (ROA), and return on equity (ROE) , liquidity (current ratio) , and leverage (total debt to equity ratio), this is compatible with theory that is stated by [15] and [16].

Based on result of this research about level of health of small business enterprise partner of handicraft before they are funded by venture capital have number of weight value of 82,86; whereas score of 82,86 according to venture capital in small business enterprise partner of handicraft criteria is classified as healthy, because it is included in interval 74 - 90.

The small business enterprise partner of handicraft before being funded by venture capital (PT Sarana Jabar Ventura) is classified as healthy by obtaining the value is 82.86, this is due to the tight technical requirements set by venture capital (PT Sarana Jabar Ventura Bandung) to potential business partners to reduce risk. The health level of the small craft industry partner company after being financed by venture capital (PT Sarana Jabar Ventura) obtained 89.59, which is according to venture capital in determining the condition of the health of the company the business partner is classified as healthy because are at intervals of 74-90.

By doing so it can be seen that the company's small craft industry business partner after funded by venture capital health level has increased the amount of 6.73. This increase in the weighted value indicates that venture capital funding for small craft industry business enterprises can improve the level of better health or in other words the health level of the company's small craft industry business partners after financing the venture capital to be better. This can be seen in table 1 below:

Table 1: Classification Level of Health of Investee Company of Handicraft Small Enterprises Before and After Being Funded by Venture Capital Year 2013, 2014, 2015 and 2016

NO	Before					After			
	PPU	2013	2014	Average	Classification	2015	2016	Average	Classification
1.	A	84	84	84	Healthy	85	90	87,5	Healthy
2.	B	83	80	81,5	Healthy	88	90	89	Healthy
3.	C	80	83	81,5	Healthy	88	90	89	Healthy
4.	D	82	84	83	Healthy	88	90	89	Healthy
5.	E	84	80	82	Healthy	88	90	89	Healthy
6.	F	84	84	84	Healthy	90	90	90	Healthy
7.	G	80	83	81,5	Healthy	90	90	90	Healthy
8.	H	81	84	82,5	Healthy	90	90	90	Healthy
9.	I	84	82	83	Healthy	85	90	87,5	Healthy
10.	J	84	83	83,5	Healthy	90	90	90	Healthy
11.	K	82	84	83	Healthy	90	90	90	Healthy
12.	L	85	84	84,5	Healthy	90	90	90	Healthy
13.	M	80	83	81,5	Healthy	90	90	90	Healthy
14.	N	84	84	84	Healthy	90	90	90	Healthy
15.	O	84	83	83,5	Healthy	90	90	90	Healthy
16.	P	84	84	84	Healthy	90	90	90	Healthy
17.	Q	83	84	83,5	Healthy	90	90	90	Healthy
18.	R	84	84	84	Healthy	90	90	90	Healthy
19.	S	84	84	84	Healthy	90	90	90	Healthy
20.	T	81	80	80,5	Healthy	90	90	90	Healthy
21.	U	83	82	82,5	Healthy	90	90	90	Healthy
22.	V	82	81	81,5	Healthy	90	90	90	Healthy
Average				82,86	Healthy			89,59	Healthy

It is according to the theory by Hoedhiono (1995) that the benefits of venture capital financing for the partner company is the success of business, successful distribution of products, increase profits and liquidity.

XIV. Conclusions and Recommendations

Conclusions

Based on the results of the research, it could be concluded that venture capital funding to the small business partner of handicraft could improve the level of health better or in other words the health level of the small company's business partner of handicraft industry after the venture capital funded to be better [17-23].

Recommendations

Based on the results of the study found that could provide and improve are: for some small companies of handicraft industry recommended for submitting financial report on time communication with venture capital (PT. Sarana Jabar Ventura) must be well.

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