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Topic of Research: Role of Venture Capital Financing in Promoting Entrepreneurship

Findings

The role of VC financing in fostering entrepreneurship was investigated. The perspectives of VCs and entrepreneurs were obtained on various aspects of VC financing process. Broadly, their pre-investment, investment and post-investment perspectives were analysed. Specifically, the viewpoints of VCs regarding their procedures for selecting portfolio enterprises and the support provided by them to entrepreneurs in the form of financial and non-financial assistance were investigated. However, the study would have been insufficient if the demand side had not been considered. Therefore, in this regard, the perspectives and expectations of entrepreneurs were also solicited in order to acquire a holistic understanding. Also, the problems and impediments inhibiting VC-driven entrepreneurship were examined from both supply and demand perspectives. This study, therefore, was a modest attempt at assessing and investigating the role played by VC financing in the development and promotion of entrepreneurship.

The major findings revealed that VCs take a reactive stance while searching for investment opportunities—they wait for business plans to arrive to them. It was found that VCs relied heavily on referrals to find investment opportunities, however, entrepreneurs preferred approaching them directly. Furthermore, top-ten evaluation criteria of VCs were identified revealing that entrepreneurial and management traits were given the most weight among the top-ten identified criteria. Therefore, VCs place the highest premium first on the “jockey”—the entrepreneurial and management team, and then on the “horse”—the business, to deal with the problems of adverse selection.

Further, VCs tend to show an investment bias towards certain industries over others. IT & ITES was the most preferred industry/sector by VC firms. Moreover, VCs preferred equity while investing in portfolio companies. On the other hand, entrepreneurs expressed similar preferences towards financing instrument, with equity being the most favoured instrument of financing. Furthermore, VCs preferred an investment horizon of 5–7 years till exit, and IPO and M&A were the most favoured exit routes/vehicles. These preferences were also echoed by

the entrepreneurs in the sample, however, M&A was the least desired form of exit strategy among entrepreneurs. Finally, it was found that VCs' return expectations varied over investment stages and overall, they expected an IRR of 30–35%.

Further, board participation was the most common method used by VCs to oversee and monitor the operations of their portfolio companies. Nevertheless, entrepreneurs in the sample were hesitant to provide VCs board seats. They regarded financial statement feedback adequate for monitoring purposes. Furthermore, the value-added services provided by VCs were evaluated, revealing development of business strategy as the top-most service provided by them, followed by other services like assisting with marketing and operations, managing and planning the finances, providing networking assistance and offering business advice. Additionally, median discretisation helped in identifying three distinct groups of VCs depending on their level of engagement in monitoring and value-added activities—Close Trackers (exhibiting high level of engagement), Moderates (exhibiting medium level of engagement) and Laissez-Faire (exhibiting lower level of involvement). Next, the value-added services expected by entrepreneurs were evaluated, revealing finances management as the top-most service expected by them, followed by other services like networking assistance, assistance with marketing and operations, business advice and creation of professional support system. Thus, there was unanimity about the value-added services among VCs and entrepreneurs in general. Additionally, cluster analysis helped in identifying three distinct groups of entrepreneurs depending on the level of involvement desired by them from VCs in different value-added activities—Strategy Seekers (expecting higher involvement of VCs majorly in strategic value-added roles), Counsel Seekers (expecting higher involvement of VCs majorly in inter-personal value-added roles) and Self-reliant (expecting moderate to lower involvement of VCs in all the value-added roles). Further, discriminant analysis revealed that Strategy Seekers expected the highest level of involvement of VCs in marketing and operations, whereas Counsel Seekers expected the highest level of involvement of VCs in crisis management.

Lastly, the perspectives of both VCs and entrepreneurs were investigated regarding the problems and impediments associated with VC financing process that affect VC-driven entrepreneurship. It was observed that VCs viewed lack of transparency in deals and the perceptual disparities between entrepreneurs and VCs as the most significant issues. On the other hand, entrepreneurs also viewed these perceptual disparities as the most significant issue. Surprisingly, however, entrepreneurs also viewed the regulatory system to be highly complex and convoluted.