# CHAPTER -5
## RESEARCH METHODOLOGY

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Chapter – 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION
This research being Descriptive diagnostic type. Both Qualitative and quantitative research is done.
The research objectives were so broad based covering entire scope of venture capital financing done in India

5.2 TYPE OF RESEARCH
The research undertaken by researcher is exploratory research followed by descriptive research.
Exploratory research has helped in finding out what is happening and to seek new insights. Questions pertaining to research are asked and it has helped the researcher to assess phenomena in a new light. Researcher also conducted analytical research where the facts of the information available were used and analysed to make critical evaluation of the material.

5.3 RESEARCH PROCESS
Research conducted by researcher include following steps:
1. Exploratory research was conducted as follows-
   • Review of literature-
   • Talking to the experts- various venture capitalist, entrepreneurs and academicians were chosen for the information
   • Conducting Interviews- Conducting survey through questionnaire method as well as in depth interview related to the area of research
   • Case study analysis
To portray actual profile of persons, events, situation descriptive research is done which is an extension of, or a forerunner to a piece of exploratory research.

2. Though getting the information by venture capitalist was really difficult as they considered it to be very confidential. All Venture Capitalists however insisted that other than the quantitative model lot of qualitative analysis is
required before they finance any proposal. In light of above view point following means were considered appropriate:

a) Survey done through designed questionnaire and the weightage is given to various parameters while financing the proposal. Key areas are identified required for screening the proposal by Venture Capitalists.
b) Venture Capitalists are directly interviewed. The questionnaire helped as skeleton or means to capture information though it did not served as a time saving tool. The questions were carefully selected for getting quality information
c) Case studies related to venture capital financing are properly analysed.
d) Quantitative analysis is done and a model is developed based on Quantitative analysis.
e) Review of Literature on the subject mainly available through internet as well as in certain books, journals, articles.

5.4 FORMULATION OF HYPOTHESES

1. Venture capitalist not only invests in idea but also in entrepreneurs.
2. Venture capitalist focus not only in quantitative analysis of the proposals they receive for finance but also in qualitative analysis
3. Venture capitalist invest in the project that has the potential to give very high return on investment.

5.5 OBJECTIVES OF RESEARCH

Although a good amount of empirical work exists on the evaluation criteria used by Venture capitalist in the developed countries, few researchers have tried to identify the criteria used in the developing countries. But there is a need to answer following questions

- Criteria to be used in evaluating the project
- The process of evaluation in a developing country like India
- The important factors from entrepreneurs view point
- To differentiate between essential, important, desirable and irrelevant factors from venture capitalist point of view
The purpose of this study is to investigate these issues from developing country perspective. Thus, the study is intended to provide a model for assessment process which can be practiced by venture capitalist in India. It will help entrepreneurs also to analyse their ideas and to scale the ideas. The model can be used by entrepreneurs for idea evaluation.

The specific objectives of the study are:

1. to identify risk factors involved in a project
2. to identify steps involved in the assessment process
3. to identify sources of information pertaining factors
4. to develop an integrated model for assessment process
5. to develop an decision making process for Venture capitalist
6. to be used for entrepreneurs when they seek venture capital
7. to quantify various essential parameters

Researcher has carried out this study with the help of in-depth case studies also of venture capitalist.

5.6 SAMPLING TECHNIQUE:
Random sampling method. This method is adopted as getting through venture capital is really difficult. Researcher contacted various venture capitalists but the meeting with few of them materialized.

5.7 SAMPLE SIZE
Total number of venture capitalist used for the survey is 11. The sample is drawn from all over India.

5.8 TOOLS USED:
Following tools were considered appropriate for collection and analysis of data:

- Questionnaire
- Interview
- Case study method
- Desk research
5.9 PROCEDURE FOR DATA COLLECTION:

Data is collected by following method:
1. Primary data: Primary data is collected through questionnaire and interviews
2. Secondary data: Books, research paper, Internet etc are used for collecting secondary data.

5.10 FORMULATION OF QUESTIONNAIRE

The questionnaire basically covers five key characteristics which is further clarified under various categories.

Venture capitalists were asked to rate them on scale of four point basis i.e. 1-4
1-Irrelevant (1 stands for irrelevant parameter)
2-Desirable (2 stand for desirable parameter)
3-Important (3 stands for important parameter)
4-Essential (4 stands for essential parameter)

The questionnaire is divided into five parts and they are further subdivided into various parameters.

The Key areas of Questionnaire are:
1. Characteristics of Entrepreneur
2. Characteristics of Product
3. Characteristics of market
4. Financial consideration
5. Characteristics of venture management team

I. Characteristics of an entrepreneur.
  - Integrity
  - Capable of sustained intense effort
  - Critical competence
  - Ability to evaluate and react to risk
  - Long term vision
  - Attention to detail project
  - Urge to grow
  - Commercial orientation
  - Amenable to suggestion and criticism
- Articulate to discuss venture
- Compatible personality
- Familiarity with target market
- Leadership ability in past
- Track record relevant in venture
- Referred by trustworthy source
- Venture capital funds familiarity with entrepreneurs reputation

II Characteristics of the product
- High tech product
- Proprietary or otherwise protected product
- Uniqueness of product
- Market acceptance of the product

III Characteristics of market
- High market growth rate
- Little threat or competition during first three years
- Easy market accessibility
- Large size of the Market
- Product in market familiar to Venture Capital Funds
- Ability to create new market

IV Financial consideration
- Expected return equal to at least 10 times the investment in 5-10 years
- Expected return equal to at least 10 times the investment in at least 5 years
- Expected return over 25% in 5 years
- Expected return over 100% in 5 years
- Venture can be easily made liquid

V Characteristics of venture management team
- Technical skills
- Managerial skills
- Financial skills
• Marketing skills
• Balanced team

5.11 STATISTICAL METHODS USED:
Bar diagrams, Pie diagrams, graphs etc