Chapter 6
Conclusions and Recommendations

In the present chapter conclusions of the study are drawn and effort is made to make meaningful recommendation for the problems and prospects of venture capital in Uttar Pradesh. This chapter is divided into 4 sections, which are as follows:

6.1 Findings and conclusions
6.2 Recommendation
6.3 Limitation
6.4 Direction for future research

6.1 Findings and Conclusions
Based on the analysis of data from the two questionnaires one for the venture capitalist and entrepreneurs the following findings and conclusions have presented.

6.1.1 Evaluation criteria
Prior researches on venture capitalist investment criteria (Tyebjee & Bruno, 1984; MacMillan et al., 1985; 1987; Fried & Hisrich, 1994; Muzyka et al., 1996) identified a number of investment criteria. This research tried to find out the importance of the various evaluation criteria for venture capitalist in India and how far investments proposals from Uttar Pradesh are able to fulfill these evaluation criteria. The criteria used by venture capitalist in evaluating an investment proposal were classified under five different heads, which were as follows: characteristics of entrepreneurship, characteristics of target market, characteristics of products and services, features of deal and features of region. The findings for each of the above evaluation criteria along with the conclusions are as follows:
6.1.1.1 Characteristics of entrepreneurship

Venture capitalists were asked to rate the following features of entrepreneurs; Leadership Qualities, Integrity and Commitment, Commercial Orientation, Technical Expertise, Financial Expertise, Knowledge of Market and Ability to handle a Team.

All the above features of entrepreneurship have been rated as important by venture capitalist. For Uttar Pradesh, the presence of technical expertise of entrepreneurs was rated high while the long-term vision of its entrepreneur was rated low by the Venture capitalists.

The statistical tests show that apart from the long-term vision of entrepreneurs in Uttar Pradesh all the above features of entrepreneurs are as per the requirement of venture capitalist. From the test of the individual attributes of the characteristics of entrepreneurs in Uttar Pradesh we can conclude that entrepreneurs in Uttar Pradesh lack long-term vision but posses sound technical skills.

Also statistical test shows that the overall difference in the features of entrepreneurs as desired by venture capitalist and as present in investment proposals from Uttar Pradesh is not significance enough.

6.1.1.2 Characteristics of products and services

Venture capitalists were asked to rate the following features of products and services in the investment proposals from Uttar Pradesh: Uniqueness, Existence of prototype, Existence of patent and Superiority over the existing products. In the features of product and services the Uniqueness and Existence of prototype were rated as important by the venture capitalists. All the above features of products and services were rated as present in investment proposals from Uttar Pradesh by the venture capitalists.

Statistical tests of the individual features of product and services in proposals from Uttar Pradesh show that the uniqueness of product is not as per the expectations of venture capitalist but the overall difference between the features of product and services required
by venture capitalist and features of product and services present in proposals from Uttar Pradesh is not significance enough.

6.1.1.3 Characteristics of target market

Venture capitalists were asked to rate the following features of target market in the investment proposals from Uttar Pradesh: Market size, Market growth rate and Competition.

The above features of target market were rated as important by Venture capitalists. All the above features of the features of target market were rated as present in investment proposals from Uttar Pradesh.

Statistical test show that all the individual features of target market are as per the requirement of venture capitalist. Also on an overall basis, features of target market in proposals from Uttar Pradesh are per the requirement of venture capitalist.

6.1.1.4 Features of deal

Venture capitalist were asked to rate the following features of deals in the investment proposals from Uttar Pradesh: Percentage share of equity (ownership) offered to venture capitalist, Price of equity being offered to venture capitalist, Risk, Returns, Willingness of other venture capitalist to participate, Provisions in contracts to mitigate conflict with the entrepreneurs and Option of exit.

All the above features of deal except the price of equity offered were rated as important by venture capitalists. For investment proposals from Uttar Pradesh the willingness of other venture capitalist to participate is rated high while the presence of easy exit was rated low.

Statistical tests show that the all features of deal in investment proposal from Uttar Pradesh except the level of risk and the option of exit are as per the expectations of
venture capitalists. Statistical test also show that on an overall basis the deal is as per the requirement of venture capitalists.

6.1.1.5 **Features of region**

Venture Capitalists were asked to rate the following regional features of Uttar Pradesh: Distance from office of Venture capitalist, Clarity in the rules and regulations, Stability in policies, Infrastructure facilities, Availability of trained manpower and Law and order situation.

All the above features were rated as important by venture capitalist. For Uttar Pradesh the presences of regional features were rated low.

Statistical test were performed which showed that none of the above regional features are as per the expectations of venture capitalists. Also, statistical test show that the overall regional features are not as per the expectation of venture capitalist.

In view of the findings of the above criteria we can conclude that venture capitalists find investment proposals from Uttar Pradesh attractive enough in terms of the Characteristics of entrepreneurs, Characteristics of products and services, Characteristics of target market, Features of deal, but venture capitalists are not satisfied by the regional features of Uttar Pradesh.

6.1.2 **Role of venture capital in development**

Venture capital has played an important role in economic and industrial development in many countries. This study tries to find if venture capitalists can play a similar role in Uttar Pradesh. Venture capitalists were asked to rate how they can help in economic and industrial development of Uttar Pradesh.

6.1.2.1 **Economic development**

Venture capitalists were asked to rate the importance of the following role which can be played by them in economic development: Spurring innovation, Boosting
entrepreneurship, Helping in identify areas where Uttar Pradesh has competitive advantages, Generating employment, Attracting investments from other sources, improving brand image of Uttar Pradesh, Providing their expertise in policy formulation and Creating a trust amongst entrepreneurs to invest in Uttar Pradesh. The All the above were rated as important by venture capitalists. Statistical test on the above features of economic development show that venture capital can play a role in economic development.

On the basis of the responses from the venture capitalists it is concluded that venture capitalists can help in economic development of Uttar Pradesh

6.1.2.2 Industrial development
Venture capitalists were asked to rate the importance of the following role which can be played by them in the industrial development of Uttar Pradesh: Making industrial unit more competitive, Better evaluation of projects, Providing Strategic advice, Providing managerial advice, Expanding the marketing networks, Better management of financial resources, Instilling better governances and By helping in manpower recruitment and training. The All the above were rated as important by venture capitalists. Statistical test on the above features of industrial development show that venture capital can play a role in industrial development.

On the basis of the responses from the venture capitalists it is concluded that venture capitalists can help in industrial development of Uttar Pradesh.

6.1.3 Role of Government
In view of the role that governments in many parts of the world have played in promotion of venture capital, this study tries to find the role of government in promoting venture capital in Uttar Pradesh. Venture capitalists were asked the importance of the various steps which can be undertaken by the government to promote venture capital in state of Uttar Pradesh. Venture capitalist were asked to rate the following ways through which government can help in promoting venture capital in Uttar Pradesh: Improving
infrastructure, Helping venture capital funding through incubation organizations, Improving labor issues, Faster clearance of investment proposals, Simplification of Regulatory and legal issues, Through tax concessions, By establishing state dedicated venture capital funds, By establishing special cell to oversee venture capital, better clarification of the policies and procedures and Ensuring more stability in policies and procedures. All the above steps that can be taken by government were rated as important by venture capitalist. Statistical test on the above features show that government can promote venture capital in Uttar Pradesh.

On the basis of responses from the venture capitalist it is concluded that government can help in promotion of venture capital.

6.1.4 Effect of Syndication on venture capital funding

In spite of the stream of previous theoretical and empirical research on the reasons to syndicate venture capital investments, knowledge of the how syndication can promote venture capital firm is still thin. In this research, it is examined if syndication can also effect the investments of venture capital firms in the state of Uttar Pradesh. Venture capitalist were asked to rate the following advantages of syndication in the state of Uttar Pradesh; Better evaluation of venture, Sharing of risk and returns, Better management of venture and Giving a signal that the venture is good. All the above benefits of syndications were rated as important by venture capitalist. Statistical test on the above benefits of syndication show syndication will also help promote venture capital in Uttar Pradesh.

It is concluded that syndication can provide a number of benefits for venture capital firms.

6.1.5. Problems faced in raising capital

Research on problems faced by entrepreneur in raising capital were first identified by the Macmillan report in 1931 and subsequently many researchers have shown that the two most common methods of raising funds are equity and debt and entrepreneur especially with new and innovative proposal face difficulty in raising funds and.
Problems faced in raising equity capital-
Entrepreneurs were asked to rate the following problems faced in raising equity capital; Insufficient funds, Lack of trust, High cost of funds, Time consuming process, Requirement of guarantee, Excessive paper work, Requirement of reference and Low chances of success in obtaining finance. The findings show that entrepreneurs face a number of problems in raising equity capital. Out of the above problems, entrepreneurs in Uttar Pradesh face maximum problems in convincing the providers of capital. Statistical test on the above features show that entrepreneurs face problems in raising equity capital due to the above features. Statistical tests also showed that the problem faced in raising equity capital does not differ age-wise, location-wise and gender-wise.

Based on the responses from the entrepreneurs it is concluded that entrepreneurs in Uttar Pradesh face problems in raising equity capital irrespective of their age, location and gender.

Problems faced in raising debt capital
Entrepreneurs were asked to rate the following problems faced in raising debt capital; Insufficient funds, Lack of trust, High cost of funds, Time consuming process, Requirement of collateral, Excessive paper work, Requirement of reference and Low chances of success in obtaining finance. Responses from the entrepreneurs show that they face a number of problems in raising debt capital. Out of the above problems, entrepreneurs in Uttar Pradesh face maximum problems in providing collateral/guarantee while raising debt capital. Statistical test on the above features show that entrepreneurs face problems in raising debt capital due to the above features. Also the problem faced in raising debt capital does not differ age-wise, location-wise and gender-wise.

Based on the response to the above features it is concluded that entrepreneurs in Uttar Pradesh face problems in raising debt capital and those entrepreneurs in Uttar Pradesh face no significant difference between problems in raising equity capital and problems raising in debt capital. It is also concluded that problems are faced in raising debt capital irrespective of the age, location and gender of the entrepreneur.
6.1.6. Problems of Venture Capital

Venture capital is generally considered as a synonym of high risk capital as it provides funds for new and starts up ventures. Due to the high risk and informational uncertainties associated with such ventures, venture capitalists demand ownership of business, control over the business decisions and more compensation. In view of the above features of venture capital financing, entrepreneurs face a number of problems in venture capitalists financing.

Many entrepreneurs were not even aware of the venture capital funding. Those entrepreneurs who were aware rated the following problems faced in venture capital funding. Venture capitalist; are unapproachable, are costly source of raising capital, interfere in business decisions, finance only high technology firms, ask for business plans, fund large business, take a long time in negotiations and are very selective in financing thus there is low chances of obtaining finance. The responses show that entrepreneurs face problems in all the above features. Out of the above, entrepreneurs in Uttar Pradesh face maximum problems in disclosing their business plans to venture capitalist. Statistical test on the above features show that entrepreneurs face problems in raising venture capital due to the above features. Also the problem faced in raising venture capital does not differ age-wise, location-wise and gender-wise.

Based on the responses from the entrepreneurs it is concluded that entrepreneurs in Uttar Pradesh face problems in raising venture capital irrespective of their age, location and gender.

6.1.7. Expectation from Venture Capitalist

Entrepreneurs rated the importance of the following types of assistance that can be provided by capitalists, venture capitalist can help in- strategic planning, marketing of products/services, providing technology, raising finance from other sources, operations, manpower recruitment and training and improving corporate governance. Responses from the entrepreneurs show that they expect assistance related to most of the above areas from venture capitalist. Out of the above feature the highest rating was for the financial
assistance that can be provided by a venture capitalist. On the other hand entrepreneurs rated the technical assistance, operational assistance and assistance in improving the corporate governance as low. Statistical test on the above features show that entrepreneurs give importance to the above assistance from venture capitalist. Also the assistance expected from venture capitalist differs age-wise but does not differ location-wise and gender-wise.

On the basis of which it is concluded that, entrepreneurs give more importance to the financial assistance that can be provided by venture capitalists. It is also concluded that irrespective of their location and gender entrepreneur expect assistance from venture capitalists.

6.1.8. Area and stages of venture capital investments in Uttar Pradesh.
Venture capitalists prefer to finance ventures related to certain specific sectors. In this study venture capitalist were asked in which sectors they would prefer to invest in Uttar Pradesh. The choices of sectors were as follows, Software, Hardware, Telecommunication, Biotechnology, Media/Entertainment and Real Estate. For venture capitalist Software, Hardware and Biotechnology were the top three areas of interest in the state of Uttar Pradesh.

There are a number of stages in venture capital financing. Venture capitalists were asked about their preferred stages for investment in Uttar Pradesh. The choice of stages were as follows Seed financing, Start up financing, Early stage/Growth financing, Development/expansion financing, Mezzanine financing and Management Buy in/ Buy out. For venture capitalist Early Stage/Growth, Development /Expansion and Start-up were the top three areas of interest in the state of Uttar Pradesh.

6.2 Recommendation
This research set out to study the problems and prospects of venture capitalists in the state of Uttar Pradesh. Based on the findings and conclusions the recommendations have been given with an aim to overcome the problems faced in venture capital and exploit the
potential of venture capital funding. The recommendations are classified under three heads: recommendations to government of Uttar Pradesh, recommendation to entrepreneurs and finally recommendation to venture capitalist.

6.2.1 **Recommendations for government of Uttar Pradesh**

An interesting finding highlighted by the study of Jeng & Wells (2000) is that government policies can have a dramatic impact on the current and long-term viability of the venture capital sector. The findings of this study also show that government can play a role in promotion of venture capital. In order increase the prospects of venture capital in the state; the following are the recommendations to the government of Uttar Pradesh:

1. **Provide better infrastructure** - Infrastructure facilities were rated as low by the venture capitalist and should be improved.

2. **Establish incubators** - Apart from the three existing incubation organization at Kanpur, Lucknow and Noida government should set up more incubation centers.

3. **Improve manpower availability** - As investments of venture capitalist are in new and emerging areas they may face a shortage of manpower. Government should undertake policies to ensure the availability of manpower.

4. **Faster clearance of investment proposals and more transparency and stability in the policies** - In a competitive environment, good governance is an important prerequisite for attracting investment. The government of Uttar Pradesh can provide good governance by clarifying the rules and regulations and by providing stability in policies related to investment in various industries. The government should implement mechanisms to enable faster clearance of investment proposals. These above steps if taken by the government will enable the venture capitalists to take a more informed and confident decision while investing in Uttar Pradesh.

5. **Provide Tax concessions** - In view of their role in promoting entrepreneurship, employment generation and contribution to the overall economic development of a region the government can provide monetary incentives in the form of cheap land and tax concession to investment proposals financed by venture capitalists.

6. **Establish state dedicated venture capital funds** – it was proposed in the industrial policy of UP-2004 that there should be a state sponsored venture capital fund.
dedicated to financing investment proposals from Uttar Pradesh. Government should implement it and provide for a state dedicated venture capital fund in Uttar Pradesh. The state dedicated venture capital fund will focus only on the state of Uttar Pradesh. This will improve the prospects of venture capital financing in the state of Uttar Pradesh.

7. Establish special cell to oversee venture capital investment in Uttar Pradesh – Venture capital actively assists and monitors the business financed by them, the approach of venture capital is not limited to one time investing. A special cell can be formed to look into the bureaucratic and implemental problems faced by venture capitalist. Through such actions the government can convey that it is ready to provide help to venture capitalist. Venture capitalist will gain confidence and may be ready to fund more proposals from Uttar Pradesh.

8. Improve the regulatory and legal environment - The government of Uttar Pradesh should ensure a favorable law and order to prevent and resolve disputes.

9. Persuade venture capitalist to open offices in Uttar Pradesh - A survey of venture capitalists by Gorman & Sahlman (1989) found that lead venture capitalists visit their portfolio companies an average of 18.7 times per year. Most of the venture capitalists are located in Mumbai and Bangalore. As the distances of these locations are far from Uttar Pradesh, venture capitalists may avoid investments in Uttar Pradesh. The government can persuade the venture capitalists to open their branch/regional offices in Uttar Pradesh. If venture capitalist open their offices in Uttar Pradesh they may fund more investments from Uttar Pradesh and this can improve the prospects of venture capital financing in Uttar Pradesh.

10. Exit options to small business- while evaluating investment proposals venture capitalists have highlighted that it is difficult to exit (liquidate) investments made in Uttar Pradesh. The government of Uttar Pradesh should try to workout how this problem can be taken care of.

6.2.2 Recommendations for Entrepreneurs of Uttar Pradesh

Venture capital has developed as an important intermediary in financial markets; they are providing capital to firms that might otherwise have difficulty-attracting financing.
Venture capital usually finances firms that are small and young plagued by high levels of uncertainty and have large differences between what entrepreneurs and investors know. Moreover, these firms typically possess few tangible assets and operate in markets that change very rapidly. Venture capital finances these high-risk, potentially high-reward projects. Venture capital does so by purchasing equity or equity-linked stakes while the firms are still privately held.

The problem is that many of the determinants of future value are unobservable to the venture capitalists. Entrepreneurs should therefore try to understand the viewpoint of venture capitalists and understand the cause of the problems in venture capitalists, this understanding help them in overcoming the problems they face in venture capital funding.

Given below are certain recommendations to the problems faced by entrepreneurs in raising venture capital funds.

1. Venture capitalists are unapproachable- As per this study and previous studies, venture capitalist use formal and informal mechanism to check the credibility of their investment. Venture capitalist thus adopts a referral system for identifying new investment opportunities. Entrepreneurs should try to approach venture capitalists through some references.

2. Venture capital is a costly source of raising capital – Venture capital financing differs from traditional methods of raising funds such as equity and debt. Venture capitalist demands a higher cost for funds as they undertake a substantially higher risk. Entrepreneurs should evaluate the cost of venture capital funding with due consideration of the risk undertaken by a venture capitalists and also acknowledge that Venture capitalist are not only providing the funds but they can also add value to the venture by their hand holding approach. To sum up venture capitalists not only provides funds but also monitors and advises an entrepreneur, in lieu of which venture capitalists demand a higher compensation. Thus, while evaluating the cost of venture capital, entrepreneurs must consider the additional benefits and risk borne by the venture capitalist. Studies on venture capital such as Hsu (2000)
have shown that entrepreneurs are ready to bear extra cost of venture capital in view of other than financing help provided by venture capitalist.

3. Lack of control on business decision as venture capitalist interferes in business decisions – A venture capitalists engages in information collection and monitoring once the project is under way. Venture capitalist interferes in business decision with an aim to make the venture successful. A successful venture will provide benefits to both the venture capitalists and entrepreneur. There are number of aspects related the financial, technical, marketing, manpower and operations and it is not necessary that entrepreneur may be able handle all these on their own. Thus entrepreneur should take the help of venture capitalists in business decisions, using their expertise so that the venture has better chances of being successful.

4. Confidentiality is lost, as business plans have to be to the disclosed venture capitalist -Venture capitalist do not ask for collateral but invest depending on the future potential, thus it becomes necessary for them to get a complete knowledge on the entrepreneurs venture by looking at the business plan. As detailed in the literature review there can be a conflict of interest between agent (entrepreneur) and a principal (Venture Capitalist). Theory has identified a number of ways that the investor/principal can mitigate these conflicts. One of them being that an investor can engage in information collection before deciding whether to invest, in order to screen out unprofitable projects and bad entrepreneurs. Keeping in mind the perspective of venture capitalist, entrepreneurs should discuss the business plans freely with venture capitalist in order to convince and gain advice and finance from the venture capitalists.

5. Funds requirement for new venture are too small for venture capital funding- Venture capitalist provide funding along with monitoring of proposals. For monitoring, venture capitalists have to spend managerial time and talent to oversee the proposals. Thus venture capitalists have made a certain threshold-funding limit, which makes it viable for them to finance and oversee the investments. If the fund requirement of entrepreneurs is lesser than the threshold-limit of venture capitalist, the entrepreneur can approach micro venture capital
funds such as Aavishkaar India micro venture capital fund. This fund provides micro-equity funding between Rs. 10 lacs to Rs. 2 Crores (approximately USD $20 thousand to USD $500 thousand) along with operational and strategic support to commercially viable companies.

6. Negotiations with venture capitalist are time consuming - As discussed in the literature review and results, evaluation of the proposal is done by a venture capitalist from a number of viewpoints. Before the closing of the investment and the design of the financial contracts, the venture capitalists spend a significant amount of time and effort evaluating and screening the investment opportunity. As this takes time entrepreneurs should appreciate the reasons for delay in financing.

7. Chances of obtaining finance from Venture Capital are low- Venture capital cannot finance all proposals, which they receive from the entrepreneurs. Historically only 1 in 100 of those firms that submit business plans to venture organizations have been funded (Fenn, Liang & Prowse, 1995). Venture capitalist provides funds to proposals, which are in their area of interest and meet their investment criteria. Entrepreneurs can increase their chances of receiving venture capital funds by the following:

   i. Venture capitalists have their preferences to fund proposals based on the stage of investment and areas of their interest. Entrepreneurs should approach the venture capitalists considering the area of interest of venture capitalists and the stage of their business. This will increase the chances of obtaining finance from venture capitalists.

   ii. The findings of this study have identified the importance of the various features from the perspective of venture capitalist. Entrepreneurs should ensure that their proposal fulfills the investment criteria of venture capitalist.

Entrepreneurs should realize that convincing any external resource providers to provide financial capital might be challenging particularly for entrepreneurs without an
established reputation. As for any investment to be realized, the investor needs to somehow assess and validate the viability of a venture. In other words, he has to somehow find out the current and future value of the venture that is built on of technology, knowledge, entrepreneurial team, business model and so on. The ultimate goal for the investor is to be able to make a distinction between the low-productive and high-productive ventures, out of the total deal flow he confronts.

6.2.3 Recommendations for venture capitalist

In order to improve the prospects of venture capital in Uttar Pradesh the following are recommended to the venture capitalist:

1) **Venture capital should syndicate investments**- As per the literature review, subsequent findings and conclusion of this study; syndication provides a number of benefits to venture capital investments. For example
   i. Better evaluation of venture- Evaluation of an investment proposal by more than one venture capitalist may lead to better evaluation, as it would be more thoroughly evaluated. Better evaluation will increase the probability to select better proposals for funding.
   ii. Sharing of risk - If more than one venture capitalist is participating in a venture, the risk can be jointly shared. As per the findings of this study, venture capitalists perceive investment proposals from Uttar Pradesh as being risky. By syndication venture capitalist can reduce the risk and therefore more investment proposals from Uttar Pradesh can be financed.
   iii. Better management of venture- The potential value-adding activities of a venture capitalist include, for example, monitoring financial and operational performance, recruitment of management, arranging financing from complementary sources, serving as a sounding board to the entrepreneurial team, arranging incentive plans, providing access to auditors, lawyers and investment banks, and setting company policies. Participation of more than one venture capitalist may provide more expertise, which can further improve the capabilities to add value to a venture.
iv. Provides signals that the venture is good- Signaling refers to activities, by which the effects of informational asymmetries can be reduced. Investment a by syndicate of venture capitalists may convey that as the proposal has been apprised and passed by more than one venture capitalists the quality of proposal is good.

As syndication is beneficial for of venture capital investments it can be used for funding investment proposal from Uttar Pradesh.

2) Open offices in Uttar Pradesh- As of now venture capitalists are concentrated in Mumbai and Bangalore, which are far from Uttar Pradesh. In fact not only Uttar Pradesh but also the entire eastern part of India does not have any venture capitalists. If venture capitalists consider opening offices in Uttar Pradesh it may help them in not only financing and monitoring projects in Uttar Pradesh but aid in their operation throughout eastern India.

3) Educate entrepreneurs on the concept of venture capital and problems faced - For most entrepreneurs; venture capital remains an untried finance. As per this study many entrepreneurs are not even aware of venture capital funding. Mostly entrepreneurs are used to the traditional sources of funding such as equity and debt, so they need to be familiarized with venture capital. This will help entrepreneurs to appreciate the nuances of venture capital and may lead to more understanding with the venture capitalists. This will build trust and more proposals from Uttar Pradesh would be financed.

4) Reduce their minimum funding size per deal – The average size of venture capital investment in the year 2006 was $7mn Rs 35 crores (IVCA, 2006). This is beyond the requirement of most entrepreneurs. To in order to entertain more proposals from Uttar Pradesh venture capitalist should decrease their funding size. By doing so more proposals from Uttar Pradesh could be financed.

5) Fund more investment proposals - As per findings of our study for venture capitalist Software, Hardware and Biotechnology were the top three areas of interest in the state of Uttar Pradesh. There can be opportunities to finance investment proposals related to the above areas as Uttar Pradesh has number of
reputed scientific and industrial research institutes such as which are carrying out research in areas such as information technology, biotechnology, pharmaceuticals and drugs, agriculture and food processing. These areas have been identified as having a high potential of fostering future growth. The prospects of venture capital to finance scientific and knowledge-based ideas have been highlighted in a number of studies (Chandrasekhar Committee, 2000). Venture capitalist can finance new innovations from the research institutes of Uttar Pradesh and aid in the economic development of Uttar Pradesh.

6.3 Limitations of the study
This study on the problems and prospects of Venture Capital in Uttar Pradesh has a number of limitations, which can be stated as follows:

1) This study is based on the perception of venture capitalist and entrepreneurs. Empirical findings related to the problems and prospects of venture capital might differ from the perception.

2) As no previous studies exist for Uttar Pradesh, this study uses the criteria and issues highlighted in previous studies conducted for different parts of the world. It may be noted that studies have pointed out that evaluation criteria and issues in venture capital are region specific, they vary from place to place. This implies that criteria and issues studied are general and not specific to the state of Uttar Pradesh.

3) This study relies on information reported by venture capitalist. Several scholars (Sandberg et al., 1986; Hall, 1989; Hall, H. J. & Hofer, C. W., 1993) have criticized studies based on venture capitalists’ self reports. They have stated that venture capitalist understated the important criteria and overstate the less important criteria. As per this limitation the responses from Venture Capitalist cannot be considered as accurate.

4) Another limitation of this thesis is that venture capitalist are not rational decision makers (Sahlman & Stevenson, 1985) they may suffer from preconceived notions, which may have affected their responses in this study.
5) Perception of venture capitalist pertaining to the economic growth might differ from the empirical findings. But even with empirical research assessing the economic impact of venture capital becomes quite difficult, because in terms of capital investment it is only a minute portion of the total economy. It is possible that the firms the venture capitalists backed would have come into existence even without venture capital funding, as the entrepreneurs might have funded the firm from other sources (Kenney, et.al, 2002).

6) Venture capitalists have stated how Uttar Pradesh government can promote venture funding in the state of Uttar Pradesh. But the state government cannot undertake all such decision without the support of central government.

7) Venture Capital as a source of finance for entrepreneurs is yet to gain popularity in Uttar Pradesh. Entrepreneurs would be able to appreciate the nuances of venture capital and provide more accurate information only after they get more accustomed to such type of funding. Also as venture capital in Uttar Pradesh is in nascent stage, it will take some time before venture capitalist get more familiar with Uttar Pradesh and take more informed decisions.

8) Venture capital funding adopts a hand -holding approach, as venture capital apart from providing funds also assists entrepreneurs in numerous ways. Once venture capital funding takes-off in Uttar Pradesh the issues involved in the actual financing and implementation of venture capital will become clearer.

9) Prospects of venture capital are not only influenced by the local conditions of a particular region (state), they to a large extent depend on the general market for new product and securities. Numerous studies have shown that the general equity market conditions have an impact on venture capital financing. Jeng & Wells (2000) studied venture capital fund raising in twenty-one countries and found that the strength of the IPO market to be an important factor in deciding venture capital commitments. Thus prospects of venture capital in Uttar Pradesh would also depend on the general investment climate prevailing in India and the World over.
10) This study uses survey method to collect data from a sample. Survey method has the following limitations:

i) The time and cost factor restricts the size of sample. A small sample may not represent the population correctly.

ii) Bias may occur if the sample selected for study is not really representative of the population.

6.4 Directions for Future research

The present research tries to find the problems and prospects of Venture Capital in the state of Uttar Pradesh. The following are some of the further studies that can be carried out on venture capital.

1) Venture Capital is a new concept for Uttar Pradesh so the problems and prospects of venture capital will evolve and change over a period of time. Thus further studies can be undertaken to gain deeper insights. Once Venture Capital funding becomes more popular in Uttar Pradesh, a much clear picture on the problems and prospects will emerge, which can be studied in future researches.

2) This study finds the problems and prospects for Venture Capital in Uttar Pradesh, without focusing on one particular sector or industry. Further studies can be conducted having a sector specific focus, which may provide deeper insights.

3) This study finds the prospects of Venture Capital in general irrespective of the funding stage. Further studies can be conducted stage-wise for venture capital Funding.

4) Many other issues related to venture capital, which have been discussed in literature review chapter 3, can be studied in future research. For example further studies can be carried out on the following issues in venture capital funding, staging investments, asymmetric information, signaling, agency cost, contracting, valuation, returns, risk, controlling and corporate governance.

5) This study is based on the perspectives of venture capitalist and entrepreneurs as related to the problems and prospects of venture capital in the state of Uttar Pradesh. Empirical research can be carried out to gain further insights into the research topic.
6) Problems and prospects of venture capital can be studied for other states as well. After which a comparison can also be done between Uttar Pradesh and the other states. This will give an insight into the variations (if any), region-wise in the importance of the evaluation criteria and issues in venture capital financing.

7) Studies can be conducted on the data obtained from the companies funded by venture capital in Uttar Pradesh. For such many issues such as corporate governance, IPO pricing, employment generation, growth rate can be studied. Also a comparison between venture capital backed companies and non-venture capital backed companies can be done in terms of the above-mentioned issues.