CHAPTER-THREE

THE SETTING AND METHOD OF THE STUDY

- Potentialities of Venture Capital Industry in India
- Profile of Venture Capital Units
- Survey Sample
- Methods and Sources Employed for Collection of Data
- Method of Analysis
  - Key Variable
  - Scoring Pattern
  - Statistical Tools Employed
The present chapter studied the role of Venture Capital Industry can play in Indian market place in wake of upcoming knowledge-based industries. This chapter also presents a synoptical view of the nature and activity profile of the venture capital units operating in India covered under present study. This chapter also examines the research methodology adopted with major emphasis on key variables, scoring techniques, survey sample, methods of data collection and statistical tools employed for the purpose.
POTENTIALITIES OF VENTURE CAPITAL FUND

Venture Capital Finance has its roots in ideas that have a potential for high growth but with inherent uncertainty. This makes it a high-risk high return investment and thus is different from the traditional sources of funds. Apart from finance, venture capitalists also provide assistance in net working, general support in managing the organization and marketing support. Venture capital connects financial and human capital. In global VC industry, investors and investing firms work together closely in an enabling environment that allows entrepreneurs to focus on value creating ideas.

Scientific technology and knowledge-based ideas properly supported by a venture capitalist can be a powerful engine of economic growth and wealth creation in a sustainable manner. Venture Capital’s niche exists because of the structure and rules of capital markets. Someone with an idea or a new technology often has no other institution to turn to. Usually, laws limit the interest rate banks can charge on loans and the risks inherent in start-ups usually justify higher rates of interest than allowed by law. Thus, bankers will only finance a new business to the extent that there are hard assets against which to secure the debt. In today’s information based economy, many start-ups have few hard assets. Furthermore, investment banks and public equity are both constrained by regulations and operating practices meant to protect the public investor.

Venture capital fills the void between sources of funds for innovation (chiefly corporations, government bodies, and the entrepreneur’s friends and family) and traditional, lower cost sources of capital available to ongoing concerns. Filling the void successfully requires the venture capital industry to provide a sufficient return on capital to attract private equity funds, attractive returns
for its own participants and sufficient upside potential to entrepreneurs to attract high-quality ideas that will generate high returns.

Venture money plays a major role in the later stages of innovation life cycle, in the life period of a company, where it begins to commercialise its innovation. Generally, 80 per cent of the money invested by venture capitalists goes in developing the infrastructure. The objective to invest in the infrastructure and balance sheet is to increase the credibility and goodwill of the company so that it can be sold further to other corporation. One myth is that venture capitalists invest in good people and good ideas. The reality is that they invest in good industries that is, industries that are more competitively forgiving than the market as a whole. In 1980, for example, nearly 20 per cent of venture capital investments went to the energy industry. More recently, the flow of venture capital has shifted rapidly from genetic engineering, specially retailing and computer hardware to compact disk read only memories, multimedia, telecommunications and software companies. Now, more than 25 per cent of disbursements are devoted to the Internet space. To put this in context, we estimate that less than 10 per cent of all United States economic activity occurs in segments projected to grow more than 15 per cent a year over the next five years. It depends upon the trends towards the industry like in eighties, 20 per cent of venture capital had invested in energy sector. Today the point of attraction is information technology industry. Venture capitalists promote the talent of an individual entrepreneur and thus provide full back up to him.

Picking the wrong industry or betting on a technology risk in an unproven market segment is something venture capitalists avoid. Exceptions to this rule tend to involve those ideas that have
great promises but that take an extremely long time to succeed. Genetic engineering companies illustrate this point. In this industry, the venture capitalist’s challenge is to identify entrepreneurs who can advance a key technology to a certain stage, for example at which point the company can be taken public or sold to a major corporation.

By investing in areas with high potential growth rates, venture capitalists primarily consign their risks to the ability of the company’s management to execute. Venture Capital investments in high growth segments are likely to have exit opportunities because investment bankers are continually looking for new high growth issues to bring to the market. The issues will be easier to sell and likely to support high relative valuations and therefore high commissions for the investment bankers. Given the risk of these type of deals, investment bankers’ commissions are typically 6 to 8 per cent of the money raised through an Initial Public Offering. Thus, an effort of only several months on the part of a few professionals and brokers can result in millions of dollars in commissions.

Venture financing acts as a strong impetus for entrepreneurs to develop products involving newer technologies and try to commercialise them. Venture capitalists aim to concentrate on projects where export potential is high. They never feel that it would be against the spirit of venture capitalist to tie up foreign technology for an export oriented venture. They opine that there is nothing wrong in riding ‘piggy-back’.

The venture capitalists act as a friend, philosopher and guide during the traumatic initial stages until the business takes-off. Venture capitalists render, in addition to risk capital, managerial,
commercial, technical, financial and entrepreneurial services to enable firms to achieve optimum performances.

Venture Capital was considered to be a financial channel for commercial exploitations of laboratory technology and its absence constraints the development of technology in India. Venture funds are provided to carry the business to a size where the company can secure capital and loans from the public stock markets, commercial banks, for major expansion. Venture capitalists research target companies and markets more vigorously than the conventional lenders, although the investment decision is often influenced by the market speculations of a particular venture capitalist. Due to the amount of money that venture capital firms spend in examining and researching business before they invest, they usually want to invest at least significant amount to justify their costs.

India needs to encourage the growth of risk capital in the country by acting on three fronts. First, the Government of India and Indian financial institutions should catalyze the process by creating Israel’s Yozma like funds. This will stimulate competition but protect entrepreneurs from the inevitable risks. Investors in venture capital funds are typically very large institutions such as pension funds, financial firms, insurance companies, and university endowments, all of which put a small percentage of their total funds into high risk investments. They expect a return between 25 percent and 35 percent per year over the lifetime of the investment. Because these investments represent such a tiny part of the institutional investors portfolios, venture capitalists have a lot of latitude.
In effect, venture capitalists focus on the middle part of the classic industry S-curve. They avoid both the early stages, when technologies are uncertain and market needs are unknown, and in the later stages, when competitive shakeouts and consolidations are inevitable and growth rates slow down dramatically.

During this adolescent period of high and accelerating growth, it will be extremely hard to distinguish the eventual winners from the losers because their financial performance and growth rates look strikingly similar. At this stage, all companies are struggling to deliver products to a product-starved market. Thus, the critical challenge for the venture capitalist is to identify competent management that can execute – i.e. supply the growing demand.

As long as venture capitalists are able to exit the company and industry before it tops out, they can reap extraordinary returns at relatively low risk. Venture capitalists operate in a secure niche where traditional low cost financing is unavailable. High rewards can be paid to successful management teams, and institutional investment will be available to provide liquidity in a relatively short period of time.

In return for financing one to two years of company's start up, venture capitalists expect a ten times return of capital over five years. Angels, informal venture capital, public venture capital sources, and other funding sources have had a significant impact on business growth during the 1980s. Generally venture capitalists can work with an entrepreneur during the early stages of the research and development process. They often evaluate prototypes or examine early demonstrations of phenomena that could offer extraordinary opportunities for development.
(e.g. super conductive materials). Venture capitalists, however, tend to view themselves as experts in maximizing the application side of research and development, and shy away from projects that require extensive basic research or entail an extraordinary discovery yet to be achieved. The Government of India has already taken notable steps to facilitate conducive environment for venture capital funds, and start-ups in India. These include introduction of sweat equity, allowing venture capital funds to offset losses incurred in one company against profits from another. However, government facilitatory framework is still not enough to provide for environment that lays stress on encouraging flow of venture funds, easy exit options for either party(ies), mentoring, non-qualified availability of funds, and flow of public funds for enterprise building in India. Nasscom¹, as part of its study conducted with McKinsey and Co., has set a target of achieving at least US $2 billion of annual venture capital investment in Indian high technology start-ups by the year 2008.

PROFILE OF VENTURE CAPITAL ORGANIZATIONS IN INDIA

Discussed below is the brief profile of venture capital units in India, which have been included in the present study (Appendix C).

Alliance Venture Capital Advisors Limited

Alliance Venture Capital Advisors Limited, an offshore venture capital fund, was set up as 100 percent subsidiary of Alliance Management and Fiscal Services Ltd. on 20 May, 1997 with a current portfolio of Rs. 63.50 million, this fund is led by a management team of 3 members. It has a paid up capital of Rs. 500 million with foreign institutional investors as sole contributors.
Alliance venture capital fund endeavour to make investment in unlisted small and medium enterprises or know how intensive service can be provided by the providers with linkages of Swiss companies. Funding is made through equity, preferences or combination of both, not debt financing. With no regional preferences, it tends to provide funds to health care, food processing, packaging (food and non-food) graphic arts, instrumentation and green technologies on all India bases. Preferred stages of investment are early or later stage financing with few startups. It has set a target return 25 percent within a span of 3-5 years. Alliance Venture Capital Fund has made investment in packing and floriculture industry at later stage in form of convertible preference shares. Investments have been made in states of Karnataka and Goa only.

**APIDC - Venture Capital Limited**

APIDC Ltd. and Dyanam Venture East (P) Ltd. jointly established a venture capital fund in name of APIDC Venture Capital Ltd in 1989 with a view of promoting business and an ability to build strong /unique competitive advantage. Established in the form of a trust, APIDC venture capital Ltd. has a paid capital of Rs. 150.28 million contributed majority by Multilateral Development Agencies, All India Financial Institutions, NRIs and State Level Financial Institutions. It has a management team of 5 persons/executives. Keeping in view a target return of 30 per cent within 5-7 years, it has no special preference as to stages of financing, instruments of financing and regarding industry. Its regional preference speaks of southern and western India. Its role has been that of active investors in providing financing. Its strategy speaks of being proactive in acts internal to the company and providing active management support along with financing ventures.
**Baring Private Equity Partners India Ltd.**

Baring Private Equity Partners (India) Ltd. was incorporated in December 1986 as an offshore fund to make investment in field of information technology, services and healthcare. With a management team of four executives, Baring Private Equity Partners (India) Limited is providing active financial assistance in information technology and healthcare industries. It has a paid up share capital of Rs 600 million with Foreign Institutional Investments as sole contributors. It has a target return of 35 per cent internal rate of return through investment in growth and mezzanine stages.

**Canbank Venture Capital Limited**

With a view of venture funding gaining momentum in Indian financial market, Canara bank established Canbank Venture capital fund limited in February 1995 so as to extend venture financing to high growth small and medium enterprises through equity participation preferably. Canbank Venture capital fund limited has a portfolio size of Rs 339.78 million, which is managed by a management team of 3 executives. Its strategy includes investment in manufacturing sector industries with good growth potential in Southern and Western regions of the country. So far investment has been made in chemicals, computer hardware systems, computer software and service, energy related, food and food processing, machinery, medical and other electronics products in above said regions mainly. Preferred stages of investment are early stage and later stage financing. Canbank Venture capital seeks to achieve a target of 30 percent return within a time period of 5-7 years. In May 1998 came Canbank Venture Capital Fund – II as a trust fund that targeted high growth small and medium enterprises. It worked on the same lines as CVCF-1 regarding strategies concerning stages of investment, instruments of financing, industry
preference and target return and period. It has a corpus fund of Rs 105.00 million contributed by Canara Bank solely.

**Draper International**

To provide financial assistance to Information Technology and services sector, William H. Draper and Robin Richards established an offshore fund in 1994 namely Draper International. Its principal office is in San Francisco. It is being managed by 8 executives (4 in USA and 4 in India). Draper International provides active financial assistance through equity and convertible instrument at start up and early stages of any venture. It tends to invest in Indian companies and USA companies having subsidiary operators in India. So far in India, Draper International has covered Karnataka and Maharashtra. Draper has set a target of 25 per cent cash in dollar terms to investors in 5-7 years time. Foreign high net worth individuals and banks are contributors to this fund.

**Gujarat Venture Finance Limited**

Gujarat Venture Finance Limited was incorporated with an objective of providing financial assistance to entrepreneur in India on 2nd July 1990. As a trust fund, it has a portfolio size of Rs. 1040 million. It has a management team of seventeen professionals. The principal office is located at Ahmedabad. With a paid up capital of Rs. 240 million, Gujarat Venture Capital Fund limited is playing an active role as investor by providing financial assistance to businesses in start-ups and early stages. With no preferences regarding investment in particular industry or instruments of financing, GVFL endeavors to provide financial assistance to Indian enterprises to accelerate the pace of economic development in the country. Gujarat Venture Capital Fund –1995
its second fund was established as a trust fund with an authorized capital of Rs. 600 million. Multilateral development agencies, All India and state level financial Institutions were its major contributors while considerable contributions came from private and public sectors as well.

**HSBC Private Equity Management**

The fund was floated by HSBC Private Equity Management Limited, Hong Kong on 17 April 1995 in Mauritius and 25 July 1995 in India. The offshore fund was raised with a portfolio size of Rs.849.50 million. The prime objective of the fund is to provide financial assistance to upcoming entrepreneurs. The major instruments of finance are equity shares, preference shares, convertible debt, share warrants and the priority is to invert in early stage of the organization. The preferable industry to invest in consumer related followed by Industrial products and other infrastructure. The major contributors to funds are foreign institutional investors. They prefer to invest in Companies, which are placed to grow rapidly and to take advantage of the favorable economic condition existing within the region. HPEM intends to participate only in situations where there is a clearly defined realization strategy. HPEM generally takes minority equity position in the companies in which it invests but, is prepared to take a majority stake particularly in situations involving restructuring or acquisitions.

**ICF Ventures Private Limited**

Blue Chip US/European investors with an authorized capital of promoted the ICF venture fund Rs. 750 million on 24 October 1997. The major contributors of the fund are Foreign Institutional Investors. Areas preferred for the Investment are South and West of India. A preferable stage of financing is early stage or later stage. It prefers to invest in wide range of segments that are
knowledge based or innovative companies in the areas of IT, Life Sciences and other sectors. The main instrument to raise the fund is a share (Equity). This fund falls under the category of offshore funds. Participation in Investee Company is sought through equity.

ICICI Venture Funds Management Company Limited

ICICI Venture Funds Management Company Limited was established by ICICI Limited on 5 January 1988. With a total of Rs. 5326.03 million as funds under management, ICICI venture fund has a management team of 4 executives. ICICI Venture’s primary investment objective is capital appreciation through investments by way of equity or equity related securities in unlisted companies with exceptional growth potential for capital appreciation and a clear exit strategy in a three to five years period. These include start-ups, companies with 1-3 years of revenue record that require growth financing and companies close to initial public offerings. Selective investment situations in listed companies are also considered. ICICI Venture typically prefers to act as a lead investor and actively support its portfolio companies with strategic, financial and operating perspectives through its experience base coupled with ICICI’s universal banking network and TCW’s international network. ICICI Venture prefers to invest a minimum of US $ 1 million in each company. Mezzanine or later stage investments could fall in the US $ 3 million to US $ 5 million. ICICI venture funds management Co. has established five funds: Venture Capital Unit Scheme –1989 (VECAUS –1), VECAUS –1 Rights, Venture Capital Unit Scheme –1990 (VECAS –2), software fund and TCW/ICICI India Pvt. Equity Fund with a view to expand financial assistance to a number of ventures.
IFB Venture Capital Finance Limited

The fund was created by IFB industries limited with a paid up capital of Rs. 100 million. The other Promoters are Industrial Development Bank of India and ICICI Ltd. in November 1992. The instruments used for finance are equity shares, preference shares and conventional loan. Stages in which the funds are invested are start-up and other early stage followed by later stage. The preferable industries for investment are biotechnology, consumer related food and food processing and industrial products and mechanical. The areas where the Venture Capitalists are intending to invest include Andhra Pradesh, Karnataka, West Bengal, etc.

IL and FS Venture Corporation Limited

IL. and FS Venture Corporation Limited was established to provide venture financing to the enterprises. Major shareholders of IL and FS include IL and FS (18.89), Bank of India (17.45), Commonwealth Development Corporation (10.36) and Public (26.03). It has got the following funds under management South Asian Regional Apex Fund (Rs. 1100 million), India Auto Ancillary Fund (Rs. 650 million), Tamil Nadu InfoTech Fund (250 million), UP venture Capital Fund (Rs. 110 million), Orissa Venture Capital Fund (Rs. 100 million), Auto Ancillary Fund (Rs. 135 million) and information technology Fund (Rs. 100 million) which tend to make investments in focussed areas.

INDUS Venture Management Limited

In 1989, Indus Venture Management Limited was formed jointly by T Thomas, Former Chairman of Hindustan Lever Ltd. with support of Arvind Mafatlal Group and IFC (Washington). Indus Venture Capital Fund -1 was established in October 1991 as a trust fund with an authorized
capital of Rs. 210 million. Its endeavor is to provide financing in specialty chemicals, health care, consumer products and consumer electronics in form of equity only. It tends to make investment in all stages without any regional preferences. It has set a target return of 20-25 per cent internal rate of return within a span of 5-7 years. Indus East Holding Limited has an eye over software, textiles and chemical industries. It also targets at achieving 25-30 percent internal rate of return within 5-7 years of investment.

**Industrial Development Bank Of India**

The Government of India took an important step in the field of risk financing by establishing Venture Capital Department of IDBI in July 1964. It has a portfolio size of Rs. 2170.07 million under venture capital activity. The main focus of IDBI Venture Capital Department was on commercialisation of indigenous technology, adapting imported technology to wider domestic applications and projects envisaging higher than normal risk with potential to commensurate high risks. As a venture capitalist, it tends to play an active role in management of Investee Company. Start-ups are generally financed by this fund and financing instruments include equity, conditional & convertible loans and preference shares. IDBI venture funds expect 30 percent return on equity investment within 5-6 years. It relies on follow-up visits, quarterly progress reports and annual reports as far as monitoring is concerned. IDBI venture funds opt for providing financing on all-India basis. So far industrial choices are concerned, it has played an important role in biotechnology, computer & machinery, telecommunication & data processing, energy, medical, food & electronics industry.
Industrial Venture Capital Limited

Integrated Finance Company Ltd., Tamilnadu, Industrial Investment Corporation Limited and ICICI Limited jointly setup Industrial Venture Limited on 21 August 1986. With a portfolio size of Rs. 51.80 million, it tends to invest in state of Tamilnadu under Tamilnadu Venture Fund worth Rs.70 million. The fund tends to provide active form of investment to the investee company. Performance of Investor Company is monitored through a nominee. Financing is provided in the form of equity and loans. Industrial venture capital limited has set a target return of 30 per cent per year within a period of 24-30 months. Payout options to the investors include capital redemption schemes and interest payment.

International Venture Capital Management Limited

International Venture Capital Management Limited, now called CDC Advisors Private Limited was set up on February 16, 1996 by CDC Financial Services, Mauritius as its principal shareholders. It had a portfolio size of Rs. 530.94 million. Nandi Investments Limited was launched in April 1996 as an offshore fund with an authorized capital of US $30 million. IVCM generally invests in unlisted equity in quasi-equity instruments convertible into listed or unlisted shares. Indian Venture Capital Management’s investment holding period is normally between three to five years. The size of investment considered is a function both of the size of the company requiring funds and of the value of the new business line or expansion, its promoter group is planning and/or the assets it is purchasing. Indian Venture Capital Management seeks to establish portfolios of risk investments of a well-diversified kind. Indian Venture Capital Management is only barred from investing in certain sectors that are considered ethically or
ecologically unsound such as alcoholic beverages, tobacco, tanning, and chlorine-related processes.

**JF ELECTRA Advisors (India) Limited**

JF Electra Advisors (India) Limited was incorporated in August 1995 with a portfolio size of US $32 million managed by a team of four persons. Its first fund was setup in name of JF Electra (Mauritius) Limited as an offshore fund to provide financing to any globally competitive manufacturing business, preferably businesses with focus on exports. It prefers making investments in expansion/development stages. Industrial preferences speaks of manufacturing and value added services industry. It has set a target return of 30 per cent internal rate of return within 3-5 years. Monitoring of investor’s business is made through a board nominee. JF’s strategy does not speak of any regional preferences and that of instruments of financing.

**Marginal Capital Managed Limited**

J.V. Mariwala and Rattan Janeja founded Marigold Capital Management Limited as a fund management company in July 1996. Regarding funds under management, Marigold funds was established in April 1997 as a trust fund with a target of investment in companies that attempt to satisfy significant and rapidly growing need for products and services and display a high level of commitment from its entrepreneurs. The investment program of Marigold covers a broad range of business development financing ranging from early stage to expansion, restructuring and turnarounds. There are no regional preferences regarding investments. Marigold tends to provide active financial assistance to IT (Information Technology) and consumer goods industries. A
target return of 50 per cent compounded annually has been set to be achieved within a time period of 7 years. Monitoring of investor's business is likely to be done on monthly basis.

**Pathfinder Investment Company Private Limited**

Pathfinder Investment Company Private Limited came into being on November 4, 1993. It has a management team comprising of four members. Currently, the funds under management include IL and FS venture fund, established in March 1993 as a trust fund with All India Financial Institutions and public sectors as its contributors. The area of focus speaks of investment in industries with export potential, deep domestic market and benefits of comparative advantage. It intends to advance proactive support to enhance shareholders value. Industry-wise preferences speak in favour of consumer products, services and telecommunication and engineering. A target return of 30 per cent internal rate of return within 3-5 years is expected. Preferable instruments of financing are equity shares and convertible debt. With no regional preferences, Pathfinder provides financing for start-ups and Mezzazine preferably.

**Small Industries Development Bank Of India (Venture Capital Division)**

Venture Capital Division of small industries development bank of India was established in April 1990 with a portfolio size of Rs. 1003 million. SIDBI is operating a Venture Capital Scheme exclusively for the units in small-scale sector. It also contributes to the fund corpus of other venture capital funds wherein the entire contribution made by small industries development bank of India is utilized exclusively for extending the assistance to small-scale units. Apart from this, small industries development bank of India participates in venture capital funds focused on the financing of software and IT industry. The objective is to provide assistance to entrepreneurs.
with ventures who have special characteristics to be innovative but at the same time may not qualify for assistance through conventional route of term financing such as projects involving new and untried processes and technologies which have scope for commercial applications with characteristics of high risk and high return. Financing is provided in the form of equity, non-convertible debt and other instruments. There are no regional preferences regarding investment. However start-ups are emphasised, seed stage and other early stage and later stage also accounts for venture financing by small industries development bank of India Venture Capital Division.

**WALDEN NIKKO INDIA Management Co. Ltd.**

Walden Nikko India Management Company Limited was promoted by Walden in April 1998 with a portfolio fund size of 23 million. Currently, Walden Nikko India Ventures Company LDC, an offshore fund, established in 1996 is under management with an authorized capital of US $23 million contributed by Foreign Institutional Investors (FIIs) and Multilateral Development Agencies. Walden Nikko intends to provide active financial assistance to technology-based industries such as information technology, software (telecom, banking, E-Commerce), internet/media, semiconductor design, software training, transaction processing, enterprise, and integration. Regional preferences indicate investments in India/USA. A combination of instruments of financing is preferred by Walden, however there are no preferences regarding stages of investment. It was all about the profits of Venture Capitalists registered with Indian venture capital association (IVCA).

**SAMPLE OF THE STUDY**

In all, there are 40 units (list in appendix) of venture capital companies in India. Out of them 30 (list in appendix) units have been incorporated very recently and were not considered to be taken
up for the proposed study. To the rest of units a questionnaire was mailed. After a significant hard struggle we could get data from 19 (list in appendix) units. Exhibit 3.1 gives the respondent’s detail of 19 units who responded.

Exhibit 3.1

Status of Venture Capital Funds taken as Sample for the study

<table>
<thead>
<tr>
<th>Type of fund</th>
<th>No. of Funds</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshore Funds</td>
<td>6</td>
<td>31.58</td>
</tr>
<tr>
<td>Govt. owned Funds</td>
<td>5</td>
<td>26.31</td>
</tr>
<tr>
<td>Others</td>
<td>8</td>
<td>42.11</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>

No special emphasis has been laid to any particular category of venture capital funds.

SOURCES AND METHODS EMPLOYED FOR DATA COLLECTION:

The data used in the present study has been gathered from primary information by administering a schedule prepared for the purpose. Secondary data has also been used, particularly for appraising the existing venture financing scene and the prevalence of various financial and non-financial factors influencing the management of funds.

For collection of primary data, a questionnaire (Appendix B) was mailed to the units under study. The schedule administered has been divided into two parts, Part A and Part B. Part ‘A’ deals with information regarding individual venture capital funds and Part ‘B’ pertains to questions asked
from respondents to rank various issues in order of their importance in relation to management of funds.

In terms of accomplishment of the objectives of the study, these issues have been divided into three categories as pre-investment factors, post-investment factors and strategic issues concerning the prospects of venture capital funds. These issues have been studied under the dimensions of: a) pre-investment strategies b) post-investment activity profile c) post-investment monitoring activities d) investor-investee relationships e) future prospects in view of challenges posed to Indian venture capital industry.

Perceptions of the units have been recorded on a five-point scale varying from 'strongly agree' to 'strongly disagree' indicating either agreement or disagreement with the statements/alternatives in relation to impact of various factors on the management of funds.

For the purpose of macro appraisal of the prevalence of both financial and non-financial factors, strategic issues and their overall impact on management, we mainly relied on the results derived through the analysis of the responses obtained in relation to the above-discussed objectives of the study. Meaningful observations recorded at the time of conversing with the respondents and free unstructured discussions arranged in confidence with the top executives in selected organizations were of great help. A reference was also made to the existing literature to adjudge the actual position of the existence and impact of various financial and non-financial motivators.
Thus, an exhaustive schedule has been designed for gathering adequate primary information with a view to satisfy all the objectives of the study. Furthermore, in order to have an insight into the research problems and to obtain non-revealed information, all possible efforts have been made to gather objective oriented, unbiased and meaningful information on the subject.

For the purpose of strengthening the results obtained in relation to prevalence and impact of financial and non-financial factors based on primary information, secondary data has also been used. To obtain secondary information, we have mainly relied on sources like reports issued by Nasscom and Indian Venture Capital Association and information downloaded from various websites concerning the subject. Existing literature on account of similar research attempts on the topic has also been referred.

**METHOD OF ANALYSIS**

- **KEY VARIABLES**

An attempt has been made to study the impact of financial and non-financial factors, and strategic issues on management and prospects of venture capital funds. Factors affecting the management of venture capital funds have been studied under the following dimensions: pre-investment strategies, post-investment activity profile, post-investment monitoring of investee company, investor-investee relationships and future prospects of Indian venture capital industry. Various factors have been studied under the above said categories. This relationship was studied on the basis of under mentioned independent and dependent variables:

**Independent Variables:**

- Various strategies followed by the venture capitalists.
Various future strategies to be followed by these organizations.

Dependent Variable:

- Management effectiveness achieved through prevalent strategies.
- Managerial effectiveness in challenging capital market scenario through the suggested future strategies.

**SCORING PATTERN**

As mentioned earlier, to gather basic information regarding the manner in which venture capital managed an exhaustive schedule has been prepared and issued to the respondents. Statements relating to the prevalence and impact of financial and non-financial issues concerning management of venture capital funds have been incorporated in the schedule.

To give more freedom to the respondents, responses relating to each item have been recorded on five-point Likert type scale comprising of five dimensions i.e.- strongly agree, agree, indifferent, disagree and strongly disagree.

For the purpose of scoring we have assigned weights ranging from 1-5 i.e. 1 to 'Strongly Agree', 2 to 'Agree', 3 to 'Indifferent', 4 to 'Disagree' and 5 to 'Strongly Disagree'. And accordingly, scores obtained from all the respondents were recorded individually for all the factors so as to ensure application of various statistical tools to them for determination of their relative importance.
STATISTICAL TOOLS USED:

Since the present research relates to the study of preferences of the units understudy (Appendix C), regarding managerial aspects of Venture Capital funds, particular issues have been raised and statistical tools of simple arithmetic mean and standard Deviation have been applied to find out the agreeing and diverging view of the same. The computation have been made as follows:

a) Simple Arithmetic Mean is considered as the most reliable means of representation of entire data.

\[ X' = \frac{\sum fx}{N} \]

Where \( X' \) = Arithmetic Mean for a set of observations

\( F \) = the frequency of each class

\( N \) = the total frequency

\( X \) = Values of observation

b) Standard Deviation: standard Deviation is a measure of ‘spread’ or ‘variability’ present in the sample. A low standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series, a high standard deviation means its opposite. It is represented by ‘\( \sigma \)’

\[ \sigma = \sqrt{\frac{\sum f(x-x')^2}{N}} \]

Where \( \sigma \) = Standard Deviation for a given value

\( X - X' \) = Deviation of Values from their mean

\( N \) = The total frequency

3.23
Table of Interpretation:

Interpretation has been made on basis of following matrix:

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td><strong>Mean</strong></td>
<td></td>
</tr>
<tr>
<td>Low Mean</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Mean</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Mean in the present study, establishes the relevance or irrelevance of a factor for better management of venture capital funds. On the other hand standard deviation indicates the consistency or otherwise in response of the units under study regarding the factors as mentioned above.

Four combinations can be there in this regard:

- High Mean - Low Standard Deviation
- Low Mean - Low Standard Deviation
- Low Mean - High Standard Deviation
- High Mean – High Standard Deviation

3.24
a) **High mean – low standard deviation**

It is an indicator of high relevance of the factor with low variability in the responses regarding the same. It means that most of the venture capitalists consider a particular factor as relevant one for better management of funds.

b) **Low mean-low standard deviation**

It implies low relevance of the factor as agreed upon by most of the venture capitalists since variability in responses is quite low.

c) **Low mean-High standard deviation**

Low mean indicates irrelevance of factor and high standard deviation denotes lack of consistency in responses to this effect. On the whole, this combination suggests that some of the Venture Capitals agree to the irrelevance of the factor and some don’t.

d) **High mean – high standard deviation**

The combination of high mean and high standard deviation shows the stage of disagreement among the venture capitalists over the relevance of the factor concerned for the better management of funds.
NOTES


Web Sites

www.giasbm01.vsnl.net.in
www.geind.ge.com
www.icfventures.com
www.isecltd.com
www.iciciventure.com
www.indianlink.com/ilfs2
www.indasiafund.com
www.idbi.com
www.gvfl.com
www.cdc.co.uk
www.jfleming.com
www.hsbc.com
www.citibank.com
www.kitren.com
www.sicomventure.com
www.ushamartin.com
www.chrysaliscapital.com
www.dlj.com
www.draperintl.com
www.eventures.com
www.gecapitalindia.com
www.indocean.com
www.indasiafund.com
www.iep-global.com
www.sidbi.com
www.taib.com
www.techcapindia.com
www.viewgroup.com

-----------------------------------