6.1 Findings

The results bring out the important relationship among each set of variables categorized as entrepreneur capabilities and market sustainability, risk return expectation, entrepreneur reference and product marketability, track record for selection criteria and growth, development, marketing and leadership ability and risk valuation from the investment (social objectives), financial objectives of the investment (financial objectives), economical, risk valuation and objectives of the investment (economical objectives), Promotional objectives (Social objectives) for key investment objectives. We present factor analysis results which examine the significant associations among each set of variables mentioned above and significant association between a variable pertaining to a category with a variable in the other category.

6.1.1 Association of Variables Related to Key Selection Aspects

Factor analysis resulted that during the screening of IT firms for investment decisions, there are 4 key selection factors opted by VCs which include 16 variables. The 4 factors and associated 16 variables are as follows:

Factor 1. Entrepreneur capabilities and market sustainability:

a) Demonstrated leadership ability
b) Demonstrated managerial capabilities in general business
c) Market has significant growth rate
d) Familiarity with industry
e) Resistance to economic cycles

Factor 2. Risk return expectation:

a) Capable of sustained intense effort
b) Able to evaluate and react to risk well
c) Venture provides exit strategies
d) Required return 10 times of investment

e) Required liquidity and taken public

Factor 3. Entrepreneur reference and product marketability:

a) Personal compatibility to me
b) Entrepreneur referred by trustworthy source
c) Product has been developed to prototype
d) Product has raw material availability
e) Venture will stimulate existing market

Factor 4. Track record:

a) Track record relevant to venture

6.1.2 Association of Variables Related to Key Investment Objectives based on Social, Economical and Financial Aspects

Factor analysis also resulted that in order to determine the key investment objectives, there are 4 important factors opted by VCs which include 28 variables. The 4 factors and associated 28 variables are as follows:

Factor 1. Growth, development, marketing and leadership ability and risk valuation from the investment (Social objectives):

a) Target an ownership position in investee firm
b) Growth and regional development
c) Tax incentives
d) Fixed compensation
e) Market capitalization
f) Recent transaction prices for acquisition in the sector
g) Capitalized maintainable earnings (EBIT multiple)
h) Industry’s special rule of thumb pricing ratio (e.g. turnover ratios)
i) Discounted future cash flows
j) Risk of being unable to bail out, if necessary
k) Competitive risk
l) Leadership failure  
m) Market potentiality and links  
n) Resources and capabilities  
o) Risk taking capacity  
p) Leadership style  

Factor 2. Financial objectives of the investment (financial objectives):  

a) Own return  
b) Forecast likely future value of the firm based on experienced  
c) Capitalized maintainable earnings (P/E multiple)  
d) Capitalized maintainable earnings (P/E multiple – historic basis)  
e) Future plans  

Factor 3. Economical, risk valuation and objectives of the investment (Economical objectives):  

a) Discounted value of free cash flows  
b) Risk of losing entire investment  
c) Risk of failure to implement the idea  
d) IT sector as a growing sector  

Factor 4. Promotional objectives (Social objectives):  

a) Investor return  
b) Promoting entrepreneurs  
c) Capable of high profit margin  

i. The results determined the positive correlation between the variables as compare to key factors resulted from the process of factor analysis in both the cases, factors of selection criteria and factors of key investment objectives.  

ii. By applying ANOVA, it has been observed that choice of factors and selection of key investment objectives remain same among different investors, who are engaged in VC investment activities during screening process of IT firms but assignment of weight to each factor in both cases differ from institution to
Different investors involved in venture capital investment activity assign different weights to each factor as per their investment motives.

iii. Percent wise responses have been analyzed to understand the overall dimensions of VC’s management team related to investment decisions. Total 6 dimensions of VC management team have been analyzed, represented through pie charts and observed that out of various sectors, IT firms are most preferred field of investment by VCs, expected average rate of return on investment is between 10%-20% desired by VCs, VCs demand higher returns on their investments as most preferred type of compensation, loans and preferred stock, equity and convertible debt are mostly used financial instruments for designing the investment size, while choosing the exit mechanism, trade sale is most preferred mechanism opted by VCs and for the proposed investment, seed stage is highly preferred investment stage by VCs.

iv. The analysis also investigated the significance of factors for both aspects, factors related to selection criteria and factors related to key investment objectives by determining the sum of their total average and obtained following ranking of significance level:

<table>
<thead>
<tr>
<th>Factor No.</th>
<th>Factor Name</th>
<th>Ranking of Significance Level</th>
<th>Sum of Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth</td>
<td>Track Record</td>
<td>1</td>
<td>36.30</td>
</tr>
<tr>
<td>First</td>
<td>Entrepreneur capabilities and market sustainability</td>
<td>2</td>
<td>35.12</td>
</tr>
<tr>
<td>Third</td>
<td>Entrepreneur reference and product marketability</td>
<td>3</td>
<td>33.98</td>
</tr>
<tr>
<td>Second</td>
<td>Risk-return expectation</td>
<td>4</td>
<td>32.34</td>
</tr>
</tbody>
</table>

*Source: Compiled from primary data*

From Table 6.1, it can be noticed that in the assessment of selection criteria, fourth factor (track record) keeps highest significance in terms of weight assignments among different investors followed by first factor (entrepreneur capabilities and market sustainability), third factor (entrepreneur reference and product marketability) and second factor (risk-return expectation).
Table 6.2 Ranking for Assessment of Key Investment Objectives

<table>
<thead>
<tr>
<th>Factor No.</th>
<th>Factor Name</th>
<th>Ranking of Significance Level</th>
<th>Sum of Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth</td>
<td>Promotional objectives (Social objectives)</td>
<td>1</td>
<td>38.30</td>
</tr>
<tr>
<td>Second</td>
<td>Financial objectives of the investment (Financial objectives)</td>
<td>2</td>
<td>34.16</td>
</tr>
<tr>
<td>First</td>
<td>Growth, development, marketing and leadership ability and risk valuation from the investment (Social objectives)</td>
<td>3</td>
<td>32.75</td>
</tr>
<tr>
<td>Third</td>
<td>Economical, risk valuation and objectives of the investment (Economical objectives)</td>
<td>4</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Compiled from primary data

From Table 6.2, it can be noticed that in the assessment of key investment objectives, fourth factor [Promotional objectives (Social Objectives)] has high relevance in terms of assignment of weights among different investors followed by second factor [(Financial objectives of the investment (Financial Objectives)], first factor [(Growth, development, marketing and leadership ability and risk valuation from the investment (Social Objectives)] and third factor [Economical, Risk valuation and objectives of the investment (Economical Objectives)].

6.2 Suggestions

Certain important contributions can be obtained from our work for IT entrepreneurs and VC firms which are as follows:

i. Research has determined VC’s key selection criteria and key investment objectives towards screening process of IT firms in Indian scenario which can be considered by IT entrepreneurs in their business plans and should be given more preference.

ii. VCs can determine the choice of factors based on social, economical and financial aspects of investment decisions.
iii. It has been observed that choice of factors among VCs remain same during screening process of IT firms so the common factors extracted in the study should be used by IT firms in their plan of action and should weight them accordingly.

iv. Study indicated the ranking preference based on assignment of weights to each factor and same can be used by both, IT firms in their business proposal by giving priority to highly ranked factors, and VC firms for judging the IT firms for investment decision based on the information given by IT firms for highly ranked factors.

v. The business plan of IT firms should be made in such a way that it reflects the growth perspective for the proposed investment. The designing of business plan should be convincing in nature and must reflect the factors which convince the VCs that the investee firm will be able to provide lucrative growth opportunities to VC firm along with a platform to achieve the desired goals of VC management team.

vi. It is also advisable to young entrepreneurs, who are looking for venture funding, to provide significant annual return on proposed investment and to provide continue flow of investment opportunities in order to strengthen the venture capital investment in Indian financial market.

vii. The presence of a relationship between the financial motivations of VC management team should also be investigated before approaching to such kind of deals. In the past years it has been observed that VCs are showing their interest in the various sector of Indian economy along with IT sector, hence adequate preference should also be given by IT sectors in the financial and economic growth of VC management team towards achieving the long term growth of VC firms.

viii. The entrepreneurs are also advised to understand and analyze the plans and polices of VC management team in order to acquire the financial assistance of venture funding. This could be done with the help of detailed analysis of VC investment, economy wise and sector wise, and understanding their plans for future investment.

ix. New startups that are looking for venture funding are advised to determine the risks associated with the investment and to prepare some financial strategies to overcome those risks. Various risks have been identified in the previous
studies which are related with the investment decisions. Broadly the risks associated with venture funding decisions can be classified on following bases:

- Financial risk
- Political risk
- Economical risk
- Management risk

The new startups and entrepreneurs can make the strategies to overcome the above mentioned risk like profitable opportunities could be obtained through market survey in order to generate more return on investment, profitable product should be adopted by new startups so that their firms can survive for long term, skilled, experienced and talented people should also be appointed in management team so that market potential could be understand towards long term viability of the venture.

x. Another good opportunity for IT startups is available in e-commerce segment as this sector is growing with a very faster rate. The customers are also showing their interest in e-commerce segment and taking the help of e-commerce websites for their various requirements. It has been observed that choice of product has been considered as an important factor by VCs for selecting IT firms for funding decision so IT startups can also target e-commerce segment for generating the profitable opportunities from this upcoming sector.

xi. VC is not as popular as other traditional investment and financing sources which are available for financing new firms. This is because of unawareness of VC sector among the startups that are looking for financing their ventures. The entrepreneurs are unaware about the benefits offered by venture funding for such kind of startups. Certain plans could be made in order to facilitate the awareness about the financial and overall benefits offered by VCs for new startups.
### 6.3 Implications

Following are the implications of the present study:

i. **To the Policy Makers:** The present study is based on the determination of VC’s evaluation criteria and their funding in IT firms in Indian scenario. The results obtained in the present work could be useful to policy makers in understanding the social and economical aspects of the firm, society and overall management, who are involved in such kind of funding decisions. Through a systematic investment process, the VC firms will be able to create a sound policy towards accepting and rejecting IT firms for venture funding.

ii. **To the Corporate:** It has been observed that VC firms/ corporate reject number of proposal during their investment selection process and this happens due to multiple factors. The present study determines various aspects which are important from corporate point of view which are supposed to be undertaken by both, VC firms during their selection process and IT firms in designing their business plans.

iii. **To the Government:** In framing the code of conduct, guidelines and rules and regulations to funding agencies, Government plays a vital role. The present study reveals certain attributes of investee firms which are most important from investee firms point of view too such as tax aspects, micro and macro level factors. The recent initiative of Government towards start up India is an excellent example of promoting new start up in India and making funding facilities easier to them. Through obtained results, the present study tries to attract Government intention to understand the importance of VC funding in the growth and promotion of Indian IT Industry.