CHAPTER 7

CONCLUSION, LIMITATIONS AND FUTURE SCOPE

7.1 Conclusion

The present work attempted to determine the key selection criteria and key investment objectives of a sample of 104 respondents which include VCs and other investors who are engaged in VC investment activities, in order to understand the screening process of IT firms by VCs in the overall development of this sector. The work is particularly determined the key factors identified by previous empirical literature and using factor analysis, investigated the most important factors related to screening process and key investment objectives based on social, economical and financial aspects with reference to selection of IT firms in India context.

Our results reveal the relative relationship among the choice of factors and assignment of weights to each factor by different investors, providing venture capital, in the screening process of IT firms. We also characterized the different dimensions of VC firms which are based on their investment pattern, desired return from investment and choice of investment stage.

i. Using factor analysis, we found 16 most important variables of selection criteria and 28 key aspects of investment objectives, grouped under 4 factors, rated by VCs towards screening process of IT firms in Indian scenario. These factors are broadly classified as the skill set of entrepreneur, entrepreneur capabilities, experience, market potential and sustainability, risk and return associated with the investment, known factor of entrepreneur, product acceptance and track records.

ii. ANOVA resulted that different investors give same importance to all factors during the screening process of IT firms but differ in terms of assignment of weights.

iii. Based on the ranking preferences of different VCs, it has been observed that track record of the venture or entrepreneur and promotional objectives related with investments are the factors which are highly desired by different investors who are related with VC investment decisions.
iv. Total 6 dimensions of VC management team have been analyzed, represented through pie charts and following observations have been made:

- Various investors choose IT firm as their preferred field of investment.
- Investors target 10%-20% returns on their investment.
- Higher returns are most demanded compensation among the investors.
- Loans and preferred stock, equity and convertible debt are mostly used financial instruments for designing the investment size.
- Trade sale is most preferred exit mechanism.
- Seed stage is most preferred investment stage by different investors.

The present study provides a better platform for IT firm valuation process and have implications for both, Investors and IT firms. Firstly to VCs while screening technology based startups for funding decisions and secondly for IT firms for making their business plan so strong to attract lucrative investment from VCs. This study creates a better understanding and relationship among the VCs and IT firms with regard to funding decision and valuation process. The result would be useful for technology based startups to attract more investment from VCs for financial development of this sector in the Economy.

7.2 Limitations

Few limitations are associated with present studies which are related with choice of sample, collection and analysis of data, data analysis tools. We have made possible efforts to overcome our limitations but certain limitations associated with the present work are as follows:

i. This work is based on sector specific orientation and focuses on IT sector as a whole but do not consider classification of this sector, alongside this study can also be done Pan India with increased sample size for creating a better understanding and standard of determining factors for selection of IT firms for VC funding decision.
ii. The present study is based on the responses of VCs and different financial institutions who are located across few metro cities of India. However this limitation does not affect the significant outcome of the study and reveals necessary output for future research such as key selection criteria of VCs, Key investment objectives related with funding decision to IT sector in Indian scenario.

iii. It is also to be noted that survey data might create some consequences as they are based on judgmental aspects, resulted may create measurement issues (Zacharakis & Meyer, 1998).

iv. Some VCs showed reluctant in sharing their information related to investment and funding decisions.

### 7.3 Future Scope

The study forms the platform for future researchers in the area of determining sector specific investment decision and same work can also be done for other sectors as well with country specific conditions and comparison with different countries. The present work is also beneficial for students, investors, firms & managers in order to understand the overall decision making process of VCs and their overall management structure in terms of selection of a deal. Academician of concerned field may also be benefitted with the research as they can analyze the social and economical factors of VCs related to a particular investment deal. This study also provides an important insight to the new technology based startup for making their business plan as per the need and requirement of investors for getting the approval for their funding requirements, and to VCs to understand their social, economical and financial requirements. IT firms may include the criteria and investment objectives, investment pattern of VCs, their qualitative and quantitative requirements in their business plan for making it more attractive. The present study is based on the factors explored from available literature and has been incorporated to determine the role of VC in the development of IT Sector in Indian scenario. The same study can also be done for other sectors of Indian economy and can trigger out that how these factors differentiates for other sectors.

This study provides a better insight into the screening process of VCs and the results have clear implications for entrepreneurs and VC companies. Knowing what
investment criteria are the most important for VCs might help both entrepreneurs to elaborate better proposals, and venture capitalists to improve their decision process and achieve better survival rates.

The major contribution of this study is that all possible evaluation criteria and key criteria of selection process, key investment objectives of funding decision from research literature published between 1974 and 2016 are reviewed and integrated under financial, social and economical needs of different investors. The most important finding is that not all criteria are equally significant in terms of assignment of weights and they differ among various investors while choice of factors remains same. The difference in assignment of weights could be due to various factors such as geographic location, development stage of a venture, availability of funding and factors related to venture. The study provides a platform to future researchers in developing various funding models based on valuation and screening processes.