8.0 Introduction

The study has analysed various issues of venture capital industry from supply and demand side. On supply side, it carried out a thorough analysis of the venture capitalists’ pre-investment and post-investment strategies. While on demand side, it studied the role of venture capital in venture capital funded companies and funding preferences of entrepreneurs without venture capital funding in Gujarat. Following generalizations have been drawn out of the responses of VCs in India as well as entrepreneurs in Gujarat.

8.1 Findings of Survey on Indian Venture Capitalists’ Decision Making Process

8.1.1 Profile of VC firms

With respect to the characteristics of the participating VC firms, majority of these firms were organized as private venture capital funds (VCFs) as opposed to all India DFI, state sponsored and bank sponsored VCFs. These firms were mainly located in Mumbai (Financial hub) and Bangalore (Technology hub) in India. The study covered all the firms, established in 80s as well as recently set up i.e. after 2006. Further, close to 50% of the top management team members had entrepreneurial background. This helped them to better understand the problems and prospects of running an enterprise.

Number of portfolio companies at present with these funds ranged between seventy and one. The average number of portfolio companies was around 16. Expansion and early expansion funding were more popular among the venture capital firms in India as compared to seed and start up capital. This is because later stage financing provides high returns with relatively less risk. Study found that Indian VCs did not prefer considering projects less than US$ 4 mn and greater than US$ 31 mn. Though IT and ITES were the major industry focus for investment by these firms in India, many other technology and non-technology areas had experienced some venture capital investment. The sectors which were less capital intensive and having less gestation period had started receiving the attention of the VCs in India.
8.1.2 Instrument of Financing

Venture capital financing can be provided in the form of equity, debt or convertible securities. As per the study findings, to maximize the returns on investment and for easy exit option, venture capital firms in India preferred equity participation. The participants had ownership stake between 16% and 44%.

8.1.3 Geographical Concerns for Investment

The study analysed the geographical concerns for investment by these firms. Though substantial number of firms preferred investing only in India (63%), there were reasonable number of firms (37%) that invested in India as well as outside India. Many of those who preferred investing in India (32%) had region specific preference for investments. They preferred investing in south (75%) followed by west (50%). As the study specifically focused upon VC scenario in Gujarat, it was desirable to find the preference for investments in Gujarat. At present only eight firms had invested in Gujarat and these were typically private equity deals. VCs in India assign considerable importance to be located close to the investees for hands-on approach. However, the entrepreneurs surveyed did not assign as much importance to be close to the VCs. They thought that locating themselves near to the VCs may result into more interference in the management. These entrepreneurs belonged to Gujarat where there was a presence of only GVFL making substantial investments and as such these entrepreneurs had no choice but to look for more options beyond Gujarat.

8.1.4 Deal Sources

Referral system was the most preferred source of deal for Indian venture capitalists. Sources can be referred by financial intermediaries, parent organisations and friends. Prior investees were also considered on account of their past record. It implied that entrepreneurs approaching the VC must look for a suitable reference. There were significant deviations between the recently established and already established firms for the deal sources. The firms which are recently set up had to adopt proactive approach and looked for deals themselves. While already established firms due to their experience and contacts kept getting deals through references, entrepreneurs and prior investees.
8.1.5 Evaluation Criteria and Due Diligence

As per the study findings, venture capital firms in India keep getting thousands of proposals everyday but they actually invested in only 1% of the proposals received. This suggests that VCs in India adopt rigorous approach for evaluating the business proposals. As per the results of the survey, for conducting the due diligence, VCs used a combination of in-house specialists and external experts. Generally, financial and business related matters are investigated by the internal experts while the issues related to legal and technological aspects were taken care of by the external specialists. The proposals that clear initial screening stage were evaluated in detail. Five categories of evaluation criteria had been studied with respect to Indian venture capitalists as identified by the previous studies. These were characteristics of the entrepreneur, market, product, venture capital firm’s financial and non-financial criteria and general environmental conditions.

With respect to the evaluation criteria related to the entrepreneur, VCs in India assessed entrepreneurs mainly in terms of quality of management team, personality and attitude of entrepreneurs, past track record of the entrepreneur, urge to grow, reference, entrepreneur's familiarity with the market, promoter's own contribution and focused development strategy. Here, except the promoter’s own contribution all other factors were considered to be highly essential for the investment purpose. Further, VCs in India considered market growth to be a major consideration as against the domestic/international market potential and threat of competition. Among the characteristics of the product, Indian VCs emphasized mainly on technology aspects, protection granted to it and whether the prototype was ready or not. The product characteristics were given less importance as compared to market characteristics. Regarding the financial considerations, VCs considered mainly rate of return, exit routes, size of investment and liquidity. With respect to non-financial considerations, VCs emphasized on consistency with their investment preferences, expertise, quality of business plan and presence of co-investors. Environmental conditions were mainly assessed in terms of government regulations and tax benefits.

The findings of the study were similar to evaluation criteria used by the VCs in US, UK and other Asian Countries. VCs in India gave more importance to the personality, skills
and experience of the entrepreneur/management followed by financial and non-financial considerations. The attributes with respect to product and market were considered to be desirable but not so essential for the purpose of investments. While the general conditions related to the environment like regulations of the government and tax benefits were not given due importance for investment purpose. Five top most criteria considered essential by the VCs were all related to the entrepreneur. These included: i) quality of management team, ii) personality and attitude of the entrepreneur, iii) his urge to grow, iv) his familiarity with the market and v) the focused development strategy. While five least important criteria were: tax benefits, regulations in the industry, presence of co-investors, promoter’s own contribution and high tech product.

8.1.6 Syndication

One crucial preference among Indian VCs has been observed from the analysis for syndication. Many VCs (67%) would prefer to syndicate the deal with other VCs mostly at the later stages (40%) for various motives. Presence of both the perspectives for syndication i.e. finance and resource based; were revealed by them as a motive for syndication. Significant reasons for syndication were financing of larger investments followed by risk sharing and access to specific skills among others such as superior selection, access to deal flow, stronger bargaining position, deals outside the purview of the investment stage, scope or geographic regions.

8.1.7 Post-Investment Involvement

It is common, in the venture capital business, that VCs get involved in the operations of the investee companies. As noted previously, in addition to providing capital, venture capitalists perform many other roles in their portfolio companies. These various forms of assistance had been grouped together under four different heads i.e. product development (technical), marketing, strategy (general business management) and financial matters. The survey results revealed that Indian VCs were more inclined towards hands on approach. Except the technical area, it was noted that VCs were highly involved in all other areas. However, significantly high involvement was noted in the financial area followed by strategy and marketing aspects. As VCs provide funding to the entrepreneurs, it is quite natural for them to get more involved in the financial matters.
Besides, their financial expertise, reporting the performance of the investee to limited partners require them to be more watchful in this area. Again the results were in conformity with the earlier studies as mentioned in the analysis section. Further, with respect to the perception of the VCs and the expectations of the entrepreneurs with respect to involvement of the VC, there were significant deviations between the two parties. While the investee companies expected a low degree of involvement by the VCs, VCs provided more assistance (as per their own perceptions) than expected by the VCs. And this was considered to be a major reason for conflicts between the two among others such as information not revealed by the entrepreneur, excessive control by the VC, amount and timing of investment and staging strategy.

8.1.8 Monitoring and Control

Indian venture capitalists are really meticulous about post-investment monitoring of the operations of the investee companies. As far as exercising the control over the investee is concerned, it very much depends upon the individual policy of the VC and the level of understanding between the two parties. The present study had identified some broad areas where maximum control was exercised by the Indian VCs. As per the results, VCs exercised medium to high control in the investee’s business for such areas like participation in mergers, sale of assets, capital expenditure, debt levels and dividend payment. While there was significantly less involvement in the areas like working capital maintenance and hiring the personnel. So, it may be concluded that VCs in India prefer to control the strategic matters as against the tactical issues.

For formal monitoring, the VCs in India gave more importance to financial statements and monthly accounts as opposed to budgets and business plans. The most common formal method of monitoring was through participation on the board of directors. Board membership allows them the access to overall affairs of the investee companies. They also preferred personal visits and telephonic talks. Many VCs revealed that personal visits would be more fruitful but due to time constraint, board meetings and reviewing monthly performance of the investee were given higher weightage. This is also one reason why they preferred local investing over long distance investing. However, they visit investee companies monthly or quarterly. Frequency and intensity of monitoring should be decided mutually so as to avoid unnecessary interference in the management
of the investee on one hand and to ensure that the venture is progressing in the right direction as agreed on the other hand.

8.1.9 Divestment

Finally, VCs play an instrumental role in directing the ventures to the exit. How to cash out and how long to stay invested i.e. exit modes and time duration for exit are two important considerations for VCs. The findings suggested that majority of the Indian VCs preferred IPO (82%) over other exit routes such as trade sale, secondary sale, and selling back to the entrepreneurs. Further, they would not prefer to stay invested beyond seven years. Within 5 to 7 years, they would like to exit and realize the returns in the forms of capital gains. The average rate of return from the investments made was reported between 20% and 40%.

8.2 Findings of Venture Capital Supported Entrepreneurs in Gujarat

8.2.1 Demographic and Social Profile of the Entrepreneurs

Based on the analysis of the entrepreneurs’ responses, some major insights were derived regarding demographics of the entrepreneurship. Small businesses were traditionally started by middle aged people. But this trend has been changing with young generation joining the ranks to start businesses at an increasing rate. And particularly the ventures that are supported with VC funding as opposed to traditional funding require altogether a different set of skills and attributes. Study of demographic and other personal variables of the entrepreneurs surveyed suggested a conclusive reference as to the profiling of these entrepreneurs. Though females have started taking active interest in the field of entrepreneurship, there was not a single case of female run businesses being funded by VC (GVFL) in Gujarat. All the entrepreneurs surveyed were male.

Again age has been no bar for entrepreneurs; though today’s confident and conformist young generation believes in taking risk at an early age. And education is the most important asset that helps them taking such risk. Particularly learning entrepreneurial attributes and skills help them understand how to go about validating an idea to determine whether it is a viable commercial opportunity, how to go about planning and
launching a new company with all that this entails and then how to run it including the pitfalls. As per the findings of this study, entrepreneurs who have recently raised funding from GVFL were in the age group of 25 to 35 and 35 to 45 years while there were many entrepreneurs aged above 45 years. As mentioned previously, GVFL exited from almost 11 ventures long back from the 22 surveyed. Hence, it may be concluded that these entrepreneurs might be in their 30s when the funding was availed. Further, with respect to the educational background, most of them were post graduates and graduates while some of them are having doctorate degrees in their specialization field.

Though many of these entrepreneurs had family background in business offering a ready platform to join such traditional family businesses, instead of joining them, they had started their own ventures or diversified such family businesses into other areas where they can capitalize upon their intellectual power. Not only this, irrespective of the fact that there were some entrepreneurs without family business background, the family members had extended full support to their decision of becoming an entrepreneur. This shows greater social acceptability of entrepreneurship as a career option in the society. These entrepreneurs also believed working for others before starting on their own for getting hands-on-exposure of entrepreneurial development.

8.2.2 Reasons for Being an Entrepreneur

Striving of these young entrepreneurs was fuelled prominently by internal triggers such as achievement need and high independence. An urge to be in control of his/her future and ‘I can do it’ attitude appealed them the most than the financial returns. Those entrepreneurs who were having family background of business, the desire to join, expand or diversify the same were also major reasons for being an entrepreneur.

8.2.3 Reasons for Starting Venture in Guajarat

Survey results revealed that many entrepreneurs who have raised VC funding were belonging to other states. They have selected Gujarat and particularly Ahmedabad city for starting their ventures as they believed there was a considerable availability of resources and friendly regulatory environment in the state, besides being familiar with
the state. They had come to Gujarat for variety of reasons mainly for education purpose and then decided to stay back and continue practicing entrepreneurship in the state.

### 8.2.4 Venture Specific Details

As discussed in the analysis of the VC survey, VCs in general have a very high preference for funding technology based and knowledge based innovations particularly in IT and ITES field. Besides, VC investment in India is characterized by late stage funding as opposed to seed or early stage financing. While the findings of the present study indicated that GVFL has carved its own niche in the VC industry by funding product as well as service innovations across different sectors like agriculture and food processing, textile, bio-technology, gems and jewellery, chemicals, bio-technology, IT and ITES etc. There was exactly equal number of innovations noted in the manufacturing and technology areas. And most of these ventures were currently at the expansion stage with the exception of few who have liquidated their operations at present. GVFL had shown remarkable approach for risk taking by funding these innovations at the seed and start up stages where there was maximum risk as compared to growth funding.

### 8.2.5 Use of Bootstrapping and Familiarity Towards Angel and Venture Capital

Before analyzing the role of the venture capitalist in the venture development, the survey checked upon the use of bootstrapping techniques and the familiarity of the entrepreneurs regarding angels and incubators as they are perceived to play a crucial role at the initial stages of the venture development. Before availing venture capital funding, all the entrepreneurs surveyed had practiced bootstrapping techniques (self-financing methods) during their seed or startup stages. Prominent among them were renting the physical space, loan from family and friends and working from home.

Further, as per the results, there was no significant difference in entrepreneurs’ familiarity for both; angels and incubators. Though they did not very well about them, they knew sufficiently well about the existence and the role played by them in nurturing the ecosystem. Though there are many prominent incubators in Gujarat including the one started by IIM-A, NID and MICA, only four of the entrepreneurs had availed the incubation facility while none of them had raised any funding from angel investors. As
these entrepreneurs were already funded by GVFL and GVFL had exited almost 50% of the ventures included in the study long back, they might not have utilized the services of incubation or funding from angel investors. Various incubation centres in Gujarat have started their operations as recently as 2001. And for angel capital, it was quite unorganized market in India until the Indian Angel Network gave an organized platform. This could be more pronounced reason rather than the level of familiarity among these entrepreneurs for availing incubation facilities or raising angel funding. The same reason holds true for business plan competitions as well. Again only negligible percentage of the entrepreneurs had participated and presented their business plans in such competitions before availing VC funding.

8.2.6 Details Related to Venture Capital Investment

It is desirable to be familiar with some of the investment specific details of the ventures before probing into the role or the value adding functions of the venture capitalist. As mentioned in the research methodology the scope of the present study was restricted to Gujarat only, the ventures funded by venture capitalists in Gujarat were studied for understanding the value adding function/role of the said investor. In Gujarat, GVFL is making substantial venture capital investments at various stages including seed/start up stage besides late stage investments. Other VCs who are investing in Gujarat are either doing it through syndication with GVFL or are investing in the private equity deals. However, such private equity deals were beyond the scope of the present study. Hence, the investments made by GVFL in Gujarat had been surveyed and analysed in detail. Out of 26 ventures funded by GVFL in Gujarat, as many as 22 ventures had responded to the survey. These were spread across different cities in the state like Ahmedabad, Baroda, Gandhinagar, Bhuj, Sanand and Valsad. From these 22 ventures GVFL exited from 11 ventures. It made investment in such ventures long back in 90s, while the ventures in which it was still invested had raised VC funding from GVFL after 2000. The most recent ones covered under study were invested in by GVFL in 2009.

As far as the amount of investment is concerned, GVFL strongly believes in nurturing the ventures at the initial stages where the investment is as little as ₹ 45 lacs. It has also invested in big projects worth ₹ 15 crores. As discussed earlier, most of the VCs in India believe in providing late stage funding where the risk involved is less as compared to
seed investments. This fact is contradicted with reference to Gujarat where GVFL is carving out its own niche by making such risky investments in green field projects. It has mostly invested through equity followed by convertible securities. The finding is in line with the VC survey where the Indian VCs like US custom prefer equity investing over convertible securities. GVFL had minimum 1% to maximum 80% of equity holding with average holding of 26%.

With reference to the deal sources, the deals were referred to GVFL through intermediaries. And in significant number of cases, GVFL had approached the entrepreneurs for funding rather entrepreneurs approaching them. In the VC survey, it was established that the recently established firms have to make such efforts of locating the deals for investments while the age old firms who already have networks and credibility in the industry are reactive to the deals coming to them. GVFL though established in the industry for number of years and has network support in place for getting the deal flow, it adopts quite proactive approach in searching for the desired investment opportunities. For conducting due diligence, again GVFL adopts a through initial screening and in most of the cases it took three months to six months duration for approving the deals for investment.

8.2.7 Involvement of GVFL with the Investees

Now focusing upon the main theme i.e. studying the role played by the VC in the development of the venture, it was discovered that GVFL had invariably added value to portfolio companies significantly through monitoring and providing non-financial support. Literature on value adding of the VCs suggested that venture capitalists often involve themselves with their portfolio companies on either a formal or informal basis. The most common formal way of such involvement is through participation on board of the portfolio companies. In almost all the ventures analysed here, GVFL was given on an average 1.18 seats on the board of the portfolio cases. In few of the ventures, it was provided with even two seats and three seats. Further, irrespective of the equity holding by GVFL, majority of the entrepreneurs felt that GVFL had really served as sounding board and played a very active role in the board meetings. However, the value adding of the VC was not merely vested in its role on the boards but the investor was in frequent contact with their investee firms outside the board meetings; using modern means of
communication (telephone, email, video conferences etc). Entrepreneurs used to interact with the VC or its staff members on regular basis. On an average they used to have such interactions twice a month apart from the regular board meeting interactions. In case of problems encountered by the firms, according to the entrepreneurs, GVFL had always supported them with board meetings and working with the companies through other indirect means of communication.

The study also compared the expected contribution from the VC by the entrepreneurs before the investment and the actual contribution of the VC as perceived by these entrepreneurs post-investment with respect to value adding functions. As per the statistical results, there was no significant gap in the expected and actual contribution in the areas of technology developments, research and development and production areas. In fact entrepreneurs expected less involvement of the VCs in these areas and the actual perceived contribution was also found to be less. VCs generally have the tendency not to get more involved in such areas. This may be attributed to the nature of these activities which demand continuous involvement of the VCs. However, VCs can not substantially devote their time and attention to such tactical aspects of product development on regular basis. With respect to strategic areas like networking, sounding board and finding strategic alliance partners as well as accounting and financial matters such as budgeting, further funding and exit; there were again no significant deviations observed between the expected and actual contribution. As mentioned before, majority of the entrepreneurs had very positive opinions regarding the role played by the VC in their boards (strategy matter). Further, many of them revealed that they had used their association with the VC while raising further funds from other financiers.

But significant deviations were noted with respect to marketing areas such as formulating and evaluating marketing plans, sales and customer knowledge. Entrepreneurs had expected more involvement from the VC in these areas as they believed that VC would have specialized in different industries and would lend the benefit of industry specific know-how and networks. So, overall except marketing as a value adding function, there were no major departures from the expectations of the entrepreneurs with respect to other areas like product development, strategy and finance. When the survey of the VC was conducted the same findings were noticed. Indian VCs
tend to get less involved in the production areas as compared to other areas such as marketing, strategy and finance.

### 8.2.8 Scouting and Signaling

Besides, its formal and informal involvement, VCs also perform two important functions namely scouting and signaling. It is commonly agreed that VCs have stringent criteria for investment. In order to be more attractive as an investment target, potential firms try to match to these requirements of the VC firm by improving or rationalizing its activities or resources. Whether such firms would be successful or not in raising the investment from the VC is another matter but it definitely influences the chances of its future growth and survival. As a part of the scouting function performed by GVFL, most of the entrepreneurs mentioned that in order to match the investment criteria of GVFL, they had developed the business plans and also worked significantly upon developing their research and development, marketing and production functions. As mentioned previously in VC analysis, VCs keep receiving number of proposals almost every day but the actual investment was 1% or even less than that in India. And once VCs decide to invest in the project over others, it is sending a signal to all other stakeholders that the firm is trustworthy and has a strong position. As per the study findings, the signaling effect was louder in case of IPO i.e. at the time of making an exit and while borrowing funds from other investors.

### 8.2.9 Satisfation Level of the Entrepreneurs with GVFL

GVFL was able to meet expectations of the entrepreneurs in most of the cases, hence these entrepreneurs were largely happy with the value adding functions of GVFL. They opined that they were all reasonably satisfied with the VC’s role in supporting them with all financial and non-financial inputs. As the entrepreneurs gave higher importance to the VC’s role of serving as sounding board, the relationship between the role of the VC in the board and the satisfaction level among the entrepreneurs was tested statistically. As per the results, irrespective of the role of the VC in the board, the entrepreneurs were overall satisfied with the contribution of the VC in their ventures.
Additionally, these findings regarding the value adding functions performed by GVFL were attested when the entrepreneurs were asked to rate their perceptions with respect to VCs in general. Though they were not rating these perceptions in relation to GVFL, it is natural that their mindset/thinking would have been shaped through their own experience with GVFL. The results showed that the entrepreneurs had more of positive perceptions with respect to the value adding functions except the marketing area.

The entrepreneurs believed that VCs generally add value to the ventures, their involvement brings financial discipline and results in to better corporate governance, they help in further fund raising and they provide managerial and networking support. While they did not agree with the statements like VCs are insensitive to early stage projects, they invest only in successful companies, it is difficult to make business plans for them, they are merely bankers, it is difficult to approach them etc.

8.2.10 Future Expansions and Preferred Source of Funding

Lastly, the entrepreneurs revealed that those who propose to expand their operations in future would either utilize their own cashflows or seek the traditional funding sources as they have substantial tangible securities available to be offered to such conventional funding option which was not the case when they raised funding from GVFL. So, it was not because they were not satisfied with GVFL due to which they might not approach the same VC in future.

8.3 Findings of Funding Preferences of Young Entrepreneurs (without venture capital support) in Gujarat

8.3.1 Demographic and Social Profile of the Entrepreneurs

There were many similarities observed between the study of demographic and personal variables of the VC supported and non-VC supported entrepreneurs. These new age entrepreneurs (non-VC supported) comprised of males in the age groups of below 25 and 25-35 years. They all had good professional educational background. Majority of the entrepreneurs surveyed were graduate and post graduates with relevant working experience ranging from two months to two years. Like in case of VC supported entrepreneurs, almost half of the entrepreneurs had back up of family businesses though
only few of them decided to join such traditionally run family businesses. Rather they preferred starting their own businesses with novel ideas in the knowledge based and technology based areas where they had observed considerable gaps. The family members were also quite supportive and accepted their decision of becoming entrepreneur whole heartedly. It is very crucial for entrepreneurs to gain family support as there might not be regular income from the business during the initial years. So, this higher acceptance of entrepreneurship again shows the changing nature of the social structure where risk taking is not suppressed due to fear of failure.

8.3.2 Reasons for Being an Entrepreneur and Starting Ventures in Gujarat

These young entrepreneurs were primarily driven towards entrepreneurship by internal motivators such as high independence and achievement need rather than the materialistic attitude of making money. This means they plunge into entrepreneurship with a matured mindset and understand the challenges of becoming entrepreneur. Though the survey was conducted in Gujarat, there were many entrepreneurs belonging to other states who had started their businesses here in Gujarat. Like VC supported survey, for Gujarati entrepreneurs being familiar with the state was the main reason for starting the ventures here while non-Gujaratis considered the availability of the resources as major reason for conducting their businesses here.

8.3.3 Venture Specific Details

These new age entrepreneurs are very passionate about the use of technology. The widespread information technology and access to internet allow them to work smart and fast. Technology is the major driver of their entrepreneurial activities and today’s youth is technologically precocious. Therefore, the nature of their innovations spread across various sectors like IT and ITES, bio tech, health-care, education, retailing and other sectors where there was a wide scope practicing knowledge based entrepreneurship. In contrast to VC supported entrepreneurs, these entrepreneurs had ventures in to mainly service sectors as opposed to product based innovations. Further, most of these ventures were at their initial stage of venture development as against the expansion stage which was the case in VC supported entrepreneurs’ survey.
8.3.4 Sources of Funding

Now focusing upon the main theme i.e. funding preferences of new age entrepreneurs, the study highlighted the fact that majority of the startups were self funded ventures. They had either employed their own money or borrowed funds from their family and friends to commence their ventures. There were very few ventures where the presence of outside investors was noticed. Only nine ventures of total forty three ventures studied had raised external funding mostly from banks followed by government subsidies. In response to the reasons for not availing the external funding, those who had not availed any such funding, revealed that they would consider this option at a later stage and they have not felt the need for such funding at present.

8.3.5 Use of Bootstrapping Techniques

All of these new age entrepreneurs had engaged in bootstrapping exercise during their early years. Here majority of the entrepreneurs revealed that they had taken loans from families and friends, rented physical space and preferred partnering option rather employment as some of their favourite bootstrapping practices.

8.3.6 Awareness and Use of Incubation Facility

Regarding incubation facilities, there has been a considerable knowledge gap observed among these entrepreneurs. They were not very familiar with the operations and the role of incubation centres in promoting the entrepreneurship. Due to less familiarity with the incubation centres among the entrepreneurs in Gujarat, only seven entrepreneurs had actually availed the services of the incubation centre. Here there is a need to develop a more comprehensive incubation programme and policy to explore the potential of incubation for supporting the entrepreneurs at the startup stage.

8.3.7 Participation in Business Plan Competition

And with respect to participation in business plan competition again there was less response observed from these entrepreneurs and they had mixed opinions regarding its role in commencing their ventures as opposed to VC supported survey where all those
who had participated in such competitions felt that these competitions were very useful to them in starting their ventures.

It was reported above that these incubations, business plan competitions and angel investing would be more popular among these new age entrepreneurs as these are recently promoted trends and these entrepreneurs have a high exposure to these trends as compared to sample of VC supported entrepreneurs. But surprisingly, even these new age entrepreneurs had only limited knowledge as well as limited exposure to this phenomenon of entrepreneurship. Hence, it is very critical to promote the usage of these elements in the entrepreneurship ecosystem otherwise their role would be highly underperformed.

8.3.8 Awareness towards Angel and Venture Capital

There is much hype about the involvement of angle and venture capital investors particularly in the knowledge based sectors. However, the truth is that this resource is also scarce. One in hundred business plans submitted gets funded. Getting the venture capital funding in initial stages is not an easy task. Professional investors like venture capitalists, prefer businesses which are already on a growth path than to be the seed investors though they finance startups which are awfully convincing them. Therefore, these new age entrepreneurs believed in starting small with own money.

As there is a considerable scope for equity investment by angels and VCs in entrepreneurial ventures of these entrepreneurs, the study checked upon the familiarity among these entrepreneurs about these investors. The results showed that the entrepreneurs knew more about venture capital than angel capital, though they did not know very well about venture capitalists. While for angel investors, there was no significant difference observed in the familiarity of VC supported as well as non-VC supported entrepreneurs. Overall, though they were not ignorant about them, their knowledge about these equity investors was limited. While checking upon perceptions of those, who were familiar with these equity investors, it was observed that these entrepreneurs did not hold negative attitude towards them. Instead they actually valued the non-financial support in terms of mentoring, networking etc. provided by these
investors. They agreed that it results into better value addition to establishment and running of an enterprise.

Since it is not so easy to raise equity funding as noted above and further supported by the entrepreneurs’ perception, it might so happen that these entrepreneurs would have approached these investors for funding requirements, but may not have been successful in raising the same. Ten of the total entrepreneurs surveyed had approached them and in majority of the cases the proposal were still being considered but had not passed through the initial screening yet.

8.3.9 Attitude towards Bank Funding

Further, the entrepreneurs had favourable attitude towards bank funding as well and many of them would consider this source of funding for future expansion. This could be due to more visibility of the bank loans and therefore high familiarity, fewer complexities involved in raising bank loans and virtually no interference of banks in management of the ventures.

8.3.10 Future Expansion and Preferred Source of Funding

As most of these ventures were in the initial stages of venture development, they had expressed their desires to scale up and expand their ventures in future for which they would depend upon their internal sources first and then would seek outside funding. In that case, they would consider venture capital funding, bank loans angel investments in the same order.

From the aforesaid discussion, we may conclude that young and professionally qualified entrepreneurs have a definite approach towards financing their ventures. At the initial stage where the risk is very high, they generally prefer to practice bootstrapping and using their own money. For scaling up they are willing to invite outsiders for either equity or debt funding. But there is a greater need to increase the awareness on the roles of incubation centres, angel investors and venture capitalists through greater involvement with various educational and research institutes and of course incubation centres. There is an enormous potential for greater involvement of these investors, at the seed and start up stage, in the knowledge intensive sectors. Further, banks may capitalize upon
entrepreneurship as a major business opportunity. Suitable instruments can be designed to support the funding for knowledge industry for better finance for such sectors.

8.4 Conclusion

The chapter presents the findings derived from analysing the responses of Indian venture capitalists and entrepreneurs from Gujarat. Findings of the investment process followed by Indian venture capitalists suggest that these investors adopt a systematic approach while generating and evaluating deals as well as in post-investment monitoring and control of the ventures funded. The study on the role of GVFL in the development of the ventures supported in Gujarat suggest that majority of the entrepreneurs believed that the investor has performed a sound role as board members in the companies. They are broadly satisfied with the financial and non-financial contribution made by GVLF to the development of their ventures. While the study with respect to the funding preferences of young entrepreneurs highlight the fact that these entrepreneurs’ awareness towards equity options such as venture and angel capital is considerably less. Though they qualify for availing such funding, majority of them have not opted for such options. However, they have revealed the preferences towards venture capital, bank funding and angel funding for future expansion.

Based upon the findings from the primary and secondary data with respect to venture capitalists and entrepreneurs, various recommendations have been made for further development of venture capital industry in India and in Gujarat. These recommendations along with the implications, limitations and future scope of research have been discussed in the following chapter.