CHAPTER 9

RECOMMENDATIONS AND CONCLUSION

9.0 Introduction

From the literature discussed, on venture capital, it has been fund that access to early stage financing to technology-based enterprises is crucial. These innovative enterprises are core to commercializing innovation, sustaining job creation and improving the competitiveness of the economy. However, problems in securing timely, adequate and effective access to capital inhibit company creation and survival resulting into failure of these ventures. As discussed, the main risks associated with the funding to knowledge based enterprises include assessing intangible assets, complexity of the technology, and uncertainty of cash flows. To promote the growth of such entrepreneurial ventures, provision of venture capital can be a stimulant. A vibrant venture capital industry will fill the gap between the capital requirements of technology and knowledge enterprises and funding available from traditional lenders such as banks.

A favourable change that has been happening in India is that of the quality of enterprises. It is on an ascending curve with growing number of young technically qualified entrepreneurs added. Once upon a time, starting up a business in India was a difficult task but the situation has changed for better. During the earlier times, economic growth was also slow, job and business opportunities were mainly overseas, there were infrastructure bottlenecks and government was relatively unsympathetic to business needs in general. Similarly, funds for early stage and growth companies were very limited as banks and financial institutions were not keen on providing loans and credit facilities to knowledge based enterprises.

But now, scope for young entrepreneurs has increased alongwith various opportunities. Government policies have become more conducive to growth. And above all, there is a lot of awareness among people and young entrepreneurs in India today. Another thing that has worked in the favour of these entrepreneurs is that funding has become easier as compared to the past. The eco-system for fostering entrepreneurship has also evolved
and become more conducive with incubation centres, angels and venture funds contributing to the growth of early stage enterprises.

In this process of transformation, the regulatory environment and the modes of support in terms of investment and financing needed, plays a major role. While reviewing the macro environment for the venture capital in India in general and Gujarat in particular, it was felt that there are some deficiencies in the ecosystem which if addressed properly can further facilitate the development of the venture capital industry. It is worthwhile to note here that a few recommendations for development of the venture capital industry in India as outlined below fall in line with SEBI appointed K B Chadrasekhar committee’s suggestions (2000). Recommendations for promotion of venture capital industry and making it more robust, at national level and at state level (for Gujarat) are presented as under.

9.1 Recommendations

9.1.1 Recommendation for the Development of Indian Venture Capital Industry

9.1.1.1 Venture Capital Investments in Areas other than Technology

One of the concerns for venture capital investment in India is that VCs continue to invest in the areas they are most familiar with i.e. predominantly ‘Information Technology’. Though other sectors like health care, education and retailing have started drawing the attention of the VCs in India; Information Technology (IT) receives the highest share in the pie. For increasing the overall competitiveness of the Indian startups, there is a need to broaden the horizon of the areas for venture capital investment by directing it to biotechnology, telecommunications, agriculture, food processing, tourism and other service sectors. Government policies for promoting the venture capital funding in India, should, therefore, focus on how the funds are actually invested especially in the areas less targeted by the VCs due to lack of technology focus; rather just on increasing available funding.
9.1.1.2 Involvement of Sophisticated Investors like Pension Funds

The structuring of venture capital funds is such that in the short run, these funds incur losses but these are matched by the long term capital gains. So, it is very essential that the investors investing in venture capital funds must be able as well as prepared to wait for a longer period of time for significant returns and they must also have the loss bearing capacity, if it happens occasionally. In developed countries like US, pension funds are the primary investors in venture capital industry. These investors can stay invested for a longer period of time as they have to meet the pension liabilities in far distance future. In India, present pool of funds available for venture capital is very limited and is predominantly contributed by foreign funds. If the venture capital funding is to grow, the government should relax constraints on institutional investments in domestic venture funds. The pool of domestic venture capital must be augmented by increasing the list of sophisticated investors like pension funds, provident funds and insurance funds; and by permitting them to invest a small percentage of their corpus in registered venture capital funds up to prudential limits with due safeguards.

9.1.1.3 Harmonization of Regulations for Venture Capital Industry

The regulatory, tax and legal environment should play a facilitating and promotional role for the venture capital industry to prosper in India. Internationally, venture capital funds have evolved in an atmosphere of structural flexibility, fiscal neutrality and operational adaptability. At present, the venture capital activity in India comes under the purview of different sets of regulations. SEBI (Venture capital Funds) Regulation, 1996 lays down the overall regulatory framework for registration and operations of venture capital funds in India. Overseas venture capital investments are subject to the Government of India Guidelines for Overseas Venture capital Investment in India dated September 20, 1995. For tax exemptions, venture capital funds also need to comply with the Income Tax Rules made under Section 10(23FA) of the Income Tax Act. These multiple set of guidelines and other requirements have created inconsistencies and also resulted into negative perceptions about the regulatory environment in India. India needs to provide regulatory simplicity and structural flexibility by harmonizing SEBI regulations and Income Tax rules of CBDT. This would provide better flexibility to VCs in structuring the investment instruments as well as availing of tax breaks. Since SEBI is responsible
for overall regulation and registration of venture capital funds, the need is to harmonize and consolidate within the framework of SEBI regulations to provide uniform, hassle free, one window clearance. It is essential to have a single regulatory framework under SEBI Act, for registration and regulation of venture capital funds in India.

9.1.1.4 Development of Relevant Secondary Capital Market/Stock Exchange for Smaller Companies

Younger and smaller companies are leveraging on innovative breakthroughs, carrying out the classic Schumpeterian ‘creative destruction’ to create wealth. Options for raising capital for such small companies are restricted when there is an absence of equity markets for listing and trading of small-cap companies. It also means that the options before a seed investor especially VCs, in terms of finding a market and for exit, remain obscure. Thus, establishment of secondary market for younger promising companies will also help in developing the venture capital market, as it provides an alternative exit market through Initial Public Offer (IPO) exits. Government can assist in this directly through the creation of second-tier stock markets for IPOs. Stock market that is specifically designed for smaller companies will be a win-win situation for the companies as well as the investors. For the investors, the major advantage is in the creation of a market that is small enough for the company to attract the attention of other shareholders including bigger companies and VCs and thereby also provide appropriate exit options. For companies, it will ensure visibility, help in raising additional capital and help to broaden the shareholder base. Creation of such an exchange will also help generate significant ‘network’ with the wider business community. There are examples of similar exchanges set up in other parts of the world, most notably the Alternative Investment Market (AIM) in London. Of course, such exchange will have to frame rules and policies suited to the requirements of small-cap companies as well as investors. Adequate monitoring and quality checks are also needed to ensure public trading of shares of small companies within a well-supervised, yet simplified, regulatory environment.
9.1.1.5 Provision of Venture Capital Funding to Small and Medium Enterprises (SMEs)

To develop entrepreneurship, venture capital needs to concentrate its investment in small and medium enterprises. The SMEs, account for 95% of the industrial units and contribute 40% of the value addition in manufacturing and exports. Many entrepreneurs in this segment have successful ideas but lack adequate risk capital more specifically equity capital. For high risk projects, SMEs are yet not able to raise adequate funds from the banks. This is supported by a study of RBI. As per the study, credit granted to SMEs has declined from 26% to 17% between March 1997 and 2007 (Economic Times, Ahmedabad, 10th September, 2009). Further, these entrepreneurs are not able to provide collaterals asked by the banks and other financial institutions. They can not tap equity market as they will not be able to meet SEBI requirements concerning the networth and profit track records.

It is in this context, that the rationale for exploring the equity option for them should be emphasized. One of the strategies could be provision of dedicated VC fund for SMEs, which would invest as little as ₹ 2 crores to ₹ 50 crores for funding their innovations. Presently private VCFs prefer to invest ₹ 50 crores or more and hence are irrelevant to SMEs. VCFs can be set up for specific sectors like engineering, information technology, FMCG, and the like. Sector specific knowledge and experience will help VCFs in identifying potential ideas better. The development of regional VCFs along with regional banks active in that region may also be considered. The database of these banks can help in identifying the star performers. Also banks can be actively involved in marketing those regional VCFs. A number of funds have been created by the government to help SMEs to access capital such as various schemes of SIDBI, but these may not be sufficient.

Besides provision of VCF for this sector, government can undertake various programmes as implemented in US through Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR). In US, each year, the federal agencies that participate in SBIR and STTR set aside 2.5% and 0.3%, respectively, of their extramural R&D budgets. In India, also government agencies with large research and development budgets may set aside a small fraction of their funding for competitions among such
small businesses wherein the small businesses that succeed in these competitions keep the rights to technology developed and are encouraged to commercialize the technology. The basic objective of such programme should be to induce private sector to invest in small companies that may not otherwise be able to raise capital.

9.1.1.6 Setting Up a Public Fund through Public Private Partnership (PPP) for Funding Startups

To encourage venture capital investment in the startups, public funds with partnership of the private sector may be formed at the national as well as state level. Such mechanisms are again found in US. In its Small Business Investment Company (SBIC) scheme, private seed and venture capital funds can borrow the funds from government at favourable terms. These loans are then invested in the start ups as equity. This would increase governments’ involvement in funding the ventures indirectly. And the investors are also encouraged to enter into risk financing.

Since the venture capital financing is risky, the failure of investment or the adverse outcome can result into overall poor returns for the investors. In order to protect the investors for the downside of the returns, government can assume a proportion of the costs of project failure in form of some guarantee. This may cover up to certain percentage of the costs of project failure with a cap per portfolio. This kind of protection would have high utility for small funds where if they write off significant proportion of their portfolio investments for the loss, residual funds for investing in other ventures will fall below a viable limit. Like down-side protection scheme, there can be an upside leverage scheme which multiplies the financial benefits from successful investments to the investors.

9.1.1.7 Increased Involvement of the Venture Capitalist in Development of the Enterprises

While surveying the entrepreneurs funded by Gujarat Venture Finance Limited (GVFL) in Gujarat, it was revealed that GVFL plays highly satisfactory role as a board member but the entrepreneurs expect still more operational involvement from the venture capitalist in areas like marketing, production and other human resource areas.
Entrepreneurs in India generally lack expertise in marketing, sales and business development areas, especially when compared to their counterparts in the US. Therefore, it may be suggested that VCs in India in general and Gujarat in particular, have to be more operationally involved with startups and rather simply attending board meetings from time to time. The VCs will have to provide a clear value proposition to the startups and in some cases the VCs may even have to go to the extreme of closing contracts and bringing in the revenue on behalf of a startup rather than simply ‘opening doors’ by providing the contracts.

9.1.2 Recommendation for Development of Venture Capital Industry in Gujarat

Though the state has presence of entrepreneurial ethos, it has not resulted into a large enough flow of new technology venture ideas. For encouraging innovations in Gujarat from grassroots level, the synergies between education, innovation and entrepreneurship should be developed intensively. Education is indispensable for knowledge based entrepreneurship which in turn is a precondition for the development of the venture capital market. Innovation helps in catalyzing the entrepreneurship by converting the commercially viable ideas into wealth. An entrepreneurial culture further drives formation of wealth from knowledge and leads movement for innovation. The concept and the culture of the entrepreneur must become the part of the societal framework for the development of the venture capital industry in the state. Few of the recommendations as discussed below will certainly help in strengthening this link among education, innovation and entrepreneurship.

9.1.2.1 Entrepreneur and Investor Education

Sometimes access to capital is not just money or funding problem but the lack of knowledge on supply side as well as demand side i.e. on the part of providers and seekers of funds. During the survey of the venture capitalists in India, it was found that there are many VCs with adequate funds looking to invest in the state but that they find it difficult to invest in promising projects due to lack of quality deal flow. In order to solve this problem, it is essential to educate investors and entrepreneurs as both these parties do not have enough knowledge of each the other’s needs, of market opportunity or of the way in which investors look at management and how management looks at investors.

Apart from the skills or knowledge based entrepreneurship, the awareness regarding the venture capital investment is significantly low in the state. As discussed in the chapter on data analysis and findings, the entrepreneurs from Gujarat know little about the concept of *Venture capital* as well as *Angel Capital*. To increase the awareness and upgrade the skills of both, the entrepreneurs as well as the venture capitalists, it may be suggested to set up venture capital training centre at the state level which may engage in some educational activities for these entrepreneurs and investors. Entrepreneurs would benefit in terms of skills development for refining a commercial proposition and business plan so that it is more meaningful, appropriate, realistic and appealing to investors. The investors can also enhance their skills in understanding of the market, evaluation of the proposals, due diligence, valuation of the deals etc. This centre can work closely with incubation centres in the state, consultants, private equity specialists and other development institutions that can instill best practices and are skilled at identifying good managers, nurturing and coaching venture capital funds. The centre may also facilitate collaboration and networking amongst venture capital professionals as well as entrepreneurs. The centre may also perform other activities like business consulting and information disseminating for knowledge based enterprises in the state. The development of such centre that promotes entrepreneurship and more conducive business culture will go a long way in facilitating venture capital investing in Gujarat.

One of the major challenges faced by the VCs in India at present is that the industry does not have the right talented personnel required to manage the venture capital funds in a professional manner. Venture capital funds necessitate professionals with entrepreneurial
temperament and abilities, highest integrity and strong management skills. These professionals are not merely finance providers but they are also closely involved with the operations of the investee companies. Unfortunately, such professionals are not easily available particularly in developing countries like India. Besides, existing venture capital professionals have graduated from banking industry and they carry the same lending mindset to financing of venture capital industry as well. Actually, their approach should be more like an investment banker or a development banker with flair of entrepreneurship. To achieve this, venture capital industry should be institutionalized and managed by sophisticated professionals, investors and entrepreneurs, with initiative, drive and vision. This will ensure a critical mass for the industry to achieve sustainable growth. The new trend has started in this direction in India. Recently many entrepreneurs have organized themselves as venture capitalists. The venture capital training centre can step in to organizing various courses with emphasize on experience sharing and training in various aspects of venture capital financing to develop such professionals with entrepreneurial orientation.

Certain business incubators are providing such educational services to the entrepreneurs in Gujarat such as Centre for Innovation Incubation and Entrepreneurship (CIIE) at IIM Ahmedabad, as a part of the incubation programme. The comprehensive education programme as suggested here can be undertaken in association with such incubation centres as well. Various management schools in the state can promote the concept of venture capital by designing exclusive courses on Entrepreneurship and Venture Development. These programmes will help in inculcating risk taking and entrepreneurial attitude among the youth of today. Venture fairs must be organized in developed cities of the state to bring together venture capitalists and entrepreneurs and raise the level of awareness. The business plan competitions organized by management schools in Gujarat from time to time, particularly by IIM-A, is a step in the right direction. As discussed in the chapter on data analysis, business plan competitions provide a good platform to the emerging entrepreneurs to receive the feedback from the academicians and the investors.

Thus, there is an urgent need to provide financial literacy to startups and increase awareness on the activities of angel/VC financing through greater involvement with educational, research institutions, and incubation centres. Venture funds like GVFL, other financing institutions and incubation centres like CIIE, should encourage
entrepreneurship promotion and education schemes designed to find, assist and train new technology entrepreneurs.

9.1.2.2 Role of Incubation Centres

For the development of the dynamic venture capital market, it is essential to improve the supply of equity finance to technology-based firms and startups. And for improving the flow of such equity finance, it is crucial to develop skilled and knowledge-based entrepreneurs to provide the business credibility that will attract the finance in the first place. In this sense, entrepreneurship especially knowledge-based entrepreneurship, is considered to be a pre-condition for the development of the vibrant venture capital market. Therefore, the efforts should be directed towards encouraging such kind of entrepreneurship in the state. Incubators are one such link in the entrepreneurial ecosystem that can fill this gap by providing the requisite managerial, marketing, infrastructural and networking support to the emerging entrepreneurs in the state. Significant research is taking place in various fields such as pharmaceuticals, information technology, bio-technology and service areas in Gujarat. However, findings are not commercialized due to lack of funds and also lack of managerial and marketing support. Business incubators can nurture such venture ideas at the seed or startup stage. They can also operate as intermediaries that can strengthen the linkages between the research and development taking place in state and angel investors as well as venture capitalists, who can meet the further funding requirement of the entrepreneurs incubated by them. They can also hold seminars from time to time either independently or in association with the venture capital training centre as discussed above. While valuable work is already being done by various incubators in the state like CIIE, NIDB, Comcubator and GIAN, still there is huge scope for them to further trigger the entrepreneurship in the state. There is a need to significantly increase the number of the business incubation opportunities for entrepreneurship by comprehensively exploring various policy options.

9.1.2.3 Developing Angel Investors Network

The vibrancy and quality of the venture capital market and the availability of angel funds are closely related. The Ottawa Angel Alliance has looked systematically at the
relationship between angels and venture capital investment in a given region (Report on ‘Access to Capital’ prepared by Alberta Council of Technologies, August 2007). They found a direct relation to the quality of venture capital investment in a region to that of an active angel investment community. Therefore, for venture capital to flourish in the state, it is equally essential that angels are well supported. Venture capital industry lacks the presence of angel investors in India in general and Gujarat in particular, who contribute significantly to the financing of the startups. The success of Silicon Valley which is a nurturing ground for venture capital funded companies can be due to the support provided by angel investors. They provide initial/seed stage financing till the company becomes eligible for venture funding.

Angel capital is more likely to come from high networth individuals who are entrepreneurs themselves and possess domain knowledge. Angel capital market is quite fragmented and not as formalized as venture capital market in India. There are many successful Gujarati businessmen in India as well as overseas. These ultra high net worth individuals may be willing to provide funding support to the promising entrepreneurs from Gujarat. However, high cost of setting up any syndicated fund and lack of awareness restrain them from making such investments. Connecting these individuals with technology entrepreneurs in the state will also help to build a technology corridor. Therefore, there is a real and apparent need to form a network of such successful high net worth individuals and the members of this network can invest in the proposals depending upon their area of expertise either as an individual or as a part of syndication. As angel investors are driven by emotional returns rather than pure financial returns, they may be attracted on this front to support the other entrepreneurs from their home ground.

SEBI should register such groups of high net worth individuals located in India or overseas, who meet the criteria of being independent investors, as accredited investors and offer them the same rights for example, tax pass through privileges; as granted to registered VC firms. Certain other fiscal incentives could help in pushing such individuals into becoming angel investors. Canada has one such provision, for a 30% set-off for angel investments by individuals. Such fiscal incentives in the form of a setoff against taxable income may be provided for individuals who invest in startups.
9.1.2.4 Instituting Sidecar Funds for Angel Capital and Venture capital Investments in Gujarat

As mentioned earlier, venture capital firms prefer to invest at the expansion stages. Investing in small amount would prove to be costlier as they might not be able to cover their initial investment overhead mainly due diligence expenses. Because of this approach of the venture capitalists, the small but attractive proposals from the entrepreneurs are not entertained by these investors. On the other hand the high networth individuals popularly known as angel investors will be investing in the small amounts because their capacity to invest as individual is limited. In order to nurture the funding requirement of enterprises with small to medium capital requirement, government can provide certain funding support known as ‘sidecar’ funds. In this investment mechanism, for every investment made, the government may offer a “match” of some kind. From the entrepreneurs’ perspective, this would reduce the capital required from the investors and would help them to move to the next stage of venture development. For execution of this proposition, there should be a network of investors either angels or venture capitalists investing in the state. All these investors investing in the state will have to be registered with this network/syndication and the activities of the network can be monitored by some representative either from the government side or the network itself.

The government will provide the funding with a condition that the recipient of sidecar funds be part of a syndicated fund as opposed to a stand-alone fund. Such matching is established in the UK, Belgium, France, Austria and some states in the US. A key feature of such a proposal is that the final decision as to who gets funds is with the investor, not with the government. The government invests in the fund to support innovation – as a public asset - and does not scrutinize the investment decisions, but holds the fund accountable for best decision making. Thus, provision of side car funds would result into increasing the number and amount of deals, improving the quality of the investments and helping to attract and develop new investors into the investment community.

9.1.2.5 Involvement of the Corporates

As discussed previously in the chapter on venture capital scenario in Gujarat, one of the missing links in the development of the entrepreneurial ecosystem in the state has been
the serious involvement of the corporates in funding the start ups. Lack of substantial capital flow from big corporate players to startup entrepreneurs at the seed stage makes it difficult to sustain a critical mass of seed funding in the entrepreneurial sector. The state houses many key players across diverse sectors; to name a few like Adani, NIRMA, Torrent, Rasna, Paras Pharma, Cadila Pharma, Shah Alloys Limited, Alembic, Claris, Intas, Dishman and many more. These established corporates together with high net worth individuals should create such networks and provide early stage support in terms of funding, mentoring and networking to emerging entrepreneurs from the state and government should provide all support to such initiative. The corporates may invest directly or may set up corporate venture capital fund. Recently, one such initiative has been taken wherein Mr. Narayan Murthy of Infosys has set up a venture capital fund to encourage the startups and support them with funding as well as networking assistance. Alternatively, these entities from diverse sectors may also form a consortium and set up a joint venture capital fund to respond to the investment opportunities in the state.

This would be a win-win situation for both the parties i.e. corporates involved in funding and the startups being funded. Startups can also reap the advantages like access to customers, markets, technology, best practices, manufacturing, brands, and so on. Similarly, corporates can keep up with the rapidly changing market and technology scenarios. For this to happen, corporate sector should be encouraged to participate in the venture capital industry by providing suitable tax incentives. Tax treatment plays a crucial role in the decision making of an investor. These investors are basically interested in the tax treatment for the investment as well as the tax consequence of their sale of this investment. Favourable tax treatment in this regard to these investors can be one of the incentives to attract them to invest in the start ups.

9.1.2.6 Setting Up Information Centre

Entrepreneurs may be good at innovation but may not have administrative and managerial skills. Majority of them also lack the legal knowledge about how to set up the enterprise, licenses and approvals needed and other related procedures. The solution is to educate emerging entrepreneurs about the regulatory framework rather than waiting for them to flout rules and face penal action. In this context, there is a need to set up a centre which can provide all the comprehensive information on entrepreneurship including the
legal aspects. Alternatively, the local venture capital training centre as suggested above, can incorporate the information desk in the centre itself. There are instances of such centres in the developed countries like US’s ‘One Stop Capital Shops’, UK’s ‘Direct Access Government Online Resource’ and Singapore’s ‘EnterpriseOne.’ In India too, relevant ministries like Ministry of Company Affairs, MSME, Commerce and Industry etc could explore the possibility of setting up such a centre at the national level as well as the state level. Some states have started offering single window systems, to help the entrepreneurs but unfortunately, their operations are not satisfactory. The urgent need is to have entrepreneur friendly rules and then have sector wise guidelines such as check list of necessary documents for starting a company.

9.1.2.7 Improved Accessibility and Availability of Data for Venture Capital Activity

To analyse the venture capital scenario in Gujarat, the data for venture capital investments specifically information with respect to number of deals, amount of deals, break up of investments in various sectors and stages of development as well as investments in various cities of Gujarat, were required. But unfortunately, no such comprehensive data set was available at present in the state. There is only one venture capital investment firm based in Gujarat at present, i.e. GVFL. The details of the investments made by the firm were available from GVFL. But other than GVFL, there might be investments made by venture capital firms from outside Gujarat. The details of such collective investments are absolutely absent in the state. There is an obvious need to look into this matter. The investment figures are published time to time by the research agencies like VentureIntelligence. But the major limitation is that these firms do not bifurcate between venture capital and private equity deals and it was a costly affair to purchase these reports for research purpose. Instead, the local venture capital training centre, as suggested above, can be appointed as a nodal agency by the government to keep the track of all the venture capital investments happening in the state and this information should be freely available to the concerned parties. This will also facilitate inter and intra state comparison i.e. the figures of the venture capital investments can be compared with the previous investments of the state itself as well as other states of the country.
9.2 Implications of the Study

The findings of this research have practical implication for various stakeholders in the industry primarily, entrepreneurs, venture capitalists and government. As the study on the venture capital investment process defines all the stages across the process and the preferences of Indian VCs for various stages like the preferred deal sources, criteria for screening and investment decision, means for monitoring and controlling and exit methods and time frame; the entrepreneurs who desire to seek venture capital funding may prepare themselves accordingly so as to qualify for such funding in future. Besides, for the entrepreneurs who have already raised venture capital funding and are into post-investment stage, the study findings may suggest the kind of value addition and monitoring/controlling made by the VCs in various areas or operations of their venture.

On the demand side, study is based upon the role played by GVFL in the development of the venture. Differences between the expectations of the entrepreneurs before the venture capital investment and the perceived actual contribution post-investment, with respect to the role of the venture capitalist, would provide a valuable insight to GVFL for filling the gap between the two for future investments. It would also provide a fair idea to GVFL about various positive or negative perceptions held by these entrepreneurs that would help the firm in correcting the misconceptions about venture capital investments for future as well as the present investee companies. As venture capital investment is considered to be reputation capital, the study attempts to inform the venture capitalist about how the entrepreneurs utilize the name of the venture capitalist for various activities like raising funds in future, hiring talent, introduction to new customers or suppliers etc.

Findings of the study on funding preferences of young entrepreneurs from Gujarat will help the investors understand the familiarity and the awareness level of the aspiring entrepreneurs operating at seed and start up stages; towards early stage financing options. Again the analysis of perceptions of these entrepreneurs towards the equity investors would be a platform for the venture capitalists to capitalize upon the positive believes and over come the negative ones. Finally, the funding preferences of these entrepreneurs for future expansion will help the venture capitalists explore the scope for this risk capital options.
Besides, various recommendations of the research at national (for India) and regional level (for Gujarat) would facilitate the development of conducive ecosystem for venture capital. The study presents various propositions to concerned regulatory authorities like; including pensions funds for investment in the venture capital funds, synchronizing different regulations for the industry, development of relevant secondary capital market/stock exchange for smaller companies, increasing the supply of venture capital funding to small and medium enterprises (SMEs), providing education to entrepreneurs and investors, increased involvement of the corporates, angel investors and incubators etc. If Gujarat has to be successful in developing a more diversified economy, access to capital issues need to be resolved so that firms can prosper and grow. Execution of these measures in the right spirit will provide structural flexibility, fiscal neutrality and operational adaptability for the venture capital industry to flourish at a pace of global trends.

9.3 Limitations of the Study

The study as reported here is unavoidably limited by a number of constraints. As discussed in the chapter on recommendations, information on venture capital industry in India and particularly in Gujarat is not easily accessible to public at large. The research agencies like ‘VentureIntelligence’ conduct the research and publish the information regarding the trends in venture capital investments; however this data is not available for free and not considered to be reliable as well; because different research agencies provide different figures for investment. This is due to the fact that some of these agencies bifurcate between private equity and venture capital while some of them produce aggregate figures. To add to this constraint, the data on venture capital investments in Gujarat is grossly absent. In this situation, it was not possible to support the venture capital scenario in the state with details of the investments.

The study focused upon only the institutional venture capital investments. The investments made by the corporate venture capitalists and the informal venture capitalists are not considered. The small sample size of all the three studies i.e. 38 venture capital firms, 22 venture capital supported entrepreneurs of Gujarat and 43 entrepreneurs without venture capital funding from the state; put further restriction on the generalizability of the findings. Many of the venture capitalists operating in India
outrightly declined to participate in the survey as they believe that their decision making determinants should not be made public. Further, few of VCs who have participated in the survey have not responded to certain issues like equity position normally held by them in the firm, the minimum and the maximum amount of investments, the return on the exit etc. Besides, it was not possible to declare the name of the venture capitalists who have participated in the research as the respondents requested for not disclosing their identities for confidential purpose.

For studying the role of the venture capitalist in the development of the venture, the present research concentrates only on investments made by Gujarat Venture Finance Limited (GVFL). Investments made by other investors were not considered in the study as these are private equity or buyout investments and not pure venture capital investments. And the scope of the research was limited only to venture capital investments.

A further limitation with respect to study on venture capital supported entrepreneurs is that such entrepreneurs’ pre-investment expectations and what they perceive as actual contribution from their venture capital providers are measured at the same time. Future research should therefore aim at utilizing longitudinal data. Besides, the study excludes the impact of various value adding activities by venture capitalist on the performance of the portfolio company measured in terms of certain objective yardstick like sales, profit, market share etc; for the lack of availability of such data.

The study does not exclusively investigate the ventures that have failed and the reasons for their failures. Data and requisite research methodology did not permit to differentiate the role of the venture capitalist between the successful and unsuccessful ventures. Such study and its comparison with the successful ventures would have been more beneficial to developing a more complete understanding of the role of the venture capitalists.

The study is subject to some of the challenges related to methodological aspects. The study was based on survey through questionnaires and therefore is subject to the common survey errors like social desirability issue, respondent’s bias, measurement error etc. Other research methods like case study or the participatory action research would have given more insightful findings and deepen the knowledge in specific areas.
But normally, the VCs as well as the entrepreneurs are highly susceptible to the involvement of the third party and withhold the detailed information regarding their transactions. Considering these limitations, the survey method was considered to be most feasible. However, the case study approach or the participatory action research would have certainly helped in understanding the venture capital investment process and their role in the development of the venture more deeply.

The results of the survey are analysed with the help of non-parametric tests. When compared with the usage of parametric tests, non-parametric tests may not be very sharp, exact or effective. Non-parametric tests have fewer and less stringent significant assumptions i.e. these tests do not make an assumption about the parameters of the population and thus do not make use of parameters of distribution. Nevertheless, in the absence of sizable data, the application of these tests provide conclusive justification.

Finally, it is important to bear in mind that this study is undertaken with special reference to Gujarat. As compared to other developed regions like Mumbai or Bangalore, the venture capital industry in Gujarat is considerably small and yet to get the critical mass. Besides, the study also did not consider the regional differences as far as the venture capital decision making process and VC’s role in the development of the venture are concerned.

**9.4 Scope for Future Research**

The present study is a systematic attempt at exploring the perspectives of the venture capitalists as well as the entrepreneurs; however, there are many potential areas that need the attention of the researchers. One of them could be, an exclusive study on the decision making of the informal venture capitalists popularly known as angel investors and the corporate venture capitalists. The decision determinants of these two types of investors can be compared with that of the intuitional venture capitalists and the differences in their approaches and methods can be highlighted. Future research may also foray into the same line and study the decision making of the private equity as well as buyout investors and compare the same with venture capitalists. Again the study on decision making of the venture capitalists can be repeated with bifurcation among the private VCF, government supported VCF at the state and all India level and the VCFs set by banks.
This kind of the research would reveal the inherent differences in the practices followed by these investors.

The sample size for the present study is large enough as exemplified by some primary surveys conducted earlier in Indian context, but does not allow the use of various parametric tests particularly, multi-variate analysis. Future researchers may conduct the same surveys on larger samples of the VCs and entrepreneurs in India and may statistically test the research propositions with the use of parametric tests for better accuracy and efficiency. Different methods of investigation like case-methodology or participatory action research may further help in increasing the depth of knowledge in this area.

Further, the role of the venture capitalist may be differentiated between the successful as well as the unsuccessful ventures for probing the reasons for the failure of unsuccessful ventures; despite the support of the venture capitalist. More objective data with respect to some performance measures like sales, profits, market share of the venture capital supported portfolio companies may be collected and then the impact of the venture capitalist’s involvement may be tested with such variables.

As the study of the entrepreneurs is limited in its scope and restricted to Gujarat only, the same study may be replicated over other regions of the country for external validity and inter-state comparison of the venture capitalists’ role among the developed regions like Bangalore and Mumbai with that of Gujarat could provide some valuable insights.