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A study on analysis of venture capital financing

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ABSTRACT

An availability of Finance for startups is a new era of business nowadays and has empowered innovation and growth in human's life. With this business evolution, young entrepreneurs, small startup businesses even followed by small financing companies have started involving themselves for new and unique business ideas with a source of Venture Capital. This Research Paper explores the role of Venture Capital Financing in fostering innovative businesses. The paper provides an overview of the venture capital analysis, highlighting its unique characteristics, importance and differentiates investment strategies from the view point of Investors as well as Investees. It also examines the motivation and factors considered by venture capitalist when evaluating investment opportunities, including scalability, sources, vision, market potential, and technology and management teams. Furthermore, this paper examines the implications of venture capital financing from the point of Investee, Entrepreneurs on growth strategy of start-ups, mentorship, and value addition beyond just the monetary investment as well as contacts building along with strategic guidance. The study analysis the risk and reasons of failure of venture capital financing followed by the challenges faced, including the information being asymmetry, business being very risky and exist strategies. Finally, this paper highlights the importance, preferable fund-raising terms, rounds raised for investment and rounds utilized expectations of investors as well as of investee and the size of venture financing. Overall, this research paper offers valuable insights into significant role of venture capital financing in shaping entrepreneurial strategy and establishing the transformation of innovative and creative ideas into a successful enterprise.

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1. Introduction

Venture Capital is a term which provides fund to entrepreneurs in exchange of equity stake in their company. Venture Capital Financing is essential for financial intermediaries which differs from traditional sources of finance such as bank loans, bet or/and collateral which don't lend for risky projects. Venture Capital Financing is a source of young entrepreneurs who have unique business ideas but need financial capital for giving a kick start to their business ideas. It provides financial support

through equity linked investment by sharing profit/loss along with risk inherit in projects. Venture capitalists also provide financial support by giving finance in terms of loan in exchange of predetermined rate of interest.¹ Venture Capitalists provides financial support as well as other support beyond finance, which includes expert advice, valued added skills/knowledge, market connections which are beneficial for the growth of the company. Finally we can say that, venture capital financing is a type of private equity financing which provides funds to small and start-ups enterprises/entrepreneurs. Nowadays, start-up companies are generally with respect to technology, innovative model or information technology followed by social media.

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2. Review of Literature

Vaishali Pagaria (2016) brings few insights of Venture Capital Financing whereby they have considered Venture Capital Financing as an alternative source of finance for entrepreneurs who want to start something new. According to this study, Venture Capital Financing is a source in which risk gets shared amongst investors, which results in the contribution of company's growth. This study shows characteristics and importance of innovative business ideas amongst entrepreneurs and how venture capital financing differs from traditional source of finance.^{2,3}

Ahmed Idi Kato (September 2021) This article engaged a systematic literature review by exploring the leading internationally published articles in Business Venturing. Several authors investigated the impact of VC focused on performance and total factor productivity of the VC-backed firms. Recent extant literature concludes that VC-backed firms outperform the non VC backed companies in terms of sales revenue growth, increase in profitability, returns on assets and returns on investment but again, other scholars suggest that VC financing has inconsequential or negative implication on the growth of funded companies. The disparity in the theoretical domain and fragmented conclusions in the empirical literature, leave the researchers with questions surrounding how VC financing spurs performance of funded firms. This paper presents a critical analysis of extant literature highlighting research gaps and an agenda for future research.

Kumar (May 2004) The Indian Venture Capital Industry has followed the classical model of Venture Capital Finance. The early stage financing includes seeds, start-up & early stage Investment was always the major part of the total investment. Whenever venture capitalists invest in venture, certain basic preference plays a crucial role in investment decision. Two such considerations are location preferences and ownership Preferences. Seed stage finance is provided to new companies for the use in product development & initial marketing company may be in the process of setting up the Business or may be in the business for short period but have not reach the stage of Commercialization.

Mohammad Tanzeem Raza (2019) According to this research, Venture Capital financing brings an opportunity for young entrepreneurs to start new business. Investment in venture capital also plays a crucial role for the development of an entrepreneurs' dynamic thinking as it brings an insight to give a unique featured product or service and returns to an investors. According to this review, entrepreneurs are having new ideas but they are poor and unemployed. Therefore, to get an investment in terms of finance as

well as expert's advice and little other non-monetary support, venture capital financing plays an important role. This financing have a strong and powerful impact on the new emergent and growth of an economy and investment criteria.^{4,5}

3. Need of Venture Capital Financing

In 21st Century, entrepreneurs are shifting themselves from traditional way and source of finance and businesses to a new, unique and creative way and source of finance for starting their business. For the same, venture capital plays an important role. Venture Capital Financing is a source through which entrepreneurs can avail finance from investors, along with guidelines and connections, in exchange of equity stake in their business. The need of this study is to analyze the pattern of investment, sources of finance and importance of venture capital from the investors and investees perspective.

4. Scope of Venture Capital Financing

This study analysis the criteria of investment through venture capital financing and the growth of enterprise with investors guidelines. The study captures importance and expectations considered for the financing of venture capital. The study focuses on the influencing factors for investors as well as entrepreneurs for venture business.

5. Objectives of Venture Capital Financing

1. To study the overview of Venture Capital Financing
2. To analyze the financing terms from investors and investees perspective
3. To study the growth of Venture Capital Financing

6. Research Methodology

This research study is based on primary and secondary data over the current time period. The primary data has been collected from Questionnaire and secondary data has been collected from Literature Review, Research Papers, Websites and Articles.

7. Tools of Analysis

The primary and secondary data collected for the study has analyzed practically and logically to find a conclusion. The statistical tools applied for data analysis are graphs, average, various test like ANNOVA, Chi-square, etc.

8. Hypothesis

- 1. Ho1: Various factors are not important for Venture Capital Financing.
- 2. Ho2: There is no significant impact of terms preferred for fund raising on gender.
- 3. Ho3: The income & risk level of investment in venture capital are independent of each other.

9. Data Analysis

Table 1: Anova: Single factor

Summary				
Groups	Count	Sum	Average	Variance
[Funding for Business]	60	126	2.1	0.091525424
[Brand Image]	60	139	2.316666667	0.321751412
[Technical Assistance]	60	149	2.483333333	0.389548023
[Funding from other sources]	60	155	2.583333333	0.348870056
[Corporate Governance]	60	165	2.75	0.495762712

Anova Source of Variation	df	MS	F	P-value	F crit
Between Groups	4	3.736666667	11.34011340	1.42031E-08	2.40224849
Within Groups	295	0.329491525			
Total	299	112.1466667			

Table 2: Chi-Square

Fo	Fe	Fo - Fe	(Fo - Fe) ²	(Fo - Fe) ² /Fe
28	27.95	0.05	0.0025	8.94454E-05
11	11.05	-0.05	0.0025	0.000226244
15	15.05	-0.05	0.0025	0.000166113
6	5.95	0.05	0.0025	0.000420168
SUM				0.000901971

Source: Data collected from Primary Source

Table 3: Chi-Square

Fo	Fe	Fo - Fe	(Fo - Fe) ²	(Fo - Fe) ² /Fe
5	4.55	0.45	0.2025	0.044505495
8	8.45	-0.45	0.2025	0.023964497
6	4.9	1.1	1.21	0.246938776
8	9.1	-1.1	1.21	0.132967033
8	9.1	-1.1	1.21	0.132967033
18	15.6	2.4	5.76	0.369230769
2	2.1	-0.1	0.01	0.004761905
4	3.9	0.1	0.01	0.002564103
0	0.35	-0.35	0.1225	0.35
1	0.65	0.35	0.1225	0.188461538
SUM				1.496361148

Source: Data collected from primary source

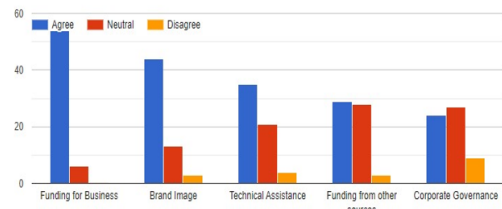


Fig. 1: According to you, what is the importance of venture capital financing.

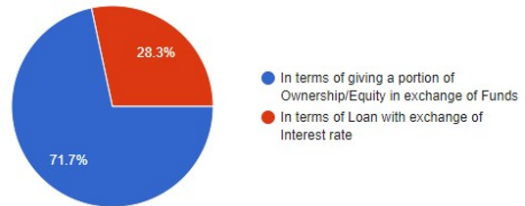


Fig. 2: For fund raising, which terms you would like to prefer more?

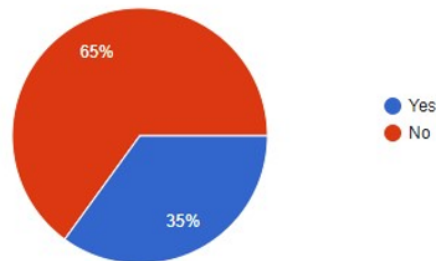


Fig. 3: Would you like to invest in a business venture having much higher level of risk

10. Conclusion and Suggestion

Venture Capital is indicating a shift towards the growth of an economy and showcasing several opportunities to entrepreneurs. Venture Capital Financing gives a ray for developing the ideas for starting up a business with unique features. This research has analyzed the way of financing along with the perspective of both the parties involved for investment. Finally it can be concluded that venture capital financing plays a vital role for small businesses or startups for sharing the risk and equity in exchange of funds.

Venture Capitalist supports entrepreneurs for the development of their product/service offering unique features. The government policies are also provided for monitoring the activities of Venture Capital for safety and support to entrepreneurs. The government should provide incentives and tax waiving for venture capital investments which benefits investors as well as investees. Entrepreneurs should also provide regular responses with respect to the output of strategies implemented.

11. Source of Funding

None.

12. Conflict of Interest

None.

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