International Journal of 360 Management Review, Vol. 06, Issue 02, October 2018, ISSN: 2320-7132

Venture Capital in Punjab: A Case Study of Punjab Infotech

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Introduction

It is a private or institutional investment made into early-stage / start-up companies (new ventures). As defined, ventures involve risk (having uncertain outcome) in the expectation of a sizeable gain. Venture Capital is money invested in businesses that are small; or exist only as an initiative, but have huge potential to grow. The people who invest this money are called venture capitalists (VCs). The venture capital investment is made when a venture capitalist buys shares of such a company and becomes a financial partner in the business.[1]

Venture Capital investment is also referred to risk capital or patient risk capital, as it includes the risk of losing the money if the venture doesn't succeed and takes medium to long term period for the investments to fructify.

Venture Capital typically comes from institutional investors and high net worth individuals and is pooled together by dedicated investment firms.

It is the money provided by an outside investor to finance a new, growing, or troubled business. The venture capitalist provides the funding knowing that there's a significant risk associated with the company's future profits and cash flow. Capital is invested in exchange for an equity stake in the business rather than given as a loan.

Venture Capital is the most suitable option for funding a costly capital source for companies and most for businesses having large up-front capital requirements which have no other

[1] Retrieved from www.edupristine.com/blog/venture-capital (last visited on 21.11.2017)

cheap alternatives. Software and other intellectual property are generally the most common cases whose value is unproven.

Features of Venture Capital investments

- High Risk
- Lack of Liquidity
- Long term horizon
- Equity participation and capital gains
- Venture capital investments are made in innovative projects
- Suppliers of venture capital participate in the management of the company

Methods of Venture capital financing

- Equity
- participating debentures
- conditional loan[2]

Types of Venture Capital Funding The various types of venture capital are classified as per their applications at various stages of a business. The three principal types of venture capital are early stage financing, expansion financing and acquisition/buyout financing[3.]

The venture capital funding procedure gets complete in six stages of financing corresponding to the periods of a company's development.

- **Seed money**: Low level financing for proving and fructifying a new idea.
- **Start-up:** New firms needing funds for expenses related with marketing and product development.
- **First-Round:** Manufacturing and early sales funding.
- **Second-Round:** Operational capital given for early stage companies which are selling products, but not returning a profit.
- **Third-Round:** Also known as Mezzanine financing, this is the money for expanding a newly beneficial company.
- **Fourth-Round:** Also called bridge financing, 4th round is proposed for financing the "going public" process.

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[2] *Ibid.*

[3] Retrieved from https://www.mycapital.com/companies/venturecapital101_4.php (last visited on 20.11.2017).

A) Early Stage Financing:

Early stage financing has three sub divisions seed financing, start up financing and first stage financing.

- Seed financing is defined as a small amount that an entrepreneur receives for the purpose of being eligible for a start up loan.
- Start up financing is given to companies for the purpose of finishing the development of products and services.
- First Stage financing: Companies that have spent all their starting capital and need finance for beginning business activities at the full-scale are the major beneficiaries of the First Stage Financing.

B) Expansion Financing:

Expansion financing may be categorized into second-stage financing, bridge financing and third stage financing or mezzanine financing.

- Second-stage financing is provided to companies for the purpose of beginning their expansion. .
- Bridge financing may be provided as a short term interest only finance option as well as a form of monetary assistance to companies that employ the Initial Public Offers as a major business strategy.
- The capital which is provided for the purpose of assisting a particular company to expand in a major way is known as mezzanine financing.

C) Acquisition or Buyout Financing:

Acquisition or buyout financing is categorized into acquisition finance and management or leveraged buyout financing.

- Acquisition financing assists a company to acquire certain parts or an entire company.
- Management or leveraged buyout financing helps a particular management group to obtain a particular product of another company.

Advantages of Venture Capital

- They bring wealth and expertise to the company.
- Large sum of equity finance can be provided.
- The business does not stand the obligation to repay the money.

- In addition to capital, it provides valuable information, resources, technical assistance to make a business successful.

Disadvantages of Venture Capital

- As the investors become part owners, the autonomy and control of the founder is lost.
- It is a lengthy and complex process.
- It is an uncertain form of financing.
- Benefit from such financing can be realized in long run only.

Considering the high risk involved in the venture capital investments complimenting the high returns expected, one should do a thorough study of the project being considered, weighing the risk return ratio expected. One needs to do the homework both on the Venture Capital being targeted and on the business requirements.

Venture capital is emerging as one of the most important financial intermediaries in the 21st century. This financial mechanism has made significant contributions to the development of new age industries such as Information Technology, Information Technology Enabled Services, Clean Technology, Alternative Energy, Courier Service, Pharmaceuticals, Health Care Services etc. venture capital has contributed significantly to the development of countries such as United States, Israel, Taiwan, Korea etc. The venture capital ecosystem and its development are different in different countries. This study is an attempt to study the trends in the venture capital industry in India.

Definitions of Concepts

Venture capital

According to **Chandra Prasanna** (2001)[4] "Venture capital represents financial investment in a highly risky proposition in the hope of earning a high rate of return".

According to **Pandey** (1996)[5] "Venture capital is an investment, in the form of equity, quasi-equity and sometimes debt-straight or conditional (i.e. interest and principal payable when the venture starts generating sales), made in new untried technology, or high-risk venture, promoted by a technically or professionally qualified entrepreneur, where the venture capitalist:

[4] Prasanna Chandra, Financial Management Theory and Practice, Tata McGraw Hill Publishing Company Ltd, New Delhi (2001).

[5] I.M. Pandey (1996), Dividend Decision: A study of Managers Perceptions, Decision, Vol.21 (1&2), January-June 1994, pp.67-86.

- Expects the enterprise to have a high growth rate.
- Provides management and business skills to the enterprise,
- Expects medium to long-term capital gains, and does not expect any collateral to cover the capital provided.

According to **Paxson and Wood (1997)** "Venture capital involves medium term equity participation in an unquoted enterprise where returns are mainly generated in the form of capital gains realized at the end of the venture."

Venture Capital in India

The concept of venture capital was formally introduced in India in 1987 by IDBI. The government levied a 5% on all know how import payments to create the venture fund. ICICI started VC activity in the same year. Later on ICICI floated a separate VC company – TDICI. In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists comprise of professionals in various fields. They provide funds (known as Venture Capital Fund) to these firms after carefully scrutinizing the projects. Their main aim is to earn higher returns on their investments, but their methods are different from the traditional money lenders. They take active part in the management of the company as well as provide the expertise and qualities of a good bankers, technologists, planners and managers.

Venture / Risk capital is often a more appropriate financing instrument for high-growth-potential and start-up SMEs. However, the ability of SMEs (especially those involving innovations and new technologies) to access alternative sources of capital like angel funds/risk capital needs to be enhanced considerably. Although SMEs commonly use traditional debt, this type of financing is often not accessible for fast-growth and start-up firms. During their initial phase, firms need finance to study, assess and develop an initial concept (seed phase) or for product development and initial marketing (start-up phase). At this stage, firms may be in the process of being set up or may exist, but have yet to sell their product or service commercially. High-growth firms usually develop an idea, concept or product that requires an incubation period before generating revenues and profits. Firms, typically, look for venture capital to provide them with the financing they need to expand or break into new markets and grow faster. Thus, the ability of SMEs (especially those involving innovations and new technologies) to access alternative sources of capital like angel funds/risk capital needs to be enhanced considerably. The Government of India, in terms of the recommendations of the PM's Task Force on MSMEs, is already looking at removing the fiscal/regulatory impediments to the use of such funds by the MSMEs.

Venture / Risk capital funding is ideal for newly emerging ventures like bio-tech, food processing, IT, pharmaceutical and other knowledge based sectors in India is creation of venture capital funds to meet the equity requirements of these units in the initial phase of their working and the knowledge sector including BPO, KPO, Life sciences, on-line business, technology-enabled design and manufacturing as well as in emerging areas of nano-technology and environmental technology. Angel investors (i.e. investors who typically invest their own funds, unlike venture capitalists, who manage the pooled money of others in a professionally-managed fund) are increasingly becoming another alternative source of funding for SMEs in India. Entities such as Indian Angel Network, Mumbai Angels, The Chennai Angels, Nadathur Holding and Investment, etc. are well known investors who are keen on helping early stage companies with funding and mentoring. However, in the recent past, bankers have curtailed lending to SMEs due to the greater risk of non-performing assets (NPAs) in a downturn. Thus, even though many SMEs have profitable projects and expansion plans, they find it difficult to get finance for their projects, as bankers may not be willing to fund high risk projects. In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists comprise of professionals in various fields. They provide funds (known as Venture Capital Fund) to these firms after carefully scrutinizing the projects. Their main aim is to earn higher returns on their investments, but their methods are different from the traditional moneylenders. They take active part in the management of the company as well as provide the expertise and qualities of a good bankers, technologists, planners and managers.

The venture capital industry in India has grown significantly in recent years. It plays an important role in promoting a more innovative economy by providing the investment and resources needed for high potential risky business in grow. Venture capital is associated with the positive imagine of scientific research, innovation, entrepreneurial start-ups, successful technology companies and overall competitiveness of the economy. Famous success stories that are the pride of the American economy, such as Microsoft, Intel, DEC, Genentech or, more recently, Google and You tube received venture capital investments in their early days. This is why in many countries, and notably in the US, academic teams have undertaken studies to measure specific impacts of venture capital on company growth and valuation, as well as on innovation, and venture capital associations have sponsored independent studies in the more general impact of venture capital on the global economy, especially on employment and GDP.[6]

Venture Capital Investment Process

Venture Capital process refers to the investment process of a given Venture Capital company. It starts from the fund raising stage to the points where investments are harvested. This sub section would be mainly used for providing brief explanation on the investment process of the Venture Capital. A standard venture capital process usually follows a sequential five step approach:

- Fundraising: Source Capital from Banks, Corporations, Funds.
- Evaluation: Evaluate Venture Opportunities
- Investment: Invest Capital into Enterprises
- Governing: Govern Business to Profitable Growth
- Exit: Liquidate through IPO. (Isaksson, 2006).[7]

Objectives and Vision for Venture Capital in India

Venture capital finance innovation and ideas which have potential for high growth but with inherent uncertainties. This makes it a high risk, high return investment. Apart from finance, venture capitalists provide networking, management and marketing support as well. In the broadest sense, therefore, venture capital connotes financial as well human capital.

In the global venture capital industry, investors and investee firms work together closely in an enabling environment that allows entrepreneurs to focus on value creating ideas and allows venture capitalists to drive the industry through ownership of the levers of control, in return of the provision of capital, skill, information and complementary resources.

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[6] Rashmi Rai, Role of Venture Capital in The Economic Development, Shri Vaishnav Institute of Technology and Science, Indore, p.1

[7] Isaksson (2006) The Role of Venture Capital, Global Trends and issues from a nordic Perspective, IDED Publishers, ISBN 1091-85281-07-7.

Need of Venture Capital

- There are entrepreneurs and many other people who come up with bright ideas but lack the capital for the investment. What these venture capitals do are to facilitate and enable the start up phase.
- When there is an owner relation between the venture capital providers and receivers, their mutual interest for returns will increase the firm's motivation to increase profits.
- Venture capitalists have invested in similar firms and projects before and, therefore, have more knowledge and experience. This knowledge and experience are the outcomes of the experiments through the successes and failures from previous ventures, so they know what works and what does not, and how it works. Therefore, through venture capital

Institutions Offering Venture Capital

Some venture capital firms, institutional investors and banks who provide venture capital to MSMEs are promoted by development finance institutions controlled by state government, overseas venture capital funds & also promoted by private sector companies. Some of the famous examples are:-

- **Hyderabad Information Technology Venture Enterprises Limited (HITVEL)**

HIVE Fund contributed by Small Industries Development Bank of India, A.P Industrial Development Corporation Ltd., and A.P Industrial Infrastructure Corporation Limited. HITVEL is the asset management company under Srei Venture Capital Limited, which is the subsidiary of Srei Infrastructure Finance Limited. HITVEL has successfully completed several early stage investments in various Information Technology companies in the country. Its fund HIVE II focuses on targeting the IT and ITES Sector in India.

- **Kerala Venture Capital Fund Private Limited**

The Kerala Venture Capital Fund Pvt. Ltd. is functioning as the asset managing company of the Kerala Venture Capital Fund. Its main function is to manage the venture capital. The fund which was registered on September 14th, 1999, has eight active Director/Partners. The fund is currently Strike off Status.

- **Gujarat Venture Finance Limited (GVFL)**

GVFL is regarded as the pioneer of Venture Capital in India. It works as an independent, autonomous Board managed venture finance company in Gujarat. Founded at the initiative of World Bank, GVFL has encouraged and supported innovative ideas and entrepreneurs in the past. One feature which distinguishes GVFL from all other VCs is its broad spectrum support to its funded entities that ranged from governance support to strategic support. Over the last twenty years, the fund has spawned 7 funds which have supported 81 companies. GVFL focuses on providing venture capital to technology oriented startups.

- **Punjab Infotech Venture Fund**

Founded in 1999, this Chandigarh based Fund is a Venture Capital Fund managed by Punjab Venture Capital Limited. The fund provides startup, growth and seed capital to startups in India. The fund invests in small and medium enterprises, primarily in the Software and Information Technology Sectors. The size of the fund is estimated to be $4 million.

Punjab: An Introduction

Punjab is a state in northern India. Forming part of the larger Punjab region, the state is bordered by the Indian states of Jammu and Kashmir to the north, Himachal Pradesh to the east, Haryana to the south and southeast, Rajasthan to the southwest, and the Pakistan province of Punjab to the west. The state covers an area of 50,362 square kilometres or 1.53 percent of the total geographical area of India. It is the twentieth largest Indian state by area. With 27,704,236 inhabitants at the 2011 census, Punjab is the sixteenth largest state by population, comprising 22 districts. Punjabi, is the most widely spoken and official language of the state. The main ethnic group are the Punjabis, with Punjabi Sikhs (57.7 percent) forming the demographic majority followed by Hindus (38.5 percent). The state capital is located in Chandigarh, a Union Territory and also the capital of the neighboring state of Haryana. The five rivers are Sutlej, Ravi, Beas, Chenab and Jhelum.

The entire Punjab region was annexed by the British East India Company from the Sikh Empire in 1849. In 1947, the Punjab Province of British India was divided along religious lines into West Punjab and East Punjab. The western part was assimilated into new country of Pakistan while the east stayed in India. The Indian Punjab was divided on the basis of language in 1966. It was divided into 3 parts. Haryanvi speaking areas (dialect of Hindi) were carved out as Haryana, Hilly regions and Pahari speaking areas formed Himachal Pradesh alongside the current state of Punjab. The government of Punjab has three branches - executive, judiciary and legislative. Punjab follows the parliamentary system of government with the Chief Minister as the head of the state.

Punjab: A Progressive State

The State of Punjab is known for its leadership position in the country with rapid strides in all round growth and prosperity. The State has done remarkably well in sectors across the spectrum such as Agriculture, Industry, Health, Education, Sports, Arts, Literature and Culture. The State has excellent infrastructure, human capital, progressive and enterprising people, who can transform every potential opportunity into success. Punjabi Diaspora is spread across the world and has carved out a niche for itself.

Punjab: a strong Agriculture base

The state has done exceedingly well in Agriculture and has earned the epithet of "Ganary of India" – Punjab is the highest contributor of wheat and rice to the central procurement pool, Agriculture and allied services and one of the key strengths of the state. Punjab has highest per capital availability of milk which is almost four times higher than all India level. It is also the 2nd highest cotton and blended yarn producer in the country, Punjab has highest productivity of Kinnow, a citrus fruit in the country and highest production of honey in the country.

Agriculture, however, has limited potential to drive future economic growth of the state and it is the secondary and tertiary sectors, which will play an important role in future economic growth of the state and creation of jobs for its youth.[8]

Venture Capital in Punjab

Punjab is the land of lush green fields with vibrant entrepreneurial culture. It is one of the fastest growing States of the country. With congenial industrial climate, progressive and promotional steps taken by the Punjab Government and economic liberalization adopted by the Government of India, the opportunities for setting up MSME ventures have increased manifold in the State.

Small Farmers's Agri-Bussiness Consortium (also called Central SFAC) is a Society under Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India to

[8] Progressive Punjab, Business First, Industrial and Business Development Policy, 2017, Department of Industries and Commerce Government of Punjab, 2017, p. 10

implement the schemes of projects development facility and venture capital assistance for development of agribusiness in the country in association with commercial banks.

Punjab Small Farmer's Agri Business Consortium (PSFAC) is a registered Society under the Societies Registration Act, 1860 on the pattern of Central SFAC to facilitate setting up of agri-business ventures in close association with banks, catalyze private investment in setting up of agri-business projects and thereby providing assured market to producers, strengthen backward linkages of agri-business projects with producers, assist farmers, producer groups, and Agriculture graduates to enhance their participation in value chain through Project Development Facility and arrange training and visits, etc., of agri-preneurs for setting up of identified agri-business projects.

Under this scheme Venture Capital Assistance is being provided by Government of India through PSFAC in the form of equity on the recommendations of the bank financing the project. This equity capital will be repayable back to SFAC after the project has repaid the term loan of the financing bank. SFAC will ordinarily provide Venture Capital Assistance, which will be the lowest of the following:

- 26% of the promoter's equity;
- Rs. 50.00Lakhs.

Procedure to avail Higher Venture Capital Assistance

Higher Venture Capital Assistance can be considered by SFAC to deserving projects on merit provided, provision for higher VCA has been appraised and approved by the sanctioning authority of term loan, subject to maximum of Rs. 3.00 Crore. Total Cost of projects is not more than Rs.10 Crore.[9]

Mentoring of entrepreneurs by venture capitalists

Typically venture capitalists invest in innovative enterprises started by first generation entrepreneurs. The entrepreneurs may lack business skills, market awareness, managerial skills, understanding of competition etc. Venture capitalists therefore often mentor

[9] Retrieved from http://sfacindia.com/PDFs/Venture-Capital-Scheme-for-agribusiness-development. pdf.(last visited on 10.12.2017).

entrepreneurs who approach them for fiinding. They help them in framing a proper business plan.

- **Co-investments**

Venture capitalists many times co-invest with other venture capitalists instead of investing alone in an enterprise. This is also known as syndication of investments. This is done when the size of the deal is large and one venture capitalist may not have the capacity to invest the entire sum or when the other venture capitalist has certain expertise, which is required for the growth and development of the investee company.

- **Monitoring of portfolio companies by venture capitalists**

Venture capitalists undertake high risks as they invest in very early stages of the lifecycle of iimovative enterprises. They therefore monitor the progress of their investee companies.

- **Sectors attracting venture capital investments**

Traditionally venture capital was conceived as a financial mechanism for funding high technology companies. All over the world, high technology enterprises particularly in the Information Technology and Information Technology Enabled Services sectors attracted maximum venture capital investments. In India also this sector continues to attract maximum investments, but there are other sectors that are beginning to attract investments.

- **Regions attracting venture capital investments**

The flow of venture capital has not been uniform in all the regions in India. The flow of venture capital depends on the existence of an environment that supports entrepreneurship. The presence of innovative young enterprises that have the potential to scale up fast is a precondition for venture capital investments.

- **Regulatory framework pertaining to venture capital**

Regulatory framework in an economy affects venture capital investments. In India SEBI is the nodal agency for monitoring and regulating venture capital investments. Apart from this certain provisions of RBI and The Central Board of Direct Taxes also impact the venture capital industry. The government has to create an enabling environment for promoting venture capital investments.

Main problems of Indian Venture Capital

Venture Capital is in its nascent stages in India. The emerging scenario of global competitiveness has put an immense pressure on the industrial sector to improve the quality level with minimisation of cost of products by making use of latest technological skills. The implication is to obtain adequate financing along with the necessary hi-tech equipments to produce an innovative product which can succeed and grow in the present market condition. Unfortunately, our country lacks on both fronts. The necessary capital can be obtained from the venture capital firms who expect an above average rate of return on the investment. The financing firms expect a sound, experienced, mature and capable management team of the company being financed. Since the innovative project involves a higher risk, there is an expectation of higher returns from the project. The payback period is also generally high (5 - 7 years). The various problems/ queries can be outlined as follows :

1. Requirement of an experienced management team.
2. Requirement of an above average rate of return on investment.
3. Longer payback period.
4. Uncertainty regarding the success of the product in the market.
5. Questions regarding the infrastructure details of production like plant location, accessibility, relationship with the suppliers and creditors, transportation facilities, labour availability etc.
6. The category of potential customers and hence the packaging and pricing details of the product.
7. The size of the market .
8. Major competitors and their market share.
9. Skills and Training required and the cost of training.
10. Financial considerations like return on capital employed (ROCE), cost of the project, the Internal Rate of Return (IRR) of the project, total amount of funds required, ratio of owners investment (personnel funds of the entrepreneur), borrowed capital, mortgage loans etc. in the capital employed.[10]

[10] Omid Sharifi, Understanding the Financing Challenges Faced by Startups in India, International Journal of Science Technology and Management, Vol. No.4, Special Issue No. 01, November 2005, p.9.

Punjab Infotech: An Introduction

Punjab Information and Communication Technology Corporation Limited (Punjab Infotech), Chandigarh was established in 1988, is a Punjab government undertaking that has been successfully spearheading the software training revolution through a strong network of CAL-C computer education centers in Punjab. Punjab Infotech is the premier agency of the state government in facilitating establishment of IT and IT enabled service's (ITES) industry in Punjab, and training human resources for this industries. CAL-C, with its hand on the global pulse, identifies the needs of the IT/knowledge industry. IT software industry includes IT software, IT services and IT enabled services. CAL-C provides focused software, hardware, networking and ITES courses with technical inputs from industry leaders. CAL-C has an extensive network of training partner centres in the region to provide quality computer training vis-a-vis industry requirement.[11]

Punjab Venture Capital Limited (PVCL) is an 'Asset Management Company' which is entrusted with the overall management of the Venture Capital Fund – Punjab Infotech Venture Fund (PIVF) acting as its' Investment Manager and has the necessary authority to consider/ evaluate a given proposal for investment from the Fund – PIVF.

PIVF aims at investing in companies in the Information Technology Sector within the State of Punjab. The fund's investment in companies is through the route of equity & quasi-equity instruments. The Fund seeks to achieve its returns through dividends and capital gains at the time of divestment through an initial public offering or a negotiated sale of its holding.

Review of Literature

Nirvikar Singh (2006)[12] emphasizes the contribution of new emerging services in rapid growth of Indian Economy. It also focuses on the importance of industrialization of services sector in rapidly growing economy. They investigate the performance, persistence and capital flows in the industry, focusing both on LBO funds and Venture Capital funds. As regards performance they find that, on average, fund returns net of fees approximately equal the return of the S&P 500. Evidence of large heterogeneity in returns across funds and time is presented.

[11] Retrieved from http://www.punjabinfotech.gov.in/calcservices.aspx (last visited on 21.11.2017).

[12] Nirvikar Singh (2006), Economic Development in India: The Role of Individual Enterprise (and Entrepreneurial Spirit), Asia-Pacific Development Journal, Vol. 12, No.2, December 2008.

Hsu (2004)[13] finds evidence that better Venture Capitals get better deal terms (in th form of lower valuations, for instance) when negotiating with startups, He developed a hand collected data set of 148 financing offers (both accepted and declined) made to a group of 51 early stage high tech start ups . In this way, he estimates that a financing offer from a high reputation Venture Capital is approximately three times more likely to be accepted by an entrepreneur. As well, it is shown that highly reputable Venture Capitals acquire start up equity at a 10-14% discount.

Sapienza and Villanueva (2007) have also identified the supporting reasons for special focus on these areas/dimensions. There are compelling reasons for such extensive studies on institutional venture capital as against the business angels and the corporate venture capital. As compared to angels, institutional venture capitalists are more visible, easier to locate and have more resources to devote to helping in research. And institutional venture capital industry has been more stable in terms of number of firms existing at one time and in terms of prolonged existence of the firms as compared to corporate venture capital. While the value-added of independent venture capitalists has been studied extensively, there is significantly less research carried out on the value-added provided by corporate venture capitalists. This may be due to the highly cyclical nature of the corporate venture capital community (Maula, 2001).

Further, in contrast to the transient nature of corporate venture capital specialist teams in large corporations, the average managing partnership of a VC firm is considerably more stable.

Like Sapienza and Villanueva (2007), Mason and Harrison (1999) have also compiled the trends in the venture capital research. They observed that there has been a considerable expansion in the geographical focus of research from the US to the UK, Western Europe and Asia as well as an increasing volume of literature on cross-country comparisons. As mentioned before, various disciplines and interest groups have contributed to this expanding literature on venture capital including researchers from many other disciplines, including finance, accountancy, economics, sociology psychology and geography in addition to the dominant discipline management for the subject. These researchers with their different backgrounds added a variety of theoretical perspectives and methodological approaches. And finally as a consequence of the interests by the researchers from different disciplines, there

[13] Hsu (2004) What do Entrepreneurs Pay for Venture Capital Affiliation? The Journal of Finance (2004).

has been an enormous expansion in the range of topics examined by them. Initial studies were mainly based on macro perspective i.e. investment trends in the venture capital market. Since then venture capital decision making has expanded to include a variety of subjects like, the relationships between investors and their investee companies, whether venture capitalists add value to their investee companies, the role of venture capital in management buyouts, the financing of technology-based businesses, exit routes of investors, the returns from venture capital investments and the geographical distribution of venture capital investments.

Chemmanur et.al. (2010)[14] found in this paper the effectiveness of international versus local venture capitalists in adding value to entrepreneurial firms. Entrepreneurial firms backed by syndicates composed of international and local venture capitalists are more successful than those backed by syndicates composed of purely international or purely local venture capitalists. The results indicate that the greater expertise of international venture capitalists and the superior local knowledge and lower monitoring costs of local venture capitalists are both important in obtaining successful investment outcomes.

Haritha et.al. (2012)[15] pointed out that the Venture capital is the life blood of new industry in the financial market today. The venture capital industry in India has really taken off in. In order to promote innovation and conversion of scientific technology and knowledge based ideas into production, it is very important to promote venture capital activity in India. India’s success story in the area of information technology has shown that there is a tremendous potential for growth of knowledge based industries. This paper concentrates on the different opportunities in Non-IT Sector as well the investment opportunities available for venture capitalist which ensures better perspective for Indian economy.

Landstrom (2012)[16] examined the Growth-oriented entrepreneurial ventures are needed in the Indian economy – they create innovations and industrial development, new jobs, income and wealth in society. However, one of the main problem facing these growth-oriented entrepreneurial ventures is to raise capital, but also to gain access to competence and networks for the growth of the business. So an efficient venture capital market is needed that can provide adequate capital and management skills.

[14] Chemmanur, J.T., Hull J. & Krishnan K. (2010), *Do Local and International Venture Capitalists Play Well Together? A Study of International Venture Capital Investments*

[15] Hritha, M., Ravi, V., & Reddy, M.(2012) , *Role of Venture Capital in Indian Economy,* IOSR Journal of Business and Management (IOSRJBM) Volume 4, Issue 2, PP 46-70

[16] Landström, H.(2012), *Research on Institutional Venture Capital: The Past, The Present, The Future,* IOSR Journal of Business and Management (IOSRJBM, Volume 4, Issue 2, PP 46-70