

A STUDY ON THE INFLUENCE OF VENTURE CAPITAL ON NEW ENTREPRENEURS

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ABSTRACT

This study examines how venture funding impacts new businesses. It emphasizes the effects of venture capital on emerging businesses. This study was conducted using Snowball sampling with a sample size of hundred people across India. The data was collected through Google forms by using structured questionnaire and tools in our study are percentage analysis and Friedman ranking test. The analysis stated that difficulty in fulfilling the terms and conditions negatively impacts in their new business. Thus through this study, it will be convenient to know whether Venture capital allows the start up to get off the ground and founders to accomplish their vision.

Keywords: Venture Capital, Venture Capitalist, Investment, Entrepreneurs, Start-ups.

INTRODUCTION

Venture capital is a type of private equity financing that is provided by Venture Capital firms for new ventures which are expected to flourish with higher annual revenues. Investment banks, private investors, or companies that specialize in venture capital investments supply the funding. Venture Capital has become more popular as a source of initial finance when a business needs to raise funds but lacks the credit, track record of operations, or collateral required to obtain a standard bank loan. In developing countries like India, venture capital has a very wide range of scope and potential in future. It is also a method for the private and public sectors to build an organization that systematically establishes business networks for new enterprises and industries so that they can progress and develop. This organization assists in the identification of promising new businesses and provides them with money, technical expertise, mentoring, personnel acquisition, strategic partnerships, marketing "know-how," and business models.

The venture capital industry has four key players such as entrepreneurs who need funding; investors who expect high returns; Investment bankers who need companies to sell and the venture capitalists who make money for themselves by making a market for the above three players. The venture capital process is concluded, when a start-up fails to live up to expectations or when it is sold through a merger with or acquisition by another company.

STATEMENT OF PROBLEM

There are a lot of businesspeople who have fantastic ideas that need to be found. There are many things that a single individual cannot accomplish. In this situation, a venture capital company is involved. Startup entrepreneurs who have a wealth of knowledge but little capital frequently shake hands with business people who have capital. A successful venture capitalist is most likely to be drawn to an entrepreneur with a thriving business. Financing can only take an entrepreneur and business so far, and start-ups have high interest rates because there are so many risks involved. Venture capital is also regarded as a fantastic technique to empower business owners so they can provide lots of cutting-edge technology innovations for everyone. Most importantly, venture capitalism frequently saves the economy. With the aid of venture capitalist organizations, many struggling businesses completely turned around and began to thrive once more. Venture capital is also regarded as a fantastic technique to empower business owners so they can provide lots of cutting-edge technology innovations for everyone. Most importantly, venture capitalism frequently saves the economy. With the aid of venture capitalist organizations, many struggling businesses completely turned around and began to thrive once more. Although it has been noted that venture capital financing is a new supportive focus for entrepreneurs, it is important to know how it influences the new entrepreneurs. This study comprehends how venture capital influence new entrepreneurs.

REVIEW OF THE LITERATURE

Dohyeon Kim and So Young Lee (2022)¹ published a Journal of innovation and entrepreneurship, on the topic When Venture Capitalists are attracted by the experienced this

article helps to find when experience plays a major role in investment decision by venture capital. The purpose of this study is to understand the importance of the experience of founders in venture capital decision making. The methodology used in this study is conjoint analysis to assess the importance and priority of venture capitalists decision making criteria. Although the experience of the entrepreneurs are considered as an impact, this study asserts the impact of each one's experience on investment decision has different.

Sarah Glucksman (2020)² conducted a research titled, Entrepreneurial Experiences from Venture Capital Funding : Exploring two sided Information of a Symmetry, the research focuses on how VCs are experienced and professional dealmakers, while entrepreneurs have great knowledge about their venture but limited knowledge about VCs' financing process. The analysis states that the Entrepreneurial experiences of decreasing the problems arising from information asymmetry in a VC – Entrepreneurial relationship. Through the study it shows that how entrepreneurs use their knowledge based on their own and others' experiences.

Paglia and Harjoto (2014)³carried out this research extensively to illustrate the fact of increased job opportunities created by VC backed firms. Paglia&Harjoto, argued that the participation of the VCs in the funded companies, positively influences their growth in terms of increased number of jobs, nonetheless, they explained thatfor the VC-backed firms, the impact is relatively brief. This submission was persistent with the findings of Capizzi et al.

OBJECTIVES

- To understand their opinion about the impact of venture capital financing
- To recognize the beneficial effects of venture financing on their start-ups
- To determine whether venture funding can achieve the desired growth in their start-ups.

METHODOLOGY

The study is analytical in nature. This study has undertaken Snowball sampling as a sampling technique. The sample size is 100 respondents from all over India. The sources of data were collected as Primary data and through Google forms by Questionnaire Method. The tools used in our study are Percentage Analysis and the Friedman Ranking Test.

ANALYSIS AND INTERPRETATION

PERCENTAGE ANALYSIS

Table 1 Demographic profile

S.NO	Factors	Description	No.	Percent
1	Gender	Female	65	65.0
		Male	35	35.0
Total			100	100.0
2	Age	20-30	71	71.0
		30-40	6	6.0
		40-50	14	14.0
		Above 50	9	9.0
Total			100	100.0
3	Educational Qualification	SSLC	6	6.0
		HSC	10	10.0
		UG	63	63.0
		PG	17	17.0
		Others	4	4.0
Total			100	100.0
4	Existence of the startup	<1 year	42	42.0
		1-2 year	39	39.0
		2-3 year	10	10.0
		Less than 5 years	9	9.0
Total			100	100.0
5	Amount invested in the start-up by the respondents	Below 5 lakhs	53	53.0
		5-15 lakhs	23	23.0
		16-30 lakhs	10	10.0
		More than 30 lakhs	14	14.0
Total			100	100.0
6	Rate of Annual turnover	Below 20	35	35.0
		21-30	42	42.0
		31-40	23	23.0
Total			100	100.0

According to the Table 1, it is observed that 65.0 percent of the majority of respondents are female, 71.0 percent of the majority of respondents are in the age group of 20-30 years, 63.0 percent of the respondents have completed UG, most of the respondents have started their business within a period of one year with 42 percent, Most of the respondents have invested less than 5 lakh with 53 percent, Majority of the respondents have the rate of turnover of 21% to 30% with 42 percent.

FRIEDMAN RANKING TEST**Table 2 factors attracts you towards venture capital**

Factors attracts you towards venture capital	Mean rank	Actual rank
Large amounts of capital can be raised	5.21	7
Help managing risk is provided	4.87	4
Monthly payments are not required	4.74	3
Personal assets don't need to be pledged	5.56	8
Experienced leadership and advice are available -Assistance with hiring and building a team is provided	4.44	2
Networking opportunities are provided – Collaboration opportunities with industry experts and other start-ups are available	5.16	6
Increased publicity and exposure are likely	5.60	9
Help raising future rounds of funding is available.	4.42	1
Opportunity for Expansion of the Company	5.12	5

(Source: computed)

According to Table 2, it helps raising future rounds of funding is available has given as the highest priority among the respondents with a mean of 4.42, Experienced leadership and advice are available (4.44), Monthly payments are not required (4.74), Help managing risk is provided (4.87), Opportunity for Expansion of the Company (5.12), Networking opportunities are provided (5.16), Large amounts of capital can be raised (5.21), Personal assets don't need to be pledged (5.56) and the least priority has been found in the increased publicity and exposure are likely (5.60).

H₀: There is no significant difference exists among the respondents in order of assigning the ranks.

FRIEDMAN TEST - FACTORS ATTRACTS YOU TOWARDS VENTURE CAPITAL

Test Statistics	
N	100
Chi-Square	42.018
Df	8
Asymp. Sig.	.000
a. Friedman Test	

It is observed from the table, chi-square value is 42.018 and p-value is 0.000. It shows that a significant difference exists at 1 percent level. Hence, the null hypothesis has been rejected and has concluded that the respondents have significantly varied in the order of assigning ranks for the Factors that attract you towards venture capital.

FEATURE OF VC FINANCING PROCEDURE WILL NEGATIVELY IMPACT YOUR BUSINESS

Table 3 features of VC financing procedure will negatively impact in their business

Feature of VC financing procedure will negatively impact your business	Mean rank	Actual rank
High share in profits	7.67	12
Dividend policy	6.45	7
Dilution of ownership	6.15	2
Voting rights	6.70	10
Lack of collateral to support the loan	6.28	5
Inability to assess accurate fund requirements	6.75	11

Absence of a detailed business plan	6.36	6
High expectations in innovations and ideas	6.27	4
Inability to satisfy the terms and conditions	6.66	9
Cost of financing is high	6.61	8
Fear due to negative statistics reports	6.20	3
Difficult to fill Terms and conditions	5.90	1

According to Table 3, it shows the difficult-to-fill terms and conditions has given as the highest priority among the respondents with a mean of 5.90, Dilution of ownership(6.15),Fear due to negative statistics reports (6.20),High expectations in innovations and ideas (6.27), Lack of collateral to support the loan(6.28), Absence of a detailed business plan (6.36), Dividend policy(6.45)Cost of financing is high (6.61) Inability to satisfy the terms and conditions(6.66), Voting rights(6.70), Inability to assess accurate fund requirements(6.75), High share in profits(7.67)

H₀: There is no significant difference among the respondents in order of assigning the ranks.

Test Statistics	
N	100
Chi-Square	28.546
df	11
Asymp. Sig.	.003
a. Friedman Test	

It is observed from the table, chi-square value is 28.546 and p-value is 0.000. It shows that a significant difference exists at 1 per cent level. Hence, the null hypothesis has been rejected and has concluded that the respondents have significantly varied in the order of assigning ranks for the Feature of VC financing procedure will negatively impact your business.

FINDINGS OF THE STUDY

DEMOGRAPHIC PROFILE

PERCENTAGE ANALYSIS

- 71.0 per cent of the respondents are between the age of 20 to 30
- 65.0 per cent of the respondents are Female
- 63.0 per cent of the respondents are Under Graduates
- 42.0 per cent of the respondents have started their business within the period of one year
- 53.0 per cent of the respondents have investment below 5 lakh in their start-up
- 42.0 per cent of the respondents earn 21% to 30% of annual turnover

MEAN RANKING

- Most of the respondents opinion is to help in raising future rounds of funding is available with 4.21 mean ranking.
- Most of the respondents say that difficulty to fulfill terms and conditions negatively impacts on the business with a mean ranking of 5.90.

SUGGESTIONS

- Venture capitalists must take measures to create exposure and increase publicity about venture capital financing among start-ups.
- Most of the respondents find it difficult to fulfil the terms and conditions in venture capital financing, so steps must be taken to ease the terms and conditions.
- Create awareness among new entrepreneurs that venture capital is a useful fundraising platform.

CONCLUSION

Venture capital is a type of financing for businesses as well as an investment vehicle for affluent individuals and institutional investors. It is a mechanism for enterprises to receive funds in the short term while investors expand their wealth in the long term. Venture capitalists typically invest in fledgling companies, which are risky since they are illiquid, but have the potential to deliver substantial profits if invested in the correct venture. Venture capital funds technical innovation in start-ups. At the same time, because it owns a certain amount of the company, it engages in corporate innovation activities and advises companies on how to continue profitable growth, thereby raising their innovation awareness and level. The bigger the proportion of venture capital holdings, the more advantageous the enterprise's technical innovation.

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