Skill India to Leverage Make in India: Initiatives and Challenges - A Study on Problems of Entrepreneurs and Venture Capitalists in Bengaluru

*** Dr. Guru Basava Aradhya.S**

**** Mr. Vinay M R**

Abstract

Entrepreneurship is the backbone of any economy. Every stable government in the world has kept promoting entrepreneurship as one of the main agenda in its policies and plan document. The new ventures developed through entrepreneurship have been reported to yield a wide spectrum of economic benefits through innovation, generation of new business, creation of new jobs, development of innovative products and services, and have also created the opportunity for future investment in the growth and development activities of the nation. Entrepreneur is a person who sets up a business or businesses, taking on financial risks in the hope of profit. The concept of innovation and newness is an integral part of entrepreneur. Indeed, innovation, the act of innovation is difficult task.

The Venture capital sector is the most vibrant industry in the financial markets today. Venture capital is finance provided by professionals who invests young, rapidly growing companies that have the potential to develop into significant economic contributors. A venture capitalist is an investor who either provides capital to startup ventures or supports small companies that wish to expand but do not have access to equities markets.

In this study descriptive analysis is done to find out various problems faced by venture capitalists and entrepreneurs in different stages of

** Professor, Department of Business Administration, Alva's Institute of Engineering and Technology, Shobhavana Campus, Mijar
Moodbidri-574225, M: 973 191 0916,
Email-Id: guruaradhya@gmail.com*

*** Student of 2nd Semester MBA, Alva's Institute of Engineering and Technology, Shobhavana Campus, Mijar, Moodbidri-574225
M: 8904 526 525, Email-Id: vinu.prasadmr.18@gmail.com*

venture capital financing. There could be various problems in different stages of venture capital, which are faced by both venture capitalists, which are faced by both venture capitalists and entrepreneurs. This paper is aimed from looking the problems from both venture capitalists and entrepreneurs and suggests some suitable strategies to minimize the problems. Data was collected separately from them. 5 (five) venture capitalists and 20 (twenty) entrepreneurs using a pre-tested and structured schedule in Bengaluru. Percentage analysis is exploited to derive the objectives. This paper would benefit e-retailers in understanding the obstacles and problems faced by venture capitalist and entrepreneurs in different stage. Knowledge, vision, meticulous planning, drive, dynamism, hard work, gambler's instinct and may be, a certain degree of ruthless for achieving results as per the plan of Venture capitalist and entrepreneur.

Keywords: *Venture capitalist, financial market, entrepreneur*

Introduction

Venture capital financing is emerging as a new institutional mechanism in the post-1990 period in India. The growth of this industry is as not expected as in the rest of the world. The reason for venture capital not being popular in India could be due to various reasons/factors or also may be due to various problems existing in the system being practiced here. There could be various problems in different stages of venture capital, which are faced by both venture capitalists, which are faced by both venture capitalists and entrepreneurs. This paper is aimed from looking the problems from both venture capitalists and entrepreneurs and suggests some suitable strategies to minimize the problems.

As a new technique of financing to inject long term capital into the small and medium sector, it has made notable contributions to its growth in the developed countries, particularly in the USA and UK. The nascent venture capital industry in India can profitably be drawn upon their experiences. Some of the characteristic features that distinguish venture capital from other investments are as follows. Venture capital is basically equity finance for relatively new

companies when it is too early to go to the capital market to raise funds. It is a long term investment in growth-oriented small/medium firms. There is a substantial degree of active involvement of the venture capital institutions with the promoters of the venture capital undertakings. Venture capital is a type of private equity, a form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth (in terms of number of employees, annual revenue, or both). Venture capital financing involves high risk-return spectrum. The returns in such financing are essentially through capital gains at the time of exit from disinvestments in the capital market. Venture capital finance is not technology finance, though technology finance may form a subset of venture capital finance. Venture capitalists are willing to invest in such companies because they can earn a massive return on their investments if these companies are a success.

Statement of the Problem

It is a known fact, that the venture capital is successful in USA and in UK, but not in India. The reason for venture capital not being popular in India could be due to various reasons/factors or also may be due to various problems existing in the system being practised here. There could be various problems in different stage of venture capitalists and entrepreneurs. Hence, an attempt has been made here to find out various problems faced by venture capitalists and entrepreneurs in different stages of venture capital financing.

Scope of Present Study

For the purpose of this research, five venture capitalists were met and found out various problems faced by them in venture capital financing. It was also tried to find out the various problems faced by them at various stages of financing. About 20 entrepreneurs who have taken the help were also approached and tried to find out the various problems faced by them. However, the scope of present study is limited to venture capitalists and entrepreneurs of Bangalore city only.

Objectives of the study

- To find out the various problems faced by the venture capitalists at various stages of financing
- To find out the various problems faced by the entrepreneurs at various stages of getting finance
- To suggest strategies to overcome the problems faced by venture capital institutions and the entrepreneurs who have taken the venture capital finance.

Methods of Data Collection

Primary Data

The primary data was collected from both venture capitalists and entrepreneurs using a structured questionnaire

Secondary data

The secondary data was collected from various financial periodicals, articles, newspapers and also from the websites of some of the institutions and entrepreneurs

Sampling Plan

The venture capitalists and entrepreneurs were selected at random and data was collected separately from them. 5 (five) venture capitalists and 20 (twenty) entrepreneurs were met and got the data from them. Convenient Random Sampling method was adopted.

Limitations

- Due to time constraint, only a small number of venture capitalists and entrepreneurs and got the data has been taken as sample for the study
- Since the data was collected through questionnaire, there is always the chance of bias and
- Present study was limited to Bangalore city only

Data Analysis of Entrepreneurs

Table No. 1 : The profile of respondents

Source : Field Survey

Graph showing the profile of respondents

It can be observed in the Table No. 1 about 70 percent of the entrepreneurs are information technology based companies, 10 percent of the entrepreneurs are Bio-technology based, and Media/Entertainment based and Innovative shopping center based companies / organization

In Table No. 2 about 33 percent of the entrepreneurs are of the opinion that the venture capitalists lack technical expertise, 33 percent of the entrepreneurs are of the opinion that the venture capitalists are unaware about the latest technology. 9 percent of the entrepreneurs have at the opinion that the venture capitalists demand too many formalities to be followed while striking the deal. 5 percent of the entrepreneurs are at the opinion that the venture capitalists demand lot of supporting documents to be submitted, demand too high security. Because of the bad experiences faced from similar

organizations in the past about 5 percent of the entrepreneurs face problems with venture capitalists in striking a deal. Another 5 percent of the entrepreneurs are at the opinion that the venture capitalists do not show positive approach. 5 percent of the entrepreneurs are at the opinion that frequent changes in government rules and regulations make it difficult for them to strike a deal with venture capitalists.

Table No. 2 : Problems faced while striking a deal with the venture Capitalists

Sl.No	Nature of the problem	In Number	In percent
1	Lack of technical expertise in the company	7	33
2	Lot of supporting documents to be submitted	1	5
3	Frequent changes in government rules and regulations	1	5
4	Unaware about latest technology	7	33
5	Bad experience faced from similar organizations in the past, the venture capitalists do not show positive approach	1	55
6	Non- cooperation from staff of company	1	5
7	Security demanded is too high	1	5
8	Too many formalities to be followed	2	9

Source : Field Survey

Graph showing Problems faced while striking a deal with the venture Capitalists

Table No. 3 : Problems faced at the later stage with the venture capitalists

Source : Field Survey

Graph showing Problems faced at the later stage with the venture capitalists

As per the Table No. 3, 30 percent are at the opinion that lack of involvement by venture capitalists during crisis, 24 percent are at the opinion that no technical assistance is being provided by venture capitalists, 24 percent are at the opinion that venture capitalists do not help in inviting for public shares and listing in stock exchanges, 10 percent are at the opinion that venture capitalist do not help in suggesting various methods for the improvement of the firm, 4 percent are at the opinion that the Venture capitalist do not take up necessary steps for mergers/takeovers/ acquisitions of the companies, 4 percent are at the opinion that too much of involvement by the venture capitalist in various stages of development of the company and 4 percent are at the opinion that frequent changes in accounting practices

Every coin has two sides. Let us see the problems faced by the venture capitalists while dealing with entrepreneurs

**Table No. 4 : Data Analysis of Venture capitalist
Nature of the company that the assistance has been given**

Source : Field Survey

Graph showing Nature of the company that the assistance has been given

As it appears in Table No. 4 about 80 percent of the Venture capitalist have assisted Information technology oriented companies, 10 percent to Bio-technology oriented, and 5 percent to media/entertainment and innovative shopping centers

Table No. 5 : Problems faced while striking a Deal

Source : Field Survey

Graph showing Problems faced while striking a Deal

Table No. 5 indicates that about 35 percent of Venture capitalist are at the opinion that entrepreneur lack proper objectives, 30 percent of the Venture capitalist are at the opinion that entrepreneurs lack necessary documents in their company and bad experience faced by similar organizations in the past make it difficult to strike a deal and 5 percent of the Venture capitalist are at the opinion that entrepreneurs lack technical expertise in the company.

Table No. 6 : Problems faced while exiting from the deal

Source : Field Survey

According to figures shown in Table No. 6 about 50 percent of the Venture capitalist face problem while inviting for public shares and listing in stock exchanges and 50 percent of the Venture capitalist face problem while taking up necessary steps for mergers/takeovers/acquisitions of the companies.

Graph showing Problems faced while exiting from the deal

Findings

The study brings out the following findings:

- Most of the entrepreneurs have taken early stage, second round of financing. This means that the entrepreneurs need the finance when the product is launched in the market and experience lack of funds to attract the consumers/customers. At this stage, most part

of Venture capital investment is in the form of debt to provide some financial support to the entrepreneur

- Lack of technical expertise and lack of awareness about the latest technology by Venture capitalists makes the entrepreneurs difficult to strike the deal
- Lack of involvement of Venture capitalists during crisis, help in the process of inviting public shares, listing in stock exchanges and provision of technical help are some of the major problems faced by entrepreneurs at the earlier stage.
- The Venture capitalists do not have sufficient skill and technically qualified persons in their organizations
- The entrepreneurs are at the opinion that the Venture capitalists should have very good interaction with them and customers and have very good job knowledge
- Most Venture capitalists do not assist entrepreneurs technologically, during crisis
- Most of the entrepreneurs prefer quarterly inspection/checking on them from Venture capitalists.
- Most entrepreneurs expressed the view that Venture capitalists should have sufficient technically qualified people so that they can serve better. About 45 percent of the entrepreneurs are at the opinion that Venture capitalists help is required in exiting from the deal and do not need any quality suggestions for their improvement. This means that the entrepreneurs can grow by themselves and do not need any kind of help in getting them improved. They also expect that sufficient management skills and expertise should be available in Venture capitalist organizations.
- When asked about the skills of employees of the venture capitalists should possess, it was noticed that the venture capitalists should have the idea about what the entrepreneurs are into. Without this, it was felt that it is very difficult for the entrepreneurs to convince the venture capitalist about their work. The other managerial skills that the entrepreneurs prefer are good communication skills, good interaction with the customers and

among themselves. They also expect good attitude towards the complaint.

- One positive aspect that was noticed was that about 60 percent of the entrepreneurs were satisfied with their venture capitalist and given the chance to deal with them again, they are also in the opinion that their venture capitalists listen to their problems, and oblige for delayed payment.

The data analysis of venture capitalists, indicates the following facts

- It has been found that 55 percent to 90 percent of venture capitalists provide start up and second round of assistance in early stages. 40 percent of venture capitalists provide mezzanine/development capital and bridge/expansion type of finance at later stage.
- About 80 percent of the venture capitalists have assisted to information technology-oriented companies.
- Most venture capitalists prefer that the entrepreneurs possess the following qualities:
- Advanced technology, Honesty and sincerity, Good quality work, Good management skill and expertise, Good financial backup of the company and knowledgeable technical staff and expertise.
- Lack of necessary documents, lack of proper objectives and bad experience faced from similar organization of the entrepreneurs in the past make the venture capitalists difficult for striking a deal with new entrepreneurs.
- Inviting for public shares and listing in stock exchange, taking up necessary steps for merger/takeover/acquisition of the companies are the main problems faced by the venture capitalist while exiting from the deal from the entrepreneurs.
- Only about 41-60 percent, venture capitalist are successful from exiting from deal.
- About 61 to 80 percent of entrepreneurs are co-operative and follow all rules and regulations set by the venture capitalists.

- Venture capitalist opt to carry out inspections of their entrepreneurs every half yearly once
- Most of the venture capitalists take feedback about them regularly.
- Most of the venture capitalists consider that the feedback about their functioning is very important to them.
- Most of the venture capitalists feel that the existing rules and regulations set by the government/SEBI can be liberalized especially regarding tax matters. Most of the venture capitalist are of the opinion that there cannot be any standard suggestions/framework to sort out or reduce the existing problems.
- The other problem that the venture capitalist faces from the entrepreneur is that the entrepreneurs do not try to invest anything and expect the whole amount to be invested by venture capitalists. This makes them very difficult to exit from the deal. Hence, the venture capitalist expects a strategic investment from entrepreneurs also.
- The difficult recovery strategies that venture capitalist follow are:
 - 1 Sampling Method: Convenient random sampling by having a security in terms of mortgage on fixed assets.
 - 2 by personal guarantee from the promoter
 - 3 pledge of shares held by the promoters in the company.

Suggestions

- Most of the entrepreneurs have taken early stage, second round of financing. This means that the entrepreneurs need the finance when the product is launched in the market and it experiences shortage of funds to attract the consumers/customers. At this stage, most part of venture capital investment is in the form of debt to provide some financial support to the entrepreneur.
- Lack of technical expertise and awareness about the latest technology by the venture capitalist makes the entrepreneur very difficult to strike the deal. The managerial skills that the venture

capitalist must possess are good communication skills, good interaction with the customers and among themselves.

- About 45 percent of entrepreneurs are at the opinion that the venture capitalist must help them in exiting from the deal and do not need any quality suggestions for their improvement. Hence, it is recommended that the venture capitalist take active steps while exiting from the deal by publishing the entrepreneurs in stock exchange/invite for shares etc.
- One positive that was noticed was that about 60 percent of the entrepreneurs are satisfied with their venture capitalists and given the chance to deal with them again; they would do so with their venture capitalists. They are also in the opinion that their venture capitalists listen to their problems and oblige for delayed payment.
- Lack of necessary documents, lack of paper objectives and bad experience faced from similar organizations of the entrepreneurs in the past make the venture capitalists difficult while striking a deal with new entrepreneurs. Hence, it is recommended that the entrepreneurs possess proper objectives/have proper project report supported with all necessary documents which makes the venture capitalists easy to assist them.
- It was also noticed that most of the assistance taken are by Information Technology oriented companies. It is recommended that even the other kind of organizations come forward to avail this kind of assistance the venture capitalists should provide necessary assistance.
- The venture capitalists are also under the opinion that the entrepreneurs are not co-operative while existing from the deal especially if it requires the company to be merged with others or if it involves buy-outs or buy ins. Hence, it is recommended that the entrepreneurs should co-operate with the venture capitalists to carry out the above-mentioned activities which will be beneficial to both the parties.
- The venture capitalists feel that the existing rules and regulations set by the government/SEBI can be liberalized especially

regarding tax matters. Most of the venture capitalists are under the opinion that there cannot be any standard suggestion/framework to sort out or reduce the existing problems. Hence it is recommended that the existing rules and regulations can be liberalized especially in tax matters.

- The other problem that the venture capitalists face from the entrepreneur is that the entrepreneurs do not try to invest anything and except the whole amount to be invested by venture capitalists. This makes them very difficult to exit from the deal. Hence, it is recommended that the entrepreneurs also invest some part (say about 15 percent - 20 percent) of the total projected cost.

Conclusion

The growth of venture capital has been drastically decreasing due to many reasons. But the venture capital has made many contributions to the growth of developed countries. The slow growth of venture capital in India appears to be due to various factors on the part of venture capitalists as well as entrepreneurs. These factors include lack of involvement, Accounting practices, No help during crisis, No technical assistance from the venture capitalist etc. and the data analysis of venture capitalist shows that more assistance is given to information technology based companies than other companies and the problems faced by the venture capitalist is the lack of document submitted, no proper objectives, frequent changes, outdated technology, lack of hard work, problem while merger etc. Most of the venture capitalists prefer the entrepreneur having good management skills good quality work and good financial back up of the company and he also uses many strategies to recover the funds through mortgage on fixed assets, personal guarantee, pledge etc. So there are many problems faced by the both venture capitalist and entrepreneur, so by having all the necessary requirements including the documents skills proper procedure, the of venture capital system can be implemented in India successfully which can contribute to India's growth.

References

Robert D Hisrich, Michael P Peters, Dean A Shepherd, (2007), “Entrepreneurship”, Tata McGraw-Hill Publishing Company Limited, New Delhi, Sixth edition.

Vasant Desai, (2009), “Dynamics of Entrepreneurial Development and Management”, Himalayan Publishing House, New Delhi, Millennium Edition.

David L Bodde, (2004), “The Intentional Entrepreneur”, Prentice Hall of India, New Delhi

International Journal of Management and Social Science Research Review, (2017), Volume No-1, Issue No-31, Impact factor- 3.996, Bangalore

A K PC Swain, (2007), “Research Methodology” Kalyani Publishers, Bangalore, Second Revised Edition

www.investopedia.com/terms/v/venturecapitalist.asp#ixzz4d1JvrWhd

Watson J, (2003), “Failure rates for female-controlled business: Are they different”? Journal of Small Business Management, 41(3), pp.262-277

Mohanty.B, “Development of Enterprise in Industry”, New Delhi, Cyber Tech