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THE STUDY OF VENTURE CAPITAL FINANCE AND INVESTMENT BEHAVIOUR IN SMALL AND MEDIUM-SIZED ENTERPRISE

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ABSTRACT

The small business is blessed with innovative entrepreneurial skills and practices and are creating new opportunities day by day and generating new market in the economy. This paper deals with the familiarity of the venture capital in relation with the small business. In this paper the main focus is on entrepreneurship, features, advantages, disadvantages and liquidity pattern of the venture capital. Government is also contributing in the way of schemes and opening new market opportunities. In this way, the venture capital industry financially supports entrepreneurial activity for economic growth and governs and nurtures the growth of the SMEs. The venture capital creates a healthy environment and integrated framework for small businesses and important is to examine the behavioral traits of small business and venture capital industry from the significant intercorrelations among the variables. The most important focus of this article, however, is its attempt to examine the behavioral traits of SMEs and venture capitalists regarding systematic finance and investment for inclusivity and due diligence.

Keywords : investment behavior, formal and informal venture capital, value options, liquidity patterns, behavioral

I. Introduction-

This determines the strength, weakness and behavior of venture capital market and the small entrepreneurship. The venture capital has important dimensions and future in the small business, it has catalytic approach in entrepreneurial development. As the economy is growing there is creation of high job opportunities, new technological advancements and new opportunities the small businesses which will further improve the social situation of the economy and improve standard of living of the people. Kuratko and Hodgetts (2019) note that entrepreneurs will continue to be critical contributors to economic growth. This article provides clarity on the blurred distinction between formal and informal venture capital regarding value added abilities.

II. Literature Review

The meaning of entrepreneurship-

Entrepreneurship is defined as an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes and raw materials through organizing efforts.

From the viewpoint of Kizner (2017) the entrepreneur is an individual who is alert to opportunities for trade. The entrepreneur is capable of identifying suppliers and customers and acting as an intermediary where profit arises out of the intermediary function (Deakins & Freel, 2016). (Shane, 2018). Zimmerer and Scarborough (2015) hold that entrepreneurs are new business or combinations that arise in the face of risk and uncertainty for the purpose of achieving profit and growth.

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The factors the differentiate entrepreneurs are innovation, opportunity recognition, process, and growth in a business and employment of strategic management practices in the business. 'Innovation involves finding new and better ways of doing things that are commercialized whilst scientific invention entails the creation of a new product or concept almost for its own sake or to serve a purpose other than commerce' Inventors may be motivated by the challenges of solving a problem rather than commercializing their invention. These individuals hold allegiance to idea generation rather than operationalization and commercialization. They are concerned with ephemeral satisfaction rather than long-term optimal business commitment and the finance and investment behavior this implies.

Features of Venture Capital

There are several features of venture capital market which are as follows-

- The venture capital is particularly for small and medium-sized businesses.
- The venture capital deals in high risk/high return businesses only those companies are eligible who offer Companies high return but also present a high risk.
- Offered to sell ideas - Those who choose VENTURE CAPITAL MARKETS often seek investment to sell their product or service idea.
- Investment to raise money - Large Venture firms or other investors can kill money in a company after showing promising profits. Investments can be held to bring in more money, not to make a profit.
- Long-term investment - VENTURE CAPITAL MARKETS is a long-term investment, where the benefits can be realized after five to ten years.

Advantages of Venture capital market

- **Help acquire business technology**

One of the main financial benefits of engaging is that it helps new entrepreneurs to accumulate business technology. VENTURE CAPITALS suppliers have valuable experience in assisting owners in decision-making, especially in personnel and financial management.

- **Business owners do not have to reimburse you**

Entrepreneurs or business owners are not obliged to pay the amount invested. Even if the company fails, it will not be liable for payment.

- **It helps to make important connections**

Thanks to their expertise and network, VENTURE CAPITALS providers can help build business ownership connections. This can be very helpful in advertising and promotion.

- **It helps to raise extra money**

VENTURE CAPITALS investors want to invest more in the company by increasing its value. To do so, they can bring in other investors in the later stages. In some cases, additional financial cycles in the future are maintained by the investment business itself.

Disadvantages of Venture capital market

- **Reduction of ownership stake**

The worst thing about VENTURE CAPITAL MARKETS is that entrepreneurs give up a patent on their business. Most of the time, the company may need more money than the original figures. In such cases, the owners may end up losing most of the company and, in turn, have the power to make decisions.

- **Create a conflict of interest**

Investors not only play a role in early management but also a chairman among the board members. As a result, conflicts of interest may arise between owners and investors, which could impede decision-making.

- **Getting permission can take time**

VENTURE CAPITAL MARKETS investors will have to work hard and evaluate the feasibility of starting before proceeding with the investment. This process can be time consuming as it requires excessive market analysis and financial forecasting, which can delay funding.

III. Objectives-

- To study the benefits of venture capital market with respect to small businesses.
- To study that how the venture capital industry creates opportunities.

- To study the liquidity pattern of the Venture capital market.

IV. Research Methodology –

This research paper is based of secondary sources and the research design being used is descriptive and explanatory. Secondary data is being referred from various journals, annual report issued by Government of India, books, monthly issues etc.

V. Investment and financial behavior

Nascent entrepreneurs reflect flexibility in their financial choices and investments. One of the biggest challenges they face comes from transactions between paying interest and / or donating ownership in respect of debt and equity respectively. Both types of debt and equity use contracts to limit and control investor performance and provide additional regulatory additions in the event that strong performance is impaired (the company is restricted and / or barred from seeking financing elsewhere). Their actions highlight the use of capital (equity capital) and credit limits (banks - credit) as a means of controlling an investor's ability to continue to grow their business. Although the rights to monitor and regulate banks are very limited, they monitor breach of contract, deteriorating performance, or collateral quality collateral that could jeopardize their loans (Winton & Yerramilli, 2008). Landier (2003) notes that entrepreneurs prefer safer projects funded by bank loans and lower vigilance if the stigma associated with failure is high, and risky projects are funded by capital and high levels of vigilance when stigma associated with failure is low. According to Ueda (2004), the choice between bank finance and corporate finance depends on the importance associated with more accurate assessment and the level of protection of intellectual property rights. Venture capital firms offer a different type of financial intervention especially in terms of governance and the additional value that an investor provides to an investor (Rwigema & Venter, 2004)

VI. Formal venture capital

The term capital investment is sometimes used as the same term for private equity, meaning private investment invested in businesses outside the public financial market. According to King (2008) large firms operate in a rapidly changing environment. Commercial capitalists tend to seek things like good governance, competition, growth potential, an effective exit strategy and other intangibles (Smart, Megginson & Gitman, 2004).

Venture's large investments require medium-term, financial-related investments, targeted at private technology firms and investing in those rare and premium companies that have the potential to be transparent or premium in a few years (Gompers & Lerner, 2001). This includes assisting firms to develop compensation and employee policies; appointing senior executives, as marketing president; and intervening in place of underperforming managers early enough to promote effective change. Although informal business finances offer a different perspective on sector acquisition and risk levels, Shepherd and Zacharakis (2002) emphasize that the trend of financial audits controlled by a few firms is increasing.

VII. Liquidity patterns

A potential asset event may be a public offering for the commencement of shares or a private acquisition of a business in cash or by shares freely traded by the acquirer. According to Cooper (1993), an entrepreneur's intention in deciding whether to continue with the business and how to plan the finances, is the increase in financial requests and other benefits that the entrepreneur can maintain as the business grows.

However, Timmon (1994) shows that it is easy to think of cases where the principle of inflation may not be applicable. This is especially true if the entrepreneur is unable to convince foreign investors of the actual value of the project and, therefore, will have to give up a significant portion of ownership, or if the entrepreneur brings other considerations besides the share price.

Lerner and Schoar (2004) report that financial institutions set financial limits for investors to protect themselves from financial collapse. To compensate for the lack of assets, Winton and Jerramilli (2008) noted that fund investors demand higher returns, enabling higher-paying companies to return higher profits to the company. In other words, a higher trend means that an entity can only recoup its investment by taking higher payments when the company is successful, in order to benefit more from effective monitoring of strategic decisions. Dushnitsky and Lenox (2005) and Global Insight (2007) maintain that corporate finance plays an important role in corporate governance, job creation and economic growth, and that business capitalists must focus on entrepreneurial awareness and investment (Neher, 1999). Venture capital needs to understand the intentions of entrepreneurs and manage relationships with entrepreneurs to reduce the cost of inefficient continuation agency (Gompers, Kovner, Lerner & Scharfstein, 2008). A contractual obligation may also emphasize the need for concerted efforts to increase the share value and prospects for success.

VIII. Contractual devices

Contract equipment transfers greater control over the greater success of operations to foreign investors. Myers and Majluf (1994) offered a business perspective by suggesting that it is important to ensure that foreign investors do not stop investing or make other changes that are not in line with the interests of entrepreneurs. Winton and Yerramilli (2008) have found that the company's best strategy is affected by the hidden details of the company's position between two critical parameters: first, it is safe (a private business company eliminates underperforming funds; an entrepreneur ignores critical consequences). Second, aggressive or risky decisions (corporate capital intensification; entrepreneur retains or increases its regulatory benefits and / or initiates initial public offering (IPO)) which does not increase reliable cash flow at all times.

Often, the capital's commercial firms indicate whether the firm is in a good position, in a high position, where a risky strategy is the best decision, or in the interior, where a safe strategy is the best decision. Admati and Pfleiderer (1994) and Gompers (1998) define different stages of investment as contractual agreements, such as setting aside investment decisions until the investor gains experience with the entrepreneur. The use of convertible stocks by an investor may discourage an entrepreneur from taking risks too high, but it is appropriate for large firms to focus and maintain their operations and reputation.

IX. Understanding Risk and Return

Many institutions, such as public and private pension funds, have increased their budget to make money and private funds in the belief that the return of these funds is not closely linked to public markets. It is natural to see how they came to this conclusion. Firms that earn income from business finances usually remain confidential for some years after the initial investment. These firms do not have a visible market price. Introducing the expected assessment of portfolio measurement, trading capitalists often avoid marking strong portfolio prices in the market, preferring to keep investments in the volume of books until the company goes public.

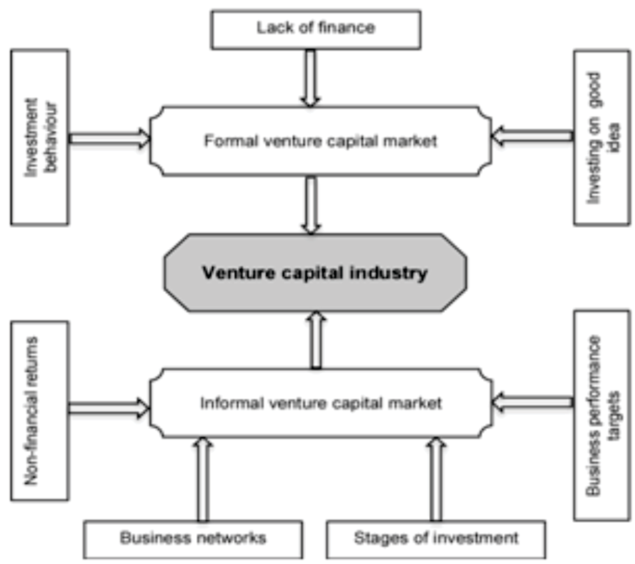

Figure-1

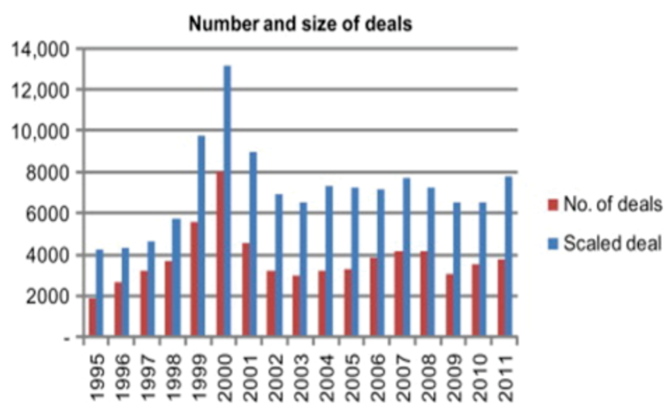

Figure-2- Pattern of Venture Capital over the years.

X. Limitation

The big Venture companies are very helpful in providing a great start-up investment in the first things that make them grow and grow; however, it also reduces the ownership and control of entrepreneurs. If the start-up strategy is successful, then the business company earns a lot. Big Venture companies usually appoint one of their representatives to the board of the startup company. Such representatives are often active participants in daily decision-making. Because capital firms will not want to lose their money in the idea of □□startups, they may act in a way that may seem bold to start-up founders. Also, any differences in views between initial investment and startups can be confusing because important decisions need to be unanimously agreed upon by all investors. The business financing process begins with the startup owner introducing a detailed business plan. After that, an individual meeting was held to discuss the project in more detail.

Later, even if the capital company of the business offers the opportunity to continue making money, another complete process of due diligence is made. After this process is complete, the company's capital company offers a sheet containing all the terms and conditions. The whole process is complicated and tedious, making start-up companies impatient and stop funding altogether.

Large Venture markets are naturally associated with high risk and high reward. At the same time, because of the risks, they can be very cautious and take a long time to decide to invest. The process of raising money for VENTURE CAPITAL MARKETS can be a big problem. While it may be an incredible amount of money once it is in place, some founders have to pull it off before they can raise funds. The time between finding Venture Capitalist and finding out that money is still being distributed could be a major problem in the VENTURE CAPITAL markets.

When you have finally agreed to the agreement; Commercial markets are among their rights to avoid withdrawing all funds in advance. Most will choose to remove it at a set time and time agreed upon. Some contracts will have certain clauses about your start meeting certain metrics before the next financial cycle. In short, VENTURE CAPITAL MARKETS are not as glorious and simple as getting free money and expert advice.

In short, funding for VENTURE CAPITAL MARKETS is not always a financial and happy day. It takes hard work and dedication to make good use of investments, knowledge and time. Once you understand the pitfalls, it is always clear that the big Venture markets come with the power to boost your startup.

XI. Conclusion

India's economy is constantly growing despite the challenges of the global economic downturn. The capitalist often struggles to obtain start-up capital that is not readily available or that focuses on low-risk and fast-paced service businesses. To overcome this financial hurdle, the government is using a number of strategies to provide access to the necessary infrastructure. The capitalists tend to be innovative and will also help produce solutions to many of India's social problems including higher education, less expensive health care, energy and waste management, and financial inclusion. Venture capital emerges as a major source of funding especially for a newly established business model where high risk is found. The study concluded that instead of having multiple controls, one window control system should be developed. SEBI regulations, DFI regulations, private fund owners regulations, domestic funders regulations, Indian financial regulators funded by international financiers should be submitted in one place.

XII. Future research

Comparative studies conducted at large formal and informal financial firms will assist entrepreneurs in deciding on acquisitions. An electronic database to track business angels and professional managers of companies will properly collect a pool of professional people. The development of SMEs can be enhanced by collaborative and experiential learning skills. Similarly, pooling funds from business angels can provide business revenue for new and unproven businesses. The electronic system can increase the listing of a number of angelic investors to provide technology and support.

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