

The Role of Gujarat Venture Finance Limited in the Development of Enterprises in Gujarat: A Study

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Venture capitalists provide capital as well as counseling to the startups at the early and expansion stages, and that is how this funding alternative differs from the others. The study attempts to examine the role of Gujarat Venture Finance Limited (GVFL) in the development of the ventures supported by it till June 2009. It covers the various aspects of support extended by GVFL such as its role as a board member in the investee companies, frequency of interaction with the investee companies, the role in the pre-investment development activities, and the satisfaction level of the entrepreneurs. It specifically compares the differences between the expected contribution before the investment and the perceived actual contribution after investment by the investee companies. The findings reveal that in a majority of the cases, GVFL has played a very active role as a board member and further most of the entrepreneurs are quite satisfied with the overall contribution made by it in the development of the venture.

Introduction

Venture capital, also referred to as 'risk 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 a new or untried technology or high risk ventures, promoted by a technically or professionally qualified entrepreneur where the venture capitalist expects the enterprise to have a very high growth rate, provides management and business skills to enterprise, expects medium to long-term gains, and does not expect any collateral to cover the capital provided (Pandey, 1996). There are many seminal studies on the post-investment value addition by venture capitalists. The generalized findings of such studies reinforce the fact that venture capitalists involve themselves actively in arranging additional financing, supporting strategic decision making, extending networking support, monitoring operational and financial performance, and finally, recruiting key executives. This

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paper attempts to verify these results with special reference to Gujarat Venture Finance Limited (GVFL). In other words, it attempts to examine the role of GVFL in the development of ventures supported by it till June 2009.

Literature Review

Since provision of venture capital is so fundamental for knowledge-based entrepreneurship, it has attracted many researchers from different areas such as management, entrepreneurship, finance and economics. To arrive at the need for taking up this research, studies that focus on post-investment value addition from the entrepreneurs' perspective have been reviewed in detail.

Several studies indicated that in addition to providing capital, venture capitalists perform many other roles in their portfolio companies such as serving as a sounding board for the venture, strategic advice, general business knowledge, networks, further funding, and recruitment of key personnel (Timmons and Bygrave, 1986; MacMillan *et al.*, 1988; Gorman and Sahlman, 1989; Gomez-Mejia *et al.*, 1990; Ehrlich *et al.*, 1994; Sweeting and Wong, 1997; Gabrielsson and Huse, 2002; Dolvin, 2005; and Maula *et al.*, 2005). Studies examining the relationship between entrepreneurs and venture capitalists, from the venture capitalists' perspective focused on research areas like degree of involvement of venture capitalists in portfolio companies (Gorman and Sahlman, 1989; and Elango *et al.*, 1994), the relationship between the stage of investment and degree of involvement (Tyebjee and Bruno 1984; Sweeting, 1991; Sapienza, 1992; and Sapienza and Gupta, 1994), and identification of high and low investor involvement activities (MacMillan *et al.*, 1988; and Murray, 1996).

Most research on investor involvement were centered on venture capitalists. The investees, who are the recipients not only of the financing but also of the monitoring, control and management contributions of the venture capitalists' activities, have not been focused on much by the researchers (Sweeting and Wong, 1997). From the perspective of the portfolio firm, this ability to provide value-adding services constitutes an even more important selection criterion than their willingness to provide funding for the firm (Maula *et al.*, 2005).

Ehrlich *et al.* (1994) reviewed two studies for the involvement of venture capitalists from the entrepreneur's perspective, carried out by Rosenstein and other researchers in 1989 and 1990. In the first study in 1989, Rosenstein *et al.* recognized gaps between effort and usefulness (where CEOs perceived that venture capitalists' efforts were greater than their usefulness) in three specific areas, i.e., monitoring operating performance, monitoring financial performance, and formulating marketing plans. In the second study (follow-up) by Rosenstein *et al.* in 1990, CEOs reported that activities of highest involvement included serving as a sounding board, interfacing with investor groups, and monitoring financial performance respectively.

Sapienza and Timmons (1989) analyzed the importance that venture capitalists and entrepreneurs give to various roles assumed by them in ventures they fund and to understand what factors influence the importance of these roles. From the perspective of both venture

capitalists and entrepreneurs, the study reported high importance roles as serving as a sounding board and business consultant, moderately important roles as coach/mentor, financier, and friend/confidant, and finally, low importance roles as management recruiter, industry contact, and professional contact.

Again there are very few studies examining the differences in the perceptions of venture capital funds and the investee companies about the venture capitalists' involvement and the investee companies' perceived level of satisfaction. In one such study, Pandey and Jang (1996) described that the perceptions of the investee companies on the degree of involvement were lower than that of the venture capital funds in areas like suggesting operating strategies, providing consulting services, involvement in the board of directors, assisting in product planning, providing market information, providing capital, and helping in designing financial strategies. The study by Berg-Utby *et al.* (2007) revealed that the portfolio firms of Norwegian venture capitalists seem to have quite moderate expectations regarding the value-added contributions from their venture capitalists and there was a significant gap between an entrepreneur's pre-investment expectations and what they perceive to be the actual contributions from their venture capitalists.

Further, there are no studies at the regional level that focuses on the role of a particular venture capitalists firm for the development of the enterprises supported by it. Thus, the review of international as well as Indian and regional studies suggest that there is a real and apparent need to fill the research gap at this stage.

Objectives

To fill the gap in this area, i.e., entrepreneurs' perspective on value addition by the venture capitalists, this research investigates in detail the role of GVFL across various dimensions and analyzes the differences in the pre-investment perceptions of the investee companies and the post-investment actual contribution of the venture capitalists as perceived by the entrepreneurs for the ventures funded by it in Gujarat till June 2009. However, the specific objectives of the study are:

1. To study the demographic profile of the entrepreneurs who have raised venture capital funding from GVFL and analyze the venture-specific details.
2. To analyze the details regarding venture capital investment such as stage, year and amount of investment, instrument of financing, equity holding by GVFL, etc.
3. To investigate the role of GVFL on the board of the investee company.
4. To measure the frequency of interaction between GVFL and the investee company
5. To compare the differences among the expected contribution before investment and perceived actual contribution by GVFL post investment from the investee company's perspective.
6. To analyze the overall satisfaction of the investee company from GVFL.

Data and Methodology

The study describing the role of GVFL in the development of the ventures funded by it in Gujarat is based on descriptive research design. The research instrument used by Berg-Utby *et al.* (2007) has been used in this study.

In Gujarat, there is only one venture capital firm, i.e., GVFL in Ahmedabad. GVFL started its operations with a ₹240 mn fund in 1990 with investments from the World Bank, the UK Commonwealth Development Fund, the Gujarat Industrial Investment Corporation (GIIC), Industrial Development Bank of India (IDBI), and various other banks, state corporations and private firms. It was able to raise another ₹600 mn for a second fund in participation with Small Industrial Development Bank of India (SIDBI) in 1995. Then in 1997, it raised a third fund of ₹200 mn for the small sector, emphasizing on Information Technology (IT) sector. GVFL's investment targets have shifted from time to time. From the 1990 fund to the 1995 fund, there were fewer food and agriculture-related firms and a greater emphasis on IT (Dossani and Kenney, 2001). Today, GVFL focuses on many areas, including agriculture, textile, chemical, engineering, SEZ, gems and jewelry, and tourism. It is also investing in the promising proposals from the other states. GVFL has also helped many new state-level venture capitalists to take off. They include SICOM (in Maharashtra), Rajasthan Venture Capital Fund (RVCF), and SIDBI Venture Capital Limited.

Till date, GVFL has launched six funds, namely, GVCF-1990, GVCF-1995, GVCF-1997, Gujarat IT Fund, Gujarat Biotechnology Venture Fund, and SME Technology Venture Fund, amounting to ₹233 cr. GVFL liquidated GVCF-1990 and GVCF-1997 with profit. In Gujarat, GVFL has provided helping hands to more than 30 companies. It has created a niche for itself in small and medium-scale companies.¹

GVFL funded 68 ventures across India, out of which it made an exit from 57 ventures by 2009. Since the study is limited to Gujarat, the ventures funded by GVFL only in Gujarat are considered for the survey purpose. It funded total 26 ventures in Gujarat, of which it made an exit from 15 of the ventures. All these 26 ventures are considered for the study. Out of these, 22 ventures responded to the survey resulting in a response rate of 85%. The four ventures which are not a part of the study are those that has been closed down since a long time or there was a change in the management and the original management was not approachable. So, the 22 ventures studied include both, i.e., the ventures from which GVFL has already made an exit and the ventures in which it continues to have investments. Among these 22 ventures, GVFL has made an exit from 12 of them (11 full and 1 partial exit). Only in two cases, GVFL invested in syndication with other venture capitalists, while in all the remaining cases it had invested individually.

These 22 ventures are spread across different parts of Gujarat like Ahmedabad, Baroda, Bhuj, Gandhinagar, Sanand and Valsad. The ventures that have their headquarters in Ahmedabad were approached personally during working hours. The ventures situated outside Ahmedabad were approached through e-mails and telephone calls. In all the cases, the respondents were requested

¹ www.gvfl.com/funds.htm. Accessed on June, 2009.

to fill the questionnaire (see Appendix) with correct information. The respondents for the survey were the CEOs, managing directors or the head of the finance department of the company.

Results and Discussion

The responses collected from 22 ventures funded by GVFL in Gujarat are analyzed for demographic profile of the entrepreneurs, venture-specific details of the enterprises, details related to venture capitalists' investment, role of the venture capitalists on the board of the enterprises, role of GVFL as board member, frequency of interaction between enterprises and venture capitalists, differences between the pre- and post-investment perceptions, and satisfaction level of the entrepreneurs with the venture capitalists.

Demographic Profile of the Entrepreneurs

Table 1 shows that out of the 22 entrepreneurs surveyed, there were no female entrepreneurs. Further, the majority of the entrepreneurs surveyed were above 45 years of age (59%),

		Frequency	Percentage
Gender	Male	22	100
	Female	–	–
	Total	22	100
Education	Graduate	9	41
	Postgraduate	12	55
	Doctorate	1	4
	Total	22	100
Age (years)	25-35	3	14
	35-45	6	27
	Above 45	13	59
	Total	22	100
State of Origin	Gujarat	13	59
	Other States	9	41
	Total	22	100
Location	Ahmedabad	14	64
	Baroda	4	18
	Bhuj	1	4.5
	Gandhinagar	1	4.5
	Sanand	1	4.5
	Valsad	1	4.5
	Total	22	100
Entrepreneurial Family Background	Yes	14	64
	No	8	36
	Total	22	100
Previous Work Experience	Yes	11	50
	No	11	50
	Total	22	100

followed by those between 35-45 years of age (27%). Very few entrepreneurs (14%) belonged to the age group of 25-35 years. This skewness of the age distribution towards the categories 35-45 years and above 45 years may be due to fact that out of the 22 ventures, GVFL exited from almost 50% of the ventures some 8-10 years before. So, when these entrepreneurs would have raised venture capital funding, they might have been in the age group of 25-35 years. Entrepreneurs belonging to the age group of 25-35 years are those who have recently raised funding from GVFL.

As per the survey findings, about 96% of the entrepreneurs were postgraduates and graduates, while 4% were doctorate in their respective fields. As the survey is conducted in Gujarat, a majority of the entrepreneurs belonged to Gujarat (59%). However, survey revealed the increasing trend among non-Gujaratis (people belonging to other states) to commence their ventures in Gujarat for a variety of reasons, such as availability of resources, familiarity with the state, less government interference, and friendly regulations.

The survey included two kinds of entrepreneurs, entrepreneurs with and without family businesses. Out of the 22 entrepreneurs surveyed, 14 had family businesses. Out of which, only four entrepreneurs had joined their family businesses. The remaining (8) started their own business. The findings reveal the risk-taking ability of the new age entrepreneurs to pursue their own ideas instead of basking under family businesses. Further, 50% of the entrepreneurs surveyed had a prior work experience for some time ranging from six months to five years. This finding highlights their belief that they need a good reality check on how to operate and successfully run a business before starting one of their own.

Venture-Specific Details

About 52% of the ventures surveyed were private limited companies, while the remaining 48% were public limited companies. As stated before, GVFL has exited from almost 50% of the ventures; such ventures have already achieved a scale and has been converted into a public limited company.

A majority of the entrepreneurs, about 73% had taken up their very first project for which venture capital funding was availed, while there were instances of entrepreneurs (27%), who were already on their second/third venture, after having established successfully businesses earlier. Regarding the present stage of development of the venture, it was observed that 17 of 22 ventures were already in the expansion (16) and early expansion (1) stages, while only two recently funded ventures were in the start-up stage and three ventures had closed their original businesses and filed for BIFR cases. Further, 91% of these ventures were into product innovation in various sectors, mainly manufacturing, IT and ITES as compared to service innovations.

Venture Capital Investment

Here, the entrepreneurs were asked to share the details with respect to the venture capital investment. Since some of the information was believed to be confidential by them like total amount of venture capital investment, equity holding, etc., the response with respect to such

details was less transparent. As mentioned earlier, the study covers 22 ventures funded by GVFL in Gujarat. Among them, GVFL had made an exit from 12 ventures (11 full and 1 partial exit). Hence, these 22 ventures studied include both the ventures from which GVFL had already made an exit and the ventures in which it still continues to have investments.

The years in which the venture capital was raised and the status of GVFL's investment and exit are presented in Table 2. In the ventures from which GVFL had made an exit, the funds were raised way back in 1992 till 2000, while in the 10 ventures, in which GVFL still has investment, the funds were raised recently from 2000 onwards up to 8 years (till 2009).

Year in which the VC Fund was Raised	Status			Frequency
	Exited	Not Exited (Still Invested)	Partial Exit	
1992	1	0	0	1
1993	1	0	0	1
1994	1	0	0	1
1995	2	0	0	2
1996	1	0	0	1
1998	1	0	0	1
2000	2	2	1	5
2002	0	1	0	1
2007	0	2	0	2
2008	0	4	0	4
2009	0	1	0	1
Missing Values	2	0	0	2
Total	11	10	1	22

As mentioned earlier, GVFL believes in nurturing the ventures at the seed and start-up stage where the entrepreneurs actually face the constraints of adequate funding. Analyzing the total amount of investment made by GVFL in these ventures, it was observed that it had invested as little as ₹45 lakh and as high as ₹15 cr with a mean investment of ₹4 cr and standard deviation of ₹4.5 cr approximately.

GVFL has been abreast with the financing trends abroad as well as the financial market developments in India. It has come up with several options to finance new ventures including equity, conditional loans, income notes, redeemable preference shares, fully convertible debentures, non-convertible debentures, and cumulative convertible preference shares. However, GVFL prefers financing the ventures through equity participation as in the US, since this means sharing risks as well as returns of the entrepreneurs.

As far as the equity holding is concerned, GVFL's equity participation is normally limited to below the contribution of the promoter. This ensures that the control remains with the entrepreneur for day-to-day management. In India, entrepreneurs are usually suspicious of the venture capitalists, so they are more agreeable on keeping the control with them. In case this participation is not enough to generate the project requirement, GVFL renders the additional amount through conditional loans or income notes. Thus, it may have a combination of equity and debt or equity and convertible rights as per the requirement of the project. In this case, majority of the ventures (86%) were funded through equity followed by convertible rights (41%) and pure debt instruments (18%). Average equity holding offered to GVFL in all such ventures, was almost 27% with a standard deviation of 21%.

It was found that majority of the deals (41%) were directed to GVFL through consultants. In other cases (23%), the entrepreneurs had not approached GVFL, but GVFL had approached these ventures for funding their requirements. Instead of waiting for business plans and ideas to come to the firm, GVFL is engaged in active outreach efforts to identify exceptional innovators with the relevant technical expertise and commitment to enhance commercialization of promising technologies. The remaining respondents (36%) got to know about GVFL through different sources. Some entrepreneurs mentioned that they knew this investor personally like Late Vishnu Varshney (Chairman, GVFL since 1990) was with Gujarat Industrial Investment Corporation (GIIC) earlier and had approached GIIC for funding before approaching GVFL. Some entrepreneurs had come to know about GVFL through seminars, workshops and conferences organized by IIM, Ahmedabad.

Venture capital investment is a systematic investment where the business proposals undergo a series of investigations/scrutiny by the professionals. GVFL also adopts a professional approach to ensure the viability of the proposals. When asked about the duration from application to the final approval, a majority of the entrepreneurs (50%) responded that it is between 3 and 6 months, while 32% of the respondents said it was less than three months. Only in a few exceptional cases it was more than 6 months (14%).

Role of the Venture Capitalists on the Board of the Investee Company

The value adding function of the venture capitalists is usually done through representation on the board of the investee firm. Literature reveals that venture capitalists usually demand a place on the board of the portfolio firm. By being active and a sounding member on the board, the venture capitalists add value through governance in the venture capital supported firm. As per the survey findings, GVFL representatives were found to hold, on average 1 seat (mean = 1.18 seats) with a standard deviation of 0.59, on the boards of the investee companies. This number is slightly less as compared to the results of Luukkonen and Maunula (2006), who found venture capitalists and their representatives were given on average 1.6 seats on the board of the investee.

Further, with respect to the role performed by GVFL as a sounding board, majority of the entrepreneurs (73%) were of the opinion that GVFL performed an active role as a board member in their companies. This observation was statistically tested with non-metric correlation, i.e., Spearman's rho with the following hypotheses:

H_{01} : There is no correlation between the number of the board seats held by the venture capitalist and the role of the venture capitalist as a board member in the investee company.

H_{11} : The number of board seats held by the venture capitalist and the role of the venture capitalist as a board member in the investee company are correlated.

The results are presented in Table 3. It may be observed that the significance value for the correlation coefficient between the said variables is 0.078, which is greater than the significance value of 0.05, i.e., $p > 0.05$. Hence, H_{01} cannot be rejected. Further, the correlation coefficient of the relationship is positive (0.38), which implies that there is no strong association between the role of the venture capitalist in the board of the investee and the number of board seats held by the venture capitalist in the investee company. Therefore, original observation from the cross-tabulation is confirmed that irrespective of the number of board seats held by it in majority of the cases, GVFL has played an active role as a sounding board in the investee companies.

Table 3: Correlation Between the Role in the Board and the Equity Holding by Venture Capitalists		
Particulars	Role of the Venture Capitalist on the Board	Number of Board Seats Held by the Venture Capitalist in Investee Company
Role of the Venture Capitalist on the Board	1.000	0.383 (0.078)
Number of Board Seats Held by the Venture Capitalist in Investee Company	0.383 (0.078)	1.000
Note: The significance (2-tailed) is given in the brackets.		

Frequency of Interaction Between the Venture Capitalists and the Investee Company

In addition to participation on the board, the entrepreneurs were asked to describe how often they interact with the venture capitalist or its staff, formally or informally. As per the responses obtained, the management team and the investor used to have interaction on a regular basis. In most of the cases (46%), the management team interacted with the investor twice in a month, followed by once in a month (36%).

Involvement of the Venture Capitalists in the Problems Encountered by the Investee Companies

In order to assess the actual involvement of the venture capitalist with respect to the problems encountered by the entrepreneurs, they were asked to rate the involvement of the venture capitalist on a scale of 1 (Rarely) to 5 (Constantly) with respect to various options, like working with the firm on site, holding meeting and working with the firm via telephone. In order to check whether the involvement of the venture capitalist differ significantly with respect to the various options as defined above, Friedman one-way ANOVA test was performed to test the following hypotheses:

H_{02} : There is no significant difference in the venture capitalist's involvement among the options for the problems encountered by the investee companies.

H_{12} : The involvement of the venture capitalist differs significantly among the various options for the problems faced by the investee companies.

The results are presented in Table 4. It is observed that the two-tailed asymptotic significance value (0.00) associated with 2 degrees of freedom, is less than the significance

<i>N</i>	21
Chi-Square	33.162
Degree of Freedom	2
Asymp. Sig.	0.000

value 0.05 i.e., $p < 0.05$. Hence, H_{02} is rejected. Therefore, it may be inferred that there is a significant difference in the involvement of the venture capitalist among the three options defined here. A frequent involvement of the venture capitalist was observed in the form of holding meetings (mean rank = 2.74) as compared to working via telephone and on site.

Differences Among the Expected Contribution and the Perceived Actual Contribution of the Venture Capitalists by the Entrepreneurs

Here, the pre-investment expectations and post-investment perceptions of the entrepreneurs regarding the value-addition functions of the venture capitalists are compared. This contribution of venture capitalists was measured using a 5-point Likert scale ranging from 1 – very low contribution to 5 – very high contribution. The entrepreneurs were asked to rate their expectations from the venture capitalist before availing venture capital funding as well as the post-investment actual contribution as perceived by them. For this purpose, the activities/areas of value-added functions listed in Berg-Utby *et al.* (2007) were considered. In this study, value-addition was classified using different categories such as product development, marketing, strategy, management, accounting and finance. Each category was constructed using summated scales consisting of two to three items. The descriptive statistics of the expected and actual contribution as perceived by the entrepreneurs are given in Table 5.

Value-Added Areas	Mean of Expected Contribution	Mean of Actual Contribution
Technology Development	1.59	1.32
Research and Development	1.45	1.18
Production	1.77	1.50
Customer Knowledge	2.09	1.41
Formulating and Testing Marketing Plans	2.59	2.09
Sales	2.73	1.73

Table 5 (Cont.)

Value-Added Areas	Mean of Expected Contribution	Mean of Actual Contribution
Sounding Board/Strategic Planning	3.68	3.45
Networking	2.95	2.50
Strategic Alliance Partners	2.59	2.23
Cash Management	3.00	2.73
Budgeting	3.18	2.77
Further Funding	3.18	2.82
Exit	2.23	1.75
Note: For actual mean contribution with respect to the last item, i.e., Exit, 10 such ventures from which the venture capitalist has made an exit are considered.		

From the mean values of the expected contribution, it can be said that entrepreneurs had low expectations from the venture capitalist in the area of product development comprising technology development, research and development and production, while the entrepreneurs expected high contribution in the area of marketing, strategy and finance. Overall, the mean values for all areas, except a few such as serving as a sound board member, cash management, budgeting and further funding are between 2 and 3. So, the entrepreneurs in general had low to moderate expectations from the venture capitalist. For the rest, the mean values are between 3 and 4, which suggest moderate to high expectations. On the other hand, the perception of the entrepreneurs regarding actual contribution from the venture capitalist is still lower than their expectations in all five categories, as evident from the mean values.

These results are in line with those of the previous studies on value-addition by venture capitalists. Thus, the research suggests that involvement of the venture capitalist in product resources is generally on a limited scale (MacMillan *et al.*, 1988; and Murray 1996). This may be because either the venture capitalists did not feel that involvement in these activities is important or that these activities require a substantial amount of hands-on participation on a continuous basis. Entrepreneurs expected high value-added contribution in marketing area from the venture capitalists because these investors tend to specialize in different industries and possess industry-specific know-how and networks. This includes knowing about potential customers, market structure as well as specific industrial knowledge (Timmons and Bygrave, 1986; Gorman and Sahlman, 1989; and Sapienza *et al.*, 1996).

Further, Fried and Hisrich (1995) also found that two of the primary contributions of the venture capitalists are their network and general business knowledge. Through this network, the portfolio firm can extend its own network, build strategic alliances and win new contracts. So, as per the literature the venture capital supported company shall expect a considerable strategic contribution from the investor. Further, the high expectation regarding the venture capitalist's contribution in the financial aspects of the venture is not surprising because these activities are best suited to the expertise of the venture capitalist and involvement in these

activities does not require substantial or continual involvement from the perspective of the venture capitalist. This result supports the findings of Gorman and Sahlman (1989).

As this study utilizes the value-addition functions, i.e., product development, marketing, strategy formulation and finance, as well as the approach, i.e., comparison of the expected contribution and the perceived actual contribution, as used by Berg-Utby *et al.* (2007), the composite mean scores with respect to the above-mentioned resource categories of the present study are compared with those of Berg-Utby *et al.* (2007).

Table 6 shows that the composite mean scores with respect to the expectations of the entrepreneurs in this study follow the same pattern as that of Berg-Utby *et al.* (2007). It means that entrepreneurs' expectations were quite high in the strategic matters, followed by moderate scores in the remaining areas, i.e., accounting and finance resources, market resources and product resources. However, the perceived actual contribution in this study shows slightly different trend. In the study by Berg-Utby *et al.* (2007), the perceived actual contribution was rated highest by the entrepreneurs in the strategic resource category, while it was rated highest in the accounting and finance resources category in the present study. Otherwise, the results regarding market and product resources correspond to each other under both the studies.

Table 6: Comparison of Mean Scores of the Present Study and Berg-Utby <i>et al.</i> (2007) Study				
Value-Added Resource Categories	Present Study Composite Mean Score		Berg-Utby <i>et al.</i> (2007) Study Composite Mean Score	
	Expectations Before VC Investment	Perceptions After VC Investment	Expectations Before VC Investment	Perceptions After VC Investment
Product Resources	1.60	1.33	1.19	0.99
Market Resources	2.47	1.74	2.20	1.54
Strategy Resources	3.07	2.73	3.09	2.46
Accounting and Finance Resources	2.90	2.77	2.75	2.30

Note: VC – Venture Capitalist

Wilcoxon Signed-Rank test was performed to find out whether this difference between the expectations and the perceived actual contribution was statistically significant or not. For the purpose, the following hypotheses were tested:

H_{03} : There is no significant difference between the entrepreneurs' expectations and the perceived actual contribution from the venture capitalist.

H_{13} : Entrepreneurs' expectations and perceived actual contribution from the venture capitalist differ significantly from each other.

It may be observed from Table 7 that in the product development area, i.e., technology development, research and development and production, the two-tailed asymptotic significance values are more than 0.05. Hence, H_{03} cannot be rejected. This means that there is no significant difference in the expectations and the actual contribution as perceived by

Value-Added Areas	Z-Stat.	Asymp. Significance
Technology Development	-1.561	0.119
Research and Development	-1.732	0.083
Production	-1.121	0.262
Customer Knowledge	-2.209	0.027
Formulating and Testing Marketing Plans	-2.179	0.029
Sales	-3.044	0.002
Sounding Board	-0.979	0.327
Networking	-1.833	0.067
Strategic Alliance Partners	-1.378	0.168
Cash Management	-1.473	0.141
Budgeting	-1.710	0.087
Further Funding	-1.300	0.194
Exit	-1.342	0.18

the entrepreneurs. From the mean values as described earlier, it may be said that in these areas entrepreneurs expected very less contribution (composite mean score, 1.60) and the actual contribution (composite mean score, 1.33) by the venture capitalist was also less.

In the marketing area comprising customer knowledge, marketing plans and sales, the significance values are less than 0.05. Hence, H_{03} is rejected. Thus, in these areas there is a significant deviation between the expectations and the actual contribution. From the mean values, it may be said that in these areas entrepreneurs' expectations were higher (composite mean score 2.47) as compared to actual contribution (composite mean score 1.74) by the venture capitalist.

In the strategic areas including sounding board, networking and strategic alliance partners, the significance values are greater than 0.05. Hence, H_{03} cannot be rejected. This means that there is no significant deviation between the expected and actual contribution from the venture capitalist in this area. Again the composite mean score for expectation (3.07) in strategic area suggests higher expected involvement and actual contribution by the venture capitalist (2.73) as compared to product and market resources. As reported earlier in the study, most of the entrepreneurs (73%) believe that the venture capitalist has played a very active role in the board of the company, thus, the deviations between the actual and expected contributions may not be significant.

Lastly, the deviations are not significant for finance area as well where the significance values are more than the significance value 0.05. Hence, H_{03} cannot be rejected. As mentioned above, venture capitalists possess specific expertise to handle these matters. So, their actual

contribution (composite mean score, 2.77) did not deviate significantly from the expected one (composite mean score, 2.90).

So overall, except the marketing area there are no significant deviations between the expected and actual contribution of the venture capitalist. The test statistics pertaining to the Wilcoxon Signed-Rank test are quite divergent in this study as well as in the study by Berg-Utby *et al.* (2007). In this study, the deviations are significant only in the case of marketing resources, while the deviations were reported to be significant in all resource areas in the study by Berg-Utby *et al.* (2007).

Satisfaction Level Among the Investee Companies

After examining the expected contribution and the perceived actual value-added areas from the entrepreneur's perspective, the entrepreneurs were asked to assess the overall support extended by GVFL on the scale ranging from extremely unsatisfactory (1) to extremely satisfactory (5). As per the descriptive statistics, the average satisfaction level for the overall support extended by the venture capitalist was 4.05, i.e., between somewhat to extremely satisfactory experience, with a standard deviation of 0.90.

Conclusion

The present study examined the role of GVFL in the development of the ventures funded by it in Gujarat. The overall findings suggest that GVFL had invariably added value to portfolio companies significantly through monitoring and providing non-financial support. Further, irrespective of the equity holding by GVFL, a majority of the entrepreneurs felt that GVFL has really served as a sounding board and played a very active role in the board meetings. On an average, the entrepreneurs used to interact twice a month with GVFL staff apart from the regular board meetings. In case of problems encountered by the firms, GVFL always supported them with board meetings and working with the companies through other indirect means of communication. Further, except the marketing area, there were no significant deviations between the expected contribution and the perceived actual contribution of GVFL in areas such as production, general management (strategy) and finance. GVFL has been able to meet the expectations of the entrepreneurs in most of the cases, hence the entrepreneurs are largely happy with the value adding functions of GVFL. They opined that they are all reasonably satisfied with the venture capitalist's role in supporting them with financial as well as non-financial inputs.

This study provides valuable insight into GVFL for filling the gap between the expectations and the actual experience of the entrepreneurs with respect to various functional areas (especially marketing) for future investments. Further, the findings of the study would help GVFL assess the satisfaction level of the investee companies and the reasons for the same. Overall, the entrepreneurs supported by GVFL appreciated the value adding role of it and the firm aspires to continue meeting the expectations of its investee companies in future. ©

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Appendix

Questionnaire to Study VC Supported Entrepreneur/Firm			
1. Name of the entrepreneur and the venture: _____			
2. Location (city) where you have started the venture: _____			
3. Sex:	<input type="checkbox"/> Male	<input type="checkbox"/> Female	
4. Qualification:	<input type="checkbox"/> SSC	<input type="checkbox"/> HSC	<input type="checkbox"/> Graduate
	<input type="checkbox"/> Post Graduate	<input type="checkbox"/> Doctorate	<input type="checkbox"/> Diploma
5. Age:	<input type="checkbox"/> Below 25 years	<input type="checkbox"/> 25-35 yrs.	<input type="checkbox"/> 35-45 yrs.
	<input type="checkbox"/> Above 45 yrs.		
6. State to which you belong to:	<input type="checkbox"/> Gujarat	<input type="checkbox"/> Any other state	
7. Do you have any entrepreneurial family background?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
If yes, you have			
	<input type="checkbox"/> Joined Family Business	<input type="checkbox"/> Started Own Business	
8. Were you previously working in any company before becoming an entrepreneur?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
If yes, please specify the duration: _____(months/years)			
9. This is your:	<input type="checkbox"/> First venture	<input type="checkbox"/> Second Venture	<input type="checkbox"/> Third Venture
10. Sector/Industry:	<input type="checkbox"/> Healthcare	<input type="checkbox"/> Biotech	
	<input type="checkbox"/> Education	<input type="checkbox"/> Textile	
	<input type="checkbox"/> IT/ITes	<input type="checkbox"/> Tourism	
	<input type="checkbox"/> Hospitality	<input type="checkbox"/> Automobile	
	<input type="checkbox"/> Construction	<input type="checkbox"/> Any Other _____	
11. Ownership structure of the start-up:	<input type="checkbox"/> Proprietary	<input type="checkbox"/> Partnership	
	<input type="checkbox"/> Private Limited Company	<input type="checkbox"/> Public Limited Company	
	<input type="checkbox"/> Co-operative Society	<input type="checkbox"/> Any Other Please Specify _____	
12. Present stage of development of the venture:	<input type="checkbox"/> Seed (e.g., investment to enable further development, testing and preparation of a product or service to the point where it is feasible to start business operations).		
	<input type="checkbox"/> Start-up (e.g., investment to enable actual business operations to get under way, including initial production and marketing).		

Appendix (Cont.)

- Early Expansion (e.g., investment to expand commercial production and marketing, but where the business is still cash-flow negative).
- Expansion (e.g., investment in an already profitable business to expand commercial production or marketing).

Venture Capital (hereafter VC) related questions:

13. Name the fund from which you raised VC:

14. The year in which VC was raised:

15. Total amount invested by the VC: ₹

16. Has the venture capitalist exited from your venture?

- Yes No

17. How did the VC fund invest in your venture?

- Individually As a part of syndication Both

18. Mention the bifurcation of equity holding (%) between:

Promoter's holding (%)	
Venture Capital holding (%)	

19. Instrument of financing used:

- Equity Convertible Rights
- Debt Any other

20. How did you come to know about this investor?

- Newspaper Bank/FI
- Consultant Friends
- Any other _____

21. Why did you approach this investor for assistance? (Mark all that apply)

- Banks rejected the proposal
- Wanted cheaper funds
- Wanted management support free of charges
- Geographical proximity
- Formalities are simpler than other financial institutions
- Did not have collateral to borrow from other institutions
- Knew the investor personally

Appendix (Cont.)

22. Did you raise the funds from angel investors before being funded by VC?

Yes No

23. The current funding for the venture (with respect to the involvement of outsiders) is:

First Round Second Round Third Round

24. How long did it take for the VC to process from application to approval?

Less than 3 months 3-6 months

More than 6 months

25. What role did the VC play in the constitution of the board of your company?

Active Passive None

26. How many seats the VC or its representatives hold in your company's board of directors?

None One Two

Three More than Three

27. How often on an average do you interact with the VC or its staff?

Once a month At least twice a month

Once in two months Once in several months

Once in three months

28. In which areas has the venture capitalist contributed with knowledge, experience and network? Please use the scale mentioned below and rate each variable for expected contribution and the actual contribution:

(To a very low degree)				(To a very high degree)
1	2	3	4	5
			Expected Contribution	Actual Contribution
Technology development				
Research and development				
Production				
Customer knowledge				
Formulating, testing and evaluating marketing plan				
Sales				
Serve as sounding board				
Networking				
Strategic alliance partner				
Cash management				
Budgeting				
Further financing				
Sale (exit)				

Appendix (Cont.)

29. How do you assess the overall support extended by the VC?

- | | |
|---|--|
| <input type="checkbox"/> Extremely Unsatisfactory | <input type="checkbox"/> Somewhat Unsatisfactory |
| <input type="checkbox"/> Somewhat Satisfactory | <input type="checkbox"/> Extremely Satisfactory |
| <input type="checkbox"/> Neutral | |

30. Please rate the following based on the involvement of the VC in responding to the problems encountered by the firm on a scale of 1 (Rarely) to 5 (Constantly):

- | | |
|--|---|
| <input type="checkbox"/> Works with firm on site | <input type="checkbox"/> Holds meeting |
| <input type="checkbox"/> Works with firm via telephone | <input type="checkbox"/> Any other ways |

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