A CRITICAL STUDY OF RISK MANAGEMENT SYSTEM FOR GLOBAL INVESTMENT FUNDS WITH SPECIFIC REFERENCE TO EUROPE AND INDIA

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ABSTRACT
Venture capitalists and private equity funds are often considered experts at investing in high-risk projects and firms. They have been facilitating the productive use of existing assets and resources, usually by identifying companies with untapped potential and reorganizing their operations in ways that increase their value. To be successful investors, venture capitalists and private equity funds must therefore manage the many aspects of risk associated with investing in unlisted small and medium-sized enterprises. This study examines how Indian venture capital and private equity firms manage several dimensions of risk. We study Risk Management System for Global Investment Funds with Specific Reference to Europe and India

Keywords: Risk management system, investor, global investment funds

INTRODUCTION
The alternative investments universe generally consists of investments outside of publicly traded real estate, equity and debt. Financial globalization and increasing risk appetite among global investors has given birth to a new type of financial intermediaries such as investments ranging from private commercial real estate, hedge funds and managed futures, liquid alternatives to illiquid private equity funds, and real asset and natural resource partnerships. Moreover, the alternative investments industry is rapidly evolving – expanding and increasing its ability to provide durable investment strategies, and therefore is attracting interest from a growing number of individual investors.

Global expansion in venture capital (VC) and private equity has increased the number of funds operating in mature and developing markets. Globalization has also increased the number of cross-border deals, the number of funds expanding into different geographic areas, and the number of firms looking to complete deals outside the country of domicile. Expansion in any firm entails taking risks, to a large extent as a result of information asymmetry but also due to numerous other reasons. The expansion of the venture and private equity industry has corresponded to another well-studied phenomenon: how developing countries attempt to increase wealth by supporting and financing small to medium-sized business.

International expansion among established funds and newly started domestically based funds require an increased understanding of how funds manage existing and new risks. Risk management among...
venture capital and private equity firms has only recently received attention from researchers, although venture capitalists and private equity funds face many different types of risks. Recent research (e.g., Manigart et al., 2000) point to structural differences among venture capital markets in different countries. Other studies investigate if the venture capital industry differs from country to country based on country of origin (e.g., Wright, Lockett, & Pruthi, 2002). In this study, we analyze how risk management practices differ in U.K. and Indian venture capital and private equity firms.

REVIEW OF LITERATURE

Sabrinathan (2017), in paper “Venture Capital and Private Equity Investing in India – An Exploratory Study” concluded that the venture capital industry has grown in terms of breadth, depth as well as sophistication in fund management practices. VC has the capacity to support enterprises across a range of sectors that have the potential and promise by providing funding across their various stages of development. Venture capital industry has evolved into being a source of growth financing for innovative and technology led businesses. The analysis also revealed that the market for managing VC funds is highly competitive with fairly high rates of entry and exit of fund management entities.

Shetty (2017), in paper “A Comparative Study on Impact of Venture Capital Financing on Startups in India” concluded that when compared to venture financing in USA and China, Indian venture capital sector performance is relatively less but taking the Indian economy as whole there is substantial growth and rapid investment momentum mainly in the consumer technology sector making it one of the most attractive markets for venture capital investments. Effective research and development, better fiscal initiatives, adequate training and motivation are some major elements that will help venture capital industry become more successful and flourish in India.

Rani and Katyal (2015), in paper “Venture Capital in India: Sector-Wise Analysis” concluded that Venture Capitalists in India are biased toward technology companies with 68% of investments made in this sector. Other sectors include healthcare and education accounting for 9% and 7% of total investments respectively. The VC industry in India has had a somewhat frustrating run. With too much money chasing too few deals, Indian venture capital is struggling.

Viren Chavda (2014), in paper “An Overview Of Venture Capital Financing In India” concluded that there is an urgent need for encouragement of risk capital in India, as this would widen the industrial base of high tech industries and promote the growth of technology.

Haritha, Ravi and Reddy (2012), in paper “Role of Venture Capital in Indian Economy” suggested that high performing manufacturers can build their market position by prioritizing investments in strategic initiatives that support and strengthen their core differentiation. Our framework identifies the innovative and distinctive capabilities that organizations must build to differentiate them from the competition: smart shop floor, market-driven innovation infrastructure, data based decision making and responsive relationships.

Popov and Roosenboom (2011), in paper “Venture Capital and Industrial Innovation: Evidence from Europe” concluded that VC is relatively more successful in fostering innovation in countries with lower barriers to entry, with less stringent labor regulations, and with higher human capital.

OBJECTIVES

1. To analyze the profile of Indian venture capital industry.
2. To study of risk management system for global investment funds with specific reference to Europe and India
3. To study the growth and development of venture capital industry in major countries where the venture capital industry has exhibited significant contribution.
4. To identify the major shortcomings and reasons for poor growth of venture capital industry in India.
METHODOLOGY OF THE STUDY

Keeping in view of availability of the resources and the scope of the present research paper, the research study is conducted on the basis of secondary sources of data. Secondary data have been collected from various books, Journals, research articles, reports of various economic surveys etc.

VENTURE CAPITAL IN INDIA

Venture capital can be defined as investment in the form of equity, quasi-equity, and conditional loans made in new unlisted high-risk or high-tech firms started by entrepreneurs (Pandey, 1998). The structure of the Indian venture capital industry is transparent and can be grouped into four categories (Gupta, Chevalier, & Dutta, in press). Three categories are directly state-sponsored: the India Development Financial Institutions and State Finance Corporation sponsored venture funds, and bank-sponsored funds, or captives, represent the third state-controlled category. These venture funds are owned by the public-sector banks. The fourth category includes all privately owned funds, including those owned by foreign banks, private-sector firms, and private financial institutions. Conditions in India, until recently, were not encouraging for the growth of entrepreneurship and risk capital. There were not many incentives for individuals to invest in risk capital (Chitale, 1989). Bank loans were still the leading source of finance despite the problems for some companies to get such credit. After acquiring statutory powers in 1992, the Securities and Exchange Board of India (SEBI) introduced a range of reforms. These include mandatory quarterly reports, facility for companies to buy back securities, and reduction in the minimum percentage of shares required to be listed to 20% (Pruthi, Wright, & Lockett, 2003). Until recently, three bodies regulated the Indian venture capital funds: the government, the SEBI, and the Central Board of Direct Taxes (CBDT). This has been seen as overregulation, with the complication that each set of guidelines was different. There was also, until recently, some bias toward foreign-based venture capital funds, as they were not required to register with the SEBI, unlike local firms. There were also special tax concessions for overseas firms operating in India from a base in Mauritius, while local firms did not receive such incentives. A special committee, the Chandrasekhar Committee on Venture Capital, in 2000, made a number of recommendations to liberalize the venture capital industry, including tax changes, fairness for all foreign funds operating in India, extending the list of institutional investors allowed to invest in venture capital funds, and relaxation of requirements for initial public offerings (IPOs). Since then, further amendments have brought requirements for local and foreign funds into line, and some restrictions were removed (Pruthi et al., 2003). This essentially created a venture capital market more akin to that of the United States and western Europe, albeit one with all the hallmarks of an emerging economy. As mentioned above, the growth in the Indian venture capital market was stimulated in the late 1980s through a series of measures to establish government-sponsored risk capital corporations and capital gains tax concessions for venture capital investments (Verma, 1997).

1. Alternative Investment Funds (AIFs) perform a chain of activities beginning with the mobilisation of the savings of individuals directly, or indirectly through institutions, like pension funds, insurance companies, banks and endowments and investing them in promising enterprises, add strategic value to portfolio companies, monitor the investments and exit with the aim of realising a reasonable risk-adjusted return. The fund managers of AIF’s are fiduciaries acting in the best interests of investors in the AIFs they manage.

2. This is not only a valuable service for both savers and portfolio companies, but also for the Indian economy as it creates jobs, improves governance and promotes innovation and economic growth.

3. For Alternative Investment Funds to perform this invaluable role, the regulatory framework must be an enabler and foster ease of doing business. A key objective of the Alternative Investment Policy Advisory Committee (AIPAC) is to make recommendations for the regulatory framework
to be an effective enabler. In addition, AIPAC has analysed and made recommendations for each element of the AIF sector’s fund mobilization and investment chain.

4. Alternative Investment Funds, include venture capital and private equity funds, which provide stable, long-term capital and have fund lives ranging typically up to 10 years or more. AIFs include funds with a wide range of investment objectives and investment strategies. These include investing in new ventures, social ventures, start-ups, growth enterprises, infrastructure, real estate, debt funds and other investment strategies, including angel investing through angel funds.

5. Alternative Investment Funds are regulated by the Securities & Exchange Board of India (SEBI) under its Alternative Investment Funds Regulations, 2012 and 2013, and related notifications. Reforming and aligning these and other regulations, such as those covering the tax regime, pension funds and insurance companies, will be key drivers in making a success of the AIF sector and pave the way for much greater contribution by AIFs to India’s development, economic growth and start-up policies.

6. The venture capital and private equity industry has contributed considerably to India’s economic growth. Between 2001 and 2015, venture capital and private equity of more than $103 billion was invested in Indian companies. These investments were made in more than 3,100 companies across 12 major sectors, including those critical for the country’s development. The enterprises have ranged from start-ups to mature, mid-size companies. A significant portion of these investments have been made by global fund managers operating India-focused offshore funds, global fund managers operating in India and Indian fund managers operating offshore funds, investing in the form of foreign direct investment (FDI).

7. The graphs below show that venture capital and private equity investing reached $21 billion in 2015, nearly double the level of 2010. The pie charts below show that venture capital played a major role in the first 9 months of 2016 and supported the growth of start-ups at various stages of their lifecycle.

8. The major highlights of venture capital industry in India which has shown the growth and development since 2012-2016 in following heads are as:

![VC/PE Investments are growing rapidly in India](image)

9. Data in Table 1 below shows that Alternative Investment Funds regulated by SEBI have invested Rs. 54,173 crores. Nearly Fifty Five percent of this amount is in the form of Category II AIFs.
Table 1: Data relating to activities of Alternative Investment Funds (AIFs)
Cumulative net figures as at the end of 31st December 2017
(All figures in Rs. Crores)

<table>
<thead>
<tr>
<th>Category</th>
<th>Commitments raised</th>
<th>Funds raised</th>
<th>Investments made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category I</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure Fund</td>
<td>7524.09</td>
<td>4270.41</td>
<td>3631.05</td>
</tr>
<tr>
<td>Social Venture Fund</td>
<td>1102.00</td>
<td>604.16</td>
<td>410.55</td>
</tr>
<tr>
<td>Venture Capital Fund</td>
<td>16380.06</td>
<td>3834.47</td>
<td>2722.37</td>
</tr>
<tr>
<td>SME Fund</td>
<td>213.98</td>
<td>184.76</td>
<td>33.02</td>
</tr>
<tr>
<td>Category I Total</td>
<td>25220.13</td>
<td>8893.80</td>
<td>6796.99</td>
</tr>
<tr>
<td>Category II</td>
<td>87063.47</td>
<td>41339.29</td>
<td>29663.20</td>
</tr>
<tr>
<td>Category III</td>
<td>28835.99</td>
<td>22025.42</td>
<td>17713.12</td>
</tr>
<tr>
<td>Grand Total</td>
<td>141119.59</td>
<td>72258.51</td>
<td>54173.31</td>
</tr>
</tbody>
</table>

Note: The above report is compiled on the basis of quarterly/monthly information submitted to SEBI by registered Alternative Investment Funds.

10. Date of Table 2 below shows that Over 250 Alternative Investment Funds have been established under SEBI’s AIF regulations, the largest of which are Category II AIFs.

Table 2: SEBI Registered Alternative Investment Funds (As of 30th June, 2016)

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of AIFs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category I - Infrastructure Fund</td>
<td>10</td>
</tr>
<tr>
<td>Category I - Social Venture Fund</td>
<td>7</td>
</tr>
<tr>
<td>Category I - Venture Capital Fund</td>
<td>54</td>
</tr>
<tr>
<td>Category I - SME Fund</td>
<td>8</td>
</tr>
<tr>
<td>Category II</td>
<td>140</td>
</tr>
<tr>
<td>Category III</td>
<td>34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>253</strong></td>
</tr>
</tbody>
</table>

Private Equity (PE) activity in 2017 hit a record high having witnessed USD 24.7 billion* of investments, across 639 deals. Despite a 23% decline in volume, the year witnessed a nearly 50% increase in deal value over 2016, which saw USD 16.5 billion invested across 829 deals. Having recorded some of the largest PE investments, 2017 also surpassed 2015 which was the previous high year of investment inflows at USD 19.3 billion.

VENTURE CAPITAL FINANCING: GLOBAL SCENARIO

The concept of venture capital originated in USA in 1950s when the capital magnets like Rockfeller Group financed the new technology companies. The concept became popular during 1960’s and
1970’s when several private enterprises started financing highly risky and highly rewarding projects. The American Research and Development was formed as the first venture organization which financed over 100 companies and made profit over 35 times its investment. Since then venture capital has grown vastly in USA, UK, Europe and Japan and has an important contribution in the economic development of these countries. The growth and development of venture capital in various countries is highlighted below:

i. **USA**: Venture capital has been primarily an American phenomenon, which has played a constructive role in the industrial development of USA. American Research and development corporation , founded by Gen .Doriot soon after the second world war is believed to have heralded the institutionalization of venture capital in the USA . The real development of VC took place in 1958 when the business administration Act was passed by the US congress. US occupied about 54% of the total global VC investments in 2016. The more mature VC markets of the US favor earlier-stage investments and the main exit route for VC-backed companies is acquisitions (M&A), representing more than 90% of all exits.

<table>
<thead>
<tr>
<th>Number of VC Firms in Existence</th>
<th>898</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of VC Funds in Existence</td>
<td>1,562</td>
</tr>
<tr>
<td>Number of First Time VC Funds Raised</td>
<td>22</td>
</tr>
<tr>
<td>Number of VC Funds Raising Money</td>
<td>253</td>
</tr>
<tr>
<td>VC Funds Raised ($B)</td>
<td>41.6</td>
</tr>
<tr>
<td>VC AUM ($B)</td>
<td>333.5</td>
</tr>
<tr>
<td>Median VC AUM per Firms ($M)</td>
<td>130.9</td>
</tr>
<tr>
<td>Median VC Fund Size to Date ($M)</td>
<td>50.8</td>
</tr>
<tr>
<td>Median VC Fund Size Raised this Year ($M)</td>
<td>75.0</td>
</tr>
<tr>
<td>Largest VC Fund Raised to Date ($M)</td>
<td>4,300.00</td>
</tr>
</tbody>
</table>

Source: 2017 Nvca Yearbook Highlights

ii. **UNITED KINGDOM**: The early stirrings of the UK Venture capital industry began in 1930s, but it was only in the early 1980s that it really began to develop and expand when the British government made provisions for tax rebate to people for making investment in unlisted companies in the stock exchange, under business expansion scheme. Venture capital is playing phenomenally important role by helping Early-stage fast growth companies to deliver the innovation which is helping UK economy to improve and grow. The UK’s strong venture capital scene has created a fertile environment for disruptive tech companies. Today, it is a world leader in the financial technology (fintech), enterprise technology, e-commerce, property, and travel sectors. In 2016, 936 deals were completed, delivering €4bn in investments representing 34% of all deals completed in Europe. The UK has the highest concentration of capital in Europe and a significant source of funds for rest of the continent. In 2017 was a record year for Europe’s venture ecosystem, with €16.9 billion in capital invested. However, trended downward for the third consecutive year. The final number of closed deals came in at just 3,306, a 24% decrease from 2016 and the lowest number of financings since 2012.

iii. **CANADA**: The Canadian venture capital (VC) market is well established and has been growing both in terms of the number of deals and the amount of money invested; however, the average deal size is small compared to that in the United States. In 2015, a total of CAD 2.7 bn in venture capital was invested in Canadian companies. The volume of Canada’s VC investment as a percentage of GDP ranked third amongst other developed nations – at 0.08%
of GDP. By sector, firms in information and communication technologies (ICT) have captured the largest share of VC investment in Canada (63%).

iv. **EUROPE:** Since 1995, Europe has seen a dramatic increase in venture capital investment in companies that are in their seed, start-up or expansion stages but still when compared with leading global economies like US the European venture capital market lag behind both in terms of size and stage of development. The amount of venture capital provided by US investors to start-ups amounts to 0.211% of GDP per annum on average – more than seven times the EU average (as shown in figure). VC firms located in the EU financed more than 28,000 young companies providing a total of EUR 35 bn in venture capital from 2007 to 2015. On average, VC firms invest EUR 1.3 m in companies located in the EU in each funding round. € 16.2B venture capital is raised by European companies in 2016.

v. **FRANCE:** The venture capital activity in France came into picture in 1971 with the creation of the Societies Financiers Innovation. Although the French VC market suffered during the economic crisis of 2008–2009, fundraising has significantly risen since and investments are expected to increase in the coming years. In order to create a private VC industry in the seed segment, the French state decided to create a EUR 600 m “fund of fund” program, dedicated to financing seed VC funds, in 2011.

vi. **GERMANY:** Like France, Germany has a strong tradition of government support for the business sector that dates back to the post world war II programs dedicated to rebuilding the German industry. Today, Germany is Europe’s second largest venture capital market after the UK.

vii. **JAPAN:** By taking inspire from American venture companies, several venture capital institutions were established in Japan after Second World War by well known financial institutions for financing of high technology industries, in which the names of DIAWA Securities, SANYO Securities and Yamiechi Securities group and International bank of Japan desire mention. Venture capital financing in Japan was mainly started in 1970”s when the listing norms were relaxed alongwith registration requirement of the stock exchange. The formation of OTC in 1982further added momentum to the growth of venture capital in Japan .In Japan the venture investments are primarily equity made in more mature private companies. Normally the venture capital firms in Japan do not invest in startups.

viii. **SINGAPORE:** The first venture capital fund set up in Singapore was South East Asia Venture Investment (“SEAVI”) in 1983, with participation from the U.S venture capital firm Advent International. The first public investment in venture capital fund was in 1986 by the Economic Development Board of Singapore (EDB). In 1993, the Singapore Venture Capital Association (SVCA) was established. The World Bank has named Singapore as the world”s easiest place to do business. Singapore’s stable legal systems, pro-business tax regime and government incentives for technology start-ups have been very attractive pull factors for the setup of early stage enterprises and venture capital funds. Through the years, Singapore continued to be a major investment hub with Singapore-based fund managers accounting for more than 55% of total private equity and venture capital investments into Southeast Asia. There are around 153 venture capital firms. VC investments in Singapore achieved historic figures with 100 deals with an aggregate value of $3.5b recorded in 2016. According to a report by global valuation firm Duff and Phelps, the technology sector accounted for the majority of deal volume at 53% and deal value at 34%.

ix. **ISRAEL:** Another country in which Venture capital originated relatively early is Israel. The evolutionary process of the industry in Israel is quite similar to that of the US. There was a high technology sector in Israel requiring funds for commercialization. The formation of Athena in 1985, the first formal venture capital firm, marked the origin of the industry in Israel.
x. **INDIA:** Venture capital originated too late in India in 1973 on the recommendation of Bhatt Committee. The first Venture capital fund in India was established in 1975 by Industrial Finance Corporation (IFCI) of India. The Indian venture capital industry is dominated by public sector financial institutions. In India venture capital funds are regulated by SEBI. Cumulative value of VC investments in 2016 was USD 15.0 billion in 971 deals in 2016. Information technology companies and tech-oriented startups dominated, accounting for 56.6 percent of deal volumes and 22.3 per cent of deal values.

xi. **CHINA:** In China the venture capital industry started in the mid 1980s when the government felt the need for developing high technology industries. The initial efforts were not successful because of the unfavorable regulatory environment in China. In early 1990s, majority of the venture capital backed firms were State Owned Enterprises (SOEs). Most of the venture capital funds were organized as joint venture funds with SOEs initially. In China, the industry grew in 1999-2000 in tandem with the growth in the IT sector. Venture capital markets of China generally prefer less risky later-stage companies. In China IPOs represent the vast majority of exits for VC-backed companies. VC funding has grown seven fold in the last five years in China. In 2015 total funding of US$49b through 1,635 deals is there as compared to US$7b in 2010. At the same time, deal size has doubled from US$15m in 2010 to US$30m in 2015.

### RISK MANAGEMENT IN THE VENTURE CAPITAL INDUSTRY

Capital allocation, risk management, and effective investment is mandatory for a thorough understanding of the risks involved in the venture capital industry. The criteria that should be fulfilled by the portfolios under venture capital funds when adopting a risk model are:

**Monotonic**

All other things being equal, for a fund A that is younger than fund B, the range for the projected outcome of IRR or multiple for fund A should be larger than that in fund B.

**Observable**

A condition for back-testing a risk model, for instance, publicly quoted asset prices are observable in the sense that it is possible to transact at such a price, but for illiquid asset observable prices do not exist. Liquidity events, however, are observable and thus a model can be tested against a fund’s cash flows.

**Interrelated**

The risks related to one fund cannot be determined in isolation. For example, risk stemming from over-committing or risk mitigation from diversification over portfolios of funds; have to be factored into the risk measurement.

**Completeness**

All significant constituents that incorporate a fund must be duplicated in a suitable risk measurement.

**Reconcilable**

Every specific outcome (e.g. IRR or multiple) for a fund needs to be a result of an individual cash flow scenario of the fund’s inflows and outflows.

**Unbias**

For the total population of funds at the same level of their lifetime, the weighted average net present value (NPV) needs to be 0. In other words, risk measures should eliminate a systematic J-curve.

The principal-agent relationship is one of the main bases for our investigation into how venture capital and private equity firms manage risks. Principal-agency theory identifies several problems with this...
type of relationship. The basic problem is asymmetry of information: the agent has more information about the business than the principal has. The selection-, corporate governance—, and investment management–related issues are paramount to venture capital firm success. Two specific problems stemming from information asymmetry relating directly to this study are the adverse selection problem and the moral hazard problem (Osnabrugge, 2000). In this study, adverse selection refers to misrepresentation by the entrepreneur and moral hazard refers to the difficulty of aligning the interest of the entrepreneur and venture capitalist. In practice, principal-agent problems and costs are caused by two primary reasons: conflict alignment and issues surrounding goal verification.

Gompers (1995) maintains that three control mechanisms are common to almost all venture capital investments: (1) the use of financial contracting (most commonly by financing through convertible securities), (2) syndication of investment, and (3) incremental financing. Financial contracts are actively used by VC firms to monitor and mitigate agency costs due to moral hazard problems. Reid, Terry, and Smith (1997) suggest that U.K.-based venture capital firms manage risk within a principal-agent framework. Kaplan and Stromberg (2003) also maintain that venture capitalists’ primary method of controlling the principal-agent relationship is through financial contracting. Osnabrugge (2000) argues that venture capitalists use different financial contracting mechanisms to reduce agency risks. Gompers (1995) shows that research and development–intensive firms receive greater amounts of financing but in shorter duration, suggesting that these firms are more likely to be financed incrementally and, therefore, more tightly monitored. Thus, extant research is broadly supporting the argument that financial contracting is used by the venture capitalists to manage the principal-agent relationship.

Syndication is one of the major control mechanisms available to venture capitalists (Gompers, 1995). Venture capitalists use syndication to confirm investment risk through the participation of a co-investor, thus decreasing adverse selection problems due to information asymmetry. Investments are made only if at least two independent observers agree about the prospects of superior returns (Sah & Stiglitz, 1986). Another venture capitalist’s willingness to invest in a potentially promising firm may be an important factor in the lead venture capitalist’s decision to invest. However, it should be noted that a venture capitalist involved in the firm’s daily operations may exploit this informational advantage, overstating the proper price for the securities in the next financing round. Admati and Pfleiderer (1994) suggest that the only way to avoid opportunistic behavior on the part of the lead investor is if he or she maintains a constant share of the firm’s equity. Lerner (1994) argues that syndication can be efficient when high information asymmetry is present in a venture capital financing round, suggesting that syndication is a strategy to mitigate adverse selection problems. Another mitigation strategy is staged financing. Staged financing can reduce the agency costs related to financing small and medium-sized enterprises since it artificially creates a multiperiod financial relationship (Duffner, 2003). It mitigates agency problems by revealing information about the project over time, which is not normally observable in a single financing round. Staging means that the investor first invests a small amount of capital and in subsequent rounds of financing adds further capital at new valuations (Duffner, 2003). Using staged financing, a venture capitalist defines goals that the firm has to meet before any subsequent payouts take place.

CONCLUSION

The venture capital sector is experiencing its own paradigm shifts, reflecting an increasingly globalized world. Financing new enterprises offering innovative products/services, technology ventures and small and medium enterprises has been and continues to be a challenge in every economy. In the era of globalization, technological self reliance is crucial for the development of the economy and for building competitive advantage. The growth of small and medium enterprises should be encouraged as they generate employment opportunities and contribute to the GDP. Large companies continue to dominate in economy, and are no doubt generally stronger and more likely to
survive and prosper than small and medium-sized enterprises (SMEs). Still, societies cannot rely solely on what was established in the past. New products and ventures need to be developed. Organizational change and entrepreneurship should be embraced. Whereas many countries have recently adopted new policies to support the provision of seed and venture capital, it is important that venture capital issues are not addressed in isolation. The cumbersome regulations and legal procedures, lack of intellectual property led investment opportunities, entrepreneurs’ conservative approach to business and unwillingness to accept failures, share information and control of the enterprise are the major challenges and hurdles faced by venture capitalists in India. Greater efforts are needed in many countries as well as in India to remove such challenges and obstacles to experimentation and risk taking in the economy.

REFERENCES
