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Venture Capital and Private Equity Financing – A Literature Review

CA Poonam Dugar
Research Scholar
S. D. School of Commerce
Gujarat University

ABSTRACT

Financial globalization, growth in savings and increasing risk appetite among global investors over a period of time, gave birth to a new source of corporate finance known as the Venture Capital and Private Equity (Jain & Manna, 2009). The evolution of the concept has been found to be different in different countries because of factors like the entrepreneurial climate, government policies, and regulatory framework. It has evolved and undergone several changes over a period of time. Considering the importance of venture capital and private equity to entrepreneurship and a nation's economy it has received significant importance in the academic literature. The current article intends to collectively review studies done globally and in India focusing specifically on evolution and importance of venture capital and private equity as a source of finance, determinants of VCPE financing and investments strategies of VCPE firms which will help to develop an overall understanding of the functioning of venture capital and private equity as an asset class. This article would also provide significant insight on research work done in the area of venture capital and private equity opening up new avenues for future research.

Key Words: *Venture Capital, Private Equity, determinants, investments trends, investment strategies*

INTRODUCTION

Venture Capital and Private Equity (VCPE) has been evolving as a potential source of corporate finance in developed and developing economies supplementing the traditional sources of resource mobilization such as public equity issues, private placements, and external commercial borrowings (Jain & Manna, 2009). The evolution of the concept has been found to be different in different countries because of factors like the entrepreneurial climate, government policies, and regulatory framework. It has evolved and undergone several changes over a period of time. Venture capital and private equity was originally available as means of funding only for innovative and high risk ventures in the technology sector, but over a period of time, it started extending to other sectors also. In addition to providing funding in the early stages of a venture the VCPE firms also provided value added services to the investee firms by mentoring them and monitoring their progress. Thus, VCPE firms have been playing a crucial role in promotion, creation, and establishment of new business ventures, which would then go public, thereby contributing to the economic growth (Subhash, 2006).

Considering the importance of venture capital and private equity to entrepreneurship and a nation's economy it has received significant importance in the academic literature. A number of research studies from different disciplines like management, entrepreneurship, finance and economics have been found in the area of VCPE finance. Studies in this area majorly included the evolution and the current status of the industry; multi country studies which also included India; survey studies of VCPE industry practices in India; venture capital investment process; syndication decision strategies of VCPE firms; and investment pattern strategies of VCPE firms towards specialization. These research studies have tried to empirically test the theoretical concepts in different geographical markets either through primary surveys or through authentic databases maintained for capturing venture capital activity in different countries.

The current article intends to collectively review both primary survey and secondary research based studies done globally and in India focusing specifically on evolution and importance of venture capital and private equity as a source of finance, determinants of VCPE financing and investments strategies of VCPE firms which will help to develop an overall understanding of the functioning of venture capital and private equity as an asset class.

REVIEW OF EVOLUTION AND IMPORTANCE OF VENTURE CAPITAL AND PRIVATE EQUITY

Financial globalization, growth in savings and increasing risk appetite among global investors over a period of time, gave birth to a new source of corporate finance known as the Venture Capital and Private Equity (**Jain & Manna, 2009)**. **Gompers (1994)** explored the importance of venture capital financing in the growth of small businesses in America making venture capital an important contributor for future economic growth of the county. His research identified that as new businesses take decades to reap benefits, the venture capital firms play an important role in providing finance over longer horizons to encourage new firm development and effective product development

The evolution of venture capital financing throughout the world to promote new ideas proposed by the entrepreneurs and how it contributed to the economic development of the various developed and developing countries of the world was described by **Subhash and Nair (2004)**. They found out that globalization led to geographic distribution of venture capital sources of various countries with preference of investment given to technology industries. The benefits of venture capital financing were observed in many countries in the form of large scale industrial development, increased employment opportunities, higher turnover as well as revenue generation to the government and more and more investments in research and development.

The spread of the concept of venture capital spread across the world, the types of ventures financed by venture capitalists, the ways of financing and the role of venture capitalists in providing value addition to the intangible ideas of the entrepreneurs was also studied by **K.B. Subhash (2006)**. His work tried to fill the research gap to study the growth of venture capital industry in India while comparing it globally and to the Asia Pacific region. He analysed the global scenario in terms of venture capital raised and invested, global ranking based on investments and CAGR, utilization rates of venture capital funds and specifically the Asia Pacific venture capital pool and concluded that Asia Pacific region displays tremendous capability to attract venture capital investments and have shown significant growth.

The peculiarity of the Asian venture capital market was also studied by **Naqi and Hettihewa (2007)** wherein they clarified that **venture capital is a specialized subset of private equity** describing the evolution of venture capital practices across various regions of Asia which was majorly encouraged by the respective Asian governments to contribute to the overall economic development. The typical characteristics of Asian venture capital markets were influenced by the diverse economic and political environment in various regions, hands off business culture resulting in lesser involvement by VC's in the investee firms, market cycle experiencing a downfall and maturing recently and finally the entrepreneurial talent driving the venture capital activity as compared to innovation in the Asian markets. The sources to venture capital investments were majorly from government owned institutions and private funds, whereas the investments were more diversified across various industries as compared to technology based in US and investments were more dominant in expansion stages as against seed and early stages.

The venture capital experience in India was studied through a case study analysis by **Pandey (1992)** to understand the role of venture capital in developing technology and innovative entrepreneurship in India and the policy initiatives necessary for the development of the venture capital industry. The factors that led to the growth of the venture capital industry in India were liberalization of economy, relaxation of foreign investments control, deregulation of interest rates, permission to foreign banks to start business in India, and approval for private sector to enter the venture business space. It was found that there was a need to increase the status of social and education systems in India, building the entrepreneurship climate, availability of various financial instruments and developing a comfortable environment for the divestment mechanism. **Dossani and Kenney (2002)** also investigated the issues of setting up a venture capital industry in developing countries where the macroeconomic environments are unstable, and state government's intervention in national policy making exists. They explored the possibility of a developing a venture capital industry in India post 1985 after the emergence of the thriving software industry. They found that after many setbacks due to the policy framework and regulations, Indian venture capital industry was originated due to the liberalisation of economy and the support of the World Bank and the overseas Indians in the Silicon Valley.

Thus, a review of the above studies elucidated how VCPE financing carved an important space for itself in both developed and developing countries of the world making it distinguishable as an alternate asset class by provide funding to promote innovation and technology across various sectors of the economy.

REVIEW OF DETERMINANTS AND TRENDS OF VENTURE CAPITAL FINANCING

The spread of VCPE financing across various markets of the world has been substantiated by many factors influencing its growth. **Gompers, Lerner, Blair and Hellmann (1998)** identified the determinants affecting the amount of venture capital investments both at the industry level and the individual venture firm level by considering both the demand

and supply factors. Their findings suggested that regulatory changes like capital gain tax rates, GDP growth rate, R & D expenditures and firm level factors like performance and reputation promoted venture capital fundraising. Higher GDP growth increased R& D spending and lower capital gain tax rates resulted in increased demand for venture capital. VC firms holding larger equity stake in companies going public and firms reputation in terms of firm age and size positively affected the venture capital fund raising. Their findings also revealed that policies that encourage entrepreneurship and promote technology innovation were also an important determinant to increased venture capital activity.

An interesting study across 21 countries of the world done by **Jeng and Wells (2000)** showed evidence of factors like IPO markets, GDP, market capitalization growth, labour market rigidities, accounting standards, private pension funds and government policies affecting the venture capital funding in various markets thereby becoming important determinants of venture capital activity.

Gompers and Lerner (2001) brought together the empirical research on venture capital activity in terms of its sources of funding, venture capital investments distributed across industries and regions in US. High technology companies, successful IPO exits, corporate collaborations were the important factors which led to changing trends in venture capital activity in the country. Fundraising activity was affected by capital gain tax rates, policy changes, vibrant public market whereas venture investing is characterised by strategies like staged capital infusions, monitoring and syndication practices by venture capital firms.

Swati Deva (2008) analysed the contributing factors to the growth of venture capital industry in India - namely the economic and legal changes in the country. She highlighted the existence of several rules and regulations in India to monitor the operation of venture capital investments in the country along with favourable tax reforms for both domestic and foreign venture capital investors. The study also figured out the weakness in terms of providing a better market for early stage investments and suggested that the preparing of a manual for domestic and foreign venture capitalists will make the investment market grow faster and make the investment decisions easier.

The creation of favourable environment for VCPE financing to flourish, was dependent on number of factors such as **growing GDP, well developed stock markets, favourable regulatory and legal environment, entrepreneurial and investor friendly incentives** as discussed above.

The presence of VCPE activity and its growth trends in the Indian markets was studied by various researchers who discussed the characteristics of VCPE investing in India across various industries, regions, various stages of investments, the type of investors who have shown their interest in investing in Indian businesses and their exit patterns.

India's venture capital industry was analyzed and studied by **D.Mitra (2000)**. The analysis was done for the period 1993-1996 and revealed the shift of contributors of the funds from Indian institutions to the foreign institutions. It also reflected the difference in the investment patterns of Government funds and Private funds, wherein the Government funds invested more in early stages and the Private funds invest more in the later stages because of the conservative mind set and regulatory policies on tax incentives.

The investment pattern of Government and Private Funds was also compared on the basis of the type of instruments used for financing which showed that majority of the funding happened through equity shares, followed by convertible debts and non-convertible debts due to the tax incentives on equity investments.

Thillai (2012) analyzed the entire investment lifecycle of VCPE investments in India for the period from 2004 to 2008 covering 1,912 VCPE transactions involving 1,503 firms. The results from the round-wise analysis of VCPE investments indicated that 82% of the total investments were in Round 1 with lower successive investments. The number of rounds of funding received by companies in different industries indicated that a majority of the companies received only one round and the proportion of companies that received the second round of funding in different industries is more or less the same as for Round 1 investments. The analysis on timing of incorporation of the firm and its financing stage showed that VCPE investors are more inclined to invest in late stage companies that have a longer track record and operating history and also of sufficient size.

Thillai and Kamat (2012) also observed the differences in the investment patterns between domestic and foreign venture capital investors in India. The analysis revealed that the foreign investors invested more and also made larger investments than domestic investors. In terms of deals, foreign firms had a higher proportion of high value deals when compared to domestic investors which had a higher proportion of low value deals. While analyzing the stages it was observed that the proportion of early-stage deals is consistently higher for domestic firms when compared to foreign firms. Sector wise analysis revealed that foreign firms invested mainly in technology and services sector whereas the domestic firms invested in manufacturing sectors.

V. R. Jyotsana Kumari (2013) analysed the trends along with sector wise and stage wise flow of venture capital and private equity investments in India for the decade ending 2013. The findings revealed the growth in the venture capital industry with positive correlation of the Indian GDP and FDI with venture capital investments, uniform distribution of VC investments across different sectors as compared to the initial skewed distribution, changing trends from early stage investments to late stage or private equity investments.

Srinivas K T (2013) using survey data on 20 Venture Capital funds of 12 domestic Venture Capital firms located in Karnataka for a period of 15 years from 1998 to 2012 studied the focus of venture capital funding in different sectors of Karnataka, India and concluded that Venture Capital firms are giving more prominence to service sectors like BFSI, IT and ITES, Media and entertainment, Healthcare and Life Sciences which are knowledge intensive in nature and promotion of these sectors will create a boom for the Indian economy.

Komala (2014) studied the growth of venture capital investments specifically in the early and growth stages of development by analyzing the correlation between the number of deals and the value of deals for the period 1998-2012. The results revealed a strong correlation between the number of deals and the value of investments. There was also clustering of venture capital investments in the southern and western regions of the country with more flow of venture capital going towards service related industries like IT, Education, Healthcare rather than manufacturing industries.

Shukla (2015) studied the trends of private equity investments in India from 1996-2014 where the analysis showed that private equity funds majorly focussed on growth capital as compared to any other funds. The analysis also exhibited that private equity companies in India**,** focused more on late stage deals as compared to early stage deals and because of which the number as well as value of late stage deals increased substantially during the period.

Thus, summarizing the review of the above studies which have been undertaken across different time periods or covering specific regions it was observed that, VCPE financing in India reflected a shift in the concentration of funding from specific industries to spread over a broader category of industries. Preferences for investing in specific stages of investments, differences in investing patterns of domestic and foreign investors were also observed over a period of time. This revealed the trends of VCPE financing in India being influenced by various attributes being industries, stage of investment, region, and type of investor.

REVIEW OF INVESTMENT PATTERN DECISIONS OF VCPE FIRMS

The businesses funded by the VCPE firms have a demand for capital at different stages of growth of their life cycle. VCPE firms have a peculiar feature of providing finance across various stages of development of the investee firm. This characteristic of the VCPE firms is influenced by many factors which help them in strategizing their investments in specific stages to minimise the risk of information asymmetry and earn favourable returns. The review of the following studies discusses the various investment patterns observed in terms of VCPE firms in different markets and factors which influence their decisions to invest in a particular stage.

Tyebjee and Bruno (1984) had developed a model for venture capital firms, considering their investment strategies in terms of the stage of investment, industry preference, geographical location and the size of investments. **Robinson (1987)** explored the development of a venture capital industry due to factors like economic, social, potential entrepreneurs and government policies. The survey results revealed that venture capital firms differed in their characteristics on the basis of specialization in terms of size of investments, stage of investments, investee firms, and amount of capital under management. Findings of the study said that on an average the venture capital firms had equal commitments in all stages of investments but they would ultimately tend to specialise in some stages and preferably in the second and later stages. **Khan (1987)** studied the VCPE firms decision making process through conjunctive and disjunctive actuarial models on both judgements based and environment based data on some predictor variables. He reported that investment strategies are based on variables like stage funding, industry preference and geographical location of the investee firm.

Gupta and Sapienza (1992) examined 169 domestic VCFs of U.S. from California, Massachusetts, and Texas to understand the impact of the firms' characteristics like stage of ventures, ownership structure and size of the firm on their preferences regarding the industry diversity and geographic scope of the investments. The results revealed that VCFs specializing in early stage ventures preferred less industry diversity and narrower geographic scope than those who invest in late stage ventures; corporate VCFs (i.e., those owned by non-financial corporations), preferred less industry diversity but broader geographic scope relative to non-corporate VCFs; and larger VCFs preferred greater industry diversity and broader geographic scope than do smaller VCFs. **Norton and Tenenbaum (1993)** indicated that venture capitalists apparently used specialization and information-sharing strategies to control risk rather than financial diversification. Evidence based on study of 98 firms registered with National Venture Capital Association favoured the specialization hypothesis and concluded that investors in early stage financing were less diversified across different industries and firms. The results also revealed that venture capitalists tend to specialize in some financing stages rather than stagger their investments over different financing stages.

Carter and Auken (1994) revealed that venture capitalists had a preference of projects in a particular stage of development and further stated that VCF prefers early stage investments were less interested in management of risks but more interested in liquidity as compared to the VCF's preferring late stage investments. **Gompers (1995)** examined the staging of venture capital investments from a random sample of 794 venture capital backed firms and found that staging of venture capital investments is exercised by venture capital firms who strategize to reduce information asymmetry by using their industry knowledge and monitoring skills. They would prefer to invest in early stage companies and high technology industries thereby expecting higher returns.

Schilit (1997) analysed the general nature of venture capital investments to check if there are any changes in the trends of investments. He observed that there was a shift of trend toward specialization - by region, by industry, and/or by stage of development as compared to the trend of diversification. With reference to the investment practices, venture capitalists, had recently shifted their focus from investments in technology firms to other areas like retailing, healthcare etc. They were more attracted to late stage investments as compared to early stage investments because of quicker and safe returns, though the amount invested in early stages had increased.

Wang and Zhou (2002) investigated the impact of staged financing as a tool to control risk in an environment where an entrepreneur faces an imperfect capital market and an investor faces moral hazard and uncertainty. Using parametric functions and comparing staged financing with upfront financing, they found that used together with a sharing contract staged financing acts as an effective mechanism to control agency problems and solve various problems of information asymmetry in both early and later rounds. **Bergmann, Hege, and Peng (2008)** presented a dynamic model of venture capital financing, through the optimal funding policy of staged investments through three types of predictions in a large sample of venture capital investments in the U.S. for the period of 1987-2002. The results confirmed that the investment flow starts low if the failure of risk is high and reacts positively to information that arrives while the project is developed and VCs use more staging when the risk of failure is high.

Bertoni, Colombo and Quas (2012) tried to explore the investment strategies of the different types of venture capital firms in Europe based on their ownership for the period from 1994 to 2004. It was observed that different venture capital firms would prefer to invest in the target companies based on the type of industry, age, size, stage of investments and region. These firms also differ in terms of their strategy to syndicate, duration and type of exits of their investments. This was primarily because of their investment specialization patterns which differ across the above mentioned parameters.

Nan and Wei (2014) studied the investment data of 73 VC funds in China from 2001 to 2011 to analyse the impact of specialization strategy (both industry and stage) on the investment performance. The results revealed that industry specialization and location of VC had a positive impact on VC performance whereas stage specialization and VC funds age had a negative correlation with VC performance.

Tripathi and Sharma (2016) studied the factors which affected the staging decisions of the VCPE funds in the Indian infrastructure sector to analyse whether staging mechanisms help in overcoming the problem of information asymmetry. Their findings supported that staging was more prevalent in younger infrastructure firms and which are in the early stages of development. Also staging was more visible in syndicated investments to reduce the hold-up problem. Investments by experienced firms as well as foreign VCPE funds were less inclined to use staging.

Joshi and Subrahmanya (2015) empirically investigated the relevant set of signals that matter to the transnational VC firms in India. They identified that the most pertinent signals that mattered the VC's investment decisions were the investee venture's funding-stage, syndication, domain specialization and the past start-up experience of the prospective founding team. The study was conducted on 72 active VC firms in India during 2014 and concluded that transnational VC firms in India intensely used syndication as a risk assessment strategy as against specialization. Moreover, they consciously stayed away from investing in early-stage deals, since these were known to be further riskier. Past founding experience was valued a great deal in a prospective entrepreneur, while the transnational VC firms consciously stayed away from investing in family-owned businesses (or any off-shoots of it) and preferred to back only first-generation entrepreneurs.

Dhochak and Sharma (2015) checked the impact of various investment parameters like investor type, region, syndication, industry, and the amount of investment on the stage funding choices of the VCPE firms. The results revealed that all the investment parameters were reliably able to predict the stage funding choices between early and late stages.

Tripathi (2016) analysed the relationship between the characteristics of VCPE funds (like investor type, fund age, fund size, syndication) and stages of investment in the Indian infrastructure sector. The findings of the analysis revealed that the type of investors and syndication significantly affected the investments in specific stages whereas fund size and age did not produce significant differences. Similarly, stages of investment differed among subsectors of infrastructure sector but did not differ in terms of regional preferences and investment duration.

The review of studies above brings in focus the rationale behind the varying patterns of investments by VCPE firms across various stages which may be affected due to the following parameters as presented in Table 1 below:

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Table 1: Variables affecting Investment Patterns of VCPE Firms

Variables used to study strategies on investment patterns of VCPE firms	Name of Researchers
Stage of investment	Tyebjee and Bruno (1984), Robinson (1987), Khan (1987), Gupta and Sapienza (1992), Norton and Tenenbaum (1993), Carter and Auken (1994), Gompers (1995), Schilit (1997), Bertoni, Colombo and Quas (2012), Nan and Wei (2014), Tripathi and Sharma (2015), Joshi and Subrahmanya (2015)
Type of Industry	Tyebjee and Bruno (1984), Khan (1987), Norton and Tenenbaum (1993), Gompers (1995), Schilit (1997), Bertoni, Colombo and Quas (2012), Nan and Wei (2014), Sharma and Dhochak (2015),
Geographical location (Region)	Tyebjee and Bruno (1984), Khan (1987), Schilit (1997), Bertoni, Colombo and Quas (2012), Sharma and Dhochak (2015), Tripathi (2016)
Size of Investment	Tyebjee and Bruno (1984), Robinson (1987), Sharma and Dhochak (2015)
Syndication	Chen, Chu, Billota (2010), Bertoni, Colombo and Quas (2012), Sharma and Dhochak (2015), Tripathi and Sharma (2015), Joshi and Subrahmanya (2015)
Type of Investor	Gupta and Sapienza (1992), Thillai and Deshmukh (2011), Sharma and Dhochak (2015), Tripathi and Sharma (2015), Tripathi (2016)
Age of Investee Firm	Bertoni, Colombo and Quas (2012), Tripathi and Sharma (2015), Joshi and Subrahmanya (2015)
Fund Age	Tripathi and Sharma (2015), Tripathi (2016)

REVIEW OF SYNDICATION DECISIONS OF VCPE FIRMS

Syndication of VCPE investments is a form of strategic alliance in which two or more investors' co- invest in an investee company either in the same round of financing or through stage financing in future rounds in the same investee company. Syndication of VCPE investments has been commonly observed in different markets. The next set of studies was reviewed on the rationale behind the syndication strategies adopted by VCPE firms.

Bygrave (1987) argued that the primary reason for syndication was sharing knowledge rather than spreading financial risk and analysed the networking of 464 venture capital firms by examining their joint investments in a sample of 1501 portfolio companies for the period 1966-1982. The results showed that there was more co-investing in high innovative than low innovative technology companies, in early than late stage companies, and in computer than consumer companies. This indicated that the principal reason for co-investing was not spreading of financial risk rather it was the sharing of expertise. **Lerner (1994)** examined different rationales for the syndication of venture capital investments, using a sample of 271 private biotechnology firms. His findings showed that experienced venture capitalists primarily syndicate first-round investments to investors with similar levels of experience whereas later rounds involve established venture capitalists who syndicate investments to both their peers and to less experienced capital providers.

Brander, Amit and Antweiler (2002) developed two models to identify the reasons for venture capitalist to syndicate, by studying the Canadian Venture Capital investments. The Selection Hypothesis model tried to find if selection of good projects was the reason for syndication and concluded that syndicated investments would have lower returns as compared to stand alone investments. The Value Added hypothesis model on the other hand tried to find if syndication added value to the project and concluded that syndicated projects would have higher rates of return than standalone projects. **Clercq and Dimov (2004)** studied the investment strategies of venture capital firms in terms of their engagement in syndication practices, through a longitudinal data set of 200 US venture capital firms for a period of twelve years. They found that the extent of syndication was dependent on the investment strategies developed by the venture capital firms over time as well as the characteristics of the firm. The results were consistent with both the finance motive of syndication where more syndication was observed where capital requirements were higher and the knowledge sharing motive of syndication as more syndication was observed in early stages where the uncertainty was high and hence the knowledge base of more investors would reduce the risk.

Lehmann (2006) empirically examined whether syndicated investments differ from standalone investments by studying the VC firms' investments in Germany. The results did support the risk sharing view as the amount of VC investments were higher in syndicated investments and the average size of equity held by venture capitalists was significantly lower compared to standalone investments. **Casamatta and Haritchablet (2007)** developed a theoretical model to analyse the rationale for the syndication of venture capital investments and found that syndication improved the screening process of venture capitalists and prevents competition between investors after investment opportunities are disclosed. **Hopp and Rieder (2010)** using a sample of 1,485 funded firms in Germany, analysed the driving forces of and the circumstances under which VC's undertake syndication. On the basis of the funded firm characteristics the results indicated that syndication was positively affected by the age of the firm as well as the size of the firm thereby showing higher syndication in younger and high sized firms. The results also indicated that more syndication leads to more concentration of industries in a VC's portfolio.

Hopp (2010) studied 2,373 unique capital contributions from 437 venture capitalists (VCs) over subsequent rounds into 961 start-ups during the period 1995–2005 in Germany and found that syndication was more pronounced when VCs face higher risks that need to be diversified and capital burdens are larger. The findings also indicated that industry investment experience lends acceptability to lead VCs, allowing them to enter syndicate relationships to enhance their network positions and thereby increase syndication.

Deli &Santhanakrishna (2010) examined syndication in venture capital investments made by VC firms in US from 1980 to 2005 arguing on the need to syndicate to mitigate human capital and financial constraints. Their results were consistent to their arguments as they observed more syndication in firms which were in their earliest stage of development than in the other stages, larger amount of investments being more syndicated than smaller amounts and investments in industries with more growth opportunities were more syndicated than the other industries. **Tripathi (2015)** empirically studied the determinants of syndication of VCPE investments as a tool to reduce risk and information asymmetry in Indian infrastructure projects for the period from 2004-2013.The results showed that age of the investee firm and average investment size did not impact the syndication decisions, staging of investments resulted in less syndication, whereas the size of investment, age of VCPE fund and the type of venture capital provider had a significant impact on the level of VCPE investments.

Mishra and Bag (2017) attempted to study the determinants of syndication strategy followed by Indian venture capital firms for the period from 2005 to 2014. The results showed that investment size, past experience of a VC firm and the industry exposure it has, number of investment round and the stage of investment were the major determinants of syndication decision used by Indian VC investors as a mechanism for risk diversion and attracting more funding in the future rounds.

Thus after a review of the above studies the following motives of syndication can be observed as identified by various researchers and presented in Table 2 below:

Table 2: Variables Determining Motives of Syndication

Determinants of Syndication	Name of Researchers	Motives of Syndication
Type of Industry	Bygrave (1987), Deli &Santhanakrishna (2010)	Resource Motive
Stage of Investment	Bygrave (1987), Lerner (1994), Clercq and Dimov (2004), Deli &Santhanakrishna (2010), Tripathi (2015)	Resource Motive
Size of Investment	Bygrave (1987), Clercq and Dimov (2004), Lehmann (2006), Deli &Santhanakrishna (2010), Tripathi (2015)	Finance Motive
VCPE Firm Experience	Bygrave (1987), Lerner (1994), , Casamatta and Haritchablet (2007), Kaiser and Lauterback (2007), Tripathi (2015), Gemson and Rajan (2016)	Resource Motive
Age of Investee Firm	Hopp and Rieder (2010), Tripathi (2015), Gemson and Rajan (2016)	Finance Motive
Type of Investor	Vu & Mireille (2011), Tripathi (2015)	Resource and Finance Motive
Size of VC Firm	Bygrave (1987), Hopp and Rieder (2010)	Finance Motive
Return on Investment	Brander, Amit and Antweiler (2002)	Resource Motive

Summary and Conclusion

Venture capital and private equity thus emerged as a source of funding to meet the requirements of the innovative and technology driven nascent businesses that used to face difficulty in obtaining funds due to absence of collaterals and secured source of revenue. The VCPE firms acting as financial intermediaries undertook the task of providing funding; by generating the investment flow from various investors to enable the budding entrepreneurs develop their products ultimately contributing to the economic growth. The flow of investments from the VCPE investors was further influenced by factors like global investment climate, macroeconomic indicators of the country, regulatory and legal framework applicable to the functioning of these investment transactions and the government policies encouraging entrepreneurship.

With the increase in efforts of different geographical markets providing impetus and the environment to encourage VCPE investments, some visible trends were observed in VCPE funding reflecting concentration of investments in some sectors of the economy, clustering of VCPE investments in specific regions and inclination to invest both within and outside the national boundaries. These trends resulted in VCPE firms opting for specializations to invest in particular industry, region or stage and adopting various strategies to safeguard their interests and earn favorable returns.

With extreme level of information asymmetry attached to VCPE funding, the VCPE firms need to possess specialized risk and assessment skills and therefore they are found to engage in strategic planning to position their investments right and have lucrative exits. Strategies like preferring to invest in a particular stage or stages, opting for syndicating the investment with another VCPE investor and planning to choose a particular mode of exit are often practiced by the VCPE firms. These strategies have been observed to be influenced by various motives (viz reducing risk, sharing expertise, specialization) and also by the characteristics of both the VCPE firm (experience, type) and investee firm(industry, region, stage of funding). The impact of these strategies would ultimately affect the performance of the VCPE firms in terms of the returns generated by making the investments.

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