The Impact of Venture Capital on Indian Firms' Pe rformance and Growth, and the Role of the Govern ment and Financial Equity

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Abstract

Over the last decade, one of the most significant trends in business has been the emergence of venture funding. It has had a significant influence on the global market in regards of career creation, new commodities, competitive vitality, and entrepreneurial mindset improvement. This article investigates the factors that influence the success of venture capital (VC) businesses in India and how the VC can positively impact a firm’s growth. Previous study has focused on the firm level, where the favorable impact of venture capital on development, business development, and income development has been demonstrated. Small and medium-sized firms (SMEs) are seen to have capacity for innovation and the ability to develop new market possibilities. Venture capital may financially fund business ventures that contribute to economic growth, as well as govern and stimulate the development of SMEs. It is clear from several Indian VC deals that VC investors like to invest collectively. In other words, collaborative investment, co-investment, or syndication is a widespread practice in the Indian venture capital business. As component of the control system, VCs use this method to reduce future uncertainty. Furthermore, there is empirical evidence for the VC financing in India and how different country-level factors can have an effect on VC financing firm’s growth.

Keywords: venture funding; venture capital; sme; investments; control systems

Introduction

The final part of the twentieth century saw a substantial breakthrough in the form of venture capital investment. It enables new companies based on creative entrepreneurship with non-traditional, risky financing. Venture capital firms invest in technology and concepts with great future growth but associated dangers, which make this style of financing distinct from conventional types of funding. As a result, it's a high-risk, high-reward investment **(Khosia, 2015).**

Private organizations that do not wish to borrow money from the government may have reservations about venture capital. It has the ability to be a significant source of funding for small businesses (SMEs). The term "venture capital finance" is commonly used to describe "early stage funding of fresh and inexperienced businesses looking to expand quickly." According to Pratt, "there is a common misperception that high-technology is the primary driving force underlying a US venture capitalist's investment choice." Only a tiny percentage of venture capital firms are invested in innovative technological ideas where possible technical issues pose a substantial risk to the new company's success **(Venkatakrishnan&Loganatan, 2017).**

Private equity operations in India vary in character and may be divided into three categories: early-stage and venture capital, growth stage, and buyouts. The bulk of private equity deals in India include either private or tightly held publicly unlisted enterprises as the targeted company. Due to the extremely controlled nature of listed company acquisitions and limits on the enforcement of a number of shareholders ’ rights claimed by investment managers, private equity funds in listed businesses are extremely rare. In India, unlike other countries such as the United States and the United Kingdom, leveraged buyouts (LBOs) are not frequent due to regulatory considerations. The main subscription, a subsequent acquisition of existing stocks, or a mix of both is the most typical structures utilized in equity funding in Indian firms **(Sinha, 2016)**. The recent trend among private equity shareholders has been to construct their investment opportunities as a mixture of share capital and adjustable instruments that may transform in relation to certain pre-defined performance accomplishments or other comparable parameters. When there is a discrepancy between the promoter's and the venture capital investor's values of the target firm, investing via mandatorily convertible securities are frequently used. In such cases, a middle road can be achieved by adjusting the converting formula connected to a compulsorily convertible instrument, provided the objective meets the pre-determined achievement benchmarks **(Sinha, 2016)**.

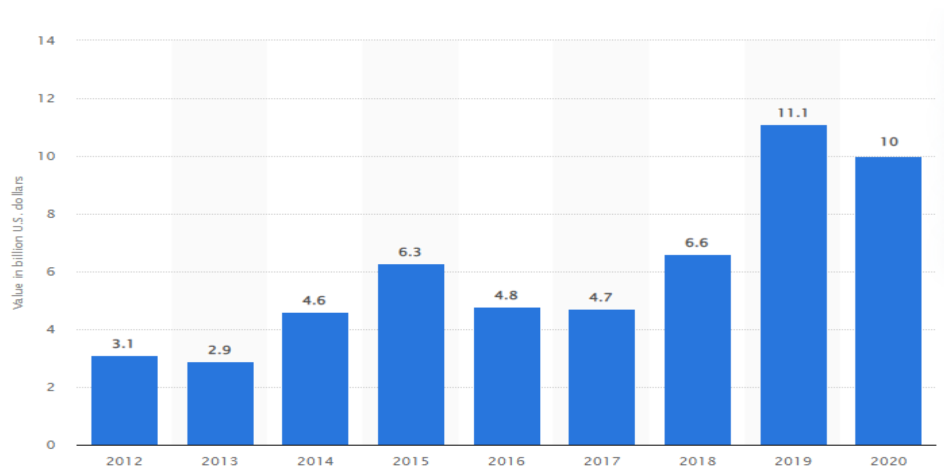

Figure – Investment trend, Statista, 2020

With the help of Venture Capital organizations, entrepreneurs may turn their expertise into marketable enterprises **(Pandey, 2018)**.

- It aids the commercialization of innovative goods based on cutting-edge technology.
- It encourages export-oriented businesses to generate more foreign currency.
- It helps with managerial, technological, and other aspects of the financial organization.
- It boosts the financial market, which not only helps the financing position but also allows them to generate their own money via the financial market.
- It supports current methods through a system in which financial firms stimulate new technology-based company initiatives.
- Many ill firms recover after receiving adequate care from Venture Capital institutions.

In addition to above, there are several major characteristics of venture capital firms -

Firm Expansion: Venture capital supplies a company with the significant sums of money it requires to grow its operations. It allows for firm growth that would be impossible to achieve through bank financing or other means. Venture capitalists bring essential experience, counsel, and industry contacts to the firm. These professionals have in-depth knowledge of certain

industry norms and may assist you in avoiding many of the drawbacks that are commonly connected with startups.

Better Leadership: Being entrepreneurial does not automatically imply being a competent company manager. However, because Venture Capitalists own a portion of the company, they have a vested interest in it. They will be able to have a voice in how the company is run. This is a huge advantage if one is not excellent at running a business.

There is no requirement to pay back: In addition, much like with bank loans, there is a requirement to repay shareholders. Rather, investors carry the potential losses because they trust in the company's long-term success.

Fundraising efforts, choice and investing, supervision, and departure are the four main phases of the Venture capital cycle. VC firms (also known as partnership businesses or GPs) raise cash from a variety of stakeholders (also known as limited partners or LPs), including banking firms, businesses, university foundations, wealth management, and rich people during the fundraising events phase. VC funds, on average, have a closed-ended design with a fund life of 10-12 years. VC firms clearly identify the investment goals and other elements of preparing financial, such as the firm life, financial services fees, and so on, throughout the fundraising process. The investments can have an industry emphasis (for example, technology, biotechnology, etc.) or a stage focus (for example, growth stage, late-stage, etc.), or a combination of the two. At any given time, established VC companies are likely to be managing many funds. VC firms analyze numerous investment options to use the capital obtained throughout the selection and investing phase. VC businesses depend on their own connections to source transactions since the businesses they participate in are confidential. To find eligible investment possibilities, they apply a variety of screening and entry requirements. Once a VC firm has found an acquisition, the Venture capitalist and the shareholding company discuss the value and form of the transaction across numerous rounds of sophisticated deal negotiation. After the Venture capitalist 'writes the check' in support of the investment committee, the investment process is finished. In most situations, VCs invest in a company over numerous fundraising rounds since timing money injections allows VCs to acquire information, track the growth of firms, and exit initiatives that aren't doing well **(Gompers, 1995)**.

The monitoring phase occurs of the period here between the moment of investing and the VC entity's exit. The VC collaborates extensively with the investee company at this stage. In most cases, venture capitalists are given board positions and, based on the situation, provide worth to the venture by offering various management contributions. With the exception of allocating the finance, venture capitalists use their industry knowledge, competence, and connections to aid their private equity firms in a variety of areas, including business strategy and functional planning, staff and supplier evaluation, advertising, and funding, and in some cases, even taking on management positions. VC firms realize profits on their private equity investment

during the exiting stage and distribute the funds to the firm's investors. Because VC funds are often organized as closed-end funds, VCs must sell their assets after a specified amount of time and cannot keep them indefinitely. The initial public offering (IPO) or purchase are two popular ways to depart. While venture capital is not a common funding source for small enterprises, the two are frequently associated with public perception **(Winton &Yerramilli, 2008)**.

N. Berger & F. Udell (1998) use data from the National Survey of Small Business Finances to determine that traditional bank loans account for 19 percent of total funding for small enterprises, whereas venture capital investments account for only 2%. According to Davis et al. (2003), 90 percent of startups are not funded by venture capital, and more than 95 percent of small business funding originates from avenues other than venture capital, mainly commercial banks. The rise in VC finance may explain the significance of Venture capital, despite the fact that they are quantitatively smaller than bank loans. According to **Ueda (2004)**, after 1977, indices of bank loans for small businesses remained stable or even decreased, but VC expenditure was 100 times more in 2001 than in 1977. On several factors, Table 1 compares the characteristics of VC versus bank funding. Although there are some parallels, there are also notable distinctions. The amount of engagement in the target firm following the investment distinguishes VC investments from those offered by the bank, or for that point, any other institution **(ThillaiRajan, 2010)**.

A company evolves through a stage-by-stage growth process from its inception. Knowing the phases of a startup's development is helpful in determining how venture capital investment may assist them in staying afloat and improving their Performance. Startup companies, in particular, grow their companies via five stages, each of which necessitates various efforts and resources based on their individual goals. Because the resources obtained from VC firms play distinct roles at different stages of growth, it is critical to examine the stage of the business when considering VC investment. For example, based on a company's current stage of development, different market locations dictate the resources necessary. The absence of resources at each phase of evolution drives entrepreneurs to seek VC funding. As a result, investigating the impact of Venture capital on companies requires knowledge of the company's current growth stage **(Jeong et al., 2020).**

Venture capital is a long-term commitment that requires active engagement and assistance from the owner in the nation's progress. The existence of a VC investor or investors sometimes lends business marketing and financial power. With the advent of economic reform in 1986, India's entrepreneurship began. The Indian administration institutionalized venture capital in 1988 when it issued a set of criteria. Originally, venture capital (VC) was restricted to companies established by IDBI, ICICI, and the IFC, with a concentration on major industrial enterprises **(Jeong et al., 2020).**

But it was until well-established Asian startups in Silicon Valley persuaded overseas investors that India seemed to have the skill and potential for socio-economic development that the tide turned. The Indian venture capital sector has seen an influx of private companies from India and beyond over the years.

Venture capital investments were mostly in the industrial sector in the early phases. Companies in the customer experience and packaged goods arena, on the other hand, have emerged as leading competitors for VC financing, receiving over half of all VC investments, thanks to

shifting patterns and growing liberalization. IT and IT-related activities, software engineering, telecommunication, gadgets, biotech and medicines, finance and funding, public service disinvestment, news & culture, and education were among the other significant industries **(Jeong et al., 2020).**

Agriculture is a brand-new area that is drawing startup funding. The awareness that food production is a critical, long-term requirement has fueled this. According to studies, for every Rs 100 growth in GDP, Rs 41 will be given in food in the future. Data presented at the last Global Investing Conference revealed that agro firms would deliver 11 percent returns, opposed to 3-5 percent yields from bonds and stocks **(Jeong et al., 2020).**

Only the interests of owners should be addressed in the system of the organization, per the Shareholders' Governance Model. Shareholders are considered co-owners of the corporation and proprietors of their stocks. As a result, directors are seen as their representatives in order to maximize their bosses' profits. Furthermore, according to **Fama and Jansen (1983)**, shareholders are the last claimants who incur economic risk. Hence the value of their rights should be maximized.

Effective corporate governance, per the IFC (International Finance Corporation), promotes access to funding (both stock and loan capital), resulting in a company's long-term viability. Specifically, organizations that actually encourage excellent corporate governance mechanisms and implement the highest governance practices tend to draw more shareholders prepared to supply capital at a cheaper cost, as the risk associated with share ownership is minimized to the greatest extent possible. A well-designed and functional corporate system, according to **Ehikioya(2009),** assists a firm in attracting investment, raising capital, and strengthening the basis for firm Performance. Furthermore, excellent corporate management protects a company from potential financial difficulty. Effective company governance reduces the influence of ownership concentration on management, increasing the likelihood that managers would invest in high net present value initiatives for the collective gain **(Skare, 2016)**.

Corporate Performance is (typically) judged by operating results, value, and stock market returns in that order, while excellent corporate governance is evaluated using a variety of metrics. Despite the fact that the great majority of research shows a favorable association

between corporate governance and firm success, certain studies contradict this conclusion. Instead, they argue that the link between governance and organizational growth is either negative or non-existent.

Several studies cast doubt on the causation of this link, implying that it is firm Performance that influences corporate governance, not the other way around. The majority of empirical research is conducted for a single nation. Generally, the United States or the United Kingdom, where the capital market is established and the shareholder organization is distributed. Nonetheless, comparable studies have been conducted in emerging and underdeveloped nations in recent years, as well as various cross-country investigations.

Claessens cites **Levine (1997)** and the World Bank (2001). (2006: 8). They claim that there is a positive relationship between financial growth and the amount of GDP per capita growth, irrespective of how financial development is assessed. Financial institutions must apply excellent corporate governance standards in order to function properly; as a result, effective corporate governance has a favorable impact on the Performance of financial institutions and financial markets, hence boosting economic growth **(Skare, 2016).** Company law has a significant influence on economic development. **Aghion et al. (1999)** give important information and establish the relationship between capital market performance and efficiency. As described by **Morck et al. (2005)**, the issue of capital governance (economic entrenchment) has a significant influence on economic development due to funding misallocation, leading to X-inefficient RMS **(Leibenstein 1966).**

The primary goal in a study was to look at how liquidity affects the profitability of pharmaceutical businesses listed on the Bombay Stock Exchange (BSE). Data was taken from the ProwessIQ database. The study was based on fair panel data from 82 pharma firms during a ten-year period from 2008 to 2017. The immediate liquidity ratio and rapid ratio have a significantly positive influence on pharmaceutical company profitability as assessed by return on assets, whereas control factors leverage, company size, and seniority have a detrimental effect on pharmaceutical company profitability. This research is regarded as one of the first to look at the influence of liquidity on the economic growth of Indian pharmaceutical firms. It's been dubbed a "battery" for future studies in this field **(Yameen, 2019)**.

The globalization process has sparked a lot of debate over how the home country's climate affects a company's ability to compete in overseas markets. The said study investigated the quantifiable effect of the native country surroundings on firms' Performance in six countries to use a random impacts prototype that is partly derived from the concepts of market economics and strategic edge and partly based on descriptive modeling of performance indicators. The article employs two types of value-based company performance indicators: risk compensated and cash-flow oriented. The findings show that nation and industry characteristics have little impact on Performance, but firm-specific factors dominated achievement across both and then within nations. The findings also demonstrate that major industry impacts become more significant than country impacts and that competitive advantage variables, albeit tiny, are important in explaining success across nations in the same sector **(Hawawini et al., 2018).**

HR Consultants, who specialize in hiring the finest people for your firm, are provided by venture capitalists as additional services. This prevents you from hiring the incorrect individual. It also provides a variety of additional services, such as mentorship, partnerships, and exit assistance (**Pandey, 2018**).

The role of the dissertation for future research would be to account for the general country/ conditions in VC availability and to explore their effects on existing firms by taking more over into account the digital economy. India is a great region to do research on the subject matter

because the population is greater as compared to many other countries. Also, there are many small businesses that are running in India.

Literature Review and Hypothesis Development

Firms that require external finance for intellectual or permanent capital investments (or research and development [R&D] investments) to satisfy their expansion or profit objectives face severe financial limitations (Ergün&Doruk, 2020). As a result, external finance plays a significant part in the growth of a company. Under ideal capital economic conditions, access to credit is based on company conduct, according to current financial theory. The Modigliani and Miller (1958) thesis, on the other hand, holds true in developing nations, where financial disagreements are more common than in industrialized countries due to poor capital market circumstances.

Earlier studies were examined for gaps, which appeared to include out-of-date research techniques and past investigators' incapacity to include company accounting-based success when analyzing a business's total success. So far, data from 40 Jordanian listed companies from 2007 has been collected, and 200 assessments have been performed. The investigator also gathered information on these businesses from the World Bank's webpage. To eliminate heteroscedasticity, autocorrelation, and possibly endogenous difficulties, the generalized movement technique approach uses it. Total loans to total resources and short-term loans to total assets have significant and unfavorable effects on return on assets and return on equity, according to the findings. Long-term debt, on the other hand, has a considerable and positive influence on both yields on assets on capital (Kasasbeh, 2021).

The academic literature is particularly interested in many elements of venture capital funding (such as value-added, monitoring, contracting, and so on). Furthermore, the majority of the study has concentrated on the economic impact of venture financial markets, particularly through funding for new and potential small and medium-sized businesses (SMEs). Entrepreneurs frequently face challenges in the early stages of their firm. The most prevalent is a shortage of funds to fund items or expand a business. Because of the dangers and lack of

knowledge of creative ideas or goods, banks are reluctant to support such businesses. Investment choices, such as venture capital firms or private investors (often known as "business angels"), are the best option. During the 2007 crisis, venture capital firms struggled as their assets became illiquid. As a result, venture financial markets are contracting as venture capitalists become increasingly hesitant to invest in riskier businesses.

In this situation, venture capital companies apply their long-term knowledge to manage potential investment risks while still generating substantial profits. This may be accomplished in two ways: through expertise and diversity at various phases of a company's development, geographical location, and across sectors. Many entrepreneurs have concepts that require significant funding to develop but often lack this money. There is often a lack of understanding about how venture capital companies may build and operate their investment portfolios over time (Kasasbeh, 2021).

“The regression analysis findings also indicated that there is a significant positive and significant association between the expansion of venture capital funds and the two unique sets of independent factors (instruments of venture capital and control mechanisms). However, private equity instruments such as convertible redeemable choice, preferred equity and debt, and preferred and common equity contributed positively and significantly to the growth of the venture capital fund, whereas control mechanisms such as conversion of control rights, performance options, and warranty option contributed positively and significantly to the growth of the venture capital fund. As a result, authors determined that private equity tools such as convertible redeemable preference, preferred equity and debt, and preferred and common equity, as well as regulatory systems such as converting of control rights, performance options, and warranty options, must be considered in order for venture capital fund growth to increase.”(Sulemana& Chen, 2019)

More studies show that intangible assets may have a part to play in assessing organizational value, so the resource-based study has gotten a lot of attention recently in literary works (**e.g., Westhead et al. 2001). Lockett et al. (2008)** investigate the link between Venture Capitalists' resource participation (company governance) and export competitiveness. Their findings revealed a favorable, albeit minor, a link between export performance and governance.

Small and medium-sized business financing has been investigated, although it is still a largely unexplored study field. When venture capitalist is available, **Davila et al. (2003)** investigate business growth and discover a favorable association between staff development and the existence of venture capital. Davila et al. (2003) investigate whether venture capital promotes growth or if growth signals the need for venture capital. Their findings demonstrate that startups may postpone expansion owing to a lack of funding, implying that money, instead of the other way through, plays a key role in supporting growth **(Smolarski&Kut, 2009)**.

Cassar (2004) examined financial components and discovered that debt levels are related to business size. He also claims that asset structure influences financing alternatives and that a

company looking to expand is more likely to seek bank funding. This contradicts Cressy and Olofsson's (1997) findings, which claim that bank debt has a detrimental influence on business growth. Both conclusions are correct. Cassar's findings are in line with a growing body of finance study that investigates the impact of corporate factors on debt capacity. Because bondholders in asset-rich enterprises have greater assets, a company with a bigger investment portfolio may take on more indebtedness than a company with fewer inputs. Fewer asset-rich enterprises may not have the same credit limit, which supports

Cressy and Olofsson's conclusion (1997). Due to the fixed structure of debt, high pay volatility reduces credit limits. It is also more difficult to estimate free cash flow, which is required to pay off the debt. The combined conclusion of these two research, which is relevant to our investigation, supports the premise that enterprises with stable profits or asset bases may handle additional debt. Companies with weaker profits, cash flow, or property volatility have a harder time supporting debt. As a result, the second group of businesses is less prepared to deal with

costs and risks. Finance has an impact on development and exporting potential, according to **Cassar (2004).**

According to **Fu et al. (2002),** there is a link between equity financing and productivity. Profitability, according to **Cowling (2004),** has an impact on growth. He claims that extremely tiny businesses are willing to forfeit earnings in order to optimize growth but that successful corporations do not accept the same import and export.

Venture investors play an active part in the administration of the company. They invest in the new business and work closely with the share market to bring it public. As a result, they place a premium on business assistance. They provide startups with the controls, which they may be allowed, as well as an exit plan. Overall, they help businesses expand by assisting with funding, management, and technical assistance. Most business managers' firms have ventures that play an active part in the company's operations **(Ruhela&Arawatiya, 2017).**

Burgyl (2000) defined venture capital as a bridge between investment firms and portfolio firms (such as retirement funds, bankers, and insurance organizations). The most typical roles of venture capital include investment screens, negotiating, creating agreements, regulating investments, and aiding the leadership team **(Snieska, 2010).**

According to Mason and Harrison (2000), once the online hype bubble burst, most venture capitalists began supporting exclusively at the maturation level since they decided not to take any risks while investing in enterprises. Because these organizations had spent extensively in venture capital, they preferred only the safest investment options **(Ruhela&Arawatiya, 2017).**

According to Smith (2001), venture capital firms have provided important assistance in the fields of product design, manufacturing, advertising, and other company functions. A venture capital company had looked for and financed firms which are already focused on the study and

had a positive growth trajectory (**Ruhela&Arawatiya, 2017**). The investment firm chooses the venture. 1. Past efficiency and manufacturing capabilities 2. The venture's planning process 3. Previous year's results

According to **Venture Intelligence (2014)**, the amount of Indian venture capital funds has increased from 8 in 1992 to 309 in 2013 **(Joshi, 2015)**. In 2015, it was projected that there were 360 venture capital funds operating in India. Foreign VC firms should be included in this figure because they do not even have a presence in India but nevertheless participate in India. According to Joshi (2020), in 2013, there were approximately 200 funds in this state.

According to Venture Intelligence, the number of VC deals and supported startups has continuously increased since 2004. Between 2004 and 2013, the number of VC-backed firms increased from 92 to 2.527, while the number of agreements increased from 133 to 5.432. In 2016, 680 investment transactions were completed, and 650 tech businesses were supported

for a total amount of 4 billion dollars2 in the CISEE entrepreneurship process. However, according to a study published by the Committee on Angel Investment and Early Stage Venture Capital in 2012 (p. 36), "Early-stage venture capital investment in India has been relatively low in comparison to global counterparts, at roughly Rs 5000 crore during the previous five years (2007-2011) **(Joshi, 2020)**. For example, over the same period of time, the United States invested approximately twenty-six times as much, or around Rs 1.5 lakh crore, or nearly three times as much as a proportion of total GDP "**(Gonzalo &Kantis, 2018)**.

The hypothesis suggested here are -

H1: Better VC conditions positively affect firm Performance

H2: Better corporate governance practices positively affect firm Performance

H3: Better financial/liquidity positively affects firm Performance

Now,

H1-hypothesis has been proven correct. That is, there is a significant positive relationship between VC conditions and firm Performance. The better the Condition will be, the better the Performance is and vice versa.

H2-there is a significant positive relationship between corporate governance and firm performance. The above-mentioned study has proven that if the corporate governance of the firm is strong and involved, they are in a better position to yield better performance.

H3-there is a positive relationship between financial liquidity and firm Performance. This will determine if the price is increased in the future and the company has more money which will further accommodate them in planning better to achieve their goals.

For the expansion of venture capital in India, five important success elements have been identified as because global venture funds have emerged in a context of organizational flexibility, financial neutrality, and practical adaptability, the legislative, tax, and legal situation must play an important role in the implementation.

The process of raising funds, investing, managing, and exiting should be as straightforward and flexible as possible, and therefore should be guided by global trends. Venture capital should be an institutionalized business that safeguards investors and attendee enterprises, functioning in an atmosphere conducive to raising substantial quantities of risk capital and fostering innovation via startup companies in a variety of high-growth industries. Given the

growing globalization and capital mobility, it is critical for Indian venture capital firms and venture financing companies to have a worldwide access and participation possibilities.

Facilities in the form of accelerators and R&D must be developed with government assistance and private administration, as nations like the United States, Israel, and Taiwan have done effectively. This is required in order to convert R&D and technical innovation into commercial goods more quickly.

With innovation and expertise concepts set to push the world economy in the coming thousand years, India can unlock a rebellion of wealth generation and rapid economic development in a sustainable way, thanks to its inherent power in human resources, practical expertise, and expense working population, research, and entrepreneurial spirit. However, a risk financing and venture capital ecosystem that can maximize innovation, encourage technology, and absorb knowledge-based concepts are required for this to occur **(Haritha, 2012)**.

Research Methodology

The study looked into whether family-owned businesses have an edge when it comes to obtaining external funding for expansion. Enterprises may have difficulty finding external finance sources, particularly in emerging nations with market failures; nonetheless, family-owned companies may have certain benefits over non - family businesses in this respect. Unlike prior research, this one took into account the fact that nonfamily businesses are financially limited in Turkey, but family businesses are not **(Masa'deh et al., 2015)**. They utilized the

generalized estimation technique (GMM) methodology to analyze panel information from 2006 to 2017 to test this hypothesis. Financing limitations were shown to be a substantial barrier to expansion for nonfamily-owned industrial companies, but not for family businesses since they are owned by big, well-established household groupings. These findings provide light on the link between corporate control and development among Turkish businesses, particularly those with significant ties to huge family businesses. The findings also demonstrated that, when examining the "Big Six" family relationships of enterprises, image and networking may assist better access to external financial sources **(Masa'deh et al., 2015)**.

Empirical Analysis

After all the research that has been done on VC financing above, some of the stats of vc financing in India that deals worth more than 500 million dollars in venture capital and private equity (VC and PE) would account for 52% of total deal value in India by 2020. These large transactions accounted for only 11% of overall deal value in 2016. Also, growth capital investments in India's private equity and venture capital sectors are expected to produce roughly $25 billion in funding by 2020. In comparison to the previous year, this was a significant gain. In 2020, growth capital investments will account for more than half of all PE/VC investments **(Statista, 2021)**.At every moment in time, the total efficiency of VC-backed enterprises is higher than that of non-VC-backed firms, according to the data. This effectiveness edge of VC-backed enterprises stems from both assessment and monitoring: VC-backed firms' efficiency before to getting funding is higher than that of non-VC-backed firms, and their efficiency increase following VC financing is also higher **(Chemmanur et al., 2011)**.

Conclusion

The Indian VCPE industry's expansion and liveliness have drawn international notice. This article identifies certain problem areas that must be addressed in order for a country to prosper in the long run. To begin, an environment that favors early-stage investments must be created. Such early phase funding would encourage innovation and offer a conduit for later stage and development investments. Venture capitalists that use incremental funding may delay future cash infusion if success criteria are not met. Incremental funding successfully aligns the entrepreneur's aims with those of the venture investor, implying that businesses with efficient monitoring systems surpass firms with ineffective monitoring regimes. Those that received both stage funding and syndication had poorer performance indicators than companies that received either stage or distributed financing. Improved operating flexibility to deal with a range of risks may be required as a result of the increased uncertainty surrounding overseas expansion. Firms in the early stages of internationalization may result in more effective monitoring and risk mitigation, but too many limitations may be detrimental. Given the

exploratory character of this study, more study and confirmation studies are required to back up the findings. Many of the findings in this research are thought to be intriguing enough to deserve additional investigation.

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