International Journal of Research in Social Sciences
Vol.10 Issue 08, August 2020,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

Value Added Services of Venture Capitalists' to Portfolio Companies - A Study

***Dr.Komala.G[*]**

Abstract:

Keywords: Venture Capital, Portfolio Companies, Venture Capitalists', Value Added Services, Information Technology.

GEL Classification: G24, G11

Venture Capitalists are investors make high-risk equity investments in new portfolio companies. They not only provide fund but also add value to their ventures in which they have invested. The current research work focuses on value added services provided by Venture Capitalists for their Portfolio Companies in South India. The result shows that, sales and marketing, HR management assistance and operational management are the activities which supported by the VCs to Portfolio Companies and spend their time in managing their portfolios. The study also demonstrates that the value adding contributes to the success of Portfolio Companies. To conclude, Venture Capitalists play a significant more active role in managing their investments than traditional financial intermediaries.

Introduction:

India is one of the hotspots for investments with reaping rich benefits. Apart from the success of information technology, there is a huge potential for investment, growth and development in several other sectors like Pharmaceuticals, Telecommunications, Healthcare, Electronics, Food Processing and Business Process Outsourcing (BPOs). The competitive boundary of India over other developing nations like China, Russia etc., lies in its huge skilled human capital and knowledge entrapped in the research laboratories. There should be a type of finance that links all the available resources for exploration and effective utilization. This link is available in several forms such as bank loans, private debt, equity, bonds etc. However each of them has their own pros and cons which leads to inapplicability under different context. Increase in the high growth sector needs not only

[*]Assistant Professor, Department of Commerce, Government First Grade College, Sakaleshpur-573134.

high technology and huge capital but also the ability to take huge risks. Venture Capital is the financial channel that suits this role.

Venture Capital investment are an essential engine of innovation and Indian economic growth, but highly risky from an individual investor's point of view. In addition, innovation is considered since long time as a crucial driver of economic growth and value creation. An important channel through which innovation is financed in developed economies in Venture Capital Funds (Kortum and Lerner, 2000).

Venture Capitalists value-added services include introduction to potential clients, helping for sales and marketing, HR management assistance, Operation management assistance, active involvement and monitoring of business activities for the success of portfolio companies other than financial assistance.

Literature Review:

Singhal (2015)
[2]in his paper study about venture capital funds in India. This paper has studied three venture capital funds in India, viz, IFCI Venture Capital Fund, Canbank Venture and Bain Capital Private Equity. This study uses the secondary data and gives the examples of successful venture capital funding in some industries in India and also indentifies some of the future challenges of VCFs in India.

MacMillan et al. (1989)[3]in their research paper identified that the activity that had the highest degree of involvement was serving as a sounding board of the entrepreneur. The lowest degree of participation occurred in those activities concerning the ongoing operations. Involvement patterns in the venture activities identified four distinct areas of involvement: development and operations, management selection, personnel management and financial participation.

Cumming et al. (2005)[4]this paper analysis the result of different types of Venture Capitalists value added activities (financial, administrative, marketing, strategic/management) on fundraising. The outcome indicates that significantly more capital is allocated to VC that provide financial and strategic/management expertise to

[2]Singhal, R. K. (2015). Venture Capital Financing. *SIES Journal of Management*, *11*(1).
[3]MacMillan, I. C., Kulow, D. M., & Khoylian, R. (1989). Venture capitalists' involvement in their investments: Extent and performance. *Journal of business venturing*, *4*(1), 27-47.
[4]Cumming, D., Fleming, G., & Suchard, J. A. (2005). Venture capitalist value-added activities, fundraising and drawdowns. *Journal of Banking & Finance*,*29*(2), 295-331.

entrepreneurial firms. In gap, drawdown from capital commitments is greater among venture capital funds that provide financial and marketing expertise to investees.

Large, D., & Muegge, S. (2008)[5]they systematically review, organize and evaluate the empirical research on VC Non-financial value-added (NFVA). They propose a provisional model of VC exit success and a provisional eight category typology of value-adding inputs.

Vladimir and Fel Xie (2010)[6]they present proof that corporate venture capitalists (CVCs) add value to start-up companies only when the start-ups have a strategic fit with the parent corporations of CVCs. They discover that CVCs provide a variety of services and support that suit the specific needs of start-ups operating in different industries. CVC-backed start-ups are capable to obtain higher valuations at the IPO than non-CVC-backed ones, and the value added by CVCs concentrates in start-ups with a strategic overlap with CVC parents.

Croce et al. (2013)[7]in their article examine the impact of VC funding based on productivity growth before and after the first VC round. They locate that VC impact on European firms is mostly driven by investor's value added.

Scope of the Study:

The present study is including both registered and unregistered domestic and foreign venture capital firms located and operating in South India. The study excludes Angel investors. The study is restricted to South Indian states such as Karnataka, Andhra Pradesh, Tamil Nadu, and Kerala. Currently there are 22 portfolio companies in which investments are made by these venture capital funds. In support of the study only top first portfolio is considered that is IT &ITES.

The study is also based on the data of IVCA for a period of 21 years from 1998 to 2019 and it is part of my research work .

Objective:

To study the value added services that venture capitalists provide to their portfolio companies.

[5]Large, D., & Muegge, S. (2008). Venture capitalists' non-financial value-added: an evaluation of the evidence and implications for research. *Venture Capital*, *10*(1), 21-53.

[6]Valdimir and Fel Xie (2010) "Do Corporate Venture Capitalists Add Value to Start-Up Firms? Evidence from IPOs and Acquisitions of VC-Backed Companies" "Financial Management" Spring Pp.129-152.

[7]Croce, A., Martí, J., & Murtinu, S. (2013). The impact of venture capital on the productivity growth of European entrepreneurial firms:'Screening'or 'value added'effect?. *Journal of Business Venturing*, *28*(4), 489-510.

Methodology:

This is a descriptive study of analytical nature requiring rigid field survey. Survey method has been used to collect both primary and secondary data. Therefore, both primary and secondary data has been collected through an extensive survey.

Venture Capitalists conduct face to face interaction with the portfolio companies

Table 1.1 Venture Capitalists conduct face to face interaction with the portfolio companies

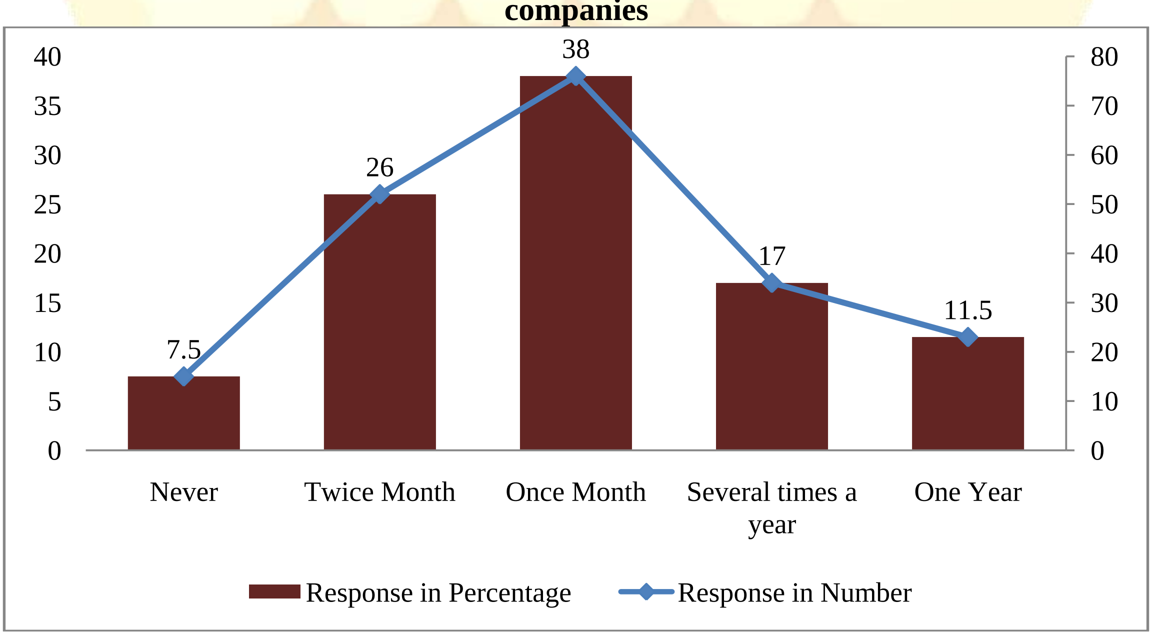
Responses	Number	Percentage
Never	15	7.5
Twice Month	52	26
Once Month	76	38
Several times a year	34	17
One Year	23	11.5
Total	**200**	**100**

Source: Survey Data

Analysis:

From the result shown above in the table 1.1, the average time they would like to devote to monitor and assist the ventures. The main allocation lies in "once a month" and "twice a month". They visit their portfolio companies relatively frequently, though for reasonable short periods each time. Frequent telephone conversations fill the gaps between visits and amount of hours they spend. In addition, the venture capitalists works on the company's behalf by attracting new investors, evaluating strategy against new conditions, and interviewing/recruiting new management candidates.

Graph 1.1: Venture Capitalists conduct face to face interaction with the portfolio companies



Source: Survey Data

Inference:

The above graph 1.1 shows the venture capitalists face to face interaction with the portfolio managers. The main distribution lies in “once a month” and “twice a month.” There are some differences between VC firms in the way they interact with their portfolio companies. The success of the portfolio companies depends on how much time on average manager is able to spend on helping each company. As noted by Rosenstein (1988) and Gorman and Sahlman (1989) “Venture capitalists directly help and influence the ventures through personal involvement at board meetings and other informal interactions with the CEO’s”.

Value Added Services

Table 1.2: Value Added Services

Sl. No.	Value Added Services	Response				
		Mean Score	Mean	SD	Mean %	SD %
1	Sales and Marketing	5	4.10	2.32	82.0	46.4
2	External Financing Assistance	5	3.95	1.62	79.0	32.4
3	Internal Financial Management	5	3.85	2.14	77.0	42.8
4	R&D and Product development	5	4.05	2.06	81.0	41.2
5	HR management	5	4.23	2.56	84.6	51.2
6	Operational management	5	4.18	2.82	83.0	56.4
Combined		**30**	**24.36**	**13.52**	**81.20**	**45.07**

Source: Survey Data

Analysis:

Above table 1.2 measures the value added services of venture capitalists. The above six items measured on a Five point Likert scale from 1=Never to 5=Every time. Mean and standard deviation used to measure the value-added services of VCs to the portfolio companies. From the results shown above, sales and marketing, HR management assistance and operational management are the activities which supported by the VCs to portfolio companies with the highest mean score.

Venture capitalists have a significantly more active role in managing their investments than traditional financial intermediaries. After the initial investment, venture capitalists engage in several “value-adding” activities with their portfolio companies (MacMillan et al., 1988; Gorman and Sahlman, 1989; Rosenstein, 1993; Sapienza, 1992; Sapienza et al., 1996; Hellmann and Puri, 2000; 2002; Seppa and Maula, 2002).

Percentage of Venture Capitalists working time devotes to monitor and assist the portfolio companies

Table 1.3: Percentage of Venture Capitalists working time devotes to monitor and assist the portfolio companies

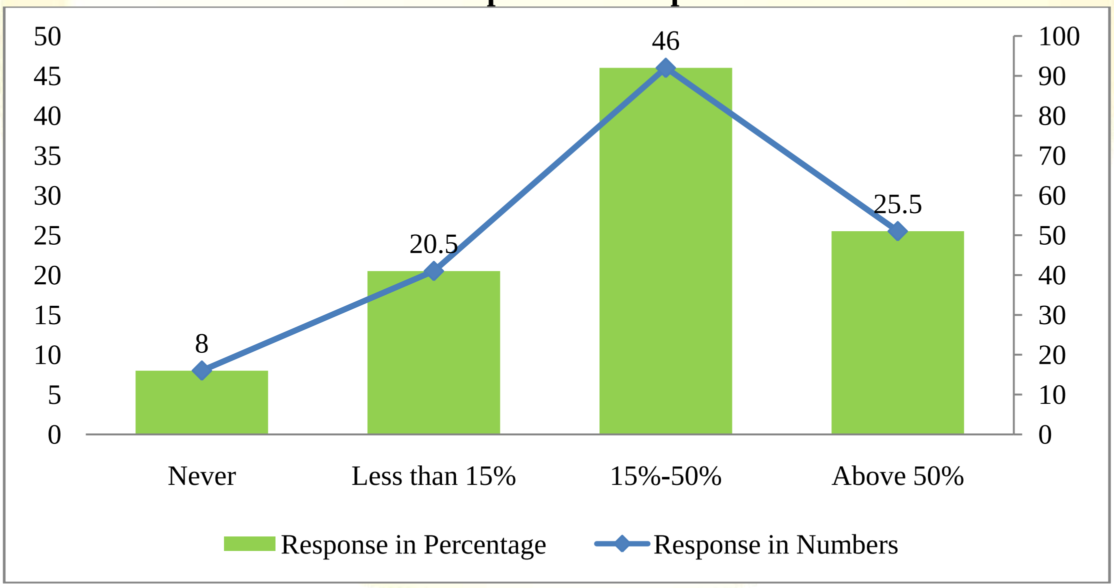
Responses	Number	Percentage
Never	16	8.00
Less than 15%	41	20.5
15%-50%	92	46.00
Above 50%	51	25.50
Total	**200**	**100**

Source: Survey Data

Analysis:

From the outcome shown above table 1.3, 46 percent of the respondents agree that 15 to 50 percent of venture capitalists effective time devote to monitor and provide assistance to the portfolio companies. The subsequently distribution lies in above 50 percent and less than 15 percent with a 25.5 and 20.5 percents correspondingly. The result clearly shows venture capitalists spend the majority of their time managing their portfolios.

Graph 1.2: Percentage of Venture Capitalists working time devotes to monitor and assist the portfolio companies



Source: Survey Data

Inference:

From the above graph 1.2 shows percentage of venture capitalists working time devotes to monitor and assist the portfolio companies in South India. 46 percents of the respondents say less than 15 percents of time they devote to portfolio companies in monitoring and assisting. 15 to 50 percent of time devoting for monitoring of portfolio 25.5 percent of respondents is agreed. The literature has shown there are great demands on venture capital firm's time (Gorman and Sahlman 1985, Gifford 1997, Gomper and Lerner 2004). Therefore it is very important for the venture capital firms to make decisions that deliver the maximum return for that time.

Conclusion:

Venture Capitalists not only provide fund but also provide specialized knowledge of a particular industry and access a network of contacts in promotion of portfolio companies. They actively involve and monitor the companies' activity where they are invested. The study found that sales and marketing, HR management assistance and operational management are the activities which supported by the venture capitalists to their portfolio companies and VCs spend their time in managing their portfolios. In particular, VCs play a significant more active role in managing their investments than traditional financial intermediaries.

Reference:

1. Dossani, R., & Kenney, M. (2002). Creating an environment for venture capital in India. *World Development*, *30*(2), 227-253.
2. Balboa, M., Martí, J., & Zieling, N. (2011). Impact of funding and value added on Spanish venture capital-backed firms.*Innovation: The European Journal of Social Science Research*, *24*(4), 449-466.
3. Large, D., & Muegge, S. (2008). Venture capitalists' non-financial value-added: an evaluation of the evidence and implications for research. *Venture Capital*, *10*(1), 21-53.
4. Sapienza, H. J., Manigart, S., & Vermeir, W. (1996). Venture capitalist governance and value added in four countries. *Journal of Business Venturing*,*11*(6), 439-469.
5. Eldridge, D. (2007). Optimal allocation of decision rights for value-adding in venture capital. *Management Decision*, *45*(5), 897-909.
6. Bammi, R., & Verma, A. (2014). Venture Philanthropy: An Emerging Paradigm of Venture Capital. *Vilakshan: The XIMB Journal of Management*, *11*(2).