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MONITORING METHOD OF VENTURE CAPITAL FIRMS- AN ANALYSIS OF FIRMS BASED IN DELHI AND NCR

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I. INTRODUCTION

In the highly dynamic economic climate that surrounds us today, few 'traditional' business models may survive. Countries across the globe are realizing that it is not the conglomerates and the gigantic corporations that fuel economic growth any more. The essence of any economy today is the small and medium enterprises. The growing trend can be attributed to rapid advances in technology in the last decade. However, starting an enterprise is never easy. There are a number of parameters that contribute to its success or downfall. Experience, integrity, prudence and a clear understanding of the market are among the sought after qualities of a promoter. However, there are other factors, which lie beyond the control of the entrepreneur. Prominent among these is the timely infusion of funds. This is where the venture capitalist comes in, with money, business sense and a lot more.

The venture capitalists are concerned with the safety and security of their investments and possibilities of a fair return on investment. It is obvious that Venture capital firms do not blindly fund all the proposals that come across. The VC's have methods to monitor the funded ventures, so that they are able to ensure that the venture becomes successful and they can make return on investments that they have expected.

II. RESEARCH OBJECTIVES

To examine the evaluation criteria and monitoring method of venture capital firms.

2.1 Research Design

The research design is a framework or blueprint for conducting the research. It describes the procedures necessary for obtaining the information needed to structure or solve the research problems. It lays the foundation for conducting the research. A good research design will ensure that research project is conducted effectively and efficiently. In the present study, the exploratory research design has been adopted. The primary objective of exploratory research is to provide insights into, and an understanding of, the problem confronting the researcher. Exploratory research is used in cases when one must define the problem more precisely, identify relevant courses of action, or gain additional insights before an approach can be developed. The information needed is only loosely defined at this stage, and the research process adopted is flexible and unstructured. The sample, selected is small and non-representative. The primary data are qualitative in nature and are analyzed accordingly. In the light of the above features, the findings of the exploratory research should be regarded as tentative or as input to further research.

Sample Size: 38 VC Firms

2.2 Monitoring Methods

The monitoring and mentoring of investee firm is an important element of VC financing process. The VCs generally prefer to be involved in decision making process and like to nurture the firms to help it grow. The various monitoring methods were ranked in a four point scale (1=Never and 4 = Always). In the study, it has been found that all the responding firms always prefer to have a representation in the board of investee firm. The other mode of monitoring was to have a regular feedback reports and statements covering the operational and financial issues. The occasional visit to the investee firm is also found to be a mode of mentoring and monitoring the progress of the investee firm and strengthening the bond of relationship.

Table 1

Monitoring Modes Preferred by VCF

Mode of Monitoring	Always	Mostly	Sometimes	Never
By nominating Director on the Board of the Investee	97.4	2.6		
Feedback through periodical reports/ statements	76.3	23.7		
Personal Visits	18.4	50	31.6	

****** Significant at $P<0.01$ level of significance * Significant at $P<0.05$ level of significance

It is noted from above table 1 that monitoring mode preferred is by Nomination (97.4%), by feedback reports/statement (76.3%) and personal visit (18.4%). The personal visits are preferred sometime by 31.6% of the firms.

Table 2

Monitoring mode across various features of VC Firms

Monitoring Methods	X^2	C	df	P
Firm Type				
Monitoring by nominating director on the board of the investee	0.474^a	0.111	3	0.925
Personal visits	6.382^a	0.379	6	0.382
Feedback through periodical reports / statements	8.280^a	0.423	3	0.041**
Firm Domicile				
Monitoring by nominating director on the board of the investee	1.269^a	0.180	1	0.260
Personal visits	1.120^a	0.169	2	0.571
Feedback through periodical reports / statements	0.000^a	0.003	1	0.984
Form of Organisation				
Monitoring by nominating director on the board of the investee	0.534^a	0.118	3	0.911
Personal visits	7.271^a	0.401	6	0.297
Feedback through periodical reports / statements	4.473^a	0.325	3	0.215

Year of Establishment				
Monitoring by nominating director on the board of the investee	1.761[a]	0.210	1	0.185
Personal visits	0.495[a]	0.113	2	0.781
Feedback through periodical reports / statements	4.508[a]	0.326	1	0.034
Fund Size				
Monitoring by nominating director on the board of the investee	38.000[a]	0.707	2	0.122
Personal visits	57.500[a]	0.776	58	0.494
Feedback through periodical reports / statements	29.701[a]	0.662	29	0.429
SEBI Registration				
Monitoring by nominating director on the board of the investee	0.418[a]	0.104	1	0.518
Personal visits	5.502[a]	0.356	2	0.064
Feedback through periodical reports / statements	0.110[a]	0.054	1	0.740
IVCA Membership				
Monitoring by nominating director on the board of the investee	0.747[a]	0.139	1	0.387
Personal visits	4.359[a]	0.321	2	0.113
Feedback through periodical reports / statements	0.026[a]	0.026	1	0.871

****** Significant at P<0.01 level of significance, * Significant at P<0.05 level of significance

The monitoring methods were examined for any statistical significance across various characteristic features as mentioned in table 2 No significant difference has been observed on only Firm type of VC firms and monitoring mode. Almost all type of firm prefer Personal visit (100%) as a mode of monitoring.

III. FIRM TYPE AND MONITORING MODE

H1: There is no significant difference between Firm type and Monitoring Mode

To test the above hypothesis Chi Square was carried out between Firm type and Monitoring Mode and the findings are given in table 3: ---

Table 3

Firm type and Monitoring Mode

Mode of Monitoring	**X2**	**C**	**Df**	**P**
By nominating Director on the Board of the Investee	0. 474[a]	0.111	3	0. 925
Feedback through periodical reports/ statements	6.382	0.379	6	0.382
Personal Visits	8.280[a]	0.423	3	0.041**
Any Other				

****** Significant at P<0.01 level of significance, * Significant at P<0.05 level of significance

It is noted from the table 3 that Chi Square value of 8.28 for personal visit as mode of monitoring and Firm Type is significant at P<0.05 level of significance; hence the hypothesis is **rejected**, there by confirming that there exist specific preference amongst firm type and monitoring methods. The 81 %(21 out of 26) Private Independent firms always prefer personal visits. None of the Govt. firm always prefer personal visit, though all the Govt. firm mostly prefer personal visits. The 100 % (4 out of 4 firms) Affiliate/Subsidiary of Non-Financial Corp firms always prefer personal visit.

IV. FIRM DOMICILE AND MONITORING MODE

H2: There is no significant difference between Firm Domicile and Monitoring Mode

To test the above hypothesis Chi Square was carried out between Firm domicile and Monitoring Mode and the findings are given in table 4: ---

Table 4

Firm Domicile and Monitoring Mode

Mode of Monitoring	X2	C	df	P
By nominating Director on the Board of the Investee	1.269[a]	0.180	1	0.260
Feedback through periodical reports/ statements	1.120[a]	0.169	2	0.571
Personal Visits	0.000[a]	0.003	1	0.984
Any Other				

** Significant at $P<0.01$ level of significance, * Significant at $P<0.05$ level of significance

It is noted from the table 4 that Chi Square values are not significant at $P<0.01$ and $P<0.05$ level of significance, hence the hypothesis is **accepted**, that there exist no specific association between Firm Domicile and Monitoring mode.

V. FORM OF ORGANISATION AND MONITORING MODE

H3: There is no significant difference between Form of Organisation and Monitoring Mode

To test the above hypothesis Chi Square was carried out between Form of Organisation and Monitoring Mode and the findings are given in table 5: ---

Table 5

Form of organization and Monitoring Mode

Mode of Monitoring	X2	C	df	P
By nominating Director on the Board of the Investee	0.534[a]	0.118	3	0.911
Feedback through periodical reports/ statements	7.271[a]	0.401	6	0. 297
Personal Visits	4.473[a]	0.325	3	0.215
Any Other				

** Significant at $P<0.01$ level of significance * Significant at $P<0.05$ level of significance

It is noted from the table 5 that Chi Square values are not significant at $P<0.01$ and $P<0.05$ level of significance, hence the hypothesis is ***accepted***, there exist no specific association between Form of organization and Monitoring mode.

VI. YEAR OF ESTABLISHMENT AND MONITORING MODE

H4: There is no significant difference between Year of Establishment and Monitoring Mode

To test the above hypothesis Chi Square was carried out between Year of Establishment and Mo4itoring Mode and the findings are given in table 6:-

Table 6

Year of Establishment and Monitoring Mode

Mode of Monitoring	X2	C	df	P
By nominating Director on the Board of the Investee	1.761[a]	0.210	1	0. 185
Feedback through periodical reports/ statements	0.495[a]	0.113	2	0.781
Personal Visits	4.508[a]	0.326	1	0.034**
Any Other				

****** Significant at P<0.01 level of significance * Significant at P<0.05 level of significance

It is noted from the table 6 that Chi Square values of **4.508** for personal visit is significant at P<0.05 level of significance for year of establishment and personal mode of monitoring, hence the hypothesis is **rejected**, there by confirming that there exist significant difference for Year of Establishment and Personal visit as Monitoring mode. The 87%(21 out of 24 firms)having 5 year or more period of establishment always prefer personal visit as mode of monitoring, whereas 57% (8 out of 14) VC firms established up to 5 years always prefer personal visit as mode of monitoring.

VII. SEBI REGISTRATION AND MONITORING MODE

H5: There is no significant difference between SEBI Registration and Monitoring Mode

To test the above hypothesis Chi Square was carried out between SEBI Registrationand Monitoring Mode and the findings are given in table 7:-.

Table 7

SEBI Registration and Monitoring Mode

Mode of Monitoring	X2	C	df	P
By nominating Director on the Board of the Investee	0.418[a]	0.104	1	0.518
Feedback through periodical reports/ statements	5.502[a]	0.356	2	0.064
Personal Visits	0.110[a]	0.054	1	0.740
Any Other				

****** Significant at P<0.01 level of significance, * Significant at P<0.05 level of significance

It is noted from the table 7 that Chi Square values are not significant at P<0.01 and P<0.05 level of significance, hence the hypothesis is ***accepted***, that there exist no specific association between SEBI Registration and Monitoring mode. None of the SEBI registered firm gave preference for Feedback through periodical reports/statement as mode of monitoring, where as 26% of the firms not having SEBI registration (7 out of 27 firms) prefer Feedback through periodical reports/statement.

VIII. IVCA MEMBERSHIP AND MONITORING MODE

H6: There is no significant difference between IVCA Membership and Monitoring Mode

To test the above hypothesis Chi Square was carried out between IVCA Membership Aand Monitoring Mode and the findings are given in table.

Table 8

IVCA Membership and Monitoring Mode

Mode of Monitoring	X2	C	df	P
By nominating Director on the Board of the Investee	0.747[a]	0.139	1	0.387
Feedback through periodical reports/ statements	4.359[a]	0.321	2	0.113
Personal Visits	0.026[a]	0.026	1	0.871
Any Other				

****** Significant at P<0.01 level of significance, * Significant at P<0.05 level of significance

It is noted from the table 8 that Chi Square values are not significant at P<0.01 and P<0.05 level of significance; hence the hypothesis is ***accepted***, there by confirming that there exist no specific association between SEBI Registration and Monitoring mode.

IX. FINDINGS AND CONCLUSION

It is noted from the above findings that the VC firms follow a methodical and rigorous process to identify, select and finance a venture. The present study reveals that on an average 16-20 weeks is being the time lag in appraising a project, while no more than 0-3% of the proposals finally gets funded by the VC firms (68%), for the rest of the proposals do not meet all the criteria that the discussion in the preceding chapters particularly those in chapters 5 to 8 has been based on perceptions of the VC firms. The discussion in this has been based on the opinion and perception of the entrepreneurs/VC investee firms with respect to the financing process and this has led to some very interesting observations and findings which may be considered of significance in the overall venture capital financing process.

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