"A STUDY OF VENTURE CAPITAL OR VULTURE CAPITAL – A OVER VIEW OF ISSUES AND CHALLENGES NEW INVESTMENT OPTIONS FOR INDIAN ENTREPRENEURS "

Mrs.Srividya.M.G, Asst Professor, PES University, Bangalore**.**

Dr.Vanitha.R.Bhargav , HOD and Professor, TQM School, Mysore**.**

1. Introduction to research :

The venture capital and angel investments have become an alternative to the banks and financial institutions for all most of the startups in India. The present research is to find whether these NEW alternatives between venture capital companies will really help entrepreneurs or becoming a curse in the name of venture capital to the freedom of the operation of their business, decision making issues and sharing of power in their own firm or company.

The research will study how far these venture (angel investments) may reduce the risk factors of the young entrepreneurs, but whether it is becoming a boon or bane on their business operations is the present purpose of study i.e to find whether they are same as the previous modes of financers (like banks, state finance corporation and other private financiers) who were looking for their money in multiples and never help entrepreneur in the times of crisis. The research want to find and study the vulture tendencies of swallow or complete takeover of firm and starups , by power of money shown by some venture capital companies and angel investors.

2. Objective Of The Study :

The research will study on the tendencies of the venture capitals in India their vulture capital tendencies and attitudes in dealing with the new enterprisers.

The points of considerations enquired in the research are as follows to understand the real heath of the relationship between the venture capitalist and capital companies in India now:

1. The procedural issues and the documents requirements in applying for funding capital. **Whether healthy?**

2. The number of meetings with funding institutions and it's officials for finalizing the fund saction, release. . **Whether healthy?**

3. The level of risk factors to the new firm in the venture mode finance w.r.t freedom of business operations. **Whether healthy?**

4. The share capital and profit sharing burden to the firm with the fund releasing institutions **whether it is equitable and justifiable w.r.t to fund received and the amount of time, life spent from the entrepreneur.**

5. The convenience level of disbursements of funds in each stage of project of entrepreneur or there is procedural and documentary harassment by the venture company at each stage. **Whether healthy?**

6. if there are small deviations of funds by entrepreneurs , then the settlement issues and conditions of agreement signed between venture and entrepreneur are one sided towards the venture capitalist or whether it is balanced. **Whether the entrepreneur is heavily penalized and sued by the venture company or the differences are settled in a humane way.**

7. If there are “requirement of additional years repurchase of shares” by the entrepreneurs in case of project requirement or diversification projects required or lack of finance in company for re-purchase of shares from venture capitalist , **whether in such times the venture capital company will take advantage of the situation and harass the entrepreneur or whether they will be cooperative is one of the parameter of this research paper.**

8. The sharing of management -board of the firm with funding institution and their interference level from the venture representative on the entrepreneur firm (company) like board members numbers , Interference on day to day operations, weekly meetings and decisions, market plans, expansion plans, expenditure plans, entrepreneur salary and personal drawings , salary to employees, **whether these venture representative will start treating entrepreneur as his employee or there equitable treatment ,are healthy ?**

9. The sharing of each decision process of firm with venture funding institution’s representative in board in changing decision with regard to the product line or process adopted in the industry

10. Whether there are instances of harassment of the fund representative on board with or without any agenda or reason.

11. **Whether there is harassment on the event /or time of “return of complete ownership at end of fund the end of period of funding by way of equity re-purchase from venture from the owners of firm”** or it is smooth sliding or whether the entrepreneur is made to lose because of market value of share on that time as the share repurchase and assessment of equitable issues.

12. **Whether there is harassment and inconvenience in “the return of company documents, fund agreement documents on the closure of fund period** and the company shares to the entrepreneur or it is equitable and smooth sliding. .

13. Whether , if there is requirement of additional fund availability at any stage of growth of company by entrepreneur in the period of success and profits by the entrepreneurs, **whether the bargain for higher and additional share requirement are demanded by the venture co. or whether the bargain will be equitable**.

14. Whether, if there is requirement of additional fund availability at any stage of growth of company by entrepreneur in the period of failure and losses to counter by diversifications and new additional associated plans and projects for modernization etc.. from the firm, in such situations the bargain between them are equitable or one sided to venture capitalist company. **Whether on healthy terms and conditions ?**

15. In case of the closure issues of the firm in case of complete failure of project or the product in the market, **whether there is harassment from the venture company and total inconvenience is caused to him in personal capacity as well as a company. Whether the venture capital reps change their colors of attitude or show a** smooth sliding tendencies between , in the bad times of closure in the one of the main question of research paper.

16. The research paper analyse the total level of inconvenience and problems to entrepreneurs under venture capital funding in closure times, bad times, good times, regular times of business. **Whether healthy ?**

17. When the entrepreneur requires a " new funds for new projects" with an unsuccessful project completion history in his first or previous venture (the entrepreneurs for their new innovative ideas and plans as new project submission to the funding), **whether the venture will demand a totally a one sided bargain to start the new project or the bargain between them will be as equitable as the first venture initiative..**

18. **Whether entrepreneur suffers health and mental stress because of the pressure created by the venture capital company** relationship in the business or he enjoys a least stress, good health and wellbeing being with venture company relationship.

19. The assessment of overall stress level of the entrepreneurs in funding options will show the level of inconvenience and pressure created by venture capital relationship in his business initiative. **Whether healthy?**

20. The assessment of the overall successful and positive environment for the entrepreneurs to startup, growth and diversification plans with present angel and venture companies, show the level of inconvenience and pressure created by venture capital relationship in his business initiative. **Whether healthy?**

21. The assessment of number of times - Whether any major issues, differences of opinions, differences in decisions in taking the business further will show the level of inconvenience and pressure created by venture capital relationship in his business initiative. **Whether healthy?**

22. The assessment of number of times - Whether any major issues, differences of opinions, differences in decisions making in business are settled positively or negatively and the level of inconvenience and pressure created by venture capital relationship in his business initiative. **Whether they are in healthy levels.**

23. In case of major differences of opinions and options with the operational issues for ongoing projects between entrepreneur and the venture company, whether there is stoppage of the whole business /firm or the business is taken further as routinely planned till the differences are sorted out amicably by a common committee or negotiator – show the status of health of the venture-entrepreneur relations ship. Or **whether the venture capital company will allow the routine business activity to move on even when there are major differences between them in the course of business operations ?**

This research paper is a sincere effort in analyzing the components of Health of the relationship between the venture capital company and entrepreneur - relationship under the above stated points /factors of research to find the health of the of the venture-entrepreneur relations ship in India.

3. Literature survey :

A brief Literature survey is done on the research papers on the health of the of the venture-entrepreneur relations ship in India. The extract of the research paper as follows:

3.1 Definition and meaning of vulture capital:

A vulture capitalist is an investor who seeks to extract value from companies in decline. The goal is to swoop in when sentiment is low–and the company is trading at a rock bottom price–and take whatever action is necessary to engineer a quick turnaround and sell it on for a profit.

Ref: Vulture Capitalist Definition - Investopedia

3.2 A vulture fund is an investment fund that seeks out and buys securities in distressed investments, such as high-yield bonds in or near default, or equities that are in or near bankruptcy.

Ref: Vulture Fund – Investopedia ,www .investopedia .article Jan 3, 2020

3.3 Key Takeaways of vulture fund :

- A vulture fund invests in assets whose prices have been severely depressed in the market.
- The goal is to identify assets that have been irrationally oversold below fundamental value, or where a positive turnaround is predicted.
- This high-risk, potentially high-reward strategy has been employed to accumulate distressed assets that typical portfolio managers would avoid.
- Understanding Vulture Funds
- Vulture funds take extreme bets on distressed debt and high-yield investing, also deploying legal actions in their management strategies to obtain contracted payouts. These funds are typically managed by hedge funds using various types of alternative strategies to obtain profits for their investors.

To achieve the strategy, portfolio managers seek deeply discounted investments with high potential rates of return due to the high default risks. Generally, investments are focused on fixed income instruments such as high yield bonds and loans that pay fixed or variable interest rates. Oftentimes, the investments will be in government debt of distressed countries, which requires even greater lobbyist involvement in resolving unpaid debts.

o vultures don't buy debts cheaply on the chance that the debtor will pay up. ... Anti-vulture fund groups say that vultures buy the debt with the full intention to sue the pants off poor countries, essentially making a profit on the backs of the global poor.

Ref: Vulture Funds: As Bad As They Sound? - Pulitzer Center.

3.4 Vulture Capitalist

An investor who buys companies in or near bankruptcy in order to save them.
An investor who buys the rights to a new product or invention in order to profit from i tssale. The term is somewhat derogatory as vulture capitalists deprive inventors of the money they would make otherwise. However, vulture capitalists may be in a better po sition to market these new products than the inventors themselves.

Ref: Farlex Financial Dictionary. © 2012 Farlex, Inc. All Rights Reserved

3.5 vulture capitalist.

A person or firm who accumulates cash and commitments for cash in order to take advantage of an anticipated temporary plunge in real estate values.At the proper time,the vulture capitalist will buy virtually every distressed property it can acquire,to resell when the market returns. (2) A derogatory term applied to venture capitalists, some of whom have a reputation of investing in a business in the hopes it will fail, at which point the venture capitalist takes over the assets and liquidates them at a profit.

Ref: The Complete Real Estate Encyclopedia by Denise L. Evans, JD & O. William Evans, JD. Copyright © 2007 by The McGraw-Hill Companies, Inc.

3.6 **Venture v/s vulture capital funding :**

Both venture capitalists and vulture capitalists are investors, but they focus on different types of investments. Let's pick both of them apart and you make the judgment on what they do and how they impact society. When people own a business and they need additional money for expansion, research and development, marketing, production, and more, where do they turn to for funds? The "cheapest" money is personal savings. The next cheapest is usually family and friends. Then you turn to the bank. If you can't satisfy your need in those areas, then you look to outside "investors" normally referred to as "venture capitalists" (VCs). There is one more group after this to borrow money from - but they tend to have collection terms based upon lead pipe cruelty. When someone needs VC money, they typically shop it out for the best deal they can get. The VC firms review volumes of deals and decide if they are willing to take the risks associated with the business. When they have interest, they typically lend money or buy stock (just like you do with any investment you make).

Since most of these investments are in troubled companies or start ups, they normally assume extraordinary risks, thus requiring large expected returns. Why are the risks so high? Because if they were not, the bank would gladly loan the money at cheap rates. Or if the business is large enough, money could be raised on public stock exchanges.

VCs typically provide money to businesses that have a great idea but not enough money to take it to market. An example would be a new cancer drug theory or a new technology that will take millions to perfect. Or they invest in established companies that ran out of funds and need additional financing to get to the next level or to get themselves through a tough time (i.e., construction project that ran out of funds).

The U.S. government acted this way with the TARP program. They infused billions into financial and auto companies; for the money invested, they charged a preferred high interest rate to be paid on the loan or assumed stock ownership.

During the crisis, Warren Buffett did the same thing by infusing billions into General Electric and others in return for preferred rates of return. He had money at a time when others needed it - and the banks would not or could not lend - so these companies asked his firm to take a risk. His firm decided to do so but required a rate of return that was commensurate with the risks taken. That is venture capitalism. Sounds more to me like investing, but call it what you will.

Vulture capitalism can be defined in many different ways. Today you can buy "vulture funds," which generally have the sole purpose of buying distressed assets. "Distressed" refers to companies or property in trouble, mismanaged, dying and heading toward bankruptcy. The "vulture" fund believes they see some "meat on the bone" and may get involved when all others have passed. They will either try to turn the asset around or liquidate it before it goes into the inevitable bankruptcy process.

The "vulture" term pertains to an offer that is very low. But one need not have to take it, but one could sell it to someone else . but usually there are no other takers. Some see this as predatory, while others view it that offering something is better than nothing.

People who buy foreclosed homes, short sales and underwater real estate, fall into this vulture category as well. The current owners can't financially maintain the asset, there are no buyers at higher prices and they can't obtain funds elsewhere. The "vultures" come in for a deal. But is it a deal? Time will only tell and since the owner could not obtain a higher price, the market is telling something.

Most venture firms invest in dozens of businesses understanding that some will fail and that they will potentially lose most if not all the money invested. For the large risks assumed, they typically require a sizeable equity piece or control triggers in the business so that if things start to go downhill they can come in with new management and either turn it around, liquidate it or sell it to someone else.

Ref: mission wealth . com article. Venture vs. Vulture Capitalists? , In Articles, Investments by Brad Stark May 29, 2014 ,Co-Founder and Chief Compliance Officer, Previously published in the Daily Sound.

Article from " Lancaster University Management School Working Paper 2004/017,, Attitudes of Venture Capital Investors Towards Entrepreneurs with Previous Business Failure." Speaks out in extract that " Business failure represents a significant outcome of entrepreneurial activity and yet remains an underdeveloped area of research. This article focuses on the attitudes of VC investors towards entrepreneurs with a previous failure experience. It illustrates that VCs recognise the complex, contextual nature of failure and do not necessarily perceive the entrepreneur to be the primary cause of the venture's demise. Consequently, the article differentiates between 'business', 'entrepreneurial' and 'venture capitalist' failure.

The article demonstrates that VCs often adopt a tolerant, flexible and open-minded attitude to failure and are keen to understand the circumstances in which it occurred. The majority of the VCs in the study emphasise that their decision to invest in an entrepreneur is not negatively affected to any significant degree by a previous experience of failure. A number of influential factors are presented, such as a high quality concept, which can offset this aspect of the entrepreneur's track record. The article concludes that business failure is not automatically considered a 'black mark' by VCs. It is important for entrepreneurs involved in business failure to be aware of these positive and sympathetic attitudes when considering putting forward new proposals to the VC community.

The paper conclude that " In contributing to the VC decision-making literature, this article demonstrates that, contrary to many previous studies, the entrepreneur is not necessarily the most important factor in the VC's decision-making process, even when considering proposals from entrepreneurs who have previously experienced failure. The research emphasises that the quality of the concept or opportunity is paramount; a primary reason being that any perceived weaknesses in the entrepreneur can, and often will, be supplemented by the VC's introduction of an experienced CEO and/or senior management team. This article demonstrates that if entrepreneurs are able to provide a sensible and coherent reason for the failure, recognise their own limitations and be willing to 'stand aside' if necessary, then the ability to receive future VC support is not jeopardised to any significant extent. An important conclusion from this research is that VCs do not always perceive entrepreneurs to be the primary cause of venture failure, which stands in contrast to several previous studies on the subject. The participants clearly recognise the inevitability of business failure and illustrate that it is often the result of external factors that are outside the control of both the entrepreneur and the VC.

This recognition that failure is a complex, contextual event means that the majority of the VCs in this study adopt a tolerant, flexible and open-minded attitude to entrepreneurs who have experienced failure and are keen to understand the circumstances in which the failure occurred. Several participants stressed that such a healthy attitude to failure is an important aspect of being a venture capitalist. The article confirms that the VC's decision to invest in an entrepreneur is not negatively affected to any significant degree by a previous experience of failure. Other influential factors, such as a high quality concept, can offset this aspect of their track record.

The participants are quick to stress, however, that if an entrepreneur has experienced multiple failures and very little success then this seriously brings into question the entrepreneur's abilities and the viability of their proposal. It is vital, given the findings of this research, not to conflate the terms 'business' failure and 'entrepreneurial' failure. Entrepreneurial failure can imply that the failure of the venture is a result of the entrepreneur's personal shortcomings or mistakes, thereby equating venture failure with a 'failed' entrepreneur.

As this article has illustrated, an entrepreneur who 'gets an exit' in times of market turbulence can be viewed as a relative success, even if the outcome results in a loss to investors. The research also demonstrates the occurrence of 'venture capitalist' failure, both in terms of failing to choose the right people/ventures to invest in and in not acting swiftly enough to replace the entrepreneur or management team when necessary. Within the context of VC investment, this article therefore makes a contribution to existing definitions of failure, such as those proposed by Cochran (1981) and Ulmer and Neilson (1947), which do not take into account these finer nuances within the concept of failure.

Finally, it concludes that "For the majority of the VCs represented here, venture failure is not automatically considered a 'black mark' and it is important for entrepreneurs to be aware of these sympathetic and supportive attitudes when considering putting forward new proposals to the VC community."

Ref : article published in eprints. Lans . ac. Uk, Lancaster University Management School Working Paper 2004/017,, Attitudes of Venture Capital Investors Towards Entrepreneurs with Previous Business Failure.

4. Research methodology

- Research methodology design and structure format :

The research paper uses the modified Dr.Bhrgav.SVR methodology design and structure. The following methodology design is used by research paper is directly based on the collection of data with regard to the subject matter of the venture-entrepreneur relationship health has been found by personal discussion and debates .

The stratification of data of respondents selected for the research is as follows :				
Entrepreneurs	venture officers	angels	consultants	Total
250	50	50	10	360

4. Findings, Suggestion And Conclusion

This research paper in analyzing the components of Health of the relationship between the venture capital company and entrepreneur - relationship under stated points /factors of research finds the health level of the of the venture-entrepreneur relations ship in India as follows : The research paper finds that :

a) Mostly the procedural issues and the documents requirements in applying for funding capital are healthy .

b) There is requirement of number of meetings with funding ventures before a deal is finalized . It looks un**healthy.**

c) The level **o**f risk factors to the new firm in the venture mode finance w.r.t freedom of business operations , though appears healthy , may not be for fifty percent of cases.

d) The equity sharing is mostly to higher side to venture , unless the startup idea is very innovative and great. **So needs a change in attitude in venture side.**

e) The disbursements of funds to entrepreneur is healthy.

f) if there are small deviations of fund utility by entrepreneurs , usually **mostly the entrepreneur is heavily penalized and sued by the venture company and some case the differences are amicably settled .**

g) If there are “requirement of additional years repurchase of shares” by the entrepreneurs in case of project requirement usually **venture capital company will take advantage of the situation and are un-cooperative .**

h) The sharing of management -board of the firm with funding institution is usually healthy and some cases it is one sided.

The level of interference level from the venture representative on the entrepreneur firm (company) like board members numbers , Interference on day to day operations, weekly meetings and decisions, market plans, expansion plans, expenditure plans, entrepreneur salary and personal drawings , salary to employees, **are not healthy and in some cases the venture representative treat entrepreneur as his own employee rather than co-shares of responsibility and position.**

i) The venture’s won’t usually allow the firms to change the product line or process adopted in the business.

j) There are instances of harassment of the fund representative on board with or without any agenda or reason many times in board.

k) There is some sort of harassment to most of firms experiences in the event of “ return of complete ownership by way of equity re-purchase at the end of venture term”. The market value is not usually considered by venture personnel. For share repurchase and assessment of equitable issues.

l) There is not much as inconvenience in the return of company documents after the venture deal term is closed.

m) Usually when there is requirement of additional funds for expansions , the bargain between venture and firm looks unhealthy and one sided .usually higher or additional share demanded by the venture co.

n) In the period of failure and losses , the firms are compelled by ventures to fore go their major shares at low values to venture companies . they show vulture tendencies in these situations.

o) In case business failures and closure of firm situations issues of the firm in case of complete failure of project , mostly even in the hands of venture the firms face harassment , inconvenience personal capacity as well to his firm . the venture representatives change behavior and color in such bad times of closure of business.

p) Usually the venture takes over major share capital (unless the idea or innovation has got great market potential) and tries to take total control of the business , making firm owner into a dormant position , for venture cases with previous failure history firms (unsuccessful project completion history in his first or previous venture)

q) Usually entrepreneur suffer a moderate health and mental stress because of the pressure created by the venture capital company relationship in the business . Some firms complain that owners health issues are related to stress created because of venture presence in their business.(though it looks better from bank or sate fiancé financing)

r) The overall stress level of the entrepreneurs in venture funding relations - looks medium and pressures created are tolerated by the firms and a they are mentally prepared for the hard core realities of " this partially healthy and a partially unhealthy relationship ", which changes with business ups and downs .

s) There is one side options to firms from ventures in case of growth proposals and diversification plans with present angel and venture companies ,

t) The firms encounter many number of times great level of inconvenience and pressure in board meetings in times of major business issues and decisions.

u) Usually the venture's will not interfere in day to day operations of business which are not involving in money aspects.

v) Most of the times venture capital company will not allow even firm's routine business activity to move on smoothly when some "major differences situation " happen between them and till it is fully sorted out .

5. **Suggestions** :

The research suggest for change in the venture attitude w.r.t "venture are very strict and want only 100% success rate projects and are not always ready to take risk in new ideas ". The research suggest that the issues of agreements between the venture and start-ups firms should be more clear and there should be a governmental moderating agency to help out in the case of differences and draw out some enforceable orders to be followed by both the stake holders of venture finance relationships. With regard to major issues like the board management sharing , the close monitoring of fund utility , dialiy operations of business, level of freedom in operations and decision process , solution in the time of major differences and crisis .

6. conclusions:

The research finally suggest a there a need of entrepreneurs and venture board members need to work like family or a single entity with complete support and commitment to make India see visible results of new and less risky mode of funding options for enterprises.