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A Study Of Chosen Companies 'Venture And Angel Capital Funding Process In India'

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ABSTRACT

Even though teachers have collected a giant frame of labor on angel investors, there are fewsystematic and entire tests available.

The purpose of this research paper is to review the literature and then develop guidelines forfuture studies. that purpose, we accrued a listing of angel funding magazine articles. We startwith Wetzel's foundational essay on the traits of angel traders and finish with extra cutting- edge studies.

For the sake of briefness, we restrained our evaluation to refereed magazine articles and theinternet, leaving out convention proceedings, books and e-book chapters, enterprise reports,several articles from different websites, and critiques. On the other hand, we did encompass the usage of statistics from the Global Entrepreneurship Monitor since those who seize early- stage financing globally. GEM defines angel funding a touch differently than we do within the monograph, in that during GEM they encompass early-level family and friends' cash as angel funding. This is, likely, because of the worldwide nature of the GEM statisticsseries and the shortage of a strong angel funding network internationally.

We look at how the extent and nature of European assignment capitalist involvement in their portfolio organizations could be impacted via means of assignment innovativeness, assignment level, CEO start-up experience, and CEO enterprise experience. The outcomes display that, as a well-known rule, assignment innovativeness and level had a regular effect such that more involvement was determined for exceptionally revolutionary ventures and for early-level ventures. In France, involvement was much less, and they no longer comply with a regular sample. The identical sample was changed into a determined with reference to the significance given to the jobs assumed. While there have been a few fluctuations in inside roles, throughout all contexts, the strategic roles have been accorded the greatest significance,with the interpersonal roles coming next, accompanied by means of the operational roles. The findings commonly support the notion that VCs put a great deal of effort into choosing winners, but additionally into getting worried selectively.

The Fintech enterprise's development model is constantly growing and innovating, and it continuously affects and transforms the conventional financial enterprise. Fintech has turnedout to be the country's coverage path and monetary improvement trend, leading to a boom inits skills demand, and the improvement of Fintech's skills has turned out to be critical. This paperdescribes the situation of Fintech companies and how they can assist new start- ups findventure capitalists and angel investors, and vice versa.

Keywords:

Angel Investors, Venture Capitals, Investments, Startups, Funds, Finance, Angel, andventure capital in India.

INTRODUCTION

As quickly as this generation advances, governing adjustments and the emergence of nonfinancial institution agencies keep reshaping the bill landscape, while marketplace proportion and competitiveness are transferring rapidly. If we study a company's stability sheet in terms on which we can find venture capital, it is going to be on the proper side: debt
+ fairness. Those capabilities indicate the company's project capital (debt capital and fairnesscapital). However, venture capital is cash furnished through expert project capitalists' companies that specialize in helping start-ups (that don't have the right of entry to economic markets) or small companies (that have the long-time period increase and willingness to go into the fair marketplace). When we study the records of project capital within the United States, we can see how the new generation has been advancing inside and during massive organizations or rich families. Seed, Early, Formative, Later, and Balanced are the 5 degrees of project capital making an investment. As a result, a lively project capital marketplace, led by innovation, can assist in boosting monetary growth through revolutionary marketers who introduce new offerings and or merchandise to the consumer.

Concurrently, there has been a quiet revolution within the way small and new companies have been financed. Angel investors, a little-known sibling in early-stage financing, have grown significantly in recent decades. The Centre for Venture Research estimates that angelsinvested $24.1 billion in 73,400,444 transactions in 2014. The exceptional estimate is that within the remaining years, approximately 300,000 human beings have invested in 4,444 within the United States, and those 4,444 have invested a median of $830.

Angel funding isn't always confined to the United States. In the economic year 2020, Indian start-ups secured 341 funding offers from so-called angel traders. Additionally, angel traders generally no longer make investments in the preliminary sections of a start-up, but additionally offer control support. Those traders are frequently character marketers who make a character investment or connect with others to an angel organization or network. One feature of angel investing is the growing prominence of angel organizations, or enterprise angel networks. Angelorganizations are made up of character angels who are part of a collective to assess and put money into entrepreneurial ventures. While they make their personal funding decisions, angels generally pool their capital in organizations to make large investments. Angel organizations might also additionally have a fund where in every person invests a positive quantity and comes to a decision collaboratively to make investments, at the same time as others might also additionally require a positive quantity or variety of investments in line with the year as a part ofthe club requirements.

INTRODUCTION TO TECHNOLOGY AND FINANCE:

Technology encompasses all techniques, skills, methods, and procedures employed in the manufacture of goods or services, as well as the achievement of goals such as scientific research. Technology can be defined as the knowledge of procedures, processes, and the like,or it can be integrated in machines to allow for functioning without a thorough understandingof how they work.
Technology systems or technological systems are systems (e.g., machines) that apply technology by accepting an input, modifying it according to the system's usage, and thenproviding an output.

Finance is a broad phrase that encompasses banking, debt, credit, capital markets, money, andinvestments, among other things. Finance, in its most basic form, refers to money management and the act of obtaining necessary finances.

Money, banking, credit, investments, assets, and liabilities are all part of financial systems,and finance is responsible for overseeing, creating, and studying them. Credit, money, and finance are all employed as mediums of trade in the financial system. As a result, they function as a known value against which services and things are exchanged.

Angel investors and venture capitalists may provide funding in exchange for a share of ownership in a start-up. If a business succeeds and decides to go public, it will sell stock ona stock exchange through an initial public offering (IPO)

INTRODUCTION TO FINTECH:

The term "monetary era" will follow to any innovation in however masses interact business, from the invention of virtual money to double-access accountancy. Since net revolution and the cellular net/cell phone revolution, however, financial era has full-grown explosively, andfintech, that within the starting declared laptop era meted out to the once more geographical point of banks or shopping for and commercialism companies, currently describes a large sort of technological interventions into nonpublic and business finance.

New technologies, like machine learning/artificial intelligence, prophetical activity analytics,and data-driven promoting, can take the dead reckoning and habit out of monetary selections. "Learning" apps won't solely learn the habits of users, typically hidden to themselves, however, can have interaction users in learning games to create their automatic, unconscious disbursal and saving selections higher. Fintech is additionally a keen adapter of machine-controlled client service technology, utilizing chatbots to and AI interfaces to help customers with basic task and additionally keep down staffing prices. Fintech is additionallybeing leveraged to fight fraud by investment data regarding payment history to flag transactions that square measure outside the norm.

ANGEL INVESTORS

An angel investor (also known as a private investor, seed investor, or angel financier) is a wealthy person who financially supports small start-ups or entrepreneurs, usually in exchange for equity in the company. Angel investors are often found in the family and friendsof an entrepreneur. The funds provided by angel investors can be a onetime investment to help the business get started or an ongoing injection to support and guide the business through its difficult early stages.

IMPORTANT POINTS

- An angel investor is usually a wealthy person who often finances businessstart-ups with their own money in the early stages.
- Angel investing is often the main source of financing for many start-ups who find itmore attractive than other more predatory forms of financing.
- The support that angel investors provide to start-ups drives innovation thattranslates into economic growth.
- These types of investments are risky and typically represent no more than 10% of theangel investor's portfolio.

THE ORIGIN OF THE ANGEL INVESTING

The term "angel" comes from the Broadway theatre, where wealthy people provided money for theatrical productions. The wealthy individuals made funds available, which were repaid plus interest as soon as the productions generated income. The founder of the Centre for Venture Research and a professor at the University of New Hampshire, William Wetzel, coined the term "angel investor" in 1978 after completing a study on how entrepreneurs raisecapital for businesses. He used the term to describe investors who supported the creation of start-up companies.

Silicon Valley is home to modern angel investors and is also home to most start- ups in the United States. Silicon Valley received 39% of all $ 7.5 billion investments in US companies in the second quarter of 2011.

Total funding reached $ 22.5 billion in 2011, $ 2.4 billion morethan investments in 2010.

With platforms Like AngelList, start-ups can directly contact potential angel investors and secure funding for their company. There are also dozens of bootcamps and conferences eachyear where entrepreneurs meet with investors and present their ideas.

UNDERSTANDING ANGEL INVESTOR

Angel Investors are people who want to invest in the early stages of start-ups. These types ofinvestments are risky and usually do not represent more than 10% of the angel investor's portfolio. Most angel investors have excess funds and seek a higher return than traditional investment opportunities.

Angel investors offer more favorable terms compared to other lenders because they typicallyinvest in the entrepreneur who starts the business rather than the profitability of the business.Angel investors focus on helping new businesses get started, rather than the potential profits they can make from the business. In essence, angel investors are the opposite of venture capitalists.

Angel investors are also called informal investors, angel funders, private investors, seed investors, or informal investors. They are usually wealthy individuals who provide capital tostart-ups in exchange for equity capital or convertible bonds. Some angel investors invest through online crowdfunding platforms or create angel investor networks to raise capital.

Who can be an angel investor?

Angel Investors are typically individuals who have achieved "Accredited Investor" status, but this is not a requirement. The Securities and Exchange Commission (SEC) defines an "accredited investor" as an investor with a net worth of at least $ 1 million with income of $300,000 for married couples. In contrast, an accredited investor is not synonymous with an angel investor.

Essentially, these people have both the financial resources and the desire to fund new businesses.This is welcomed by cash-hungry start-ups who find angel investors far more attractive than other more predatory forms of financing.

FUNDING SOURCES:

Angel investors typically use their own money, unlike venture capitalists, who take themoney of many other investors and place it in a strategically managed fund.

Although angel investors generally represent individuals, the entity that provides the fundscan be a limited liability company (LLC), corporation, trust, or mutual fund, among manyother types of vehicles.

INVESTMENT PROFILE:

Angel investors who create start-ups that fail in their early stages lose their investmentsentirely. Therefore, professional angel investors look for opportunities for a defined exitstrategy, acquisitions, or initial public offerings (IPOs).

The effective internal rate of return for a successful portfolio for angel investors is around22% .3 While this looks good to investors and seems too expensive for early-stage entrepreneurs, sources are generally not available. cheaper financing, such as banks. such commercial enterprises. This makes Angel Investments perfect for entrepreneurs who stillhave financial problems in the initial phase of their business.

Angel investing has grown in recent decades as it has become an important source of fundingfor many start-ups due to the attractiveness of returns. This, in turn, has fostered innovationsthat translate into economic growth.

TYPES OF ANGEL INVESTORS

- The super angel
- The Domain Angel
- The Previous-Colleague Angel
- The Friends & Family Angel
- The Grouped Angels
- The Fellow-Entrepreneur Ange

WHERE TO FIND ANGEL INVESTORS:

The best place to start when looking for an angel investor is to look close to home or on angel investor network sites. Most investors will want to invest in local start-up businessessince it will be easier to track the progress of the business.

AngelList, Angel soft, MicroVentures, and Angel Capital Association have an online listingof angel investors who are members in good standing and are looking to invest in potential high-growth businesses. Check out the angel investors listed on the sites and find out what you need to make a pitch. Some sites allow you to send a pitch online at a fee. However, most investors will require you to make a presentation in 20 minutes or less before decidingwhether to invest in the business or not. Also, keep track of angel investment conferences in your state that you can attend and meet potential investors.

THE PROS AND CONS OF ANGEL INVESTORS:

Advantages and Disadvantages of Angel Investors for Business Owners

- The big advantage is that financing from angel investments is much less risky than debt financing. Unlike a loan, invested capital does not have to be paid back in the event of business failure. And most angel investors understand business and take a long-term view. Also, an angel investor is often looking for a personal opportunity aswell as an investment.
- The primary disadvantage of using angel investors is the loss of complete control as apart-owner. Your angel investor will have a say in how the business is run and will also receive a portion of the profits when the business is sold. With debt financing, the lending institution has no control over the operations of your company and takes no share of the profits.

TYPICAL SOURCES OF ANGEL INVESTORS:

Angel investor is a somewhat general term, and you can find these types of investors in afew different forms. Angel investments normally come from:

1. **Family and friends:** This are by far the most common source of funding for businessstart-ups that are interested in finding business start-up.

   new businesses, it is also risky in terms of the possible impact on relationships if thebusiness is not successful. It is important to be upfront about the risk of failure.
2. **Wealthy individuals:** Another good source is successful businesspeople, doctors, lawyers, and others that have a high net worth and are willing to invest up to (typically) $500,000 in return for equity. Often this is done by word of mouth throughbusiness associates or associations such as the local Chamber of Commerce.
3. **Groups:** Angels are increasingly operating as part of an angel syndicate (a group ofangel investors), which raises their potential investment level accordingly. Investorscontribute funds to the syndicate and a professional syndicate management team chooses the investments.
4. **Crowdfunding:** A form of an online investing group, crowdfunding involves raising funding by having large groups of individuals invest amounts as small as

   $100.

VENTURE CAPITALISTS

A venture capitalist (VC) is a private equity investor that provides capital to companies with high growth potential in exchange for an equity stake. This could be funding start-up ventures orsupporting small companies that wish to expand but do not have access to equities markets.

KEY POINTS

- A venture capitalist (VC) is an investor who provides capital to firms that exhibit highgrowth potential in exchange for an equity stake.
- VCs target firms that are at the stage where they are looking tocommercialize their idea.
- Well-known venture capitalists include Jim Breyer, an early Facebook (FB)investor, and Peter Fenton, an investor in Twitter (TWTR).
- VCs experience high rates of failure due to the uncertainty that is involvedwith new and unproven companies.

UNDERSTANDING VENTURE CAPITALISTS

Venture capitalist firms are usually formed as limited partnerships (LP) where the partners invest in the VC fund. The fund normally has a committee that is tasked with making investment decisions. Once promising emerging growth companies to have been identified,the pooled investor capital is deployed to fund these firms in exchange for a sizable stake ofequity.

Contrary to common belief. VCs do not normally fund start-ups from the onset. Rather, they seek to target firms that are at the stage where they are looking to commercialize their idea. The VC fund will buy a stake in these firms, nurture their growth, and look to cash out with asubstantial return on investment (ROI).

Venture capitalists typically look for companies with a strong management team, a large potential market and a unique product or service with a strong competitive advantage. Theyalso look for opportunities in industries that they are familiar with, and the chance to own alarge percentage of the company so that they can influence its direction.
Payment is made to the venture capital fund managers in the form of management fees and carried interest. Depending on the firm, roughly 20% of the profits are paid to the company managing the private equity fund, while the rest goes to the limited partners who invested inthe fund. General partners are usually also due to an additional 2% fee.

HISTORY OF VENTURE CAPITAL

Venture capital (VC) has a relatively short history in India, with the first VC fund being set up in the late 1980s. Here's a brief overview of the history of venture capital in India:

2000s:
The 2000s saw the emergence of several successful Indian startups that were funded by venture capital firms. Some of the notable ones include InfoEdge, MakeMyTrip, Naukri.com, and Flipkart. This period also saw the establishment of several new venturecapital firms, including Accel Partners, Sequoia Capital, and Nexus Venture Partners.

2010s:
The 2010s saw a boom in the Indian startup ecosystem, with several new startups being founded and funded by venture capital firms. This period also saw the emergence of severalnew types of venture capital firms, including corporate venture capital firms and angel investor groups.

2020s:
The 2020s have seen the continuation of the growth of the Indian startup ecosystem, despitethe challenges

posed by the COVID-19 pandemic. The Indian government has also taken several steps to promote the growth of the venture capital industry in the country, includingthe establishment of a Rs 10,000 crore ($1.3 billion) fund of funds for startups.

In conclusion, the history of venture capital in India is relatively short, but the industry hasgrown significantly over the past few decades. With the continued growth of the Indian economy and the emergence of several successful startups, the future of venture capital in India looks bright.

POSITIONS WITHIN A VC FIRM

The general structure of the roles within a venture capital firm varies from firm to firm, butthey can be broken down to roughly three positions:

- Associates usually come into VC firms with experience in either business consultingor finance, and sometimes a degree in business. They tend to

  do more analytical work, analyzing business models, industry trends, and sectors, whilealso working with companies in a firm's portfolio.
  Although they do not make key decisions, associates may introduce promisingcompanies to the firm's upper management.
- A principal is a mid-level professional, usually serving on the board of portfoliocompanies and in charge of making sure they're operating without any big hiccups. They are also in charge of identifying investment opportunities for the firm to invest in and negotiating terms for both acquisition and exit.

How Are Venture Capitalist Firms Structured?

Wealthy individuals, insurance companies, pension funds, foundations, and corporate pension funds may pool money together into a fund to be controlled by a VC firm. The venture capital firm is the general partner, while the other entities would be the limited partners. All partners have part ownership over the fund, but it is the VC firm that controls where the fund is invested, usually into businesses or ventures that most banks or capital markets would consider too risky for investment.

FINANCING STAGES FOLLOWED BY A VENTURE CAPITALIST

There are typically six stages of venture round financing offered in Venture Capital, thatroughly correspond to these stages of company's development.

- Seed funding: The earliest round of financing needed to prove a new idea, often provided byangel investors. Equity crowdfunding is also emerging as on option for seed funding.
- Start-up: Early-stage firms that need funding for expenses associated with marketing and product development
- Growth (Series A round): Early sales and manufacturing funds
- Second Round: Working capital for early-stage companies that are selling product, butnot yet turning a profit.
- Expansion: Also called Mezzanine financing, this is expansion money for a newlyprofitable company.
- Exit of venture capitalist: Also called bridge financing, 4th round is intended to finance the"going public "process.

Between the first round and the fourth round, venture-backed companies may also seek totake venture dept. Firms and Funds

How Are Venture Capitalists Compensated?

Payment is made to the venture capital fund managers in the form of management fees and carried interest. Depending on the firm, roughly 20% of the profits are paid to the company managing the private equity fund, while the rest goes to the limited partners who invested inthe fund. General partners are usually also due to an additional 2% fee.

THE INVESTMENT PROFILE.

One myth is that venture capitalists invest in good people and good ideas. The reality is thatthey invest in good industries—that is, industries that are more competitively forgiving thanthe market. In 1980, for example, nearly 20% of venture capital investments went to the energy industry. More recently, the flow of capital has shifted rapidly from genetic engineering, specialty retailing, and computer hardware to CD-ROMs, multimedia, telecommunications, and software companies. Now, more than 25% of disbursements are devoted to the Internet "space." The apparent randomness of these shifts among technologies and industry segments is misleading; the targeted segment in each case was growing fast, and its capacity promised to be constrained in the next five years. To put this in context, we estimate that less than 10% of all U.S. economic activity occurs in segments projected to grow more than 15% a year over the next five years.

The myth is that venture capitalists invest in good people and good ideas. The reality is that theyinvest in good industries.

In effect, venture capitalists focus on the middle part of the classic industry S- curve. They avoid both the early stages, when technologies are uncertain and market needs are unknown,and the later stages, when competitive shakeouts and consolidations are inevitable and growth rates slow dramatically. Consider the disk drive industry. In 1983, more than 40 venture-funded companies and more than 80 others existed. By late 1984, the industry market value had plunged from $5.4 billion to $1.4 billion. Today only five major players remain.

REVIEW OF LITERATURE

This study has identified and rated the available writing on angel investors and venture capitalists to provide an overview of the current state of knowledge on them. This was doneto understand the current research and studies on the topic, the conclusions drawn from them, and the scope of analysis that resulted from them. The synopsis of individual papers that was read with the end goal of the study are next. Aside from the accompanying, furtherwriting was also examined during the investigation and has been quoted in various sectionsof the study.

1. Angel investors' selection criteria: A comparative institutionalperspective Zhujun Ding, Sunny Li Sun & Kevin Au

Despite the crucial function of angel traders as crucial companies of economic offerings forstart-up's, little is understood approximately how establishments represented in extensivelydistinct institutional settings influence their funding decisions. While angel traders may be predicted to base their decisions on comparable choice standards, they're additionally embedded in and encouraged via way of means of distinct institutional frameworks whereinthey make investments and consequently deliver those standards distinct weight than different traders. We examine the choice standards for angel traders in China and Denmarkfrom a comparative institutional perspective. Using a coverage seize technique to apprehendtheir selection standards, we located that angel traders in China, embedded in relationship-primarily totally based establishments, depend greater on robust ties like own circle of relatives and pals at the control team. They additionally deliver much less weight to danger in comparison to angeltraders in Denmark who perform in greater rules-primarily based totally institutionalcontexts. As with challenge capitalists, angel traders tailor their selection- making standards to local institutional conditions.

https://link.springer.com/article/10.1007%2Fs10490-014-9374-z

2. Financing High-Growth Firms: The Role of Angel Investors

Karen E. Wilson

This publication covers seed and early-stage financing for high growth companies in OECDand non-OECD countries with a primary focus on angel investment. Angel investment is theprimary source of outside equity financing for start-ups in several countries, yet it is frequently overlooked as angel investors are often not visible. Following the recent financialcrisis and continued difficult economic environment, angel investors have been playing an important role in filling financing gaps left by banks and venture capital firms.

Aaddata and processes. It reviews developments around the world and identifies some of the key success factors, challenges, and recent trends. It then discusses policy measures forpromoting angel investment, with examples from countries which have been active in this area. As part of the background research for this project, over 100 people were interviewedfrom 32 countries.

https://papers.ssrn.com/Sol3/papers.cfm?abstract_id=1983115

3. Angel Investors' and Entrepreneurs' Intentions to Exit Their Ventures: AConflict Perspective

Veroniek Collewaert

This study examines the relationships among angel investor–entrepreneur relationship conflicts, task conflicts, and goal conflicts on the one hand and their intentions to exit on theother. I evaluate the hypotheses with survey data from 65 angel investors and 72entrepreneurs belonging to 54 ventures located in either California or Belgium. Regression analyses indicate that entrepreneurial intentions to exit are higher for entrepreneurs who face more task and goal conflicts. Angel investors' intentions to exit areonly increased when faced with more goal conflicts. Together, these results indicate the importance of considering investor–entrepreneur relations when studying their respective exit processes.

https://doi.org/10.1111%2Fj.1540-6520.2011.00456.x

4. The Importance of Angel Investors in Financing The Growth of Small and Medium Sized Enterprises

Veland Ramadani

Angel investors are very important for small and medium sized enterprises because they provide more than money. They are hands-on investors and contribute their skills, expertise, knowledge, and contacts in the businesses they invest in. They are wealthy persons with greatbusiness experience. They are willing to invest and offer their wealth and knowledge to owners of small and medium sized enterprises and to entrepreneurs to start or develop theirbusinesses. One of the attributes of angel investors is that they like to remain anonymous. Due to this attribute, a lot of ideas cannot be accomplished. To eliminate this, many countriesestablish angel investor syndicates (groups) and networks. These syndicates (groups) and networks facilitate the process of matching entrepreneurs and angel investors.

https://www.researchgate.net/profile/Veland-Ramadani/publication/267842704_The_Importance_Of_Angel_Investors_In_ Financing_The_Growth_Of_Small_And_Medium_Sized_Enterprises/links/5657e4ba 08aeafc2aac118b0/The-Importance-Of-Angel-Investors-In-Financing-The- Growth-Of-Small- And-Medium-Sized-Enterprises.pdf

5.THE ROLE ANGEL INVESTORS IN THE ASSEMBLY OF NON- FINANCIAL RESOURCES OF NEW VENTURES: CONCEPTUAL FRAMEWORK ANDEMPIRICAL EVIDENCE

Alexander Ardichvili, Richard N. Cardozo, Kathleen Tune and Judy Reinach

This study investigated the types of non-financial resources that private investors contribute to fledgling businesses, and reasons for providing these resources. The study is grounded inthe resource-based theory of the firm, and agency theory. In-depth interviews were conducted with 27 serial angels.

investors. Results documented in detail the types of non-financial resources that angels provide to new firms, including business ideas, top managers, and network connections - as

well as funds. We demonstrate that angles manage risk through a combination of techniques,which has as much to do with managing returns for the business as with managing agency risk. We also describe in detail distinct patterns of investment behavior among private investors, ranging from the dominant pattern of "partnership" with entrepreneurs to the rarerpattern of "passive “investing. Differences in patterns of investment behavior appear to havesignificant implications for entrepreneurs seeking start-up support from private investors. This study provides a starting point for development of a theory of resource provision and assembly for new firms.

https://doi.org/10.1142/S021849580200013X

6. What matters, matters differently: a conjoint analysis of the decision policiesof angel and venture capital investors?

Dan K. Hsu, J. Michael Haynie, Sharon A. Simmons, and Alexander McKelvie

Prior studies have examined the importance of economic, strategic, and human factors to decision policies of angel investors and venture capitalists. As more angels professionalizeinto angel funds and as markets for technologies and ideas become more competitive, it is becoming more important to compare their decision policies with those of venture capitalists.Drawing upon agency theory, we examine whether economic potential, specific human capital, strategic readiness, and passion matter differently to venture capitalists and angel investors. Our study is an experimental conjoint analysis of more than 2700 investment decisions nested within a mixed sample of venture capitalists and angel investors. We findthat strategic readiness for funding and affective passion matter more to angel investors, while economic potential matters more to

venture capitalists. We also find that both investor types place similar weights on the specifichuman capital of entrepreneurs. These findings support the agency view that differences inthe investment decision policies of angel investors and venture capitalists can be explained by examining the agency costs, market risks, information asymmetry, and control mechanisms that are structured into angel and venture capital deals.

https://doi.org/10.1080/13691066.2013.825527

7.STRATEGIES FOR ATTRACTING ANGEL INVESTORS

J W Holaday, S L Meltzer & J T McCormick

In the early stages of corporate growth, biotechnology entrepreneurs can attract funding froma particular category of investor: the ‘angel’ investor. This paper describes different types ofangel investors and discusses the role angel investors play in providing funding, advice, and contacts to early-stage biotechnology companies. Further, some of the quality’s angel investors seek in the companies in which they invest are reviewed, and techniques that biotechnology entrepreneurs can employ to increase the likelihood of obtaining funding from angel investors are discussed.

https://doi.org/10.1057/palgrave.jcb.3040018

8. Angel investors’ predictive and control funding criteria: The importance ofevolving business models

James M. Crick, Dave Crick

This study aims to investigate the question involving what factors affect angel investors ‘decision-making in funding new start-ups with specific reference to their evolving businessmodels. Without funding and access to networks and experience, certain entrepreneurs willnot get their business model through the start-up phase.

https://www.emerald.com/insight/content/doi/10.1108/JRME-11-2016- 0043/full/html

9. Angel investors: Opportunity amidst chaos

Mark Jensen

The seemingly relentless flow of negative news from the markets, the boardrooms and the political capitals has created a paradoxical opportunity for the astute angel investor.Traditional venture capitalists have virtually abandoned the early-stage investment space. By observing certain parameters, by learning from the mistakes of the recent speculative frenzy, and by following conservative investing principles, early-stage investors may prosper during widespread stagnation.

https://doi.org/10.1080/1369106022000024905

10. Angel investors: the impact of regret from missed opportunities.

Jeffrey Sohl

As suppliers of critical risk capital, angels are routinely faced with a multitude of investmentopportunities and typically invest in less than 20% of these prospects. Angels need to accessthese opportunities, decide which investments to pursue, and tyro predict future winners andlosers all within an environment typified by a high degree of information asymmetry. This research examines the real-time actions and decisions of angel investors and the effect of the investment regret or inaction on future investment decision-making. Angels who misseda past opportunity that subsequently realized a positive return are significantly less likely toinvest in subsequent similar opportunities. Also, the dynamism of the market and the experience of the investor play important roles in influencing subsequent investmentdecisions once an investor has missed an opportunity. This research adds a level ofgranularity by identifying a new and potentially influential dimension—missed opportunities are an influential force in angel investment decision-making.

https://doi.org/10.1007/s11187-021-00512-6

11. Venture capitalist value-added activities, fundraising and drawdowns.

Douglas Cumming, Grant Fleming, Jo-Ann Suchard

This paper was the first to introduce an analysis of the effect of different types of venture capitalist value-added activities (financial, administrative, marketing, strategic/management) on fundraising. In addition, they included an analysis of the functional difference between committed funds and drawdowns from capital commitments vis-à-vis pension funds and venture capital funds. The comprehensive data which was collected by the Australian Bureauof Statistics for 1999–2001, enable controls for venture capitalist performance, risk, investment activity, and management and performance fees. The results indicated thatsignificantly more capital is allocated to venture capitalists that provide financial and strategic/management expertise to entrepreneurial firms (as opposed to marketing and administrative expertise). In addition, fundraising was greater among funds with higher returns and performance fees and lower fixed management fees. In contrast, drawdowns from capital commitments are greater among venture capital funds that provide financial and marketing expertise to investees (as opposed to strategic and administrative expertise), and among funds with higher performance fees and fixed management fees. Further, the results indicated an adverse impact on venture capital fundraising from illiquidity attributable to a 2- yearlock-up period in IPO exits over the period considered.

https://doi.org/10.1016/j.jbankfin.2004.05.007

12. The venture capitalist-entrepreneur relationship: Control, trust, and confidence in co-operative behavior

Dean A. Shepherd &Andrew Zacharakis

This article acknowledges the importance of achieving confidence in partner co-operation within the venture capitalist (VC)-entrepreneur relationship. The entrepreneur and the VC need to balance the level of control and trust building mechanisms so that the optimal levelof confidence in partner co-operation can be achieved. The study proposes that the entrepreneur can build trust with the VC (and vice versa) by signaling commitment and consistency, being fair and just, obtaining a good fit with one's partner, and with frequent and open communication. Open and frequent communication acts as a catalyst for the othertrust building mechanisms. This theoretical framework acts as a counterweight to most previous studies on the VC-entrepreneur relationship that have emphasized control mechanisms to build partner co-operation without sufficient consideration of how this might affect trust and how trust and control jointly effect confidence in partner cooperation.

https://doi.org/10.1080/13691060110042763

13. Predictors of performance of venture capitalist-backed organizations

Bharat A Jain

Venture capitalists seek investment opportunities in young, privately held companies with promising growth prospects. In addition to supplying capital, venture capitalists are decision-making agents who participate in the governance of their ventures and attempt to influence objectives, strategy, structure, and control processes. This study develops and evaluates models examining the impact and relative importance of venture-capitalist factors,managerial strategy, industry structure variables, and their interactions on performance of venture capital-backed organizations. The models are evaluated based on their ability to predict whether the VC-backed venture will provide superior long-term performance.

https://doi.org/10.1016/S0148-2963(99)00112-5

14. Venture capitalist monitoring: Evidence from governance structures

Terry L Campbell II, Melissa B. Frye

They have examined the impact of venture capitalist (VC) involvement, quality and exaton corporate governance structures at the time of and after an initial public offering (IPO). Venture capital backed firms utilize governance structures with greater levels of monitoringat the time of an IPO compared to non-backed firms, but this difference begins to dissipateover time. While short- lived, IPOs backed by high qualities have greater overall monitoringlevels than those IPOs backed by low quality VCs.IPOs backed by high quality VCs use significantly more equity-based compensation than their low-quality counterparts. Finally, the exit of a VC materially alters the governance structure of firms. Measures of governancedecline following the departure of a venture capital firm. Overall, the presence of a venturecapitalist affects governance structures of firms both at the IPO and through the early yearsas public firms.

https://doi.org/10.1016/j.qref.2008.05.001

15. An entrepreneur's choice of venture capitalist or angel-financing: Abehavioral game-theoretic approach

Richard Fairchild

They developed a game-theoretic model that analyses the effects of economic and behavioral characteristics on an entrepreneur's choice of financier (venture capitalist or angel). After the entrepreneur has chosen his financier, the dyad faces double-sided moral hazard problems in the form of ex ante effort-shirking, and ex post project- expropriation. In making his choice of financier, the entrepreneur trades-off the following factors. The venture capitalist has higher value-creating abilities than the angel. However, the entrepreneur anticipates a closer, more empathetic and trusting relationship.

with the angel. Entrepreneur/angel empathy and trust mitigates the double- sided shirking and expropriation threats. Our model contributes to two strands of venture capitalistresearch: the entrepreneur's choice of financier in the face of double-sided moral hazard problems, and the effect of behavioral factors, such as empathy and trust, on the creation of'relational rents'.

https://doi.org/10.1016/j.jbusvent.2009.09.003

16. The Deal Structuring Stage of the Venture Capitalist Decision-MakingProcess: Exploring Confidence and Control

G. Tyge Payne, Justin L. Davis, Curt B. Moore &R. Greg Bell

This exploratory study examines the deal structuring stage of the venture capitalist decision-making process. Here, the primary issues of concern are investor confidence and potential control of a venture in relation to the level of financing the investor provides and the structurewith which the funding is delivered. Confidence comes in support of the entrepreneur, the venture itself, or a combination of the two, prior to capital transfer, but after the initial “invest or not invest” decision has already occurred. Findings support a multicriteria perspective of the pre-investment decision-making process and a distinct difference betweenentrepreneur confidence and venture confidence in the deal structuring stage.

https://www.tandfonline.com/doi/abs/10.1111/j.1540-627X.2009.00266.x

17. Evaluating Venture Technical Competence in Venture Capitalist Investment Decisions

Rohit Aggarwal, David Kryscynski, Harpreet Singh

Although much research emphasizes the importance of venture technical competence for venture success and, therefore, the importance of venture technical competence in venture capitalist (VC) investment decisions, we know little about why some VCs maybe better thanothers at assessing the technical competence of ventures. We gathered unique and proprietary data from 33 VCs and 308 ventures that sought Series A funding from those VCs.We show that VC assessment of ventures predicts VC investment, and venture technical competence predicts subsequent venture failure. This means that VCs that over assess ventures are more likely to invest in firms that are more likely to fail. We then show that higher VC technical competence leads to lower errors in assessment, but that greater similaritybetween the VC and venture in technical competence leads to higher assessments, ceteris

paribus. We thus conclude that VC competence enhances the accuracy of VC assessments,but similarity in technical competence between VCs and ventures may lead to positive assessment bias.

https://doi.org/10.1287/mnsc.2014.2117

"Venture Capital and Angel Investing in India: A Primer" by the National Venture Capital Association: This report provides an overview of the venture and angel capital industryin India, including the regulatory environment, investment trends, and challenges facing investors.

Link: https://nvca.org/wp-content/uploads/2015/03/NVCA-India-Primer.pdf

"Startup India: A Practical Guide for Entrepreneurs" by Nishith Desai Associates: This reportprovides insights into the startup ecosystem in India, including the funding process, legal considerations, and tax implications. It also offers practical advice for entrepreneurs looking to raise capital.

Link: https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research_Papers/Startup_India.pdf

"Angel Investing in India: A Comprehensive Guide for Investors" by Indian Angel Network: This report provides an overview of the angel investing landscape in India, includingthe investment process, valuation methodologies, and exit strategies. It also explores the role ofangel investors in supporting the growth of the startup ecosystem.
Link: https://indianangelnetwork.com/uploads/IAE-angels-guide.pdf

"Venture Capital in India: Past, Present, and Future" by Bain & Company: This reportprovides insights into the evolution of the venture capital industry in India, including the emergence of new investment models and the increasing involvement of corporate investors. Italso explores the challenges facing the industry, such as the lack of exit opportunities and the difficulty of scaling up startups.

Link: https://www.bain.com/contentassets/0b9d58702d3945e5a5f1a5b23de5e55a/bain-brief- venture-capital-in-india.pdf

"Angel Investing in India: Opportunities and Challenges" by the Indian Journal of Science and Technology: This article provides an overview of the angel investing landscape in India, including the investment process, funding sources, and investment criteria. It also exploresthe challenges facing angel investors, such as the lack of a supportive regulatory environment and the limited availability of experienced entrepreneurs.

Link: https://www.indjst.org/index.php/indjst/article/view/90148

Overall, these resources offer valuable insights into the venture and angel capital funding process in India and can help entrepreneurs and investors navigate the complexities of the startupecosystem.

CONCLUSION FROM STUDY OF LITERATURE

REASONS FOR LOOKING INTO DIFFERENT SOURCES OF FUNDINGOTHER THAN BANKING:

Bankers face an asymmetry of facts while evaluating loan packages. New companies are the maximum informationally opaque resulting from their lack of track record. The facts requiredto evaluate entrepreneurial competence and dedication and commercial enterprise potentialities aren't available, uneconomical, or hard to interpret. This creates many varietiesof chance for the banker. First, there's the hazard of horrible selective credit to companies thatlater fail or giving no credit score to companies that later be triumphant or have the potential to obtain it. Low margins on small commercial enterprise loans encourage bankers to try andlessen mistakes of first type. Second, there's a hazard of moral hazard. This is due to the factbanks are not able to display screen industrial commercial enterprise proprietors to make certain they're not appearing riskier responsibilities that would enhance them or lessen their workload on the rate of the economic institution. The outcome is that banker's default to a capital gearing method to lending wherein their lending selections will emphasize economicconcerns – margins, coins glide forecasts, gearing ratios, asset control ratios and economic controls and the provision of collateral, in place of a complete assessment of the proposed project. In the primary place, the willingness to provide guarantees, the self-warranty of an entrepreneur, shows every in their very own abilities and in the likely attention of the project.Second, the recognition of collateral is thought to stabilize the pursuits of the entrepreneur with the ones of the banker. Thus, it addresses the horrible desire dispute in the loan and themoral hazard dispute after the loan.

The significance of collateral is surely emphasized in lots of evaluation of credit score documents and commonly the motives for formal and casual mortgage declines, with 1/2 of the mortgage packages rejected due to the fact collateral is inadequate or unsuitable. Indeed,the motives given for rejecting loans have been overwhelmingly finance related. Only a smallpercent of instances has been indexed as insufficient control because the reason.

The evaluation of the bankers became ruled with the aid of using economic concerns while control functionality became in large part discounted. Moreover, the ones bankers who statedthat they might provide a mortgage might simplest achieve this if collateral became available.

Thus, from this we understand that the bankers' investment selections might be ruled with theaid of using economic concerns and they may supply little attention to entrepreneurial competencies or the traits of the opportunity.

https://www.investopedia.com/ask/answers/062315/what-type-funding-options-are-available-private-company.asp

VENTURE CAPITALISTS' INVESTMENT DECISION

VCs and BAs additionally come across statistics asymmetry troubles while comparing funding opportunities. However, as fairness providers, they are probably anticipated to undertake very one-of-a-kind methods to their investment decision. VCs and BAs are making an investment for capital benefit and, in comparison to the banker, they share withinside the fulfilment of the groups that they spend money on. Unlike the banker, their funding is likewise absolutely uncovered withinside the occasion that the enterprise fails. And in addition to hazard is that their funding could be illiquid if the enterprise doesn't reap great growth. Accordingly, VCs and BAs is probably anticipated to region greatest emphasisat the functionality of the control group, the product/carrier, and the marketplace.

The maximum steady locating from research of VC decision-making is the significance this is located at the cap potential of control. This consists of control skill, excellent of control, traitsof the control group and the control group's music record. Other standards which VCs file that they remember while assessing a brand-new assignment thought are the traits of the marketplace/industry, environmental threats to the enterprise, the tent of opposition and the diploma of product differentiation. For instance, the entrepreneur in the long run determines thefunding decision, drastically a thorough familiarity with the industry/marketplace, management functionality and the cap potential to compare and manage risks. Additionally, it concludes withmanagement issuing to dominate the funding decision. However, different research – even as confirming the significance of the entrepreneurial group – recommend that different elements also are great withinside the VC's funding decision, drastically product traits (proprietary features, aggressive advantage, capacity to reap sturdy marketplace position), marketplace traits (great growth, restrained opposition) and returns (capacity for excessive returns, clean go out opportunity). Indeed, while not underrating the critical significance of getting a equipped controlgroup in region, indicates that VCs may also be organized to spend money on conditions in whichweaknesses in control had been diagnosed however the enterprise idea become in any other casesound: 'this become related with assignment capitalists who tended to be proactive of their fashion and had a notion that they might entice properly managers to the groups wherein they selected to invest.' There is likewise settlement withinside the literature that the monetary elements of the thought are typically of restrained significance on the preliminary screening level,however, assume significance at the second one level withinside the decision-making process.

Thus, from this we understand that VC will also deal with financial matters, but other thanthat they will put considerable emphasis on the entrepreneurial and market team’s feature.

BUSINESS ANGEL/ANGEL INVESTORS INVESTMENT DECISION

Business angels, also known as angel investors, are high net worth individuals who invest in early-stage companies in exchange for equity ownership. Their investment decisions are basedon a variety of factors, including the potential for high returns, the quality of the managementteam, and the scalability of the business model.

Here are some links to resources that provide insights into the investment decision-making process of business angels/angel investors:

"Understanding the Investment Decision-Making Process of Angel Investors" by the EuropeanBusiness Angel Network: This report provides insights into the investment decision-making process of angel investors, based on a survey of 50 angel investors across Europe. It explores factors such as deal flow, evaluation criteria, due diligence, and post-investment management.

"Angel Investing: The Art of Making Money and Creating Value" by David S. Rose: This book provides a comprehensive guide to angel investing, including insights into the investment decision-making process of angel investors. It covers topics such as deal sourcing, valuation, due diligence, negotiation, and portfolio management.

"How Angel Investors Make Investment Decisions" by Forbes: This article provides insights into the investment decision-making process of angel investors, based on interviews with several prominent angel investors. It explores factors such as market size, management team, product/market fit, and financial projections.

"Investment Decision Criteria of Angel Investors" by the Angel Capital Association: This article provides an overview of the investment decision criteria used by angel investors, basedon a survey of over 500 angel investors in the US. It explores factors such as management team,market size, competitive landscape, and exit strategy.

"What Angel Investors Look for When Investing in Startups" by Inc.: This article provides insights into the investment decision-making process of angel investors, based on interviews with several successful angel investors. It explores factors such as team experience, market size, customer traction, and scalability.

Overall, these resources offer valuable insights into the investment decision-making process of business angels/angel investors and can help entrepreneurs better understand what factors theyneed to focus on when pitching their businesses to investors.

RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY:

A study of Venture capital and angel capital funding processes in India.

PRIMARY OBJECTIVES OF THE PROJECT ARE:

1. To learn about funding process of venture and angel capital in India.
2. Learn about the techniques used by venture and angel capitalists to connectwith startups.

SECONDARY OBJECTIVE:

1. How we can help the startups to connect /find an angel investor or a venturecapitalist.
2. New source of funding.

RESEARCH METHODOLOGY: - Research Methodology –

"Systemized Method to gain knowledge". The technique deployed to analyze and interpretthe data for the purpose of hitting the target objective plays a crucial role. The effective research technique has a significant contribution for effective objective achievement.

DATA SOURCES: -

- Primary Data
- Secondary Data

Primary Data:

Primary data is a data that is collected for the first time in the processing of the analysis. Theresearchers have adopted the contact through telephone for the purpose of collecting Primarydata. The researchers discuss with Team Manager and employees of the company to get information angel investors.

SECONDARY DATA:

Under Secondary sources, we tapped information from internal & external sources. Wemade use of Internet (such as search engine www.google.com, www.icicidirect.com, www.indiabulls.com and miscellaneous sources (such as brochures, pamphlets, library)under external sources.

ANALYSIS:

The survey and interview data will be analyzed using both descriptive and inferential statistics,as well as content analysis techniques. The quantitative data will be analyzed using statistical software, while the qualitative data will be analyzed through coding and thematic analysis.

DATA ACQUISITION AND SAMPLING TECHNIQUE:

The study was conducted using primary data collected through questionnaires. Secondary data has been acquired from companies' records, archives, books, and websites with the intention of gaining insight into the industry. A cross-sectional self-administered survey in the KwaZulu-Natal, Durban region in South Africa was used for data collection. The target sample frame consisted of entrepreneurs in the eThekwini Municipality SMMEs Fair participants. The study has population of approximately 500 participating respondents and the sample size is 160 out of 200 distributed questionnaires, the probability of selection is 32 per cent. The sample size was randomly (simple random sampling) drawn from the target population list. In probability sampling, the searcher uses a random selection of elements to reduce or eliminate sampling bias. The sampling procedure can have substantial confidence that the sample is representative of the population from which it is drawn. All responses werescrutinized for completeness, consistency, and errors, and to eliminate questionable data. The responses included nominal data (biographical data and general experience with venture capital firms), as well as ordinal data on a five- point Likert-type scale with end points of 'strongly disagree' and 'strongly agree' to measure the items. The processing of the data was done by means of the SPSS program to retrieve univariate, bivariate, and multivariate results.

CROSS TABULATION AND CHI-SQUARE:

Cross-tabulation is a technique for comparing two classification variables (Cooper et al., 2008:459) while Chi-square statistic is used to test the statistical significance between the frequency distribution of two or more groups (Hair Jr et al, 2003:263). The statistic tests the'goodness of fit' of the observed distribution with the expected distribution.

Table 1 indicates the number of responses on the screening process (yes or no) on each group of venture capital market (informal and formal). The null hypothesis, H0, is that thereis no difference between the venture capital types and the screening process. The alternativehypothesis, H1, is that there is a difference between venture capital types and the screening process. The probability is 0.05 that a true null hypothesis will be rejected. The critical valuefor one degree of freedom and the 0.05 level of significance is 3.841 with p- value (0.009) less than the level of significance (0.05). The value of chi-square ($\chi 2$) test (6.877) is beyondthe critical value (3.84), and the decision is to reject H0 at the 0.05 level of significance andaccept H1

Table 1

Venture capital market – screening process cross-tabulation

			Screening process Yes	No	Total
Venture capital market	**Informal VC**	Count (observed) Expected count % of Total	46 41 35%	37 42.1 20%	27 27 55%
	Formal VC	Count (observed) Expected count % of Total	33 38.1 13.3%	44 39 34.7%	77 77 45%
Total		Count Expected count % of Total	79 79 48.3%	81 81 51.7%	160 160 100%

	Value	df	Asymp.Sig. (2-sided)
Pearson Chi-square	6.877	1	.009
Likelihood ratio	7.034	1	.008
N of valid ases	160		
Minimum expected frequency	38.05		
Cells with expected Frequency	<5 1 of 2 (.0%)		

It denotes that there is a difference between venture capital types (informal and formal venture capital) and the screening process for SMEs in the venture capital market. The descriptive statistical analysis divulges even spread in that 55 per cent of the respondents prefer informal venture capital while the respondents (52 per cent) perceive that the screening process is not adversary and harsh. Table 2 provides clarity on venture capital market preference and the stages of development for SMEs. In the start-up and early growth stages, SMEs prefer informal venture capital, and they perceive the screening process as adversarial and harsh. Goldfarb, Hoberg, Kirsch and Triantis (2007) also note that business angels invest in the early stage of the deal, although they demand fewer controls than venturecapitalists. In a similar vein, angels are a primary source of start-up capital for firms in the embryonic stage, through the growth stage and their role in financing small businesses is significant (Zimmerer & Scarborough, 2005). The seed and expansion stages prefer formal venture capital, and they perceive no adversity in the selection and screening process.

Table 2

Venture capital market preference and Stage of development

			VCM preference Informal	Formal	Total
Stage of development	**Seed**	Count (observed) Expected count	13 13.9	14 13.2	27 27
	Start-up	Count (observed) Expected count	22 20.5	17 18.5	39 39
	Early Growth	Count (observed) Expected count	19 17.7	15 16.3	34 34
	Expansion	Count (observed) Expected count	17 17.7	18 16.3	34 34
	Replacement & buyout	Count (observed) Expected count	13 13.3	13 12.7	26 26
Total		Count Expected count	83 83	77 77	160 160

-

FACTORS DESCRIBING VENTURE CAPITAL FUNDING MARKET:

Factor analysis was performed on percentage of total variance of all six items explained by three factors of about 79 per cent. Tabachnick and Fidell (2001) concede that a smaller sample size of 150 cases should be sufficient despite the comforting 300 cases for factor analysis, and solutions should have high loading marker variables. The reliability of factor structures and the sample size requirements are congruent with factor loading above 0.80. However, Dancey and Reidy (2002) note that when performing factor analysis, at least 100 participants should be variables. Both criteria were met by the present study, with six and tenitem measure and 160 respondents. The statistical measures have assisted to assess the factorability of the data with Bartlett's Test of Sphericity (Bartlett, 1954), and the Kaiser- Meyer-Olkin (KMO) measure of sampling adequacy (Kaiser, 1970, 1974). The Bartlett Test of Sphericity is significant (0.000 < 0.05) for the factor analysis to be considered appropriate.The measure indicates that the Kaizer-Meyer-Olkin (KMO) score of 0.82 (indicates sampling adequacy) obtained in this factor analysis is suitable with Bartlett's Test of Sphericity (107.54) at degree of freedom (15). The factor model indicates three distinct factor loadings without any misclassifications (a total of six items are reduced to three underlying factor loadings).

The principal component methods of factor extraction and Varimax methods of rotation generated three factors that account for 79.44 per cent of the variance. Principal components analysis is used to extract factors with eigenvalues greater than one (Podsakoff & Organ, 1986), while varimax rotation is used to facilitate interpretation of the factor matrix. Factor 1 accountsfor 43.60 per cent of the variance, factor 2 for 18.13 per cent and factor 3 for 17.71 per cent.
Table 3

indicates that these three factors accounted for 79.44 per cent of the variance in the originalsix variables. The percentage exceeds the minimum amount of variance of 60 per cent and the number of original variables has been reduced from six to three. All three factors have eigenvalues above the customary cut- off point of one. The factors are set out in Table 4.

Table 3

Total variance explained: venture capital funding market

Component	Rotation sums of squared loadings		
	Total eigenvalues	% of variance	Cumulative %
1	2.616	43.600	43.600
2	1.088	18.130	61.730
3	1.063	17.711	79.441

Table 4

Rotated component matrix

1.1.1..1.1 Component	1	2	3
Liquidity	0.855		
Real options	0.832		
Communication	0.785		
Entrepreneur's knowledge	0.725		
Lack of financing		0.942	
Good ideas			0.961

Column one of Table 4 shows the names of the six variables. It is easier to interpret the factor solution if factor loadings under < 0.50 in the factor matrix are not reflected. There areonly three factors retained in this analysis with eigenvalues > 1.

ANALYSING FACTORS:

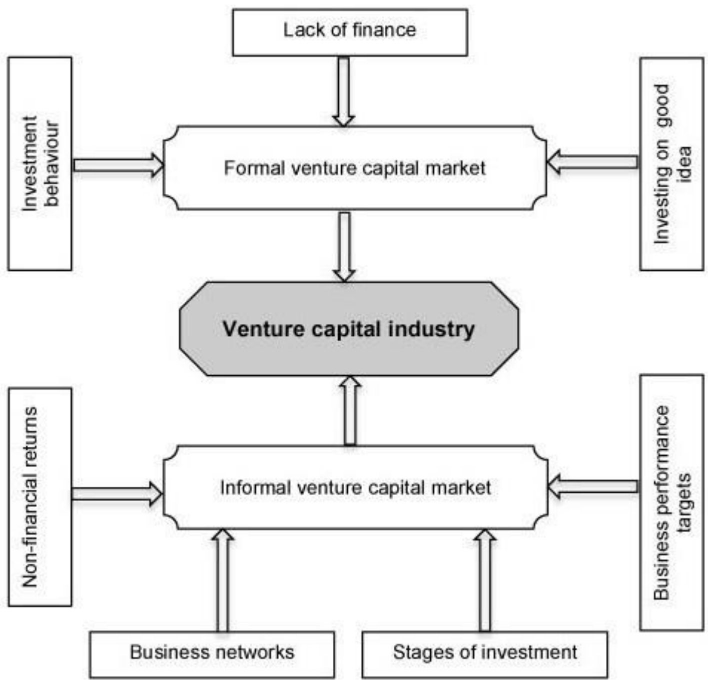
The logic of naming the factors is easily supportable and theoretically sound. One creates anartificial dimension that would highly correlate empirically with each of the items measuringprejudice (Babbie & Mouton, 2001).

Factor 1: The critical factor comprises items from liquidity patterns, real options, communication, and entrepreneur's knowledge. This factor describes market relations and behavior in new venture investments that do not generate any significant free cash flow for several years. Although the reasons for real options associated with an investment depend onthe level and uncertainty surrounding the investment, it is difficult for the entrepreneurs to communicate their true beliefs about the potential success of a new venture. This suggests that the entrepreneurs know more about their abilities, managerial skills, and commitment than the outsiders.

Factor 2: This factor describes the lack of funding as the most likely factor that. will destroy an excellent idea.

Factor 3: This factor describes the possibility of identifying and investing in good ideas, even though it is difficult to find people who can implement the ideas. Figure 1 indicates themajor dimensions that influence the venture capital market.

Figure 1
Dimensions influencing the venture capital market (conjoint framework for venture capital market)



DATA ANALYSIS:PURPOSE

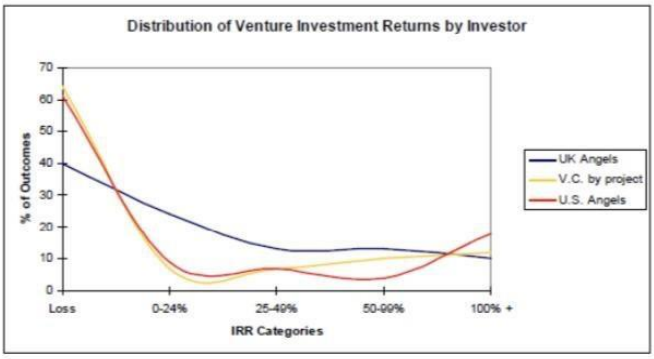
The purpose of this paper is to examine the literature on angel investors. Research on angel investors is sparse because data are sparse. Most comprehensive studies of angel investors have focused on the USA and UK. In these studies, definitions of angel investors and estimates of returns on angel investments vary dramatically. What can one make of this widerange of reported returns?

Design/methodology/approach

The authors examine the literature and find that the calculations of reported. results are vague.

ANGEL INVESTORS:

Figure 1: Relative Rates of Return for Angel
Investors, Taken from Wiltbank's at the Individual Level: Outline Angel Investing in the United States (2005). The chart shows the distribution of IRRs varies wildly across projects,and very little can be concluded looking across categories. It is not clear from the chart (or the accompanying text in the original document) if UK and US angel returns can be compared. The chart tells the reader nothing about durations, project sizes, or cash flow investment schedules making international comparisons (or comparisons to VCs) much lessuseful.
Our comments are not meant to detract from Wiltbank's contributions. His approach was thestandard at the time. Indeed, it remains so. This also applies to the studies we discuss below.Our goal is to illustrate that practitioners and researchers must temper statements of angel returns so that they do not misstate the nature of the data. In general, Wiltbank's results suggest that most angels have returns between 0% and 24%, and that only a relatively smallpercentage enjoy the phenomenal returns which attract so much attention in the popular press. He finds that on average angel investments earn a return of 14%, which while better than many traditional investments, is not particularly appealing given the level of risk and illiquidity inherent in angel investments (DeGennaro, 2012).



Venture CAPITAL

THEEE WAYS VENTURE CAPITALISTS USE DATA ANALYTICS:

1. Where are the best companies?

While the instinct for scouting great investments is usually developed through years in the field, VC associates can improve their scouting process by using data to analyze a variety of ecosystems. For instance, Hone Capital created a machine learning model by partnering withAngelList and is using the data available from sources such as Crunchbase and Full Contact.Based on specific investment criteria, a VC such as Hone Capital can browse public and private data sources to identify and recommend the best seed deals. Following this model, Hone Capital has increased deal flow by up to 20 deals a week. Relying on similar processes,VCs have experienced a significant improvement in the diversity and quality of leads sourced.

2. Whether to invest in a particular company?

While there isn't a lot of visibility into startup investments, predictive modelling techniques canhelp investors check their gut-instincts against the facts.
Predictive modelling evaluates multiple factors that forecast the likelihood of a startup's success. This works in the same way a credit score is calculated by assigning marks to a variety of attributes or factors. Some examples of insights that help determine if a company islikely to thrive are as follows:

Team background: Criteria for educational background, employment history, and entrepreneurial experience, especially if the management team has a relevant background inthe field. Data shows that a startup with two founders from different universities is twice as likely to succeed as those with founders from the same university.

Funding: An important performance metric is whether a company will go on to raise an additional round of funding, from seed stage to series A. A seed investment of at least $1.5 million is an early indicator of a company's future success. Those with less than $1.5 milliontend not to raise the additional funding needed to be successful.

Digital footprint: Probably the most extensive source of information, especially for B2C companies, is a company's digital footprint. Twitter, Facebook, web traffic, and so on, can provide useful insights for investors. By identifyingkeywords that express positive or negative sentiments, a VC can rank each company's public sentiment quantitatively. The VCcan set an alert to notify the VC of any "sentiment-changing" events.

Financial information: Analytics have enabled VCs to examine traditional financial sources and discover insights deep within central bank reports and the company earning statements.

RISKS INVOLVED IN ANGEL INVESTING:

No assurance that target results will be achieved:

The past performance of a Startup or its management, a Lead Angel, or principals of Advisor, is not predictive of a Startup's or a Fund's future results. There can be no assurancethat targeted results will be achieved. Loss of principle is possible, and even likely, on any given investment.

Angel investments are illiquid:

Unlike conventional investment instruments such as stocks or mutual funds, Angel investments are illiquid, which means Angel investors usually cannot sell their stake in the business to any public market to help minimize loss. So, if making an investment, an Angel Investor should consider investing in businesses in which s/he has experience or expertise inso s/he can properly assess the product and market opportunity and provide advice or insights to help keep the business on course.

Difficult to Value Startups:

Generally, there will be no readily available market for a Startup's equity securities. Startupsalso have limited operating history, which means they might be pre-revenue or might not have assets or liabilities that they can value.

Lack of Investor Control in a Fund:

Investors in a Fund will not make decisions with respect to the management, disposition orother realization of any investment made by the relevant Fund, or other decision regardingsuch Fund's business affairs.

Confidential Information:

Certain information regarding the Startups will be highly confidential. Competitors maybenefit from such information if it is ever made public and that could result in adverse economic consequences to the investors.

MEASURES TO BE TAKEN

To start off, while the founders may be very optimistic about the business potential, do yourdue diligence. For instance, you must try to get a basic understanding of the market, competition, skill set of the team members to deliver, potential customers and business plan.If needed, get help from subject matter experts.

Two, you may want to make your payments in more than one installment. While the need for money seems 'immediate' for startups, there is less benefit in moving money from youraccount to theirs if the business plan requires the funds over a few months. Track how theyare progressing against milestones and only add more funds if you feel satisfied.

Three, you must estimate the amount that you are comfortable completely writing off and invest only that. You must ensure that the company raises the required money before writingyour cheque—investing ₹10 lakh when the venture needs ₹40 lakh to reach a milestone is money thrown away.

Four, in the early stages, founders need support in the form of mentoring, access to other

funding sources, and other such. If you are not comfortable with these, you may offer softsupport until the startup is able to attract other co-investors.

The next decision to consider is the suitable instrument to invest—equity, debt, or convertible.A loan is often a simple way to provide funds as the terms and expectations are clear.

The reward is limited for the investor and hence may be a preferred choice for founders whomay want to retain shareholding. There are two issues to consider here. One, there are restrictions on who is allowed to provide the loan. Check if you fall within the eligible list. Two, loans may be suitable only if the startup can either raise additional funds to repay the loan or generate enough cash flow to refinance the loan with a bank when it is due.

Most researchers do not explicitly report if their estimates are equal-weighted or value- weighted, nor do they say whether the results are weighted by the duration of the investment.The authors show that the unit of analysis – investment, project, or angel – affects interpretations.
Practical implications
Limitations on the comparability between various studies of angel investing returns leave thecurrent literature incomplete. They also offer opportunities for future study in the area.
Originality/value
The authors are the first to examine the angel investing literature in a comprehensive fashion, comparing between various returns found across all major studies of the subjectdone to date.

END NOTES

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