Chapter 5

Conclusion, Discussion and Implications

As mentioned in chapter one that venture capital firms and other investors providing funding to startups need more evidences and research output discussing the exit strategies. The findings of the study can be useful for various stakeholders. Before discussing the implications of the study, the following section has mentioned the objective-wise major findings of the study.

Objective 1

The first objective was about knowing the most preferred route of exit by venture capital firms in India. The main exit routes considered by venture capital firms are IPOs, acquisition or trade sale, refinancing or secondary sale, buyouts, reverse leverage buyout, Convertible securities, Liquidation/write off, and secondary market. For each of the exit routes, the study has revealed following results.

For IPOs, out of 14 VCs, only one venture capital firm said that it rarely consider the IPO as an exit route while 2 venture capital firms said that they always prefer IPOs as an exit route. Three venture capital firms said they consider this option of exit more often and remaining eight venture capital firms fall in the category of sometimes and occasionally.

For acquisition or trade sale, it is found that the venture capital firms of the study do not consider this route every time. Out of fourteen venture capital firms, seven venture capital firms are either using acquisition/trade sale as an exit route only occasionally or rarely. While out of remaining seven venture capital firms, two venture capital firms said that they use this route more often and five of the venture capital firms said that they sometimes use acquisition/trade sale as an exit route.
Regarding refinancing or secondary sale, it is found as more preferred route of exit in comparison to acquisition or trade sale. Six out of fourteen venture capital firms said that they use this mode of exit more often while four venture capital firms said that they sometimes use secondary sale/refinancing as an exit option.

The next exit route is buyout. It is more popular route of exit in comparison to above two routes. Ten out of fourteen VCs said they use buyout more often and three VCs said that they sometimes prefer this route to take exit decision.

Likewise, reverse leverage buyout is also another route of exit. It was not found more frequently used route of exit by the venture capital firms of the study. As depicted in table below, seven of the venture capital firms in the study use this route occasionally only while one of the venture capital is using reverse leverage buyout as a rare case. Remaining six venture capital firms said that they sometimes use this route of exit.

Convertible securities are comparatively less risky and usually a preferred choice of investors whenever they select some risky avenue. The results obtained in case of current study reflect mixed opinion of the venture capital funds regarding convertible securities. It is also more often used mode of exit by six venture capital firms while three venture capital firms said they sometimes prefer this route. Four of the venture capital firms said that they occasionally use convertible securities as an exit route and one venture capital firm said that it rarely prefer convertible securities as a route of exit.

Liquidation/write off is frequently happening in the case of start-ups due to poor success ratio and other factors too. In case of current study, out of 14 venture capital firms six VCs said they use this route more often while equal number of VCs said that they sometimes use this route of exit.
With the growing number of startups and venture capital funds, the secondary market for startups is also emerging. This is also an exit mode for the venture capital funds. The current study found that secondary market is considered either occasionally or rarely by seven of the VCs while four venture capital firms said they sometimes use secondary market for startups as an exit route. Only three out of fourteen venture capital firms said that they use this route more often.

Further, no significant association is found in various exit routes and profile of venture capital except for two cases. One, association between preference for IPO as an exit route and type of funding by venture capital firm and second, association between preference for buyout/leverage buyout and age of venture capital firm the results have supported the existence of significance association at 5% level of significance.

**Objective 2**

The second objective of the study was to study the determinants of exit strategies. This objective was fulfilled through research instrument development process. The insights taken from literature and based on experts’ opinion, the current study has identified eight determinants of exit strategy. These are, human capital, market conditions, technology & innovation, deal characteristics, financial parameters, start-up related parameters, VC related parameters and type of industry. Figure mentioned below has shown these determinants.
Objective 3

The third objective is related to obtaining the priorities of eight determinants of exit strategies. For this the results are obtained through fuzzy AHP. As per the findings of the study, the financial parameters have shown highest weights (0.2110) among all the eight determinants followed by market conditions (0.1621). Further, Deal characteristics (0.1481) and VC related parameters (0.1152) are found of more relevance. Human capital (0.0790) and type of industry (0.0868) has been ranked eighth and seventh by venture capital firms. Technology & innovation has been ranked fifth important determinant and start-up related parameters have been ranked sixth important parameter.

The ranking was obtained under twelve different categories. It includes, overall ranking by all 14 venture capital firms, ranking by venture capital giving funding at national level, ranking by venture capital giving funding both at national and international level, ranking by venture capital firms having age up to 3 years, ranking by venture capital
firms having age 3-9 years, ranking by venture capital firms having age more than 9 years, ranking by venture capital firms having ≤20 companies in portfolio, ranking by venture capital firms having ≤40 companies in Portfolio, ranking by venture capital firms having more than 40 companies in Portfolio, ranking by venture capital firms having annual investment ≤5 crore, ranking by venture capital firms having annual investment 5-≤20 crore, ranking by venture capital firms VCs having annual investment more than 20 crore. Out of 12, 9 times, financial parameters are ranked number one and remaining 3 times market conditions are ranked number one. Similarly, out of 12, 5 times the market conditions are ranked number two while 4 times deal characteristics are ranked number two and 3 times, financial characteristics are ranked number two.

Discussion

Among Asia Pacific sub-continent countries, India is an attractive location for VC investments and recognized as one of the most influential emerging economy and second largest country in the world in terms of population. The existing literature on venture capital has studied the historical growth of Indian venture capital firms and made a comparison of Indian VCs with VCs in other countries. The past studies conducted on Indian venture capital firms are more of general and descriptive in nature (Dossani, R., & Kenney, M., 2002; Annamalai, T. R., & Deshmukh, A. 2011; Pandey, 1996; Verma, 1997). In one of the initial research done by Pandey (1996), an attempt was made to identify the investment criteria by Indian VCs. Mitra (1997) studied the investment criteria by private and government Venture Capital Funds in India. The venture capital firms raise funds from various sources. It includes individuals, banks, insurance companies, pension funds and other financial institutions etc. All these stakeholders are interested in knowing the exit strategy of venture capital firm and its success rate. The exit in venture capital as a last phase of investment process by venture capital firms (Bygrave and Timmons, 1992).
The exit opportunity is important to determine the quantitative performance of a venture capital firm and it is an essential part of venture capital cycle. The success and sustainability of a venture capitalist depends upon its successful exit from its backed companies (Schwienbacher, 2005). In this context, the findings of the study are very useful. The exit decision cannot be based on a single event or a single parameter. The venture capital firms are concerned about obtaining successful exit rather than just an exit. On one hand, it is important to ensure financial performance of startup and getting a desired internal rate of return from investment, there are other parameters too which are essential for the success of exit decision by venture capital firms. While exiting from the start-up, the regulatory framework of market and existing liquidity conditions cannot be ignored. In addition to this, a venture capital firm and startup are also bound by the deal characteristics while deciding the exit decision. The success of most of the startups is affected by role of technology & innovation used by them. Therefore, technical efficiency in terms of number of patents or product innovation or emerging technology in the related field also influences the exit decision. Further, the capability of venture capital firm to execute the exit decision successfully cannot be ignored. The financial performance of startup itself and financial performance of investment made by venture capital firm both are dependent upon the human capital. The quality, experience and vision of human capital of startup firm can have a significant impact on the success of exit. Likewise, the study has identified the importance of type of industry too. In nutshell, the exit strategy of venture capital firm is based on composition of several indicators instead of a single parameter. In continuation of above discussion, the study under consideration has following implications.
Implications of Study

The study is unique in nature as it has explored the determinants of exit decision by venture capital firms. The findings of the study have both theoretical and managerial implications.

Theoretical Implications

The study has contributed more evidences to the literature related to exit decision by venture capital firms. The instrument developed after rigorous efforts can provide a useful background to further explore this area of research. There is dearth of studies talking about the determinants of exit strategies. The measurement scale suggested by current study can be used to further explore the factors. The study has suggested eight determinants of exit strategy. These eight determinants are measured through 33 items. Table 56, has given the details of all determinants along with their inventories.
Table 56

*Measurement Scale to study the Determinants of Exit Strategy*

<table>
<thead>
<tr>
<th>Scale to measure Determinants of Exit Strategy</th>
<th>Human Capital</th>
<th>Market Conditions</th>
<th>Technology and Innovation</th>
<th>Financial Parameters</th>
<th>Start-up Related Parameters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristics of Entrepreneurs (Vision, Leadership &amp; integrity)</td>
<td>Vision, commitment and integrity of start-up firms’ managers directly affect the success of exit process</td>
<td>Simplifying regulatory and faster clearance impacts the choice of exit</td>
<td>exit strategy determination depends upon the use of emerging technology and new technology</td>
<td>Exit route depends on financial performance like IRR High absolute returns</td>
<td></td>
</tr>
<tr>
<td>Skills and experience of start-up firms team</td>
<td>Liquidity conditions in stock market</td>
<td>exit strategy determination depends upon the uniqueness of product, Prototype etc.</td>
<td>Number of patents influence exit strategy</td>
<td>The VC firm plans exit whenever its managers feel that they have achieved the maximum performance from funding</td>
<td></td>
</tr>
<tr>
<td>Intimate involvement of management of start-up company</td>
<td>Macroeconomic factors may not performing as per expectations (it includes political, economic, social and technological factors)</td>
<td>Innovation in a product always affect the strategy of exit</td>
<td>exit strategy determination depends upon the uniqueness of product, Prototype etc.</td>
<td>Exit route determination for profit making start up is more certain and simple</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>If there are better option for investment in another start-up</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Depends upon stage of start-up – Seed, survival, growth or expansion</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Size (in terms of capital) of start-up firm at the time of exit</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Insufficient time and resources of VC firms determine the time of exit</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Features of Regions (Close or in proximity, Infrastructure, manpower, Clarity of rules)</td>
<td></td>
</tr>
</tbody>
</table>
### VC related Parameters

- Syndication with other VC impact your choice of exit
- There is always a pre-planned investment duration for each investment
- Monitoring the funding required lots of time of VC’s fund managers therefore a timely exit plan is very important
- The capability of VC firm’s team to execute the specific exit route
- The cost of executing a specific exit route
- Exit decision becomes more uncertain for start-ups funded with small capital due to limited options of exits
- Venture Capital firm's fund managers prefers to seek maximum value in shortest duration

### Type of Industry

- Market size i.e. Large market, High growth rate
- Timing and choice of exit have specific industry preferences
- Generally the most famous exit route in the related industry is preferred by VC firm

*Source: Author’s compilation*

### Managerial Implications

The current study can be of practical use for venture capital firms. The exit decision is crucial for venture capital firms and more important is that the exit should be successful. The sustainability of venture capital firms depends upon the success rate of exit decision. Therefore, understanding the criteria affecting the exit strategy can help venture capital firms to take better decisions.

The study is valuable for startups too. They also need to understand the parameters considered by their investors while taking the exit decision. The startups need to enhance their bargaining power while closing a deal with their investors. By understanding the determinants of exit decision by venture capital firms, they can strengthen those parameters which are under their control. Similarly, the findings are useful for other investees too who have obtained entrepreneurial finance and know that their investors will also take an exit route.
These findings can also be considered by other category of investors, like Angel investors, Banks and Financial Institutions, Individual investors and other syndicate providing funding to start-ups etc. The exit decision is important of all kinds of investors. Therefore, while determining the exit strategy, all investors can make use of findings of study.

At the end, the findings of the study can be helpful for academicians and researchers too. They can use these findings to know more about the exit decisions by venture capital firms.

Limitations of Study and Scope for future research

The current study has certain limitations too. One, the results of the study cannot be generalized to all categories of investors providing funding to startups. The scale suggested need validation by targeting a fresh sample across different categories of investors providing funds to start-ups. Here lies the scope for future researchers too. The future research can be carried on validation of measurement scale suggested in the study. Also, a causal study exploring the relationship between success/failure of exit and determinants of exit strategy can be conducted.