

Types of Venture Capital Funds

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Executive Summary

The reason for their excess funds is that they attract quite a lot of interest from stakeholders regarding their earning potential and long-term viability. If they lose this ability to finance on their own, they will not be able to make sure that they can sustain the excess funding or sources of funding they acquired earlier. The new investors' reaction towards the startup will also vary from one situation to another. For instance, there are small investors whose risk cap is lower. On the other hand, venture capitalists are some of the people who have contributed towards the early stage of setting up the whole business during its initiation.

Introduction

A venture capital fund is a collective investment institution dedicated to investing in companies, preferably in companies of recent creation (startup) and great potential. Like investment funds, a venture capital fund has the corporate purpose of investing in companies and institutions, with the characteristic that they tend to invest in young companies and those in which they are in a difficult situation. , hence the adjective of risk (Juan García-Teruel and Solano, 2017, p.177) in its denomination. Venture capital funds benefit from this type of operation by becoming owners of the assets of the companies in which they invest, which are usually companies that have a new technology or a novel business model within a technological sector, such as biotechnology, ICT, software, etc

Types Of Venture Capital Funds

According to the above, we can distinguish two types:

- Venture capital is dedicated to companies' investment, promotion, and growth in the early stages.
- Capital investment or private equity is dedicated to investing in prestigious and profitable companies to obtain the greatest future benefits through dividends or sales gains.

By incorporating this type of instrumental company, it is possible to protect the development and expansion process of a company and boost the market, which is endorsed by various investors (Juan García-Teruel and Solano, 2017, p.177). These are also often called " business angels " for the opportunity to finance and realize ideas and projects (Juan García-Teruel and Solano, 2017, p.177).

When Do They Arise?

Venture capital funds emerged at the beginning of the 1990s as a way of investing in innovative companies, with a technological base and great development potential, which is why technological companies and young entrepreneurs have been the main objective. However, this is not always the case sometimes venture capital funds also acquire full or partial participation in companies that have a long and solid track record as a simple way to obtain capital without having a single company and Make a takeover bid (Abor and Biekpe, 2016, p.288).

The Risk Investor

If one talks about the risk investors, they are the people who participate in the companies that belong to the dynamic sector. They also have excellent growth rates. Now, once the estimation has been made that the company's value has increased, the likelihood increases that the risk funds will be taken out from the business. In that way, the profit margin of the business is going to be consolidated The main exit strategies that businesses pursue in this situation are:

- Sales to strategic investor
- IPO
- Repurchasing the shares that are issued by the company
- Sale of another venture capital

Most of the time, venture capital is operating on the basis of the business, and the entrepreneur's task is to make sure that the investment is routed through the investment committee. These committees then realize the convenience of going into some agreement (Huse, 2015, p.50). For each of the business sectors, there will be specialized funds that can push a business financially. From the business perspective, the best financing options are the ones where the capital funds are being applied (Brunninge, 2017, p.308).

Structuring of the Capital Fund

Most of the time, the process that is being used during the whole process is MBO (Kocmanová et al. 2016, p.94). Then, this process is articulated with the help of the ad hoc committee and the corresponding role, which is very important. The management team and the capital entity must be most cautious when looking after this plan. (Kocmanová et al. 2016, p.94) What happens most of the time is that the organizations receive some sort of financial aid from the financial entities that are pooling together their fund of resources so that the purchase price of the shares and the company's object of purchase can be managed in the right manner. The loan is then guaranteed with the pledge on all the shares that are purchased, or they would merely turn out to be a violation of the rules that do not allow the granting of financial assistance (Del Baldo, 2012, p.36).

The whole process can change after a reasonable amount of time has lapsed as the merging of both companies that are part of the capital transfer process can work out correctly. These entities already have access to the assets, and as there is additional debt, the financial assistance problem is resolved to a certain extent. The net book value of the incorporated assets will also turn out well for the given time period, to say the least.

Functionality of the Venture Funds

What really happens is that when there are large sums of money, they are channeled into the high-risk and high-profit margin business. Due to that, a sufficient amount is available to the new generation and entrepreneurs to ensure they can deal with the existing companies in the right manner. Due to that, the risk, the capital fundamental mechanism of the new companies, especially telecommunication and internet, is going. This is the prime reason that most of the firms that are part of the new economy can generate sufficient funds on their own.

Summary

Venture capital (if it is not vulture funds) can serve as a tool for economic development, supporting start-up ventures and smaller companies in their growth phase. But instead of focusing on the element of risk linked to this type of investment, it must concentrate more on its catalytic role as entrepreneurial capital. Not only that, they also an greater degree of control to be implemented at the business level making sure that the resource allocation is being managed in the right manner.

Recommendation

If there is enough support for the venture capital funds, they can go a long way towards making sure that knowledge enhancement is possible in any community. It would go a long way toward patent protection as well; thus, in some ways, venture capital funds can cultivate a culture of innovation in any business community. Not only that, it has a key role in making sure that access is facilitated for small and medium-sized enterprises. It also stimulates [economic growth](#) in some ways and creates jobs.

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