

Venture Capitalists And Their Role In Diversifying Small Medium Enterprises

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Start up companies with a potential to grow need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists. Such investments are risky as they are illiquid, but are capable of giving impressive returns if invested in the right venture. The returns to the venture capitalists depend upon the growth of the company. Venture capitalists have the power to influence major decisions of the companies they are investing in as it is their money at stake. The SME (small and medium-sized enterprises) sector is important for the global economy mainly because SMEs are relatively flexible; they easily adapt to the changing business environment, and these businesses, when compared with big corporate entities, require less financial support. Starting a small and medium-sized business is relatively cheap and simple when compared to starting a big company (Stein gold, 2006). SMEs are also significant sources of work. Thus, they help in the fight against the unemployment. Because of all these mentioned qualities, high-income countries are providing considerable support to the SMEs sector. This is seen through the SMEs share in the total enterprise population which ranges from 99.5% in Japan to 99.8% in the EU and the USA. In the EU, SMEs account of total employment in the non-financial sector is 67.0%, in the USA 52.4%, and in Japan 86.6% (European Commission, 2015). 59 Young firms in particular are faced with this problem in the early stage of business. Venture capital funds differ from another fundings in the way that venture capitalists support risky start-up businesses that deal with some sorts of new technologies. Venture capital can be defined simply as risk-equity investments in newly established entrepreneurial firms (Klonowski, 2010). When it comes to SMEs, it is crucial to find a way to improve access to the wide range of external sources of finance. Venture capital funds give

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