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A Study on Fostering Financial Growth of Business and Role of Venture Capital

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Abstract- The effects of venture capital (VC) funding on the long-term success and development of new businesses are the focus of this research. Despite extensive study on the topic, there is a lack of conclusive proof that venture capital investments affect business success and market value. This study applies the notions of signaling theory and information asymmetry to venture capital investment and its effects on business at different growth stages. It concludes that early-stage VC investment positively correlates with success and growth for businesses. The study examines 363 companies and finds that enterprises receiving early-stage venture capital investment perform better and more consistently over time. Interestingly, potential absorptive capacity moderates this effect favorably, whereas realized absorptive capacity does not. Furthermore, the study uses data from 2023 to analyze variations in cumulative venture capital investment across the IT, telecom, media/entertainment, and service industries in India. Venture capital firms can take advantage of the ongoing difficulty new businesses face in securing the funding needed to implement their ideas. To promote the expansion of knowledge-based businesses worldwide, these firms offer crucial managerial and financial support while leveraging technical and financial expertise to encourage industrial development and tap into previously unrealized potential.

Indexed Terms- Venture Capital, Economical Success, Early-Stage Investment, Absorptive Capacity, Industry-Specific Investments and Financial Growth.

I. INTRODUCTION

Several academics have focused on venture capital (VC) businesses because of their significant influence in the formation of fledgling enterprises (Barry et al. 1990) (Kalpan et al. 2003)(Kortum et al. 2000). Venture capitalists are an example of outside business funders. According to their expertise and connections, venture capital companies provide substantial intangible resources in addition to monetary investments (Wang et al. 2004) (Gompers et al. 2001). This part of venture capital investment is crucial since businesses often lack the tangible (i.e., prior experience and expertise) and monetary assets needed to grow their businesses. It is worth noting that a restricted quantity of nascent enterprises have managed to draw in venture capital funding, and the receipt of these investments may occur at any point throughout the business's development (see reference 6). From this angle, the study examines how venture capital (VC) reception affects business success, paying particular attention to the various first investment waves and the function of absorptive capacity—two aspects that have received little attention in previous research.

The current body of studies on venture capital firms has looked at a wide range of subjects, including the traits of invested new companies, the impact of venture capital funding on businesses (Byers et al. 1997) (Bygrave et al. 1992) (Gompers et al. 1995) (Maula et al. 2001) (Teece et al. 1986) (Antarciuc et al. 2018) (Wang et al. 2019), the steps involved in VC company investments (Repullo et al. 2004) (Wright et al. 2003) the connection among VC firms and businesses, and the investment stage by phase of VC businesses. The effect of venture capital (VC) investment on business profitability remains unclear despite significant academic efforts, since prior research has shown inconsistent findings. Certain researchers have disclosed the crucial function of venture capital (VC) in the expansion of businesses (Gompers et al. 1999) (Jain et al. 1995) (Sapienza et al. 1992), although other scholars have shown the little

impact of VC investments on business success (Burgel et al. 2000) (Manigart et al. 1999). An additional body of research also supports the idea that venture capital investment has a detrimental effect on business success (Anton et al. 1994) (Bhattacharya et al. 1983) (Ueda et al. 2004) (Yosha et al. 1995).

Furthermore, there is currently a dearth of research on a number of crucial topics pertaining to the linkage between successful businesses and venture capital funding. First, the literature has often disregarded businesses' ability for learning. Based on their capability, the enterprises' ensuing manufacturing upon the receipt of outside resources may differ (Ruhnka et al. 1987). Furthermore, a business's ability to use and accept additional resources from venture capital firms has a significant role in determining its success and ability to develop sustainably (Baum et al. 1991). In other words, a company cannot reap the full benefits of venture capital investment unless it has a well-functioning internal structure and enough learning capacity. Furthermore, when businesses evolve through various phases, their ability to learn also varies (Ruhnka et al. 1991). Second, there hasn't been much discussion in the literature about the goals and actions of venture capital firms when they invest in businesses. VC companies may really make money on their investments by either acting opportunistically or by assisting businesses in succeeding. Venture capital (VC) companies stand to gain financial returns from their businesses when they leave via IPOs or acquisitions. In this situation, venture capital firms may assist businesses in overcoming the “liability of newness” (Baum et al. 1991) by providing them with practical assistance, such business guidance and a helpful network. It's also feasible, however, that venture capital firms have different goals than the entrepreneurs they fund in terms of success. Certain venture capital organizations may want to take advantage of businesses' thoughts and data for their own benefit, as businesses frequently need to provide VC organizations with essential details about their company in order to earn investments (Cox et al. 2105) (Ueda et al. 2000) (Lansbury et al. 2001). Understanding how VC investment affects business success therefore requires knowledge of these two potentially disparate aims of VC firms, both are tied to image.

Therefore, this investigation integrated the reducing impacts of the capacity to absorb and venture investors' a reputation (henceforth referred to as "VC reputation") in order to determine the causal link between the initial venture capital funding at various stages and businesses' feasible development and achievement. This research discovered proof that a business's success improves with the sooner it receives venture capital (VC) funding, thanks to a review of VC funding for firms at five various phases of development. This study also showed that prospective absorptive capacity—a term that describes an organization's power to take in and use outside knowledge—modifies the major impacts.

II. CONTEXTUAL DESCRIPTION ABOUT THE PHASES OF BUSINESS DEVELOPMENT

After being founded, a company goes through a phased process of growth. Investigating how venture capital (VC) funding might support firms in maintaining sustainability and achieving improved performance requires an understanding of their development phases. Specifically, businesses build their companies in five phases, and each stage calls for a new set of resources and activities based on its unique goals (Lukkarinen et al. 2016) (Wang et al. 2012) (Zhang et al. 2017). When examining VC investment, it is crucial to take into account the level at which the business is in order to understand how the finances obtained from these firms also function differently at every phase of growth. For example, a business's funding needs vary based on its stage of development and its market positioning as in figure 1. The company's sole asset at the first phase of business development, known as the Seed the platform, is a business concept formed from market prospects. However, at this point, the companies struggle with a lack of staff and expertise. Typically, they lack a company strategy and focus on market testing with their prototype. In the second the platform, the Early stage, entrepreneurs create a business strategy that utilizes their technology and concepts. A few of them put their items through beta testing. Despite not having any sales, the majority of them had previously identified the market's need and developed their good or service's beta version. The companies then start to systematize their structure with reliable teammates

throughout the Expansion phase. The market reacts to their goods and services at this point. Businesses prioritize promotion and product development to establish market presence. The companies then make sales and try to expand their market at the later stage. Profits are made by some, but unprofitable businesses often change the goods or services they provide. During this phase, businesses often need more funding to be ready for their next phase, which involves exiting via initial public offerings (IPOs) and mergers and acquisitions, or M&As. Lastly, at the Exit stage, businesses either alone or with outside assistance begin the steps of an IPO or M&A.

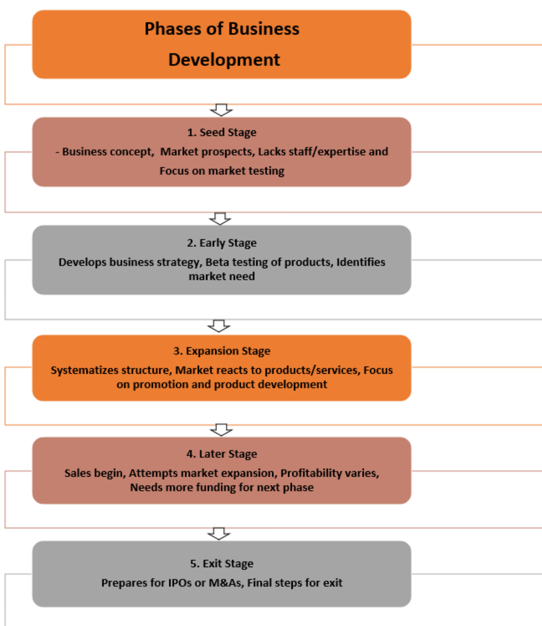

Figure 1: Stages of business development model

Businesses are driven to seek venture capital (VC) funding due to their insufficient resources at every level of growth. In order to comprehend the impact of venture capital (VC) investment on businesses, it is crucial to consider their development stage. To explore the growth phase for businesses, the present investigation concentrated on the subsequent aspects of the entrepreneur and venture capital (VC) environment in the United States. First, there is an abundance of funding in the US venture ecosystem (Ang et al. 2006). Over the last several years, venture capital (VC) investments and financing have steadily expanded. Because of this, American entrepreneurs are more likely to get significant funding from venture capital firms at each phase of their development. VC companies may also amass a great deal of investing expertise (Bacon et al. 2019) (Lounsbury et al. 2001). Thus, seasoned venture capital companies may provide U.S. entrepreneurs with both material and intangible capital. As a result, concentrating on the American context makes it possible to comprehend the development stage of businesses and the need of venture capital investment at every level.

III. KEY PROGRESSION OF STUDY WITH THE HYPOTHESES

3.1 A Venture Capital Investment's Signal Impact on Businesses

Most businesses deal with the "liability of newness" in their early stages of development. Due to this, they have trouble recruiting competent staff members (Aldrich et al. 1986) and have fewer external networks, both of which are essential for the growth of a firm (Rickne et al. 2006). According to this report, VC funding helps firms get beyond this obstacle.

Venture capital firms provide the entrepreneurs with two kinds of resources: cash and intangibles like networks, expertise, and experience (Pisano et al. 1994) (Teece et al. 1992). More specifically, VC companies' expertise and body of knowledge are invaluable to entrepreneurs trying to figure out how to break into new markets and sell their concepts (Carter et al. 1990) (Shan et al. 1994) (Stuart et al. 2000) (Stuart et al. 2000). If a company can outperform others depends on how well-resourced it is (Barney et al. 1991). According to this resource-based perspective, entrepreneurs may be able to gain an unfair advantage by using the expertise of venture capital firms, which is a priceless collective resource.

In addition, venture capital companies are anticipated to exercise caution when making investments and make an effort to choose businesses with strong growth prospects (Gulati et al. 2003). In this sense, it is reasonable to assume that only companies with great chances of success will get early-stage venture capital funding. It is challenging for businesses to sell their promise to outside investors and hence draw funding because of the very significant knowledge asymmetry in the early stages. Consequently, obtaining venture capital funding at the beginning phase is crucial as it serves as a sign of quality indicating the business's high potential and aids in drawing in more funding (Heeley et al. 2007) (Hsu et al. 2013). During their

early stages, businesses often don't have tangible results to demonstrate their true worth. Since asymmetry in information makes it possible to assess firms financed in subsequent phases under their true worth, those who obtained VC funding in their early stages might be seen as having the capacity to execute well. Consequently, the results of this research point to the benefits of investing early on business success during the early development stage.

Hypothesis 1: More efficient operations will be attained by companies when they get their first venture capital investment.

3.2 Regulating Impact of Learning Capabilities on businesses: Absorptive Capability

As previously said, intangible goods from venture capital firms—like their expertise and knowledge—become priceless assets that support businesses' long-term viability and growth (Bhatt et al. 2000) (Grant et al. 1996) (Prahaland et al. 1990). A company must be able to integrate and make use of its acquired intangible property in order to provide excellent performance and maintain commercial operations. Researchers have looked at the function of ability to absorb, which is characterized as "a firm's capability of recognizing the worth of fresh information, absorb and exploit it" in light of its prior understanding (Cohern et al. 1990)(Ben et al. 2015). Absorbtive capability, a high-level firm ability, enables businesses to learn from mistakes and reassemble other capacities for achievement (Zahra et al. 2002) (Engelen et al. 2014) (Vollberda et al. 2010). Businesses that want to perform well in terms of innovation, competitive edge, and profitability are discovering that having a high absorbtive capacity is quite helpful (Bergh et al.2008) The concept and theoretical framework used to define the absorbent capacity process affect how it is represented. In line with the formulation of Cohen and Levinthal's landmark study, the absorption capability process is often described as consisting of three steps: verification, integration, and utilization. Zahra and George were among the academics who reinterpreted the Cohen and Levinthal procedure. They defined capacity to absorb as a "dynamic capacity related to generating information and usage" and proposed four components: acquisition, integration, alteration, and exploiting.

Acquisition refers to a company's ability to identify and get relevant external information. Assimilation describes the company's practices for analyzing and comprehending newly acquired information. The capacity to reorganize processes in order to incorporate previously acquired information is known as transformation. Based on the idea of applying knowledge, the concept of exploit suggests a capability that enables businesses to enhance and expand their current skills via the incorporation of converted data into their daily activities.

In order to determine a firm's flexibility, Zahra and George separated these four absorbent characteristics into two components: accomplished absorptive capacity and prospective absorptive ability. Acquiring and assimilation together make up potential capacity to absorb information, which is the capacity to comprehend and retain new information. The ability to integrate and use the information acquired is known as "realized absorbent ability," and it is the term given to metamorphosis and exploit. Although both are necessary for improving performance, actual ability to absorb and prospective absorbent capacity have distinct functions.

Researchers drew attention to the path-dependent qualities and contextual aspects of absorbent capacity as an evolving firm capacity (Flatten et al. 2011). A firm's previous knowledge and, ultimately, its previous absorptive ability are factors that influence its capability to absorb. if a result, if absorptive capacity changes over time, it may have an impact on how businesses operate in the future. Drawing from this concept, several researchers have shown the controlling effect of absorbent ability on the association between a firm's entrepreneurial attitude and success (Covin et al. 2011). Additionally, the time of learning skills impacts business performance and reliability [54,61]. From this angle, it is reasonable to assume that the influence of absorptive ability may vary depending on the stage of business development. Consequently, companies that maintain a high degree of prospective absorbent capacity in their early stages will be more equipped to govern and develop their ability to increase the breadth of data and technology than other companies. To put it another way, it will be more beneficial for businesses to have the chance to acquire this capability via venture capital (VC)

investment at their early stages of expansion so that they can develop a learning path around it. Later-invested enterprises, however, can gain less from the knowledge since they have set up their own path of study via growing. Hence, in contrast to the situation of low potential capacity to absorb, the businesses' high potential absorbent ability will reinforce the impacts of the first investment round on business success.

Hypothesis 2a: A young company with an excellent chance of absorbent capability will do better than one with an inadequate absorbent capability if it obtains early funding from a venture capital firm.
Acquired absorptive ability facilitates businesses' pursuit of exploitation efficiency. Prioritizing potential absorptive ability is necessary to help the business achieve actual ability to absorb, which is necessary for using learned information to create an edge. Stated differently, organizations that have not absorbed enough information to be utilized have less influence from their absorbent ability. Since actual absorptive power is defined as the ability to improve information, it is inherently tied to creativity in internal procedures or products inside a corporation. Because early-stage firms sometimes lack distinct products or services to enhance, actual capacity to absorb may have little effects. These companies also lack the cumulative experience that serves as the foundation for learning. Conversely, firms that have advanced to a later phase have developed their own learning curves via expertise and recurring practices. As a result, based on the date, the actual absorbtive potential of businesses is anticipated to have a varying influence. According to this research, companies with strong early intake capacity may have inferior performance.

Hypothesis 2b: Businesses with high realized ability to absorb may fare worse than those with lesser capability when receiving initial VC funding.

3.3 Moderating Impact of Venture Capital Firms' Status
Since VC firms hold some equity, they often take an active role in managing and controlling the business operation. The disparity in information is reduced as a result of their increased understanding of businesses' internal data (Dierkens et al. 1991) This means that, contrary to businesses' finest interests, certain venture capital companies stand to gain from the disclosure of ideas and technologies (Rosenstein et al. 1993) (Chahine et al. 2019) (Croce et al. 2019). But over time, this kind of activity may damage venture capital firms' reputations, which is why respectable VC firms often avoid engaging in these kinds of opportunistic actions.

Additionally, the market may anticipate the achievement of a business when respectable venture capitalists choose to invest in it since their credibility is built on their prior successes. Since the majority of the information is still hidden from the public during the early stages of company development, this issue is further amplified at this time.
Thus, a business that gets funding from a reputable venture capital firm is anticipated to do well for two reasons. First off, the business is anticipated to have a high chance of success since it was selected by a venture capital firm with a track record of success. Additionally, by receiving this money, the firm will be highly assessed in the marketplace, which will help it function better.
Hypothesis 3: A business that obtains funding in its early seed phase from a well-known venture capital firm would do far better than a business that gets funding from a less well-known firm.

3.4 Knowledge gathered about the venture capital funds
The majority of the firms had no idea what venture capitalists were before the study. Comparing to a 2013 survey finding 87.1% of the sample unaware of these funds (Petković et al., 2016), this reduced. According to the current study, the number has dropped to 65.99%. Additionally, a large number of businesses (80, or 75.47%) do not understand how venture capitalists operate. As a result, a substantial portion of businesses (97, or 91.51%) are unaware of how to get them. Notably, however, since the 2013 study, when over 90% of participants said they had no idea how venture capitalists operated, the data regarding knowledge levels have improved (Petković et al., 2016). Only 5 firms (4.72%) are aware of VCs functioning in the Balkans or globally, indicating a lack of familiarity with this financing source. Additionally, 101 businesses (95.28%) had never heard of an individual VC fund. Bank loans or loans

used in conjunction with other funding sources account for the majority of the firms' funding (88 businesses, or 83.02%). Friends and family finance, either on its own or in conjunction with other sources of capital, ranks as the 2nd most popular source of finance (23 businesses, or 21.70%). Leases are the third most popular financing source (22 businesses). It should be mentioned that none of the businesses included in our study used venture capital funds to finance their funding. Within the sample, there is just one firm that received funding from angel investors to support its operations.

The majority of our respondents think the government (Ministry of Science and Technology and Ministry of Industry, Energy and Mining) should assist VCs in the country of Srpska, while a substantially lesser percentage think higher education institutions should. Given that the respondents' knowledge of venture capital funds is notably inadequate, their perspectives should be carefully considered.

3.5 Companies' preparedness to receive venture capital funding

Regarding technology, we've seen that businesses are starting to give recent developments greater consideration when pursuing new commercial endeavors. According to (Hisrich et al. 2016), the 2013 survey's findings reveal that 51.61% of the participants used modern technology in their commercial endeavors. Since then, as figure 2 demonstrates, this number has grown dramatically.

Figure 2 reveals that 89 out of the specimen's firms, or 83.96% of them, are implementing new technologies. Of those, 15 said they don't incorporate innovative technologies into their operations, and 2 didn't reply to the issue. We have a solid foundation for forming a venture capital firm funds if these are the real statistics.

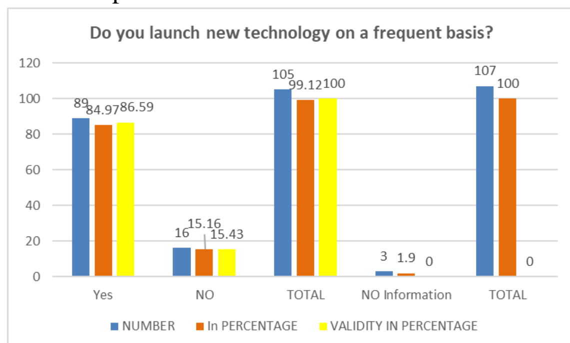

Figure 2: The release of new technologies

Out of all the businesses included in the study, just one has submitted a venture funding application. The most crucial thing we thought was to find out whether the Republic of Srpska's enterprises were open to receiving venture capital (VC) funding for their operations. According to this study, 22 businesses, or 20.75%, are unwilling to finance their endeavors via venture capitalists (VCs), whereas 82 businesses, or 77.36%, are eager to do so. Two businesses declined to respond to inquiries about the problem.

The last question, "Are you planning to show more interest in venture capital financing upon finishing this questionnaire?" has received a favourable answer. Yes, was the response from half of those surveyed (51.89%), but as figure 3 demonstrates, a sizable portion of the participants were unsure.

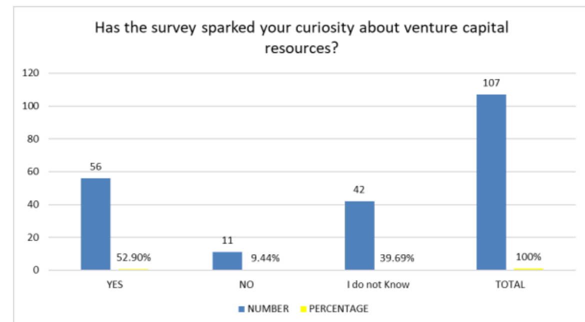

Figure3: Has the survey sparked your curiosity about venture capital resources?

Since we were capable to increase the curiosity of our respondents in venture capital funding, we feel that our study was effective. This leads us to the conclusion that the nation of Srpska could benefit from the establishment of venture capital money.

IV. DISCUSSION OF INDIA'S PROGRESS IN VENTURE CAPITAL FINANCE

Recently, India's venture capital sector has risen tremendously. In contrast to the conventional sources of funding, it is now the most thriving business in the banking sector. Professional investors with a focus on financing start-ups and creative businesses are known as entrepreneurs. These are institutional investors that actively collaborate with enterprising management

groups to create outstanding businesses that have a chance to grow into prominent economic producers. They also take an involved approach to all of their ventures. The sluggish expansion of venture capital may be addressed by implementing corrective measures gradually.

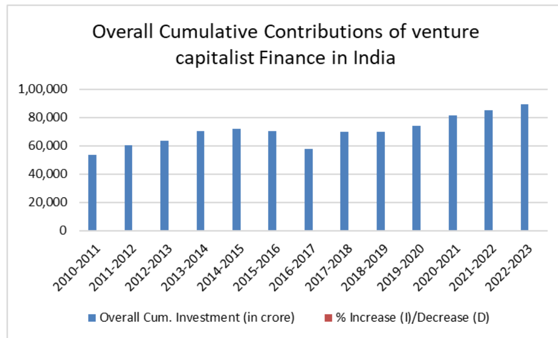

Figure4: Overall Cumulative Contributions of venture capitalist Finance in India

Interpretation: Based on Figure 4, it is evident that the overall cumulative investment in venture capital has generally increased over the years, with notable exceptions in the fiscal years 2015–2016 and 2017–2018. During these periods, the investment declined due to a lack of innovative technologies and market uncertainties. However, starting from the 2018–2019 fiscal year, the total accumulated investment began to recover robustly.

In the fiscal year 2018–2019, the cumulative investment reached approximately ₹69,785 crore, reflecting a 22.24% increase from the previous year. This trend of recovery continued into the subsequent years. For instance, in 2019–2020, the investment further increased to ₹74,000 crore, marking a 5.95% rise. The positive trend persisted through 2020–2021, with the investment climbing to ₹81,500 crore, a 10.13% increase. The growth continued into 2021–2022, reaching ₹85,000 crore, an increase of 4.29%, and further extended to ₹89,500 crore by 2022–2023, reflecting a 5.29% rise from the previous year. Henceforth, despite the fluctuations in specific years, the long-term trajectory shows a steady upward trend in venture capital investments, indicating a growing confidence in the sector and a recovery from earlier downturns. The consistent increase in cumulative investments over the past few years highlights a resurgence in venture funding, driven by renewed technological innovations and expanding market opportunities.

4.1 Evaluation of Information

Trend Line technique and F factor evaluation (ANOVA: single factor) are used to examine the information. Figure 5 provide the total expenditures by venture capitalist funding in India from 2010-11 to 2023 per industry.

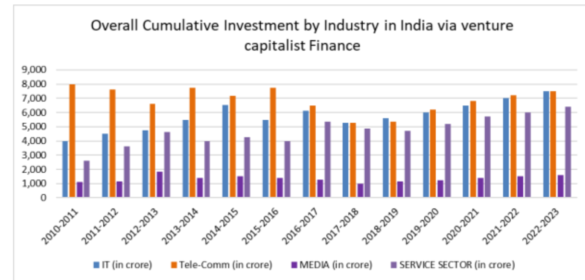

Figure5: Overall Cumulative Investment by Industry in India via venture capitalist Finance

Interpretation: Based on the above table and charts, it can be seen that, in the IT products and services sectors, the overall cumulative investments by venture capitalists has displayed an upward trend of capital, with the quantity of expenditures increasing progressively. In contrast, the telecommunications business exhibits an average sequence of funding due to constraints on policy and scams surrounding this sector. A modest investment trend is also seen in the media and entertainment sectors.

Neglecting to take essential measures might lead to a decrease in these industries. From study, it can be concluded that investors are drawn more to the information technology sector due to growing interest for its products.

4.3 Evaluating the Hypothesis:

For H1: The amount of total expenditures made by venture capitalists in India does not significantly vary from one another.

For H2&3: The amount of total expenditures made by venture capital investors in India varies significantly.

To find a substantial variance in the overall total expenditures as in figure 6 made by venture capitalist Funding in India used the F factor modeling (ANOVA: Single Factor) .

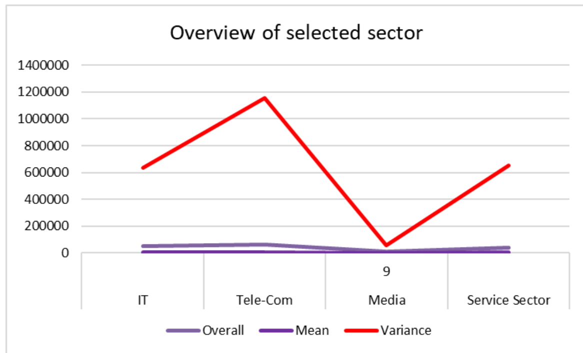

Figure6: Overview of selected sector

Table1: Evaluation of table variance (ANOVAs) in single parameter

Variation in source	Total of sq.	Deg. Of freedom	Variance	Ratio of variance
Sample in between	158157782.8(SSB)	V1: 4	50362358	F=83.790256754
Sample within	20078919.90(SSW)	V2:33	597195.8	
Overall	177235691.7	36	-	

Wherein F= 50362358/597195.8 = 83.790256754

Interpretation: The calculated amount of F is 82.78015375 as in table 1, which is more than the table value, while the value in the table of F at 0.05 (5% level of significance) for v1=3 and v2=32 is 2.90. Therefore, the null assumption (H0) is disproved. The amount of overall investments made by venture capital firms in India's chosen sectors—information information technology, telecommuting, media/entertainment, and services—varies significantly as a result.

V. OUTCOME FROM THE DISCUSSION OF THE STUDY

- Due to a lack of emerging technologies, the total cumulative investment in venture capital investments increased during all except 2015–16 and 2017–18 fiscal years. However, starting in fiscal year 2018, it began to recover once again.
- The total cumulative expenditure by venture capitalists trends in the data technological and services sectors has consisted of an ordered sequence of expenditures, and this sector may be profitable for entrepreneurs looking to launch new businesses.
- A modest pattern for investment has been seen in the Total Cumulative Expenditure by Venture Capitalistic Finance in the Telecoms industry due to policy gridlock and scams surrounding this industry.
- The Media/Entertainment sector's Total Cumulative Expenditure by Venture Capitalist Financing development has shown a modest tendency of funding due to the current concentration of investors on technological industries.

The F factorization (ANOVA: Single Factor) verify was utilized to evaluate the the hypothesis, and the following findings were made:

Level of calculation =F== 83.790256754	Value of table =2.91(F obtained-Distribution Table)	Thus, the difference between the calculated and table values is larger.

Thus, the null hypothesis is disproved and the amount of total overall investments made by venture capital firms in the media, sector in services, IT, and tele-com sectors of the Indian economy vary significantly.

CONCLUSION

With an emphasis on the differences in investments across various sectors in India, this study assesses the effect of venture capital (VC) money on the performance and market value of businesses. The research highlights the importance of early-stage venture capital investment, which is positively correlated with business success and sustained growth, using signaling theory and information asymmetry. Results show that firms with early-stage VC funding

do better and sustain consistent growth over time, according to the study's analysis of 363 companies. Importantly, this beneficial effect is amplified by potential absorptive capacity, but there is no discernible moderating influence from realized absorptive capacity. Considerable trends and variations are shown by the examination of specific industries contributions from 2010 to 2023. In spite of overall investment declines in 2015–16 and 2017–18, which the venture capitalist scene has usually exhibited signs of recovery and growth beginning in 2018–19. The information technology (IT) and service industries display a regular pattern of investment, which bodes well for new businesses, whereas the telecom industry has a more modest pattern as a result of difficulties relating to legislation and scams. Due to an emphasis of investment interest in technology businesses, the media and entertainment sector has faced restricted funding. The results of the analysis of variance show that venture capital investments in these areas varied significantly. The null hypothesis is rejected due to an F-ratio of 83.79, which is greater than the critical value of 2.91. This indicates that venture capital expenditures differ significantly among the IT, telecom, media, and service sectors in India. Thereby, the findings stress the significance of venture capital funding for new businesses and the value of investing in certain industries to promote long-term growth and innovation.

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