

Analysis on Venture Capital Management in China

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Abstract: As the history of the development of venture capital in China is not long and the management system is not complete, there are many problems in it. Solving them requires multi-disciplinary approach. This paper looks at those problems this stage in China, and then proposes countermeasures by analyzing the factors which cause them. The standardization and scientization of the venture capital will promote China's economy to a great extent.

Key words: venture capital, venture capital management, countermeasure

1 Introduction

With the increasing development in science and technology and Economic Globalization, the competition grew more and more fiercely day by day. For all of above, whoever business or government should carry out the strategy of innovation immediately. As we all know, the venture capital plays an important role in technology innovation. Homegrown innovation has been made to be the focus of the 11th five-year plan in 2005 which means that venture capital should be supported for a large extent.

The equity capital which is put into the young, rapidly growing and having great potential for competition high-tech enterprises is so-called venture capital. And its investments are small and medium-sized high-tech enterprises which are young. For venture capitalists, venture capital which is considered as the carrier is usually used with the input of production elements, such like management, together and their goals are high returns which are from listing, acquisitions and mergers, etc. of a company. So, we can say, in fact, venture capital is that someone entails high risk for high returns.

The sources of venture capital are diverse including Institutional investors funds, rich personal funds, big money, government funds, financial institutions funds, etc. As the public offering method will inevitably extend to the investors who are not rich and are low risk tolerance, which may cause great social risk, so, most venture capital is raised by way of private placement. But, the range of private placement is smaller, so the venture capital is claimed using "rich men's money" sometimes.

2 The history of development of the ven-

ture capital in China

The beginning of the China's venture capital industry was after the reform and opening up. The decision, supporting the industry which has rapid changes or high risk with the establishment of venture capital, was proposed clearly by the centre government in 1985. And the four special economic zones in south China region, such like Shenzhen, were chosen as the first areas for the study of the feasibility of venture capital at the beginning of the year.

In the 1990s, with a group of ultra-large-scale venture capital funds being founded, venture capital industry has entered a new stage in China. According to statistics, there are more than 400 venture capital firms in China now and the total assets are about 40 billion.

However, in recent years, because of the frequent fluctuations in the world economy, especially the 2008 global financial crisis, the development of the world economy has been greatly affected. So does the venture capital field, and its development begin to slow down gradually.

3 Issues of venture investment management

Although the history of the history of the development of venture capital in China is not long, the speed of its development is amazing. However, there are a series of problems in China's venture capital management system, compared with the foreign one.

3.1 Micro-analysis

As the history of the development of the venture capital is short in China, we, of course, are lack of experience so that a series of problems rise in the actual

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mechanical process.

3.1.1 Inadequate understanding of risk investment

First, for a long time, marketers in China have consistently considered that high input equal high return. So, in their view, venture capital with high-yield naturally needs high input. Because of this, some low-input but very promising projects are excluded. It is clearly irrational. Advanced some data about Micro Devices to an example, its initial investment was only 70,000 dollars (77% chunk of the company's shares) and the second loans was only 300,000 U.S. dollars, but when it came into the market, it values the 37 million U.S. dollars. That means the average annual rate of return is as high as 100% during 9 years which shows clearly that high returns and high input is not equal.

Secondly, for most risk investment companies, fund is used to be considered as the only yardstick of the strength of a company. However, many aspects need to be focused on, such like the experience of staff, the ability of offers, etc. What's more, a significant number of venture capital firms always focus on the capital investment at the expense of the input of the other elements in the investment process. And when they are in the assessment of a project, they focus too much on financial and technical, but ignore the market and management.

3.1.2 Unscientific decision-making

Due to the lack of adequate operational experience of the risk investment and rigorous decision-making approach, in stead of rational, scientific, meticulous research work and feasibility analysis, many venture capital cases are decided directly by the Decision-makers in China. In fact, such irrational behavior also reflects a lack of rational, scientific decision-making process of venture capital system in China. This is because of the speculation and the attitude of emphasizing on income and ignoring the risk of our staff.

Originally, rational decision-making should be a basic premise of the venture capital and the venture capital should be through various research and feasibility studies so that the uncertainty can be reduced. However, because of the attitude above, some standardized and scientific decision-making process was neglected consciously and eventually led to the failure of the investment project.

Simultaneously, too much attention of our operators is focused on income. Usually, there are only contents on the profit, no risk analysis, and the venture capital companies are confused by the high-yield and often ignore the risk or lack of sufficient attention so that they do not have necessary measures for risk prevention.

3.1.3 Management process: problems on the monitoring and management of post-venture capital investment

Monitoring and management of post-venture capital

investment is still in the early stage and there are many problems in practice.

First of all is the lack of effective monitoring mode. In the surveillance of risk enterprises, most of the venture capital firms in China are lack of integrity, comprehensive monitoring mechanism, clear purpose on the enterprise monitoring and continuous monitoring process.

Secondly, many venture capital firms are lack of value-added services for venture business. Value-added services are a range of advisory services collectively which is provided for venture business by venture capital firms. However, without realizing the conception of management or value-added services of post-venture capital investment, some risk managers believe that a good selection of investment projects is enough and then they focus on credit, buying bonds, stocks and real estate speculation and other business.

3.1.4 Irrational investment

Currently, venture investors are lack of comprehensive consideration when they decided to invest fund. That means when in the capital injection process, they only concerned about how inputs, but they did not do enough adequate research and demonstration on the withdrawal of venture capital. So, when the withdrawal comes, they are often lack of psychological preparation, and lack of channels. Finally, a virtuous cycle of venture capital investment can not be founded.

What is more, in the process of venture capital injection, venture capital firms usually ignore the follow-up investment which means in the early establishment of new risk projects, venture companies will invest to help the development. However, follow-up support are often ignored or consciously abandoned.

3.2 Macro-analysis

Compared with developed countries, the history that we explore the market economy is short. And so is the venture capital investment. Whoever government or business should test each step before taking it. Currently, there are a series of problems which needs government to solve.

3.2.1 Lack of financing channels and imperfect intermediary organization

At present, venture capital institutions in China are mostly set up as limited companies and their day-to-day business is direct investment in the business of technology SMEs by using their capital as investment funds. The source of funds is mainly government finance coming from government channels and established by the Ministry of Science. But, the number of the enterprises, private or institutional funds-based independent risk institutions is small which leads to a single venture capital financing channel, smaller capital scale and weaker fi-

financial strength so that risk can hardly be spread through portfolio and balanced investment strategy which even leads to the failure of investment.

At the same time, in the course of risk investment, intermediary organizations play a positive role among the venture investors, entrepreneurs and markets. But now, most of them, weak service operation and poor service, mainly established by the government, can not meet the venture capital market and do not become real market services.

3.2.2 Lack of sufficient government support

In China, venture capital investment has been attracting a great degree of concern all the time. But, in actual operation, the government support for venture capital is not enough. Although high-tech enterprises in China can enjoy tax concessions and incentives, the intensity is far behind developed countries. For example, high-tech enterprises' value-added tax is higher than the average because high-tech enterprises' products are of higher added value and of low raw material consumption so that their output tax is high and the deduction of input tax allowed is less which objectively inhibits the development of venture capital.

3.2.3 Improve the related systems

The formation and development of the venture capital industry is inseparable from the comprehensive national policy support and the protection, constraints and guidance of the laws and regulations. Compared with the developed countries, at present, a complete set of risk investment laws and regulations has not yet been established. And the legislation on property rights, investment direction and management, distribution still needs further improvement which leads to the lack of the relevant legal basis in the actual operation and even affects the formation of the risk investment mechanism.

4 Countermeasure

In view of the current problems in venture capital system in China, the following needs to be solved.

4.1 Strengthening the awareness of the risk investment-related elements

Obviously, only those technology, product or idea with market potential and investment value do the venture capital firms invest in its financing and then get high return. Therefore, the new product or technology must have a certain market prospects, it is the most important.

Next, in addition to technical factors, financial factors are also important, a large number of funds will be needed in the process that reasonable projects turn into practical productive forces. Meanwhile, the injection of funds is also necessary to ensure further growth and development of the venture capital investment.

However, we must understand that in addition to

these two factors above, management is also necessary so that project can be carried out well. And the core of management is human. Therefore, whoever venture capitalists or risk managers, without exception, must be of very rich experience in management and higher management ability in order to achieve rational allocation of funds and technology.

In short, on this issue, we need to pay attention to all factors instead of only funds or technology.

4.2 Scientific decision-making

Basically, during the decision-making process, policymakers should make reference to the views of each participant before the final selection decision, instead of being a law unto oneself. Individual decision making is very easy to ignore the details of the issue, which will increase the investment risk.

Second, before making decision, it is necessary to do the market and technical investigation. It is necessary to do the intensive research work so that decisions can be based on the full feasibility study. In the evaluation of research results, we should make full use of various means, including all the resources can be got. For example, make investigation and assessment through industry experts and legal experts in and outside the venture capital firms to minimize the degree of risk.

4.3 Strengthen the management of the post-venture capital investment

First, venture capital investment-related personnel should overcome the idea that investment is much more important than management. They should understand that post-venture capital investment is an essential stage in the whole capital investment management process and conscientiously strengthen the management of the post-venture capital investment.

Second, managers of risk enterprises, entrepreneurs in particular, should consider the venture capitalist's involvement as a favorable condition for enterprises' rapid growth and welcome the provision of value-added services and then launched the management of the post-venture capital investment with the venture capitalist on their own initiative.

Finally, an excellent team is indispensable, and venture capital project management team should compose experienced personnel so that team cooperation can be used to do this work better.

4.4 More rational use of funds

Venture capital operation of the project can not be limited to the early stages of the project, but also including various follow-up input, which is a continuous process and any part should not be missing. Any of the links' being out of control will break the cycle of venture capital, so that venture become into the real "risk" invest-

ment.

Withdrawal of funds needs extra attention. Venture capital's fundamental objective is for high yield by using high-risk of the high-tech enterprises. Therefore, at the last, venture capital needs to exit the companies invested. So, how and when to exit should be determined in advance. If the company can not meet the listing requirements, or found that venture firms can not bring the expected return or having no development in the future, Timely exit is wise.

4.5 Expanding financing channels

The overall trend of the venture capital industry in China in recent years is that venture capital funding sources are mainly from government and traditional government funding is still everywhere. But, meanwhile, the entry of foreign capital is gradually increasing and the proportion is rising.

However, funds and projects focused on risk-free expansion and growth stage of a corporate and the proportion of the funds investing in risky start-up phase of the project is smaller and decrease year by year. Therefore, it requires government to intensify support and guidance of start-up funds of venture capital projects. Of course, after all, the Government's investment is limited and it is mainly to play a stage role. From the foreign experience, government should adopt a series of incentives and concessions to broaden the financing channels.

4.6 Improve the laws and regulations

Any emerging industry needs a stable external environment, venture capital investment mechanism only can be established when the laws and regulations have been improved. Therefore, governments need to formulate

laws and regulations related to venture capital, especially in the legal status of the venture, venture capital sources, preferential policies, etc. Thus, not only for the smooth implementation of related policies provide some protection, but also serve to attract venture capital into the field.

5 Conclusion

Only on the basis of deepening understanding on the venture capital investment and strong government oversight and guidance can venture capital management system be improved and develop healthily. In this course, we should constantly learn from the experience of foreign countries and make good use of foreign capital to further strengthen China's venture capital business. The faster and healthier development of venture capital management will play a tremendous role in the course of China's economic development.

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