Discussion on the Application of Venture Capital Management under the Condition of Capital Market

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Abstract: With the continuous development of China’s economy and technology, people’s living standard and average income have improved, and more and more people participate in venture capital and financial activities. Compared with general financial activities, venture capital has the characteristics of high investment, high risk and high return. It is aimed at people who have strong capital strength and interests in investment. They often take the pursuit of high return as the internal driving force of investment and determine their investment through the analysis of enterprises. Through the way of investment in the enterprise, we can get part of the profits of the enterprise operation. This article will discuss the general situation of venture capital, the problems of venture capital management under the condition of capital market and the specific strategies of venture capital management under the condition of capital market for reference.

Keywords: Capital Market; Venture Capital; Management; Application; Exploration

Introduction

Venture capital can be divided into two different concepts in a broad sense and a narrow sense. The broad sense of venture capital refers to all high-risk and high return investment activities, while the narrow sense of venture capital defines the type of investment industry, mainly for technology intensive product manufacturing enterprises with high-tech as the core concept. Venture capital management is a kind of equity capital activity initiated by professional financiers and investors. It optimizes the production process and the construction process through high and new technology and promotes the development and commercialization of high and new technology industry and the realization of high capital gains. Therefore, managers should face up to the problems existing in the management of venture capital under the condition of capital market and solve the problems in time when constantly studying the new technology of venture capital management. They need to perfect the venture capital system and promote the development of China’s financial market.

1. Overview of venture capital

1.1 Characteristics of venture capital

Before venture capital management, we should understand the concept and characteristics of venture capital and make clear the elements of venture capital. Through the investigation of the background and conditions of the capital
market, we can know that venture capital includes the following elements: capital, technology, management, professionals and market opportunities. Managers should strengthen the understanding and grasp of the elements of venture capital when further studying the characteristics of venture capital. First of all, for the investment objective of venture capital activities, investors generally choose new technologies and emerging enterprises with great development prospects and carry out venture capital activities through means of investment for equity. The purpose of venture capital is to obtain higher economic benefits. Through the above analysis, we can know that in such venture capital activities, investors have certain decision-making power and can directly participate in the management and operation of enterprises. They even grasp certain discourse power in the process of enterprise strategy formulation. In addition, venture capital activities are generally high-risk, so in order to deepen the understanding of readers, we can regard it as a gambling activity in some aspects, which can bring investors unparalleled returns in traditional investment methods. Finally, for the essence and purpose of venture capital, the purpose of investors is to pursue high return rather than to interfere with the daily operation and management of enterprises. Therefore, good trust relationship should be established between investors and entrepreneurs, so as to achieve the goal of high return of investors on the premise of ensuring the normal operation of enterprises[1].

1.2 Key points of venture capital

1.2.1 Venture capital

Professional investors will provide a large number of start-up funds for start-ups to solve the problem of insufficient operating funds and help enterprises improve their capital turnover status and broaden the financing channels. In venture capital activities, professional investors will evaluate the development potential of start-ups and promote the rapid growth of enterprises by providing financial support to strive for opportunities for appreciation. In addition, in the process of venture capital operation, qualified investors can also invest by means of equity purchase and loan.

1.2.2 Risk object

In venture capital activities, venture capital investors need to have a strong capital base and a strong anti risk ability. Venture capitalists are usually angel investors and venture capitalists. Different from the traditional investment management activities, the main goal of venture capital is to make a higher return on profits rather than to pay attention to the operation and management of enterprises, and it then focuses on the management of enterprise assets. However, venture capital itself has a high risk, so after the investment, investors may not be able to get the expected return and return.

1.2.3 Term of investment

Venture capital investors not only provide financial support for enterprises in venture capital activities, but also participate in the operation and management of enterprises. In terms of the investment period, the capital market has clear regulations. The form of equity investment involves long-term venture investment. For example, an enterprise can get more investment in the early stage of entrepreneurship and maintain the investment time within 10 years, a period depending on the survival and development cycle of the enterprise. When the enterprise enters a stable development period and a mature period, the subsequent investment will be significantly reduced. At this time, the investment time is generally maintained in a few years.

1.2.4 Investment purpose

When analyzing the purpose of venture capital, we should understand it from its nature and attribute division. Venture capital itself is a kind of equity capital activity initiated by professional investors. Its ultimate purpose is to obtain more economic returns and returns.

1.2.5 Investment mode

Through the investigation of current investment market, we can know that the current ways of venture capital in China are direct investment, loan guarantee and loan provision. No matter which way to invest, there are serious risks and high risks. Therefore, professional investors should carry out market research with better overall management and then choose the best investment plan and way, so as to avoid the risks and hidden danger in investment management in time.
2. The problems of venture capital management under the condition of capital market

2.1 Organizational form and exit channel

As far as the current forms of venture capital are concerned, under the condition of capital market, the organizational forms of China’s financial industry and venture capital are relatively single, among which the main organizational forms are limited partnership system, trust system and company system. In the developed countries, the limited partnership system is generally used for venture capital management. At present, the company system is used for venture capital management in China, which will lead to a stronger dependence on the government in China’s financial investment industry. Therefore, to some extent, it will be restricted by the development of the government, the result is unfair competition in the capital market. In addition, the government will have a greater impact on the financial capital market, which may lead to government rent-seeking behavior and ultimately affect the development of private investment. But at the same time, it can not completely break away from the constraints of the system. Once the market is out of control, it will affect the progress of the investment market and cause the problem of investment slack. Secondly, for the exit channel of venture capital, it needs to be improved in China. Compared with the venture capital management in developed countries, the common exit method in China is equity transfer, and there are no clear legal norms for equity transfer, which will reduce the return rate of venture investors\(^2\).

2.2 Institutional problems and sources of funds

As far as the current situation is concerned, there are outstanding problems and obstacles in China’s venture capital system. Although China has been carrying out venture capital for some time, the investment management system of the financial industry has not been paid attention to or improved, resulting in the ineffective use of funds, talents and technical elements in investment activities. Finally, it will affect the income of venture capital activities and limit the constraint and incentive behavior of venture capital. In addition, compared with developed countries, the capital source of venture capital in China is relatively single and mainly government funds, which leads to various venture capital enterprises have government construction and management. In this way, the government becomes the main body of the financial investment industry, which can increase the restriction and intervention to the venture capital activities. Such a management mode will blur the property rights of the investment decision-making body, at the same time, it will lead to the situation of information asymmetry between investors and enterprises, which increases the risk of venture capital and enterprise operation.

2.3 Shortage of venture capital talents

Through the analysis of the purpose of venture capital, we can know that the biggest characteristic of financial venture capital industry is high income and high risk. Therefore, the decision-making in venture capital is particularly important. Only by making the right investment decision can we reduce the risk of investment and then bring greater economic benefits to investors. This puts forward higher requirements for venture capital talents. Only those who have higher professional quality and comprehensive quality can control the investment risks to the greatest extent and improve economic returns. However, in terms of the current situation, China is very short of high-level venture capital investors. Many professional investors have insufficient professional knowledge and even lack of professional ethics, which will increase the moral risk and safety risk of venture capital\(^3\).

3. The specific strategy of venture capital management under the condition of capital market

3.1 Perfection of the venture capital system

In order to strengthen the management of venture capital under the condition of capital market, we should first
improve the mechanism of venture capital. The industry can use the mechanism of venture capital to promote the relationship between investors and operators and to solve the problem of information asymmetry. Especially in the investment decision-making and management, we can fully mobilize the enthusiasm of investors. In addition, the venture capital mechanism can also solve the problem of entrusting and agency. Through the acquisition of external information, we can objectively and comprehensively evaluate the investment principal. Finally, it can also reduce the loss of investors through better risk investment mechanism and the investment by stages to negotiate the interests of investors and investment institutions and to solve the incentive and constraint problems⁴.

3.2 Establishment and improvement of the withdrawal system

In venture capital management, exit system is very important for investors and the market. The establishment and improvement of the exit system can help venture investors exit the investment market safely. For our government, it is also necessary to improve the property rights trading mechanism to broaden the exit channels of domestic venture capital outfield transactions. In addition, in terms of equity transfer, if we can develop professional institutions and free channels at the same time, we can speed up the speed of investors’ exit from the market. For example, in the American venture capital exit mechanism, there are many different levels of capital market system, which can improve the exit system of venture capital management and promote the development of financial investment industry⁵.

3.3 Clarification of the main functions of investors

The main body of venture capital activities in the capital market includes venture capitalists, investors, professional investment institutions and venture enterprises. In the development of venture capital activities, the main body of investment relies on intermediary institutions. That is to say, China’s financial venture capital establishes the connection between the principal bodies through intermediary institutions, thus forming a venture capital system. Only by further defining the functions of investors, can we promote the coordinated development of the whole system. There are two types of venture capital intermediaries in our country. One is ordinary intermediary, and the other is special intermediary⁶. Ordinary intermediaries mainly include investment banks, accounting firms and asset appraisal firms, while special intermediaries mainly include venture capital associations, intellectual property valuation institutions, etc.

We take the investment bank of the overall investment agency as the investment subject for analysis. Such an investment subject mainly has the functions of initiating investment and fund management. In addition, the profitable investment bank is also the listing sponsor, financial consultant and enterprise underwriter.

4. Conclusion

To sum up, through the research on the development of China’s venture capital market, we can find that there are still some problems in China’s venture capital management, such as the organizational form, the single exit channel, the imperfect management system and the lack of venture capital talents. Therefore, industry managers should improve the venture capital system, and the exit system should be established and perfected. It is also necessary to clarify the main functions of the investment methods to solve the problems in venture capital activities and promote the development of venture capital in China.

References