

Develop Venture Capital Industry, Perfect Science and Technology Investment & Financing System in Shenyang¹

DÉVELOPPER L'INDUSTRIE DE CAPITAL A RISQUE, AMELIORER L'INVESTISSEMENT DANS LA SCIENCE ET LA TECHNOLOGIE & LE SYSTÈME DE FINANCEMENT À SHENYANG

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Abstract: Thriving the development of Venture Capital industry contains great significance in perfecting science & technology investment and financing system and accelerating the development of high-tech industry of Shenyang. Currently, restrained by multiple factors such as scale, quit channels and exterior environment, etc, of Venture Capital, it plays only a limited role in solving the financing difficulty of science & technology enterprises of Shenyang. It shall emphasize on the following points if it is intended to develop and expand the Venture Capital industry in Shenyang, that is, strengthen the role of government Venture Capital organs as models and power house; foster and develop Venture Capital organs in an active way; perfect multi-layered capital market and broaden the quit channel for Venture Capital;

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perfect intermediary service system and promote investment efficiency in Venture Capital ; foster the great cultural atmosphere for starting the business, etc.

Key words: Science & Technology Financing; Venture Capital ; Capital Market

Résumé: La prospérité du développement de l'industrie de capital à risque a une grande importance pour le perfectionnement de l'investissement dans science & technologie et le système de financement et pour l'accélération du développement de l'industrie high-tech de Shenyang. Actuellement, contraint par de multiples facteurs du capital à risque, tels que l'échelle, les mécanismes de retrait et l'environnement extérieur, etc, il ne joue qu'un rôle limité dans la résolution des difficultés de financement des entreprises de science & technologie de Shenyang. Il doit mettre l'accent sur les points suivants si on veut développer et promouvoir l'industrie de capital à risque à Shenyang, qui sont, renforcer le rôle du gouvernement; favoriser et développer des entreprises de capital à risque de manière active; perfectionner un marché des capitaux multi-couches et les mécanismes de retrait pour le capital à risque; améliorer le système de services intermédiaires et promouvoir l'efficacité des investissements en capital à risque; favoriser l'atmosphère culturelle pour les démarches de création des entreprises, etc.

Mots-Clés: Financement pour la Science et la technologie; capital à risqué; marché du capital

Venture Capital, also known as Risk Investment, in a broad sense, refers to the investment with high risks and high potential profits. In a narrow sense, it refers to the investment that produces and deals with technology-intensive innovative products or services based on high science & technology and knowledge. According to the rules in *Provisional Methods for the Administration of Venture Capital Enterprises*, Venture Capital mainly refers to the investment method of equity investment on unlisted high-tech enterprises, which is aimed to provide Entrepreneurial Management services for those enterprises with the expectation of acquiring capital growth profits. Venture Capital can accelerate the commercialization of research findings to practical productive forces, push the development of high-tech industry and lead the prosperous and thriving development of the entire national economy. The above-mentioned function of Venture Capital has been proved by experiences in many countries. According to the statistics made by Department of Commerce of USA, 95% technology innovations and inventions accomplished after World War II originate from small-sized newly-arising enterprises and the successful commercialization of those inventions and innovations to practical productive forces should thank Venture Capital. As a result, Capital Investment also enjoys the vivid reputation as "Motor for Modern Economic Growth", and "Propeller of High-tech Industry Development".

Under the current condition of economic globalization and capital-market integration, competition among countries and areas is increasingly represented by scientific-technological power and the capability of independent innovation. The introduction of innovation mechanism becomes the prerequisite for occupying the commanding height in development and winning the advantageous position in competition. As the important support for the development of high-tech industry, Venture Capital's function is not only limited to financing an entrepreneurial venture. More importantly, it can push the continuous implementation of innovation activities through capturing inspiration and encouraging innovation with the help of necessary management and inspiration methods. As a result, striving to develop Venture Capital industry contains significant meaning in perfecting science and technology investment & financing system and accelerating the development of high-tech industry in Shenyang.

From the aspect of actual situation in Shenyang, there were only ten Venture Capital organs in Shenyang in 2002 with registered capital at RMB 180 million Yuan. Nevertheless the steps of the establishment of capital investment organs in Shenyang obviously speed up after the release of policies about joint-stock venture investment organ, financial aid for the organ establishment and investment risk

compensation, etc. there are thirty-eight various investment organs in Shenyang in 2008 with registered capital at RMB 1.59 billion Yuan and management capital over RMB 1.5 billion Yuan. A lot of problems that restrain the further development of Venture Capital still exist though Shenyang has already paid more and more attention to the Venture Capital with the consideration of its development strategy.

1. RESTRAINING FACTORS IN THE DEVELOPMENT OF VENTURE CAPITAL OF SHENYANG

1.1 Single investment form and insufficient participation of social capital

Venture Capital shall belong to a kind of initiative market-oriented business activity and government offers its direct supports for innovation activities only when market mechanism fails and enterprises become incapable. Nevertheless the practical situation in Shenyang is that the main body of Venture Capital is government, that is, government invests capital and government undertakes risks, which is ill-adapted to the interior requirement for the development of Venture Capital. A large quantity of social capitals fails to enter the domain of Venture Capital and the participation of foreign-funded venture investment fund and organ is still at low level.

1.2 Insufficient powerful policy guide

Venture Capital belongs to the investment with high investment, high risk and high profit, which is very sensitive to policies. Currently this is insufficient policy that can lead Venture Capital in China. *Provisional Methods for the Administration of Venture Capital Enterprises* released by the Ten Ministries and Commissions in 2005 contains active meanings for accelerating and regulating the development of venture investment organs. Nevertheless policies related to taxation policies that support the development of Venture Capital, and policies related to securities, insurance capital's participation in Venture Capital, etc, are still being studied. Shenyang offers favorable policies only for high-tech industry, for example, corporate income tax will be returned at 60% for IT projects with Venture Capital participation percentage up to 70%, which does not offer any favorable policies for Venture Capital companies. Besides, there is no rule in loosening Venture Capital's financing channels, which are unfavorable for attracting private capital to enter Venture Capital industry.

1.3 Insufficient professional risk investors

Venture Capital cannot develop without risk investors. The role that risk investors play in Venture Capital is irreplaceable. They should not only possess professional qualifications, but also have rich practical experiences; they shall not only understand well foreign situations, but also be very familiar with local situations and be capable of designing effective implementation plans. Currently inter-disciplinary talents who master related science & technology knowledge, have management experiences and understand well finance, are rarely seen in Shenyang, which not only restrains the development of Venture Capital, but also makes Venture Capital organs in Shenyang incapable of competing with international Venture Capital organs, and the introduction, training and management of professionalized Venture Capital talents has not aroused sufficient attentions yet.

1.4 Insufficient effective quit channels

Venture Capital is not to occupy or control the invested enterprises, which aims at withdrawing capital when opportunity is mature in order to pay back investors and carry out new investment and it belongs to the guarantee for the healthy development of Venture Capital mechanism. As a result, the quit system of Venture Capital becomes the indispensable factor in Venture Capital market system. Second board market for medium and small enterprises is undeveloped in China, long listing period, high costs,

complex processes, single capital market layer and less Venture Capital 's quit channels, all of which influence the investment enthusiasm of risk capital and the phenomenon is very obvious in Shenyang. Currently, there are only a few medium and small enterprise that are successfully listed in main board and second board (there is only one science & technology enterprise that is listed in main board and second board). Besides, the other two Venture Capital 's quit methods, that is, Stock Repurchase or Equity Transfer through Merge and Equity Transaction, are also not dynamic.

2. POINTS THAT SHOULD BE EMPHASIZED DURING THE DEVELOPMENT OF VENTURE CAPITAL INDUSTRY

It shall emphasize on the following points if it is intended to develop and expand the Venture Capital industry in Shenyang:

First of all, strengthen the role of government Venture Capital organs as models and power houses. Since incomplete system and immature backup condition for Venture Capital do exist currently, government's direct participation in Venture Capital can give full play to its role as models in levying capital. Shenyang Venture Capital Fund Co., Ltd is the first fund type Venture Capital, which is led by provincial government's Venture Capital fund with equivalent matching of municipal government's financial capital and also absorbs private capital. As the state-owned solely-funded science & technology Venture Capital company, it shall make great efforts in making it larger and more professional. On one hand, it shall undertake the function as government's policy supportive capital to guide fund, that is, take the role as mother fund of Venture Capital, which shall be nonprofit, but cooperate with innovation focuses of both municipal Party committee and municipal government in the establishment public science & technology platform for purposeful investment; on the other hand, it shall cooperate with world renowned Venture Capital organs in the ways such as investment matching and direct contribution to professional Venture Capital organs, etc, which will absorb both foreign and private capital to participate in Venture Capital in Shenyang, strengthen its own power and scale, and accelerate the steps of gathering high-quality risk capital, technique and talents both at home and abroad in Shenyang.

Secondly, foster and develop Venture Capital organs in an active way. It shall tightly grasp the great opportunity, that is, China is now supporting and paying more and more attention to independent innovation, more and more enterprise capital both at home and abroad, and more and more private capital are swarming into the newly-arising Venture Capital market, develop and expand the current Venture Capital industry, enlarge both quantity and scale of current venture capital organs in Shenyang in order to form the situation with coexistence of variable capitals, that is, government-led fund, government's Venture Capital, joint-Venture Capital, domestic Venture Capital organs and private angel fund, etc.

Thirdly, perfect multi-layered capital market and broaden the quit channel for Venture Capital. First of all, second board market preparation conducted by Shenzhen Stock Exchange has already entered the last stage, which is the primary choice for risk investors to quit the market. Currently thirty enterprises in Shenyang are being actively prepared for second board. Government shall create conditions in an active way and release the related matching policies to support second-board listing in the aspect of financing. Besides to quit in the similar way like IPO from overseas securities market such as NASDAQ of USA, second board of Singapore and second board of HK is also an option. Secondly, equity transfer including enterprise merge, purchase and equity buy-back shall be the major quit method for Venture Capital to quit the investment before China's second board market is initiated. Thirdly, it shall put more strength in regulating the current main board market. It should gradually innovate and perfect the circulation system of stock listing in order to provide system guarantee and convenient conditions for Venture Capital's quit channels. It shall also gradually solve the problem of clear equity in privately-operated science & technology enterprises.

Fourthly, perfect intermediary service system and promote investment efficiency in Venture Capital.

The intermediary organs for Venture Capital generally include Venture Capital association, standard certification organs, intellectual property rights evaluation organs and science & technology project evaluation organs, etc, all of which not only play the role as lubricant but also as adhesive. They are able to tightly connect all parts of Venture Capital together, bond investment targets of various categories and the complex and multi-layered Venture Capital process into an organic integrity, by which they accelerate the speed of capital rotation and shorten the process of value increase. It should enthusiastically foster and develop standard certification organs and intellectual property rights evaluation organs to make them provide professionalized intermediary services for Venture Capital activities, reduce information costs caused by asymmetrical information and insufficient information, and increase the investment efficiency in Venture Capital .

Fifthly, foster the great cultural atmosphere for starting the business. To foster the great cultural atmosphere for starting the business is the important and basic condition for the healthy and consistent development of Venture Capital , which will not only urge a large quantity of ambitious youth to start business, increase the quantity of high-tech enterprises and provide rich investable resources for Venture Capital organs, but also increase the attraction of foreign talents, promote the cultivation of domestic talents and expand the team of professional talents in Venture Capital industry. To foster the great cultural atmosphere for starting the business should change the knowledge of Venture Capital activity, establish the excitation mechanism for starting the business and award those who have made great contribution to and have great influence in starting business; lower the request for starting business and government shall offer certain help and assistance for starting the business; it shall also attract high-quality domestic and foreign talents and increase the capital investment on education and training through the establishment and implementation of talent development strategy and the creation of favorable conditions so as to promote the quality level of the Venture Capital team.

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