

# Review of the Impact of Venture Capital on Enterprises

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**Abstract.** Venture capital, which emerged and gained popularity in the 1980s and 1990s, has significantly impacted the global market in recent years. Concurrently, it has brought a diverse range of effects to numerous enterprises. This paper conducts a re-assessment of the diverse consequences that venture capital has on enterprises, taking into account both beneficial and adverse effects. With the ongoing societal development, many new high-tech firms have emerged, leading to an increasing need for early-stage funding. Consequently, venture capital is also on the rise. By integrating relevant research literature, this study thoroughly investigates the function of venture capital in enterprise innovation, development, and finance. Through this research undertaking, a comprehensive comprehension of the impact and future path of venture capital is achieved, which has implications for enterprises in search of financing alternatives.

**Keywords:** venture capital; startups; investment; innovation; impact.

## 1. Introduction

Venture capital constitutes a kind of private equity financing, which offers funds to early-stage, high-potential start-ups and small businesses in return for equity or ownership shares. Venture capital provides certain financial support and subsequent management for the innovation and development of enterprises. On the contrary, venture capital also offers value-added technical services for the innovation of enterprises, supervises projects and gives suggestions simultaneously. Venture capital differs from other forms of investment in that it mainly focuses on startups, whereas more traditional investments tend to involve more mature businesses. At the same time, Venture capital pays greater attention to the development and growth of enterprises. In addition, venture capital usually takes part in enterprises in the form of equity and becomes a shareholder of the enterprise.

Venture capital is characterized by high risk. Because its main investment field is the high-tech field, it faces many risks, including technical risk, market risk, financing risk and management risk. Therefore, the possibility of venture capital failure is very high [1]. Long-term nature. Venture capital needs to go through a long time and different stages to obtain certain returns. At the same time, continuous management and supervision of enterprises are also required [2]. Equity nature. Venture capital is not eager to obtain operating profits in the short term. It aims to increase the value of enterprise assets through continuous improvement and development. Then it obtains high returns through listing or selling. Therefore, venture capital is equity-based [3].

With the development of the global investment industry, venture capital, as an important financing method, aims to provide strong support for the development of some start-up companies while playing a significant role, and has brought many impacts to companies in different aspects. Many practitioners and researchers have attempted to identify these impacts, using various models and mathematical tools, such as the mediating effect model and applying the standard deviation in combination with the actually collected statistical data, giving birth to a large number of outputs and discoveries. Some researchers have pointed out that venture capital has a significant impact on the innovation of enterprises [2-4]. Other researchers have emphasized the influencing factors of venture capital on the future development of enterprises [5]. Other scholars such as Liu, Gao and Jeong, Jihye etc. have

pointed out the influence of venture capital on the investment strategies and capital sources of enterprises [6-9]. Therefore, this paper will elaborate on the impact of venture capital on start-up companies in the above aspects by reviewing academic literature such as Google Scholar and CNKI. This paper will primarily concentrate on the literature uploaded during the period from 2019 to 2024, and clearly center on "The Impact of Venture Capital on Start-up Companies", encompassing but not limited to the direct or indirect influence of venture capital on enterprise innovation, enterprise future development, enterprise investment and financing, and so on. As can be seen from table 1, this article has conducted literature searches through the impacts of these three aspects. And briefly summarized and classified the used literatures.

**Table 1** previous literature on Impact of Venture Capital

| Number | Reference                                                                                                                                                   | Contents                                                                                                                                                                                                                                                               | Author                                  |
|--------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| 1      | The impact of CVC and IVC on dual innovation of startup                                                                                                     | The difference in investment logic between CVC and IVC leads to differences in their impact on dual innovation of startups.CVC can better support startups in exploratory innovation, while IVC is more suitable for supporting startups in exploitative innovation. " | Kai Wang;<br>Chaoning Ma;<br>Kunkun Xue |
| 2      | Analysis of the Impact of Venture Capital on Enterprise Development                                                                                         | Summarize the application of venture capital in enterprises                                                                                                                                                                                                            | Feiyang Liu                             |
| 3      | How Corporate Venture Capital Affects Enterprise Value Creation                                                                                             | Summarized Tencent's investment situation and analyzed its impactThe impact of coming                                                                                                                                                                                  | Xinruilin Ma                            |
| 4      | How Corporate Venture Capital Affects Enterprise Value Creation                                                                                             | Summarized Tencent's investment situation and analyzed its impactThe impact of coming                                                                                                                                                                                  | Xinruilin Ma                            |
| 5      | Analysis of the Impact of Venture Capital on Enterprise Development                                                                                         | Summarize the application of venture capital in enterprises                                                                                                                                                                                                            | Feiyang Liu                             |
| 6      | The impact of venture capital on corporate investment and financing                                                                                         | The importance of venture capital in the process of enterprise investment and financing, the benefits, challenges, and risks it brings to enterprise investment and financing, and the role of venture capital are discussed                                           | yang Gao                                |
| 7      | The impact of venture capital on corporate financing constraints: the mediating role of agency costs                                                        | The relationship and role of venture capital and investment constraints for small and medium-sized enterprises, and the impact of venture capital on enterprise investment and financing                                                                               | Yingying Liu                            |
| 8      | The Importance of Investment Strategies for Startups                                                                                                        | The material discusses the meaning and importance of venture capitals to business, including both the initial and mature business                                                                                                                                      |                                         |
| 9      | "The Importance of Financing for Startups                                                                                                                   | The material discusses the importance of financing for start-up business in the ways of employees, future growth and fixed assets                                                                                                                                      | Intrepid Private Capital Group          |
| 10     | The Role of Venture Capital Investment in Startups' Sustainable Growth and Performance: Focusing on Absorptive Capacity and Venture Capitalists' Reputation | The journal investigated on how VC investment influence the firms' sustainable developed performance at each stage of operation                                                                                                                                        | Jeong, Jihye, et al.                    |

## **2. The effect of Venture Capital on Enterprise Innovation**

### **2.1. The Role of Venture Capital in Enterprise Innovation Activities**

Numerous technologies have been made possible by innovative businesses, and many of which depend on venture capital's funding for growth and expansion. High risks and significant uncontrollability are common characteristics of enterprise that is engage in creative operations, and venture capital suggests that the company is paid high expectation. Venture capital can help creative firms draw in more strong and seasoned veterans. This can improve the company's reputation with the market and provide further motivation for research, development, and innovation in the future.

The influence of venture capital on enterprise innovation is a multifaceted subject that need a comprehensive analysis of diverse elements of venture capital. To make sure that venture capital can effectively support enterprise innovation, businesses that take venture capital must carefully choose the investment institutions they work with and build cooperative relationships with them.

### **2.2. The Impact of Venture Capital on Enterprise Innovation Output**

Scholars now have differing opinions about how venture funding affects businesses' ability to innovate. For example, Song Junqiang and Sun Xiaojuan believe that venture capital can greatly increase regional innovation capacity and assist enthusiasm on innovation [4]. On the other hand, Dai noted that while venture capital's funding during the mature stage of investing aid in boosting the targeted businesses' financial performance, they also erode their ability for innovation[5]. A small number of researchers believe that venture financing has little to no effect on corporate innovation.

When it comes to investing in creative businesses, IVC (Independent Venture Capital, or just independent venture capital) and CVC (Corporate Venture Capital, or just corporate venture capital) are two types of venture capital that differ on their investment criteria and goals. The main goal of IVC is to provide investors with significant short-term financial returns. At the same time, CVC mainly focus on long-term investment strategy. Both strategies will encourage businesses to innovate. Due to the distinctions between these two venture capital forms, businesses that seek to maintain independent development and short-term financial gains are better suited for IVC, while those that seek rapid development and exploratory innovation are better suited for CVC [6].

## **3. The Impact of Venture Capital on Enterprise Development**

### **3.1. The Impact of Venture Capital on Enterprise Business Strategies**

Venture capital can help enterprises expand their markets and business areas, enabling them to competitive. Venture capital usually imposes relatively high requirements on aspects such as enterprise finance, operations, and management to guarantee venture capital's sustainability and safety [5]. For example, Tencent is active in investment activities in many areas including game and entertainment, fintech, etc., which provides it with vigorous market vitality and also nurtures a large number of excellent start-up companies for the market [6].

### **3.2. The Impact of Venture Capital on the Financial Structure of Enterprises**

Due to the shift in the the structure of funding, venture capital companies typically demand equity investment from businesses in order to increase their share count. Because the funding sources for this financing approach have grown broader and more balanced, it can assist businesses decrease financial risks associated with financing in addition to increasing their cash flow. Venture capital firms typically require businesses to use more flexible financing techniques, like convertible investments in stocks, bonds, and equity, in comparison to traditional equity financing [5].

#### **4. The Impact of Venture Capital on Enterprise Investment and Financing**

Many researchers believe venture capital can bring significant impacts on firms' investment strategies and financing, which are two vital elements for firms' sustainable development [7-8]. Startups frequently encounter uncertainties and obstacles, making a well-defined risk management strategy crucial, as their investment strategies significantly influence the growth and sustainability of startups. For example, diversifying their investment portfolio can help startups reduce risks with just a single investment. On the other hand, the proper financing will assist the company to attain fix assets, hire sufficient employees and lay a foundation for future growth for start-up companies [9].

According to Gao, a firm seeks investment and financing for financial supports in daily operation, which can be provided by venture capitals [7]. Compared to additional funding sources, such as bank loan that may not be willing to support the startups consider on their weak repaying ability in the early phases, and the inability for startups to issue the stocks, venture capitals are able to offer the necessary financial backing for startups in a more efficient manner. In this context, the influx of venture capitals can influence the firms by helping companies scale up, increasing production capacity, and develop new projects. They also strengthen the financial position of enterprises by increasing their capital reserves. Moreover, venture capital investors often send professionals to investment enterprise to provide strategic support and management experience, enhancing competitiveness and profitability. This is further reinforced by Jeong et al., who believed that venture capitals can bring intangible and valuable assets like past experience in investment to the firms [10]. Those assets may affect the startups' financial decision in the future by taking an active role in the management and control of the company process as they can own some shares of the company. Furthermore, according to Liu, who used the financial data of GEM listed companies from 2010 to 2020 and the mediating effect model, receiving venture capital can lessen the information asymmetry between financial institutions and businesses by transmitting signals, which in turn helps businesses overcome their financing constraints. Additionally, by utilizing social networks to draw in potential investors, businesses can increase the scope of their financing channels [8].

#### **5. Conclusion**

In this study, by searching the literature of CNKI and Google scholar. It is evident that venture capital has specific impacts on the innovation, development, investment, and financing of enterprises. Concretely, venture capital helps drive innovation in businesses. And different forms of venture capital (such as IVC and CVC) have different promotion effects on enterprise innovation and applicable enterprise types. In terms of enterprise development, venture capital can impart the investment strategies and financing of companies. Simultaneously, venture capital can assist enterprises in expanding the market and mitigating financial risks. Regarding investment and financing, venture capital holds crucial importance for the investment strategies and financing activities of companies. It can provide funds, strategic support and management experience for start-up enterprises, reduce information asymmetry, alleviate financing constraints and broaden financing channels.

This paper analyzes the impact of venture capital on enterprises in three dimensions. However, it must be acknowledged that the influence of venture capital on enterprises is manifold. For more effects, the intervention of venture capital may lead to changes in the equity structure of enterprises, which in turn affects the decision-making and management of enterprises. On the other hand, after obtaining venture capital, enterprises often receive more market attention, thereby bringing higher visibility to the enterprises. In the future, it is necessary to conduct in-depth exploration from more diversified aspects.

#### **Authors Contribution**

All the authors contributed equally and their names were listed in alphabetical order.

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