Academic Journal of Management and Social Sciences
ISSN: 2958-4396 | Vol. 7, No. 1, 2024

A Brief Analysis of the Influence of Venture Capital on Pioneering Enterprises

Wenbo Zhu [1, 2, *]

[1] University of Science and Technology Liaoning, college of business administration, Anshan, Liaoning, China
[2] Financial Management, University of Science and Technology Liaoning, Anshan, Liaoning, 110325, China
[*] **Corresponding author Email**: 1847171290@qq.com

Abstract: This paper mainly discusses the impact of venture capital on entrepreneurial firms. At the moment, venture capital is a very favorable source of capital for many start-ups. At the same time, the joining of venture capital is an opportunity as well as a challenge to the start-up enterprises. This article from the venture capital to the venture enterprise development influence, the venture capital follow-up management to the venture enterprise influence and the venture capital withdrawal to the venture enterprise and so on three aspects analysis, aims to provide some references for the entrepreneur, thus promotes the venture enterprise better, faster development.

Keywords: Venture Capital; Entrepreneurial Ventures; Follow-up Management; Impact.

1. Venture Capital Overview

1.1. The Concept of Venture Capital

Venture capital (VC) is a form of private equity investment that investors provide to start-ups and small businesses that are considered to have long-term growth potential. Venture capital typically comes from wealthy investors, investment banks and other financial institutions.

1.2. Disadvantages of Venture Capital

Venture capital funds new businesses that do not have access to the stock market and do not have sufficient cash flow to take on debt. This arrangement is beneficial to both parties, as the business gets the capital it needs to start operations, while the investors get equity in promising companies. There are other benefits to venture capital. In addition to investing capital, venture capital firms often provide mentoring services to help new companies build their businesses and networking services to help them find talent and advisors. A strong venture capital backing can provide leverage for further investment. A venture backed business, on the other hand, may lose creative control over its future direction. Investors in venture capital firms may demand a large share of the company's equity, and they may also begin to make demands on company management. Many venture investors are only looking for quick, high returns and may pressure companies to make a quick exit.

1.3. Stages of Venture Capital Investment

Seed stage: This is the earliest stage of a business's development, where the founders try to turn their idea into a concrete business plan. They may join a business accelerator for early funding and mentorship.

Seed funding: This is the stage where a new business is looking to launch its first product. With no revenue streams yet, the company will need venture capital to fund all its operations.

Early stage financing: After the company has developed a product, it needs additional capital to expand production and sales before becoming self-funded. The business will then need one or more rounds of financing, usually expressed incrementally as Series A, Series B, etc.

2. Overview of Entrepreneurial Ventures

2.1. Definition of Entrepreneurial Enterprises

Entrepreneurial enterprise refers to the innovative and pioneering enterprise in the pioneering stage, with high growth and high risk. At this stage, entrepreneurship has a significant impact on society, which is incomparable to the traditional micro-level of small enterprises. The relationship between entrepreneurship and Comprehensive National Power, national development strategy and other macro perspective is closely linked and inseparable. At the same time, as one of the main bodies of market economy, entrepreneurial enterprises are mainly reflected in creating new value, but compared with mature enterprises, there are still some differences, especially in resources, management and development strategies. [1]

The growth of entrepreneurial enterprises is generally divided into four stages: seed stage, start-up stage, growth stage and mature stage. Venture capital institutions or investors always pay attention to entrepreneurial enterprises regardless of the stage of the existence of enterprises. Venture capital is realized by incubating enterprises in the investment direction and value realization of venture capital. In the era of knowledge economy, no matter for entrepreneurial enterprises or venture capital institutions or investors, they have formed a "win-win and mutually beneficial" strategic relationship.

3. Impact of Venture Capital on the Development of Entrepreneurial Enterprises

With the rapid development of the Internet economy, the start-up companies that conform to the trend emerge in endlessly. They often feature innovative technologies, business models and ideas that have brought great changes and benefits to society. But in fact, most startups will

encounter various difficulties and challenges in the early days, when the need for strong financial support to promote the development of the company. Venture capital has become an important source of funds for the survival and development of pioneering companies.

3.1. Provide Financial Support for Start-up Companies

The initial stage of start-up companies need a lot of financial support, including research and development, production, marketing and so on. The venture capital institutions are specialized in providing financial support for start-up companies. Their investment strategies tend to favor high-risk, high-return projects and have greater willingness to invest in startups. Venture capital institutions through the research and screening of start-up companies, select the potential enterprises to invest, to provide more and more rapid financial support for the company to help them achieve faster development.

3.2. Experience Support for Startup Companies

In addition to financial support, venture capital institutions will provide experience support for start-ups. For many startups, the founders and management team are not experienced enough to deal with the challenges of the market and competitors. Venture capital institutions are mostly composed of a group of successful entrepreneurs, investors and professionals, who have strong market experience and management experience. Investment institutions will provide more comprehensive and professional business support for startups by providing consulting, networking, and industry experience.

3.3. Risk Management for Startups

Venture capital institutions do not invest money in the company to count, but through the risk assessment of the company to determine the amount of investment and investment period and so on. Well, it's crucial for a venture capital firm or investor to choose the right startup. Choosing the right project is beneficial to both the venture capital firm or investor and the startup. Successful investment can not only bring huge returns, but also build a good brand image for venture capital companies or investors. For startups, venture capital is not only a financial support, it also promotes the company's governance management, strategic planning and other aspects of the promotion of effective risk management, enhance the overall strength of the company.

3.4. Added Incentive for Startups to Grow

Venture capital is not only the economic support for enterprises, but also provides more impetus for the development and innovation of enterprises. Venture capital institutions or investors have a broader vision of the enterprise, they are more favorable in the research and analysis of the industry and market, and can provide more strategies and prospects for the development of the enterprise. In addition, venture capital institutions will also bring more business and technical cooperation opportunities, for the growth and expansion of entrepreneurial companies will have a greater role in promoting. Start-up companies will also absorb venture capital, generate more power, in a broader market to find more business opportunities.

4. The Impact of Venture Capital Management on Venture Firms

4.1. The Importance of Follow-up Management of Venture Capital

With the intensification of market competition, the uncertainty faced by start-up companies in the operation process is gradually increasing, due to the lack of management team and business operation experience of start-up companies, It is more and more necessary for venture capitalists to actively intervene and participate, through strengthening the follow-up management of start-up companies, providing meaningful supervision and creating value for start-up companies at the right time and in the right way, avoiding business risks and realizing value added. According to the research results from the University of Southern California in the United States, the follow-up management level of venture capitalists to their invested venture enterprises has become the main reason for the value-added of venture enterprises. The follow-up management of venture capital often focuses on strategic planning, interpersonal communication, social resources network and so on. Strategic planning mainly refers to providing advice on finance, banking and business operations and forming an effective board of directors. Interpersonal communication means that venture capitalists, as consultants of start-up companies, communicate with entrepreneurs and use their professional experience to provide reference for entrepreneurs' decision-making. Social resource network refers to the side effects of venture capitalists' social activities and reputations on venture companies. If venture capitalists are consultants and experts of other companies, they can provide various social resources for the development of venture companies. Venture capitalists should strengthen follow-up management, provide entrepreneurs with strategic planning, interpersonal communication and social resources and other aspects of help to ensure the smooth operation of entrepreneurial companies and obtain investment returns. [2]

4.2. The Impact of Subsequent Management on Entrepreneurial Enterprises

Venture capital follow-up management can provide value-added services for entrepreneurs, and communication is one of the main means of follow-up management. The follow-up management of invested enterprises has a positive impact on entrepreneurial enterprises.

4.2.1. Factors Affecting the Follow-up Management of Venture Capital

The forms of the follow-up management of venture capital are to strengthen the supervision of venture companies and participate in the management of venture companies.

1) Factors Affecting Regulation

The factors that influence the regulation include the time of venture capitalists cooperating with start-ups, the experience of venture capitalists and the degree of satisfaction of venture capitalists. Generally speaking, the longer venture capitalists cooperate with startups, the more agency risk is ignored and the weaker supervision is. The less experience venture capitalists have, the less they will invest in startups; The more satisfied the venture capitalists are with the investment returns, the weaker the supervision is.

2) Incentives for Venture Capitalists to Get Involved in Management

First of all, the experience of venture capitalists can be used for reference for entrepreneurs. Enterprises can use the experience of venture capitalists to help entrepreneurs determine the type of capital. When and where to find venture capital, as well as how to choose investment areas, make investment portfolios, choose development directions and formulate operational details, entrepreneurs can use the experience of venture capitalists to reduce mistakes. Secondly, when the cost of participation in management is low, the purpose of venture capitalists participating in the management of start-up companies is to realize the appreciation of their investment. Venture capitalists will actively participate in management when the value added is higher than the cost of participation, that is, when the participation of venture capitalists is economic. Third, agency factors, return on investment factors and entrepreneurs' decision-making factors will also affect the enthusiasm of venture capitalists to participate in management.

3) Problems in Subsequent Management The value of venture capitalists' oversight and involvement in management varies with the environment. When to strengthen follow-up management, what are the main means of follow-up management, how to strengthen follow-up management, when the value of follow-up management is the largest, and what factors affect the value of follow-up, have always been venture capitalists want to know.

4.2.2. Communication is the Main Way of Follow-up Management

At present, the main way of foreign venture capital follow-up management is to communicate with entrepreneurs. Through interviews and exchanges, it affects entrepreneurs' business philosophy and operating principles, provides communication channels for investors to participate in management and strengthen supervision, helps entrepreneurs establish a sound management team and organizational system, and realizes the rapid value-added of entrepreneurial companies. Therefore, investors must strengthen communication with entrepreneurs in order to improve the follow-up management of start-up companies. However, the communication between the two sides is affected by a variety of factors, through the analysis of the main factors affecting the communication between the two sides, we can strengthen the follow-up management and supervision of start-up companies. [3]

5. Impact of Venture Capital Withdrawal on Entrepreneurial Enterprises

5.1. Withdrawal of Venture Capital

There are a variety of ways to exit venture capital, mainly the following:

1) Initial public offering (IPO): Venture capital firms or venture capitalists promote the listing of the companies they invest in, thereby converting their private equity into public equity and achieving capital appreciation through market transactions. This is venture capital the most ideal way to exit, you can get high returns.

2) Equity transfer: Venture investors can transfer the equity held by them to other investors or companies to achieve capital withdrawal. The advantage of this approach is that it can be quickly and safely exited, but may not be as high as the return obtained by an IPO.

3) Management repurchase: The venture enterprise or its management repurchases the equity held by the venture investor. This approach is attractive to venture firms because it allows them to maintain their independence and control.

4) Bankruptcy liquidation: When the venture enterprise is not well managed or the market environment deteriorates, the venture investor may have to face the situation of bankruptcy liquidation. This approach is usually the exit mode when venture capital fails, and the return is low.

5.2. Impact of Exit on Entrepreneurial Ventures

The impact of the withdrawal of venture capital on entrepreneurial enterprises is mainly reflected in the following aspects:

1) Capital return: The process of venture capital withdrawal is actually the process of withdrawing venture capital from start-ups and achieving a return on investment. For startups, this usually means a lot of money back, which can be used for further business development, R & D, marketing, etc.

2) Management focus: VC exits can distract startup management. Management needs to spend a lot of time and energy to deal with the relationship with venture investors, including finding the right investors, negotiating investment terms, and dealing with various issues in the exit process. These distractions can affect both day-to-day operations and long-term strategic planning.

3) Corporate strategy adjustment: The exit of venture capital is often accompanied by the adjustment of corporate strategy. On the one hand, start-ups may need to change their original business model or product line to adapt to new investors or market conditions; On the other hand, companies may need to re-evaluate their long-term goals and strategic plans to accommodate a new capital structure and management changes.

4) Employee Motivation and Retention: VC exits can have an impact on employee motivation and retention. On the one hand, companies may attract and retain key employees by offering better compensation and benefits; On the other hand, with the exit of venture capital, some employees may choose to leave the company, which may affect the stability of the enterprise and team cohesion.

5) Market image and reputation: The withdrawal of venture capital may also affect the market image and reputation of the enterprise. If the venture capital is successfully exited with a good return, this may improve the visibility and credibility of the enterprise; On the contrary, if the exit is not smooth or the return is poor, it may have a negative impact on the market image of the enterprise.

The exit of venture capital has many impacts on the entrepreneurial firms, such as management, strategy adjustment, employee motivation and retention, market image and reputation, etc. Therefore, when venture capital exits, it is necessary to take full consideration and make full preparations.

6. Conclusion

As a special kind of financial capital, venture capital has a far-reaching and diverse impact on entrepreneurial enterprises. In this paper, venture capital from the entry, follow-up management and exit to explore the impact of venture capital. Overall, venture capital has a dual impact on entrepreneurial firms. It has played a positive role in providing financial

support for enterprises, optimizing governance structure and promoting technological innovation. But there are also potential downsides. Therefore, venture enterprises should consider the advantages and disadvantages of venture capital and make reasonable cooperation strategies to realize the sustainable development of enterprises.

References

[1] Zhang Wenhui. The Theory and Application of Financial Management in Start-up Enterprises: A Review of the Financial Management of Start-up Enterprises [J]. Price Theory and Practice, 2023 (01): 207.

[2] A Study of Venture Capital Management Based on Firm Value [D]. Dalian University of Technology, 2005.

[3] Li Yanxi. The Impact of Risk Investment on Value Increment of Venture Capital [J]. Science and Technology Management, 2002, (04): 43-46.0.