

# Research on the influence of venture capital on enterprise innovation

Yuxuan Wu

Faculty of Finance and Trade, Zhuhai University of Science and Technology, Zhuhai, Guangdong, China

## Abstract:

In recent years, against the backdrop of increasingly fierce market competition and continuous technological development, venture capital has had a very important role in influencing enterprise innovation. Firstly, this study defines the concept and characteristics of venture capital; Secondly, it explains the function of venture capital in enterprise financing, enterprise merger and acquisition, and enterprise innovation. Then, it analyzes the influence of venture capital on enterprise innovation as well as illustrates it with examples. The results show that venture capital has a significant positive impact on enterprise innovation and promotes high-quality economic development. This study aims to discuss the influence of venture capital on enterprise innovation through case analysis and provide a reference for enterprises and investors.

**Keywords:** venture capital, enterprise innovation, financial support, Meituan

## 1. Introduction

With the rapid development of China's modern society, the technology competition is becoming more and more intense, and the development of enterprises is facing all kinds of risks and challenges. As an important way for enterprises to obtain funds and resources, venture capital has a far-reaching influence on the innovation and development of enterprises. The relationship between venture capital and enterprise innovation has always been a hot topic in academic circles, but no definite answer has been obtained so far. Therefore, it is very significant for enterprises to explore the effect of venture capital on enterprise innovation. This study deeply studies the role of venture capital in enterprise innovation, which is helpful for enterprises to choose the best financing method in order to promote the innovative development of our country's economy.

## 2. Literature Review

In recent years, many scholars have studied the influence of venture capital on enterprise innovation. Defeng Sun and Yi Fan (2020) conducted an empirical study with 1,779 A-share listed enterprises as samples and found that the participation of venture capital has an important promoting influence on the quantity and quality of innovation output of enterprises. Based on the empirical analysis of GEM data, Jing Song et al. (2021) believe that enterprises with venture capital participation have higher innovation input and output than enterprises without venture capital participation, and the degree of venture capital partici-

pation is positively correlated with innovation input and output. Xiaoyu Zhang and Jin Li (2023) selected 196 SMEs listed on the Science and Technology Board from 2019 to 2022 as research samples and found that the entry of venture capital has a significant positive correlation with the innovation input of SMEs listed on the Science and Technology Board. Feiyang Liu (2023) believes that in the context of the current venture capital for enterprise development, venture capital is of great significance to enterprise development, which can provide financial support for enterprises, help them expand scale, improve production capacity, and enhance enterprise competitiveness.

Based on the research of the above scholars, conclusions can be drawn: venture capital plays an important role in promoting enterprise innovation. Both in terms of quantity as well as quality of innovation output, the participation of venture capital has an active effect on enterprise innovation.

## 3. Concepts Related To Venture Capital

### 3.1 Definition and Characteristics of Venture Capital

Venture Capital refers to an investment method in which investors provide financial support to start-ups or small and medium-sized enterprises with high growth potential and obtain the equity of these enterprises, with a view to achieving high returns in the future through the listing of enterprises, mergers and acquisitions or other equity transfers. Venture capital mainly focuses on innovation and

high-tech fields and helps enterprises achieve rapid growth and value enhancement through capital and management support. Some characteristics are reflected below:

First, high stake and high return: Because the investment objects are mostly start-up or high-growth enterprises, their future development is uncertain, so the risk is high, but the success often brings a high return on investment.

Second, it is usually long-term: the investment cycle of venture capital is usually relatively long. Besides, it may take several years or even more than ten years to see significant returns.

Third, it is unsecured: venture capital is mainly for enterprises that are not mature or in the start-up stage, and these enterprises often lack fixed assets or funds as collateral and guarantee for loans, so venture capital is essentially an unsecured investment.

Fourth, it is the use of portfolio investment: in order to spread risks, venture capitalists usually invest in multiple projects and balance risks through portfolio investment.

Fifth, participate in management and administration: while providing financial support, venture capitalists will also actively participate in the management and administration of the invested enterprises and provide value-added services in strategic planning, talent introduction, market expansion and other aspects.

Sixth is to adopt an exit mechanism: venture capitalists usually formulate a clear exit strategy, so that after the invested enterprises reach a certain stage of development, through listing, mergers and acquisitions or other ways to achieve capital exit and obtain returns.

To sum up, the risks and opportunities of venture capital coexist. In addition, under the premise of risk control, investors need to find the best investment object, thereby realizing satisfactory returns.

## **3.2 Classification of Venture Capital**

According to different standards, the investment risk is divided into three types: investment phase, investment field, investment method, etc. Therefore, these three points will be specifically analyzed below.

### **3.2.1 Classification of investment stages**

Venture capital is classified according to the investment stage, which can be separated into four categories: seed stage, start-up stage, growth stage and maturation stages. Seed-stage investments are targeted at start-ups, where the risks are highest but the potential rewards are also greatest. Start-up investment is aimed at enterprises that have a clear market prospect but have not yet achieved profit, to help them carry out product development, market expansion, etc. Growth investment is when a business enters a phase of rapid development and needs capital to

break through the limits of leverage ratios and reinvested profits. Mature investment is aimed at mature, large-scale, and market potential enterprises to further expand market share, mergers, and acquisitions.

### **3.2.2 Classification of investment areas**

The investment field of venture capital is very wide, covering many industries or technologies with high growth potential and innovation, such as scientific and technological innovation, biotechnology, clean energy, etc. Venture capital in different fields has different characteristics and risk-return characteristics. Investment in science and technology innovation includes software development, artificial intelligence, blockchain, and so on. Biotechnology investments include gene editing, biofuturing, telemedicine, and more. Clean energy investments include solar, wind, hydro, biomass, and other renewable energy projects. There are other venture capital investments in various industries, such as e-commerce, environmental technology, education, and other areas of venture capital.

### **3.2.3 Classification of investment methods**

On the basis of the types of investment, venture capital can be divided into direct investment, fund investment, joint investment, and other types. Direct investment means that investors directly inject funds into the target enterprise and obtain equity. Fund investing invests through venture capital funds, run by professional management teams, investing in multiple projects to spread risk. Joint investment refers to the joint investment of multiple investors in a project, sharing risks and benefits.

As can be seen from the above classification, the category of venture capital is multi-dimensional, and venture capital institutions should choose different classifications according to their needs, so that they can better make venture capital.

## **4. The Use of Venture Capital in Business**

### **4.1 The use of venture capital in corporate finance**

Venture capital plays an indispensable role in enterprise financing. For start-ups and SMEs, the lack of funding often limits their growth. Through professional investment evaluation and due diligence, venture capital institutions screen out enterprises with development potential and market prospects and provide them with necessary financial support. This kind of financial support not only relieves the financial pressure of enterprises but also provides a strong guarantee for their subsequent research and development, production, and marketing.

## 4.2 The application of venture capital in mergers and acquisitions

In the field of corporate mergers and acquisitions, the participation of venture capital institutions is also of great importance. M&A is an important means for enterprises to achieve rapid expansion, optimize resource allocation, and enhance market competitiveness. However, the process of merger and acquisition is complex and risky, which requires enterprises to have rich experience and resources. With their professional ability and extensive information network, venture capital institutions can provide enterprises with comprehensive support for M&A target screening, due diligence, transaction negotiations, and so on. They can not only help enterprises reduce the information cost and negotiation cost in the process of M&A but also provide enterprises with risk assessment and integration strategy suggestions to ensure the smooth conduct of M&A transactions and successful integration after M&A.

## 4.3 The application of venture capital in corporate innovation

Venture capital also plays a significant role in driving corporate innovation. Innovation is the core driving force of enterprise development and the key to gaining a competitive advantage in the market. Venture capital institutions usually pay more attention to innovative and high-tech enterprises, which often have greater growth potential and market prospects. By providing financial support and professional guidance to these enterprises, venture capital institutions promote their continuous breakthroughs in technology research and development, product innovation, and market expansion. Simultaneously, more opportunities are offered by investment institutions and possibilities for the innovation and development of enterprises through their extensive business networks and resources.

## 5. The Influence of Venture Capital on Corporate Innovation

### 5.1 Financial support and alleviation of financing difficulties

The capital in the process of technological innovation mainly comes from venture capital. Technological innovation projects often have high scientific and technological content, but the output risk is high, the capital demand cycle is long, and the technology is immature, which makes it difficult for traditional financial institutions to provide sufficient loan support. Venture capital helps companies overcome financial barriers in the course of technological innovation by providing them with the capital they need. Venture capital not only provides initial funds but also makes continuous investments in various stages of

enterprise development to ensure the continuity as well as stability of technological innovation activities. In addition, the intervention of venture capital helps to ease the financing pressure of enterprises so that enterprises can focus more on technological innovation and market expansion, rather than being troubled by financial problems.

### 5.2 Strategic guidance and management optimization

Venture capital institutions have rich management experience, and the pool of expertise is also high, and will introduce their own management team to provide guidance for enterprises to hire senior executives and operate and manage. This helps enterprises optimize the governance structure and improve the management level, so as to better support technological innovation activities. Venture capital institutions also provide strategic direction to companies, helping them identify market opportunities, assess the competitive situation, and formulate development strategies. This helps enterprises clarify the direction and goal of technical innovation and improve the pertinence as well as effectiveness of innovation activities.

### 5.3 Reduce information asymmetry and principal-agent costs

Venture capital institutions conduct rigorous due diligence and evaluation when screening projects for investment. This helps reduce the asymmetric information between enterprises as well as investors and improves the accuracy and efficiency of investment decisions. Meanwhile, the institutions of venture investment also use their own professional knowledge and experience to provide consulting and management services for enterprises, helping them better cope with market changes and risk challenges. They energetically take part in the governance and administration activities of enterprises after ownership, reducing the principal-agent costs of enterprises through supervision and management. This helps reduce conflicts of interest and contradictions between management and the owner of the enterprises, increasing the overall operational efficiency and innovation ability of the enterprise.

In conclusion, the influence of venture capital on enterprise innovation is profound. It not only provides necessary financial support and management guidance for enterprises but also reduces information asymmetry and principal-agent costs. These influences work together on enterprise innovation and promote the perpetual development of enterprises and industrial upgrading.

## 6. Case Study: Meituan

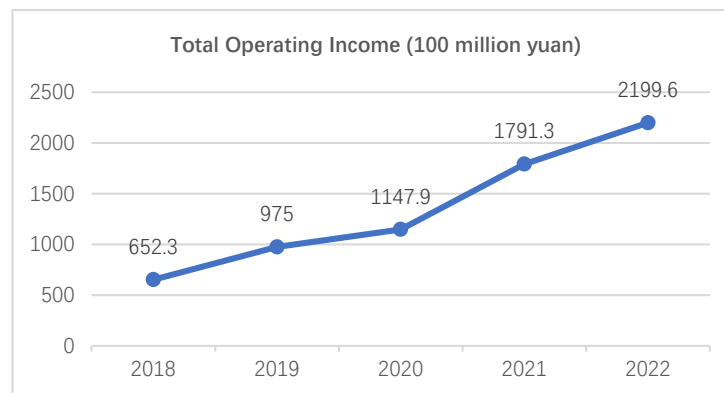
### 6.1 Case Introduction

As a leading local life service platform in China, Meituan

has received strong support from venture capital during its development. Founded in 2010, Meituan started out as a group-buying website and gradually developed into a comprehensive service platform covering food delivery, hotels, tourism, and other fields. In the process of rapid development, Meituan received support from a number of venture capital institutions, which not only provided the necessary funds for Meituan but also brought strategic resources and market experience.

This study selects the total revenue of Meituan from 2018

to 2022 to analyze how Meituan has experienced growth under the influence of venture capital. As can be seen from Figure 1, the total operating income of Meituan has shown an upward trend in the last few years and has had a large increase. The growth rate in 2021 is the largest, and the total operating income has increased by 56% over the same period in 2020. It can be found from the case that venture capital plays a significant role in promoting the development of enterprises.



**Figure 1 Meituan's total operating revenue from 2018 to 2022**

## 6.2 The effect of venture capital on Meituan's innovation

A. Ease financing constraints and promote research input. Venture capital provides a lot of financial support for Meituan, which effectively alleviates its financing constraints. This allows Meituan to invest more in key areas such as technology research and development, market expansion, and service innovation. These investments not only enhance the market competitiveness of Meituan but also lay a solid foundation for its subsequent innovation and development.

B. Provide management support and optimize corporate governance structure. Venture capital institutions not only provide financial support for Meituan but also offer professional advice and support for the management and development of the enterprise by participating in its board of directors and board of supervisors. This helps Meituan optimize its governance structure and improve its management level, enabling it to better respond to market changes and competitive challenges.

C. Promote business innovation and expand market boundaries. With the help of venture capital, Meituan continues to explore new business areas and innovative models. For example, the launch of Meituan takeout, Meituan hotel, Meituan Taxi, and other businesses not only meet the increasingly diversified needs of consumers but also bring new growth points for Meituan.

D. Enhance brand influence and improve market position. The support of venture capital allows Meituan's popularity and influence in the capital market to continue to increase. This helps Meituan attract more quality merchants and partners to join, thus further enhancing its market position and competitiveness. At the same time, its brand influence is also expanding, becoming one of the trusted brands in the hearts of consumers.

## 6.3 Case Summary

The case of Meituan fully demonstrates the important impact of venture capital on enterprise innovation. Venture capital not only provides the necessary financial support for Meituan but also promotes the rapid development and growth of the enterprise by providing management support and promoting business innovation. With the help of venture capital, Meituan has not only successfully transformed from a traditional group-buying website to a local life service platform but has also continuously expanded new business areas and innovative models, becoming a leader in China's Internet industry. In the future, with the continuous advance of technology and the constant changes in financial markets, we can see that Meituan will continue to promote its own innovation and development with the power of venture capital and provide consumers with more high-quality and convenient service experience.

## 7. Conclusion

To sum up, venture capital is of great significance to enterprise development and plays an important role in enterprise financing, M&A, and innovation. It provides necessary financial support and professional guidance as well as offers risk assessment and integration strategy suggestions for enterprises to accelerate their development. In terms of its impact on enterprise innovation, venture capital provides companies with funds needed for technological innovation and alleviates financing difficulties and helps enterprises optimize governance structure and clarify innovation direction through strategic guidance and management optimization. At the same time, its strict due diligence and management participation reduce information asymmetry and principal-agent costs and enhance the operational efficiency of enterprises. In the future, venture capital should be encouraged to participate more in the technological innovation process of enterprises, provide continuous financial support and strategic guidance, and optimize the enterprise management structure, which will help enterprises carry out innovative activities more efficiently, promote industrial upgrading and sustainable development, so as to better grasp the new trend of venture capital. Simultaneously, research should pay attention to how to play the role of venture capital in various fields such as finance, technology, and so on to make the role of venture capital more significant, thereby promoting high-quality economic development.

## References

- [1] Defeng Sun, Conglai Fan. Research on the impact of venture capital on enterprise innovation output: taking management short-term perception as a mediating variable. *Journal of Southwest University for Nationalities*, 2020, 41(09): 100-111.
- [2] Andrusiv U, Kinash I, Cherchata A, et al. Experience and prospects of innovation development venture capital financing[J]. *Management Science Letters*, 2020, 10(4): 781-788.
- [3] Jing Song, Guyan Hu, Qi He. Venture capital and firm technological innovation: the moderating effect of product market competition. *Management Review*, 2021, 33(09): 77-88.
- [4] Ling Mei, Huihui Liu, Linxiao Guo. Research on the influence mechanism and heterogeneity of venture capital on enterprise innovation. *Luo Jia Management Review*, 2022, (03): 114-134.
- [5] Feiyang Liu. Analysis on the impact of venture capital on enterprise development. *Trade Exhibition Economics*, 2023, (20): 161-164.
- [6] Xiaoyu Zhang, Jin Li. Research on the impact of venture Capital on technological innovation of smes in the Science and Technology Innovation Board. *North China Finance*, 2023, (11): 52-60.
- [7] Jijun Jiao, Weidi Zhu. Research on enterprise innovation path enabled by venture capital from the perspective of financial supervision. *Journal of Credit*, 2024, 42(07): 71-79.