



# Research on Financing Model of Venture Capital in Small and Medium-sized Enterprises

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## ABSTRACT

At present, China's SME(Small and Medium-sized Enterprise) cluster is developing rapidly, and has become an important force in improving regional economic development and technological level. However, in reality, SMEs in China still have financing difficulties, which limits the transformation and upgrading of SME clusters. The cluster of small and medium enterprises financing mode through "direct mode" and "joint investment model" construction of the two models, help to solve the financing difficulties of SMEs in the cluster, which makes the theoretical advantages of SME cluster into real advantages, improve the cluster and the financing capacity of small enterprises and promote the transformation and upgrading.

**Keywords:** Small and medium-sized enterprises; Cluster; Venture capital; Financing model

## 1. Introduction

With the reform and opening up and international division of labor and increasingly active cross-

border investment, the development of small and medium-sized enterprises has created a good economic environment. The cluster development of small and medium-sized enterprises has formed a strong economic trend. The small and medium-sized enterprises in the cluster can overcome the weakness of a single traditional enterprise, and have great advantages in resource sharing, cost reduction, technological innovation and cooperative competition. Many SME clusters become the backbone of local economic development. But in reality, small and

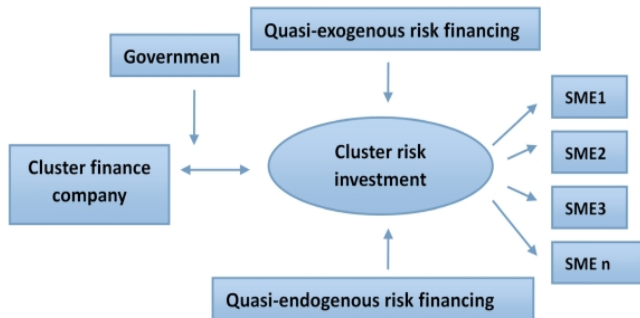
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## 2. The venture capital financing model of small and medium enterprise cluster

**Figure 1 cluster venture capital financing model of small and medium-sized enterprises**



Small and medium-sized enterprises cluster risk investment financing pattern can be divided into two kinds, one is among the cluster of risk investment set up mode of financing for small businesses, namely the "direct model", another kind is a combination of inside and outside the cluster financing risk investment, namely "Joint investment mode".

"Direct investment mode" is the venture capital financing model for small enterprises in the cluster. The capital of venture capital is derived from the small and medium-sized enterprises in the cluster, which is a kind of endogenous financing. For this kind of financing model, cluster finance companies to spread within the cluster of risk investment fund set up, then set the risk of investment capital according to certain principles to various small and medium-sized enterprise internal within a cluster in the process, in order to improve the benefit of the investment projects need to investment enterprise or project screening, thus reducing the investment risk, so that we can give full play to the cluster financial company financial management skills and risk

investment expertise, to improve investment income, accelerate the development of enterprises, the purpose of strengthening the cooperation of the enterprises in the cluster. From the advantages of this model, it can improve the utilization rate and capital liquidity of the investment funds in the cluster, so that informal financing can be transformed into formal financing.

### 3.2 Joint investment mode

The financing source of the joint investment mode is more extensive. The source of funds is both small and medium-sized enterprises in the cluster, and many risk investors or venture capital institutions outside the cluster. Only from the cluster internal financing is often difficult to meet the needs of small and medium-sized enterprises (smes) product development, product promotion and the need of technology innovation, cluster risk investment financing is not sustained development. This request should be externally oriented cluster financing, increasing the cluster risk investment financing ability, satisfy the cluster among small business demand for funds, is advantageous to the cluster and the sustained and rapid development of small businesses. Specialized venture capitalists, various financial institutions, scientific research institutions, government, non-financial enterprises and individual investors can all become venture capitalists or institutions outside the cluster.

### 3.3 Comparison of "direct investment mode" and "linking mode"

The investment and financing of small and medium-sized enterprises cluster risk "direct model" and "union model" the biggest difference is the source of the risk investment funds, in addition to advantages and effects of two kinds of model is different also. No matter what kind of financial company launched a venture capital financing model cluster among the starting point is in the cluster is the same as the

development of small businesses to raise more capital.

## 4. The characteristics of cluster venture financing mode of small and medium-sized enterprises

### 4.1 Cluster risk investment is relatively rational.

The incomes from Risk investment are obtained through risk enterprises or project capital appreciation and risk companies are often initially started but small and medium-sized enterprises with growth potential, which themselves are usually without guarantee that this is a source of risk on the one hand. On the other hand, the enterprise's achievement which is converted into merchandise and then into value-added capital needs to experience a series of stages such as product research and development, product testing, product promotion, and product sales. Each stage is risky, so there is a serious uncertainty is very large and it is difficult to control risk.

### 4.2 The endogenous and exogenous combination of cluster risk investment funds.

Part of small and medium-sized enterprises cluster risk investment fund comes from within cluster enterprises with idle funds. From the point of independence of the enterprise, a free and internal circulation of funds happens in a single corporate as a legal person. if the mentioned process is in paid use, the fund flow is also risky. The enterprises with idle funds within the cluster can better grasp the investment direction and raise the utilization rate of funds through the investment in the cluster. Purely from the cluster internal financing is limited after all, which cannot meet the demand of the cluster and the sustainability of small business financing. As a result, it requires external financing direction of investors or the investment institution, using cluster financial company as a whole to the cluster external financing.

#### *4.3 Cluster venture capital oriented with high and new technology.*

The main areas of cluster venture capital investment are biotechnology, new energy, software engineering and other emerging industries. The establishment of perfect risk investing mechanism is a necessary condition to promote the development of new and high technology industries, which can improve the conversion rate and marketization of achievements of new and high technology industries as a booster for the development of science and technology. For traditional venture capital financing, risk investment and new and high technology industries have a symbiotic relationship, on the one hand, the success of the high and new technology industry brought huge returns for venture capital, on the other hand, the high-tech industry is a high-risk industry and failure also can cause a huge loss of risk investment.

### **5. The value analysis of the financing mode of cluster venture capital operated by small and medium-sized enterprises.**

#### *5.1 It is beneficial to improve the financing ability of small enterprises in the cluster.*

Among the cluster, the small and medium-sized enterprises need financial supports to update the products and technology innovation. The small and medium-sized enterprises cluster risk investment financing model is a bridge between small enterprises in the cluster and it is beneficial to improve the small and medium-sized enterprises' financing abilities. From the point of the relationship between venture capitals in our country and the development of small and medium-sized enterprises at present, venture capital is far to satisfy the needs of the development of small and medium-sized enterprises. The important reason is that the two sides do not have

trust mechanism and information between them is asymmetry, which makes the symbiotic relationship between risk investment and small and medium-sized enterprise is not very well. Small and medium-sized enterprise is a new force to promote the development of national economy, the cluster finance companies of this pattern can be used as a third party to establish connection between venture capital and small and medium-sized enterprises, which can utilize the advantage of risk investment agent to realize the benign interaction of risk investment and enterprises in the cluster and improve the clustered small and medium-sized enterprises' financing abilities.

#### *5.2 It is helpful to promote the transformation and upgrading of small and medium-sized enterprises.*

From the present status of the development of clustered small and medium-sized enterprises in China, most small and medium-sized enterprises in the cluster have many problems that low technology innovation ability, low added value and poor ability in line with international standards, operating at a low cost and speed development momentum. For the strategic structural adjustment of China's economy, transforming from traditional small and medium-sized enterprises clusters to high-tech enterprise clusters is an inevitable choice.

High-tech industries as the leading cluster of SMEs with technology-intensive, good overall efficiency, growth potential, high rate of return, with immeasurable competitive advantage. Through the construction of SMEs cluster venture capital financing model for the development of high-tech enterprises within the cluster to provide hardware support for the transformation and upgrading of clusters provide a steady stream of power.

#### *5.3 Be better to improve the ability to control risks*

Venture capitalists or investment institutions

generally control the risk through supervision, restriction and reputation mechanism. SME cluster is a related economic organization with co-symbiosis. SME cluster venture capital financing model with its strict supervision and reputation mechanism can effectively control the funds from venture capitalists or investment institutions, and improve the risk to control Capability of capital. Within the cluster enterprises, the degree of information asymmetry can be greatly reduced. As a third-party cluster finance company, it can fully understand the operation and management of enterprises in the cluster and keep the interests of enterprises and venture capitalists in the cluster in line with each other, reduce moral hazard and speed up Information dissemination speed, urge enterprises within the cluster to improve management and improve labor productivity, so as to effectively control the risk and improve the return on venture capital.

## 5. Conclusions

As a new financing model, SME cluster venture capital financing model is conducive to the theoretical advantages of enterprise cluster financing into practical advantages, is a combination of endogenous and exogenous financing, is a way of rich and innovative to the SME cluster financing . The smooth operation of the financing model will undoubtedly provide a

bridge for small and medium-sized enterprises (SMEs) and venture capital in the cluster to communicate with each other. This will not only help monitor the investment risk but also promote the development of small and medium-sized enterprises in the cluster. Especially the high-tech-oriented SMEs Development is worth building and promoting the financing model. To further solve the problem of SME financing difficulties, it is also necessary for the government to support the development of SME clusters and improve relevant laws and regulations to create a good social and economic environment for SME cluster venture capital financing.

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