

The Impact Mechanism of Venture Capital on the Growth of Start-Up Enterprises and Its Effect Evaluation

Xinyi Fan*

Department of Investment Studies, HeFei University, Anhui, China

**Corresponding author.*

Abstract: The purpose of this paper is to explore the mechanism of the impact of venture capital on the growth of start-ups and evaluate its effect. This paper analyzes in detail how venture capital contributes to the growth of start-ups from five aspects: capital acquisition, information asymmetry improvement, experience and resource supplement, incentive mechanism creation and signal transmission effect. The study found that venture capital not only provides the necessary financial support for start-ups and relieves their financial pressure, but also reduces information asymmetry and enhances market trust through due diligence and evaluation. At the same time, venture capital institutions also bring a wealth of investment experience and expertise to startups to help them build partnerships and expand market channels. In addition, venture capital institutions also stimulate the enthusiasm of start-up founders and key teams through incentive mechanisms, promoting team collaboration and mutual growth. Finally, the involvement of venture capital institutions, as a signal of enterprise operation ability, transmits a positive message to the market and affects the availability of external financing and listing cost of start-ups. The research in this paper is of great significance for understanding the role of venture capital in the growth of start-ups.

Keywords: Venture Capital; Start-Ups; Growth Impact; Effect Evaluation.

1. Introduction

In today's highly competitive business environment, start-ups are faced with many challenges, among which shortage of funds, asymmetric information, lack of management experience, and difficulties in market expansion

are particularly prominent. These difficulties often limit the rapid growth and innovation potential of start-ups. However, the involvement of venture capital has brought new development opportunities for start-ups. Start-ups, the backbone of the innovation economy, are emerging at an unprecedented rate and trying to change the world. However, this entrepreneurial road full of opportunities and challenges is not a smooth road, start-ups in the early stage of growth often face a lack of capital, insufficient management experience, low market awareness of multiple problems. It is in this context that venture capital, as an important means of financing and management resources, has gradually become a key driver for start-ups to break through bottlenecks and accelerate development [1].

Capital is the most direct survival needs and development basis of start-ups. At the start-up stage, enterprises usually have no stable source of income, and all aspects of research and development, production, marketing and other aspects require a large amount of capital investment [2]. The intervention of venture capital institutions, like a strong "blood", provides necessary financial support for start-ups and effectively alleviates their financial pressure [3]. These funds not only help enterprises overcome the initial financial difficulties, but also accelerate technology research and development, optimize product design, expand production scale, enhance market competitiveness, and lay a solid foundation for the long-term development of enterprises. Information asymmetry is a major obstacle preventing startups from obtaining external financing and market recognition. Venture capital institutions will conduct detailed due diligence and assessment before investment, which not only includes the analysis of the company's financial situation, market prospects, technical feasibility, but also involves the in-depth investigation of the founding team's

background, management ability, and industry experience. This process not only helps venture capital institutions to select potential investment projects, but also encourages start-ups to improve their information disclosure mechanisms and enhance transparency and market trust [4] [5].

Endorsement by venture capital institutions often means that the market highly recognizes the enterprise, which provides strong support for the follow-up financing and market expansion of start-ups. From a micro perspective, Kortum and Lerner found empirically that after venture capital is involved in an enterprise, the number of patent applications will increase significantly [6]. Based on the perspective of value-added resources, Samila and Sorenson found that value-added resources provided by venture capital are an important driving force to promote enterprise innovation, including value-added services such as post-investment management, consulting and guidance [7]. Based on the perspective of R&D input and innovation output, Bottazzi and Rin et al. concluded that the interest of venture capital will urge the invested enterprises to carry out innovation research and development and pay more attention to the achievements of enterprise innovation, so as to obtain high returns when exiting the enterprise [8]. Faria and Barbosa took the European venture capital market as the research object and empirically concluded that venture capital intervention effectively promoted enterprise technological innovation [9]. From the perspective of post-investment supervision and management, Brav et al. found that after venture capital is involved in an enterprise, it will significantly affect the innovation decision of the enterprise, optimize the innovation resources of the enterprise, and promote the innovation of the enterprise [10]. ZhangChenjing et al. took GEM as the research object and empirically concluded that venture capital intervention in enterprises has a positive effect on both innovation input and output [11]. Venture capital institutions are not only the providers of funds, but also the sharing of experience and resources. With rich investment experience and expertise, they are able to tailor development strategies for enterprises and provide professional guidance in financial planning, marketing strategy, talent introduction, etc. With the incentive of venture capital, start-ups can respond faster to market changes, constantly launch innovative products

and services, and maintain competitive advantages. The involvement of venture capital institutions, like a "reputation label", conveys a positive signal to the market about the operation ability, development potential and investment value of start-ups. This not only boosts investor confidence in startups and improves their availability of external financing, but also paves the way for future public financing. The support and endorsement of venture capital institutions can often significantly reduce the financing cost of start-ups, shorten the listing cycle, and lay a good financial foundation for the long-term development of enterprises.

2. Influencing Factors of Venture Capital

2.1 Access to Funds

In the early stage of development, start-ups often face a shortage of capital. Traditional financing channels, such as bank loans, bond issuance, etc., have a high threshold for start-ups and are difficult to obtain sufficient financial support. Venture capital, a specialized form of capital focused on funding start-ups, fills the gap. By evaluating the market potential, technological innovation ability, management team quality and other factors of start-ups, venture capital institutions provide financial support for start-ups with high growth potential and help enterprises overcome the financial difficulties in the initial stage. The intervention of venture capital not only provides much-needed funds for start-ups, but also accelerates the flow of funds and optimizes the allocation. Venture capital institutions usually formulate reasonable plans for the use of funds according to the actual needs of start-ups to ensure that funds can be efficiently and accurately invested in key links such as research and development, production, and marketing. At the same time, venture capital institutions will also ensure the use of funds through regular investment evaluation and supervision, timely adjustment of investment strategies, to achieve optimal allocation of funds. Getting venture capital backing is an important credibility endorsement for a startup. The background and strength of venture capital institutions can often enhance the credibility and visibility of start-ups in the market, so that it is easier to obtain the attention and trust of other investors. In addition, the expertise and experience of venture capital institutions can

also provide guidance and help for start-ups in financing, and improve their financing capacity. In the subsequent financing process, start-ups can more smoothly obtain financial support from other investors, and further accelerate the development of enterprises.

The financial support of venture capital not only solves the funding problem of start-ups, but also promotes the innovation and sustainable development of enterprises. With the promotion of capital, start-ups can focus more on technology research and development, product innovation and market expansion, and constantly improve their core competitiveness. At the same time, venture capital institutions will also provide strategic guidance, market insight and other support to help companies grasp market trends and opportunities to achieve sustainable development. The impact of venture capital on start-up capital acquisition is multifaceted. It not only provides a key source of capital for start-ups, but also accelerates the flow and optimal allocation of capital, improves the financing capacity and credibility of enterprises, and promotes the innovation and sustainable development of enterprises. Therefore, start-ups can actively consider venture capital as an important financing channel when seeking financial support.

2.2 Improvement of Information Asymmetry in Start-Up Enterprises by Venture Capital

Venture capital firms conduct exhaustive due diligence and evaluation of start-ups before investing. This process includes an in-depth analysis of the company's financial situation, market prospects, technical feasibility, and the quality of the management team. Through this series of investigations and assessments, venture capital institutions can obtain more comprehensive and accurate corporate information, thereby reducing the source of information asymmetry to a certain extent. In order to reduce investment risk, venture capital institutions often require start-ups to increase the transparency of information disclosure. This includes regular reporting to investors on the company's financial condition, operations, market prospects and other information. By increasing the transparency of information disclosure, start-ups can better communicate their business status and future development potential to the market, thereby enhancing investor confidence and reducing the degree of

information asymmetry. In the process of venture capital, professional intermediaries, such as accounting firms and law firms, are often introduced. These intermediaries have the professional knowledge and experience to conduct a comprehensive review and evaluation of a start-up's financial situation, legal affairs, etc. By introducing these intermediaries, venture capital institutions are able to obtain more professional and reliable corporate information, further reducing information asymmetry.

There are often long-term partnerships between venture capital firms and start-ups. This partnership not only helps venture capital institutions better understand the business status and development potential of the enterprise, but also provides continuous financial support and strategic guidance for the enterprise. Through long-term cooperation, the two sides can build a foundation of mutual trust and understanding, thus further reducing the problem of information asymmetry. The involvement of venture capital firms is itself a kind of signaling. When a start-up receives venture capital support, it usually means that the enterprise has certain advantages in market prospects, technological innovation ability, management team quality and so on. This signaling effect can attract more investors and partners to pay attention to the company, thus further reducing the degree of information asymmetry. Venture capital plays a significant role in improving the information asymmetry of start-ups. Through due diligence, improving the transparency of information disclosure, introducing professional intermediaries, establishing long-term cooperative relationships, and exerting signal transmission effect, venture capital institutions can reduce the degree of information asymmetry, improve the market credibility and financing ability of start-ups, and lay a solid foundation for the long-term development of enterprises.

2.3 The Supplement of Venture Capital to the Experience and Resources of Start-Ups

Venture capital institutions are usually composed of experienced investment professionals who have deep investment experience and expertise. These experts have extensive experience and extensive resource networks in multiple fields, and are able to provide guidance to start-ups in strategic planning, market analysis, financial management, and more. Through the introduction of venture capital, start-ups can

learn from and make use of these experiences, reduce detours, and improve the scientific and accurate decision-making. Venture capital institutions not only provide financial support, but also use their network of resources to bring excellent management talent and technical experts to start-ups. These talents usually have a wealth of industry experience and expertise, and can help startups optimize organizational structure, improve operational efficiency, and drive technological innovation. Their participation can significantly enhance the core competitiveness and market position of start-ups. Venture capital firms often have established good partnerships with companies and institutions in multiple industries. By introducing venture capital, startups can more easily expand their partner and customer resources, and establish a stable supply chain and sales network. The introduction of these partners and customer resources helps startups quickly seize market share and enhance brand influence.

Venture capital firms also support start-ups with legal advice and intellectual property protection. In the start-up stage, companies often face legal risks and intellectual property disputes. Venture capital institutions can provide enterprises with professional legal advice and help enterprises establish a sound legal risk prevention and control system. At the same time, they will also assist enterprises to apply for patents, trademarks and other intellectual property rights, to protect the innovation results of enterprises. In the process of investment, venture capital institutions usually pay attention to the cultural construction and brand construction of enterprises. They will help create a positive corporate culture and promote employee cohesion and belonging. At the same time, they will also assist enterprises in brand building to enhance the visibility and reputation of enterprises. These efforts help startups stand out in the fierce market competition and become the best in the industry. To sum up, venture capital complements the experience and resources of start-ups in many ways. By providing rich investment experience and expertise, introducing excellent management talents and technical experts, expanding partner and customer resources, providing legal advice and intellectual property protection, and promoting corporate culture and brand building, venture capital institutions have laid a solid foundation for the

rapid growth and development of start-ups.

2.4 Creation of Incentive Mechanism for Start-Up Enterprises by Venture Capital

Venture capital firms often align the interests of start-ups with those of team members through equity incentives. For example, core employees, management or key technical personnel are given a certain number of company shares or stock options, which are usually linked to the performance of the company, market value, etc. This incentive system can inspire a sense of belonging and loyalty among team members, prompting them to work harder to enhance the value of the company and their own profits. In addition to equity incentives, venture capital institutions also set up performance reward mechanisms based on the performance of start-ups and the contributions of team members. This reward system usually includes bonuses, commissions, promotion opportunities, etc., to recognize and reward those team members who perform well in their work and create significant value for the company. The establishment of performance rewards can stimulate the competitive consciousness and innovative spirit of team members, and encourage them to continuously improve their own ability and work efficiency. After investing in a start-up enterprise, venture capital institutions usually actively participate in the operation and management of the enterprise, providing supervision and guidance. This participation not only helps to ensure the safe and efficient use of investment funds, but also brings valuable industry experience and market insight. Through the supervision and guidance of venture capital institutions, start-ups can establish a more scientific and reasonable incentive mechanism to ensure the fairness and effectiveness of the incentive mechanism. The mechanism of risk sharing and benefit sharing is usually established between venture capital institutions and start-ups. This means that venture capital institutions not only bear the investment risk, but also share the profits of the growth of the company. This mechanism can stimulate the enthusiasm of venture capital institutions, prompting them to pay more attention to the development and growth of start-ups. At the same time, it also allows team members of start-ups to feel a close relationship with investors, so that they can be more actively engaged in their work.

Venture capital firms also innovate the design

and implementation of incentives based on the characteristics and needs of start-ups. For example, set up an innovation reward fund to encourage team members to come up with innovative ideas and solutions; Carry out employee stock ownership plan, so that employees become shareholders of enterprises, and share the growth benefits of enterprises; Establish a knowledge sharing platform, promote learning and communication among employees, and enhance the overall quality and ability of the team. In order to maintain the sustainability and effectiveness of the incentive mechanism, venture capital institutions usually adopt a combination of long-term incentive and short-term incentive. Short-term incentives can stimulate the enthusiasm and work enthusiasm of team members, while long-term incentives can ensure long-term cooperation and common interests between team members and the enterprise. This combined approach helps balance the short-term and long-term interests of team members to achieve sustainable development of the business. Venture capital plays a crucial role in the creation of incentives for start-ups. Through equity incentive, performance reward, supervision and guidance of venture capital institutions, risk sharing and benefit sharing, design and implementation of innovation incentive mechanism, and combination of long-term incentive and short-term incentive, venture capital institutions can stimulate the enthusiasm and creativity of team members of start-ups, promote the rapid development of enterprises and enhance market competitiveness.

2.5 Effect of Venture Capital on Signal Transmission of Start-Ups

When a start-up receives venture capital support, it usually means that the enterprise has certain advantages in market prospects, technological innovation ability, management team quality and so on. The background and strength of venture capital institutions can often enhance the credibility and visibility of start-ups in the market, thus enhancing the market's confidence in the company. This confidence transmission effect helps startups to better attract the attention and cooperation of other investors, partners and customers, and thus promote the rapid development of enterprises. The involvement of venture capital brings additional financial support to start-ups, which in itself is a positive

sign. With the injection of venture capital, the financing ability of start-ups has been improved, and it is easier to get the favor of other investors. In addition, venture capital institutions usually have rich financing experience and resource networks, which can provide more financing channels and opportunities for start-ups. This broadening of financing channels helps start-ups better meet their funding needs and achieve rapid development. The introduction of venture capital is helpful for start-up enterprises to optimize their capital structure. Venture capital institutions usually formulate reasonable investment plans and fund use programs according to the actual situation and investment needs of enterprises. This helps start-ups to better manage funds, reduce financial risks and improve the efficiency of capital utilization. At the same time, the injection of venture capital can also improve the solvency of enterprises, maintain a benign debt level, and further optimize the capital structure.

Getting venture capital backing can also boost a start-up's brand value. Venture capital institutions usually carry out a series of brand promotion and marketing promotion after investment to improve the visibility and influence of enterprises. This kind of branding and marketing helps startups to better shape their brand image and enhance brand value, which in turn attracts more consumers and partners. After investing in a start-up enterprise, venture capital institutions usually actively participate in the operation and management of the enterprise, providing supervision and guidance. This participation helps startups better integrate resources, including human resources, technical resources, and market resources. Through resource integration, start-ups can enhance their core competitiveness and achieve rapid development. Venture capital investment in start-ups often has a demonstration effect. When one startup receives venture capital backing, other startups may be inspired and encouraged to actively seek venture capital backing. This demonstration effect helps to promote the activity and development of the entire startup market. The signaling effect of venture capital on start-ups is significant. By enhancing market confidence, attracting more financing, optimizing capital structure, enhancing brand value, promoting resource integration and producing demonstration effect, venture capital provides strong support for the rapid

development of start-ups.

3. The Effect of Venture Capital

In general, venture capital has positive effects on the improvement of capital status, operation management, market position, technological innovation acceleration and enterprise management perfection.

Venture capital provides enterprises with much-needed funds, which helps enterprises expand production scale, invest in research and development, and expand markets. This allows enterprises to obtain enough resources in a short period of time to achieve rapid growth. Enterprises that obtain venture capital are usually more likely to gain the attention and trust of other investors, so it is easier to carry out subsequent financing activities, and the financing effect is enhanced. Strategic planning optimization lies in the fact that venture capital institutions usually have rich industry experience and professional knowledge, and can provide enterprises with suggestions and guidance on strategic planning to help enterprises develop more reasonable development strategies. Venture capital institutions may require enterprises to improve operation efficiency and improve production and management efficiency by introducing advanced management methods and tools. Venture capital institutions may help enterprises strengthen team building and enhance core competitiveness by introducing outstanding talents and improving the quality of employees. Enterprises that receive venture capital usually have more funds and resources for marketing and marketing activities, making it easier to expand their market share. The background and strength of venture capital institutions can often enhance the visibility and influence of enterprises, and thus enhance the brand value of enterprises. An enterprise that receives venture capital is usually more likely to attract cooperation from other enterprises and institutions, thus expanding more business channels and partners.

Technological innovation is accelerating, research and development investment is increasing, and venture capital provides more research and development funds for enterprises, enabling enterprises to increase research and development investment and promote technological innovation and product upgrading. Venture capital institutions may help enterprises cooperate with other technology-leading

enterprises or institutions to jointly promote technological innovation and development; The improvement of corporate governance lies in the optimization of the corporate governance structure. Venture capital institutions may require enterprises to improve the corporate governance structure, establish sound governance institutions such as the board of directors and the Board of supervisors, and improve the decision-making efficiency and governance level of enterprises. In order to reduce investment risks, venture capital institutions usually require enterprises to strengthen the transparency of information disclosure, regulate the behavior of information disclosure, and enhance the credibility and market image of enterprises.

4. Conclusion

As an important driving force for the development of start-ups, venture capital has a profound impact on them in many aspects, such as access to capital, improvement of information asymmetry, supplement of experience and resources, creation of incentive mechanism and signal transmission effect. This article explores these mechanisms of influence in detail and assesses the actual effects of venture capital on startups.

In terms of access to capital, venture capital provides key financial support for start-ups, alleviates their financial pressure, and accelerates key links such as research and development, production and marketing. At the same time, the involvement of venture capital institutions has improved the financing ability of start-ups, making it easier for them to obtain the attention and trust of other investors, and providing strong support for subsequent financing. This kind of financial support not only solves the urgent needs of start-ups, but also lays a solid foundation for their long-term development. The improvement of information asymmetry is another big contribution of venture capital to start-ups. Venture capital institutions will conduct detailed due diligence and evaluation before investment, which not only helps venture capital institutions screen out potential investment projects, but also encourages startups to improve the transparency of information disclosure and enhance market trust. In addition, the endorsement of venture capital institutions often means that the market highly recognizes the enterprise, which provides

a strong guarantee for the follow-up financing and market expansion of start-ups; In terms of experience and resource supplement, venture capital institutions bring rich investment experience and expertise to startups to help them establish partnerships and expand market channels. Venture capital institutions not only provide financial support, but also optimize enterprise organizational structure, improve operational efficiency, and promote technological innovation by introducing excellent management talents and technical experts. The addition of these experiences and resources accelerates the pace of startup growth and enhances its ability to adapt in a complex and volatile market. The creation of incentives is another important contribution of venture capital to start-ups. Venture capital institutions stimulate the enthusiasm and innovative thinking of start-up founders and key teams through diversified incentive mechanisms such as equity incentives and performance rewards. This "benefit sharing, risk sharing" partnership enhances team cohesion and execution, and promotes collaboration and common growth within the enterprise. With the incentive of venture capital, start-ups can respond faster to market changes, constantly launch innovative products and services, and maintain competitive advantages. The signaling effect is another significant impact of venture capital on start-ups. The involvement of venture capital institutions conveys positive signals to the market about the operation ability, development potential and investment value of start-ups. This not only boosts investor confidence in startups and improves their availability of external financing, but also paves the way for future public financing. The support and endorsement of venture capital institutions can often significantly reduce the financing cost of start-ups, shorten the listing cycle, and lay a good financial foundation for the long-term development of enterprises.

To sum up, venture capital plays a crucial role in the growth of startups. It not only provides the necessary financial support for start-ups, but also promotes the rapid development of enterprises and the improvement of market competitiveness by improving information asymmetry, supplementing experience and resources, creating incentive mechanisms, and transmitting

positive signals. Therefore, when seeking financial support, start-ups can actively consider venture capital as an important financing channel to achieve sustainable development of enterprises.

References

- [1] Wu You, Dong Jing. Venture capital and enterprise innovation: Effect evaluation and mechanism verification [J]. Shanghai Economic Research, 2022 (04) : 112-128.
- [2] Xia Qinghua, Le Yi. Does venture capital promote technological innovation in Chinese companies? [J]. Science of Scientific Research, 2019,42(07):189-199.
- [3] Schmidt, K.M. 2003. Convertible securities and venture capital finance. The Journal of Finance, pp.58 (3),1139-1166.
- [4] Zhou Mingsheng, Ha Kai, Diao Peng. Does venture capital drive Enterprise "from virtual to real" [J]. Science and Technology Progress and Countermeasures, 202,39 (07) : 82-92.
- [5] Liu Eping, Zhong Junyu, Zhao Weijie. Research on the impact of venture capital on firm risk taking [J]. Science Research Management, 202,43(08): 109-118.
- [6] Samuel Kortum and Josh Lerner. Assessing the Contribution of Venture Capital to Innovation [J]. The RAND Journal of Science Economics, 2000,31(4): 674-692.
- [7] Sampsa Samila and Olav Sorenson. Venture capital as a catalyst to commercialization [J]. Research Policy, 2010,39(10): 1348-1360.
- [8] Laura Bottazzi and Marco Da Rin and Thomas Hellmann. Who are the active investors? [J]. Journal of Financial Economics, 2007,89(3): 488-512.
- [9] Ana Paula Faria and Natalia Barbosa. Does venture capital really innovation? [J] Economics Letters, 2014, 122(2): 129-131.
- [10] Alon Brav, Wei Jiang, Song Ma, Xuan Tian. How does hedge fund activism reshape corporate innovation? [J]. Journal of Financial Economics, 2018, 130(2): 27-38.
- [11] Zhang Chenjing and Mao Di and Wang Mancang. Role of Venture Capital in Enterprise Innovation Under Psychological Capital and Heterogeneity of Entrepreneur Capital. Frontiers in psychology, 20,11 (1):1704.