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CERTAIN ASPECTS AND FEATURES OF THE DEVELOPMENT OF VENTURE COMPANIES

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Abstract: *The global experience of leading companies shows that it is impossible to successfully develop a firm, particularly a venture one, and increase the efficiency of the firm's operations without correctly formulating the strategy as a set of measures aimed at achieving a goal. The relevance of this study consists in the fact that the operations of any enterprise, in particular a venture one, are associated with risks. Consequently, there is a need to form and apply a business strategy within the competencies of different departments. The authors attempt to study and develop a business strategy for a venture company. Modern business is fiercely competitive. A thorough, comprehensive assessment of the situation and a reliable operational forecast are required to make adequate decisions. The authors define the key stages of organizing operations of a venture company, identify possible alternatives of the strategic choice, address the problems of venture business and propose solutions.*

Keywords*: venture company, business, innovation, services, risks.*

INTRODUCTION

The economy is currently developing rapidly, and when technology or a project is developed, there is no time to wait; the funding to develop a company or a business is needed immediately, or it is too late. However, the underdeveloped business infrastructure of the Russian Federation combined with information isolation prevent a lot of entrepreneurs from recognizing a potentially new financial industry – venture business. In this case, the venture business is exactly the salvation mechanism that cuts the time for attracting funding. However, it is associated with great risk, and this kind of work is becoming increasingly relevant, similar to studying risk situations. Venture capital funding is beginning to attract more and more interest from Russian entrepreneurs, even though "venture" or "risk" capital is still a phenomenon that is not fully understood by most Russians. Venture capital is often equated with bank lending or charity. One can also note an underdeveloped information system regarding the venture business, as even simple information about venture funds, companies and their activities is almost impossible to find. Meanwhile, the venture business in Russia has already existed enough, gaining more and more popularity.

THEORETICAL ASPECTS OF VENTURE COMPANIES

Since the beginning of the 21st century, the venture business which had distinguishing features compared to other types of business began to develop actively in the Russian Federation. The word "venture" which came from the English language means "risk" and "enterprise" and reflects the main meaning and essence of venture entrepreneurship. This type of business involves constantly facing great risks (Filatova, 2013; Nikulina, Troshina, 2018; Bogoviz et al., 2019). A venture capital company (firm) is an enterprise whose product is innovations directly related to risks of a different nature: in marketing, production organization, scientific research, etc. A venture capital firm serves as the first and initial stage of product development, as the firm is engaged in the selection and development of a scientific or technical idea, its approbation and creation of samples for their subsequent transfer to the production (industrial) stage. Most commonly, a firm ceases to operate and exist with the termination of work on a given product. Venture capital firms implement only a small fraction of incoming projects. Since 35–45% of the projects that are accepted for development prove unprofitable and loss-making, a significant share of companies goes bankrupt (Khrustalev, Slavyanov, 2011; Porter, 2005; Dreshchinskii, 2016).

Venture capital firms are classified as small and medium-sized innovative businesses (up to 450–500 employees). The potential of venture capital companies is best used in knowledge-intensive and technically complex industries where it is combined with the production and financial capabilities of large companies. The most favorable for the operation of venture capital firms are industries in which the product life cycle is short since an active and rapid change in product nomenclature allows small firms to move from one innovation to another. Many professionals who encounter this type of entrepreneurial activity begin to confuse the two definitions: "venture capital" and "private equity". Venture capital is capital that companies start investing only when a firm is being created, and private equity investments occur at later stages of the enterprise's development. Venture capital is capital given by investors in other firms to fund new firms or firms on the verge of bankruptcy.

Venture funding goes through several important stages. The number of stages will naturally depend on the current stage of a company's development (Venchurnye investitsii v Rossii, n.d.; Popov, Kasyanov, 2013; Soldatova, Chernysheva, 2015; Damodaran, 2017).

- Seed capital involves the provision of a small amount of money needed at this stage of company development;
- Startup capital is used to purchase the equipment and produce a trial batch. Monetary investments at this stage help an organization produce items and be sustainable;

- At the third stage of development, a company is starting to take off and gain momentum;
- Transitional funding is needed to prepare a company for becoming a joint-stock company.

Next, there is a traditional buyout – the acquisition of ownership of another company and its transfer under the control of a firm. Then the director decides on the complete buyout of the enterprise from its current owners. Each stage of funding a new company has its own type of risk capital market in securities circulation. The primary sources of venture funding can be closed partnerships with venture capital, public funds, corporations, banks, individual entrepreneurs, etc.

CREATING A VENTURE COMPANY

The venture business is characterized primarily by huge risk, especially for the entrepreneur. Statistically, about 70–80% of projects in this business incur losses and only 20–30% not only bring profit but also cover all losses. Venture capital companies gained the greatest popularity in the United States, where already in the early 1980s, existing firms managed to earn the capital of up to 15 billion dollars. As for the emergence of such companies in Russia, the practice of creating such firms is only at the stage of formation and development. The first structures began to appear only in 1999 when a large exhibition of various venture projects was held and many of these projects became highly demanded by potential investors (Agarunov, Burnashev, 2013; Apollonov, 2011; Boiko, 2018). Opening a venture capital company is one of the riskiest types of business, the creation of which does not guarantee profit from the first days of operation. Studies show that about two-thirds of the projects presented do not show a profit despite being brilliant. An advantage is that if at least 10–20% prove successful, one can count on the company being prosperous (Rybachek, 2009; Venchurnyi biznes, n.d.; Obzor rynka pryamykh i venchurnykh investitsii za 2016 god, n.d.). (Fig. 1).

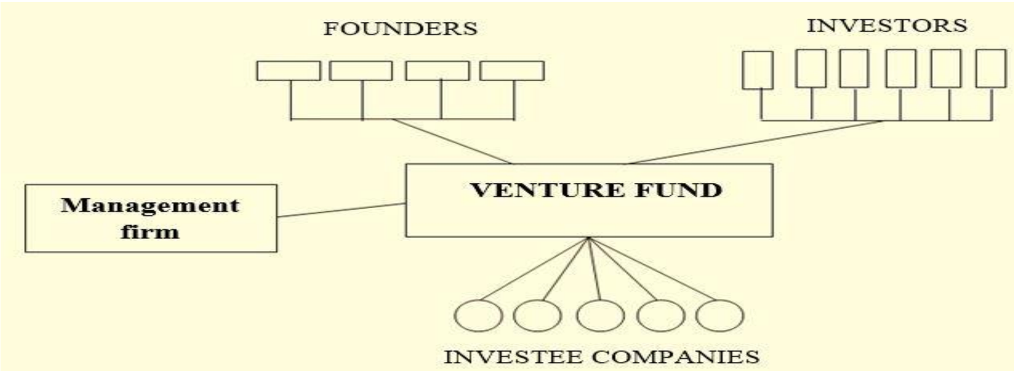

Figure 1. The structure of a venture fund

Companies are created on a contractual basis and with funds that are obtained by consolidating funds and, as a rule, from several legal entities or individuals at once. Investments and loans from large companies, banks and funds are also often used. Since venture financing is a high risk, the characteristic feature of investing funds is investment without any guarantees and material support from venture capital firms. There are some differences in the creation of small and large venture capital companies. Typically, small venture capital firms develop scientific ideas and turn them into new products. The initiators of such enterprises are most often a group of people – talented engineers and inventors. The largest corporations, on the other hand, have expensive equipment and a stable position in the market, so these companies are not willing to experiment but consider it much more profitable to finance small inculcation firms and move according to the initial business plan.

Companies of this type are characterized by mobility, increased flexibility and high activity which is the reason for attracting a highly qualified team of specialists. When creating a venture capital company, one must provide the following components: 1) Commercial idea of potential innovation; 2) Social need for such technology; 3) Capital required to invest in the company's risky activities; 4) An entrepreneur who, despite all the riskiness, decides to create a company. The company is founded in several stages with the participation of developers and an entrepreneur. At the first stages, new products are manufactured since capital is formed primarily with the company's own funds. At this stage, the economic strategy is determined and the market is analyzed. The next stage is to gain consumer confidence and search for new orders. With the expansion of production, an improved organizational structure is formed, which is aimed at manufacturing products for a wider range of people. A negative aspect at these stages is still the attraction of additional capital investments since there is no profit. When there is revenue, the company can issue, sell and put its shares on the securities market.

FEATURES OF VENTURE CAPITAL COMPANIES

Venture companies at all stages of development urgently require financial support as even such a company has nothing at the very beginning except for its ideas which are practically impossible to implement without substantial investment. Investments in a venture capital company must be attracted for a long period of time. Naturally, this process will involve a huge commercial risk, but investors will be able to receive considerable additional profit in the future. World practice shows that investments should be made in small and medium-sized enterprises that create new technologies or develop in the scientific field (Porter, 2016; Teece, Pisano, Shuen, 2003; Foss, 2007; Morrow et al., 2007).

Describing the features of venture capital companies, one must mention the features of venture capital as the latter reflects all the features of such organizations: Investments are made only if the project is truly worthwhile. Here, investors must assess the riskiness of this project and go all the way with the entrepreneur; Statistically, many projects of this type begin to turn a profit only after five or six years, sometimes even more. This fact suggests that venture investment is always focused on the long term; Companies' funds are invested in the development of the most advanced technologies in various fields of science. For successful and promising ideas, there are venture funds that are ready to invest in any interesting and worthwhile project, even if the project is associated with great risks; Companies are actively involved in the development of worthwhile projects. Besides investing money, investors help the "young" company, for example, in establishing good relations between entrepreneurs, finding new markets for products, etc.; The difference between a venture capital entrepreneur and a strategic partner is that the former wants to seize practically the entire controlling stake by all means. The successful development of a venture capital company requires: Long-term state policy in the field of innovation and a specified program of joint funding for such activities; Investment into active development of people's professional qualities; Venture entrepreneurs and venture managers; Developed applied and fundamental sciences that help to make discoveries, inventions, etc.; Modern education system; Free competition.

VENTURE BUSINESS DEVELOPMENT IN THE RUSSIAN FEDERATION

The formation and development of venture entrepreneurship in the Russian Federation have continued for a while; even now it cannot be said that this industry is in high demand, flourishes and has bright prospects. After examining the situation on the Russian market, one can see that from many small venture capital deals the market has moved on to larger ones, and if their number has decreased, then the market volume has grown as a result. The main trend of the last year 2016-2017 was the focus of investors on the Internet audience. According to the results of the Venture Russia report for the first half of 2018, the number of transactions decreased by almost 15% but the average cost of one transaction increased by 34%. What does this mean? Investors show demand for this kind of investment, however, there are not enough companies on the market that are attractive for investment. On the one hand, this indicates stability. On the other hand, in terms of this indicator, Russia lags far behind Western countries.

Projects considered by venture capital enterprises are usually high-risk projects with an average payback period of 7-8 years. To finance these divisions, a special venture capital fund is formed in the company, the managers of which are authorized to plan the frequency of use of the fund's resources and determine the amount of allocated funds (Samylin, 2013). In Russia, the European Bank for Reconstruction and Development and other financial institutions made the first steps to apply the basics of venture business. Although, it was done not in the field of funding entrepreneurial initiatives but to overcome the crisis and increase the efficiency of privatized enterprises. However, it is also one of the traditional trends in the venture capital business (Rodionov, 2010; Golubev, 2012). Experts identify several stages and their investment tendencies. The most significant increase in the transaction amounts was observed at the stage when the business showed stability and stable growth of assets. Investors are less active in investing their money in companies and businesses at the early stage of development (at the stage from the emergence of an idea to the formation of an integrated team, conducting commercial operations). As previously mentioned, there has been a leap forward and a lot of interest in the field of Internet users. The most attractive for potential investors are the areas of "Internet" and "software", especially projects aimed at the final consumer. As for investors, the most active were venture funds (the transactions amounted to USD 141.02 million). Corporations invested about USD 115.1 million over the same period, angel investors – USD 4.56 million (Fig. 2).

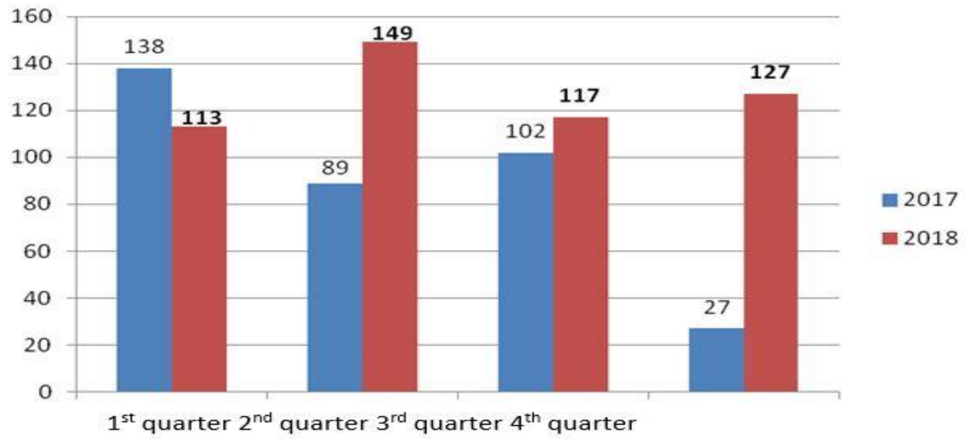

Figure 2. The trend of Russian venture business (transaction volume, USD million)

Currently, entrepreneurs naturally face a lot of difficulties that can be solved only by professional managers and their experience. In Russia, the legal framework that would regulate the activities of venture capital has not yet been created. Consequently, the mechanism of functioning is not regulated and supported at the state level, as in most developed countries. There are also the following factors hindering the development of the venture business: The lack of information; The absence of highly qualified executives and professional managers; Complex procedure for registering venture funds. Once these aspects are eliminated or there is assistance at the state level, the venture industry in Russia will develop much more efficiently.

CONCLUSION

In this study, we described the theoretical aspects and features of venture companies in detail and examined the status of the venture business in the Russian Federation. Research has shown that venture capital funding and venture capital funds help accumulate venture capital and finance large venture projects. Moreover, this type of financing allows for the participation of even those investors who do not have experience in investing in high-risk projects. By receiving money from venture capital funds, many companies get an excellent opportunity to overcome the "valley of death", that is, the break-even point. One can also conclude that the role of venture capital organizations in the modern world is very prominent, but it will never be the same in different sectors of the economy as each firm contributes to the economy in different ways. Small companies can be the foundation of a market economy as they connect all firms into a single unit.

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