

How does Venture Business Grow up in China's University-launched Science Park

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1) Introduction

China is experiencing a new boom of venture business, which is characterized by the rapid growth of university-launched science parks all over the country. Unlike the first entrepreneurial boom from 1997 to 1999, which created a number of 'Internet Heroes' by successfully listing their stock on NASDAQ, this time attention is paid to the major universities where the most excellent students of China are gathered and start-ups launched by returnees. This paper is an overview on the current environment of venture business growth, especially the new business affiliated to the university-launched science parks. The uniqueness of China's venture business is to be analyzed on the base of a review of the past literature. A case study is conducted, by which the factors that influence the growth of venture business are analyzed and how the factors interact is discussed. In the last part of the paper, conclusion is made.

2) Literature review

Chung-Jen Chen, Hsueh-Liang Wu and BouWen Lin evaluated the development of high-tech industries based on DEA model applied in Taiwan's science park (2005), and Hsien-Che Lai and Joseph Z. Shyu compared the innovation capacity at science parks across the Taiwan Strait based on the case study of Zhangjiang High-Tech Park and Hsinchu Science-based Industrial Park (2005).

3) Current environment

With the strong support of Chinese government in developing high-tech Science Park, during the last 5 years, the university-launched science parks have grown to 44 supported by 104 universities. At the same time, venture capital has increased to an amount about 5000 million Yuan. As showed in figure 1, 38% of the total investment is from government or state-owned company. OTC market is still under contemplation. However on June 25th, 2004, Shenzhen Small and Medium-sized Enterprise Market was established as a transition market for SMEs to accumulate money for their development. Most of the companies seek to be listed on oversee OTC market or wish to find a good buyer. Figure 2 shows the operating situation of the venture business in China until the end of 2004.

The university-launched science parks are privileged with the skillful and enthusiastic student entrepreneurs. Also they are calling back the oversee students, who bring back not

only technology, but also venture capitals. However, the professional venture manager and marketing personnel are in great need. Science parks are also trying to build the network that helps the venture business find the ideal investor and helps venture managers exchange their thought like what people do in 'Silicon Valley'. Unfortunately, there lack a free market for exchange of technological results. Thus instead of licensing out their technology, people are encouraged to start a new business without careful consideration of the conditions.

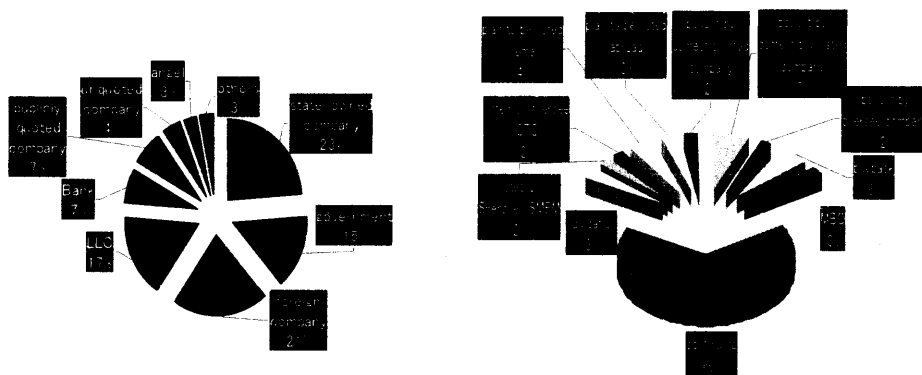


Figure 1 the structure of venture capitalist in China Figure 2 the operating situation of VCs in China
 Source: Songqi Wang and Yuan Wang *Venture Capital Development in China 2005*

4) Influential factors on the growth of venture business

By analyzing the environment of venture business in China, we can find the characteristics and problems of the main influential factors on the growth of venture business as follows.

Government: agency problem? Chinese government has been more and more skillful in reconciling the 'Irreconcilables'. However, when private entrepreneur has not grown big enough, the government is inevitably playing an eye-catching role in the whole process of venture business. Due to the agency problem, government-sponsored venture capital is inclined to choose projects with a biased standard. For instance, rely on the government's introduction of projects, or choose a project of a special field only to finish an assignment.

University: engine of new venture business? The necessity of commercializing the idea is emphasized so much that university become more and more noisy. However, it is surprising that the cooperation between university and venture business is not so popular. There are two reasons. one is the problem of IPR. It is difficult to reach a negotiation in dividing the belongings of research results. The other reason is the personal relation of the entrepreneur with his (her) former professor, which helps avoid a formal contract.

Science Park: a brand? Though not every venture business is located inside the park, the entrepreneur needs it to be a 'brand'. Without the brand, there is almost no hope venture capital will show interest in the project. Actually, science parks do everything from supplying office room to consultant. There are also examples that they seek venture capital for the entrepreneur and afterwards they obtain stock share in the succeeded company.

Venture Capital: unequal position? In searching for the venture capital, entrepreneur seems always in a weak position. To get the investment, technology is converted into an almost unfair stock share, especially when the project is in its early stage.

5) Case study

To understand the factors that influence the activities of venture business, we made an interview to some venture business in the main science parks. Among the samples we select three typical companies set up by students of Qinghua University: V2 (V2 technology, Inc.), Asee (Beijing Asee IT., Ltd) and FanSo (FanSo.com). They are the winners of the Second Qinghua University Entrepreneur Contest. After the contest, they gained the aid from venture capital and started their own companies.

The condition of the three companies at the starting point is as showed in Table 1.

	Key person	Start-up time	First capital	Venture capitalist	product
V2	Bin Ye	1999.8	\$100,000	Tony Tong (Angel)	Netmeeting tool
Asee	Ke Wang	1999.5	RMB52,500,000	Shanghai No. 1 (State-owned)	Super screen projector
FanSo	Jun Lu	1999.9	RMB6,600,000	Shanghai Pudong Kechuang (LLC)	Educational ICP

Table 1 the condition of V2, Asee and FanSo at the beginning of the start-up

However the three companies had different fates. Here let's review the process of their development process in table 2.

The three companies are all established by students who have excellent idea and technology. They won the contest that a number of venture capitalists were paying close attention to. The venture capitalists had to compete to win the chance of cooperating with them. However, as student entrepreneurs, they lacked the experience of making business strategic. At the early stage of their development, all of them confronted the same difficulties: the crash of NASDAQ bulb and the inability of earning profit.

V2 and Asee realized the problem and changed the strategic timely. They solved the marketing problem down-to-the-earth and survived. On the contrary, FanSo experienced a serious controversy of opinion inside the board and failed in the end.

6) Conclusion

	V2	Asee	FanSo
1999.4		Cooperation with Qinghua Xinye (consultant)	
1999.7		first round RMB2,500,000	
2000.1	V2 communicator developed		Concept E-world
	Free download explosion		strategy ICP
	Angel Financing		
2000.3	Netrove, AsiaTech, PCCW-HKT	Shanghai No.1 quit the second round	
	Invest HK\$ 10,000,000	investment	
2000.4		Multimedia super screen projector TV	
		Trial production completed, AUCMA Group	
		Invest RMB30, 000,000, holding 50% stocks	
2000.5			Compus-Age 1.0 marketing
			Failure, controversy in board
2000.8	V2 Conference 1.0 developed		To make profit, from ICP to
	Copy of Netmeeting, marketing failure		ASP
2000.12	disappear from public view	began marketing the product	E-Book maintenance difficulty
			FanSo homepage closed
2001	V2 Conference 2.0	enter international market	
	Product differentiation succeeded		
2002	V2 Conference 3.0 4-man conversation		
	New tech, big success		
2003	Enter P2P, sales 300% increase	enter DLP field	
2005 present	capital fund RMB20,000,000	capital fund RMB30,000,000	
	Market share 35%, 100 employees		

table 2 the Growth Process of V2, Asee and FanSo

China's university-launched science park has experienced a rapid growth during the last 5 years. To improve the environment of new venture business, the improvement of government, university, science park and venture capital should be under consideration.

Reference:

- 1, Hsien-Che Lai and Joseph Z. Shyu (2005) A comparison of innovation capacity at science parks across the Taiwan Strait: the case of Zhangjiang High-Tech Park and Hsinchu Science-based Industrial Park. *Technovation*, Vol 25, 7, 805-813
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