PUBLIC FUNDS AS VENTURE CAPITAL IN TRANSITIONAL ECONOMIES: EXAMINING THE EFFECTIVENESS OF THE GOVERNMENT GUIDING FUND POLICY IN CHINA (SUMMARY)

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SUMMARY

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Principal Topic

This study examines how government-initiated programs affect venture capital development and entrepreneurial activities in China. Using provincial data from 1995 to 2012, I examine the impact of government funds via the Government Guiding Fund Program (GGF program) on VC firms’ fundraising, investment decision, return and entrepreneurial activity with the consideration of the transition economy nature of China. In this way, I try to answer: (1) whether the supportive policy has achieved a positive impact on VC and entrepreneurship? (2) How and why such effect is achieved? (3) Has China’s characteristics of a transitional economy caused any difference in terms of the policy implementation and actual effect? In this way, I hope to provide insights to the role of policy instruments in fostering VC development and entrepreneurship.

Method

The data of this study were collected from two major sources, VentureXpert and China Venture Capital Association (CVCA). I obtained the investment and performance data of venture capital firms from 1996 to 2012 from VentureXpert, while records related to the GGF programs since 1999 from China Venture Capital Association. A total number of 141 government guiding funds and 4655 portfolio companies in different provinces of China are studied. VAR (Vector Autoregression) and Diff-in-Diff model is used to study how GGF programs cause changes in venture capital fundraising and investment activity. Fixed effects model is used to examine the impact of the guiding fund policy on entrepreneurial activity.

Results and Implications

Currently, the data is ready but hypotheses testing are still underway. I believe the results of this study bears significance. Firstly, this study not only examines the effect, but also provides a comprehensive examination of the mechanism by testing the possible causal relationship between policy and elements that are crucial in VC financing process. Second, it provides empirical evidence of whether the government-private partnership in VC industry can still be applied in a transitional sitting. Thirdly, this study bears practical implication to practitioners and policy makers in terms of how to make use of government support and improve institutional design to better boost venture capital investment and entrepreneurship.

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