

Innovation-driven and the Rise of RMB Fund

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Abstract: As China's economy has gradually entered the new normal development zone, economic growth has shifted from being driven by resources and investment into driven by innovation. From the development of China in recent years, whether in the field of manufacturing, production or economic development, innovation results are constantly emerging, and our economic innovation vitality is more and more obvious. The Internet, being as China's most active areas of industry, its venture capital and starting business mutually support each other and make common progress, which makes China's Internet industry has made significant improvement and obtained great development. China's Internet international influence has been greatly improved, and the world innovation center is moving to China. In order to make the enterprises of our country move towards the world better, our country is in urgent need of a self management innovation for the venture capital industry.

Keywords: innovation-driven, RMB fund, new economic normality, internet industry

1. The Direction and Mode of Innovation Driven With Chinese Characteristics

1.1. Innovation Direction

In order to achieve long-term development, innovation is the key to the enterprise. If the enterprise closely keep along with the national innovation technology development, although it can reduce the risk of failure to a certain extent, it will also receive the corresponding limit in terms of income. According to the national conditions of our country, enterprises can generally make innovation from the following two aspects:

On the one hand, it should based on humanism. Scientific outlook on development needs to be people-oriented. And people-oriented in the direction of innovation is different from that in scientific outlook on development. The former not only makes service and production meet the needs of most people through innovation, setting up the image of an outstanding enterprise, but also matches the strategy of the country's priority development. Make innovation during the process of development and achieve the goal through innovation, promoting the rise of the RMB fund and stimulating China's economic growth.

On the other hand, it is based on information. From the reports of the Sixteenth National Congress the, the effect of information on innovation can be seen. The Eighteen National Congress also put forward that information should be promoted to lead the development of innovation, which show the importance of information technology to the development of the society. On the technical level, China should push forward the innovation of information technology, and change opportunities through

information technology. Face the challenges and change the development status, so as to get broader development space for Chinese enterprises. In addition, in the process of innovation, enterprises can share market information and market environment more conveniently by innovating technology, saving innovation resources and shortening innovation term. The innovation under the development of information is the prerequisite for opening up and innovation, which is of great significance to the promotion of cooperation and development of outstanding enterprises at home aboard.

1.2. Innovation Mode

Innovation mode is mainly divided into innovation-factor driven mode and market-demand driven mode.

From the point of view of innovative elements, it mainly depends on the national innovation system. Under the leading of the government as well as the social participation, a network system that promotes technological innovation, is ultimately formed among various departments of enterprises through mutual cooperation, and the formation of the system innovation is the the first phase of innovation-factor driven mode. In the second phase, through establishing a nation led innovation drive on the strategic level, transform the efficiency development of enterprise from low efficiency to high efficiency, and finally form innovative results. As shown in Figure 1.

From the point of view of market demand, as the rear section of innovation driven path, it has entered the stage of economic and social development through some technical means. At the same time, it will combine its own resources and technical advantages with the market to capture business opportunities. At this stage, although it relies less on infrastructure, such as scientific research

and education, it relies more on the scale and market development of some emerging enterprises.

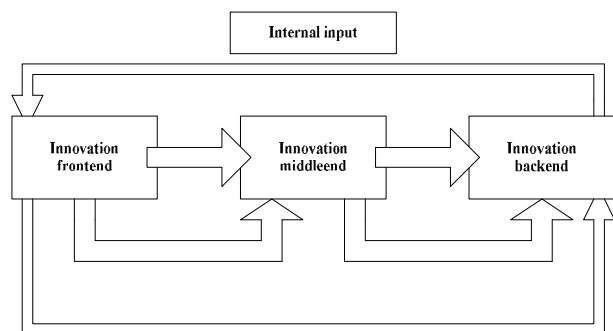


Figure.1. Innovation-elements Driven Mechanism.

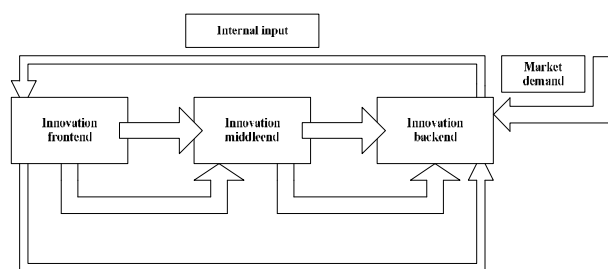


Figure.2. Market-Demand Innovation Driven Mechanism.

At this stage, some enterprises will also be the leader of industry innovation through the “jumping frog” form. Market demand drives enterprises and the government to cooperate with each other. With the enterprise being as the main body of innovation, government provides a better market environment to drive the development of enterprises. For every enterprise, in the process of innovation, it is important to cultivate its own ability and be able to make timely adjustment to the change of the market. Driven by market demand, enterprises are required to establish product innovation and management innovation that is compatible with the market, so that scientific and technological achievements can be transformed to market demand as soon as possible.

2. Research on The Rise of RMB Fund Driven by Innovation

2.1. Challenges Brought By Market Environment Driven Innovation In China

The development of VC/PE in China is relatively smooth, and it has already passed for nearly twenty years. Since 2016, the market situation of VC/PE has changed significantly. The impact of this change is quite large, and many enterprises has been effected. For example, before 2016, entrepreneurs made financing very smoothly, but after 2016, financing become more difficult. Entrepreneurs will have difficulty in financing, especially for

some unicorn businesses. In addition, some investment institutions have become relatively calmer, and are slower in the amount and speed of the fund raising, not as active as before. In this process, the innovation of internet enterprises and funds has brought a glimmer of light on the current market, which has played an important role in it. Although Legend Capital has experienced the Internet bubble in 2000 and the financial crisis in 2008, and successfully went through 2016, but in the face of the current market situation, Legend Capital still feels the great challenges brought by the current environment.

2.1.1. Unbalanced development lead by economic transformation

In recent years, due to the continuous transformation and upgrading of China's economy, some structural adjustment to some industries has caused uneven and unbalanced development for some industries. As early as a decade ago, the investment institutions benefited from the economic growth dividend of our country, making it gain a good profit in whatever industry it invested in China. As long as its selected project being growing up, it is not difficult to get the return on the basis of the value-added profit brought by these growing projects. But at present, investment institutions can not choose industries at will. Some industries are facing growth pressure. No matter how good the project is, it is difficult to find suitable investors. So investment institutions need to choose the industry carefully when they invest.

2.1.2. High threshold for entrepreneurial enterprise to succeed

Ten years ago, the development of BAT has not maturely developed. Its competitors in the market mostly came from traditional industries or some multinational companies, and its competitive pressure was relatively small. But BAT has become quite mature today, the domestic innovation enterprise is facing the already succeeded BAT. From the scale of these big companies, they have a strong ability of innovation, a lot of capital reserve space, as well as great economic growth ability and management ability which can not ignored. It makes it more difficult for entrepreneurial enterprises to succeed, because its required capital is geometrically growing.

2.1.3. Innovation and profit mode becoming the main development model of enterprises

Growing enterprises should not only focus on present, and ignore the long-term development goals for the small problems. At present, the biggest problem that the entrepreneurial enterprise faces is how to find good innovation and profit model. Taking the past cases as an example, two representative enterprises that some investment institutions invested, one is iFLYTEK and the other is CAR; with the help of the development of information

technology, iFLYTEK has become a leader in China's intelligent voice and artificial intelligence. CAR has become a leading enterprise in the car rental industry through transforming the traditional industry by internet. It has also established a new company UCAR, which has become a special car company that firstly visit the capital market through traveling by internet. It is not difficult to see that with the help of the internet and technology, it can promote the development of itself, and optimize the business model through its continuous improvement of the core technology.

2.1.4. Industry confusion led by disordered development

In the past two years, the VC/PE industry has also changed a lot because of its the unordered development. At the same time, it is also the root cause of the industry change. During this period, the rising tide of VC/PE and the homogenized competition among investment institutions have also led to a dismal development of the industry. In recent years, some mature VC investors have chosen done business by themselves, leading to frequent changes of personnel in the old institutions. Great changes also occurred in the organizational structure. At the same time, the homogenized competition has further accelerated the rising valuation of subjects in the first level market, which has brought a shock to the VC/PE industry.

2.2. “Both Ends In The Outside” Turning Into “Both Ends Inside”

2.2.1. Analyzing the rising of RMB fund from two forms

From the fundraising point of view, in recent years, whether form the size or the quantity, the RMB fund have raised more than the dollar, taking up the leading position. As early as more than ten years ago, the US dollar was the main source of fund raising, and some investment industries also started from the US dollar which dwarfed renminbi fund at that time. But in recent years, especially after 2015, the RMB fund has been quietly rising and changing the mode where US dollar being mainstream of fund raising.

From the point of view of capital exit, its exit channel become more diversified instead of being single; analyzing the changing of stock market form two sides, in 2016, although A shares fluctuated, it also created a number of successful listed companies. The profits generated by these enterprises have brought a lot of output returning to the VC/PE industry. In the later period, the A shares suspended the IPO plan, and some industries began to carry out mergers and acquisitions, equity selling, and so on. But more than ten years ago, chance of exiting equity market is very small and the existing channel is also very narrow. Only a single plank bridge form exists on the

market, which pushes the enterprise to the United States listed on the Nasdaq. While in nowadays, it is much easier for companies to exit and the exiting channel has become various.

2.2.2. The pattern of “both ends in the outside” will be broken

The quiet rise of RMB funds has brought three important signs: breaking the “both ends in the outside” pattern, the VC/PE industry becoming mature and the differentiated competition in VC/PE industry.

Firstly, beak the “both ends in the outside” pattern. In the past, we were mainly led by foreign countries. Both raising capital raising and withdrawal are carried at aboard. But the quiet rise of RMB funds driven by innovation has broken this pattern. In 2015, the diversified exit channel of merging and acquiring A share appeared. The rise of RMB funds turn the “both ends in the outside” into “both end inside”.The investment industry has begun a dramatic change, opening a new chapter henceforth.

Secondly, the VC/PE industry is gradually mature. The past decade is the first stage of rapid development of VC/PE industry. Now it has entered the second stage. In the second stage, VC/PE industry will become maturer. However, this process is not accomplished overnight, and it is necessary to adjust and integrate continuously in the mature stage of development. In the long integration stage, the real winner will be the organization that stays and remains a leader.

Finally, the VC/PE industry starts differentiated competition. Each fund has its own characteristics. In the course of competition, the RMB fund should take into account its own development characteristics and can not blindly follow others. The fund with its own characteristics can support and guarantee the sustainable development of the organization to the greatest extent. It can not only bring great help to the future innovation and entrepreneurship, but also promote the development of the whole industry. Besides, there will be continuous appearance of new genes to ensure the industry’s own innovation. After the pattern is broken, new format driven innovation is as shown in Figure 3.

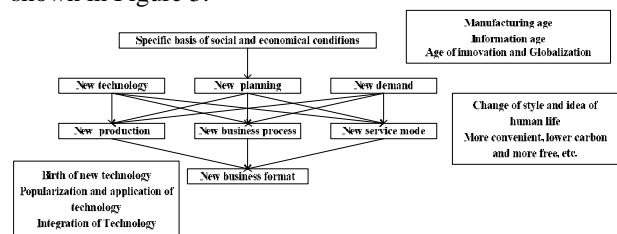


Figure.3. New Business Format Driven by Innovation.

2.3. How To Use Innovation to Promote The Rise of RMB Fund

After 2016, the private equity market will gradually slow down to the rationalism. Every industry should come up with proper strategy to deal with it and every institution should have its own thinking and preparation for it. For the Legend Capital, It has always insisted on how to deal with the impact and change of the industry. The Legend Capital insists on the idea of “things first and human weighs”, and applying it to the process of self management and development.

2.3.1. Investing idea of “things first and human weighs”

“Things first” requires that the investment institutions should have a clear strategy for the future investment development. First of all, a long-term investment mentality is required, that is to set up long-term development goals; secondly, there should be a unique industry strategy; finally, a systematic research should be made. These three factors are the basic contents of an institution to establish the differentiated development as wells its the nuclear competitiveness. In the return cycle, the fund needs to set a relatively long return cycle in order to make a sustained investment in the project.

“Human weighs” requires investment institutions holds the concept of “people-oriented”. Investment institutions are rooted in “human”. The growing and development of professional investors need to rely on the founder team.

2.3.2. Carry out the employment conception and improve the employment efficiency

The company should take the training of talents as one of the important strategies to promote development. It should always adhere that the development is for “people” and by “people”. Since ancient times, China has a tradition of “master teaching and training apprentice”. In the VC/PE industry, it also needs to rely on the model of “experienced employees teaching and training new employees”. In foreign countries, some excellent VC/PE teams need to spend about twenty million to develop a qualified institutional partner. In order to digest these costs, organizations need to invest more, especially in the VC industry. Every investment has the possibility of failure, and will face failure cases. In order to train excellent talents, carefully scrutinize of these failed cases is need to draw lessons from them. In the training of your talents, in view of the invested projects, especially the bad projects, a deep summary should be made. In the process of summary, all the people involved in the project should take part in to learn more experience and enrich their experience through this opportunity.

Second, encourage team cooperation and innovation. The reason why Legend Capital is able to stand in the tide is because it has built a strong and powerful team. Legend Capital adopts the way of encouraging team cooperation and divide a work process into several sections. In each

section, teams with different roles will participate in. There are lots of people involved in every project. They divide the work and cooperate with each other. The situation of “one person teaching and training several ones” is rarely occurred. The way that multi team participates in one project which is not only the high efficient but also reduces possibility of risk, is the most basic working way in Legend Capital. In the process of team innovation, incentive mechanism can also be added. The whole fund is accomplished according to the allocation mechanism, and the benefits are put into the whole fund, which inspires team cooperation consciousness and emphasizes the whole role.

Third, innovate partner incentive mechanism. The partnership system in the organization is mostly based on the fund cycle. Once the fund is expired, the partners are faced with changes. If the partnership system is combined with equity allocation system of the company, the middle term incentive constraint and long-term incentive design can be combined which will make partners and core cadres not only become shareholders of the management company, but also the fund benefit sharing members, thus benefiting them.

2.4. Carry Out The Innovation Concept Throughout The Development Process

Under the new normal state of the economy, “mass innovation and entrepreneurship” have become the mainstream of development, which is undoubtedly the best time for China to carry out economic transformation. However, seeing from the industry level, innovation is more operable than entrepreneurship, and the two can promote each other and develop together. Innovation is the most direct goal of entrepreneurship, and entrepreneurship is the ultimate goal of innovation. In the environment of innovation and entrepreneurship, the society pays more attention to entrepreneurship, and is more tolerant to the failure of the business. After all, the success of entrepreneurship is of small probability. For entrepreneurs, once they are ready to start a business, they should be prepared ideologically and mentally, and should not start a business just for starting one.

3. Conclusion

To sum up, facing up with the new economic development, it is difficult to invest in a good project. The rise of the internet that driven by innovation and the further active of the RMB fund have brought great inspiration to the entrepreneurs. The success of the industry can not be replicated, but the foundation of entrepreneurship lies in the spiritual heritage and the cultivation of talents. The investment institutions of China and the outstanding projects invested by the outstanding investors can create value for the enterprise and bring more lucrative profits. But for entrepreneurs, it is a question whether the market

will be as good as it is now before the next wave comes. Therefore, entrepreneurs need to be ready to fight a long-term war. They should carry out a lot of financing, praise the strength and save the cost at the good stage of the market.

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