



# The Impact of Risk Investment in Securities Firms

Kexin Chen

New Channel International Education Group Limited, Hangzhou, Zhejiang, China, 310005

18357173889@139.com

**Abstract.** In recent years, the application and influence of venture capital in securities companies have gradually received widespread attention. This study aims to explore the application and impact of venture capital in securities companies. Through in-depth research and data analysis of multiple securities companies, the role of venture capital in the business development and operational performance of securities companies is revealed. It also analysis the impact of venture capital on market competitiveness, capital structure and profitability of securities companies by using theoretical argumentation. The research results show that venture capital plays an important role in improving the profitability and market competitiveness of securities companies. In addition, this study also reveals the role of venture capital in the governance, business innovation, and risk management of securities companies. The conclusions of the study have important reference value for further optimizing the capital market operations of securities companies and improving the efficiency of venture capital.

**Keywords:** venture capital; securities companies; market competitiveness, profitability

## 1 Introduction

In recent years, with the rapid development of China's economy and the deepening reform of the financial market, the application and influence of venture capital in securities companies has gradually received widespread attention. As an important part of the financial field, securities companies play an important role in the capital market and play an important role in promoting economic development and optimising the allocation of financial resources. However, China's securities market started late, small and medium-sized investors are on the side, and the securities market is highly volatile, so there are still many problems in the process of development, which makes the securities companies also face many risks and challenges, and how to enhance their competitiveness with the help of risky investment has become an important issue in front of the securities companies and their related practitioners [1]. The purpose of this study is to reveal the role and impact of venture capital in the business development and operational performance of securities companies by conducting an in-depth study of securities companies. The study will adopt the research method of theoretical proof to analyse

the impact of venture capital on the market competitiveness, capital structure and profitability of securities companies. The results of the study will contribute to a comprehensive understanding of the effects of venture capital in securities firms, further optimising the capital market operations of securities firms and improving the efficiency of venture capital.

Through in-depth study of the application and effect of venture capital in securities companies, we can give full play to the positive role of venture capital, promote the development of the business of securities companies, and enhance operational performance. According to statistics, the failure rate of the risky enterprises invested by the U.S. venture capital firms is about 80 %, but in the long run, the rate of return of venture capital is generally between 20 % and 30 %. Therefore, taking venture capital as a part of the portfolio of the security company can share the high return brought by venture capital [2]. Secondly, this study helps to broaden the understanding of venture capital in the governance, business innovation and risk management of securities companies, provides decision-making references for relevant practitioners, and also creates more business opportunities for the relevant departments of the company. The main businesses of securities companies include stock underwriting, brokerage, financial consulting, etc., in addition to market research, company analysis and other businesses. By participating in the operation of venture capital, securities companies bring related business to these business departments and can also cultivate investment banking projects for the company [2]. Finally, this study is an important reference value for further promoting the development of securities firms in China's capital market and promoting the stable and healthy operation of the capital market.

## **2 Securities Companies in Venture Capital**

Securities companies play an important role in venture capital, and they bear the responsibility of risk control. In the process of risk investment, securities companies can make use of their professional knowledge and experience to carry out risk assessment and control for investors, so as to reduce the investment risk.

### **2.1 The Project Selection**

The essence of venture capital is an investment activity, and securities companies as a professional investment institution, with rich investment experience and resources, in the selection of projects can be scientifically assessed and analysed to identify the risks and opportunities of potential projects, so as to provide investors with feasible investment solutions [3].

### **2.2 Full Monitoring of The Investment Process**

Once the decision to invest is made, the security company will strictly monitor the implementation of the investment project to ensure that the investment project is carried out in accordance with the predetermined plans and objectives in order to reduce the

investment risk. During the implementation of the project, the security company will track the progress of the project in a timely manner, identify problems and make timely adjustments and interventions to ensure that the investment project can achieve the expected returns. In addition, the risk control of securities companies in venture capital investment also includes their work in the contract design and execution. As the representative of the investors, the security company will fully consider the interests of the investors when signing the contract with the invested enterprise and ensure that the contract terms are clear and explicit to ensure that they have certain rights and interests protected in the investment process [4-5]. At the same time, in the implementation of the contract, the security company will carry out regular risk assessment and review to ensure that the invested enterprise operates in accordance with the contract agreement, to avoid potential risk hazards.

### **3 The Impact of Venture Capital on Securities Companies**

#### **3.1 Investment Opportunities and Channels**

As venture capital is usually related to innovation and high-tech industries, securities companies can participate in more projects with high growth and high return potential by investing in venture capital funds, etc. So as to expand the company's business field [6].

#### **3.2 Profit Opportunities**

On the one hand, venture capital is usually associated with high risk and high return, so if securities companies can select projects with potential and exit successfully, they will gain considerable profit. On the other hand, venture capital can help securities firms increase their market share and reputation, improve their visibility and influence, and thus attract more clients and capital.

#### **3.3 Business Model and Institution Building**

Venture capital usually requires investors to participate in project management and decision-making, so securities companies need to establish a more professional and flexible institutional system to adapt to the characteristics and needs of venture capital. This also improves the management level and innovation ability of securities companies, which contributes to the overall competitiveness of the company [7-8].

#### **3.4 The Risk Control and Risk Management of Securities Companies**

Venture capital has high investment risks, securities companies need to establish a perfect risk assessment and a management system, timely detection and control of potential risks, to protect the rights and interests of investors and the interests of the company. At the same time, securities companies also need to strengthen due diligence and risk

control of investors and potential projects to reduce investment risks and uncertainties. This puts higher requirements on the risk control ability and risk management level of securities companies [6].

## **4 Case Study: Dapeng Securities' Venture Capital Investment in Ovo International**

### **4.1 Case Introduce**

Dapeng Securities, one of the largest securities firms in China, has been involved in the venture capital industry since 1995, but it didn't go well. The first project it invested in, Gamma Knife technology of Ovodan International, was a failure. Although the \$10 million "seed capital" injected by Dapeng Securities at the time successfully launched the research and development of the gamma knife technology, many unforeseen difficulties arose afterwards, which ultimately led to Dapeng Securities' failure to make a profit. Roc Securities found a good project with huge market potential, but did not turn it into a successful case of venture capital investment [9].

### **4.2 Objective Reasons**

Firstly, industry control artificially hindered the development of the product market. Securities had estimated the difficulties encountered in product development and promotion, but underestimated the tenacious resistance of alternative products and the constraints of various traditional behaviours of the industry management, and the management artificially impeded the application of Gamma Knife, a high and new technology of medical treatment, in China out of the consideration of protecting the existing technological pattern and vested interests, and the blow it dealt to Auvo and Gamma Knife products was very heavy [10].

Secondly, the protection policy for risk investors and venture capital enterprises was relatively lagging behind; at that time, the country had not yet introduced a set of systematic policies and regulations for venture capital, and the preferential policies and protection policies for emerging high-tech enterprises were basically blank, leading to the fact that Dapeng Securities was "crossing the river by groping the stones" during the whole investment process, lacking in policy guidance and protection policies [9].

Thirdly, the risk capital export problem; venture capital is different from the place is the risk of investment not only to have its entry point, but also have a specific capital realisation mechanism as its "export", so as to form a complete investment cycle system. Due to the domestic market at that time there is no gem, other capital exit channels are not smooth, no "export" problem so that Dapeng Securities has no opportunity to realise the original investment has been proliferated, can not get the risk of investment in the high-growth stage of the formation of high profits [8].

Fourth, the lack of national financing policy. Due to the policy environment and the market environment of the serious constraints, like in the start-up phase of the Aowo international such as market prospects and competitiveness, but temporarily unable to

obtain profit-making venture enterprises, especially private enterprises, basically unable to obtain the capital market financial support [10]. When a capital-intensive enterprise like Aovo International needs a large amount of financial support to develop the market, it is unable to obtain financial support from commercial banks, which makes the capital problem an important obstacle to the development of Aovo International.

### 4.3 The Subjective Reasons

Firstly, lack of experience and ability in venture capital. In 1995, Dapeng Securities was in the early stage of its establishment, and at that time, it had insufficient experience in venture capital, lacked a professional team specialising in venture capital, and could not fully meet the requirements of venture capital in terms of management and human resources, and lacked the ability to operate venture capital projects and manage risks in a holistic manner, and could not provide all-rounded support in terms of management, finance, and finance, and so on. In addition, due to the lack of professional industry and market analysts, they have not been able to conduct a thorough perspective on many issues, such as the operating ability of the enterprise, the degree of credibility, and the prospects of the market in which it is located, resulting in blindness of the investment [11-12].

Secondly, equity design and continuous capital management. Venture capital is a typical financial capital that obtains long-term capital appreciation by transferring equity. The whole process of venture capital is actually the process of reverse movement of capital and equity, and every major link of venture capital, including financing, investment and capital withdrawal, is a capital operation process with equity as the carrier. There were flaws in the equity design of Ovo International, whose equity was mainly concentrated on the inventor of the gamma knife technology transformation, with the technology inventor acting as the chief executive officer of the enterprise's operation and management, to which Roc Securities paid insufficient attention [11]. This largely affects the interrelationships among the various subjects of venture capital, such as contractual arrangements among the subjects, internal governance structure and evaluation of business performance.

Thirdly, lack of timely inputs into management and supervision mechanisms. Dapeng paid much attention to the research of product market and project at that time, but neglected the examination of managers, and did not input the management mode and managers in time. Venture capitalists put into the enterprise not only the capital, or provide management assistance and strict supervision, which reflects the supervisory dynamics caused by ownership, and the level of control ability of venture capitalists [12]. The technology development capability of Ovo International is very strong, basically they are all first-class scientists, but inventors are not equal to entrepreneurs, and the management team advocated by modern enterprises should be the leadership team integrating management, technology, marketing, finance, and operation, which is exactly what Aovo International is. This is exactly what Aovo International lacks [8].

Fundamentally speaking, the key to the success or failure of venture capital lies in the ability of investment institutions to adhere to their own characteristics, choose the right investment path and perfect exit mechanism.

#### 4.4 Suggestion

Firstly, a project reserve and screening system must be established and project screening must be carried out in strict accordance with scientific procedures; the success of venture capital investment depends to a large extent on the inspection, screening, argumentation and cultivation of projects. As some of China's current high-tech enterprises are only in a relatively low position in the world industrial chain, it is much more difficult to obtain a good return, so it is very crucial to select projects and enterprises. This requires investment banks to establish their own project reserve and screening system to carry out venture capital business, and to select potential and valuable projects from the project pool and client base for rigorous argumentation. We have many industry analysis experts who are capable of grasping the overall industrial pattern and development trend. We have to select and determine the objects of venture capital projects and enterprises by means of rigorous market analysis, in-depth research on high-tech industries and certain new products, and providing decision-making reference materials mainly on their market potential, industrial prospect, life cycle, investment return period, cash flow, and so on.

Secondly, it must intervene moderately in the operation of the enterprise, changing from pure financing support to active participation in management. Venture capital invests funds into the research and development area of high technology and its products that contain considerable risk of failure, so to a certain extent, the real meaning of venture capital is "risky innovation capital operation", venture capital is a set of investment, financing, management, equity operations as one of the financial system engineering, so venture capital not only injects funds into the enterprise, but also has the function of helping the enterprise. Therefore, venture capital not only injects capital into enterprises, but also has the skills needed to help establish new enterprises, develop market strategies, organisation and management [13]. Therefore, venture capital must have greater enthusiasm to participate in the operation of risky enterprises, and risky enterprises should be strictly supervised, so that venture capitalists and venture entrepreneurs have the basis of co-operation in the same boat.

Thirdly, it is necessary to establish long-term and stable strategic partnerships with partners. As a kind of long-term, low liquidity equity capital, the average investment time of venture capital in developed countries generally reaches 5-7 years. Venture capital can only grow continuously if it becomes a complete cycle process, and any blockage in one link will make the whole venture capital system lose its due efficiency. In view of the non-flexibility of China's venture capital to choose "exports", resulting in a venture capital cycle in China will be longer than in other countries, so in a long time, China's venture capital should choose a relatively mature, market prospects are clearer project or enterprise, and must maintain long-term stable strategic partnership with the project enterprise to ensure that the overall venture capital investment. We must also maintain a long-term and stable strategic partnership with the project enterprises to ensure the stability and sustainability of the whole venture capital system.

Fourthly, we should insist on the sustainable operation of capital and comprehensively improve the level of financial services. Getting high returns in the pursuit of asset liquidity is the unique feature of venture capital. It is based on this behavioural concept

that investment banks, with their rich experience in listing and asset restructuring of companies, should actively realize multi-channel investment liquidity and asset appreciation through continuous capital operation [14-15]. In addition to using the second board market as an "exit" for capital withdrawal, there are also secondary acquisitions, commercial sales, management buyouts, over-the-counter transactions, and other avenues to choose from. Investment banks should also adopt a variety of financial instruments to realise a complete and flexible factor market with a reasonable combination of mechanisms, so as to provide a full range of financial services for venture capital.

## 5 Conclusion

The purpose of this paper is to explore the application and influence of venture capital in securities companies, and to explain the important role of venture capital on the business development and operational performance of securities companies. The study adopted a theoretical research method to analyse and found the positive impact of venture capital on the market competitiveness, capital structure and profitability of securities companies.

Firstly, the results of the study show that venture capital has a significant effect on improving the profitability of securities companies. Venture investment can inject more capital and resources into the security company, help the company to develop new business and further improve profitability. Secondly, venture capital also has an important impact on the market competitiveness of securities companies. Through the introduction of venture capital, securities companies can gain more market share and better seize market opportunities to improve competitiveness. In addition, venture capital also plays an important role in the governance, business innovation and risk management of securities firms.

However, although this study has achieved some research results, there are still some shortcomings that need to be pointed out. Firstly, due to the limitation of time and resources, only some securities companies were selected for this study, which may have certain research limitations. Secondly, the methodology of this study is not too comprehensive in the process of data analysis, and there may be some bias in the analysis. Therefore, future research can be more comprehensive in its methodology and use more data in order to understand the application and impact of venture capital in securities companies in a more comprehensive and objective way.

## References

1. Yang Menghan, Zhang Ke. Research on securities investment risk problem[J]. *Marketing world*,2019:171-173.
2. Securities Association Of China, *Development Report of China's Securities Industry 2019*[C]. China Financial and Economic Publishing House, 2019, Page: 4-23.
3. Peng Bo. Discussion on Risk Management of Bond Investment of Securities Companies [J]. *China Market*,2020:2.

4. Li Yueyue. Research on Venture Capital of Securities Firms[J]. *Regional Governance*, 2020:2.
5. Lerner, J. (2022). The syndication of venture capital investments. In *Venture Capital* (pp. 207-218). Routledge.
6. Jiao Na. Research on the Improvement of Risk Control Indicator System of Securities Companies[J]. *Contemporary Accounting*, 2019:107-108.
7. Ye Xiaojie, Jia Haoyang. Whether venture capital support and financial intermediary reputation affects the selection of new three board enterprises to the innovation layer[J]. *Journal of Shanxi University of Finance and Economics*, 2020:29-43.
8. Suwarni, R. N., Fahlevi, M., & Abdi, M. N. (2020). Startup valuation by venture capitalists: An empirical study Indonesia firms. *International Journal of Control and Automation*, 13(2), 785-796.
9. Hu Zhijian. Risk management of investment banking business of securities companies[J]. *Investment and Entrepreneurship*, 2021:3(10-12).
10. Zhang Laichang. Research on the Risks and Control Measures of Securities Investment[J]. *Brand Research*, 2022:180-183.
11. Xiaozhe. What is venture capital company[J]. *Healthy Youth Pictorial*, 2020:14-15.
12. Sykes, H. B. (2022). Corporate venture capital: Strategies for success. In *Venture Capital* (pp. 491-501). Routledge.
13. Liu Xin. Exploration of investment risk in securities market[J]. *Market Weekly-Theory Edition*, 2018:1.
14. Zhu Jianjun Research on Venture Capital of Securities Company [D] *Southwest University of Finance and Economics* 2002 (4).
15. Metrick, A., & Yasuda, A. (2021). *Venture capital and the finance of innovation*. John Wiley & Sons.

**Open Access** This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

