A qualitative study of institutional opportunities and challenges for foreign venture capital investments in China

Author: Junyan Li

Supervisor: Håkan Bohman

Student
Umeå School of business
Spring Semester 2015
Master thesis, one-year, 15hp
I would like to express my gratitude to those who have contributed to the completion of this thesis. First of all, my appreciation goes to my supervisor Håkan Bohman for his support, valuable comments, extensive knowledge, and patient guidance throughout the whole thesis writing process. Second, I would like to thank five interviewees who accept researchers into their businesses, allow me to investigate their ways of doing things and provide first hand information about my topic. Third, I would also like to send my gratefulness to Umeå School of Business and Economics for offering me the opportunity to work on my thesis with all facilities.

Last but not least, I express my gratitude to my friends and families for their continuous strong support.

Junyan Li

Juli0019@umu.se

February, 2015
Abstract

The emerging Chinese venture capital industry is a market filled with opportunities and challenges for foreign venture capitalists. The purpose of this study is to help foreign venture capitalists identify the investment opportunities and challenges from institutional perspective in China and exploit the influencing institutional factors before entering into Chinese venture market. This descriptive, explanatory and qualitative study accesses information exacted from interviews with 5 venture capitalists at different foreign venture-based companies in Shanghai. In order to have comprehensive and holistic understanding of topic, the author chooses institutional theory and investing theory as two main ground theories to explore. Besides, the previous study in terms of development of foreign venture capital investments in China as well as foregone work done by Fung et al.,(2008) and Walker & Pukthuanthong (2007) provide the perceived cognition from institutional perspective. With respondents from interviews, the author figures out there exists considerable debates towards regulatory system as it can be both favorable and baffling respects for foreign venture capitalists. Chinese government has recently relaxed certain restrictions and facilitates the inflow of foreign venture capital investment into China, whereas the company law and their enforcement are still weak. Moreover, information asymmetries also give rise to insufficient protection along with inadequate legal resources to foreign venture capitalists when they fund the firms. Meanwhile, shortage of professional managers would create great opportunity for foreign venture capitalists as foreign venture capitalists are experience, and resourceful in networks or operation in their home countries. This would benefit SMEs at their trial stage. The most different but important aspect needs considering is the guanxi between firms they fund and managers on the board as well as with government. It takes times to develop and requires foreign venture capitalists offering equivalent benefits to those parties who aims to build close relationship. Therefore, in line with Chinese culture and establish broad networks help the foreign venture capitalists overcome this potential challenges.

In this research, all the respects related to institutional perspective are illustrated. However, it still requires more data and time to explore other potential opportunities and investigate potential challenges in the future.

Key words: institutional perspective, regulatory, normative, cognitive, foreign venture capital investment
Glossary

Venture Capital: “money provided by investors to startups and small business with perceived long-term growth potential. It typically exist high risks, but it also has the potential for above-average return.” (investopedia, 2015a)

Venture capitalists: “An investor who either provides capital to startups or supports small firms that wish to expand but are not able to access the public funding. And they are typically wealth so that they can afford to takes risks related to funding young firms or people who have a great idea or management team.” (investopedia, 2015b)

Institutional perspective: “the perspective of the institutions in the environment have an impact on a range of commercial activities which includes the actions people take and those they consider even possible.” (Bruton et al., 2004, p.74).


Abbreviation

VC: venture capital

VCs: venture capitalists

VCI: venture capital investment

FVCIEs: foreign venture capital investment enterprises

SMEs: small and media enterprises

BRIC: Brazil, Russia, India, and China
Content

Chapter 1: Introduction .................................................................................................................. 1

1.1 Problem statement .................................................................................................................. 1

1.2 Research Gap and Research Question .................................................................................. 3

1.3 Research Objective ................................................................................................................ 4

1.4 Research Contribution .......................................................................................................... 4

1.5 Delimitation .......................................................................................................................... 4

Chapter 2: Theoretical Framework ............................................................................................... 6

2.1 Institutional Theory ................................................................................................................ 6

2.1.1 Regulatory ......................................................................................................................... 7

2.1.2 Normative ........................................................................................................................ 7

2.1.3 Cognitive ......................................................................................................................... 8

2.2 Investing Theory ................................................................................................................... 9

2.2.1 Investment Selection ......................................................................................................... 9

2.2.2 Structuring and Monitoring ............................................................................................... 10

2.2.3 Value Added .................................................................................................................... 10

2.3 Development of Venture Capital in China ........................................................................... 10

2.4 Challenges and Opportunities of Venture Capital ................................................................. 11

2.4.1 Opportunities .................................................................................................................. 12

• Dynamic economic growth ...................................................................................................... 12

• Government Attitudes ............................................................................................................ 12

2.4.2 Challenges ....................................................................................................................... 13

• Lack of service professionals ................................................................................................. 13

• Inadequate regulatory framework .......................................................................................... 13

• Some misunderstanding in managing venture-backed companies ......................................... 13

Chapter 3: Research Methodology ............................................................................................... 15

3.1 Choice of Subject .................................................................................................................. 15

3.2 Preconceptions ..................................................................................................................... 16

3.3 Perspective .......................................................................................................................... 16

3.4 Outline of the Research Structure ....................................................................................... 17

3.5 Research Philosophy ............................................................................................................ 17

3.6 Research Approach .............................................................................................................. 19

3.7 Research Type ..................................................................................................................... 20

3.8 Research Design .................................................................................................................. 20
3.9 Research Method ........................................................................................................... 21
3.10 Reliability and Validity ............................................................................................... 22
3.11 Literature Research ..................................................................................................... 23

Chapter 4: Practical Methodology ....................................................................................... 25
  4.1 Method for Data Collection ......................................................................................... 25
  4.2 Respondent and Research sample .............................................................................. 25
  4.3 Interview Guide ......................................................................................................... 27
  4.4 Interviews conduction by researchers ....................................................................... 28
  4.5 Analysis of given data ............................................................................................... 28
  4.6 Ethical Considerations ............................................................................................... 28

Chapter 5: Results ............................................................................................................... 30
  5.1 Recognized Institutional Opportunities ..................................................................... 30
    5.1.1 Respondent 1: Case 1 ......................................................................................... 30
    • Investing perspective ............................................................................................... 30
    • Institutional opportunities and challenges for foreign venture capital investments ...... 31
    • Foreign venture capital in China ........................................................................... 32
    5.1.2 Respondent 2: Case 1 ......................................................................................... 32
    • Investing perspective ............................................................................................... 32
    • Institutional opportunities and challenges for foreign venture capital investments ...... 32
    • Foreign venture capital in China ........................................................................... 33
  5.2 Recognized institutional Challenges ......................................................................... 33
    5.2.1 Respondent 3: Case 2 ......................................................................................... 33
    • Investing perspective ............................................................................................... 33
    • Institutional opportunities and challenges for foreign venture capital investments ...... 33
    • Foreign venture capital in China ........................................................................... 34
    5.2.2 Respondent 4: Case 3 ......................................................................................... 34
    • Investing perspective ............................................................................................... 34
    • Institutional opportunities and challenges for foreign venture capital investments ...... 35
    • Foreign venture capital in China ........................................................................... 35
    5.2.3 Respondent 5: Case 4 ......................................................................................... 35
    • Investing perspective ............................................................................................... 35
    • Institutional opportunities and challenges for foreign venture capital investments ...... 35
    • Foreign venture capital in China ........................................................................... 36

Chapter 6: Analysis ............................................................................................................... 37
6.1. Exploiting the opportunities recognized from institutional perspective.......................... 37
  6.1.1 Regulatory opportunities for venture capital investment ........................................... 37
    • Exploiting government attitudes towards venture capital investment ......................... 37
    • In line with industry preference for venture capital investment .................................. 37
  6.1.2 Exploiting normative opportunities for venture capital investment ......................... 38
6.2. Overcoming challenges recognized from institutional perspective............................. 38
  6.2.2 Developing cognitive respects for venture capital investment ............................... 38
    • Developing Guanxi for venture capital investment .................................................. 38
    • Developing complete and adequate monitoring and controlling system ..................... 39
  6.2.2 Developing regulatory framework for venture capital investment .......................... 39
Chapter 7: Conclusion ........................................................................................................... 41
  7.1. Conclusion on the results .......................................................................................... 41
  7.2. Further research ....................................................................................................... 42
Reference List ...................................................................................................................... 44
Appendix 1 ....................................................................................................................... 51
Appendix 2 ....................................................................................................................... 52
Appendix 3 ....................................................................................................................... 56
Chapter 1: Introduction

The purpose of this chapter is to provide a general understanding of the thesis. It begins with the illumination of problem background, research questions and objectives in the initial part of the chapter. Naturally, delimitation of the study, research gap and other key concepts are explained in the following part of the chapter. Finally, the entire disposition of the research work is presented.

1.1 Problem statement

As the economic pendulum swings towards rapidly developing economies, the venture capital industry is experiencing its own shift, an increasingly internationalization world (Ernst & Young, 2011, p. 5). In order to hold holistic view of problem discussed in this research, the author deems it important to introduce basic concepts of venture capital (VC). Venture capital (VC) has been embraced by policymakers, academics, and business commentators as one of the key tools for economic and technological developments (Megginson, 2004, p. 89). In the Western countries, venture capital is an important alternative source of financing for small and medium-sized enterprises (SMEs), especially for those high-techs or growth-oriented SMEs (Tan et al., 2013, p. 138). In the U.S. venture capital (VC) is more typically considered as a professionally managed pool of raising money with the purpose of directly investment in the high-growth potential businesses (Ahlstrom & Bruton, 2006, p. 299). For example, in recently published study by the National Venture Capital Association, it documented that American venture capitalists invested $273.3 billion in 16,278 companies in all 50 states over the period of 1970-2000. More interestingly, venture capital-backed companies employed 7.6 million people along with generated $1.3 trillion in sales during 2000, which accounts for 5.9% of nation’s jobs and 13.1% of GDP at that year. Meanwhile, in Europe, a study reported by the European Private Equity and Venture Capital Association (EPEVCA) mentioned, 95% of venture-backed companies said they either cannot survive nor have further development without venture capital investments (Taylor et al., 2002). In this case, venture capitalists, as active investors can add more value to their portfolio companies. In the past years, venture capitalists are usually regarded as purely local investors who invest just in their own local home market and do not invest beyond county’s borders (Bengtsson & Ravid, 2009). However, the new emerging economies successfully attracted their attention from home countries to the potential new markets. In the late 1990s, cross-border venture capital investments are gradually identified (Aizeman & Kendall, 2008, p. 5).

As mentioned above, the venture capital (VC) hotbeds have seen some major shifts in the emerging markets. Driven by the success in U.S venture capital industry, foreign venture capitalists realize the opportunities in the emerging markets are rising radically (Dauterive & Fok, 2004, p. 4). With better access to firsthand information, venture capitalists are able to contribute to investing in Asia countries, especially in BRIC (Brazil, Russia, India, and China). Most notable, in 2011, China hit an all-time record both in number of investments and investment amounts. It almost begins to challenge Europe in investment amount. Therefore, China is the typical case to study (Irwin & Kennedy, 2000). Furthermore, China represents
one of the fastest emerging markets for foreign venture capitalists to invest in the world. Balfour (2006) showed that in 2005 along, it was estimated that $1.17 billion was raised by venture capital firms to invest in China, which has incentive increased $325 million in 2002. Azarmi (2002) identified that it has been a quadrupling of GDP over the past quarter century. Although per capital GDP still remains low, China is the second largest economy in the world. With the participation in WTO, China has been seen as the significant emerging economy from foreign venture capitalists’ perspectives. For this reason, foreign venture capital investments in China have increased from $1.2 billion in 1999 to $31.4 billion 2010 (Jenner & Suchard, 2013, p. 16). Nonetheless, foreign venture capitalists may still have to face with the challenges in the complicated working environment. John Mumford, the founding partner of cross point venture partner has led to prognose the future: “the evolvement of the foreign venture capitalists in China was not driven by the opportunity of financing high-tech entrepreneurial firms but by the creation and removal of institutional rents.” (Jenner & Suchard, 2013, p. 18)

The major difference between more mature venture capital (VC) markets and emerging economies lies in the key development stage of investee companies. As Bruton & Ahlstrom (2003, p. 242) pointed out, the more mature US and Europe venture capital (VC) markets consistently invest a considerable amount at earlier stage for high-tech or grow firms. In contrast, foreign venture capitalists in China generally prefer to contribute to the development of firms at mature stage. As Chinese venture capital markets is differentiated from mature venture capital (VC) markets in terms of cultural backgrounds, corporate governance structures, and government interventions, these influential respects begin to challenge foreign venture capitalists. In addition, Chinese venture capital industry, similarly as China’s banking system, has mostly been controlled by the government (Xu & Hernan, 2002). In that case, a lack of market-supporting institutions hampered foreign venture capital growth during 1980-1990 (Pukthuanthong & Walker, 2007, p. 711). Until 2004, the environment became more venture capital-friendly. In 2004, China established the Small and Medium Enterprise Board (SME Board), which offers a platform for venture capitalists to exit investment. However, government tights regulation on listings of foreign venture capital-backed companies constrains and buffers the pace of foreign venture capital investments in China (Jenner & Suchard, 2013, p. 17). For brevity, Chinese institutional background is related to foreign venture capital performance in China.

Apart from that, all potential challenges result from different institutional variables such as goals, beliefs and actions of individual or groups (Scott, 1995, p. 11). Brown (1995) also argued that it is necessary to take account of general business behaviors in explaining business performance in a specific region. Furthermore, it is proven by forefront research, foreign venture capitalists count on the stable institutional regime with a predictable rule of law to facilitate and protect their investments (Cardis et al., 2001). Interestingly, institutional stability as well as predictability can reduce uncertainty and risk, and increase the chance of success in new venture (Ahlstrom & Bruton, 2006, p. 230). In contrast, China is known for unpredictability, volatility, and unmodified institutional environment (Meyer, 2001, p. 358).
Naturally, it is worth of investigation on the institutional barriers and opportunities of venture capital in China.

In most research discussed above, the authors have managed to identify the factors which contributed to a successful foreign venture investments in China. As Haberich (2011, p. 20) investigated, it classified that hard and soft factors contributed to the success of foreign venture capital in China. Other research papers investigated the opportunity and challenges as a whole. Fung et al. (2004, p. 45) studied the opportunities and challenges for the foreign venture capital in China. Further they mentioned inadequate regulation framework as one of the main challenges China faces with. This is a good reference of integrating the institutional perspective with potential challenges in China. So far, however, there has been little detailed discussion concerning the practical issues such as local cultural background with institutional analysis in particular countries. Bartlett (1995) pointed out that relationships between venture capitalists and their relevant networks of investors, entrepreneurs and local government are even more important in China. Besides, no additional research has been found that how the institutional factors such as interpersonal relationship influence the growing of foreign venture capital investments in China. This phenomenon is coined as Guanxi, one way to develop business through building some relationship with certain parties. And it has received an increased attention as playing a centre role in running business in China (Standifird & Marshall, 2000, p. 21). Whether it would become the opportunities to be captured or the challenges to be overcome, it all depends on the understanding of the complex environment, and implementation of strategies. Therefore, it would be interesting to know what the opportunities and the challenges are in China for foreign venture capitalists from an institutional perspective.

1.2 Research Gap and Research Question
According to the previous study, Fung et al. (2004, p. 28) has argued that more flexible regulations benefit to the development of domestic venture capital and inflows of foreign venture capital funds. While other researchers believe that one of the major issues in China is lack of history and legitimacy for foreign venture capitalists (Ahlstrom & Bruton, 2001; Desoto, 2000). In general, those articles are trying to identify the challenges which have already existed. This knowledge can be useful to investigate the complexity of Chinese venture capital industry and provide the likelihood of predict the trend of Chinese venture capital market. Yet the author still didn’t find any articles clearly emphasize how the institutional barriers or opportunities influence the foreign venture capital investments in China. Therefore, the research gap is to identify the institutional challenges and opportunities for foreign venture capital investments in China.

In order to make this knowledge more plausible, the institutional variables related to the performance of foreign venture capital investments in China are discussed in this paper. Hence, I address the following question:

- **What are the challenges and opportunities of foreign venture capital investments in China from institutional perspectives?**
To specify the research questions for readers, three sub questions are naturally generated.

- What are the institutional factors of foreign venture capital investments in China?
- What are the challenges and opportunities of foreign venture capital investments in China?
- How to exploit opportunities and overcome challenges in institutional environment?

The institutional challenges and opportunities can be understood through investigation and analysis with foreign-based venture capital companies in China.

1.3 Research Objective
The purpose of this dissertation is to portray a clear picture of institutional opportunities and challenges for foreign venture investors in China. The study analyzes the favorable institutional variables in China that is worth of noticing from foreign venture capitalists. This study also discusses some influential factors that may become the challenges for foreign venture capital investments in China, such as regulatory and cognitive challenges.

Such study will also be helpful for future foreign venture capitalists and Chinese local governments. This research will inspire future foreign venture capitalists or researchers to investigate more on Chinese venture capital industry and investment process.

1.4 Research Contribution
In the past years, foreign venture capital investments in emerging markets are hindered by the complex institutional factors in particular country. The volatility, unpredictability and instability of institutional factors in China lead the author to investigate the challenges and opportunities of foreign venture capital investments in China.

From theoretical perspective, based on the previous literature review, the author hasn’t found plenty relative researches that focus on identifying the opportunities and challenges of foreign venture capital investments in China. Therefore, this paper will conduct the research covering theoretical respect in terms of foreign venture capital investments in China so that research gap can be filled. Moreover, it may increase understanding towards Chinese venture capital industry as well as Chinese institutional background.

In addition, the results of this paper can not only make sense for the theoretical and practical side of the problem, but can also benefit foreign investors when they decide entering Chinese venture capital market. Therefore, from practical perspective, this paper will provide the entire financial community with new empirical data and elaboration of foreign venture capital performance when they enter in Chinese venture capital industry. It embodies foreign venture capital development with institutional investigation. Moreover, institutional analysis is useful for foreign venture capitalists in forecasting the future development of Chinese venture capital market.

1.5 Delimitation
The venture capital in the emerging economics such as China covers a range of subjects. For the purposes of avoiding overly generalization of the results obtained, this paper is a case
study of foreign venture-capital backed companies in China. This research only concentrates on the institutional variables. The selection criteria are based on the previous researches and author’s knowledge. This may neglect other important factors such as financial perspectives or economic perspectives, which also play key roles in foreign venture capital investments. Besides, the unlisted companies as well as other same type of companies are not investigated. Therefore, the results and recommendations are not able to apply to other counties.

1.6 Disposition

The research has included six chapters. The entire structure presents as following:

- **Chapter 1: Introduction**—introduces the background and purpose of the paper. It motivates why foreign venture capitalists need to adapt to China’s venture capital industry. Beside, purpose of the study, research question, and delimitation would state.
- **Chapter 2: Theoretical framework**—introduce to readers the four main theories including institutional theory, investing theory, the development of venture capital in China and opportunity & challenge of venture capital investment
- **Chapter 3: Methodology**—discuss the methodology the thesis, the choice of subject, how to collect data as well, and quality and reliability of the case would be illustrated
- **Chapter 4: Practical methodology**—the author describes the practical method of this study, and explains how the author conducts the thesis. It will include the both selection of process and interviews conducted.
- **Chapter 5: Results**—presents the data collected by interviews, answers the research questions
- **Chapter 6: Analysis**—deeply analyzes the finding through interviews
- **Chapter 7: Conclusion**—reveals the final results and draws the conclusion
Chapter 2: Theoretical Framework

In this chapter the basic theories which are related to the study are illustrated. The author will represent the transition from literature review to previous academic studies which focus on two respects-institutional theory and investing theory. Then the development of venture capital in China as well as recognized main challenges and opportunities are exhibited in the next part. In order to provide a comprehensive understanding of this chapter, the outline of the literature review will be presented in the following figure:

![Figure 1 The literature review outline](Source: By author)

2.1 Institutional Theory

Institutional theory has historically concentrated on the influence of institutionalization and behavior of organizations. However, recently a shift in the literature has towards transformation of institutional environment (DiMaggio, 1988; Fligstein, 1997). It focuses on the self-interested agents who command and mobilize resource to create or change institutional structure (Bruton, et al., 2005, p. 740).

In general, institutional theory helps to establish the institutional perspective which has merits and deserves more attention in analyzing behaviors of venture capital. (Ahlstrom et al., 2007, p. 248). And also institutional theory assets the institutions in the environment have an impact on a range of commercial activities which includes the actions people take and those they consider even possible (Bruton et al., 2004, p. 74). As mentioned in introduction part, institutional respects sharp the organization and individual activities. Especially regulatory, normative, and cognitive are three main categories from institutional consideration accordance
with Scott (1995, p. 49). In order to have profound and penetrative preconception of institutional challenges and opportunities of foreign venture capital investments in China, three categories are exposited to help understand.

2.1.1 Regulatory
Regulatory institutions represent explicit laws and standards that regulate interaction among social members (North, 1990, p. 4). The process of regulatory institutions includes the creating of rules as well as the enforcement. Thus, it involves sanction, laws and regulation recognition that manage the behaviors of individuals and firms (Scott, 1995, p. 51). Moreover, DiMaggio(1988) argued that regulatory reflect the motivation and collective actions of social members who are seeking to solve problems such as what are obstacles to overcome or goals to achieve. These are important to be considered. More interestingly, recent financial research reports that strong regulation and law are more conductive for developed or fast-growing markets. It lowers costs of capital, private benefits of control, and risk of expropriation (Djankov et al., 2008; Johnson et al., 2000; La Porta et al., 2002). Besides, the level of legal of protection, as suspected, become an important respect for venture capital investors is to consider as it helps ensure the performance such as minority shareholders in the portfolio companies (Bruton et al., 2005, p. 741). According to the previous study by La Porta et al., (2000, p.7) and Wurgler (2000, p. 189), strong legal investor protection is corresponding to effective government enforcement and reasonable capital allocation. As mentioned, the rules are not enforced strictly as expected, and even financial and commercial environment is less developed than those of the west in general (Backman, 1999; Khanna & Palepu, 1999). One concern is to maintain the strong contrast and corporate governance (Phan, 2007). Yet the bigger issue in most of the world is not the existence of laws, but rather the implementation. Right to this, the challenge of regulatory institution in East Asia is to monitor the enforcement during the selection process of firms to fund for venture capitalists (Bruton et al., 2003, p. 521).

2.1.2 Normative
Normative institutions describe the roles or actions derive from professional rules and are cultivated through teaching and training. In other words, individuals’ or firms’ behaviors are influenced by the strong norms through education or training process for respective professions. Naturally, an increasing business activity is relevant to the setting of behavior expectation of the firms which play a leading role in the industry or making effort to establish normative institutions in the industry (DiMaggio, 2001). The similarity would be coherent with an industry of strong norms or values that come from the interaction within industry or among members (Bruton et al., 2005, p. 741). As noted before, an evidence shows that the consistence of beliefs and standards of actions of venture capital managers in the US, so as in Europe (Fried & Hisrich, 1995, p. 108). Much of venture capital capitalists have either worked for a foreign firm where they have the opportunity to receiving the training in the industry or are associated with foreign venture capital-backed companies in some manner.
Those foreign venture capital companies provide the benchmarks for the behaviors of venture capitals in East Asia. Therefore, what venture capitals should be doing and how they should be doing it is strongly influenced by practices from the foreign venture capital environment (Bruton et al., 2001). However, the fact that the dominant normative logic perhaps U.S. based does not intimate the local environment is not important. According to the previous study by Wright et al., (2002, p. 250) implied that U.S. venture capital companies, entering the new emerging market, adapted their way of working and local market environment, with further local regulatory and cognitive institutions shaping the behaviors of venture capitals.

2.1.3 Cognitive

Cognitive institutions are closely associated with culture in that they typically are created and carried by the culture of a given region (Berger & Lickman, 1967; Jepperson, 1991; Scott, 2002). The greatest concern of cognitive institution occur the differences in the value placed on entrepreneurship, and the role of social networks (Bruton et al., 2005, p. 742). These institutions are involved with informal constraints embodied in a culture and occur subconsciously (Bruton et al., 2004, p. 75). In the prior researches, culture comprises social members’ norms and values by defining, for instance, what actions are considered ethical and acceptable (Reed, 1996, p. 141) and by sharing a cognitive understanding of such expectations (Tusi et al., 2007, p. 440). Moreover, cultural influences provide a base that affects how a country’s people view the world (Chui et al., 2002, p. 101), determines how they make sense of events currently in the world (Witt & Redding, 2009, p. 863), and facilitate them by interpretation offered by others (Zilber, 2006, p. 284).

Normally the U.S. based cognitive institutions have two major differences comparing to the emerging markets in Asia. The first major difference is the status of entrepreneurs. In the U.S., entrepreneurs hold high status so that even in early-stage of ventures with high risk of failure, venture capitals can still maintain big potential chance of success and low failure rate. On the hand, in the low-conscious countries do not lead to entrepreneurial success as well as failure has the negative implications. As in Asia, the entrepreneurs are not considered as an opportunist instead a similar attitude towards failure is held. This kind of attitudes would lead to the limit of supply of entrepreneurs in Asia (Reynolds, 2000). Another significant cognitive difference exists in the strength of social networks. The interconnection between people in U.S. is not strongly as it in Asia. According to the argument of Biggart & Hamilton (1992, p. 47), “Asia economics embrace different institutional logics from western economics, ones rooted in connectedness and relationship.” In East Asia, regulatory regime is still weak so that another mean has to be developed to assure the performance of venture capital across a wide range of business—that is a relationship of some type between the parties (Bruton et al., 2004, p. 82). Therefore, guanxi as it is known in China, it defines as reciprocal obligation of the party involved with respect to the acquisition of resource (Pye, 1992, p. 89). It is crucial for venture capitals to attract investors, shareholders and entrepreneurs. Moreover, it is very helpful in conducting due diligence, good interacting with firms and ensuring the activities by achieving desired results. However, a social network is not only beneficial to firms and members, but also it would impose threats on them (Tsang & Walls, 1998, p. 70). In response
to the absence of legal regulations, such networks are provided as an alternative mean to enforce contracts or sanction violators (Perkins, 2000). One obvious consequence is that firms often concentrated more on maintaining and reinforcing interpersonal relationship than direct profit (Chen, 2001; Pye, 2000).

The further relative results of guanxi would be represented in the next chapter meanwhile the status of various institutions in each of three dimensions considered with is summarized in Appendix 1.

2.2 Investing Theory

Since the institutional economics provide the insight on how the behavior of venture capital firms may be similar and different in different areas, the next step is to develop the further investigation of venture capital activities all around the world. Based on the study by Bruton et al., (2005, p. 743), there are several important venture capital activities that have spread the understanding worldwide, including: deal selection, level of interaction between CEO and venture capitalists, monitoring and value adding by the venture capital firm to the portfolio companies. However, taking consideration into the foreign venture capital performance in China as well as the unique environment, the author would more focus on investment selection, monitoring and value adding activities to investigate.

2.2.1 Investment Selection

In western countries, venture capitalists (VCs) generally evaluate the proposals depending on financial and accounting information provided in the initial business plan (McGrath, 1997; Wright et al., 1992). Moreover, venture capitalists (VCs) would use these obtained information to assess the risk of their investments (Wright et al., 1992). Based on previous study, due diligence (Fried & Hisrich, 1994, p. 31) and social networks of entrepreneurs (Bruton et al., 1998, p. 51) are two key elements when venture capitalists pick which firms to fund. In consideration of due diligence, a major concern is the potential company’s portfolio and the stage of the development. Further, Gompers & Lerner (2001) argued that venture capitalists (VCs) in the U.S. are willing to invest at the early-stage of companies which can also help contribute to their economic development. Based on the investigation of Ernst & Young (2011, p.7) “The more mature US and European VC markets consistently invest a considerable amount in companies in the earlier “product development” stage (pre-revenue).” However, venture capitalists (VCs) in East Asian prefer to invest firms at their mature-stage on account of established financials. In other word, venture capitalists agree on ideas that market and accounting information are deficiencies in East Asia. It is helpful to know the principle of firms as well as his or her families (Bruton et al., 2004, p. 79).

The other attracts venture capitalists (VCs) to invest is whether there is a strong reliance on social networks in the region. Venture capitalists (VCs) typically depend on the connection with other entrepreneurs who they know have superior capabilities. The reliance on the relationship or networks helps to overcome any disadvantages that cause from absence of formal institutions in the emerging markets (Ahlstrom & Bruton, 2006, p. 307).
2.2.2 Structuring and Monitoring

Once the decision has been made, venture capitalists (VCs) in the West naturally move to the stage of actively monitoring their investment (Sapienza & Gupta, 1994, p. 1630). At this stage, venture capitalists (VCs) have to either make sure they have a significant role in the board of the firm or offer strong covenants which are allowed to limit the action of entrepreneurs (Fried & Hisrich, 1995, p. 102). However, it is still difficult for venture capitalists (VCs) to participate in all the potential problems and often the enforcement of agreements is problematic because of underdeveloped regulatory institutions. Apart from that, goals of growth or profit maximization require commonly sharing at the same time. Therefore, active monitoring is needed by governments or private enterprises (Bruton et al., 1998, p. 49). Although the boards are not very powerful in the emerging countries such as China, but still monitoring process may be much easier for individuals or firms hired. Right to this, venture capitalists (VCs) are tried to place someone from their own networks in the boards, both for information and influential decisions. It also facilitates to monitor the investment effectiveness (Ahlstrom & Bruton, 2006, p. 310).

2.2.3 Value Added

One of the strength of venture capital in the West is value added to firms by venture capitalists (VCs) (Bygrave, 1987). According to the research done by Fried & Hisrich (1995, p. 103), multiple activities such as providing strategic and operating advices to the firms, connecting the suppliers with buyers, and serving boards as CEO are value added to western firms. In the developed markets, the venture capitalists (VCs) are able to rapidly replace the CEOs of the firms they funded and enforce other directives. However, in East Asia, entrepreneurs would ignore the expectations of venture capitalists (VCs) or disregard the decision made by them. The reason is that removing the CEO from firms would result in a strong backlash from society or workforce. Moreover, the networks of entrepreneurs rally their relatives, friends instead of venture capitalists (VCs) who fund the firm (Ahlstrom & Bruton, 2006, p. 311). As mentioned above, in Chinese market, having guanxi with key individuals or firms both inside and outside can help venture capitalists (VCs) provide value to the firms. More interesting, building such networks takes time and requires the venture capital firms can provide equivalent benefit to those parties who are looking around for establishing relationship (Ahlstrom& Bruton, 2001, p. 75).

The relevant results of identifying how institutional factors influence the foreign venture capital investments in China would be elaborated in the following chapter.

2.3. Development of Venture Capital in China

With fast growing economy in China, Chinese attractive market has seen a rapid inflow of foreign investments. However, venture capital in China underwent through several important stages. During the 1980s, a few pioneering private equity professionals entered into China such as American International Group (Ahlstrom& Bruton, 2001, p. 72). Afterwards, a few
foreign venture capital firms like IDG Capital Partners entered China in the early 1990s. Gradually, from the mid-1990s, the perception of venture capital shifted from government funding type to a commercial activity which is necessary to support the commercialization of new technology (Steve, 2013). However, the pace of economic reforms didn’t encourage the significant numbers of foreign firms into Chinese market until 1992 (Ahlstrom & Bruton, 2001, p. 73). And till 1998, corporate-backed venture capital firms were able to established, and that started a wave of venture capital funds backed by government, corporate and foreign capital (Steve, 2013). During this period, Chinese’s venture capital industry was dominated by the government.

The second stage is from 1992-2002. During this period, Chinese’s venture capital industry went through remarkable changes. Since 1999, venture capital was put in the spotlight due to the internet boom, particularly in the fields of networks and internet infrastructure. At that time, the flow of venture capital was driven by the market force and followed international trend. The development also reduces the systematic risk to a lower level. Apart from that, since then, Chinese venture community has been actively seeking new venture capital paradigms that consist with China’s needs and current international trend. According to previous incomplete data, in 2000, there were around 120 venture capital firms and 156 incubators in China. Especially in Beijing, Shanghai and Shenzhen are emerging as the centers of the venture capital industry (Xiao, 2002). However, the burst of technology bubble in the end of 1990s had substantially slowed down the growth of Chinese venture capital industry. And the recession has remained for the following years (Liu, 2004).

The third stage is from the year of 2002, the Chinese venture capital industry has begun to undergo tremendous changes. China has recognized the importance of overseas venture capital, and recent regulatory changes related to venture capital investments are a crucial step in the right direction. Today the Private Equity (PE) and Venture Capital (VC) business is booming in China with over 1000 firms actively investing. And most of the early deals were done by offshore venture funds – with their fund registered in countries outside China and using dollars (Steve, 2013) The survey conducted by CVCRI indicates that newly raised fund by 191 institutions in Chinese venture capital industry has already increased to US$14.91 billion in 2008. And this high growth is kept till the financial crisis in 2009. However, during this period, the increasing volume of venture capital is remarkable (CVCRI, 2009).

2.4. Challenges and Opportunities of Venture Capital
The environment of Chinese venture capital industry is complicated and recently government attitudes towards venture capital development create a great opportunities for the foreign investors. The more flexible regulatory environment also results in some challenges during the transition. The following illustrated the existing challenges and opportunities already identified. The main theory is basically developed based on the study by Fung et al., (2008) and Walker & Pukthuanthong (2007).
2.4.1 Opportunities

- **Dynamic economic growth**

The main characteristic of venture capital investment is long cycle and high risks, especially under stagnant economy. However, this past-growing trend is the one which can offer more lucrative opportunities for the venture capitalists (VCs). The gross domestic product (GDP) growth rate has consistently remains the highest in the world. Last year the GDP growth rate of China is estimated to 7.7% (Trading economics, 2014). The strong economic growth, relatively low inflation rates as well as high domestic investment, provide a general economic environment where venture-backed businesses can thrive. Apart from that, the biggest population in the world is another advantage because the market size can expand rapidly when income grows (Fung et al., 2009, p. 28).

- **Government Attitudes**

Chinese government has gradually recognized the role of venture capital as a favorable factor for the development of high-tech sector because venture capital trends to invest high-tech based companies (Ernst & Young, 2011, p. 22). These foreign venture capital investments can both help to create job opportunities and make contribution to economic growth. In the new released rules, foreign-invested venture capital enterprises (FIVCE) are allowed to take one of the legal forms: company or non-legal person entity, which is more similar to foreign private equity investor (Fung et al., 2009, p. 43). In order to set up the FIVCE, it has to fulfill the following requirements according to Chinese Company Law (TSC 2005:42):

  ✓ At least one requisite investor, and in total number of investors from 2-50
  ✓ The minimum amount of total capital requires US$10 million for a non-legal person FIVCE and US$5 million for a corporate FIVCE. US$1 million is demanded for each non-requisite investors
  ✓ Build a clear organizational structure
  ✓ Clarify the investment direction
  ✓ At least three professionals with venture capital investment experience or hire other company to manager its daily operations

Because the so-called requisite investor plays an important role in establishment and registration of FIVCE, it is necessary to meet the requirements so that they are able to operate the business (TSC 2005:42). It includes:

- A foreign investor should have cumulative capital of at least US$100 million, and of which US$50 million or more is for venture capital investment. For a Chinese investor, the cumulative capital is RMB100 million, and of which at least RMB50 million has been used for venture capital investment
- At least three year’s experience in the venture capital investment industry
- For those non-legal FIVCE, requisite investors must contribute at least at least 1 percent of the total capital, while for corporate FICVE, it requires 30 percents of total capital as minimum contribution
- Venture capital investment is main business
Although the new rules still exit many constraints, it’s still considered as a frog-jump in the development of venture capital regulatory framework. Besides, it’s easy to tell new rules have followed many typical international practices and standards (Fung et al., 2009, p. 44).

2.4.2 Challenges

- **Lack of service professionals**
  How the venture capital investments flourish the country depend on various factors. A sound legal system, proper law enforcement and a strong entrepreneurial spirit is just some of necessary factors. The growth of venture capital investments in China also require the professional services provided by intermediary agencies, such as lawyers who are trained in both local and international law and accounting firms that can provide auditing as well as consulting services (Xiao, 2002). This helps venture capitalists (VCs) better assess the valuation of the proposed projects and arrange relationship between capital seekers and providers.

Moreover, as Xiao (2002) states, even the agencies do exist, they are generally profit-seeking which would easily ignore the objectivity and validity of their assessment. The weak infrastructure in China also make venture capitalists (VCs) juggling multiple tasks such as searching for potential investments, assessing them and avoiding legal risks. This may cause incorrect assessments for a project’s value and additional cost. In some cases, it will not only overwhelm the venture capitalists (VCs) but also divert their attention from their main duties such as arranging contracts between suppliers and buyers.

- **Inadequate regulatory framework**
  In China, venture capital firms trend to provide loans instead of equity component to entrepreneurs. As a result of this, a proper and subjective equity valuation system has not yet been developed (Sood, 2004) In addition, the restrictions on foreign capital flow in and out of China make it more difficult for Chinese entrepreneurs to seek foreign venture capital investments.

The lack of intellectual property protection makes venture capital firms unwilling to invest the potential projects in the seed stage. Although the government is making efforts to reforming the laws in China, the enforcement is still weak. And additional reforms as well as stricker enforcements are still in demand.

Because the venture capital investment mechanisms are not yet fully developed, the other hurdles also exist. For example, as mentioned above, in China FIVCE requires a minimum number of shareholders and minimum investment of 1 million RMB for each shareholder. In fact, this allows the venture capital companies to be operated by a few partners and registered with litter little capital. Compared to the western countries laws, it tends to be fairly lax.

- **Some misunderstanding in managing venture-backed companies**
  In China, the entrepreneurs typically consider that technological expert should be in charge of the entire operation. For them, it is hard for them to accept the fact venture capitalists (VCs) can control and monitor the company through investments. At present, many Chinese
entrepreneurs are still unaware of the significant role that venture capitalists (VCs) can play and contribute such as managing through their valuable experience. Moreover, venture capitalists (VCs) tend to focus on the money flow instead of concentrating on intangible but important aspects such as network and experience. In China, many government-backed venture capital companies often cause conflicts of interests and reduce efficiency as those companies act as both the player and the referee. Many international venture capitalists are reluctant to corporate those government-backed companies. This would counter the foreign venture capital investments entering to China.
Chapter 3: Research Methodology

In this chapter, the basic research methods and strategies are discussed for the readers. The author will explain the reason for having chosen this topic and preconception of the study. Afterwards, the author will conduct a detailed formulation of scientific methodology used in this study. The author will also discover a discussion about methodological approach, research design, research strategy and methods of the study used. Moreover, the author will demonstrate the research onion, which helps readers to grasp the orientation of the research. In the end, ethical considerations will be covered in the chapter.

3.1 Choice of Subject

In terms of choosing a topic for the thesis, the author has several criteria to consider. Firstly, I am student who is interested in entrepreneurship, so by choosing a topic to investigate the opportunities and challenges for foreign venture capital investments in China, I hope to properly utilize all the knowledge I have obtained during the study. Furthermore, taking account of career choice, the study of the thesis inspires me to be an entrepreneur in the near future. As I plan to start my own business in China, naturally, a question generates: which institutional factors constrain or contribute to the success in the new economy. In this case, this subject will be helpful to offer insight into the performance of foreign venture capital companies in the emerging markets. In this study, I concentrate on discussing the opportunities and barriers of foreign venture capital investments in China from institutional perspective. As mentioned in previous chapter, it is lack of further adequate researches on this specific field. Therefore, I want to lead a new orientation for future researchers.

In addition, my second criterion that motivates me to contribute in this subject is that it can be seen as an appreciable increase not only in academic realm, but also the business world has raised attention to Chinese venture capital industry. Therefore, I decide to conduct my study so that I’ll build fundamental understanding of foreign venture capital investment criteria in the emerging markets, particularly in China. Importantly, Chinese government has been playing an important role in institutional background. In other word, government serves as both a player and a judge in Chinese venture capital markets (Chen et al., 2009, p. 46). Thus, the author is interested in identifying opportunities and challenges for foreign venture capital investors in China from institutional view.

Moreover, in the recent years, venture capital industry in China is still relatively young and also given a corresponding paucity of research, especially in terms of performance to date. Thus, this research is ambitious undertaking which deepen understanding structure and investment process in this growing industry. Besides, China is one of the world’s largest economies, which is also experiencing the transitional stage in the economy revolution. It is required to know the hurdle of foreign venture capital investment, if they are institutional or culture primary or both (Haberich, 2009, p. 6). Thus, exploring the opportunities and challenges of foreign venture capital investments in China from institutional view can be very valuable for investors in case of economy uncertainty and for prediction of foreign venture capital performance.
3.2 Preconceptions
Bryman & Bell (2011, p. 29-30) stated that researchers’ subjectivity has changed over past years because personal valves influence the way of how research is conducted. Therefore, the biasness during conducting the thesis is undeniable. In order to avoid the biasness, the researcher should remain completely objectivity and attempt to be independent of personal respects to influence results (Saunders et al., 2009, p. 596). However, when doing the qualitative study and in-depth interviews, Bryman & Bell (2011, p. 30) argued that close relationship between interviewers and interviewees might affect the objectivity of the research. Since this is a qualitative research based on interviews, the biasness can never be fully avoided.

However, author’s educational background, experience and believes will affect the research more or less. Being aware of the problem and managing to critically analyze the results would help reduce the risk of biasness substantially. Besides, author has studied the courses concerning entrepreneurship which introduces the concepts of venture capital, venture capitals’ investment. Courses gave the author a fundamental understanding of institutional theory presented in the current paper, such as venture capital process, venture capital investment stage, investing and other relative theories. This indicates that author is able to overcome the obstacles that created by lack of experience.

3.3 Perspective
Perspective can be considered as for whom the result of the research is helpful. The researchers are guided by perspectives from academic searching, data selection and choice of research approach. Although this study is concentrated on venture capital investors, the results can also be useful for governments. The last ten years were very crucial for both local venture capitalists and foreign venture capital investors. Foreign venture capitalists are attracted by the rapid development of Chinese venture capital industry and intend to create more profit from this emerging economy. The studies of opportunities and challenges for foreign venture capital investments in China from institutional perspective are crucial for those who focus on how to elude risks in this background. With sufficient empirical data, the foreign investors are able to devise or alter their investment strategy, such as allocation of venture capital in their portfolio, based on this finding. Similarly, governments are much easier to attempt to develop the existing venture capital markets with institutional approaches. Venture capital is normally recognized as an important intermediary in financial markets, especially for entrepreneurial high-tech start-ups, which have difficulties to accessing capital (mentioned in chapter 1). This finding can provide perceived recognition of foreign venture capital development strategy from certain point of view. Moreover, the spillover results can be beneficial to other emerging countries.
3.4 Outline of the Research Structure

Figure 2 exhibits the structure of research method and study. I have adapted “research onion” to fit my study. First is to present the choice of research philosophy-interpretivism & constructivism. Then the nest layer is to show the choice of research approach. The following layers identify the research strategy as well as research method, which is in the middle of specialized research “onion” (see Figure 3.1).

![Figure 2 My Research “Onion”](source: adapted from Saunders et al., 2007, p. 102)

3.5 Research Philosophy

The research philosophy is an important part which relates to the development of knowledge and the nature of the knowledge. (Saunders, et al., 2007, p. 107). The research philosophy is considered as a way of a researcher to view the world. It will underpin the research strategy and methods used. Therefore, being aware of research philosophy has significant impact not only on what you do but also you understand what it is you are investigating. It contains two dimensions to discuss: epistemology and ontology.

“Epistemology concerns the question of what it is (or should be) regarded as acceptable knowledge in a discipline.” (Bryman et al., 2007, p.16). According to the definition, epistemology deals with what is, or what source should be, and what is the limitation? Thus, there are three explicit division of epistemology respect, they are: positivism, realism and interpretivism. In this research, I utilize a stance of interpretivism, and more explanation would be presented afterwards.
Positivism is philosophical stance of “working with an observable social reality and that the end product of such research can be law-like generalizations similar to those produced by the physical and natural scientists.” (Remenyi et al., 1998: 32, cited in Saunders et al., 2007, p. 107). It implies that researchers are likely to use existing theory to develop hypotheses. Based on the facts rather than impression is positivism. Furthermore, positivism emphases quantifiable observations so that it can be used in structured methodology such as statistical analysis (Saunders et al., 2007, p. 114).

Realism is another aspect of epistemology. It shows that “objectives have an existence independent of the human mind.” (Saunders et al., 2007, 114). In general, realism is similar to positivism in terms of the development of knowledge with scientific methods.

Contrasting with above mentioned epistemological position is interpretivism. “Interpretivism advocates that it is necessary for the researcher to understand difference between human in our role as social actors.” (Saunders et al., 2007, p. 116). It is the predicated perspective that strategy requires to view the difference between people and objects of natural science and grasp the subjective meaning of actions (Bryman & Bell, 2007, p. 19). Some would argue that interpretive view is appropriate in the case of management research and business, especially in fields as marketing, organizational behaviors (Saunders et al., 2007, p. 116).

Another dimension of research philosophy is still worth of noticing. Ontology is concerned with the nature of social entities. “The central point of orientation is whether social entities can and should be considered objective entities that have a reality external to social actors or whether they can and should be considered social constructions built up from the perception and actions of social actors.” (Bryman & Bell, 2007, p. 22). Similarly, ontology can also be discussed with two dimensions: objectivism and constructionism. In my paper, I adopt constructionism as my stance.

Objectivism “It is an ontological position that implies that social phenomena confront us external facts that are beyond our reach or influence” (Bryman & Bell, 2007, p. 22). Thus, it states social entities have tangible objective reality, and independent from us.

Another alternative ontological position is constructivism. Constructivism describes “an ontological position that social phenomena and their meaning are continually being accomplished by social actors. It implies that social phenomena and categories are not only produced through social interaction but that they are in constant state of revision.” (Bryman & Bell, 2007, p. 23). This subjective view believes that social phenomena are created from perception from social actors (Saunders et al., 2007, p. 108).

With all in mind, the study is near to interpretivism position because the author neither uses existing theory or numeral data nor to look into causes or consequences by hypotheses. The paper is concentrated on identifying the challenges and opportunities of foreign venture capital investments from institutional perspective. People they are doing foreign venture capital investments are social actors and due to their actions the opportunities or challenges of Chinese venture capital market are derived. Therefore, the author believes interpretivism is
the appropriate stance to utilize. Moreover, as the study is based on the qualitative research design, interpretive philosophy is preferred to illustrate the particular phenomenon in subjective and constructed way. As the author aims to identify the opportunities and challenges for foreign venture capital investments in China from institutional perspective, the study entails to deeply analyze the influencing institutional factors. Meanwhile, all the relative information is collected by author instead of collecting from other secondary literature. The author present what are the challenges and opportunities for foreign venture capital investments from institutional perspective. Therefore, the author considers the constructivism of ontological consideration.

3.6 Research Approach

After philosophical stance, determining the approach to indentify the relationship between research and theory is highly involved. Deductive and inductive are two research approaches set research design.

The **deductive approach** represents “commonest view of the nature of the relationship between theory and research.” (Bryman & Bell, 2007, p. 11). According to the definition provided, the deductive approach is based on the existing theory to develop hypothesis at first. With numeral data collected and tested by researchers, the finding can enable to confirm or reject the hypothesis formulated at the beginning. Depending on the findings, theory can be reinforced or further developed (Saunders et al., 2007, p. 114)

![Diagram of Deductive and Inductive Approaches]

**Figure 3 The process of deductive and inductive**

Deductive Approach

1. Theory
2. Hypothesis
3. Data collection
4. Finding
5. Hypothesis confirmed or rejected
6. Revision of theory

Inductive Approach

1. Observation
2. Data collection
3. Pattern
4. Hypothesis
5. Finding
6. Theory formulated or developed
Unlike deductive approach starts with existing theory, **inductive approach** can be considered as “theory is the outcomes of research.” In contrast to deductive approach, “the process of inductive involves drawing generalizable inferences out of observations.” (Bryman & Bell, 2007, p. 14). Accordance with definition indicated, inductive approach starts with observing social performance, phenomena, and collects relevant data, then conducts conclusion based on observational information. Finally new theories are formulated. Thus, inductive approach is more appropriate to integrate with qualitative methods (Saunders, et al., 2007, p. 119). Figure 3 represents the flow of deductive as well as inductive approach.

The aim of this research is to investigate the institutional factors for foreign venture capitalists when they enter Chinese venture capital industry. To better understand and explain the institutional opportunities and challenges for foreign venture capitalists in China would require the illustration of personal experiences than a mere stringent expression of observed data. Conclusions are draw to develop or formulate a new theory. Therefore, it is reasonable to use inductive approach because it is closer to this study. The author will establish new knowledge after analyzing theoretical frameworks and finding. This research is able to explore new phenomena or formulate new theories. Building new knowledge will certify my chosen research approach as inductive approach. Naturally, it is logical to utilize inductive approach.

### 3.7 Research Type

In order to answer research question, formulate research design enables researchers collect, analyze, and even integrate data. According to Saunders et al. (2007, p. 133-134), there are three type of research: exploratory, descriptive and explanatory. An **exploratory research** contributes to clarifying uncertainty of problems or understanding questions, and provides new insight for what is happening. A **descriptive study** is to show an accurate profile of event, persons or situations. It is usually combined with other research design such as exploratory or explanatory research. An **explanatory research** is to “study on a situation or a problem in order to explain the relationship between each others.”

In general, this paper deals with institutional challenges and opportunities for foreign venture capital investments in China. Several semi-structure interviews or e-mails are proceeded to develop relatively unexplored academic realm. It studies the relations between institutional variables and foreign venture capital investments in China. Therefore, this study is descriptive with explanatory research, which can provide comprehensive understanding of consequences or causes.

### 3.8 Research Design

According to the description of Bryman & Bell (2007, p.39-71), a research design presents the connection between different individuals and general groups and their behaviors in certain
social area. Research design can be presented in different styles, such as: cross-sectional and experimental. Different designs are used by different studies, but in business studies, I mostly use case study in this qualitative research. As mentioned by Bryman & Bell (2007, p.71), case study is connection of qualitative research approach, which I am going to use.

According to Saunders et al. (2009, p. 146), ‘‘Case study is an empirical investigations of a particular phenomenon within real life context using multiple source of evidence.’’ The data collection method in case study is a combination of interviews and findings by interviews.

This study explores the institutional opportunities and challenges for foreign venture capitalists in China. I choose China generally and Shanghai specially as a location of study. The data collection is from interviews with 5 different investors from foreign venture capital backed companies in Shanghai. For this thesis, in part I selected this type of design, since the aim of the case study fits with the research objectives and the research problems of my thesis – an analysis of the institutional opportunities and challenges for foreign venture capitalists in China. Furthermore, according to the discussion of Bryman & Bell (2007), I believe that my research refers to a case study design.

3.9 Research Method

Determining research method is quite crucial to data collection as well as analysis. It includes two main methods, they are: qualitative method and quantitative method. Quantitative research “can be construed as research strategy that emphasizes quantification in the collection and data analysis.” It is based on the social reality, and incorporates with scientific methods as well as entails a deductive approach to test existing theories. By contrast, qualitative research “can be construed as research strategy that emphasizes words rather than quantification in the collection and analysis of data.” It embodies shifting individuals’ creation, and emphases on individuals interpret through combing with inductive approach to formulate new theories (Bryman & Bell, 2007, p. 27). The following table represents distinctive difference between quantitative and qualitative methods.

<table>
<thead>
<tr>
<th></th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal orientation to the role of theory in relation to research</td>
<td>Deductive; testing of theory</td>
<td>Inductive; generation of theory</td>
</tr>
<tr>
<td>Epistemological orientation</td>
<td>Natural science model, in particular positivism</td>
<td>Interpretivism</td>
</tr>
<tr>
<td>Ontological orientation</td>
<td>Objectivism</td>
<td>Constructionism</td>
</tr>
</tbody>
</table>

Figure 4 Fundamental differences between quantitative and qualitative research methods

Source: (Bryman & Bell, 2011, p. 27)
The choice of research methods is based on research questions and research approach. As the research aims to explain and explore new phenomena in China, so that qualitative method will be considered. According to preceding arguments, inductive approach along with interpretative philosophy will guide the research. Moreover, ground theory such as institutional theory and investment theory will be adopted as research strategy. Therefore, interviewees have possibility to illustrate or provide detailed information as much as they can.

3.10 Reliability and Validity

Reliability and validity are two crucial criteria for research. In order to provide the credibility for others, it is essential to understand the nature of these two criteria. Reliability is described as “whether or not the measures that are devised for concepts in business and management are consistent.” (Bryman & Bell, 2011, p. 41). Therefore, it can be assessed by following question:

- Will the measures provide the same results on other occasions?
- Will similar observations be reached by other observers?
- Is there transparency in how sense was made from the raw data? (Easterby-Smith et al., 2008:109).

The first question deals with results of research to be replicable for other cases. It indicates that if the similar method can lead to replicable results in other situation. This paper concentrates on interviewing different foreign venture capital backed companies to identify and explore challenges as well as opportunities in China. Moreover, it is publicly available for everyone to replicate interviews in the future. However, shifting social factors may influence the results in the end. Same interviewed companies and institutional variables tested at same time may lead to same results.

The second considers the quality of information used in research. As mentioned above, the information is collected from different foreign venture capital backed companies in China, which provides different perspectives on the results. The primary data is high qualified data. Thus, if anyone uses similar method to access the interviewees, they would come to the similar conclusion as I have.

The last is related to analysis and the extent of argued, reasoning employed. I conduct the theories in the previous chapter, and in the fourth chapter I will represent practical method that used. Besides, I illustrate the results corresponding to theoretical part. Therefore, I would ensure the reliability of this paper since highly relative answers provide to question mentioned above.

“Validity is concerned with whether the findings are really about what they appear to be about.” (Saunders et al., 2007, p. 150). In general, it concentrates on whether the results are reasoning or justified. It can be distinguished into three types: measurement validity, internal validity and external validity.
Measurement validity entails quantitative research to show whether the measure employed is expected to be denoted (Bryman & Bell, 2007, p. 41). In my research, I measure the influence of institutional opportunities/barriers for foreign venture capital backed companies or investors. All information is extracted from interviews with different foreign venture capital backed companies.

Internal validity is the “extent to which the findings can be attributed to the interventions rather than any flaws in the research design.” (Saunders et al., 2007, p. 143). It is basically deals issue with causality. As mentioned, my research question is to investigate the opportunities and challenges of foreign venture capital investments in China from institutional view. In order to find this causal relationship, institutional theory and investing theory are utilized to explore how they are related to. However, there are obvious alternative reasons that cause the performance of foreign venture capital investments. Thus, internal validity is only achieved in term of one variable—institutional factor.

External validity is “the extent to which the findings from a laboratory experiment which is able to be generalized to all organizations.” (Saunders et al., 2007, p. 143). My topic is to identify the institutional factors which influence foreign venture capital investments in China. As China shares similar institutional background with other countries in Asia. When the relative recommendations through a good deal of practices have brought benefits and help foreign venture capital investments in China, it might be possible to consider the generalization to other Asia countries. This is because some Asia countries share same cultures understanding towards the problems. Moreover, I classify the specific industry sector, which may strengthen the generalization of results.

3.11 Literature Research
The choice of literature research is important for entire paper. Usually literature source can be categorized into three dimensions: primary literature, secondary literature and tertiary literature. Each literature source represents strength of information contained. In the figure 5 lists different literature research sources.
Primary literature sources (referred to as grey literature) are the “first of occurrence of piece of work.” (Saunders et al., 2007, p. 64). It contains reports and some centre or local government publications. It also includes some unpublished manuscript sources such as letters, emails. In my paper, interviews are intended to perform as email communication.

“Secondary literature sources such as books and journals are the subsequent publications of primary literature.” (Saunders et al., 2007, p. 65). These secondary literature sources are easier to be reached by audience. In my research, I use predominant journals or newspapers to support the arguments.

“Tertiary literature sources (also known as search tool) are designed to either to help to locate primary literature and secondary literature or to introduce a topic.” (Saunders et al., 2007, p. 65). It contains such as index or abstracts, catalogues, etc. In my research, tertiary literature is widely utilized.
The approaches and methodology have already been discussed in the previous chapter, and in this chapter it will give them practical shape. Through which ways the author reach to the empirical data and which respects are considered during data collection and sample design.

4.1 Method for Data Collection
In the previous chapter, qualitative research approach embodies shifting individuals’ creation, and emphases on individuals interpret through combing with inductive approach to formulate new theories. In the interview research design, there are no specific rules and norms to follow, and researchers always develop their format according to the accessibility to literature and availability of interviewees. According to Saunders et al. (2007, p. 64-65), interviews, emails and these are the primary source of the data, and newspapers, journals are the secondary source of the data collection.

Mostly interview study designs are connected with the field and location of the research. This research is about identifying institutional opportunities and challenges for foreign venture capitalists. And research design requires an object which is by the researchers. In this research the author uses both, primary and secondary data. For secondary data the author uses USBE database, journals, newspaper, reports and books. The primary data has been collected through semi-structured interviews with 5 different investors working in foreign venture capital backed companies in Shanghai. A semi-structured interview is based on different questions and guide. In semi-structure interview, mostly researcher uses open ended questions and this technique helps to gather data with necessary and in-depth information.

This type of interview is helpful to generate an interactive environment between interviewer and interviewee for conversation in an effective way. That is the reason why the author chooses the semi-structured interviews for this study. Besides, interview study shows the physical expression and emotions at the time of interview and this is very beneficial for researcher to elaborate the findings in a useful way. In this type of interview, Interviewer also can change the question in order to make the interview more relevant to the topic (Bryman & Bell, 2007, p. 474).

4.2 Respondent and Research sample
The author chooses the respondents on the basis of their previous successful investing and in China. The intention of research is to explore institutional challenges and opportunities for foreign venture capitalists when they enter into China. Therefore, the author takes these samples from foreign venture capital backed companies in Shanghai due to their previous successful investing in different industries as notable player. Their investing preference of high-value-added and environment-friendly products are concentrated on environmental protection, biotech, alternative energy, innovative material and IT industries. These industries are likely to dominate foreign venture capital activities in the years to come according to current issuing policies. In first stage, the author had considered approximately 10 options but
finally chose 5 samples on the basis of their past and present venture capital operation, personal experience, amount of the investments and industry preferences. In general, all picked interviewees hold key position in their firms. For example, one of these samples is doing foreign venture capital investments for 7 years and one is just for 2 years. It would be very fruitful for research results when new knowledge will be obtained. According to Bryman & Bell (2007, p. 190-195), getting new knowledge is a main goal in qualitative research. The author needs samples to get new knowledge from the whole community of population (Saunders et al. 2009, p. 212). The author arranged interviews with five investors from different foreign venture capital backed companies, and they all work in Shanghai. Results are extracted through interviews and e-mails as some of them are too busy to have face-to-face interviews. In the following chapter, the author will provide exhaustive description. Here the author is going to present some of their background and experience at first.

- **Respondent 1 – Zhijun Lu** (Independent Information Technology and Services Professional), Shanghai. (case 1)

  He belongs to China and had been abroad for 4 years and starts as an investor in foreign venture capital backed company 2 years ago. He is senior consultant in this firm and he has already invested $2 billion in IT and innovation industry in China. We conducted the interview on July 30th, from 10 a.m. to 11:30 a.m. and he mentioned his preference and experience in Chinese venture capital industry.

- **Respondent 2 – Yiyi Han** (Independent Information Technology and Services Professional), Shanghai. (case 1)

  She is from China and had studied in USA for 4 years and involves in several big projects. She joined the team around 2 years ago and she has already invested $3.8 billion in clean tech and IT industry. Her position is senior consultant in this company. Unfortunately, I could not organize a face-to-face interview because she was really busy during the period I wanted to interview her. So, we agreed to organize the interview by email. Like the first one, I created an interview guide and sent to her on August 5th and I got answers on most of the questions on August 12th.

- **Respondent 3 – Jun Fang** (TOURONGJIE), Shanghai. (case 2)

  He was born in Canada but his parent is Chinese. They immigrated to Canada in 1980. He was co-founder of this company, and he has already invested $8 billion during past 4 years. We conducted the interview on August 3rd. The interview lasted approximately 2 hours and the quality of the interview was quite high. He emphasized the existing regulatory challenges for foreign venture capitalists.

- **Respondent 4 – Guojin Wu** (China Merchant Banks), Shanghai. (case 3)

  His family immigrates to USA when he was 7 years old and he worked in investment bank for 7 years. Then he joined the company in 2010. Till now, he has already invested 10 billion to clean-tech and renewable energy firms. He is also the board member of this firm.
Unfortunately, I couldn’t organize a face-to-face interview with him because of lack of time and also because he preferred to conducted interview by email. I sent him on August 8th and on August 14th all my questions are answered. He discussed the opportunities and challenges of foreign venture capital investment from institutional perspective based on his experience and environment he involved.

- **Respondent 5 – Jin Li (Shanghai Small and Media-sized enterprise), Shanghai. (case 4)**

She joined the company in 2008, and she studied in France for 5 years. She also plays leading role during investing procedure. She is senior executive in this firm. She has already invested in IT industry around $7 billion. She provided specific answers about industry preference, opportunities and challenges in Chinese venture capital industry. The quality of interview was very high. And we conducted interview on July 31th. The interview lasted around 1.5 hours.

### 4.3 Interview Guide

As mentioned above, the author chooses the semi-structured interview type and selects the questions based on the chosen format. According to Saunders et al. (2009, p. 320-322) interviewer allows to omit some question depended on the circumstance and formulate of the questions also varies on the flow of conversation. The author divides interview guide into different respects, such as the institutional perspective, investing perspective, and challenges along with opportunities of foreign venture capital investments in China. The author arranges short and open questions because open questions can help avoid bias and these types of questions illustrate the topic in an effective way. Moreover, the author can find required knowledge and tell about the semi-structured interviews that they can decrease research bias because of different techniques (Saunders et al. 2009, p. 332)

The theoretical framework support the way of doing interviews and also lead the author a great orientation for research. Interview guide also includes the sub-questions, actually these are the checks about information, and the interviewer provides all necessary and detailed information about the topic. Researcher also asks to record the interviews but only two of them were agreed. Others refuse because they do not prefer recorded interviews. (Appendix 2)

The author chooses semi-structured interviews in line with theoretical framework. As mentioned in theoretical framework, it presents the knowledge of previous researches and also provides guidelines for future researchers to develop future research.

Such type of arguments by previous literature enable and motivate researcher to explore new findings and the interview technique to access to the regarding information is more compatible with this study. Researcher develops the interview questionnaire in line with the theoretical framework. For example, what are the important variables in the institutional economics? (regulatory, normative and cognitive) what are recognized challenges and opportunities of venture capital? Therefore, the theoretical framework is connected with this
interview guide. Researcher can create rational relations between theoretical framework and their findings and then try to get some new knowledge after analysis.

4.4 Interviews conduction by researchers
The best way to conduct interview is face to face. But the qualitative research allows the researcher to adopt the alternative methods such as email, telephone etc. fortunately these respondents are available for either face-to-face interviews or answer questions through emails. First and second interview give me more information about the institutional opportunities in China as foreign venture capital investments. Third and fourth interview provides the more information about the challenges that foreign venture capitalists are facing. Fifth interview help to strengthen my knowledge and make me sure for my research findings. As first and second interviews are conducted with same company, research presents as case 1. Others are from different companies, thus, the author presents as case 2, 3 and 4. Researcher also recorded some interviews when questions were changed and ordered to take more information regarding the matter.

4.5 Analysis of given data
Quantitative and qualitative data analyses have different methods to find results. The author has to present the desired knowledge when analyzing the qualitative data. It’s very tricky to take the results from words. The author should also send back her analysis to respondents for confirmation. Researcher has required data in shape of words, in written and recorded form. Also, Researcher analyzes the findings with foregone literature. According to Saunders et al. (2009, p. 490-495) data process include three steps, firstly researchers need to summarize the data which mean that they have to find the bullet points and main findings from all conversations. Secondly researchers have to categories all relevant data in the different forms to interpret and analyze. Last step is to recognize which data is in line with the theory mentioned.

After getting the findings by summarizing, categorizing and analyzing the data, researcher uses these findings to draw conclusion. The author tries to provide the answer of research question with interviews, and literature study. To develop the theory the author uses her own logic and arguments. In the study, researcher analyzed the information and found connections between their theoretical research, interviews and then presented it in the following text.

4.6 Ethical Considerations
Ethical issues are the mostly considered when a researcher is conducting the paper. Saunders et al., (2007, p. 178) elaborate that “ethics refers to the appropriateness of your behaviors in relation to the rights of those who become the subject of your work, or are affected by it.” Therefore, research ethics considers research finding in a moral and responsible way to formulate the topic, clarify research design, collect data, process and analyze data.

Deontological view and teleological view are two opposite perspectives considering ethical issues. As a researcher, it is essential to take into account.
Deontological view argues “the ends served by the research can never justify the use of research which is unethical” (Saunders et al., 2007, p.178). It concentrates on ensuring reliable and valid throughout all steps of research.

By contrast, teleological view argues “the ends served by your research justify the means.” (Saunders et al., 2007, p.178). This is a complicated approach which means researchers require considering whether the benefit of research is moral. In other words, even deception to obtain data is justifiable.

In my paper, I prefer to deontological view. I utilize an ethical approach such as interviews to obtain the results. Moreover, results are not influenced by preconception so that it reinforces the code of ethics.
Chapter 5: Results

The chapter includes the results collected through semi-structure interviews which indicate the main opportunities and challenges considered from institutional perspective. Because of industry confidentiality, the author is not allowed to present more on company. Only that it must be mentioned, these companies are foreign venture capital backed in Shanghai. The detailed reasons would be illustrated in certain key subjects.

In order to make it easier for readers to understand, the author conducts the following table to summarize the results from interview. The star ★ represents the results from interviews and emphasizes their attention or personal opinion through their previous investing operation. And more elaboration would be provided in the following content.

<table>
<thead>
<tr>
<th>Institutional perspective</th>
<th>Opportunities &amp; Challenges</th>
<th>Respondee 1</th>
<th>Respondeent 2</th>
<th>Respondeent 3</th>
<th>Respondeent 4</th>
<th>Respondeent 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory</td>
<td>Opportunity</td>
<td>★</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Challenge</td>
<td></td>
<td>★</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normative</td>
<td>Opportunity</td>
<td></td>
<td>★</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Challenge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cognitive</td>
<td>Opportunity</td>
<td></td>
<td></td>
<td>★</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Challenge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>★</td>
</tr>
</tbody>
</table>

Figure 6 Institutional opportunities and challenge for foreign venture capitalists

Source: by author

5.1. Recognized Institutional Opportunities

Through the interviews with different venture capitalists in Shanghai, favorable institutional factors are presented in following respects, which are considered as main catalyst to creating opportunities for foreign venture capitalists entering into China. The findings are based on the interviews with respondent 1 and 2.

5.1.1 Respondent 1: Case 1

- Investing perspective

It is very interesting to note that respondent has background of different businesses but he chooses focusing on IT and innovation industries. Because these two industries are still very young in China there is a big chance for him to contribute. He modestly said he is still freshman in Chinese venture capital industry as his journey only consists of 2 years. So far, he has already invested $2 billion in those two industries, and almost $5 million for each project. He further mentioned the talented entrepreneurs and a strong team are noticeable consideration standard when he is looking a deal. From his point of view, he thought he typically invested ventures involved in industries and technologies with which he is
personally familiar. However, with the rise of new technologies in IT and innovation industry, challenges would be your ability of learning which decides if you are on the same page with entrepreneurs. The rate of learning new technologies in two industries may be the obstacles when he invests a new business.

- Institutional opportunities and challenges for foreign venture capital investments

Though challenges and opportunities co-exist, there are more opportunities than challenges in Chinese venture capital industry. From his point of view, he considered regulatory opportunities would facilitate foreign venture investing process. According to his knowledge, he mentioned that Chinese government has recently passed a law that makes foreign venture capital investments much easier to raise funds within China. For instance, foreign venture capital investments allow to entering into Chinese venture capital industry with only $10 million, compared to the previous year which minimum required $100 million. As stated in the theoretical part, government has recognized that it’s better to develop and support venture capital investment industry if it intends to spur the innovation among small and medium enterprises (SMEs) The government attitudes towards entrepreneurship has gradually changed. Since the late 1990s, government released the rules to encourage building pools of talent which provides the platform to spur the innovation and provide many economic incentives for venture-backed businesses in the many cities. Afterwards, numerous science parks are established in first-tier cities such as Beijing, Shanghai. Among them, the Zhongguancun Science Park (ZSP) in Beijing was the first and largest in China. These early-stage opportunities are growing as rising level of innovation in China. He also mentioned that some striking ideas emerge in the venture capital industry between the east and west.

Apart from significant role the centre government plays, he said local government also introduced relevant venture capital-friendly policies such as in Shanghai, government encourage foreign venture capitals helping start-up business growth from seed stage.

Respondent also note that drastic increase in solid water, automobile exhaust, heavy metals and other pollutants have seriously affected people’s health and quality of life. Right to this, Chinese government encourages generating creative solutions to the problem caused by resources shortage and environment pollution, and focuses to make a breakthrough in terms of energy conservation technologies, clean-tech, environmental protection, recycling economy and IT technology. Moreover, according to the report of the Chinese 18th Communist Party (CCP), ecological civilization would be placed in a prominent position in the overall layout of Chinese development, which will absolutely lead the direction for foreign venture capital investment. Apart from that, he also pointed out Chinese government policy concentrates on increasing innovation, decreasing energy consumption and improving quality of life. He further mentioned that China has very young, social and internet-savvy users and consumers in the area of energy conservation, clean-tech and environmental protection. These areas are a current trend of social unrest; meanwhile, government has already recognized a strong demand for changes as society becomes wealthy. Therefore, He considered IT industry and idea factories are his main interests in the future. In the past few years, the high continuous growth in IT industry attains many achievable cases. A large number of internet users provide
stable and strong base to attract foreign venture capital investments. And that’s going to sustain the growth for the next 10-plus years.

As mentioned in previous chapter, the high speed of China’s economy motivates the dynamics of foreign venture capital in China. Choose promising industry that meets the future high-demand would become another big opportunities for foreign venture capitalists.

- **Foreign venture capital in China**
  He expressed his views that Chinese venture capital industry has experienced striking growth and institutional dynamics after 2002. On the policy making side, fundamental progress occurred in this century. A good venture capital environment spurs the growth of his company and he believes with the open-door policy, more and more foreign venture capitalists would benefit from this emerging market.

### 5.1.2 Respondent 2: Case 1

- **Investing perspective**
  It’s surprising to find that respondent 2 has already successfully invested $3.8 billion in clean-tech and IT industry. This is because she believes clean-tech and IT industry are likely to dominate the foreign venture capital investment activities in the following years. She invested each project around $7 million. She further mentioned that creative venture ideas and strong venture teams are key contributing factors when she’s looking a deal. However, when she decides to invest a new business in China, acquiring sufficient information about project and investing rational amount are the obstacles.

- **Institutional opportunities and challenges for foreign venture capital investments**
  In her case, she considered foreign venture capitalists are facing both opportunities and challenges. But in general, there are more opportunities than challenges. Based on results from interview, she mentioned, as a foreign venture capitalist, she preferred to invest in large companies that already had many investors. She further explained that large companies are most likely to benefit from financial banking or fund’s experience. Moreover, she is more likely to invest at the trail stage of start-ups in high-tech industries. Comparing to local venture capitalists, she considered foreign venture capitalists are much more experienced, and have better understanding of the entire process of the investments. They often provide relevant solutions to a variety of problems. Moreover, she felt that foreign venture capitalists are able to proactively guide the development of SMEs and lead continuous growth for the company from weak to strong. Therefore, she summarized that foreign venture capital investments are not only providing adequate funding for SMEs, but also foreign advanced technology, advice related to management, legal and public relations consulting, major decisions, international talent and potential suppliers, buyers, or other professional service are offered at the same time. It helps to establish and strength the superior capability of SMEs.
At the same time, she pointed out that China is impeding talent shortage in high-tech industry. Chinese venture capitals are lack of professional training and international experience. They are not fully involved in the entire process. Instead, they can’t take responsibilities of their own decision. Even intermediary agencies are not able to aid the development of SMEs at seed-stage. However, venture capitalists’ experience is crucial in all investing operation. Most foreign venture capitalists have rich management and investing experience.

- **Foreign venture capital in China**
  Respondent considered that Chinese venture capital industry started late but recent years China attempts to surpass European and attracts more attention of foreign venture capitalists. She believed that foreign venture capitalists are more capable to make aggressive move in this emerging market.

5.2. **Recognized institutional Challenges**
Through the interviews with different venture capitalists in China, it reveals the existing challenges for them to consider. These main challenges are required to overcoming when foreign venture capital investors decide to enter into Chinese venture capital industry. The findings are summarized from respondent 3, 4 and 5.

5.2.1 **Respondent 3: Case 2**

- **Investing perspective**
  It’s interesting to know that respondent has experience in different business but he chooses clean-tech and energy conservation industries to concentrate. Till now, he has already invested $8 billion in those two areas but he believes it’s still far from enough. Each firm or venture idea was invested around $6.7. His journey consists of almost 4 years and he argued that challenges were greater than opportunities. He also felt sometimes it’s hard to be on the same page with entrepreneurs and it’s inevitable to cost a lot of time for confirming the idea. This is considered as obstacle when he invests a new business in China.

- **Institutional opportunities and challenges for foreign venture capital investments**
  Based on the results from respondent 3, he considered that cognitive opportunities emphasize the role of entrepreneurship and social networks play in the process of investment. In China, having a guanxi with local government, partners, entrepreneurs and other organizations is quite crucial to attain the success of foreign venture capital investment. He further mentioned that social and cultural practices deeply rooted may even take precedence over legitimate decisions. That would directly raise the concerns of foreign venture investors. Through previous successful operation, he thought foreign venture capitalists should not only build good relationship with local intermediary agencies, but also need to pay attention to dealing the relationship with both local and centre government. There is a saying when you are running your business in China: Fall in love with Chinese government but don’t marry with
him. Nowadays, lots of venture capitalists sounded a bullish note for the Chinese market, predicting a good chance of solid, sustainable economic growth. Compared to foreign venture capitals, Chinese venture capitals are more concentrate on the process about how to localize the money flow of venture capital investment and obtain comparatively correct understanding of local business environment. In other words, lack of trust and credibility from other parties and entrepreneurs are the main challenge that foreign venture capitalists should face with.

Apart from that, he mentioned that before foreign venture capitalists determine entering into China, the venture capital investment they made are not necessary to guarantee them with a board seat. In other words, foreign venture capitalist should aware their investment is out of step with returns. Even they obtain a board seat, it usually don’t provide them with the equivalent benefits they enjoys in the West. More worse is that information is withheld from boards. Access to timely and accurate information is really difficult. At the same time, a number of company management monopolize the information sources or provide falsified information to cover their financial difficulties. Therefore, information asymmetries can pose really challenge for foreign venture capitals in China. For example, his first project didn’t go quite well as information sources are not reliable.

Despite this, respondent 3 also pointed out Chinese managers have frequently demand remaining their voting control in their firms irrespectively of whether how large amount of foreign venture capitals contribute to the firms or even bring investments exceed their owns. They lie in the traditional Chinese thinking and beliefs that one loses the voting control means losing the control of the company. Besides, all of these they’ve made are only to keep their face, which is so common among many Asian cultures.

- **Foreign venture capital in China**
  As a foreign venture capitalist in China, respondent 3 sees plenty of opportunities worth of his money but establishing trust and partnership with local parties remain key obstacles. Foreign venture capital investments in China endure many of struggles such as *guanxi*.

5.2.2 Respondent 4: Case 3

- **Investing perspective**
  It’s surprising to note that respondent 4 has involved in different business such as senior executive at a top investment bank, and board member of three start-ups. He has already successful invested $10 billion to clean tech and energy conservation firms. He basically invested to each firms around $1 billion. He has joined the company for almost 7 years and he valued the personality of entrepreneurs and team performance when he is looking a deal. When he decided to invest a new business, he found that reach a consensus with founders and build relationship with team members are hard at beginning.
- **Institutional opportunities and challenges for foreign venture capital investments**

Respondent 4 focuses on discussing regulatory challenges for foreign venture capital investors. According to results extracted from interview with him, although the Chinese government has already made efforts to this regards, the existing venture capital regulation frameworks are still far from complete and adequate. As mentioned in the theoretical part, the insufficient protection of intellectual property rights makes foreign venture capitals unwilling to invest in the high-risk projects at trial stage. Another legal hurdle is that China’s company law prohibits the foreign venture capitalists from making investments exceed 50 percent of the company’s total net assets. He further mentioned, this kind of restriction is irrational and are not in line with international practices. In addition, China’s tax law counters the venture capital investment from offshore funds, which are usually the primary forms of foreign venture capital investments. It taxes the gains at higher rates than those of domestic funds.

As result of this, he summarized that incomplete and weak regulatory frameworks are the primary challenge when the foreign venture capitals decide entering into China.

- **Foreign venture capital in China**

From his point of view, Chinese venture capital industry has great potential for sure, but some entrepreneurs and foreign venture capitalists do not know the market. They take for granted that China the biggest emerging market but this is not exactly the case. Many over-regulated or underdeveloped legal frameworks impede the pursuit of foreign venture capitalists. However, he believed that this would be improved in the coming year and his company might gain more chance to explore the market.

5.2.3 **Respondent 5: Case 4**

- **Investing perspective**

It’s a little bit surprising to know that respondent 5 joined the company for almost 7 years and she has already invested in IT industry around $7 billion up to now. She mentioned she never put all her eggs in one basket. She spread her investment among a variety of IT firms and each firm almost receive investment around $1 billion. The personality of entrepreneurs, industrial experience, and team performance are key contributes when she is looking a new deal. However, she mentioned that she would not consider the deal if the entrepreneurs was introduced through a trustful channel. Till now, she felt sometimes it is hard for her to trust entrepreneurs without any reference, but this may cost her many chances.

- **Institutional opportunities and challenges for foreign venture capital investments**

According to results from interview, respondent 5 emphasized that intellectual property is not well protected in China. Although Chinese government has enacted legislation on patent, copyright, trademarks, design layout and computer software, plagiarism of intellectual property remains a major problem. This quite discourages entrepreneurship and foreign venture capital investments in R&D intensive companies.
Moreover, she also considered weak law enforcement in China remains a major concern of foreign venture capitalists. The current law and legislation is complicated, irrational poor operated. Comparing to domestic venture capitalists, foreign venture capitalists’ scope to support growth of start-ups is more limited.

- **Foreign venture capital in China**
  From the point view of respondent 5, Chinese venture capital industry has seen strong growth after 2002, but weak law enforcement and weak protection of intellectual property rights are disruptive terms. This is worth of noticing by government officials. She believed that favorable policies would stimulate the continued rapid growth of Chinese venture capital industry.

In general, the opportunities of foreign venture capital investments in China rely on the favorable regulatory and normative respects, while the challenges arise in terms of cognitive and regulatory aspects.
Chapter 6: Analysis

The chapter discusses the results obtained from semi-structured interviews and provides comparatively relevant action plans for exploiting the opportunities and overcoming challenges in Chinese venture capital industry.

6.1. Exploiting the opportunities recognized from institutional perspective
Based on the results presented above, there still exist certain opportunities especially concerning to regulatory and normative favorable aspects. Therefore, in the following sections, how to exploiting the opportunities in these two respects will be elaborated.

6.1.1 Regulatory opportunities for venture capital investment

- Exploiting government attitudes towards venture capital investment
As stated by respondent 1, government attitudes have gradually changed in recent years. And it began to introducing a series of policies which aims to encourage the growth as well as the development of venture capital industry. Through the interview, the author finds Chinese government has increasingly embraced the concept of a knowledge economy. A number of science parks provide the evidence that more professional people are trained overseas and those people are entrepreneurial spirit. Besides, Chinese 18th Communist Party (CCP) emphasizes the focus of future investments. Also argued by Ernst & Young (2011, p. 25), more and more foreign venture capital backed companies align with government’s plan, not because it directly tell foreign venture capitalists where to invest, it does indicate with which companies or industries government is going to play favorites in the near future. Therefore, the author advises the foreign venture capitalists should visit these science parks or talented people before they enter into China. The corporation between government-backed projects facilitates foreign venture capitalists making investments in China. In general, follow government policy trend and keep eye on the current initiatives would benefit the investments of foreign venture capitalists.

- In line with industry preference for venture capital investment
As mentioned in the results by respondent 1, Chinese government encourages the development concerning to clean technologies, energy conservation technology, environmental protection, and IT industries. These industries are in compliance with the regulation and goals of achieving and maintaining sustainable development in China. Moreover, According to Dow Jones Venture Source, investments of IT industry led the way as investors injected $1.6 billion in 86 IT deals in 2008, up 60 percent from the $1 billion invested in 117 deals in 2007 (Ding & Zhang, 2009). These data reflects the strong growth related to IT industry because China has largest mobile and internet user group in the world. Therefore, the author considers this growth would still remain a rapid, forceful tendency because of great market potential. It is the rather easy way for foreign venture capitalists to participate in the Chinese venture capital industry and build a more diversified investment portfolio.
6.1.2 Exploiting normative opportunities for venture capital investment
As mentioned by respondent 2, foreign venture capitalists are interested to invest start-up in the high-tech industries at trail stage. The level of management quality is comparatively low at trail-stage. Moreover, respondent 2 also mentioned that composition of management team is key contribute in project screening. Local firms are often lack of professional executives to run the company, yet foreign venture capitalists are able to add value to firms by providing them timely advice and protecting them from taking high risks. Therefore, the author suggests that foreign venture capitalists can set aside a fair amount of time or resources to offer some basic training to Chinese managers before proceeding with strategic or operational counseling. This has also been mentioned by Bruton & Ahstrom (2003, p. 247). In addition, a proper corporation between foreign venture capitalists and firms they fund needs many intermediaries such as accounting agency and lawyers. Right to this, foreign venture capitalists can suggest experienced, professional and trustful people to be those firms they fund. It would help foreign venture capitalists and firms they fund on the same page. Moreover, managers in China would be gradually accustomed to the involvement of foreign venture capitalists with the operation.

6.2. Overcoming challenges recognized from institutional perspective
With all the potential challenges recognized from institutional perspective, author would discuss the key aspects based on the results and put forward relative action plans for foreign venture capitalists to consider.

6.2.2 Developing cognitive respects for venture capital investment
- Developing Guanxi for venture capital investment
According to the study by Walker & Pukthuanthong (2007, p. 714), they mentioned that in western countries, the culture difference is comparatively minor. Therefore, when foreign venture capitals set foot to China, yet, it is easy for them to become overwhelmed by the culture difference they suddenly face. In china, culture indicates a strong collective orientation for employee which lead them sharing responsibility with the firms. Also, based on the results from interview with respondent 3, having guanxi with different partners, local government, entrepreneurs and other organizations is quite crucial for foreign venture capitals. However, having guanxi with a handful of top executives, local government, and key player is not enough. A case study conducted by Mann (1997) emphasizes that many of first foreign venture capital firms failed because they only focus on building networks with a few top governments officer and players in the market. Therefore, the author strongly suggests wider guanxi networks and personal relationship that one can call on, the less likely it is to meet a bad surprise such as tax auditing. Moreover, it is important to aware that foreign venture capitalists should establish and maintain a broad guanxi networks before they enter into China. Otherwise, it is risky for foreign venture capitalists who expect to have high return of equity. In addition, Walker & Pukthuanthong (2007, p. 715) also pointed out that the
success of foreign venture capital investment is not only depend on the guanxi networks of its own but also relies on the networks of the firms and managers. Therefore, the author suggests the foreign venture capitalists should judge the relationship of those firms and individuals before making investment or hiring key individuals.

- **Developing complete and adequate monitoring and controlling system**

  As stated by respondent 3, one of the challenges leads to the failure for foreign venture capital investments is the managers’ fear of losing face contributes to the temptation to withhold unrealistic information from outside investor or the board of directors. This old traditional thinking is hard to change in quite short time. Therefore, in China, foreign venture capitalists have to deal appropriately with firm’s manager to uphold their face. For instance, foreign venture capitalists can advise mangers to do so but they still allow maintaining manager’s face in front of employees. Try to build relationship with their funded companies and managers. According to the study by Bruton et al., (2004, p. 81), it finds the effective monitoring in China is only possible if foreign venture capitalists can build personal relationship with funded entrepreneurs. Apart from this, communication between foreign venture capitalists and mangers with informal meetings can take place of regular scheduled meetings. This is also how the U.S. venture capitalists make effective and efficient investments (Fried & Hisrich, 1995, p. 106).

Foreign venture capitalists can also add extensive monitory protection when they decide to fund those companies (Bruton & Ahlstrom, 2003, p. 244) Apart from the effort made by foreign venture capitalists; it also requires the governments to develop complete and adequate regulatory frameworks and sufficient commercial code which can guide the behaviors of managers and foreign venture capitals.

### 6.2.2 Developing regulatory framework for venture capital investment

According to the interviews with respondent 4 & 5, laws and government’s enforcement are still comparatively weak, that leaving foreign venture capitalists with insufficient protection and inadequate means of legal resource where a company they are funding can defraud them. Furthermore, two interviewees also mentioned that information is tightly controlled in China. Also, under the centre planning system, bureaucrats and business managers control almost all the information that need to be understand and local regulatory environment that they only share a little in exchange for the favors. Bruton & Ahlstrom (2003, p. 243) also argue that having accurate and reliable information today in China is still a problem. Allen et al., (2005, p. 67) also find law enforcement has long been under leadership of bureaus in China. Therefore, the author thinks the Chinese capital markets are still lack of transparency. Hence, the urgency of regulatory framework should be raised among Chinese government officials. Regulating the company laws and making the information more accessible and accurate for foreign venture capitalists still require government’s effort. Besides, foreign venture capitalists can add clauses of privacy when they fund the firms. Moreover, as mentioned above, China’s company law prohibits the foreign venture capitalists from making investment exceed the 50 percent of the total net assets. This kind of rule is not in line with international
practices (Xiao, 2002). The author considers that by setting this kind of rule, it prevents the firms from seeking funding and forces them to quite their potential growth opportunities.

Apart from this, the technology and know-how in many venture capital projects are exposed of privacy and exploited by other firms. Zeng (2004) also argued that dynamics of protection of intellectual property heavily influenced the investment choice of foreign venture capitalists in China. Because many entrepreneurs begin with an asset pool that consists of only of intangible assets such as copyright or patent. It is very important to protect these copyrights and patents from infringements by the others (Sliverman, 1989, p. 164). The recognition of intangible assets such as intellectual property is limited. Therefore, the author suggests the centre government requires to continuously working on reforming the laws in this area, and strengthens the enforcement of intellectual protection. Chinese government may also start considering through foreign venture capital investments in China. At the same time, China’s company law requires to be improved as soon as possible.
Chapter 7: Conclusion

The finding and analysis would be summarized in this chapter. Apart from this, based on the research, suggestions for further researcher are given in the end of this chapter.

7.1. Conclusion on the results

The development of China’s economy has attracted the attention from overseas investors and not surprisingly—a considerable amount of foreign venture capital. According to the statistic shows, China has become the third place in the world as the country with largest venture capital investment (Walker & Pukthuanthong, 2007, p. 711) Even some investigators predict that China is expected to keep this increase in venture capital investments and it will take the second place in the near corner (Zeng, 2004). This provides tremendous opportunities for foreign venture investors as well. Therefore, this research helps to identify the opportunities and challenges from institutional perspective when foreign venture capitalists decide to enter into China. Moreover, relevant suggestions are made for foreign venture capitalists. It emphasizes how to exploit the recognized opportunities and overcome the potential challenges.

Although the research does not cover all the respects, instead the author considers institutional respects are the most influencing factors in China.

Regulatory aspects: Recent policy changes exemplify the government attitudes towards venture capital development and bring great opportunities for foreign venture capital investments. Local governments and authorities recently adopted more flexible regulations to encourage the inflows of foreign venture capital investments (Fung et al., 2004, p. 44). As could be seen in case 1, respondent 1 emphasized that more science parks appeared in Beijing, Shanghai and other big cities. At the same time, respondent 2 underlined the governments’ focus on the renewable energy, environmental remediation, and recycling economy. Great demands of innovative technology create great chances for foreign venture capitalists within these industries. However, mentioned by respondent 4 & 5, Chinese company law and government enforcement are comparatively weak. Argued by Fung et al. (2004, p. 45), although Chinese governments have been making effort to this regard, the existing regulation is still far from compete and adequate. These would counter foreign venture capitalists with insufficient protection and inadequate means of legal resource. Apart from that, as could be seen in case 4, recognition of intangible assets such as intellectual property is quite limited. Therefore, the author appeals clarifying the legal frameworks centre and local rules by government. Meanwhile, both of interviewees (respondent 4 & 5) appeal to government to regulate laws, protect intellectual property and encourage the flows of ideas. For foreign venture capitalists, they cannot jump into a new emerging without knowing government plan and market trend.

Normative aspects: As presented by respondent 2, the growth of venture capital also involves the professional agencies and well trained entrepreneurs. However, at present China lacks such kind of professional service. Argued by Bruton and Ahlstrom (2003, p. 247), only a
small number of local venture capital companies are able to offer value-adding advices to entrepreneurial firms due to their limited experience. As it could be seen in case 1, in this respect, foreign venture capitalists have notable advantages because they have rich experience developed in their home countries and are resourceful in terms of the amount of venture capital or networks. More importantly, respondent 2 considered they can take advantage of their background to help the development of start-up at their trail-stage. Therefore, the author suggests foreign venture capitalists seize the opportunities through providing professional consultancy, introducing experienced managers to the firms they are planning to invest. This would be far easier for foreign venture capitalists to develop a reputation and trust in their invested firms.

Cognitive aspects: It was observed by respondent 3 that in the western countries, efficiency, information disclosure and profit are the most important factors for investors. In contrast, in China guanxi is frequently favored and over information disclosure and efficiency. Chinese society relies on a well-functioning social network or a personal connection between two parties in local. Therefore, information asymmetries and limited personal relationship give rise to the failure of foreign venture capital investments. According to the survey by Deloitte (2007), foreign venture capital investors require to be aware of challenges associated with cultural disparity. Integrated information from interviews, the author suggests that develop broad relationship both with governments, executives and all other local officers to get accurate and adequate information from inside. Moreover, leveraging the relationship between manager and foreign venture capitalists on the board is worth of consideration by foreign venture capitalists.

In general, this research paper is to help foreign venture capitalists avoid potentially costly mistakes, exploit existing opportunities and overcome coming challenges. It also aims to help foreign venture capitalists better understand the importance of networks and relationship in China. Moreover, some basic ideas about Chinese venture capital environment spurs reader to concentrate within this filed. As mentioned in practical methodology, researcher divides interview guide into 3 different respects, such as the institutional opportunities and challenges for foreign venture capitalists, investing perspective, and general foreign venture capital performance in China. And most of question layouts are short and with open ended because open questions help avoiding bias and these types of questions illustrate the topic in an effective way. Based on the results from interviews, researcher clarifies the institutional challenges and opportunities for foreign venture capitalists from regulatory, normative and cognitive aspects. And how to exploit regulatory and normative opportunities and overcome regulatory and cognitive challenges through different action plans would facilitate the operation of foreign venture investments. It is also in line with research objective and research problem.

7.2. Further research
This research is restricted on the shortage of data. Since it is difficult to collect data through questionnaires or face-to-face interviews, all the findings are based on the information
extracted from four foreign venture capital backed companies in Shanghai. It is possible to lead direction for the future researches with a good number of both venture capitalists and entrepreneurs in other cities in China. Therefore, author considers investigating more influencing factors of opportunities and challenges for foreign venture capital investments in China from institutional perspective. It requires long-term observation in this field. By doing so, it would also be a worthy attempt to understand Chinese venture industry better.
Reference List


Appendix 1

Institutional forces in the U.S. and East Asia on venture capital

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>East Asia</th>
<th>Additional observations and dissenting views</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regulatory</strong></td>
<td>Strong legal framework, generally transparent and well-regulated</td>
<td>Legal systems and corporate governance mechanisms are relatively weak, but</td>
<td>Most of the venture capitalists felt that the legal systems in Hong Kong, Singapore and Taiwan were not an overwhelming problem for them, in spite of the weaker reporting, corporate governance and disclosure requirements. Two venture capitalists pointed out, however, that the courts were not a remedy available to them, and it was important to solve contractual conflicts and other problems outside of the courts.</td>
</tr>
<tr>
<td></td>
<td>financial markets, and effective corporate governance system with</td>
<td>remaining lax, more cross holdings, insider control of information and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>strong protection for institutional investors and minority</td>
<td>insider action based on financials, representing a concern to most of the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>shareholders.</td>
<td>venture capitalists. Improper action by funded firm principals more</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>difficult to monitor and control.</td>
<td></td>
</tr>
<tr>
<td><strong>Normative</strong></td>
<td>Professional standards play an important role in defining</td>
<td>Professional standards similarly play an important role in defining</td>
<td>There was general agreement that the professional standards of Western venture capitalists were an ideal to be pursued and were reasonably upheld in East Asia. The government officials interviewed agreed and encouraged venture capital training consistent with the Western model. Several venture capitalists dissented somewhat, stating that the realities of East Asian business dictated that venture capital firms, if not the venture capitalists themselves, behave somewhat differently. This was particularly true with the need to monitor investments extra carefully, and to usually have staff based in the same locality where deals are funded.</td>
</tr>
<tr>
<td></td>
<td>acceptable venture capital activities.</td>
<td>business activities. Venture capital associations hold training and</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>encourage certain professional standards. Similar educational training</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>and normative standards as U.S. venture capitalists.</td>
<td></td>
</tr>
<tr>
<td><strong>Cognitive</strong></td>
<td>Strong emphasis on investor and shareholder rights. The importance</td>
<td>Strong influence of Chinese culture in much of East Asia. Emphasis on</td>
<td>Most venture capitalists agreed they try to get to</td>
</tr>
<tr>
<td></td>
<td>of transparency, disclosure and the role of outsiders are well</td>
<td>maintaining guanxi networks. Harmony with organizations and lack of</td>
<td>know the principals of funded firms as part of the</td>
</tr>
<tr>
<td></td>
<td>accepted.</td>
<td>disclosure of information can take priority over shareholder rights.</td>
<td>diligence process. One venture capitalist added that guanxi was less helpful in securing funding, but it was a necessary part of monitoring the firm.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Outsiders not easily trusted and a high level of information asymmetry is</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>still tolerated.</td>
<td></td>
</tr>
</tbody>
</table>

*Source: (Bruton, et al., 2004, p. 78)*
Appendix 2

Interview guide

Dear interviewees:

I am a student who is concentrated on the topic of identifying the opportunities and challenges of foreign venture capital investments China from institutional perspective. Right to this, your answers to the following questions are instrumental for me to have profound insight of foreign venture capital performance currently in China.

- **Investing perspective**

  1. How many investments have you made?
  2. What sort of investments are you interested in?
  3. What is the average size of your investment?
  4. What are the key contributes when you’re looking a deal?

- **Institutional opportunities and challenges for foreign venture capital investments**

  1. What are the important variables in the institutional economic? (Regulatory, Normative, cognitive)
     - Regulatory—laws and regulation, policies (whether the venture capital is lack of setting laws; lack of monitoring?)
     - Normative—venture capitalists’ education and training (for example: whether foreign venture capitalists are strongly influenced by training or experience from the western countries)
     - Cognitive—culture influence (especially: guanxi in China)
  2. How do you expect to improve and reinforce the advantages with institutional consideration?
  3. How do you overcome the interceptive variables mentioned above to develop new deals in China?
  4. What are the main opportunities and challenges in your firm?
  5. What are the obstacles when you invest a new business in China?
  6. Why you indentify these as major barriers or opportunities?
  7. How did you take advantage of opportunities and overcome the challenges?
• **Foreign venture capital in China**

1. What is the general environment in your firm and in this industry (venture capital industry)?

2. How do you evaluate the development of your company and even venture capital in China?
问卷调查
你好：
我是一个正在研究中国风险投资方向的一个学生，我对于从制度角度出发来探讨中国
风投面临的机遇和挑战很感兴趣。因此对您的采访会给我提供一个对风投在中国表现的
深刻认识。
因此会从四个方面进行采访了解。

- 投资方面
  1. 你进行了多少金额的投资
  2. 你对那种投资比较的感兴趣
  3. 你平均投资的规模有多大？
  4. 你在评估一笔交易的实收核心的因素是你什么？（你会着重看中什么）
  5. 你认为在中国进行一项投资时候的主要的阻碍因素有哪些？

- 制度方面风投的机遇与挑战
  1. 你认为在制度经济学上来说，对于风投在中国的发展，哪种是比较重要的因素？（比如说：监管，标准，认知）
     - 监管：主要包括一些法律的设定，政策的实施，是否缺乏一些监管制度
     - 标准：主要是风投专家的教育背景和经历对于公司一些基准的影响，例如是否公司
       的管理人员拥有一定的海外教育背景，会不会实施类似于西方的管理
       和投资模式
     - 认知：着重于文化的沟通，尤其在中国关系是非常重要的一个因素，是否在您实际
       投资中也是非常重要
  2. 你认为从制度的角度来说对于中国风投有哪些优势需要保持和巩固？（主要就是从
     上面三个角度来说）
  3. 你认为又有哪些阻碍你发展的因素？
  4. 你认为你公司主要的机遇和挑战是什么就目前来说？
  5. 为什么你认为这些因素是可以作为公司一个机遇和挑战的？
  6. 当你投资的时候，你如何来利用机遇克服挑战？
• 外国风投在中国的发展与表现

1. 你认为你们公司的工作环境如何？以及你觉得整个中国风投行业的环境如何？

2. 你如何看待你公司的发展和中国风投的未来走向？

非常感谢你能够腾出宝贵的时间来提供一些很有价值的信息。祝你一切顺利。
### Appendix 3

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhijun Lu</td>
<td>Independent Information Technology and Services Professional</td>
</tr>
<tr>
<td>Yiyi Han</td>
<td>Independent Information Technology and Services Professional</td>
</tr>
<tr>
<td>Jun Fang</td>
<td>TOURONGJIE</td>
</tr>
<tr>
<td>Guojin Wu</td>
<td>China Merchants Bank</td>
</tr>
<tr>
<td>Jin Li</td>
<td>Shanghai Small and Media-sized enterprise</td>
</tr>
</tbody>
</table>