Derykolenko, 2016 Cite This Article: Derykolenko O., Venture company types and phases of their development [Online] // International Marketing and Management of Innovations: International Scientific E-Journal. 2016. № 1.
Available:www.IMMI,ath.bielsko.pl

VENTURE COMPANY TYPES AND PHASES OF THEIR DEVELOPMENT

DERYKOLENKO OLEKSANDR MYKOLAYOVYCH

Introduction

In theory any enterprise (of various sizes, different scope of activities) can engage in venture business. Venture companies' development phases in generalized sense are also to concur with usual companies' development stages. However practical experience makes difference. First, not every company becomes venture one and not each one succeeds of those companies which are venture. And second, venture companies development stages have specific, distinctive hallmarks, distinguishing them from traditional ones.

The area of the present research was conditioned by the necessity to generalize and classify venture companies' types along with their development stages' benchmarking study aimed to allocate their specific features.

This study uses dialectical approach to scientific cognition and basic provisions of current economic growth theories as its methodological basis. We've used comparative analysis to solve pending tasks while investigating key distinguishing properties of venture activity comparing to other types of activity; system-structural analysis to identify venture companies' classification criteria and types; abstract-logical analysis to identify company development steps along with venture company development stages.

Research database contains theoretical and practical materials characterizing venture activity which have been collected directly by the author.

Synopsis

Current development stage is featured with new economic thinking based on modern knowledge, up-to-date technologies, new realities and new types of economic conduct. Venture activity is relatively new one, the one being continuously developed and is not subject to extensive research by scientists with regards to its specific features' generalization and institutionalization. Let's take a closer look on them.

According to Douglass North (1993 Nobel Memorial Prize in Economic Sciences winner for the research making it possible to explain economic and institutional change: "All we need for economic prosperity is investment and innovations". Both these spheres (finances and innovations) are combined in venture activity (from

Eng. *venture* – risky), being advanced type of business activity providing sustainable economic and scientific and technical development and corresponds up-to-date requirements along with future (not only with regards to its implementation, but also taking into consideration future generations' necessities) periods' demands.

Taking into account growing number of innovations in the modern globalized world, future belongs to innovations. In case classical economic activity is focused on making the most of existing opportunities and company's resources, venture one provides for active implementation of various innovation types and search for potential opportunities and resources. In common with the other types of business activities, venture activity has general (common to all the types) and specific characteristics (Table 1).

Fundamental specific distinctions of the venture activity comparing to the other business activities – Table 1.

Activity parameters	**Venture activity**	**Other types of business activities**
Subjects	Business entities (enterprises)	
	Legal entities	Nationals, individuals
Objects	Material, immaterial, financial resources, hired labor	
	Intellectual, information resources	
Principles	Consistency, integrity, continuousness, efficiency, flexibility, equilibrium, justifiability, target setting, multi-variance	
	Integrating efforts	Independence
	Selectivity	Interconsistency
	Proactivity	Cyclical nature
	Agility	Systemic way
Purpose	Economic and social results generation	
	Scientific and technical and innovative results obtaining	
Major purpose	Excess profit earning	Profit earning
Main features	Common interests	Independence
	Economic interest of the parties (at various stages)	Personal interest
	Innovation as the basis	Innovation as constituent part
	Riskiness (joint risks)	Riskiness (own risks)
Functions	Innovative, resource, institutional, social, motivational	
Performance results	Joint property of several parties participating in business activity	Business entity's property
Role in economic progress of the country	New job, competitive environment formation; infrastructure development, investment activity	
	Influence on structural transformation	Sustainable development
	New types production operations uprising	Growth in production
	Fast update and technical and engineering capabilities	Planned renovation of manufacturing facilities

Source: proprietary product

Thus, commercial activity's primary aim is economical (economic earnings receipt); innovative activity's primary purpose is economical taking into consideration innovative restrictions (economic earnings receipt from innovative activities; business activity being new for business entity's aim is eco nomical taking into account risk-related restrictions (economic earnings receipt minus risk pay); venture activity's major goal is economical considering innovative, risky and investment restrictions (intellectual product receipt providing economic earnings exceeding expenses for its development, sales and invested funds).

Thus specific component part of venture activity goal also defines the other specific features of it: principles, functions, results, its role in economic development along with types of market participants.

Scientists use various approaches to classify venture companies, fundamental principles of which provide for extended attribute of venture activity. Thus venture companies are classified according to the sizes, organizational model of business, form of finance, patterns of ownership, risk attributes (risk profile, exposure, risk mitigation methods), based on investment interests and abilities, according to venture investor types, etc. Let have a closer look at them.

Varnaliy Z.S. and Syzonenko V.O. mention that various *venture business' organizational models* exist and distinguish the following three of them[1]:

10 Small innovative business – performs well-define d functions in the very innovation process (experimentation, initial assimilation of commercial novelties, complicated nonstandard products fabrication, etc.). Big business is unable to facilitate innovative processes without innovation implementing small companies' creation being focused on innovations search, development and implementation. Yet small companies are limited in financial capacities to carry out research, and outside environment changes cause quite high risk of their activities.

11 Big companies – develop high-scale innovative pr ojects. They have better financial capabilities to perform fundamental studies, development-and-research activities and lower risk in case low-performing results. On the other hand big companies are burdened with heavy, sometimes red-tape levels of seniority; they are not as active and flexible in respond to market demands, making innovative cycle slower and causing loss of competitive advantages.

12 Joint business forms (consortiums, venture companies, R&D and manufacturing partnership programs) – are the partnerships usuall y founded by 3-4 business partners. Partnership participants combine to raise funds and invest them to new fast-paced companies – venture firms.

Let us mention that practical venture activities experience in the leading economies all over the world showed that the highest performing companies are small or mid-size ones with up to 500 employees. These particular small scientific teams provide supportive environment to take creative initiative, to find each member's voice and to implement new ideas fast. Thus small venture companies' potential is realized in its best way in knowledge-intensive, sophisticated branches, where further on it is combined with vast manufacturing and financial opportunities of the big companies.

The most favorable industry branches for venture companies' activity are those with small product life cycle (US microelectronic industry shows average figure of 4-5 years). Fast change in product mix allows small companies to change from one innovation to another.

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[1] Varnaliy Z.S., Syzonenko V.O., *Fundamentals of business*, Kyiv 2004, page 404.

Next scientific approach to venture companies' classification is according to *risk attribute*. Thus, Butuk A.I. distinguishes two kinds of risk enterprises[2]:

16 risk business itself,

17 in-house risk related projects of the big corporations.

Butuk A.I. distinguishes two key types of business entities within risk business of itself:

11) independent small innovative companies,

12) financial institutions providing funds for venture companies.

One more approach to venture companies' classification is *based on investment interests and opportunities*.

Krasnokutska N.V.[3] notes that venture capital is the most frequently provided to the two categories of small companies – those bought ou t and new ones which have been founded by laborers of the well-known science-based corporations focused on new concepts and developments implementation (spin off). To her opinion the core sign to classify venture companies is specialization category (product, resource, process-oriented), level of innovation cycle stages coverage "research-implementation", etc.

At the early stages of their development the majority of high-technology companies are not stirring interest with professional foreign investors. They stagnate or fold up at formation stage without financial support. Such companies have limited capacities in financing instruments selection and require funds raising, as they are featured with low financial strength and constrained borrowing power, along with high risk of bankruptcy and unavailability of assets required as security[4].

Two types venture companies are distinguished *by the kinds of venture investor*[1]:

[9] associated companies – those with substantive parti cipation of capital which can be provided in the form of state or private loans;

[10] joint stock companies – those using their capital s tock to invest to small venture companies' shares.

In financial institutions classification venture companies are referred to the other non-regulatory[5]:

[11] regulatory financial institutions (National Bank, Ministry of Finance);

[12] key non-regulatory financial institutions (commercial banks, investment banks, investment companies, brokerage houses, assets management companies, investment funds, non-governmental pension funds, financial markets research companies, insurance companies);

[13] other non-regulatory financial institutions (hedge funds, *venture companies*, private capital investment companies, business angel investors, credit unions, state pension fund, trusts, cooperative societies).

According to the forms of incorporation venture companies can be: a) as per form of ownership:

[14] state,

[15] private,

- Butuk A.I. *Economic theory*, Kyiv, Vikar, 2000, page 301.
- Krasnokutska N.V. *Innovation management,* Kyiv, KNEU, 2003, page 504.
- *Innovative development funding, St. Petersburg*, RVCA, 2008, page 212.
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b) as per financial establishment:

- bank-linked,

- belonging to big corporations[1].

Efficient support to innovative company needs an effort of sufficient number of "intermediary-consultants" – process brokers able t o provide support not merely in financial resources search but also in consulting in managerial and technical fields. Such intermediaries' activity is directed to enhance the value of the companies received investments on the account of competitive ability growth[4]. We refer such companies to infrastructure ones, however their activity relates to ventures.

In such a way classification criteria systematization along with types of venture business corresponding to them made it possible to gain better understanding of specific features in their activity and identify entities being servicing and referred to venture activity infrastructure.

It is widely accepted that in its lifetime cycle any company pass certain development stages (establishing, growth, stabilization, and crisis). Despite the fact that venture companies include small ones, mid-size, big size and even consolidated companies, all of them according with this theory undergo same life cycle stages in their development.

Various author's models of companies' lifecycle hav e been gained widespread, for example, the one suggested by Larry Grainer (distinguished five stages of the growth: though creativity, through top-bottom management, through delegation, through coordination, through cooperation) or Ichak Kalderon Adizes (distinguished ten stages: origination, childhood, "go-go", youth, flourishing, stabilization or late flourishing, aristocratism, early bureaucratization, late bureaucratization, death)[6].

Yet generally accepted company life cycle stages' definition does not completely conform to specific features of venture activity.

Just to name a few the following is investment process division into stages used to plan venture company activities[7]:

[9] primary, seed stage, when the company is in formation and has not yet started innovative developments; - startup, when idea is being elaborated and backbone of the team is formed;

[10] early stage or product development, at which the company develops its product (goods, services or (as a rule) technology);

[11] growth stage, when the company brings the product to the market;

[12] mezzanine (intermediate) funding stage and IPO stage, featured with "investment closing" (sales, in other words);

[13] in case necessary post-IPO stage is distinguished, featured with further venture capitalist's withdraw from the company. Further to IPO the company is able to raise funds required to develop through additional share issue and do not require more expensive venture investments.

Venture funds predominantly invest in such company types[8,9] *in accordance with the stage of development*:

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[31] Bizyou company official website. Company (enterprise) lifecycle: stages and phases [Digital resource] – Access mode to: http://www.bizyou.ru/management/jizneniy_cikl_organizacii_predpriyatiya_atapi_i_stadii.html

[32] Ammosov Yu.P., *Venture capitalism: ab initio to the present*, St. Petersburg, RVCA, 2004, page 409

[33] All the world company official website. [Digital resource] – Access mode to : http://wesmir-inc.net/stati/ekonomika/143-venchurnyj-biznes-venchurnyj-kapital-venchurnye-investitsii

[34] Shevchenko O.M.**,** *Innovative risks of venture capital financing and their management system improvement,*
Scientific Journal "ScienceRise", Economic Science, No. 4/3(9), 2015, pages 14-20

- Seed – the company being in the very beginning of formation (it is possible that it is not a company, but just business idea which requires additional investments to perform certain research);
- Early stage – the companies which have their own commercial product they are going to sale at the market, however they need additional funds to perform deep study of market segment, successfully enter the market and production positioning;
- Start up – the young companies which do not have their own history and are unable to carry out scientific and research activities or unable to start product sale at the market (the product includes intellectual one);
- Expansion – the adult companies intending to expa nd production, sales volume, start detailed marketing research of their target market, replenish their floating assets or company's authorized capital.

UN countries distinguish four stages of venture company formation (potential objects of political interference)[4]:

- *fund raising phase*, connected with funds availability required for their distribution between innovative companies under special-purpose financial intermediaries' assistance;
- *investment phase*, the key role at which has deal flow or investment possibilities flow to business angel investors and venture capital companies, along with expertise required to estimate these possibilities;
- *added value creation phase* , demanding knowledge and skills required to control, manage and develop innovative companies;
- *buy-out phase*, when the investors have the opportunity to transfer added value to financial assets which can be used for the next wave of innovative companies.

While investigating stages of the venture companies development distinguished by sciences, it may me deduced that they are featured with significant differences representing distinctions of innovative activities. Let us identify the distinctions comparing to 3widely recognized company development stages (Table 2).

Venture companies require greater attention as early as at the very beginning of their establishment, which is featured with three specific stages distinguishing ("seed", "startup" and product development). It is based on high risk level featuring venture projects and is connected with the demand in additional attention and substantiation of their activities, as each next stage is times more expensive than the previous one.

Each stage of venture company development is characterized with various types of funding, done in stages. This mechanism is quite flexible and can skip certain types and forms of financing. In a generalized sense they are distributed into A, B, C, D series (overseas approach). Core distinction between them is types and forms of security papers used to implement investors' aim.

A series – preferred-stock issue used to exchange to investments funds by seed and early investment participants (investor entering business). In case company sale or IPO such preferred stock can be converted into ordinary shares. B series – shares issue to attract investments for business development and growth. It often means company business-model transfer to new markets. C series – stock issue for equity market. D series – additional share issue (in case necessary) .

Venture company development stages description - Table 2.

Company develop-ment stage	Venture company development phase	Basic objectives of venture company activities[7]	Financing (investor) aim[4]	Fun-ding type
Creation	Primary, seed	The company is under creation but has not yet started innovations development	"Seed " (initial) funding is given to estimate and develop initial concept prior to company establishment	A series
	Startup	Concept generation and team backbone formation	Primary capital formation	
	Early stage or pro-duct development	The company elaborates its product (goods, services or as a rule, technology)	Funding to assist in products elaboration and marketing in the course of their primary market launching (ideal American model which has no parallels in Europe)	
Growth	Growth, expansion	Company comes with its product to the market	Funding to facilitate company growth through "take over" or increase in capacity, markets and products development or to receive additional floating assets	B series
Maturity	Mezzanine (intermediate) financing, IPO phase	"Investment closure" (meaning sales completion)	Company buyout under current management (internal and external) and/or third persons participation	C series
Degradation	Post-IPO (distinguished as may be required)	Gradual egress of venture investor from company's administrative staff. Further to IPO the company is able to raise funds for development through additional shares issue and does not require more expensive venture investments	Other deals – substitution and secondary purchase bargains when one group of shareholders buys from another one (as a rule also venture "gamblers").	D series

Source: proprietary product based on adapted from [4,7]

Crisis (or market exit) stage absence with venture companies testifies that they are sold earlier. Certainly viewing from risk and advantage positions, competitor business' take-over, merger and purchase are more attractive than IPO, but such form also became wide-spread in the global practice and according with the data (Table 3) industry is featured with the best indices.

Global IPO market by sectors (January through September 2015)[10] – Table 3.

Branch	Number of deals	% from the total number of deals	Deals amount (US $)	% from the total scope of the deals
Medicine and public health	156	17.5%	$12,311.1	9.6%
Industry	156	17.5%	$23,116.3	18.1%
Technology sector	124	13.9%	$11,716.5	9.2%
FMCG	80	9.0%	$11,712.3	9.2%
Raw materials sector	79	8.9%	$6,798.7	5.3%
Financial sector	58	6.5%	$23,647.5	18.5%
Consumer goods	51	5.7%	$4,962.2	3.9%
Power engineering	51	5.7%	$11,505.9	9.0%
Retail business	43	4.8%	$5,763.3	4.5%
Real estate	41	4.6%	$4,387.4	3.4%
Media and entertainment	38	4.3%	$3,124.0	2.4%
Telecommunications	13	1.5%	$8,824.4	6.9%
Totally	**890**	**100.0%**	**$127,869.6**	**100.0%**

Source: developed by Inventure company

Thus comparative analysis of company development stages and corresponding phases of venture companies allows for the conclusion of substantial differences between them connected with specific features of innovation activities and venture business.

It allowed to find out the place of various financing products, which further on can form the basis to develop concept model of venture investment being particularly topical considering situation we've got. Thus despite the fact that active equity investments in Central and Eastern European countries increased in 2014 comparing with 2013 (Table 4), they are obviously insufficient to promote venture business. Poland is leading according to EVCA[11], and Ukraine is among five outsiders.

[10] Inventure company official website. [Digital resource]. – Access mode to: https://inventure.com.ua/analytics/investments/globalnye-tendencii-na-rynke-ipo-or-3-kvartal-2015#sthash.Qcw0CGKS.dpuf

Private equity investment by amount (in € x 1,000) and as a percentage of GDP in CEE, 2013-2014[11] - Table 4.

	TOTAL INVESTMENT		INVESTMENT AS % OF GDP	
	2013	2014	2013	2014
Bosnia-Herzegovina	0	0	0.000%	0.000%
Bulgaria	11,098	2,333	0.027%	0.006%
Croatia	19,195	41,936	0.044%	0.097%
Czech Republic	134,439	299,454	0.085%	0.193%
Estonia	27,554	39,902	0.147%	0.204%
Hungary	56,265	169,933	0.056%	0.164%
Latvia	15,300	33,977	0.066%	0.141%
Lithuania	22,530	38,845	0.064%	0.107%
Macedonia	7,675	0	0.094%	0.000%
Moldova	2,099	0	0.035%	0.000%
Montenegro	0	0	0.000%	0.000%
Poland	380,033	250,920	0.096%	0.061%
Romania	70,349	77,971	0.049%	0.052%
Serbia	16,076	326,100	0.047%	0.986%
Slovakia	2,050	11,500	0.003%	0.015%
Slovenia	4,355	13,734	0.012%	0.037%
Ukraine	19,684	4,310	0.015%	0.004%
TOTAL EUROPE	36,321,664	41,507,319	0.249%	0.277%

Source: PEREP_Analytics for 2013 & 2014 data, IMF - World Economic Outlook Database[11].

As can be seen from the above based on the findings of research done, let us note as follows:

- Venture business is featured with specific characteristics (goal, principles, functions, results, roles in economic development, types of businesses).
- Venture company success rate depends on interrelated characteristics of its size, activity fields, risk attitude, organizational form of management and funding, investment attractiveness, etc.
- Classification criteria systematization along with corresponding to them venture business types made it possible to separate service entities related to venture activity infrastructure.
- Correlation between widely recognized company development stages and venture company lifecycle allowed not only to identify differences, but became the basis to define distinct features of funding being substantial for venture companies.

The finding of the present research can be taken as a basis to work out economic mechanism of venture activities for the various types of the companies.

[11] EVCA CENTRAL AND EASTERN EUROPE STATISTICS 2014. [Digital resource]. – Access mode: http://investeurope.eu/media/406345/EVCA-2014-CEE-report.pdf

Summary

The paper classifies key specific distinctions of the venture activity as contrasted with the other types of activity; generalizes venture company types by various classification criteria; distinguishes specific features of venture companies development stages according to common and venture companies' comparative analysis findings.

Reference list

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12 Butuk A.I., *Economic theory*, Kyiv, Vikar, 2000, page 301.

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Remarks about the Author:
Oleksandr Derykolenko / Economics and Business Administration Chair /
Economics and Management Faculty / Sumy State University

Abstract

The paper concentrates on tanging the approaches to identify venture company types by various classification criteria and distinguishing specific features of venture companies' development phases. It contains 3 Tables and Reference list (9 sources).