

## Scientific-Theoretical Basis of Venture Capital

Chulliyev Suhrob Rabbonaqlovich

Navoi Innovation University, Associate Professor, PhD

**Abstract:** Developed countries have achieved effective results using venture capital as a means of financing innovation. In this article, the scientific-theoretical basis of the formation of venture capital is theoretically researched by the results of scientific research of a number of foreign and domestic scientists. Summarizing the characteristics, functions and sources of venture capital, a definition of the concept of venture capital as an economic category was formed.

**Key words:** innovation, innovation processes, venture, venture capital fund, venture capital, venture financing.



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### INTRODUCTION

Venture capital is the main source of funding for innovation, which is able to provide capital inflows for the development of innovative activities in modern conditions. Developed countries achieved effective results in using venture capital as a means of financing innovation. The existence of a number of systemic problems in the country that hinder the further improvement of conditions for the development of active entrepreneurship and innovation led to the development of a number of decisions and decrees by the government to address them.

The following were the important steps in this direction.

Resolution No. RP-3697 of May 5, 2018 "On additional measures to create conditions for the development of active entrepreneurship and innovative activities."

Resolution No. 414 of May 17, 2019 of the Cabinet of Ministers of the Republic of Uzbekistan "On Approving the Regulations on the Activities of Investment and Management Companies".

Decree of the President of the Republic of Uzbekistan No. PF-165 dated July 6, 2022 "On approval of the innovative development strategy of the Republic of Uzbekistan in 2022-2026".

Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 545 of August 27, 2021 "On measures to establish a management system for scientific and innovative activities".

The purpose of this research is to study and analyze researching the relationship between innovation processes and venture capital.

## LITERATURE REVIEW

A clear approach to venture capital, the definition of the growth of the monetary value of venture capital used in entrepreneurial activities to make a profit, is reflected in the work of the famous 20th century economists J. M. Keynes and J. R. Hicks [1,2].

In their work, foreign scholars P. Gompers and J. Lerner [3] analyzed the importance of venture capital, its role in the financial market, and the many mechanisms developed by venture capitalists to address the challenges that arise at each stage of innovation processes.

In his book, the Russian scientist Yu.P.Ammosov [4] examined the history of the emergence and development of venture capitalism, its role in the development of high technology and the creation of new fast-growing technology companies. His work analyzes the economic, legal, political, technological and cultural aspects of venture capital.

In his work, M.A. Fedotov [5] described venture financing as a key factor in innovative development.

Uzbek scientists OM Abdullayev, AA Fattakhov, K. Akhmedov [6] in their work considered venture capital as one of the sources of commercial financing of the firm's innovative activities.

In his research, D.G. Gozibekov [7] interpreted venture capital as the issuance of new shares in new areas of activity, associated with great risks.

## RESEARCH METHODOLOGY

This paper uses the methods of analysis, comparison, induction and deduction of the concept of venture capital and innovation processes.

## ANALYSIS AND RESULTS

Venture business originated in the United States in the 1950s and later spread to other countries. The venture business is a part of the direct investment network that focuses on equity.

The current giants of the information technology business, which is an integral part of the digital economy, DEC, Apple Computers, Compaq, Sun Microsystems, Microsoft, Lotus, Intel, Facebook (Meta), Amazon have achieved their current position in many respects due to venture capital investment. In addition, the rapid growth of new industries such as personal computers, nanotechnology, hi-tech and biotechnology has been largely driven by venture capital.

An integral component of the concept of venture capital is risk. The risk is directly related to the expected return on venture capital. The more risk a venture capitalist takes on financing an innovative project, the more he expects to make a profit as a result of its successful implementation. A distinctive feature of venture capital in the implementation of an investment project is the principle of "high risk - high return." This distinguishes it from bank financing and strategic financing.

## ANALYSIS AND RESULTS

The European Venture Capital and Direct Investment Association [19] defines this concept as follows: Venture capital is a share capital provided by professional firms that invest in private enterprises that simultaneously manage these enterprises, demonstrating significant growth potential in the early stages of expansion and transformation.

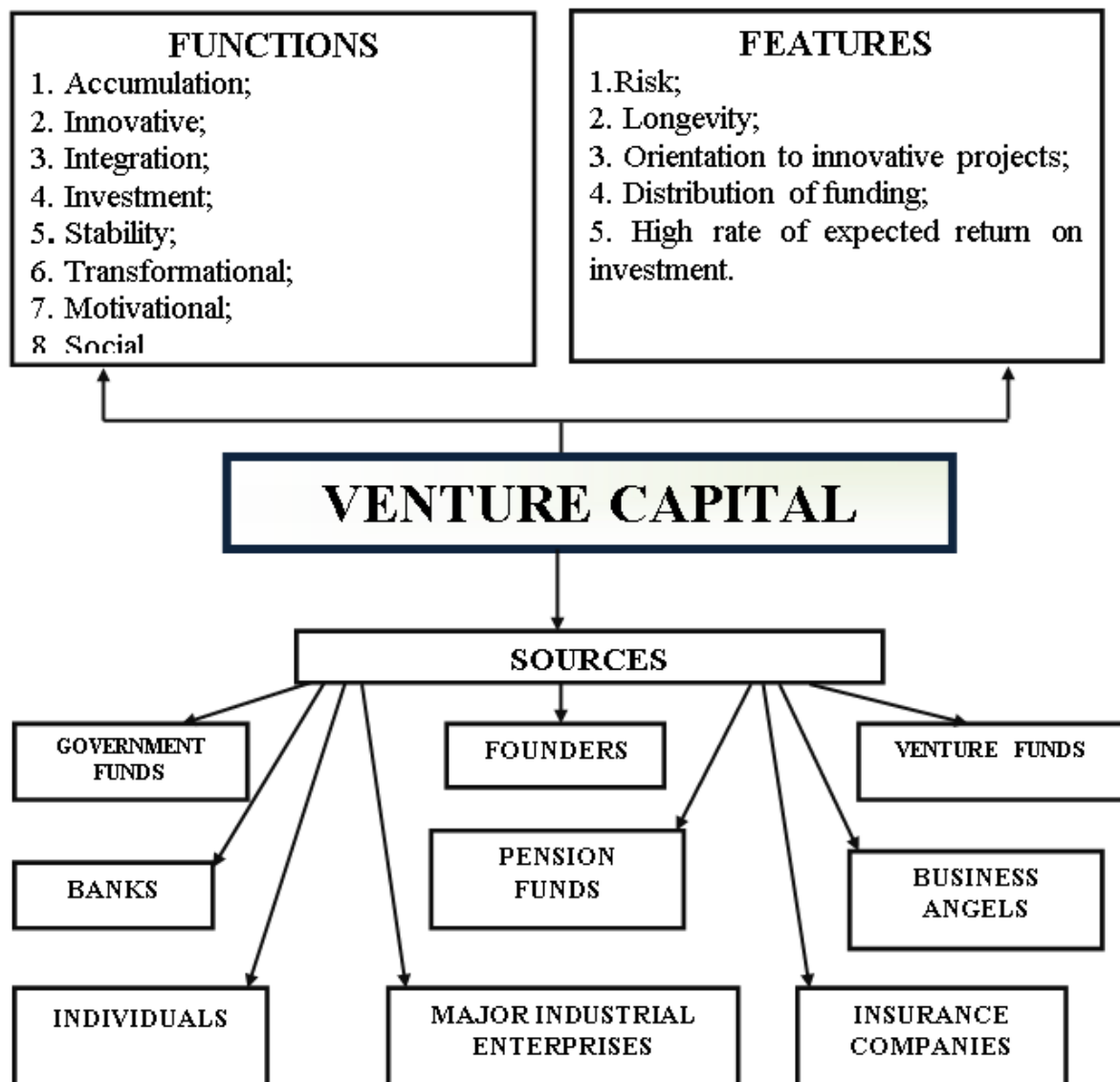
The American approach to defining this concept seems much narrower than the European approach. The National Venture Capital Association [18] (NVCA) defines "venture capital" as capital provided by professionals in their field who support young, fast-growing companies with significant competitive development potential in the field of management. In the American interpretation, venture capital is understood as one of the forms of direct investment.

By the UzVCA [17] (Uzbekistan venture capital association) venture capital firms are professional, institutional managers of risk capital that enable and support the most innovative and promising companies. Venture capital supports new ideas that:

- ✓ Could not be financed with traditional bank financing;
- ✓ Threaten established products and services in a corporation or industry;
- ✓ Typically require five to eight years to reach maturity.

The category of venture capital is widely used in modern literature, but there is no uniform approach to its interpretation: along with changes in the economic environment, the content and specifics of venture capital also change. Summarizing research in the field of venture capital, the following definitions can be made: Venture capital is a long-term, high-risk capital that combines a symbiosis of financial and intellectual capital directed to small high-tech companies with high growth potential, whose shares are not listed on the stock exchange. Based on this definition, the main features, functions and sources of venture capital are identified in this figure.

**Figure.** The main features, functions and sources of venture capital



**Source:** Created by the author using the scientific literature. [8,9,10,11,12,13,14]

The use of venture capital to finance innovation is beneficial for innovative firms, but the technical innovation and technological efficiency of the products produced does not always

guarantee the success of small innovative firms financed by risk capital. Only 20 percent of such firms benefit the risky capitalists, 40 percent make losses, and the rest barely cover the money spent on them.

Venture business is a specific form of investment process in which financial resources are financed in the form of investment in the securities of enterprises with the potential for rapid development. This type of business is more suitable for funding research in science and high technology. However, the fact that the results of this study are not guaranteed to be positive suggests a high risk. Experience has shown that venture capitalists try to invest their capital mainly in the securities of joint-stock companies. Investment funds are provided in the form of commercial loans for up to 7 years.

The following are some of the most common types of investment applications available today:

1. Seed is a business idea that needs to be funded for further research.
2. Start up is a new, young company with a short history in the market. It is necessary to invest in such enterprises to carry out research work.
3. Early stage - an enterprise in which the first samples of the finished product are available, and funds are required for the stage of commercialization of these products.
4. Expansion is an enterprise that needs additional funding to expand its operations. These companies can use the investment funds to expand their activities, including production, sales or services, additional marketing research, expansion of charter capital or working capital.

Venture firms in the digital economy are formed on the basis of agreements between a number of legal entities and individuals, or on the basis of bank loans, or on the basis of funds of banks and large companies. The following conditions must be met in order to establish a venture firm:

- The basic idea of creating an innovative innovation - a new technology, invention, production process, service, programming, creation of Internet resources, 3D, 4D technology, intelligent systems, etc .;
- the desire of society at the global, national, regional or enterprise level for the realization of this idea;
- there is a demand for products or services in the domestic and foreign markets as a result of the implementation of this idea;
- the existence of a real entrepreneur who can create and manage a new company at risk based on this idea;
- the possibility of finding the necessary amount of "risky" capital to finance this venture firm.

Venture capital firms can operate in two different organizational forms. One is an independent venture capital firm and the other is a venture capital firm. When choosing a project to create a new product or service, two things must be taken into account: first, the goals and objectives of the project do not coincide with the traditional activities of the parent company - that is, the main goal of the internal venture - new profits is to find and apply it to the company's activities. Second, when selecting new ideas, the economic benefits that can be derived from them must be large enough to not only justify the costs but also the benefits.

The connection between the innovative development of the economy and venture capital is manifested in:

- first of all, venture capital, with its activity, helps to create new economic subjects of the market, which can affect the distribution of forces in the environment of scientific research. This, in turn, can lead to a change in the composition of GDP in the country. For example,

companies such as Apple Computer, Intel, Federal Express, Dec, Microsoft, Amazon, Facebook (META) have become world leaders thanks to the support of venture capital;

- secondly, by supporting industries with dynamic, high expansion and development potential, venture capital helps these companies achieve competitiveness in the domestic market, as well as increase the competitiveness of the country's economy at the international level. For example, the broad development of biotechnology, information and communication technologies, nanotechnologies, fintech and other fields at the international level;
- thirdly, venture capital contributes to the growth of employment of highly qualified specialists, development and support of human capital. This, in turn, underpins the assessment of the knowledge economy by the country's government;
- fourthly, the use of venture capital helps to renew and modernize traditional sectors of the economy;
- fifthly, large integrated structures and corporations will have to improve their management principles and organizational structures in order to attract venture capital.

## CONCLUSION

The role of venture capital in the innovative development of the economy can be summarized as follows:

1. At the micro level, venture capital helps increase the level of technological knowledge, management resources and access to information.
2. At the micro level, venture capital appears as a source of development of small and medium-sized innovative enterprises.
3. At the meso level, venture capital performs the function of stimulating the development of a number of high-tech industries.
4. At the macro level, venture capital serves as a basis for structural modernization of the economy, its transition to an innovative scenario of development.
5. Venture capital at the mega level, taking the form of transnational venture capital, helps to strengthen the global world economic relations, activating the process of international transfer of knowledge and technologies and increasing the general scientific and technological level of the entire world community.

Thus, by studying the concept and economic nature of venture capital, we can conclude that venture capital plays a key role in the formation of an economy designed for an innovative path of development. This is achieved due to the fact that venture capital is directed to high-risk objects, such as innovative enterprises in the early stages of development and formation - a special feature compared to other alternative sources of investment. At the same time, venture capital contributes to the innovative modernization of the economy through the development and production of advanced products and services, if their ideas and initiatives are successfully implemented and properly funded.

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