

## Improve and test your English



# Lingua Nova

### WHAT IS VENTURE CAPITAL?

**We have been discussing the problem of capital many times but what is venture capital?**

This is capital provided for new ventures by those other than the original proprietor. The term is sometimes also used for capital provided to rescue or turn around a company. Those who provide venture capital include merchant banks and investment banks and specialist venture capital institutions. Because venture capital providers take a higher risk than those providing capital to proven ventures, they demand a higher (potential) return on their investment. This higher rate of return also reflects the amount of time they usually need to spend thoroughly examining the new venture: its plans, the people who will run it, the competition, the opportunities, and so on.

Venture capital providers often insist on a share of the equity of the new venture in return for providing the capital. The original proprietors may be happy to agree to this for one or both of the following reasons: it may be the only way to get the money; it raises finance without increasing debt. They may also welcome the business and financial expertise the venture capital provider is able to provide; for example, those proposing new high-tech ventures may be extremely skilled in the high-tech field but may also be inexperienced in running a business in an efficient commercial way. The venture capital provider's reasons for proposing an equity share are that as part-owner it will have more control over its investment, and that, if it has picked a winner, it will make a much higher return on its investment than it could have achieved by investing in an established, publicly listed company. Of course, if the venture fails, the investment will have been a bad one, but there may well be others that succeed. Venture capitalists operate on the basis that "you win some" and "you lose some". Their survival in business depends on picking more (or rather bigger) winners than losers.

In the past the accessibility of venture capital to entrepreneurs and new businesses varied enormously from country to country; for example, in the United Kingdom companies such as 3i have been major providers of venture capital for some time, whereas in Germany, where it was not until the late 1980s that venture capital had become established as an important source of finance for new businesses. To a large extent, this simply reflects the increased emphasis throughout the world on the importance of private enterprise.

Venture capital is provided for new ventures by those other than the original proprietor. It is often used to set up companies formed for the purpose of conducting business that is separate from its owners, the shareholders. A company

continues to exist despite changes in (or deaths among) its owners. A company can hold assets; it can sue, and it can be sued. Various documents have to be filed when forming a company.

In the United Kingdom these include the Memorandum of Association and the Articles of Association, which together spell out the objects of the company (in broad terms, what kind of business it will be engaged in) and the internal regulations governing the conduct of company business. In the United States, the equivalent documents are the Certificate of Incorporation and the Bylaws. Companies are also governed by company law, as laid down by legislative acts over the years. Such laws spell out, among other things, auditing and accounting requirements, the duties of company directors, and the rights of shareholders.

Most companies have limited liability; in other words, owners are liable for a company's debts only up to the value of their shareholdings. Categories of companies vary from country to country and go by different names. The main difference is between public and private companies. Public companies can sell their shares to the general public (which they usually do through a stock exchange); private companies cannot sell shares to or raise money from the general public. In general, private companies tend to be smaller than public companies. However, some of Germany's biggest companies are privately owned.

Some of the names by which public companies are known include: Public Limited Company (plc) in the United Kingdom; Société Anonyme (SA) in France; Aktiengesellschaft (AG) in Germany; Società per azioni (SpA) in Italy; Sociedad anónima (SA) in Spain.

Some of the names by which private companies are known include: Private Limited Company (Ltd) in the United Kingdom; Société à responsabilité limitée (Sarl) in France; Gesellschaft mit beschränkter Haftung (GmbH) in Germany; Società a responsabilità limitata (Srl) in Italy; and Sociedad de responsabilidad limitada (Srl) in Spain.

Within the public/private division, other types of company include: (1) associated company, which in the United Kingdom is a company over which another company has substantial influence; for example it owns between 20 per cent and 50 per cent of its shares; (2) holding company, a company that owns another company or other companies and which is sometimes referred to as the parent company (most public companies operate through a number of companies controlled by the group's holding company); (3) subsidiary company, a company controlled by a holding company, usually because the holding company owns (or indirectly owns through another subsidiary) more than 50 per cent of the subsidiary company's shares.

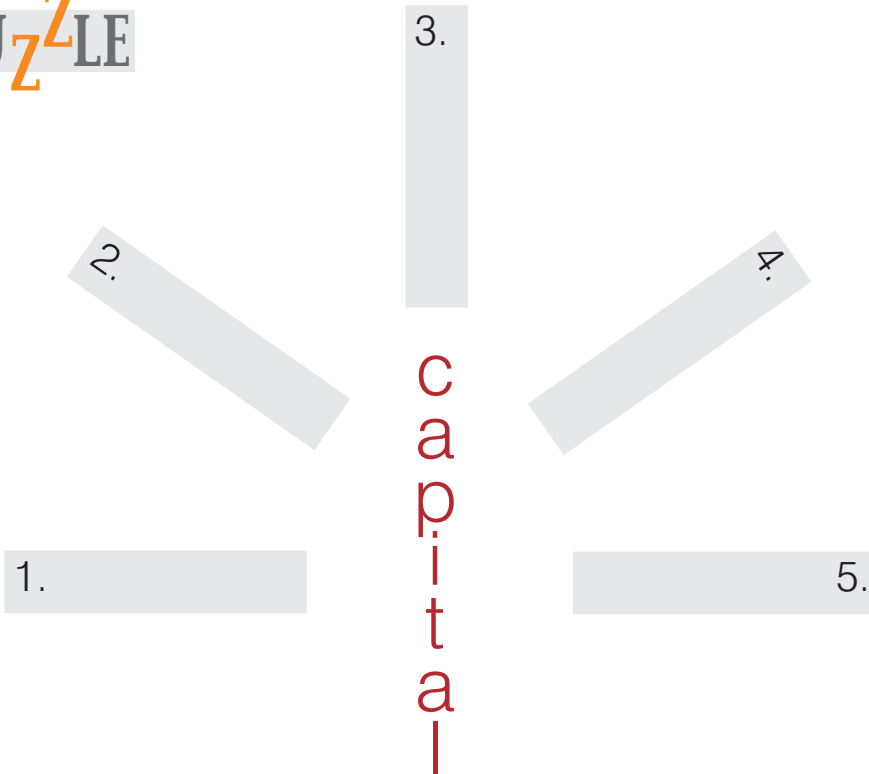
# CROSSWORD PUZZLE

All the expressions in this crossword puzzle are connected with the sorts of capital and all of them were used in the text and exercises above.

1. paid-up capital
2. working capital
3. venture capital
4. authorized capital
5. risk capital

## ANSWERS

1. issued, 2.current, 3.risk, 4.registered, 5.venture



## CAPITAL

There are many technical terms associated with capital. Check whether you know some of the most common.

### Exercise 1

1. .... capital is the amount of capital that a company is allowed to issue, expressed as a number of shares e.g. 3 million shares with a nominal value of 75p each.

- 1.1. issued
- 1.2. authorized
- 1.3. venture
- 1.4. working

2. .... capital is the amount of capital actually issued to shareholders. This may be less than the authorized capital.

- 2.1. issued
- 2.2. authorized
- 2.3. venture
- 2.4. working

3. .... capital is money used to invest in a high – risk undertaking.

- 3.1. issued
- 3.2. authorized
- 3.3. venture
- 3.4. working

4. .... capital is the money a firm needs to continue trading. It is the difference between the current assets and the current liabilities.

- 4.1. issued
- 4.2. authorized
- 4.3. venture
- 4.4. working

( Answer key: 1. b, 2.a, 3.c, 4.d)

### Exercise 2

You had various types of capital mentioned in Exercise 1. Try to match the types of capital which you found in the previous exercise with their synonyms. Choose the proper expression.

1. issued capital
- 1.1. risk capital

- 1.2. paid-up capital
- 1.3. working capital
- 1.4. registered capital
2. venture capital
- 2.1. risk capital
- 2.2. paid-up capital
- 2.3. working capital
- 2.4. registered capital
3. current capital
- 3.1. risk capital
- 3.2. paid-up capital
- 3.3. working capital
- 3.4. registered capital
4. authorized capital
- 4.1. risk capital
- 4.2. paid-up capital
- 4.3. working capital
- 4.4. registered capital

( Answer key: 1.b, 2.a, 3.c, 4.d)

### COMMENTS DURING MEETINGS?

Look at the sentences people say to introduce a comment they want to make or indicate their opinion during meetings. Try to substitute the expressions in *italics with other phrases given*.

1. .... Quite honestly, I don't really understand why we're talking about this now.

A. To be frank; B. Right; C. By and large; D. In your place; E. Needless to say

2. If I were you, I'd be very careful what you say.

A. To be frank; B. Right; C. By and large; D. In your place; E. Needless to say

3. Broadly speaking, we try to involve everyone in the decision-making process.

A. To be frank; B. Right; C. By and large; D. In your place; E. Needless to say

4. It goes without saying that we're going to have to get together and talk about this in more detail.

A. To be frank; B. Right; C. By and large; D. In your place; E. Needless to say

5. So that's settled. Can we now move on to the next item on the agenda.....

A. To be frank; B. Right; C. By and large; D. In your place; E. Needless to say

( Answer key: 1a, 2d, 3c, 4e, 5b)