



## **INDUSTRIAL INVESTMENT FUND SUSTAINABILITY FOR THE LOCAL GOVERNMENT IN HENAN, CHINA**

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### **Abstract:**

The rapid development of industrial fund has become an essential supporting force to promote China's economic restructuring. The purpose of this study is to determine Industrial Investment Fund Sustainability for the Local Government in Henan, China. To review the research phenomenon empirically and theoretically, two factor theories, quasi-public theory, market failure theory and theory of sustainable development have been discussed, together with review of domestic research on the development of local government industrial investment funds. Quantitative methods are considered to be more suitable for this study. Primary objective is to provide researchers with a description of the apparent facts of interest. Quantitative results mainly involve statistical analysis of collected data. In this study, the data interpretation of statistical analysis is used to describe the expected final results of the study clearly. The questionnaire of the present study based on the existing literature and past researches regarding student satisfaction in different contexts. The empirical findings of this study that supervision system structure, market exit mechanism and professional talents are significant factors that stimulates peoples' industrial investment fund for the local government in Henan, China is similar and confirms with the findings of previous scholars. Thus, transparency is the main impetus of China's financial development. Without change and opening, there would be no China today. However, contrasted and the genuine needs of monetary development, China's receptiveness to the outside world is as yet inadequate.

**JEL:** L10; L16; L78

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## 1. Introduction

Industrial investment fund is a unique concept in China and is commonly referred to as venture capital fund and private equity fund abroad and this is generally directed at unlisted enterprises with high potential to make equity or quasi-equity investment and participate in the operation and management of the invested enterprises, to achieve capital appreciation through equity transfer after the investment enterprise matures (Yu et al., 2014). The industrial investment fund has become the core of the financial system in developed countries (Zhang et al., 2008). In China, the industrial investment fund began with the establishment of an overseas industrial investment fund. According to the Interim Measures for the Management of Industrial Investment Funds formulated by the former National Development Planning Commission in 2006, Industrial Investment Funds (or Industrial Funds for short) which refers to a system of collective investment sharing benefits and risks of equity investment and management services for unlisted enterprises to set up a fund company by issuing fund shares to most investors (Shi, 2016).

At present, China's local government industrial investment funds are not only facing ample development space but also will play an increasingly important role in the development of the national economy (Yu, 2016). According to Yinxing (2016), Henan is facing both great opportunities and challenges, and the development of various cities in Henan Province is particularly essential. Moreover, how to develop the local economy better, industrial investment fund as a medium plays a vital role (Luigi and Sorin, 2009; Luther et al., 2005; Maxwell and Delaney, 2004). In 2017, the most significant number of new government industrial investment guidance funds was in East China, with 45 new investment guidance funds, with an additional target of 221.5 billion Yuan; the largest target size of the new investment guidance fund is North China, with 14 new investment guidance funds, with an additional target size of 345.2 billion Yuan; the number of new investment guidance funds in South China is ahead of that in North China, there are 20 new investment guidance funds with an additional target of 163.2 billion Yuan; central China and Southwest China the target scale of industrial investment guidance fund has increased significantly; northeast and Northwest China the number and target size of industrial investment guidance funds have also increased slightly (The National Bureau of Statistics of China, 2019). Huang (2018) stated that by the end of June 2018, 546 government industrial investment guidance funds had been set up in East China, with a total target size of 2,174.7 billion Yuan, ranking first in the country in terms of quantity and target size; the total target size of the government-industry investment guidance fund in North China is 1,554.1 billion Yuan, which is the second largest in China; South China has set up 154 government guidance funds, ranking second in the country; central China (Henan Province) the number of investment guidance funds is similar to that of Southwest China, but it is ahead of Southwest China with a target scale of 472.9 billion Yuan; Northeast China and Northwest China the number and target scale of government-industry investment guidance fund are close (The National Bureau of Statistics of China, 2019).

The role of government industrial investment funds in investment decision-making, CITIC Research Institute according to the survey report, 26% of the government industrial investment fund managers hold the attitude of not joining the decision-making committee of the fund and not making decisions on the investment of the sub-fund. However, in order to maintain the policy of guiding the fund and retain the right of one vote veto, 44% of them tend to follow-up investment in an appropriate proportion. Also, the proportion of those who do not intervene in fund management affairs and who do not follow-up investment accounts for 4%, and those who want to join the decision-making management committee account for 26% (The National Bureau of Statistics of China, 2019). According to their location advantages and industrial development strategies, each region formulates key investment directions of local government investment funds.

There are two common structures of government investment funds, one is parallel investment mode, and the other is structured investment mode. Parallel investment model is characterized by the absence of priority and inferiority arrangements between the government and financial institutions, it bears the same risks and benefits and has a clear structure, it is suitable for guiding investment of parent funds with transparent profit model and explicit positioning, for example, the parent fund especially supporting the mixed reform of state-owned enterprises, etc.

In the case of Henan Province, in order to accelerate the operation of government investment funds, improve the efficiency of the use of financial funds, and promote the sustained and healthy development of government investment funds, according to the Ministry of Finance *“Interim Measures for the Administration of Government Investment Funds”* (Budget, 2015) the government of Henan Province *“Opinions on the Implementation of Funding Reform of Provincial Fiscal-related Enterprises”* (Yuzheng, 2015) and other policy provisions, *“Provisional Measures for the Administration of Investment Funds by Henan Provincial Government”* have been formulated. Henan Provincial Party Committee and Government attach great importance to the development of private investment funds. For three consecutive years, they have issued policy documents to promote the development of venture capital and industrial investment funds, and the development fund should be regarded as an effective way to support the direct financing of real enterprises and promote the integration of industry and finance. The Central Plains fund island should be planned and constructed to support and promote the industrial agglomeration of private investment funds. Henan government investment fund has also developed from only government-funded venture capital fund and no equity investment fund before 2012 to 108 venture capital enterprises and 236 equity investment enterprises (Michaelas et al., 1998, 1999; Chen, 2011; China Venture Capital Institute, 2012; Qing Research Center, 2018).

Henan Province is restricted by high cost and limited channels in the financing process with many obstacles such as financing through the issuance of corporate bonds and bank loans, which lead to high financing cost and difficulties. Financing difficulties faced by small and medium-sized enterprises as well as high-tech enterprises have become increasingly prominent and is severely restricting the development and growth

of enterprises. Therefore, the development and improvement of Henan Industrial Investment Fund as a productive investment and financing tool has important practical significance for enriching the financing channels of enterprises, alleviating the financing difficulties of enterprises, guiding and optimising the regional industrial structure, and improving the capital market. In addition, due to overcapacity and economic downturn, whether listed companies with many financing channels or relevant functional departments, the ability and motivation of direct investment in related industries are insufficient, investors are more willing to invest through the establishment of relevant industrial investment funds and professional management team, so as to achieve the purpose of decentralizing risk and focusing too much on a single industry.

Government industrial investment fund is highly structured, and its internal design is sophisticated. It can absorb and integrate the advantages of traditional industrial investment mode through different transaction designs. It can improve not only the efficiency of industrial investment but also better control risks, to a certain extent, replace the existing government platform companies. At the same time, its flexible form has unique advantages in avoiding supervision and has more innovative potential for the operation of capital than the traditional model. Besides, after the fund ceases to operate and investors withdraw, it will leave high-quality project platform companies for local governments, which is conducive to local governments to re-integrate project resources and improve the efficiency of investment and financing.

After the large-scale development of the structured investment and financing mode of local government industrial investment fund, on the one hand, under the new normalization of the economy and the gradual decline of local fund budget income, it will become an essential means to promote local GDP, and play a more prominent role in promoting related primary industries and upstream and downstream industries, From this, it can promote the transformation of regional industrial structure. Therefore, in order to promote the transfer of employment from the primary industry to the secondary and tertiary industries, it will reduce the price of labour and other factors in the market and bring positive changes to industrial development. Taking Henan as an example, this research takes Henan as the research object. This research mainly studies the construction of Henan's Supervision System Structure, market withdrawal mechanism, professional training, risk control and diversification of fund portfolio, then draw lessons from the excellent experience of risk control of industrial investment funds at home and abroad, find out the shortcomings of local governments in industrial investment funds, and put forward corresponding countermeasures.

## **2. Literature Review**

### **2.1 Two Factor Theories**

The two-factor Theory (Motivator-Hygiene Theory) was first proposed in 1959 by American behaviourist Frederick Herzberg. Herzberg Motivator - Hygiene and found that those who can bring work actively, satisfaction and incentive factors called "incentives", such as self-value realization and achievement, recognition, and the growth

of the good development space factor can stimulate staff's work enthusiasm, this kind of factors of Maslow's hierarchy of needs Theory of respect the needs and self-actualization needs, belongs to the spiritual level factors, more advanced needs. Those that bring negativity to the workplace and are related to working conditions, atmosphere and environment are "hygiene factors", such as policy management, salary and working environment, interpersonal relationship and so on. When employees have no objection to these factors, it only plays the role of eliminating satisfaction, but cannot play the role of motivating employees. Such factors are equivalent to the most basic physiological needs, safety needs, emotional needs and other lower needs in Maslow's hierarchy of needs theory. The improvement of "hygiene factor" can only reduce the dissatisfaction of employees, but it cannot play a motivating role. In order to stimulate the individual initiative of employees, we must pay attention to "motivation factor". For any organisation, the enthusiasm of its members is the core motivation and critical factor for the realisation of organisational goals.

## 2.2 Quasi-Public Theory

In his theory of human nature in 1739, Hume first proposed the concept of public goods, which was regulated by PA Samuelson in 1954. PA Samuelson (1954) pointed out that "goods can be divided into public goods, private goods and mixed goods according to their competitive and exclusive characteristics". Mixed public goods, also known as quasi-public goods, are a unique product between private goods and pure public goods. Generally, it has limited non-competitiveness or non-exclusivity. Finite non-competitiveness is the idea that the consumption of an individual leads to the consumption of the rest of the society going down, but the smaller part of that is not represented entirely by price; However, limited non-exclusivity refers to the fact that personal consumption of public goods will affect the consumption of others, which usually indicates the decline of others' consumption. With the rapid development of information technology, information transmission is more convenient. Technological innovation, as a product, is easily imitated and learned by other enterprises, and such imitation will not bring additional innovation cost, or the cost is much less than the cost of scientific research and invention of the enterprise, which is reflected like free products. However, due to the weak development scale, corporate culture and research and development team of small and medium-sized enterprises, it is difficult for small and medium-sized enterprises to imitate large enterprises in technological innovation, which weakens the innovation motivation of small enterprises and makes technological innovation show exclusivity. Based on the above analysis, as a quasi-public product, technological innovation needs the government's participation, to avoid the emergence of market failure. As financial products with particular policy purposes, government venture capital guiding funds can provide financial support for technological innovation of small and medium-sized enterprises, cultivate good innovation teams, solve the financing difficulties of small and medium-sized enterprises, and solve the market failure in the market of technological innovation.

### 2.3 Market Failure Theory

Market failure refers to a phenomenon that market operation cannot achieve equilibrium in the market economic system so that the market cannot play its function of optimising the allocation of resources. The causes of market failure include market mechanism and market defects. For the reasons of market mechanism, we can safeguard the market system and solve the problem of market failure by perfecting the market system and formulating relevant laws; for the defects of market itself, the main reason is that the market fully emphasizes the economic interests of micro-individuals, and for the realization of social interests, there will be failures, such as the failure of public goods market in life and so on. Defects can only be achieved by the government's visible hand to intervene to achieve market optimum.

Lucey and Dowling (2013) found that the most prominent problem is the financing difficulty of the start-up enterprises, which mainly depends on the existence of the phenomenon that the risk of the start-up enterprises is higher on the one hand, and the liquidity and liquidity of the funds are reduced due to the long term of venture capital. Therefore, the financing difficulties of enterprises in seed stage and start-up stage are very prominent. With the establishment of the law of venture capital in China and the attention of the state, venture capital has shown explosive growth in the country, to some extent; alleviate the financing difficulties of start-up enterprises. The governments at all levels in our country strictly require the lowest investment proportion when setting up the guiding fund. Through the administrative guidance of the government, the financing difficulties of start-up enterprises are gradually being solved. On the one hand, due to the difference of economic development level, the government's venture capital guidance fund mainly concentrates in the eastern coastal areas. On the other hand, due to the profit-seeking nature of the market economy, some underdeveloped industries lack venture capital in industrial development because of the uneconomical scale.

### 2.4 Theory of Sustainable Development

Sustainable development theory is a new development concept of contemporary human beings. *"It is realised by reflecting on human's production and living behaviour and worrying about reality and future when the world is facing three major problems of economy, society and environment."* Since 1992, the United Nations Conference on Environment and Development, held in Rio de Janeiro, Brazil, established sustainable development as a common strategy of human society, the theory of sustainable development has become the guiding and research focus of world development. In recent years, the research on sustainable development theory in China is on the rise. Some scholars conclude from the perspective of practice: *"Sustainable development is the coordinated interaction of politics, economy, culture and ecological nature; its essence is the sustainable development of human production practice and practical ability"*. The theory of sustainable development has indeed brought us a new level of thinking and mode of thinking Reid, 1996; Riportella and Martínez, 2003; Ross, 1977; San and Heng, 2011; Seifert and Gonenc, 2008; Taylor, 1990; Ying et al., 2016. It contains rich ideological connotations and profound philosophical ideas and encourages people to develop from the coordinated development of ecological

environment and economic development to the development of financial, industrial, cultural and human social activities. The sustainable development of local government industrial investment funds in China has attracted the attention of scholars: the core of sustainable development is economic development. In the book, *Economics, Natural Resources, Insufficiency and Development*, Edward B. Barbier defines sustainable development as “*maximising the net benefits of economic development while maintaining the quality of natural resources and the services they provide*”. “*Economic development is the main way to establish the concept of sustainable development*”, and the sustainable development of economic development itself “*should be the important content and the first field of sustainable development strategy*”.

## **2.5 Review of Domestic Research on the Development of Local Government Industrial Investment Funds**

The rapid development of industrial fund has become an essential supporting force to promote China’s economic restructuring, industrial upgrading and innovation and entrepreneurship development. However, in the process of development, industrial funds are also facing many problems, such as speculative arbitrage, open-ended real debts, withdrawal difficulties, and development difficulties of government industrial funds. Therefore, it is necessary to correct the mis-orientation of industrial funds, strengthen adequate supervision, improve the quality of personnel, improve the industry self-discipline system, in order to ensure the long-term stable development of industrial funds, and promote the improvement of the financial system and financial creation. At present, for the development of industrial investment funds of local governments in China, the research finds that the main achievements are as follows: imperfect regulatory mechanism, imperfect market exit mechanism, lack of professionals, lack of risk prevention and single fund portfolio.

Thus, previous literatures do support the facts and importance to strengthen the supervision of the fund operation of industrial investment funds to avoid the risk of market failure. The government should take part of the limited financial funds to invest in the industrial investment fund, so it needs to take necessary measures to strengthen the control of the capital risk of the industrial investment fund, to avoid the loss of the capital of the industrial investment fund due to human factors. In addition, in the follow-up development of industrial investment funds, we should establish and perfect strict approval process, establish diversified fund market, encourage enterprises to innovate and form various financial derivatives, strengthen the supervision of financial derivatives market, and learn from advanced foreign experience to improve the development of China’s funds, but we cannot completely copy the experience of other countries. We should draw lessons from China’s national conditions and create good external conditions for the smooth operation of the industrial investment fund market (Peng and Lai, 2012; Rajan and Zingales, 1995; Rao et al., 2007; Wang et al., 2014). However, most of the guiding funds have weak awareness of performance appraisal and have not formed a standardised performance appraisal system. It is difficult to provide information support for the development of financial expenditure benefit evaluation. Generally

speaking, China has not yet formed a scientific and unified performance evaluation system of government-guided funds, nor has it established a similar evaluation system of financial expenditure benefits, which is not conducive to timely detection and prevention of financial risks (Miles and Shevlin, 2001; Mira, 2002; Norton, 1991; Norvaisiene, 2012; Paul et al., 2007; Zhao, Chan & Song, 2017). The reason is that the establishment and approval of the Chinese government's guided industrial investment funds are subject to multiple supervision and lack of a unified regulatory body. For example, the head office of the People's Bank of China and relevant exchanges (Shanghai Stock Exchange, Shenzhen Stock Exchange and other regional trading centres) are responsible for the establishment and approval of industrial investment funds. At present, the self-regulatory organisation of the fund has not been put on the agenda, such as the compulsory establishment of the Industrial Investment Fund Management Committee. Therefore, the supervision of industrial investment funds is not yet unified, so there is a lack of corresponding management (Liu, Zhang & Hu, 2006). Therefore, to strengthen supervision, the following measures can be taken: First, a working coordination group can be successfully established. It consists of 12 departments, including Municipal Credit, State-owned Capital, Development and Reform, Commerce, Agriculture, Science and Technology, Culture, Tourism, Industry and Commerce of Small and Medium-sized Enterprises, Finance and Finance, each of which is responsible for its duties. Through joint research, collective decision-making, strict control of project planning, strict control, and guidance of fund input, to ensure the performance and safety of fund use. Secondly, the Finance Office will take the lead in the preparation and construction, and the Finance Office will act as the investor for the government. The three is to set up a review expert committee, which is composed of representatives of industrial technology, private equity fund experts and industry responsible units. It is responsible for the evaluation of the special fund established by the guiding fund and private investors. Fourthly, a project investment decision-making committee should be set up to form a project investment decision-making mechanism under the supervision of industry experts of particular fund organisations and observers from competent departments. "To whom to invest" is no longer the government's decision-making, but a decision for professional managers who are more familiar with market rules and project prospects to let "professional people do professional things" (Huang, 2016b).

International equity investment market intermediaries include professional intermediaries involved in the evaluation, rating certification and guarantee, but their development in China is still in its infancy. The quantity and quality of these intermediaries are not enough to support China's industrial investment fund market. Besides, various kinds of firms, investment banks, commercial banks and other institutions are more common and mature, but they are specially aimed at stocks. The service of the right investment market has been developed late, lacking relevant experience and staying at the surface of service, which is not conducive to the development of the whole equity investment market. Whether from the perspective of professional or general intermediaries, China's existing institutional conditions cannot serve the equity investment market very well. Whether from experience, quality or



efficiency, the development of the market has significantly been inhibited and needs to be rectified, improved and stimulated (Zhang, 2008; Kaplan and Norton, 2012; Li et al., 2009, 2011; Lisboa, 2017).

### 3. Methodology

This study examines a set of research hypotheses based on quantitative data collected from questionnaires to establish a theory to verify the hypothesis, rather than trying to establish a theory. Therefore, quantitative methods are considered to be more suitable for this study. The primary objective is to provide researchers with a description of the apparent facts of interest, which will cover the necessary statistical data needed for these studies; the average, standard deviation, frequency and pattern are among them (Sekaran and Bougie, 2016). Quantitative results mainly involve statistical analysis of collected data. Then these data are analysed to achieve the purpose of the study. In this study, the data interpretation of statistical analysis is used to describe the expected final results of the study clearly. Therefore, the quantitative research method is adopted as the main design in this study, which is most suitable for this study. This study follows a probability model, which was determined by previous studies. Positivists believe that the results of one study can be extended to another similar study, whether it is conducted in different environments and circumstances (Pallant, 2011; Pandey, 2004; Peel and Wilson, 1996; Zikmund, 2003; Saunders and Thornhill, 2009). Therefore, the paradigm of this study belongs to the “positivist” approach. The questionnaire of the present study based on the existing literature and past researches regarding student satisfaction in different contexts. In designing a questionnaire, the researcher should focus on three main areas, first is the wording of the questions while the second relates to categorising, scaling and coding of the responses. Thirdly, the general appearance of the questionnaire is also essentially the same as the other two, because these facilities to minimise the bias in research. In wording, five factors have been proposed to be considered by Sekaran & Bougie, (2014): as 1) “the appropriateness of the content of the questions”, 2) “how questions are worded and the level of sophistication of the language used”, 3) “the type and form of questions asked”, 4) “the sequencing of the questions”, 5) “the personal data sought from the respondents” (p. 198). Secondly, the researcher should focus on the principles of measurement, which emphasise on what scales and scaling techniques to be applied in measuring each concept – however, appropriate scales to be employed depending on the type of data to be required. Lastly, the general appearance of the questionnaire is also essential to address the wording and measurement in the questionnaire. Sekaran and Bougie (2016) pointed out that the neatness and attractiveness of the questionnaire with proper introduction, instructions and logically organised set of questions serve opportunities that more accessible the respondents to answers. Based on the constraints such as time, cost, practicality and also reviews of existing research (Kothari, 2004), the researcher in the present study, choose to use the back-translation procedure in order to the translation of the questionnaire.

#### 4. Findings

There were 520 valid questionnaires were finally used for the purpose of this study after removing any extensive missing data, biased as well as outliers. Through analysis of the demographic, it was found that majority of the respondents with between 18 to 45 years old, dominated by males which is 59% and who are mostly professionals working either in the private sectors or government sectors with minimum a degree qualification.

Initially the KMO test that measures the sampling adequacy stipulated 0.955. Hence, the sample size is adequate (Kothari, 2004). Moreover, Huang (2016b) recommended 0.5 as a minimum KMO value and also designated values above 0.9 as superb. Apparently, Bartlett's test of sphericity posits a p value of less than 0.05 which indicates that the factor model is appropriate. Interchangeably, it rejects the notion that the correlation matrix is an identity matrix (Kline, 2011). The scree plots the eigenvalue against the factor number. From the eighth factor onwards, the line is nearly smooth demonstrating that the successive factors proclaim trivial amount of the total variances.

Using the total variance explained as a, the initial number of factors retained is five factors. Perhaps, the number of rows in Extraction Sums of Squared Loadings will give a better jaw line of the factors. Moreover, initial eigenvalues itemized that all factors are standardized. Conjointly, the Rotation Sums of Squared Loadings represents the promulgation of the variance after the Promax rotation that forces near zero coefficients to approach zero faster than coefficients further from zero which is disseminated over the seven extracted factors (Kline, 2011).

The Promax oblique rotations method unmasked a pattern matrix uncovers the very significant factor loadings which revealed that there are five factors whereby absolute values above 0.5 are considered (Hair *et al*, 2007). As a matter of fact, six factors were anticipated. Interestingly, items of Supervision system structure and Market exit mechanism loads together. The same scenario is visible in Policy towards Using and Sustainable development. A feasible exegesis is that the respondents who feel industrial investment fund for the local government in Henan, China is useful will tend to feel its easeful too. Similarly, respondents whose policy is towards using industrial investment fund for the local government in Henan, China may incline towards hatching an enthusiastic Sustainable development. Intriguingly, the KMO value as shown in Table 1 is still superb and Bartlett's test of Sphericity demonstrated that the factor model is also appropriate.

**Table 1:** Summary of Final KMO and Bartlett's Test

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.954
	Approx. Chi-Square	19107.126
Bartlett's Test of Sphericity	Df	741
	Sig.	.000

Homogeneously, there are 5 items in this construct. The maximum correlation of each item with at least one other item in this construct is encompassed by of 0.3 and 0.9. Thus,

all the 5 items correlate adequately. The skewness and kurtosis of all the items are within the preferred magnitude extravasating univariate normality of the data.

Accordingly, Confirmatory Factor Analysis is conducted yielding Normed chi-square and RMSEA values that are incoherent with the threshold values. However, CFI value divulged an incremental fit. Upon diagnosis of the Modification Indices, it is discerned that the association of e4 and e5 is more than 15. On that account, it is essential to re-specify the model correlating these residuals by embossing a double-headed arrow. The modified measurement model for lack of risk prevention construct is acceptable (Chi-square/df <5, CFI>0.9, RMSEA<0.08). All the factor loadings are >0.5 & AVE is 63%. In relation to multivariate normality, Mardia's critical ratios was more than 5 (22.911) whereby multivariate normality is not satisfied. By virtue of 1000 bootstrap sample, the Bollen-Stine p value of 0.113 is more than 0.05. Thus, the model correctness is congruous.

Uniformly, there are 5 items in this construct. The maximum correlation of each item with at least one other item in this construct is encompassed by of 0.3 and 0.9. Thus, all the 5 items correlate adequately. The skewness and kurtosis of all the items are within the preferred magnitude propagating univariate normality of the data.

Accordingly, Confirmatory Factor Analysis is conducted yielding Normed chi-square and RMSEA values that are not enclosed within the threshold values. However, CFI value uncovered an incremental fit. Upon verification of the Modification Indices, it is unfolded that the association of e4 and e5 is more than 15. Hence, it is preminent to re-specify the model correlating these residuals by molding a double-headed arrow.

Therefore, the modified measurement model is scanned through that unearthed a more noteworthy absolute fit and parsimonious fit whereby the modified measurement model for Single fund portfolio construct is acceptable (Chi-square/df <5, CFI>0.9, RMSEA<0.08). All the factor loadings are >0.7 & AVE is 74%. In respect to multivariate normality, Mardia's critical ratios was more than 5 (23.61) whereby multivariate normality is not satisfied. By virtue of 1000 bootstrap sample, the Bollen-Stine p value of is 0.258 more than 0.05. Thus, the model correctness is harmonious. Persistently, there are 5 items in this construct. The maximum correlation of each item with at least one other item in this construct is betwixt of 0.3 and 0.9. Thus, all the 5 items correlate sufficiently. The skewness and kurtosis of all the items are within the adequate leverage disseminating univariate normality of the data.

Accordingly, Confirmatory Factor Analysis is conducted yielding CFI value that is within the threshold values. However, Normed chi-square and RMSEA values are not within the threshold confines. Upon checking the Modification Indices, It is spotted that the association of e4 and e5 as well as e1 and e5 is more than 15. Hence, it is meaningful to re-specify the model correlating these residuals by outlining a double-headed arrow. On the road to multivariate normality, Mardia's critical ratios were more than 5 (47.969) whereby multivariate normality is not satisfied. By virtue of 1000 bootstrap sample, the Bollen-Stine p value of is 0.181 more than 0.05. Thus, the model correctness is concordant. Proportionately, there are 5 items in this construct. The maximum correlation of each item with at least one other item in this construct is encompassed by of 0.3 and 0.9. Thus, all

the 5 items correlate adequately. The skewness and kurtosis of all the items are within the preferred magnitude enforcing univariate normality of the data.

Accordingly, Confirmatory Factor Analysis is conducted yielding Normed chi-square and RMSEA values that are not within the threshold values. However, CFI value administered an incremental fit. Upon inspection of the Modification Indices, it is spotted that the association of e4 and e5 is more than 15. Hence, it is paramount to re-specify the model correlating these residuals by fashioning a double-headed arrow. Without exception to multivariate normality, Mardia's critical ratios were more than 5 (37.117) whereby multivariate normality is not satisfied. By virtue of 1000 bootstrap sample, the Bollen-Stine p value of is 0.536 more than 0.05. Thus, the model correctness is harmonious. After conducting the CFA for measurement models in each variable in the conceptual framework, the combined measurement model is constructed to test the composite scores. The model fitting criteria of the combined measurement model is shown in Table 2.

**Table 2: Model Fit of the Measurement Model**

	Index	Model Fit Indices'	Measurement	Decision
		Threshold	Model	
Absolute fit indices	RMSEA (LO90, HI90)	p<0.08	0.037, 0.044	Satisfied
Incremental fit indices	CFI	≥0.90	0.970	Satisfied
	IFI	p>0.90	0.970	Satisfied
	TLI	p>0.90	0.967	Satisfied
Parsimony fit indices	Normed Chi Square	P<5	1.864	Satisfied
	PCFI	p>0.50	0.867	Satisfied

Bagozzi and Yi (1988) sanctions composite reliabilities of greater than 0.60 is satisfactory. Thus, that being the case, composite reliabilities of all the constructs is satisfactory. Similarly, average variance extracted of more than 0.50 is essential. Consequently, the average variance extracted of all the constructs is significant. Moreover, Average Variance Extracted and Composite Reliability values in Table 3 for each construct in the measurement model shows an adequate convergent validity and discriminant validity in the model.

**Table 3: Average Variance Extracted and Composite Reliability values of the constructs**

	Average Variance Extracted	Composite Reliability
Sustainable development	0.801	0.952
Policy	0.741	0.934
Supervision system structure	0.731	0.931
Market exit mechanism	0.724	0.929
Professional talents	0.762	0.927
Lack of risk prevention	0.632	0.894
Single fund portfolio	0.741	0.934

Discriminant validity is evaluated to ascertain the scale to which items or constructs are different. At the item level, discriminant validity is prevailed when an item correlates highly with items within the construct it envisions to evaluate greater than items

affiliated to other constructs (Barclay, Higgins and Thompson, 1995). In this study, discriminant validity at the item level was found to be acceptable. This is also proven via the pattern matrix discussed in earlier sections.

At the construct level, discriminant validity is present when the variance shared between a construct with other construct in the model is less than the variance within that construct itself (Fornell, Tellis & Zinkham, 1982). Table 4 shows the correlation matrix for the constructs in which the diagonal elements have been replaced by the square roots of the average variance extracted. Discriminant validity is substantiated as the new diagonal elements are greater than are all corresponding construct correlations except Sustainable development and Policy in which the correlation between these two constructs are 0.900 which is high but still within 0.3 and 0.9 which is still acceptable. This is in line with the pattern matrix of EFA whereby items of policy towards using and sustainable development load together. Respondents with positive policy in view of industrial investment fund for the local government in Henan, China will display a positive trend in their sustainable development it too. Hence, in this study, discriminant validity at the construct level was found to be admissible.

**Table 4:** Summary of Inter-Construct Correlations

	Sustainable development	Policy	Supervision system structure	Market exit mechanism	Professional talents	Lack of risk prevention	Single fund portfolio
Sustainable development	<b>0.895</b>						
Policy	0.900	<b>0.860</b>					
Supervision system structure	0.732	0.737	<b>0.855</b>				
Market exit mechanism	0.654	0.663	0.790	<b>0.851</b>			
Professional talents	0.616	0.630	0.617	0.665	<b>0.873</b>		
Lack of risk prevention	-0.289	-0.282	-0.291	-0.232	-0.181	<b>0.795</b>	
Single fund portfolio	-0.405	-0.345	-0.306	-0.307	-0.303	0.486	<b>0.861</b>

Table 4 shows that there is a strong positive correlation between Policy and Sustainable development. Individuals with high levels of Policy of industrial investment fund for the local government in Henan, China have higher levels of Sustainable development and vice versa. There is a strong positive correlation between Sustainable development and supervision system structure. Individuals with high levels of perceived supervision system structure of industrial investment fund for the local government in Henan, China have higher levels of Sustainable development and vice versa. Similarly, a strong positive relationship exists between Sustainable development and market exit mechanism. As the perceived market exit mechanism rises the Sustainable development level increases too.

Moreover, professional talents exhibit positive relationship with Sustainable development. However, lack of risk prevention exhibits moderate negative correlation with Sustainable development. As the interactivity increases, the Sustainable Development scores go up as well and vice versa. Interchangeably, single fund portfolio also displayed moderate negative correlation with Sustainable development too.

After conducting the CFA for measurement models in each variable in the conceptual framework, the Structural equation modeling (SEM) was performed to test the fit between the research framework and the obtained data. The model fitting criteria of the structural regression model is shown in Table 5.

**Table 5: Model Fit of the Structural Model**

	Index	Model Fit Indices' Threshold	Research Model	Decision
Absolute fit indices	RMSEA			
	(LO90, HI90)	$p < 0.08$	0.064, 0.070	Satisfied
Incremental fit indices	CFI	$\geq 0.90$	0.917	Satisfied
	IFI	$p > 0.90$	0.917	Satisfied
	TLI	$p > 0.90$	0.910	Satisfied
Parsimony fit indices	Normed Chi	$P < 5$	3.332	Satisfied
	Square	$p > 0.50$	0.847	Satisfied
	PCFI			

Hence, all the model fit indicators of the structural regression model is within the acceptable threshold.

In testing for multivariate normality, Mardia's critical ratio was 101.545 (more than 5). Hence, multivariate normality assumption is not met. Therefore, in the estimation of the coefficients, the bootstrap method was used. Besides that, there is a significant impact ( $\beta = 0.266$ ,  $p < 0.05$ ) of Professional talents on Policy. The 95% confidence interval for Professional talents is [0.153, 0.369] whereby the value 0 does not fall within the interval, by and by indicating Professional talents is a significant predictor.

In addition, there is a significant impact ( $\beta = -0.136$ ,  $p < 0.05$ ) of Single fund portfolio on Policy. The 95% confidence interval for Single fund portfolio is [-0.226, -0.046] whereby the value 0 does not fall within the interval, in like manner indicating Single fund portfolio is a significant predictor. Furthermore, there is an insignificant impact ( $\beta = -0.077$ ,  $p > 0.05$ ) of Lack of risk prevention on Policy. The 95% confidence interval for Lack of risk prevention is [-0.173, 0.018] whereby the value 0 does fall within the interval, further indicating Lack of risk prevention is an insignificant predictor. Intriguingly, there is a significant impact ( $\beta = 0.873$ ,  $p < 0.05$ ) of Policy on Sustainable development. The 95% confidence interval for Policy is [0.834, 0.912] whereby the value 0 does not fall within the interval, again indicating Policy is a significant predictor.

## 5. Conclusion and Recommendation

The empirical findings of this study that supervision system structure, market exit mechanism and professional talents are significant factors that stimulates peoples' industrial investment fund for the local government in Henan, China is similar and confirms with the findings of previous scholars. Therefore, H<sub>1a</sub>, H<sub>2a</sub> and H<sub>3a</sub> were accepted. At the same time, in this study, it is also validated that Industrial investment fund for the local government in Henan, China mediates the relationship between the independent variables and the dependent variable Development of the industrial investment fund for the local Government in Henan, China. The blemished market condition of local industrial venture funds is ascribed to the accompanying two viewpoints: one is the flawed government works; the other is the low level of market transparency. China has been under the arranged monetary framework for quite a while. Up to now, although the framework of the communist market financial framework has been at first settled, it is still affected by the idea of an arranged economy in numerous viewpoints. For instance, an excessive number of activities for regulatory endorsement bring about too high access limit for innovative undertakings and absence of genuine cutting-edge ventures, which is an offside presentation of government capacities. After China's increase to the WTO, to finish the change of government works, the Chinese government has proclaimed to lessen authoritative assessment and endorsement. Transparency is the main impetus of China's financial development. Without change and opening, there would be no China today. However, contrasted and the genuine needs of monetary development, China's receptiveness to the outside world is as yet inadequate. For instance, the wellspring of China's industrial speculation fund is not sufficient, the scale is little in light of the fact that at present the fundamental source relies upon the legislature, and the administration's money related assets are negligible. If China's receptiveness to the outside world is additionally improved, it will extraordinarily advance the development of the capital market. For instance, yearly studies show that U.S. financial specialists' money Israeli industrial venture. China's industrial venture funds begin from remote capital. If we increment the level of opening to the outside world and effectively present external capital, we can incredibly fortify the quality of industrial speculation funds without the marvel of deficient supply.

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