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Xiaozhou Xu

Introduction to Entrepreneurship

Methodologies and Practices



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Xiaozhou Xu

Introduction to Entrepreneurship

Methodologies and Practices

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Preface

What's the meaning of entrepreneurship? Why do we pursue entrepreneurship? Is entrepreneurship acquisition possible? A number of people are bothered by the three basic questions. Scholars from different countries have been putting forward inspiring and enlightening opinions that reflect diverse outlooks on life, values, and entrepreneurial concept.

People were unable to find a unified answer to entrepreneurship in the diversified world. There is only direction than answer and starting point than the terminal point in entrepreneurship, whereupon confusion generated. With those unsolved issues, many people started their business by cutting off all means of retreats. Some of them have made achievements to enjoy the success, while others underwent gloom, bearing the pain of failure and sadness. There are also some people that are in hesitation to start a business and make a move. They aren't succeeded nor failed, leaving behind blank and wondering. The road to entrepreneurship seems optional to all the people. Starting a business or not would all change one's life. Learn and comprehend entrepreneurship is of great benefit to university students.

In some people's opinion, Entrepreneurship means to establish an enterprise, seeking to make money. The dream is to make micro-business grow into a huge corporation, and finally go public. It's really inspiring if the dream can be achieved. However, it's just the side view of life rather than the ultimate goal of entrepreneurship.

A successful entrepreneur should not focus on making profits, but shouldering the future of human beings. Moreover, engaging in trade is not the only path to entrepreneurship. So, what is the meaning of entrepreneurship? It is the broad road with various entrepreneurs rushing around, and it is the wide ocean with various entrepreneurs touring around. Entrepreneurship involves multiple types and a multitude of careers. It's a process to make a breakthrough in the limitation of resources, look for development opportunities, and create new values. The past world and current civilization were all created by entrepreneurs, while the unknown world and future civilization are bound up with posterity.

Some people said that they don't ask for much. All they need is a suitable career and a comfortable life. Why do they have to start a business? Indeed, it's the human nature. However, contemporary university students should not only consider their own life, but also possess a sense of social responsibilities and a sense of human

mission that leads to the constant entrepreneurship of our ancestors to strive to exceed ignorance and create splendid culture. Now, the baton of the era has been passed to us, our choice is closely related to the prospect and destiny of human society. Actually, we can easily find out that it's impossible to solve the new problems brought by the new era by sticking to conventions. Numerous unknown territories in science and technology are in need of exploration: we are facing both the division and integration of curriculum and infinite expansion and extension of space-time. Plenty of complicated problems are needed to be cracked down: we are confronted by current harmony and innovative development, as well as undiscovered challenges. As university students that inherit ancestors' entrepreneurial genes, you should move on to start businesses with responsibilities and courage, creating a bright future for the mankind.

There are also some people who said that they lack neither the competence nor the approach to start a business. In fact, humans' capacity is rarely inherent, so is entrepreneurial competence. For the purpose of understanding the efficiency of entrepreneurship education course for university students, relevant investigations and researches have proceeded in May 2016. Taking whether selecting the entrepreneurship education course or not as the variation, the survey is committed to testing the diversity of entrepreneurial related qualities. Various data shows that students selecting entrepreneurship education courses get higher marks in all aspects than those not. Besides, the T-test demonstrates that remarkably differences in entrepreneurial intention, entrepreneurial spirit, entrepreneurial knowledge, and entrepreneurial skills exist. Entrepreneurship education course facilitates and guides the improvement in entrepreneurial quality. Of course, Negative examples do exist. For example, there's an entrepreneur who achieved remarkable success even though he didn't learn any entrepreneurial course. As we know, knowledge and knowledge-based ability can be transferred. Almost all successful entrepreneurs possess strong learning ability and grope for entrepreneurship in practice. Scholars at home and abroad have conducted multidimensional researches to consistently summarize the experience in entrepreneurial practice and conduct communication or even build up entrepreneurial universities. In view of the complexity, practicality, and transformation of entrepreneurship, learners can enrich relevant knowledge and improve capacity in various approaches including classes.

This book is committed to providing assistance in learning entrepreneurial knowledge, improving venture competencies, and expanding entrepreneurial thinking. The book consists of nine parts, including Expand Entrepreneurial Vision, Improve Entrepreneurial Quality, Prepare entrepreneurial Knowledge, Identify Entrepreneurial Opportunities, Build entrepreneurship Group, Compose Entrepreneurship plan, Chart Entrepreneurship Strategy, Mitigate Entrepreneurial Risks, Optimize Entrepreneurial Resources. For those beginners, this book contributes to the comprehension of entrepreneurship, broadening vision, enriching theoretical knowledge, and laying a steady foundation for starting a business in the future. This book set up "learning objective", and "Lead" at the beginning of each chapter and set up "review" and "think and discuss" at the end of each part.

Entrepreneurship education is a complicated system, involving extensive fields. Although the editors have been conducting entrepreneurship education researches for decades, defects and omissions may exist due to the limitation of knowledge and experiences. I would like to extend my sincere gratitude to the research group at Zhejiang University. Many thanks to Mei Weihui, Ye Yinhua, Ni Hao, Meng Ying, Li Zhiyong, Niu Changsong, He Yangyong, Chen Wengan, Wu Jingchao, Liu Weiwei, Jiang Zengyu, Ma Jun, etc., for helping me to finish this book.



Hangzhou, China

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Expand Entrepreneurial Vision

1

Lead

Entrepreneurship is an attitude toward life and exists everywhere.

Learning Objective

1. Understand the connotation of Entrepreneurship, and identify different types of entrepreneurship.
2. Understand the environment condition of entrepreneurship.
3. Understand the value and driving factor of entrepreneurship.
4. Understand the current situation of entrepreneurship education in foreign countries.
5. Understand the policies of entrepreneurship education for university students and reform goals of entrepreneurship education.

Introduction

Entrepreneurship permeates through the whole process of human society, reflecting the life philosophy of entrepreneurs. This chapter managed to expound from the aspect of connotation, types, environmental conditions, values, and driving factors in entrepreneurship, so as to strengthen understanding, and to enable readers to think about the nature of entrepreneurship.

1.1 Analysis on Entrepreneurship and Entrepreneurial Environment

1.1.1 Connotation and Types of Entrepreneurship

1.1.1.1 Connotation of Entrepreneurship

There are two expressions of “Entrepreneurship” in English: Entrepreneurship and Enterprise. The former is more preferred. From the aspect of the linguistic root, Entrepreneurship originated from the word “entreprendre” in French and “unternehmen” in Germany, meaning “undertake.....” Besides, entrepreneurship can also be translated as “entrepreneurs’ spirit”. Innovation and adventure is the core of entrepreneurs’ spirit, with innovation being the soul and adventure being the nature.

On the whole, Entrepreneurship means that entrepreneurs break through current resource constraints to find new opportunities and to create new value of social activities. Since the 1980s, scholars have been studying entrepreneurship from three main perspectives, namely the personality traits, current entrepreneurial activities, and entrepreneurial process.

Personality Traits of Entrepreneurs

Personality Traits of Entrepreneurs place particular emphasis on the research and description of common characteristics. A. A. Gibb listed some of the characteristics and explicated the importance, including proactivity, skilled at communication, flexibility, innovation, problem-solving, achievement need, moderately adventure, belief in self-controlling the destiny, leadership, diligence, etc. (Gibb 1990). J. Bell thinks that the common personality traits consist of the willingness to undertake the risk, tendency to be innovative, breaking through the hardship, and making achievements (Bell et al. 2004). Welsh and White deem that personality traits manifest as adventure, abundant imagination, self-confidence, controlling in personal economic lifeline, willingness of hardworking, and forceful resistance to frustration (Rushing 1990). J. A. Timmons generalized the personality traits of entrepreneurs into self-confidence, target-orientation, moderately adventure, self-controlling, original creation or innovation (Timmons 1978). J. W. Carland summarized the conception of entrepreneurs by analyzing relevant documents. In his opinion, entrepreneurs start and manage the business with the goal of pursuing profits and development and utilizing the management strategies, the main feature among which is innovation (Carland et al. 1984). A. J. Morrison put forward the following personality traits: (1) awareness of opportunities; (2) abundance in innovation; (3) courage to break through the convention; (4) equip with foresight and vision; (5) independence; (6) internal control; (7) desire to own leadership; (8) achievements need; (9) bear the risk actively; (10) confidence; (11) ego-driven; (12) desire to self-realization; (13) Flexible (Morrison 1998).

Other scholars also make comments on the main personality traits (Table 1.1).

Some scholars regard personality traits research as a useful instrument, while the others raised doubts, pointing out the main problems: (1) neglect the influence of

Table 1.1 Main personality traits (Carland et al. 1984)

Time	Scholar	Main personality traits
1848	Mill	Risk-taking
1917	Max Weber	Source of Formal Authority
1934	J. A. Schumpeter	Innovation Motivation
1954	Sutton	Desire to undertake the obligations
1959	Hartman	Source of Formal Authority
1961	D. C. McClelland	Risk-taking, Achievement need
1963	Davids	Ambition, desire for independence and undertaking obligations, self-confidence
1971	Hornaday, Aboud	Achievement need, self-driven, aggressiveness, authority, innovation, independence
1974	Liles	Achievement need

culture and circumstance; (2) omit the role of education, learning, and training during the entrepreneurship process; (3) leave the impact of demographic variable to formation of entrepreneurs' spirit out of consideration.

Current Entrepreneurial Activities

Due to the limitation of personality traits research, entrepreneurial research turn to the current entrepreneurial activities, including the following aspects in some scholars opinion: (1) Lead in new products or services for the markets; (2) reduce the cost, improve efficiency, exploit and utilize new technology; (3) make use of new products, services, and technologies to exploit markets; (4) reorganize current enterprise by innovative management; (5) provide deficient resources for the market.

Many scholars define entrepreneurship from the perspective of current activities. A. H. Cole defined entrepreneurship as a purposeful activity to initiate, run, and develop a profit-oriented enterprise (Cole 1968). Some scholars indicate that entrepreneurs' behaviors are the way to start a business, such as resources integration, organizational management, and risk-taking (Niu and Jian 2007). W. H. Shames and N. C. Siropolis think entrepreneurship means entrepreneurs starting a new business based on ones' own thoughts and diligence, including starting a new enterprise, establishing a new institution in an organization, and providing new products and services, as well as achieve entrepreneurs' dream (Shames et al. 1974).

These kinds of definitions ignored the time dimension, the interaction between entrepreneurs' behaviors and environment, and variability of entrepreneurial activities, studying entrepreneurs' behaviors in a static environment. Entrepreneurship is affected by the culture and institutional environment which could become the support or barrier of entrepreneurial activities. Therefore, scholars tend to analyze the entrepreneurial process in a dynamic environment.

Entrepreneurial Process

From the aspect of the entrepreneurial process, how to find and identify opportunities should be studied in an imbalanced and dynamic environment. Based on the venture work at Harvard Business School and Babson College, Timmons defined entrepreneurship as the process to create and seize opportunities with no need to consider the existing resources. Then, he defined entrepreneurship in the classical textbook of entrepreneurship education *New Venture Creation* as follows: entrepreneurship is the action mode to think, deduce, and act, and is the behavior to pursue opportunity, weight the chance integrally, and reflect leadership. European Commission adopted this broad definition in the *European Green Paper on Entrepreneurship* issued in 2003 and added the elements of motivation and occupation selection. Therefore, entrepreneurship was defined as “the thinking process to establish and explore economic activities by utilizing effective management of integrating risk, creation and innovation” (EC 2003).

In the book *The State of Art of Entrepreneurship*, N. C. Churchill regarded entrepreneurship as “the process to find and utilize the opportunities that creating values by innovation with no need to consider the resource limitation such as manpower and capital, and the restriction of the entrepreneurs’ circumstance.”

In the book *Entrepreneurship: Theory, Process, and Practice*, D. F. Kuratko pointed out, entrepreneurship is a dynamic process filling of foresight, innovation, and creation which needs the spirit and enthusiasm to carry out the new idea and innovative problem-solving method. The basic elements of successful entrepreneurship include the willingness to undertake all risks, the ability to manage the entrepreneurial group effectively, the capacity to integrate all resources, the competence to make an entrepreneurial plan, as well as the foresight to recognize opportunities in chaos (Kuratko et al. 2004). Besides, the construction of relationship network in the entrepreneurial process is the dependence of successful entrepreneurship. It’s a vital part to learn how to build a personal relationship network and comprehend the role of it during the entrepreneurial learning process.

Zhang Yuli disassembled the activities in the entrepreneurship process into six aspects in the book *Entrepreneurship Management*, thus generate entrepreneurship motivation, identify entrepreneurship opportunity, integrate resources, start a new enterprise or business, realize opportunity value, and yield outcomes (Zhang 2008).

Although the connotation of entrepreneurship has been analyzed from different angles, various research angles are correlated, interacted, and cooperated. Entrepreneurship is the combination of a series quality and capacity. Only being equipped with this quality and competence, can the individual, organization, community, or society possess much more flexibility, creativity, and adaptability when confronting with uncertain situation, innovation, and challenge. Focusing on self-innovation, adventure, and grasping business opportunities, the common entrepreneurial quality and spirit can be cultivated through training.

To sum up, entrepreneurship contains at least three definitions. Firstly, entrepreneurship is the spirit and capacity to identify the opportunity, integrate the resources, and carry out the creativity. Opportunities often hide in chaos and

disorder that is hard to identify, or fleeting without immediate action. Secondly, the entrepreneurial process often accompanied by value creation. Entrepreneurship is not just sitting and prattling about the general rules, nor indulging in exaggerations. Entrepreneurship is the process of starting from scratch with the aim of being down to earth. Without action, all the opportunities one identified and creation one generated mean nothing. Finally, entrepreneurship is the behavior that reflects in daily life. During the entrepreneurial process, entrepreneurs are driven by the intense enthusiasm and motivation to find and identify opportunities, and integrate resources, as well as create values in the chaos and disorder.

The multiple visual angles of entrepreneurship research and connotation reveal the significance of the cultural environment for successful entrepreneurship. The government has to construct a proper social system for entrepreneurship to cultivate innovative and entrepreneurial culture, construct entrepreneurship support system of the entire society, integrate entrepreneurial resources, promote fair competition, build the platform of entrepreneurship, as well as accelerating the speed of transferring intelligence resources to economic values.

At the same time of providing the theoretical foundation, multiple visual angles of entrepreneurship also have an impact on the traditional education system, challenges posed simultaneously. As the special human resources group, Entrepreneurs bring enormous economic value added. Therefore, education shall undertake the mission of cultivating entrepreneurial talents.

1.1.1.2 Types of Entrepreneurship

Classify by Entrepreneurial Motivation

Global Entrepreneurship Monitor(GEM)¹ classified entrepreneurship into Necessity-push Entrepreneurship and opportunity-pull entrepreneurship in terms of entrepreneurial motivation. Necessity-push Entrepreneurship means the entrepreneur has to start a business to solve current hardship because there is no other better choice. Many laid-off workers' entrepreneurship can be concluded in this category. Opportunity-pull entrepreneurship indicates the entrepreneur's ardent desire to seize the existing chance and to realize self-value, which needs better opportunities.

Classify by Entrepreneurial Effectiveness

Christian believes that entrepreneurship can be classified into four types in accordance with the impact on the market and individuals (Zhang 2008).

¹The Global Entrepreneurship Monitor is the world's foremost study of entrepreneurship. Through a vast, centrally coordinated, internationally executed data collection effort, GEM is able to provide high-quality information, comprehensive reports, and interesting stories, which greatly enhance the understanding of the entrepreneurial phenomenon—but it is more than that. It is also an ever-growing community of believers in the transformative benefits of entrepreneurship.

- (1) **Entrepreneurial Reproduction.** This type duplicates the business pattern of the former company with low innovative components. For instance, after quitting the job in a restaurant, the chef started a similar restaurant as the one he used to work at. Although the rate of Entrepreneurial Reproduction is high, this type of entrepreneurship contributes scarcely to innovation, and lacks in entrepreneurial spirit. Therefore, this type should not be regarded as the main subject of entrepreneurial management research, because it can only be regarded as “How to start a new business.” As a result, it is seldom concluded in the entrepreneurial management curriculum.
- (2) **Entrepreneurial Imitation.** This type of entrepreneurship can’t bring new value to the market, and has low innovative component too. However, compared with Entrepreneurial Reproduction, this type is adventurous to entrepreneurs. For example, a manager in a garment company quits his job to start a cafe. This entrepreneurship is uncertain, containing long learning processes, abundant opportunities to make mistakes, and high cost. However, if the entrepreneur has been trained by systematic entrepreneurial management, and mastered the right time of accessing the market, he would stand a good chance to make it.
- (3) **Entrepreneurial Valorization.** This type can create new value for the market, but it doesn’t bring any change or additional working experience to the entrepreneur. It emphasizes on the realization of entrepreneurial spirit instead of creating new business. Intra-enterprise entrepreneurship can be concluded into this type. For example, after exploiting a new product, the R&D group in the company continues to develop a new type of product.
- (4) **Risk-taking Entrepreneurship.** It would bring huge changes and high uncertainty of the entrepreneurs. Besides, products innovations are confronted with high risk. This is a very hard type with comparatively high failure rate but a spectacular reward. A successful entrepreneur in this type must be equipped with adequate collaboration in entrepreneurial capacity, time, spirit, strategy, business pattern, and management.

1.1.2 Analysis on Entrepreneurial Environment

1.1.2.1 Definition of Entrepreneurial Environment

Entrepreneurial environment is the combination of all external elements that change with the development of enterprise, and affect the growth of it, covering politics, economy, law, Sci-tech, society, nature, etc. Entrepreneurial environment is constituted, owing to the mutual effect and restraint of these elements. On the basis of entrepreneurial elements, the entrepreneurial environment can be classified into economic environment, social-cultural environment, and natural environment. Economic environment is comprised of macroeconomic environment and microeconomic environment, among which the former concludes industrial environment and financing environment. Besides, the entrepreneurial environment can also be

split into soft and hard types. A hard environment means tangible environmental element, consisting of the physical environment and regional environment, such as infrastructure, transportation condition. While the soft environment indicates intangible environmental factor, including political and legal environment, economic environment, cultural environment, etc.

1.1.2.2 Conditions of Entrepreneurial Environment

GEM describes entrepreneurial environment conditions from financial support, government policy, education and training, transfer of research and development, business environment, professional infrastructure, market exposure, tangible infrastructure, cultural and social norms, which exert a remarkable impact on entrepreneurship activities (Fig. 1.1).

Financial Support

Financial supports (fund resources) are comprised of three types: (1) private equity, including personal capital, loan from relatives, private equity; (2) entrepreneurial capital financing; (3) the second-board equity financing.

In 2005, among the total funds of new enterprises in GEM, 66% funds are raised by entrepreneurs themselves, 13.4% are provided by entrepreneurial capital financing. Entrepreneurial capital financing mainly aims at potential innovation-type enterprises with a high growth rate. In terms of innovation-type enterprises and growth-type enterprises, the opportunities for obtaining debt capital and IPO financing are hard to get.

GEM China Report (2015–2016) shows that 91.3% capital of Chinese entrepreneurs came from private equity, including loan from families, banks, and friends. Bank loan, venture investment, government projects, and crowd funding are also the principal capital resources for entrepreneurship, but the rate of which is less than most innovation-driven equity.

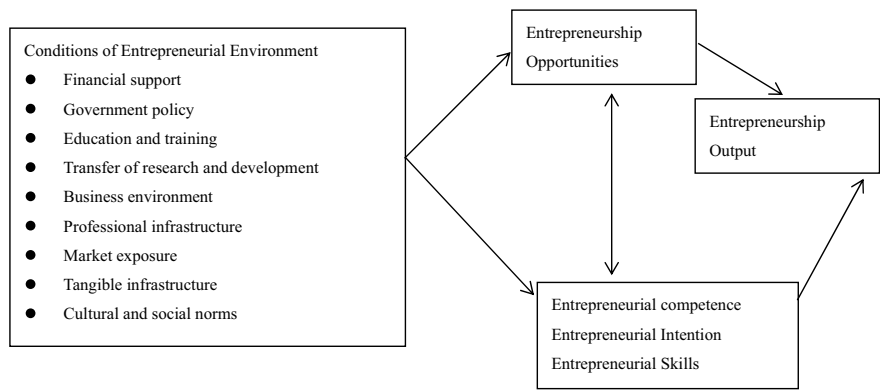


Fig. 1.1 GEM conceptual model of entrepreneurial environment (Gao et al. 2006)

Government Policy

In terms of the GEM members' condition, most of the policies directing at innovation-type enterprise and growth-type enterprise are of low efficiency. In contrast, newly built enterprises in China have comparatively low tax burden, and get the prioritized support by the government, while enterprises in other GEM members seldom get any privilege. It indicates that huge disparity exists in directly supporting and facilitating entrepreneurship between China and other GEM members.

Government Projects

Government projects include not only the projects supported by the government's fund and policies but also the organizations set by the government to provide services, support, and assistance for starting a business.

Education and Training

Education and training serve as an imperative factor for starting a business, and as the foundation to turn a potential business opportunity into reality. Favorable education and relatively high skill level are the requisite for guaranteed entrepreneurship success. Education and training level in China is lower than the average level compared with GEM members. There's a big gap between elementary and secondary school in China and other GEM members in terms of education on creativity, self-reliance, personal initiative, and entrepreneurial spirit. Educational department in China still doesn't bring training in self-reliance and entrepreneurship to the forefront. However, business management education and entrepreneurship education for undergraduates have made progress, with the rapid development speed and increasing quantity of business management education projects.

Transfer of Research and Development

Considering the overall conditions of GEM members, a huge barrier exists in transferring R&D outcomes from start-ups to the market. Besides, the necessary condition is not possessed. In recent years, China has launched major research projects to support relevant sci-tech R&D, which are useful in enhancing the basic R&D capacity, as well as providing the foundation and environment to support technology-based entrepreneurship in this field. In the aspect of intellectual property protection, China still has a long way to go.

Business Environment and Professional Infrastructure

Business environment and professional infrastructure contain at least three aspects: (1) accessible resources for the newly established firms, including Industrial and Commercial registration, etc.; (2) available services, including financial service, legal services, accounting services; (3) affordable resources and services, including advertising expenditure and distribution service fee. Business environment and

professional infrastructure in China are close to the lowest level in that of the GEM members, demonstrating poor performance.

Market Exposure

Market exposure is mainly manifested in the existence of industry access rampart, and a fair competitive environment. Besides, the market change shall be regarded as a vital fact of entering the rampart. China performs poorly in the first two aspects, while massiveness in market change is the only factor that reaches the highest level compared with that of the GEM member.

Physical Infrastructure

Physical infrastructure is the carrier of entrepreneurship activity. It shows whether the newly established enterprise and growth-type enterprise can acquire benign infrastructure and whether they could get communication services, basic services such as water, electricity, and gas at a cheap price. The maturity of physical infrastructure and the level of acquisition cost would have direct impacts on the effectiveness of newly established enterprises. There is still a gap between China and GEM member in the support of infrastructure, financial support, and the rapidity of infrastructure. Therefore, investment strength should be enhanced continuously.

Cultural and Social Norms

In the aspect of cultural and social norms, China has its advantageous compared with that of other members in GEM. Chinese culture encourages self-reliance, innovation, achieving success by one's own effort, and bearing risks bravely. In regard to constructing a benign relationship between the individual and the group, we advocate personal responsibility and team spirit.

The comparison between the Chinese entrepreneurial environment and other GEM members is showed in Table 1.2.

In accordance with the environment assessment questionnaire, domestic scholar Xu Fengzheng and Zhou Jian have conducted investigations about the nine elements that consist the entrepreneurial environment in China and then compared the statistics with the average value of the US, South Korea, Germany, Argentina, etc. (Xu and Zhou 2013). It shows that the entrepreneurial environment in China is increasingly mature. Promoted by "mass entrepreneurship and innovation", financing channel of newly established firm has been continuously improving, including government fund subsidy, support of banks and other financial institutions, entrepreneurial investment, and IPO. Governments at all levels have been constantly strengthening the support of entrepreneurship policies, especially in the construction of Sci-tech parks and incubators. More and more start-ups get the support of government projects. In the aspects of Sci-tech education, transfer of R&D outcomes, business environment, professional infrastructure, as well as cultural and social norms, the implementation of a series of policies has pushed forward the optimizing of domestic social entrepreneurship environment.

Table 1.2 Comparison between Chinese entrepreneurial environment and other GEM members

Conditions of entrepreneurship environment	China	Other GEM members
Finance support	Informal investment plays a dominant role, start-up financing and IPO (Initial public offerings) haven't become the main financial resources	Give priority to informal investment, and supplemented by multiple financing channels
Government policy	Overall precede the average level of GEM member	Low efficiency in supporting new enterprise
Government projects	Sci-tech parks and incubators support new enterprise remarkably; shortage in government projects, and government support group	The role and efficiency of government projects are not so well; abundant in support groups that can provide service, support, and help
	Obvious deficiency in cultivation of students' creation and training in entrepreneurship and economy	Entrepreneurship education and economics-related education should be strengthened
	In recent years, the development of business administrative education and entrepreneurship education in higher education institutions has cropped up individual entrepreneurship effectively, but still lag behind overall	Business administrative education develops constantly, and entrepreneurship education is catching up
Transfer of research and development	The effectiveness of transferring R&D outcomes from universities to enterprises has been improving	New enterprises remain out of the newest technology and are hard to undertake the cost for R&D of high technology. Lacking the support of the government, it is relatively more difficult for new enterprises to transfer R&D outcomes
Business environment and professional infrastructure	The requisite resources and services for entrepreneurial enterprise are hard in dealing with and expensive in expenditure	Entrepreneurs can get necessary consultation service, law and bank services conveniently
Market exposure	The market changes dramatically, which is easy for new business to get into; antitrust law hasn't been implemented in a good way	Unclear
Tangible Infrastructure	Tough to get infrastructure support and cheap cost service	The overall level is high
Cultural and social Norms	Entrepreneurship culture is slightly higher than the average level of GEM members	Difference in culture, and disparity in districts

Ten years ago, Chinese undergraduates decided to start a business just because they were influenced by the legendary of Bill Gates. Then nowadays, an undergraduate who throws himself into an entrepreneurial boom without hesitation is equipped with both the worship for the Chinese E-myth of Jack Ma and Zhang Chaoyang, and the confidence in the current entrepreneurial environment and self-entrepreneurial capacity.

Case

Hangzhou constructed service system for facilitating entrepreneurship and innovation for the Youth (Zhe Jiang Merchants net 2015)

Depending on UJCML, Young Entrepreneur Council, Students Venture Capital Association, and Young Talent Workstation, Hangzhou positively provides service for the youth's entrepreneurship and innovation. The fundamental mode of "platform supports + project operates + mechanism guarantees" has been primarily built, integrating organization cultivation, education and training, project development, financial services, tutor assistance, publicity and guidance.

"Venture risk pool fund for undergraduates in Hangzhou" is released four times per year, with no mortgage, no guarantee, and one-off lending, which brings huge convenience to youth entrepreneurs. At present, 84 enterprises have gotten the credit extension loan without any non-performing loan, accounting for 47.9 million Yuan.

Totally 1115 entrepreneurial tutors, filling of strong social responsibilities and abundant management experience, have been working in pairs successively with 1620 undergraduates. In the form of investment and interest subsidy, tutors provided 62.312 million Yuan for newly established firms of undergraduates.

In accordance with the incomplete statistics, in the member enterprises of Hangzhou Young Entrepreneur Council, there are 5 enterprises that generate more than 100 million Yuan production values and 26 enterprises generate over 10 million Yuan. A group of growth-type enterprises with high strength and influence sprang up, such as KuaiDi Taxi, Daily Interaction, Mogu Street, Lizi Beauty, Yifu Tang.

Youth E-businessman cloud tribe established in 2013 has assimilated a group of new prominent growth-type enterprises. Now, there are totally 117 enterprises, 33 of which have gained more than 10 million Yuan sales volumes.

1.2 Value and Driving Factor for Entrepreneurship

The current world is globalized, metabolic, and uncertain. Everyone is confronted with new choices constantly. Innovative and entrepreneurial spirits are the imperative factor for achieving success in the economic competition in twenty-first century. In the history of modern industry, there were two relatively important

entrepreneurship rushes (Farrell 2006). The first one is individual entrepreneurship rush in the Industrial Revolution period from the 1860s to the 1880s, with mass production, organized work, and springing up transnational corporations as its feature. Regions affected by this entrepreneurship rush are few, only centered on North America, and Northwestern Europe. The peak time of the second entrepreneurship rush is between 1910 and 1929 but was interrupted by the subsequently world economic crisis. Since the 1930s, large enterprises survived in the fiscal crises occupied the dominant status, while small enterprises totally lost their position. In the 1960s to 1970s, only larger enterprises reported on *Business Week* and *Fortune* magazine. The entrepreneurs were overwhelmed in the contemporary management era. Entrepreneurship has vanished. In the 1980s, the situation changed dramatically. Various transformations led by the small business, newly built firms, youth, high technology, and venture investment in Silicon Valley, provoked new innovative and entrepreneurial rush.

In the twenty-first century, entrepreneurship evolves into a worldwide civilian movement. The grass-root class has been releasing enormous entrepreneurial enthusiasm. Civilian entrepreneurship becomes a significant factor to enhance the economic power in each country. Nowadays, entrepreneurship is no longer a far-fetched dream or patent for the small number of people. Undergraduates who received higher education and possessed intellectual capital, entrepreneurial skills, and entrepreneurial spirit will be the major part of entrepreneurship.

1.2.1 The Value of Entrepreneurship

1.2.1.1 Individual Value of Entrepreneurship

Entrepreneurship Realize Self-value

Self-value realization is the individual highest hierarchy of needs. And entrepreneurship is one of the important paths to realize it. In economist J. A. Schumpeter's opinion, it's no doubt that the direct goal of pursuing innovative work is to scoop up the potential benefits, but it may not be motivated by the desire to make a fortune. Difference existed between entrepreneurs and normal businessman whose only goal is making profits. Fortune is at best the part of the motivation. The most prominent motivation of entrepreneurs is to realize self-value, thus demonstrating the entrepreneurial spirit adequately. The entrepreneurial spirit is comprised of the following parts. The first one is the wish to build a kingdom. Usually, entrepreneurs have the dream and will to build a private kingdom, or a dynasty. It's full of temptation for those who lack the opportunity to get social reputations. The second one is the aspiration for success. Entrepreneurs possess the will of conquering, impulsion to fight, and the impetus to prove themselves. They pursue success not only for the outcomes but also for the process. Profit and money are the secondary considerations, which are highly regarded only as the index and the emblem of success. The third factor is the happiness of creation. Entrepreneurs

enjoy the pleasure of creation and joy of exerting capacity and intelligence, which are the typical anti-hedonist. The fourth factor is tough volition. Entrepreneur floats down the stream in the familiar circular flow. If he wants to change the tunnel of circular flow, he must swim against the stream, where the former assistant became the resistance and the familiar data became unknown. Then, efforts in the intention are vital. He needs to fight for the assumed and prepared combination, try to regard the combination as a real necessity instead of a daydream.

In the era of the knowledge-based economy, intelligence is the crucial production factor, which contains more significance than land, fund, and work. Therefore, undergraduates, equipped with scarcity knowledge and human resources, are more capable of realizing self-value by entrepreneurship. Furthermore, entrepreneurial environment condition for undergraduates such as policies, finance, culture, and infrastructure is making progress day by day. The entrepreneurship dream could be achieved at any time with the assistance of knowledge and innovation.

Personal Employment is Driven by Entrepreneurship

With the development of popularization in higher education, the formula of “degree = job” becomes invalid, but the possibility of the formula “graduate = unemployment” increases remarkably. Currently, the employment situation for undergraduates is severe, while entrepreneurship is the cure. Under the entrepreneurship context, employment in traditional meaning contains the new connotation of “job hunting”, and “creating new employment position.” “Job hunting” is not just waiting for the job passively in a certain field. It’s the exploration of the possible job positively at all fronts (Zhang 2008). Undergraduate entrepreneurship can solve not only self-employment but also create a new position to increase employment. In this sense, entrepreneurship education in higher education institutions laid a significant foundation for the foundation of a new industry, and employment position. Moreover, entrepreneurship can provide more fair opportunities and more fluent promotion channels, enabling the youth to gallop in the broader space and to realize the dream by his own endeavor.

Entrepreneur is a Treasure

Entrepreneurship is an arduous process, but is a benefit for realizing individual potential to the maximum. During the entrepreneurship process, entrepreneurs can gradually form the habits of diligence, continuous learning, as well as being reliable and innovative. Even though the entrepreneurial activity fails, it’s still a valuable learning experience, enabling entrepreneurs to face the failure and challenge in a better way and become more mature. Actually, there are a number of people experienced with initial or multiple failures and suffering before they become real entrepreneurs. Those successful entrepreneurs often regard the first failure as the secret to success. Zhang Xiaoqin, the Executive Chairman of Rimbunan Hijau group in Malaysia and a celebrated Chinese entrepreneur, said in the exclusive interview of a TV programme in Phoenix Satellite Television: “crisis often brings hope, and failure makes me start again. The most important thing is that we can’t

relax our vigilance and think everything is easy to get.” Many youths went back to the company after the failure of entrepreneurship, but they can do excellent work relying on all platforms and resources in the company. Therefore, entrepreneurship is a valuable training that bears more significant role in cultivating talents than that of the course training.

1.2.1.2 Social Value of Entrepreneurship

Entrepreneurship is the Impetus for Economic Growth

Entrepreneurship has vital benefits to maintain economic vitality and prosperity, and entrepreneurship activity is the main pushing force for economic growth.

In accordance with the opinion of R. Florida in the book *The Rise of Creative Class*, the country, without the giant tide of new product, new technology, and new industry, cannot achieve economic prosperity.

Every “innovation” can trace back to the creativity of the person that possesses a new idea and can find a better way of doing things. Keeping economic prosperity should rely on the revolution of “creative destruction” and “nondestructive creativity”. Due to the constant creativity and entrepreneurship activity for meeting new requirements, the economy can maintain moving.

On account of the huge quantity, medium, small, and micro-sized enterprises are the bellwether in entrepreneurship and innovation, manifesting increasingly significance in economic development. The data in EU shows that new outcomes in medium and small enterprises are 3–5 times much more than that in big enterprises; innovative outcomes per capita are two times higher than that in big enterprises; and the speed of introducing innovation the market is 27% faster than the big enterprises (Jiang 2008). After bringing in venture capital fund, a large amount of high-tech projects emerged in the form of medium and small-sized enterprises, whose innovative speed and efficient can’t be reached by big enterprises. The White Paper on medium small and micro-sized enterprises released by Guangdong Development Bank and international renowned research agencies shows, in 2014, small and microenterprises take 94% in the total enterprises in china, creating 65% of GDP, providing 85% of employment position in domestic urban areas, and paying 60% in the total taxes. Small and microenterprises have profoundly contributed to facilitate employment (Li 2015). Supporting the development of small and micro-enterprises means creating social employment positions, solving livelihood issues, and promoting economic growth.

“There are totally 13 billion people, 9 billion labor forces, and 70 million enterprises and individual business. The people are diligent and intelligent. If every cell in the society can be activated, the entire economic entity would be full of vitality and further converge into giant impetus. Mass innovation and entrepreneurship, containing infinite creativity and fortune, belongs to the inexhaustible ‘gold mine’” (Li 2015). Nowadays, the new round of entrepreneurship tide has formed. Cultivating new economic growth point by innovation and

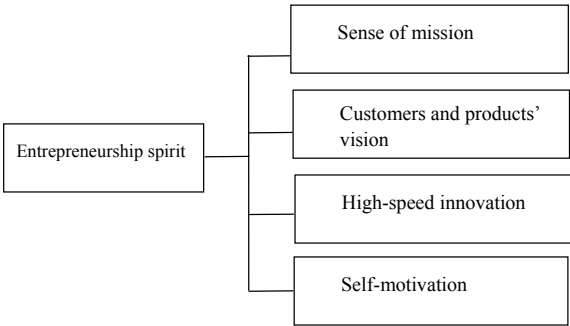
entrepreneurship will be the mighty driving force to stabilize economic growth and to accelerate industrial transformation and upgrading.

Entrepreneurship Spirit is the Driving Force for Social Development and Reform

The integration of the knowledge-based economy and the global economy changed the economic development mode and moving situation with new industries sprung up and original industries died out or updated. This characteristic of the social revolution needs incessant exploration and integration of new and old knowledge in order to adjust to the requirements of industrial adjustment, updating, optimizing, and upgrading. Confronting with the rapid revolution of society, entrepreneurship spirit and entrepreneurship activity become important resources for the individual and organization to obtain a competitive advantage. Master of management P. Drucker said frankly that the economic driving force in the US has been provided by entrepreneurship and innovation-type enterprises increasingly, and the society has transferred from a management-type economy to an entrepreneurial economy. The society also needs innovation and entrepreneurs’ spirit just as economy, public service agencies, and business institutions. “In this society, entrepreneurship and entrepreneur’s spirit is normal, stable and persisted, which is the basic behavior for the society, economy and the organization to sustain vitality” (Drucker 2000). The entrepreneurship spirit of the individual, organization, and the country contains four basic points: sense of mission, customers and products vision, high-speed innovation, self-motivation. A country that wants to hold the leading position in the future worldwide competition, the social culture possessing entrepreneurial spirit must be established to foster innovative and entrepreneurial enthusiasm in the whole society to the largest degree, making entrepreneurship spirit the impetus for accelerating social prosperity and economic growth (Fig. 1.2).

Constructing social culture with an entrepreneurial spirit would be affected by various factors. Society’s attitude toward entrepreneurship could be influenced by culture, history, policy, and business environment, furthermore, which would further have impact on entrepreneurial motivation. Among all these external factors, social value is the essential factor that determines whether the individual would start

Fig. 1.2 Basic points of the entrepreneurs’ spirit (Farrell 2006)



a business. GEM evaluates the qualification of social value from three aspects: (1) do the people think entrepreneurship is a favorable career choice; (2) whether entrepreneurs obtain high social status; (3) whether the media conduct positive coverage on entrepreneurs (Sun 2016). The Global Entrepreneurship Monitor Report 2015–2016 reached the conclusion through the data statistics of people aged 18–64 in 54 economic entities: 68% of people at working age think that entrepreneurs occupied a comparatively high status in the society, and 61% indicate that information about entrepreneurs they got is also positive. In the factor-driven and efficiency-driven economic entities, 67.7% of people regard entrepreneurship as a respectable career choice. And in the innovative-driven economic entity, 53% people hold the same opinion.

Innovation and Entrepreneurial Spirit are the Inexhaustible Source of National Prosperity

In the era of the knowledge-driven economy, the development condition of the high-tech industry is the decisive factor to determine national competitiveness. If China wants to remain invincible in the world, people and group with pioneering spirit must be cultivated, pioneering characteristics of the nation should be constructed to adjust to the challenge of the flexible global environment and future career. Innovation is the soul of the nation and is the inexhaustible driving force for the nation's prosperity. The younger generation, especially undergraduates are the most vibrant group in china. If they lose the desire and aspiration to create and are content with their current situation as well as stick to the convention, and then China would lose the inexhaustible source for progress. Innovation spirit and entrepreneurial consciousness are not only the basic feature for undergraduates' entrepreneurship, but the basic quality for their future career. Higher education institutions must give priority to the cultivation of entrepreneurship-type talents with innovation spirit, entrepreneurial consciousness, and entrepreneurial mentality.

Case

Premier Li Keqiang attended 2017 National Mass Entrepreneurship and Innovation Week (Xinhua 2015)

On 19 October 2015, the first session of “National Mass Entrepreneurship and Innovation Week” was launched in Beijing. Premier Li Keqiang attended the ceremony, made an impromptu speech and inspected the theme exhibition.

Premier Li, respectively, inspected technology personnel, the primary level community, youth entrepreneurship projects exhibition, mass enterprise entrepreneurship platform exhibition, and ultra-thin flexible display project. On account of different innovative and entrepreneurial communities, Premier Li stressed that the priority of mass entrepreneurship and innovation is “entrepreneurship”, and the core is “mass”. In the era of the Internet, both “grass root” and elite can pitch into entrepreneurship and innovation to prove themselves. Large enterprises also need to embrace “mass entrepreneurship and innovation”, which are essential to promote the transformation of the production mode and

management mode by the new way of mass entrepreneurship, crowdsourcing, crowd-supporting, and crowdfunding, accelerating new Industrial Revolution. Meanwhile, “mass entrepreneurship and innovation” needs to open to the outside world comprehensively, introducing various resource elements, especially the human resources, and developing disruptive technology, deeply integrating with world technology revolution and Industry Revolution, and docking with innovation in other countries, to realize cooperation and all-win situation. Premier Li indicated that the government shall be the “back-end server” for the innovative entrepreneurs. By constantly optimizing the requisite public products and services, the government would remove obstacles restricting “mass entrepreneurship and innovation” unceasingly, spinning the web of people’s livelihood, and enhance confidence and courage for innovative entrepreneurs to experience trial and error.

1.2.2 Driven Factors for Entrepreneurship

1.2.2.1 Variation in Social Environment

The entire society’s consistent attention to entrepreneurship is not a momentary fanaticism but reflects various changes brought by the industrial circle, new technology, and emerging global market that integrates into a brand-new social and economic environment. And entrepreneurship is adjusting to the new environment filling of risk and uncertainty.

Globally, domestic trade barriers are gradually breaking. For instance, in July 2002, the euro became the only lawful money in eurozone. And the rapid development of e-commerce, science, and technology brings more uncertainties and challenges along with creating numerous opportunities. Socially, the entire society becomes more complex and unasserted due to the requirements in privatization and deregulation, the emergence of new management patterns, consistent attention on the environment, and recognition of the rights of a minority group. Organizationally, the uncertain environment is constructed by scale downsizing, organization remaking, strategy allying, enterprises merging, and work complicating. Personally, the individual is confronted with more choice of employment, and faced with bigger responsibilities and much more pressure in the meantime. Facing the incessant changing world, innovation and entrepreneurship turn into a general requirement and behavior (Fig. 1.3).

1.2.2.2 Adjustment on Industrial Structure and Variation of Requirements on Talents’ Skills

Over the past decades, industrial structure in the world has been undergoing thorough deconstruction and recombination, which is mainly motivated by TE entrepreneurial spirit. In developed countries, high-tech with information technology as its core has been applied extensively, turning the industrial structure to the direction of technology, knowledge, and service-intensive industries. Technology,

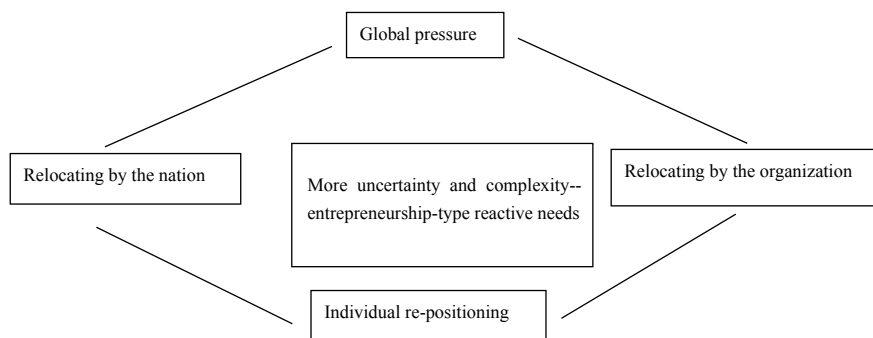


Fig. 1.3 The incessant changing world calls on entrepreneurship-type reactive needs

knowledge, and service-intensive industries (including modern service industries and advanced manufacturing industries) is becoming the key field of the industrial transfer. Besides, the service industry has gained remarkable development. The modern service industry has become the main driving force and vital indicator for economic growth in various countries with the manufacturing service industry becoming the flagship in developed countries. Among all the knowledge-intensive service industries, those with the fastest employment growth rates include information service industry, market service industry, and industry of law, finance, and consulting.

Under the trend of world industry adjustment, China is taking measures to restructure unreasonable elements in industries. Future status for China's economy can be firstly reflected in the advanced manufacturing industry, modern service industry and status of industrial chain in the new pattern of opening-up. Currently, the guiding principles of restructuring industries in China laid on strengthening the primary industry, facilitating the secondary industry, and positively develop a tertiary industry that is focusing on the modern service industry. In accordance with the guiding principles, China will accelerate the development of knowledge-intensive and high value-added service industry. Changes in industries and careers must give rise to the diversification in social skills' demand, which will further require the entrepreneurship skills and capacity of handling challenges and uncertainties, in order to fit in the liquidity and variability of careers. Facts prove that in the future, every career will benefit from entrepreneurship education, because it cultivates the capacity of creativity in problem-solving, adjusting the changes, and self-dependent innovation (Niu 2009).

Currently, it's still an absurd and long process for the manufacturing industry in the transformation of the industrial economy. Variation in population structure, declination in working-age population and rapidly rising in labor cost will bring a profound impact on traditional labor-intensive industries. Although there's still a huge space in ameliorating industry structure and in improving the ratio of service industries, the transformation may have been going on for a while. Restructuring

industries in the future needs to quicken its pace to cultivate and strengthen new forms of industry, new industry, and new market, to nurture new patterns and new impetus, which is extremely important to China’s economy, especially to the innovative development of industry transformation.

In general, under the background of industrial restructuring, higher requirements are put forward by the development of society and the improvement of China. Talents should be equipped with self-reliance, innovative mindset, cooperative spirits, and senses of responsibility, lifelong learning consciousness, and positive attitude in response to the changing world. Therefore, the society that relies on the creation and innovation of knowledge in the global market need not only the popularization of compulsory education but also strengthening the quality of higher education for improving the overall quality of the labor force population.

1.2.2.3 Severe Employment Situation for Undergraduates

Progress in high-tech industries in the twenty-first century has gradually improved production efficiency, which causes less need in labor force and prominent social issues.

College graduates have risen from 1.14 million in 2001 to 7.65 million in 2016 (Fig. 1.4) which is the same as secondary vocational graduates and graduates from junior school and high school who choose not to pursue further education. The total number of youth employment group accounts for 15 million (Yin 2016), which is extremely grim for employment. At the same time of dramatically increasing in graduates, jobs are also affected by the global economic crisis, causing the decreasing in jobs and making employment issues more prominent. Currently, one of the most important approaches to solve the employment issue is to encourage

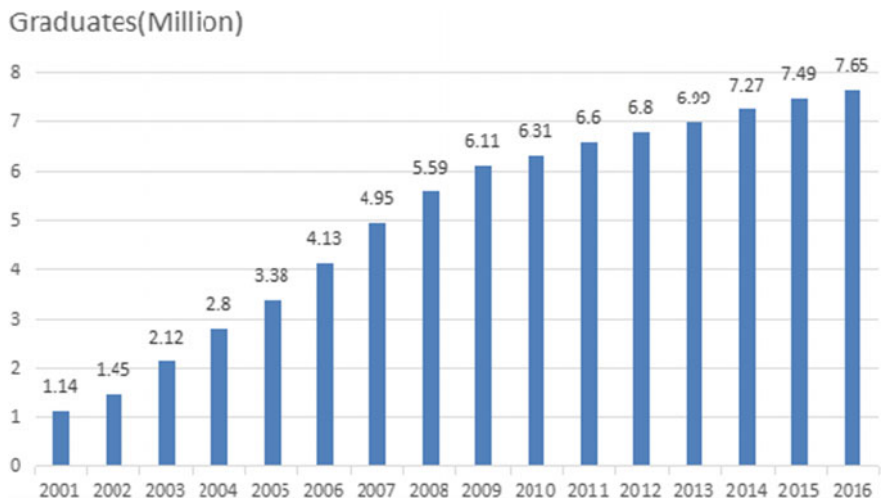


Fig. 1.4 Graduates from HEIs During 2001–2016 (MOE)

college students to start businesses and create more employment positions, expanding employment by start-ups.

In accordance with the data released by MyCOS Research Institute, the ratio of graduates in China choosing to start a business is increasing, both undergraduates and higher vocational college graduates. In 2007, the rate of self-employment after graduation was 1.2%, and rose to 1.6% by the year 2011, which went up to 2.9% in 2014. The data also show that the most common motivation for entrepreneurship is “the goal to be an entrepreneur.” This motivation was chosen by 40% of the graduates from 2008 to 2014, and even mounted to 51% in 2012 (He et al. 2015).

1.3 Overview of Entrepreneurship Education

1.3.1 Connotation of Entrepreneurship Education

Kauffman Foundation used to define entrepreneurship education as “provide entrepreneurial knowledge and cultivate entrepreneurial skills, in order to identify opportunities ignored by others and to occupy the vision and confidence for taking action when others are still in hesitation.” The content of entrepreneurial education includes identifying opportunities, undertaking risks, integrating resources, starting businesses, and relevant knowledge to enterprise management such as enterprise planning, raising funds, market operation, and cash flow analysis. The primary goal of entrepreneurship education is to strengthen cognition and comprehension of the creating and managing entrepreneurial business. And the secondary goal is to add an entrepreneurial option to the development of a professional career.

Disputes exist centering on the definition of entrepreneurship education, the first of which is between the broad sense and narrow sense of entrepreneurship education. For instance, at the Tokyo Conference in 1991, UNESCO made a distinction between the broad sense and narrow sense of entrepreneurship education. In a broad sense, Entrepreneurship education means cultivating the individual with the pioneering spirit which bears the same importance for being an employee. Besides the accomplishments in career, employers attach more importance to creative and pioneering mindsets, innovation, independent working ability, and skills in the profession, social contact, and management. Entrepreneurship education in a narrow sense is closely combined with the definition of income-increasing training. Income-increasing training aims at providing imperative skills and resources for the target population, especially those marginal and disadvantaged groups, in order to enable them to stand on their own. Many researchers deem that inadequacy exists in the narrow sense definition of entrepreneurship education. It's easy for entrepreneurship education to lose the appeal to teachers, students' parents, and students, suffering resistance from teachers and students.

The second argument centers on the goal of entrepreneurship education. G. E. Hills finds in a survey that entrepreneurship education contains two goals, the first of which is to strengthen students' entrepreneurial mindset, making them

understand the process of creating and managing an enterprise. The additional goal is to enhance the consciousness of self-employment after graduation (Hills 1998). In L. W. Cox's opinion, the main goal of cultivating entrepreneurship consciousness is to improve self-efficacy in starting a business. Therefore, teaching activities in this sense should focus on providing practical experience and opportunities for entrepreneurship activities and contacting real entrepreneurs (Cox 1996).

The third debate is about the classification of entrepreneurship education. S. Caird has put forward three classification frameworks, thus education about enterprise, education for the enterprise, and education through enterprise, in order to ascertain different roles of diverse entrepreneurship education (Caird 1990). Education about enterprise concentrates on cultivating entrepreneurial consciousness from the theory perspective, for teaching creating and managing enterprise and relevant knowledge. Curriculum, involving in creating and managing enterprise, working skills, attitude, and value in successful enterprises, and setting up for undergraduates and postgraduates, should be concluded in the first type. Education for enterprise aims at encouraging students to initiate their own enterprises for self-employment. The course is to teach students the necessary skills in creating and managing enterprises. Typical examples of the course are "prospectus for setting up enterprise" and "running your personal enterprise. Some scholars regard Education for enterprise as the narrow sense of entrepreneurship education, thus training for starting a small-sized business. Education through enterprise mainly concerns training for entrepreneurs, focused on the further development of the enterprise.

Business management, product R&D, and marketing course should be concluded into this type. Moreover, education through enterprise provides guidance in knowledge, skills, and attitude for work and problem-solving in the future.

Entrepreneurship education is intersecting with other disciplines. Entrepreneurship education is not just a term in the field of pedagogy, but a term in the field of politics, and economy. Overlaps exist between entrepreneurship education and experiential learning, work-related learning, and m-learning. Entrepreneurship education varies in different cultures. Under diverse cultural backgrounds, there are still some differences between the definition and application of entrepreneurship education. Entrepreneurship education also contains distinct value judgments from individuals and the public. The goal, object, and content of entrepreneurship education are multiple with the connotation evolving constantly.

Therefore, it is only when a huge change takes place in the traditional entrepreneurship education model, organizational manner, and knowledge transferring pattern, entrepreneurship education can maintain sustainable development. The goal of entrepreneurship education is not making everyone entrepreneur, but equipping them with an entrepreneurial mindset and capacity. Entrepreneurship education is supposed to bring opportunities for releasing personal potential and realization of individual value, and to make unique and creative contribution to the development of economy and society.

1.3.2 Entrepreneurship Education in the UK and the US

1.3.2.1 Entrepreneurship Education in the UK

In accordance with a survey conducted by the International Herald Leader in 2007, nearly 30% of young people in the UK have entrepreneurial ideas or are starting their own businesses, and 53% of students want to be entrepreneurs. These young people have witnessed various convenient conditions, such as favorable entrepreneurship regulatory mechanism, encouragement and support from the government, and opportunities brought by the new economy. Excellent entrepreneurship system is the main internal reason that promotes graduates in the UK being successful. At least 45% HEIs have set up 1–2 entrepreneurial curriculums, with 7% undergraduates taking.

Establish Entrepreneurial Institutions for College Students

Enterprise Educators UK (hereinafter referred to as EEUK) is the principal management institution for entrepreneurship education in HEIs in the UK. A number of HEIs were organized by EEUK to conduct entrepreneurship education, and provide strong support for Academic Entrepreneurship (including knowledge transfer and technology transfer), so that a communication network among HEIs could be built. In 2004, the UK has found National Council for Graduate Entrepreneurship (NCGE) to guide the development of entrepreneurship education, launch entrepreneurship theoretical research, entrepreneurial practice, and promotion activities, organizing various activities such as Entrepreneurship Education Conference, Entrepreneurship Guidance and Counseling, and Business Plan Competition. NCGE also attaches great significance to International Exchange and Cooperation. For example, NCGE-Kauffman Entrepreneurship Fellows Scheme has been co-established by the Kauffman Foundation.

Integrate Entrepreneurship Education Theory and Practice

HEIs Entrepreneurship Education in the UK has formed a model that combines classroom teaching, extracurricular activities, and entrepreneurship practice and entrepreneurship guidance. Plenty of HEIs have assimilated entrepreneurship knowledge into professional disciplines, developed characteristic entrepreneurship course and teaching mode. In HEIs, the number of students participating in extracurricular entrepreneurship activities has exceeded the number that taking entrepreneurship education course. Extracurricular entrepreneurship activities are abundant and colorful, including Business Plan Competition, entrepreneurship learning in summer vocation, entrepreneurship forum, etc. For instance, except entrepreneurship education course, Sheffield Hallam University has pushed the internship project as well, thus implementing the mode of “learning + internship + learning”, which enables undergraduates learned much knowledge that can’t be acquired in class. By means of real work, college students can understand the value of professional knowledge, understand their own interests and capacities, and realize career development direction. This kind of pattern can not only promote

comprehension of enterprise, but also stimulate the entrepreneurship thoughts of those undergraduates that possess entrepreneurship abilities. University Entrepreneurship Center would assess the business projects for those who have entrepreneurship thoughts, and then provide guidance and financial support. Internship or self-employment can be transferred into credit and grade in Sheffield Hallam University.

Formulate HEIs Entrepreneurship Education Policies

Some HEIs in the UK clearly incorporates entrepreneurship education into development planning and policies of universities, creating favorable systematic environment for entrepreneurship education. Some HEIs have made specific rewards system to award and provide academic development opportunities to those teachers, who make contributions and progress in entrepreneurship education. Those teachers are comprised of teachers and relevant personnel, who provide support and assistance to student's venture activities, such as members in University Entrepreneurship Center. Entrepreneurship education in many HEIs is no longer remaining within the confines of the individual college. Instead, interdisciplinary entrepreneurship research and teaching center are set up, with academic personnel, entrepreneurs, and other experienced trainers who codevelop comprehensive entrepreneurial curriculum and resources, which are imperative for transferring R&D results and creating spin-off companies. Moreover, some other HEIs raise funds for entrepreneurship education through various methods.

With the development of new technology, Internet is becoming one of the major approaches for students in the UK to start businesses. Expansion of Internet generates additional business opportunities, and turns impossible into possible. "Million Dollar Website", a sensational website in the UK, is actually a very simple idea which was put forward by Alex in his 20 s. This website is divided into several grids, which were sold to be filled with advertisements. Only in several hundred dollars, companies can put their logo in the Internet. This idea helped him make 1 million in less than half a year. Now, this mode is duplicated by various Internet companies in the world.

1.3.2.2 Entrepreneurship Education in the US

In 1947, Harvard Business School put in place entrepreneurship courses in the US for the first time. The main purpose is to solve employment of veterans from World War II by providing entrepreneurship education. In the following 20 years, big enterprises still took main positions in the development of economy, thus, entrepreneurship education in HEIs in the US developed slowly. In the 1980s, with the growth of entrepreneurial economy, medium- and small-sized enterprises became the main source for employment and innovation, and they were the main force for maintaining economic vigor and growth. Therefore, the society called for the HEIs to cultivate more entrepreneurial talents. Under this background, entrepreneurship education in the US attaches more importance to cultivate

entrepreneurial mindset, and develops constantly. Meanwhile, tolerance to failure and respect to entrepreneurs in American culture promotes the demand for entrepreneurship education in HEIs.

Form Social Support System for Entrepreneurial

A perfect Social Support System for entrepreneurship has been formed in the US. Seriation of entrepreneurship policies has created a favorable environment for entrepreneurship education. In 1980s, US government had issued a series of policies for *Bayh–Dole Act* as the representative, aiming at promoting transfer from laboratory invention to the market. These policies gradually become vital support to high-tech entrepreneurship in the US. In the meantime, policies for medium- and small-sized enterprises in the US are also propitious to transfer creation of college students. The US attempts to provide a mature capital market for entrepreneurs. Venture capital systems in the US are fully developed. Besides, all kinds of consulting institutions are well performed. All these factors improve students' entrepreneurial feasibility and success.

Expand Teacher Team for Entrepreneurship Education

HEIs in the US invite many people with both entrepreneurial experience and academic background to undertake teaching and research. They also support cooperation and communication between entrepreneurship education teachers and non-entrepreneurship education teachers. For instance, after graduation from Harvard Business School, H. I. Grousbeck established Continental Cablevision Company in 1964, and served as the CEO from 1964 to 1980. When he left off his position, he became a lecturer at Harvard Business School, and then he led entrepreneurship education center as the director. HEIs in the US also usually invite experienced professionals to participate in entrepreneurship project by means of short-time lecture.

Optimize Entrepreneurship Education system

Many HEIs in the US have set up comparatively well-established entrepreneurship education system. After an analysis on 38 optimum entrepreneurship education projects, American scholar D. H. Streeter indicated that 10 HEIs (26%) adopt focus mode, and 28 HEIs (74%) employ university-wide entrepreneurship education. University-wide entrepreneurship education has become the mainstream of entrepreneurship education in HEIs in the US (Streeter et al. 2003). HEIs adopt various methods to promote interdisciplinary entrepreneurship education. Taking engineering discipline as an example, many HEIs in the US have redesigned curriculum, integrating entrepreneurship mindset into curriculum plan for cultivating entrepreneurship-type engineers. According to the statistics, currently there are over 400 engineering colleges providing entrepreneurship education to students in diverse forms, which are carried out by opening entrepreneurship education in Colleges of Engineering. For instance, Michigan State University offers engineering entrepreneurship course for senior students in the College of Engineering.

Relying on Business School or School of Management, some HEIs have constructed comprehensive entrepreneurship education system. For example, MIT Sloan School of Management has established Entrepreneurship Center, aiming at fostering students to pursue high-tech entrepreneurship. Entrepreneurship education in MIT has facilitated full integration between Sci-tech and entrepreneurship, innovation, and invention, as well as a new idea and a new product.

Some other HEIs integrate advantageous resources of each university to co-construct entrepreneurship. Georgia Institute of Technology and Emory University started cross-school cooperation since 2002. The project “technology innovation generates economic returns” was launched by integrating technology and discipline advantages in Georgia Institute of Technology and specialty of law in Emory University to facilitate convergence between entrepreneurship mindset and technology innovation and law.

1.3.3 Higher Entrepreneurship Education Reform in China

Generally, higher entrepreneurship education in China belongs to government-driven development model. Entrepreneurship education policies in central government and in local government at all levels plays decisive roles in entrepreneurship education in China. Since 1998, central government and in local government at all levels have issued documents related to entrepreneurship education, which largely promotes its development. On the whole, entrepreneurship education policies in China are continuously growing. Especially after Premier Li Keqiang put forward “mass entrepreneurship and innovation” at Summer Davos session, entrepreneurship education policies in China increased tremendously. Under the driving of government policies, a new round of entrepreneurship is on the rise.

1.3.3.1 Construct Entrepreneurship Education System

Continuous Deployment by Central Government

Without considerable attention from the central government and state council, Entrepreneurship education in China can't make progress. The 18th National Congress of the Communist Party of China specifically pointed out that more support for the training of innovative and entrepreneurial personnel should be given.

President Xi Jinping has made significant instructions that we should accelerate education system reform, and attach importance to cultivate entrepreneurship mindset to build a grand scaled innovative and entrepreneurial talents team with entrepreneurial mindsets and responsibility for taking risks

Premier Li has stressed many times that the core of “mass entrepreneurship and innovation” is to stimulate creativity of people, especially the youth (Liu 2015). To

implement major decisions and arrangements of the central government and state council, *Opinions of the General Office of the State Council for the Implementation of Deepening Education Reform on Innovation and Entrepreneurship In Universities and Colleges* (hereinafter referred to as Implementation Opinions) raised the idea of “Education reform on innovation and entrepreneurship in universities should be comprehensively deepening from 2005. Major progress should be made in 2017 to form a scientifically advanced, widely recognized innovation and entrepreneurship education concept with Chinese characteristics” and “popularization of innovation and entrepreneurship education.”

Implementation Opinions indicates prominent problems in the development of innovation and entrepreneurship education. Some local governments and universities give less emphasis on entrepreneurship education, and possess lagging ideas. Entrepreneurship education is not closely combined with professional education and is disjointed from practice. Teachers are lacking consciousness and capacity in conducting innovation and entrepreneurship education. Their teaching methods are simple, and are short of pertinence and effectiveness. Entrepreneurship education system is urgently to be consummated due to deficiency in platform and unfulfilled in support and guidance. On account of existed problems in innovation and entrepreneurship education, *Implementation Opinions* further explicit main tasks and measures as follows: (1) optimizing talent cultivating quality standard; (2) innovating talent cultivating mechanism; (3) perfecting curriculum system on innovation and entrepreneurship education; (4) reforming teaching method and evaluation mode; (5) strengthening innovative and entrepreneurship practice; (6) reforming mechanism on teaching and student register management; (7) enhancing the construction on teachers’ teaching ability of innovation and entrepreneurship education; (8) meliorating service on entrepreneurship guidance for students; (9) consummating the system for financial and policies support for innovation and entrepreneurship. *Implementation Opinions* also made specific rules from the aspects of leadership level, including completing system and mechanism, refining the implementation plan, reinforcing supervision, and strengthening publicity.

Local Government Respond Positively

Once the *Implementation Opinions* was issued, it got attention and response from the central government and local authorities. On October 2015, MOE organized the conference on deepening innovation and entrepreneurship education reform, participated by heads of education departments and universities in all provinces (autonomous regions and municipalities) to deploy relevant work and to publicize pertinent policies, which aim at accelerating reform on innovation and entrepreneurship education in universities. Ministry of Finance and Ministry of Education planned to set up a specific fund for entrepreneurship education in China Education Development Foundation. The fund is utilized to award those work units, who made contributions to innovation and entrepreneurship education. Human resources and social security bureau simplifies entrepreneurship procedure for

college students, and helps them get preferential policies that related to entrepreneurship tax, etc. According to the statistics, in 2015, 13 provinces (autonomous regions and municipalities), including Guangxi, Sichuan, Fujian, Hei Longjiang, Chongqing, etc., have issued policies on promoting entrepreneurship education reform. These policies are helpful in increasing financial support and promote reform by multiple measures, so that innovation and entrepreneurship education reform shows vigorous development trend.

Positive Support From International Organization

China is the most potential country for entrepreneurship. It gets attention and support from UNESCO on how to cultivate youth entrepreneurs, and how to promote entrepreneurship education in China. Under the guidance and promotion of the UNESCO Asia Pacific Education Bureau, and UNESCO National Committee, UNESCO Entrepreneurship Education Network National Chapter in China (Herein after referred to as EE-Net Chapter) was founded in Hang Zhou on November, 2014. *Regulations of UNESCO Entrepreneurship Education Network National Chapter in China* has determined the following aims: members of the EE Chapter shall abide by Constitution of the People's Republic of China, laws, regulations, state policies, and social morality, and shall make efforts to strengthen communication and cooperation with international organizations, schools at home and abroad, cultural institutions, and enterprises. Entrepreneurship education cooperation platform should be jointly built to promote entrepreneurship education in China, and sustainable development of the entrepreneurial community. And the EE-Net Chapter should make positive efforts to construct entrepreneurship-type society. Business scope of EE-Net Chapter includes constructing cooperation project with international organizations and famous universities, organizing entrepreneurial education training and investigation, holding international academic conference on entrepreneurship and entrepreneurship education, setting up entrepreneurship lectures, organizing domestic entrepreneurship salon to communicate venture experience and other nonprofit activities, organizing entrepreneurship summer vacation for adolescence at home and abroad and entrepreneurship activities for adults; preparing entrepreneurial network virtual platform in China, and conducting researches on theory and practice of entrepreneurship culture, venture evaluation, entrepreneurship education, etc. Since the EE-Net Chapter was found, a series of activities have been conducted, including constructive cooperation with international organization, and academic symposium.

International Labour Organization actively participated in entrepreneurship education for higher education students, which is of great importance in promoting entrepreneurship education in HEIs in China.

1.3.3.2 Consummate Reform Goal for Entrepreneurship Education

By analysis on policies released by the government, there are four development goals in reforming Chinese entrepreneurship education, thus constructing innovation and entrepreneurship education system, popularization of entrepreneurship education, integrating entrepreneurship education into the national education system, and fitting entrepreneurship education into talent cultivation (Fig. 1.5).

Constructing Innovation and Entrepreneurship Education System

Implementation Opinions has raised “Establishing and Perfecting innovative and entrepreneurial education system combining classroom teaching, self-directed learning, practice combination, guidance and assistance, and leading by culture by the end of 2020.” In 2015, 11 provinces have clearly raised the idea of strengthening guidance and management to innovation and entrepreneurship education in HEIs in the Reform Goal for Entrepreneurship Education in HEIs to accelerate the procedure for improving innovation and entrepreneurship education system in HEIs, realizing scientized, systemative, and standardized entrepreneurship education.

Popularization of Entrepreneurship Education

On May 2014, popularization of entrepreneurship education was raised in *Notice of Human Resources Protection Department and other Eight Departments on Implementing Entrepreneurship leading programme for College students* which has raised high awareness by the State Council and local governments. In May, 2015, reform goal was put forward by *Opinions of the General Office of the State Council for the Implementation of Education Reform on Innovation and Entrepreneurship in Universities and Colleges*. In *Decision of the State Council on Expediting the Development of Ethnic Education*, it was stressed again that HEIs should launch employment guidance course, promulgating entrepreneurship education, lead students to establish accurate view on occupational choice, and enhance entrepreneurial mindsets and entrepreneurial ability.

In 2015, popularization of innovation and entrepreneurship education was put forward by the Innovation and Entrepreneurship Education Reform Implementation Scheme issued by Sichuan province, Anhui province, Gansu province, Hainan province, Hebei province, Liaoning province, and Qinghai province. Besides, there are 8 provinces also raised the same development requirement. Thus, it is a very significant trend to constantly expand entrepreneurship educated groups and promote popularization of entrepreneurship education.

Integrating Entrepreneurship Education into National Education System

In June 2016, *Opinions of the State Council on Several Policies and Measures for Vigorously Advancing the Mass Entrepreneurship and Innovation* has proposed: “Integrating entrepreneurship education into the national education system to realize institutionalized and systematized entrepreneurship education and training

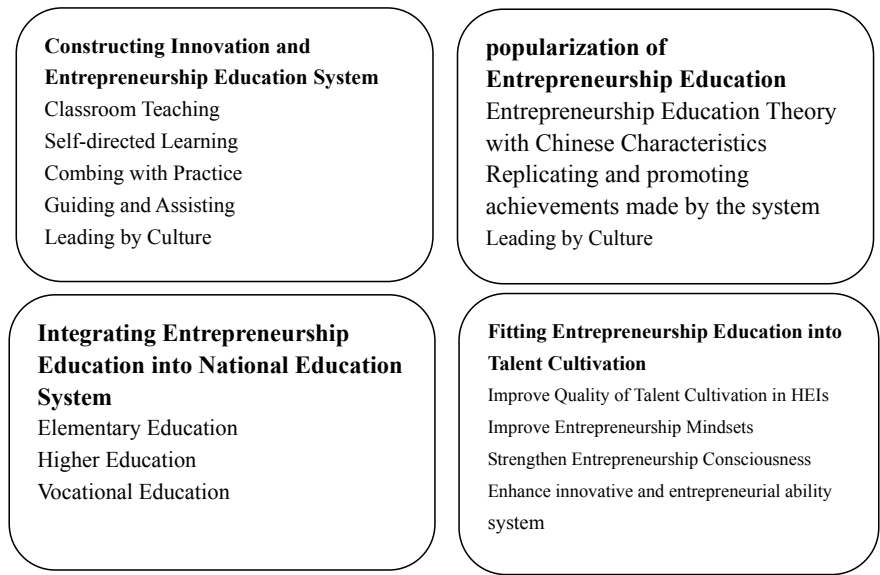


Fig. 1.5 Reform goal for entrepreneurship education in China

system.” In the same year, 24 other local policies put forward the idea of integrating entrepreneurship education into the national education system, in order to realize construction on institutionalized and systematized entrepreneurship education. For instance, *Notice of Gansu Province on Implementation Plan for Advancing the Mass Entrepreneurship and Innovation* issued by the People’s government of Gansu Province has raised “integrating entrepreneurship mindset cultivation and entrepreneurship quality education into national education system, comprehensively promulgating innovation and entrepreneurship knowledge in elementary education, higher education, and vocational education, and constructing a groups of provincial innovation and entrepreneurship education model school.” However, entrepreneurship education in HEIs currently is centered in higher education and vocational education, while many attempts and endeavors are still needed in elementary education.

Fitting Entrepreneurship Education into Talent Cultivation

The fourth major target of entrepreneurship education reform conducted by the central government and local authorities is to effectively improve talent cultivation quality in HEIs and to enhance entrepreneurship mindset, consciousness and ability, fitting entrepreneurship education into the whole process of talent cultivation.

In the past, the goal of entrepreneurship education centered on developing vocational education and promotes self-employment, but it changed in 2015 after the reform on innovation and entrepreneurship education. The development of

entrepreneurship education turned from market to talent, accompanied by weakening the concept of regarding entrepreneurship education as a tool. Talent cultivation became the core content in the development of entrepreneurship education. The whole process of fitting entrepreneurship education into talent cultivation could reflect the new development goal, meanwhile, it is also a contemporary expression of innovation and reformation in talent cultivation mode at the current time. Entrepreneurship education is not only the tool for cultivating entrepreneurial ability, but also becomes a brand-new educational ideology.

1.3.3.3 Implement Entrepreneurship Education Programme

KAB Entrepreneurship Education Programme

KAB entrepreneurship education Programme in China (hereinafter referred to as KAB Programme) was carried out since August 2005 by The Central Committee of the Communist Young League, All-China Youth Foundation, and International Labour Organization for the purpose of adjusting to the requirement of the innovation and creation, satisfying realistic demand of youth employment, and cultivating entrepreneurship consciousness and ability. This move is a part of international cooperation's efforts to accelerate entrepreneurship education in China. On the basis of the previous experiences, this move is committed to explore an entrepreneurship education path with Chinese characteristics.

In accordance with statistics released by KAB Entrepreneurship education, up to February 2011, KAB Programme has trained 2931 teachers from 850 HEIs, established KAB entrepreneurship clubs in 100 universities, provide learning and practice opportunities to over 200 million college students. More than 600 HEIs, including Tsinghua University, Zhejiang University, Central School of Communist Youth League of China has launched the curriculum of "Introduction to KAB Entrepreneurship Education" for college students, and published two series of textbooks for teachers and students, titled *Introduction to KAB Entrepreneurship Education for College Students*. Besides, four systems were constructed, thus curriculum construction, teachers training, quality control, communication, and publicity, which has been widely welcomed by teachers and students.

"Extra-curriculum practice is the extension of entrepreneurship education, as well as the significant carrier. KAB Programme is committed to connecting entrepreneurial course with social practices, forming a interactive chain from theory to practice, and classroom to society," was said by the Director General, National Promotion office of KAB Programme. Members of KAB Clubs in HEIs should mainly be the students in KAB, and supplemented by non-KAB students who are filled with entrepreneurship enthusiasm.

Youth Business China

Youth Business China is a nonprofit educational programme funded by Ying Charity Foundation to support entrepreneurship. This programme is committed to expediting Entrepreneurial environment by constructing YBS nonprofit entrepreneurship system to provide professional assistance for youth that lack of imperative element for starting a business.

- Interactive entrepreneurial business network,
- Innovation and entrepreneurship mode,
- Increase in employment position,
- Create wealth,
- “One- to- one” accompanied tutoring,
- 30 thousand to 50 thousand Yuan’s Initial Funds with no interest, mortgage, or warrant,
- Professional entrepreneurial training,
- Lead in Industrial and Commercial Network,
- We help unemployed, semi-unemployed, and job-hunting youth aged 18–25 who have benign commercial ideas and entrepreneurial potential but lack of entrepreneurship initial fund and experience.
- Entrepreneurs’ enterprise can bring,
- We can provide to entrepreneurs.
- YBC network,
- Build a nonprofit cross-border cooperation platform that is encouraged by the government, dominated by entrepreneurs, and supported by professional social organization.

YBC was progressed in a high speed. Up to May 2014, YBC has become the largest nonprofit network to assist youth entrepreneurship, which has established 64 offices, 477 workstations, and 1148 service stations and 103 entrepreneurial youth and tutor clubs, and has assisted 8323 enterprises. Moreover, enterprise survival rate during assistant period accounts for 90% that create a net increase of career position that accounted more than 110 thousand. The total number of tutor volunteers is 12 thousand. 65 capital pools were constituted by the headquarter and grid members. Besides, YBC has also established 1836 cooperation partnerships.

Review

1. Entrepreneurship is the social activity conducted by entrepreneurs to break existing resource restrictions, find new opportunities, and create new value, which is of profound significance in personal development, enterprise growth, and national prosperity.
2. Entrepreneurial environment is comprised of financial support, government policy, education and training, transfer of research and development, business environment, professional infrastructure, market exposure, tangible infrastructure, cultural and social norms.

3. Entrepreneurship education is forced reform by the changes in social environment, adjustment in industrial structure, diversification of talent and skill demand, and sluggish employment situation of college students.
4. Entrepreneurship education in the UK and the US is right on a high level, while it is in the constant reform situation in China.

Think and Discuss

1. Why should we learn and study entrepreneurship?
2. What is entrepreneurship? What kinds of factors would influence your entrepreneurial choice?
3. What is the element of entrepreneurship environment? What are the advantages and disadvantages of entrepreneurial environment in China?
4. What is entrepreneurship education? What kind of entrepreneurship education do you prefer?
5. What is the goal of entrepreneurship education reform? How to foster entrepreneurship education reform in China?

Improve Entrepreneurial Quality

2

Lead

External cultivation makes things happen while inward intelligence brings passive results.

Learning Objective

1. Distinguish entrepreneurs and non-entrepreneurs from the perspective of peculiarity and capacity.
2. Comprehend entrepreneurship quality of entrepreneurs (Personality traits, entrepreneurship ability, cognitive quality).
3. Understand approaches that form entrepreneurship quality.

Introduction

As a complicated work, entrepreneurship demands the entrepreneurs to improve quality constantly. Entrepreneurship quality can be reflected in three aspects: personality traits, entrepreneurship ability, and cognitive quality. This chapter centers on the three aspects and elaborates on the approaches that form entrepreneurship quality, to help learners have a better understanding of the quality and make further progress in improving it.

2.1 Entrepreneurial Personality Traits and the Measurement Methods

2.1.1 Personality Traits of Entrepreneurs

The individuals, engaging in entrepreneurial activities, own some traits that would distinguish them from those who are not interested in or suitable for entrepreneurship. However, different people hold different opinions on what kind of personality traits the entrepreneurs should possess. By summarizing numerous research results, the Personality Traits of Entrepreneurs should include the need for achievement, internal locus of control, propensity to take risks, consciousness on problem-solving, willingness to assert oneself, tolerance of ambiguity, emotional stability, innovation, and good cooperation (Fig. 2.1) (Raab et al. 2005).

2.1.1.1 Need for Achievement

The need for achievement is a kind of thought or belief that people are expected to get success and do better work. Discussion about achievement motivation is part of the most significant content of researches on Entrepreneurial Personality Traits.

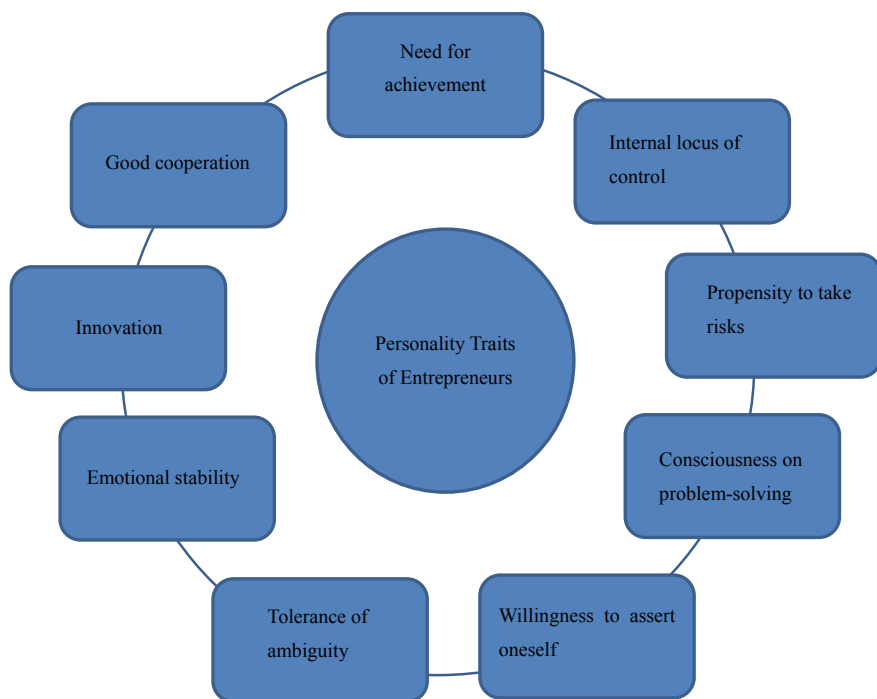


Fig. 2.1 Nine personality traits of entrepreneurs

H. A. Murray began to do systematic research on achievement motivation as early as the 1930s. He considered the need for achievement as an overcoming obstacle and reaching new heights by means of controlling, manipulating, or organizing objects, people, or conception, thus surpass oneself, the competitors, and others. And through the success experience, one can improve self-esteem. Achievement motivation is inherent and it is the desire and pursuit for more interesting and challenging tasks. Besides, it possesses a fairly strong tacitness (Raab et al. 2005). Some other opinions suggest that achievement motivation is the desire for accomplishing high achievement, including three implications. The first implication is the inner motivation to achieve the desired goal by perpetual efforts. The second implication means the excelsior and ego-involved tendency when a person performing some works. The third implication is the inner tendency to break through barriers, overcome obstacles, and strive for achievement in an adverse situation (Tong and Zhang 2008). Chinese are raised to pursue a group-related goal, thus the main achievement motivation of Chinese aims at the achievement of the family.

Many entrepreneurial psychology types of research has manifested that the relationship has existed to some extent between the level of individual achievement motivation and entrepreneurial behaviors. The stronger desire for success a man possesses, the fiercer intention for entrepreneurship he owns. Thus entrepreneurial behaviors are more likely to emerge. According to McClelland's opinions about the relationships among entrepreneurial behavior, entrepreneurial intention, and achievement motivation, a close relationship has existed between achievement motivation and entrepreneurial intention. And he considers that among the personality traits that affect entrepreneurial intention, achievement motivation is the steadiest predicted quality. Domestic scholars Wang Chongming and Fan Wei suggest that, under the background of Chinese culture, structural dimensionality of entrepreneurial intention includes entrepreneurial desirability and feasibility. Thereinto, entrepreneurial desirability covers innovation orientation, achievement orientation, and self-respect. In addition, entrepreneurial feasibility consists of personal controlling and consciousness of responsibility. It is obvious that entrepreneurial achievement motivation is one of the components that contribute to the Chinese entrepreneur's intention.

Individual achievement motivation is relevant to one's background information, which is comprised of gender, major, parents' occupation, etc. In China, an individual's growth process is mostly influenced by family background. For instance, the father's occupation, family's financial situation, and family formation may affect an individual's achievement motivation. The one whose father is an entrepreneur tends to be self-employed much more.

Entrepreneurship is a creative and risky activity, as well as a self-challenging and self-surpassing one. Lacking achievement motivation, desire, and pursuit for success keep individuals psychologically away from entrepreneurship. Therefore, entrepreneurship education for colleges and universities should increase success experience, stimulate achievement motivation, boost inner power to surpass oneself in all approaches and methods. However, in accordance with the explanation of motivation theory, when it comes to achievement motivation, the higher is not the

better. The motivation in a moderate level is optimal, otherwise, some negative emotional responses such as anxiety, which is adverse to entrepreneurial behaviors, would generate.

Case

The Founder of Wall Street English Transfers Anxiety to Impetus

Entrepreneurs are equipped with strong achievement motivation in most cases. However, from the perspective of psychology, strong achievement motivation means that the individual is more likely to suffer from anxiety and attack by “entrepreneurial anxiety”. In fact, entrepreneurship can challenge a person’s limit more than any other competition, especially for those who have extremely high self-expectation.

Entrepreneurs have a glorious ideal: to create the happiest working environment for the employee, and to make profits to roll to the company. Nonetheless, when in a real entrepreneurial situation, conditions faced by entrepreneurs such as earthshaking changes: scarcity of resources. Demand of projects makes overtime working a necessity, which displeased employees. Li Wenhao has undergone such entrepreneurial anxiety. He said: “Due to false selection of business partner, my company had only maintained for 10 months with all my investment been wiped out. I can only return to the origin and start working for other people again. After all, many things in life are distinct from what we have imagined and expected.” Then, how did Li Wenhao, who suffered from the unknown business prospects and entrepreneurship failure, break through the anxiety? “The reason for entrepreneurs who feel anxious easily locates in that they treat expectation and reality equally; potential and existence equivalently; measures and goals identically. They keep imagining things that are yet to come for heaps of time, and they become more panic for the worry that they can’t get rid of these annoyances even though they tried to do so. As a matter of fact, successful entrepreneurs know clearly what their targets are, while achieving these targets, they can give up on so many things. For the reason that they are not afraid of “losing” something, therefore they are not so worried,” said Li Wenhao.

“I do go through many obstacles, and all kinds of complicated psychological changes and problems, but I consider all of them as a stepping-stone to success. There is a simple philosophy in The Tao Te Ching (The Book of Tao and Teh), thus governing by noninterference, which means accomplishing everything by doing nothing that goes against nature. Of course, it doesn’t mean that we should do nothing. I think it’s the philosophy of pursuing balance, helping us control the balance between desire and reality. This is the same to opportunities in life. We should let nature take its course,” said Li Wenhao.

2.1.1.2 Internal Locus of Control

Locus of control was put forward by J. B. Robert in 1966, which indicates people’s general view toward behaviors or event outcomes. The general view consists of two

elements: the first of which is internal, and the second one is external. Internal Locus of Control means people believing that they should be responsible for the outcomes, namely person's behavior, personality, and ability are the determinant factors of events. External locus of control implies the idea that event outcomes are mainly influenced by external factors, such as fortune, social background, and other people (Wang et al. 1999). Locus of control didn't specifically consider the attribution process. Instead, it took into account the peculiarity of attribution in terms of the subject's personality. With regard to the attribution tendency, individual variations exist among individuals, some of whom belong to the internal, thinking that they are able to control events; while some of whom are the external, reckoning that they are incapable of controlling events that are dominated by fortune, challenge, etc. The internal tend to rule their life and be responsible for themselves; on the contrary, the external has the tendency of giving up controlling their life, and identifying with the dominance of destiny.

Internal Locus of Control is regarded by many scholars as one of the traits that entrepreneurs should own. Most of the traits are reflected by numerous successful entrepreneurs. Entrepreneurship is an alternate behavior fluctuating between success and failure. If an individual attributes all the success and failure to external reasons (such as the fortune), the individual would lose dominance to himself and the circumstance. As you can imagine, this kind of entrepreneurship would not go ahead as well.

Entrepreneurship is like constructing a mansion. Only in a steady foundation, the enterprise can survive and develop. The core competence of an enterprise can be compared to the reinforcement cage of a mansion, without which the building of entrepreneurship may be in danger of collapse. Execution is just like construction equipment, without which the mansion can only be built in a much slower way. The entrepreneurial plan is assimilated to design drawing, without which the mansion can't be constructed scientifically. The management system is likened to the institution and management of construction, without which the enterprise would be in the state of disunity. What is the most important part of entrepreneurship? It's people, the entrepreneur. Nothing is possible with the nonparticipation of the entrepreneur. What kind of people should entrepreneurs be? They should be those who can shoulder the responsibilities of their own choices and themselves.

2.1.1.3 Propensity to Take Risks

Propensity to take risks indicates how an individual, facing risky situations, makes choices. In a sense, entrepreneurship equals risk. Starting a business means confronting risk. And there is no risk-free entrepreneurship. To be precise, a chance is always accompanied by the risk. Only the adventurous can seize opportunities unhesitatingly. Risk-taking propensity plays a crucial part in the face of making a choice, which will penetrate the entire entrepreneurial process. For instance, during the preparation of starting a business, some college students would spend much time considering the following questions: What kind of industry should I choose to start the business? How much profits would entrepreneurship bring to me? What should I do if the venture activity is not as smoothly as I suppose? Is it worthwhile

to quit my job and be self-employed? On balance, all the behaviors are resisting and rejecting risks. Yet, we need to be clear that there is no such entrepreneurship without any risk. In other words, entrepreneurship is for the pursuit of risk.

A self-employed college student expressed his ideas during the interview: as a college student entrepreneur, I seek risk instead of waiting for it because the process of seeking risk is also the procedure of finding opportunities. His ideas fully indicate the significance of risk-taking propensity in entrepreneurship.

However, it should also be stressed that the risk-taking propensity is not the higher, the better. The optimum point is to keep balance. The entrepreneur should undertake risk and never hold back. Nevertheless, if the propensity is at a pretty high level, imprudent actions may emerge. One is bound to lose if he attempts to do impossible things. Therefore, risk-taking propensity entrepreneurs needed should be moderate.

2.1.1.4 Consciousness on Problem-Solving

Much attention about Entrepreneurship researches is also paid to consciousness on problem-solving. Problem-orientated people would usually consider the difficult, unfamiliar, and relatively terrible tasks as resolvable. The individual with stronger consciousness on problem-solving is not willing to accept help from others, besides, he possesses a fairly strong comprehend capacity and quite fast information processing capacity. Basing on the target-oriented problem-solving strategy, they can usually find some creative solutions.

During the past decades of reforming, the “giant” Shi Yuzhu is undoubtedly one of the most legendary people. In 1989, he started his business with 4000 RMB that was borrowed. In just a short 5 years, he was marked as the No. 8 of the rich list in the mainland of China, according to Forbes. He lost all his wealth and became poorest person in China with 250 million debt. Several years later, he staged a comeback, paid all the debts, and gained hundreds of millions of fortune which even exceed the previous prosperity. Many people call him “the most famous loser” in China, as well as “the best-known achiever”. His present triumph has closely connected with the strong consciousness on problem-solving in adverse circumstances. He can redefine the problem at a unique and acute angle of view, further solve the problem in unfavorable conditions.

2.1.1.5 Willingness to Assert Oneself

Willingness to assert one also constitutes the entrepreneurial personality traits. During the process of founding an enterprise and the following operational phase, entrepreneurs need to be equipped with a dominant and uncompromising attitude when communicating with the client, partner, and financial practitioner. Resembling the risk-taking propensity, a moderate level should be attained in voluntarily self-insistence. On the one hand, if an individual is immoderately relying on others’ opinions, and lacking confidence in his own ideas, it’s so hard to imagine that he can start a business successfully. On the other hand, entrepreneurial success often depends on friendly cooperation with the client or collaborator. Shorting of proper compromise would also hinder the triumph of entrepreneurship.

In fact, the willingness to assert oneself is comprised of many personality traits, such as confidence and insistence. Insistence is also the reflection of volitional quality. Whether we pursue success or face failure, every entrepreneur should take into consideration how to make a steady choice and unswervingly break new ground.

Case

One More Try

There was a young man applying for a job at Microsoft Corporation, while the company didn't place any recruitment advertisement. Witnessing bewilderment of the general manager, the young man explained in poor English that he just passed by the company and rashly came in. Filled with surprise, the general manager made an exception by giving him an opportunity to attend an interview. The result was beyond all expectations that he performed terribly. The young man defended his bad performance with none-preparation, which was regarded as an excuse by the general manager. So the manager responded: "You should come back when you are ready." One week later, the young man came back but failed again. However, his performance was much better compared with the last time. The manager replied in the same words. Just like this, the young man stepped into Microsoft Corporation for five times, before he was hired, finally, he was chosen as the key person to be trained.

Maybe our life is covered by swamp and thorns; the sights we pursuing are hiding behind mountains and rivers; the steps forward are always stumbled; maybe we would grope in the dark for a long time before we can find the light; the devout faith is intertwined by common views; the noble soul can't be left in a pure land.....therefore, why can't we say "One More Try" to ourselves firmly and confidently in the courage of the brave. Trying one more time, and you may reach the final achievements! Entrepreneurship just needs the self-insistence.

2.1.1.6 Tolerance of Ambiguity

Tolerance of ambiguity means the way to organize information in a dubious circumstance. It promotes the individuals seeking for survival, tolerating contradiction, and solving complicated problems in a persevering manner. Higher tolerance of ambiguity is a special part of entrepreneurial personality traits.

In fact, the process of entrepreneurship is full of uncertainty. Some situations may emerge during the entrepreneurship process, including uncertainty, nonconformity, incompleteness, ambiguity, contradiction, etc. It is a crucial part of the success of entrepreneurship that if the individual can sustain the uncertainty and how to undertake it. When confronted with uncertainty, some individuals can't bear the pressure and handle problems in haste. Some other people would stay in patience, and make a choice after the situation is clear, thus they have stronger tolerability to uncertainty. Some researches show that entrepreneurs obtain stronger uncertain tolerance compared with administrators.

2.1.1.7 Emotional Stability

If a person feels worried and anxious easily, or he is often tortured by failure, then he is not suitable for managing a company or an enterprise. Emotional stability affects work performance remarkably, especially in high-pressure jobs. People with high emotional stability scarcely feel discouraged, instead, they tend to affirm themselves, think from a positive angle and feel satisfied with their life. People with low emotional stability tend to manifest anxiety, uneasy, sorrow, and moodiness. High emotional stability is the advantage owned by entrepreneurs (Raab et al. 2005).

How to manage emotion is a highly concerned problem for modern people. The ancient Chinese ideologist Lao Zi thought that people should remain unmoved, handling every situation with peaceful emotion. Chinese litterateur Wang Meng said that it's hard to reach the state of unmoved. Instead, we should grow up from easily been moved to scarcely been moved and finally reach the state of unmoved. No matter how the process develops, a good emotional condition should be undisturbed either by favor or disgrace, which is a vital part of college entrepreneurship education.

For college students who just step out of adolescence and have a shallow social experience, their emotions are more likely to be affected by troubles. How to guide college students to appropriately manage their emotion is also a significant part of college entrepreneurship education.

2.1.1.8 Innovation

Innovation or creative capacity means the ability to discover problems, propose new approaches, establish new theories, and invent new technologies, which is requisite for entrepreneurs. Cultivating creative capacity aims at fostering the ability for innovative thinking, operating, practical activity, and problem-solving. Entrepreneurial capacity means the specific ability to realize goals smoothly, including professional skill, operating management, social communication, practical problem analyzing and solving, as well as seizing and creating opportunities. Entrepreneurial capacity would be affected by the strength of creative capacity (Wang 2008).

Almost all entrepreneurs regard innovation as the foundation for survival and development of enterprises. The leading enterprise in China's industrial electrical equipment, the Chint Group Corporation, located in Zhejiang Province, owns fixed assets that account for 300 million, and its output value in 2003 amounted to 110 million. The Chairman of the board, Cunhui Nan, said when summarizing the development of the corporation: "progress of an excellent enterprise results from constantly challenging opponents and surpassing itself. Innovation is always accompanied by excellence, which is the base of enterprise's existence. Innovation in Chint Group Corporation lies in technology, regulation, and management" (Li 2004).

For college students, the cultivation of innovative and entrepreneurial capacity aims at the training of practice and operation. In addition, some researchers think that innovative talents should possess intelligence and non-intelligence factors. The first one of the factors consists of cognitive intelligence, emotional intelligence, and

social intelligence. The latter one of the factors includes motivation, personal traits, and human will (Xu and Ye 2012). In short, innovation capacity is a relatively complicated definition that is the same as its evaluation.

2.1.1.9 Cooperation

For college students, team entrepreneurship is more common than starting a business single-handed. When it comes to the entrepreneurship team, the entrepreneurs would always exclaim that success or failure lies in the team completely. Hence, good cooperation among team members is of great importance to the success of entrepreneurship.

Liu Changyong mentioned that a successful team should own certain features, including cohesion, oneness, team profit first, adhering to the basic principle of operation, long-term commitment, proper ownership allocation, fair and flexible interest distribution mechanism, as well as a perfect match between reasonable sharing of business performance and business capacity. All these features are also the reflection of the good cooperation of the team members (Liu 2002).

By and large, contemporary college students were born in the 1990s, many of whom are the only child due to the influence of the one-child policy. Affected by the growth environment, the only child would manifest the ego characteristic and ponder problems from their own point of view which contributes to the lack of cooperative consciousness. Therefore, the cultivation of team cooperative consciousness should be attached great significance to the college entrepreneurship education.

Case

Seven Standards for Choosing Entrepreneurship Partner

1. Ambitious.
2. In the twenty-first century, the biggest crisis is the shortage of crisis awareness, and the biggest trap is self-contented. People should learn to view the world in foresight, instead of nearsightedness. When one is in a favorable circumstance, he should find the fallback position in advance; when one is in the adverse situation, he himself should seek the way out.
3. Strong in learning capacity.
4. Education certificates represent the previous lifetime, while learning capacity stands for the future. Learning is a kind of attitude that only modest people can really learn something.
5. Courageous in practice.
6. Only by actions can one gain result. It doesn't matter to be false, but being good at summarizing is a must. After the summarizing, one can try again until the correct result appears.
7. Willing to pay out.
8. One must pay out efforts to be outstanding. A person unwilling to sacrifice is not suitable for the entrepreneurship team.
9. Good at communication.

10. It is an attitude rather than a skill that communication knows no bounds. All aspects of communication exist in a good team constantly.
11. Honest and generous.
12. Everyone has his own standpoint. So it is impossible to require consistency for all the people. The key is that everybody should communicate all thoughts frankly and honestly. Honesty is the finest headstone for cooperation.
13. Possess basic code of ethics.
14. Good and evil people jumble together. Being absent from the basic code of ethics, people would lose themselves easily.
15. Personality traits include an innate portion of personal characteristics and acquired features of the growth process, which is peculiar. Personality traits have functionality being reflected typically that character decides destiny. From the perspective of traits, we can realize that entrepreneurs should obtain certain personality traits; meanwhile, we can also learn that the influence of traits to entrepreneurship is not as important as we have imagined. Some college students may say: "I am afraid of adventure, so I would never start a business," or say: "I am so conservative that I'd better find a stable job." Certain misunderstandings exist in these thoughts. At the beginning of entrepreneurial research, foreign researchers paid much attention to the influence of personality traits, but gradually, they realized that difference in traits is bigger than the diversity between entrepreneurs and non-entrepreneurs. These traits partly decide the result of entrepreneurship. Moreover, personality traits that are necessary for entrepreneurship can be cultivated.

2.1.2 Measurement of Personality Traits

2.1.2.1 Internal–external Locus of Control Scale

In 1966, Rotter worked out the internal–external locus of control scale (I-ELCS). This scale consists of 23 quizzes and 6 inserted questions, which can measure the locus of control of a person.

The internal–external locus of control scale was self-assessed and was required to be finished within 15 min. It is commonly applied to university students. Every item consists of an internal-controlled statement and an external-controlled statement. And the participants are required to choose one of them. It will be scored when participants choose the external-controlled statements. The total points range from 0 (Internal Locus of Control) to 23 (External Locus of Control). The lower score one gets, the more internal-controlled he is; vice versa.

2.1.2.2 Big Five Personality Traits Questionnaire

The Big Five Project Personality Test Questionnaire was translated from the short version of NEO-PI that was compiled by P. T. Costa and R. R. McCrae. It consists of 60 items in the sequence of emotional stability, extroversion, openness to

experience, agreeableness, and conscientiousness. Every five items constitute transmigration. And there are totally 12 transmigrations. Accordingly, this questionnaire measures five personality traits that contain emotional stability, extroversion, openness to experience, agreeableness, and conscientiousness, respectively.

2.1.2.3 College Students' Entrepreneurial Personality Traits Scale

College students' entrepreneurial personality traits scale is usually used to measure the entrepreneurial personality traits of college students (Table 2.1) (Xu and Ye 2010).

Table 2.1 College students entrepreneurial personality traits scale

No.	Item
1	I can usually control myself under a chaotic situation
2	I have high requirements for myself
3	Confronting with hardships, I would try to solve them
4	I believe that the achievement of a competent person would always be acknowledged in the business circle
5	I like trying new things
6	I'm full of curiosity about life
7	I'm willing to start my own business rather than working for others
8	Even though I haven't found any new career, I would also quit my job
9	I usually behave in unique ways
10	No matter how hard the daily work is, I usually stick to finish it
11	I set goals for myself and try to realize them
12	I believe that a successful man can take control of his own on any occasion
13	If I gamble, I would never make a small bet
14	I make myself an example at work
15	I'm confident about the things I've done
16	In order to be the best people in my field of major, I keep learning
17	The biggest pleasure for me is when my learning result or work is among the best
18	I believe that luck isn't the principle factor for entrepreneurial success
19	The results of entrepreneurship depend largely on how we perform
20	I used to think and solve problems from different angles of view
21	I like bringing forth the new through the old
22	I try to predict the effect of problem-solving actions
23	I would like to fulfill social responsibilities and to repay society
24	I would like to pursue various life experiences
25	When facing a problem, I would assess the external elements that cause this problem
26	When facing a problem, I would usually study its situation to decide which is useful in solving the problem

The scale consists of 26 items that you must rate on how true they are about you on a six-point scale, where 1 = Strongly Disagree, 2 = Disagree, 3 = Kind of Disagree, 4 = Kind of Agree, 5 = Agree, and 6 = Strongly Agree.

2.1.3 Quality of Innovative Talents

On the basis of static quality structure, a dynamic process is required to transform one’s potential into real innovative talents’ quality. Any ability stays static and potential until it, after transformation, finally emerges. Thus, by transforming basic, potential quality into real-life creativity, a person is becoming an innovative talent. This brings up a question that is worth exploring: having possessed the basic, potential quality and given the possibility to achieve, how do people successfully turn potential into reality?

This process of quality transformation is, in essence, the process of individual learning. As Confucius suggests, learning process consists of seven stages: to “resolve, study, enquire, ruminate, discriminate, practice and act” (Pi 2004), while constructivist learning theory developed by Vygotsky, Piaget, Bruner, etc., places emphasis on learners’ subjective construction of knowledge.

Based on these learning theories, innovative talents need to take the following four stages to realize their creative potential: acquisition, experiences, self-reflection, and knowledge construction (Fig. 2.2). The four progressive stages, as a whole, build a complete path for innovative talents transformation, where both intelligence and non-intelligence-related quality are converted from potential into real innovation skills.

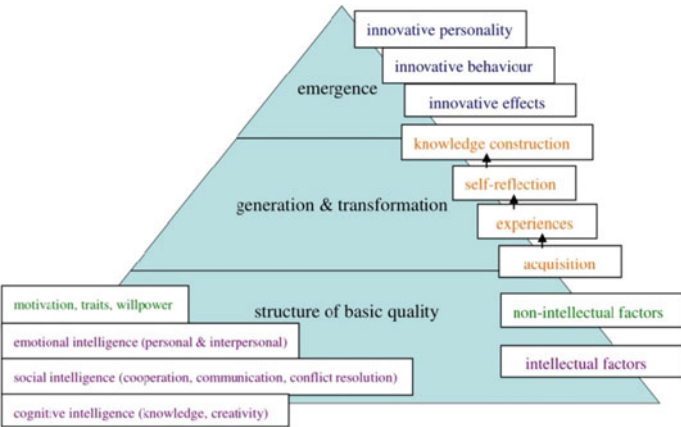


Fig. 2.2 The formation–transformation–emergence model

2.1.3.1 Acquisition

Acquisition is the basic step in transforming innovative talents' quality. It refers to accepting the knowledge and experience accumulated by the predecessors in order to develop their personal knowledge and skills. It emphasizes the learning process and result.

The process of systematic acquisition is an important psychological activity, in which individuals constantly broaden their existing cognitive scope so as to form an understanding of the environment and of themselves. It is largely fostered by school education, where vast knowledge can be learned within a relatively short time period, due to the systematic, planned, step-by-step method of acquisition. This is the most effective way for a person to indirectly understand the world.

By those knowledge-acquisition activities from school, family, society, and so on, individuals will form their specific innovative knowledge reserve based on their specific cognitive ability. In other words, due to cognitive diversity, individuals tend to be interested in different learning contents during the acquisition process and, eventually, have different learning results.

However, learning is not completely accepting others' experiences and understanding. They may also attempt changes and innovations according to different situations after the exposure to all kinds of learning content. For example, they may attempt to synthesize or make changes to what they have learned. This is where external individual differences, stemming from cognitive diversity in the mechanism of generating innovation, come up more evidently.

In real-life educational practice, different students like different courses, and will not have the same performance in a variety of content-focused learning activities. For instance, some students would prefer learning "quiet" knowledge and skills, while others prefer those requiring "action". This phenomenon shows that acquisition, as the basic step in the transformation mechanism of innovative talents, is individual specific due to cognitive diversity.

2.1.3.2 Experiences

To experience is to genuinely feel, deeply understand, generate emotions toward a thing, and finally produce some meaningful effect from it (Yan 2004).

To acquire knowledge whether in the family and society without a specific purpose or in the school education environment with a specific purpose, a learner is indirectly exploring and trying to understand society. Those indirect cognitive activities are a basic component of cultivating innovation but not a determinant. Because relying solely on the acquisition, especially indirect textbook-based learning, is hard to realize innovation. This understanding and reasoning of indirect experience alone tends to be insubstantial and may hardly produce real innovation but a formality.

Therefore, in indirect experience-based school education, how students verify textbook knowledge by individual experiences becomes an indispensable step to take in transforming into innovative talents.

As such, schools are supposed to provide a learning environment where students are able to experience what they have learned, encouraging them to build the habit of participating in hands-on practice from an early age.

Many creative people used to be a destructive child; in essence, they were making innovative attempts and experiences. Similarly, experience is essentially a process of trying to verify the indirectly gained knowledge through direct hands-on practice in a certain scenario of problem-solving. It may result in successful knowledge verification, while it may also challenge or refute knowledge of something that they have gained from books or others, which will probably trigger off their innovation awareness and inspire them to attempt.

2.1.3.3 Self-reflection

Closely linked with experiences is self-reflection. To self-reflect is to learn from observing, analyzing, evaluating, altering, and training, etc., oneself with a focus on one's own experience, activity, and mind-body function (Chen 2010).

Learning and experiencing are, to some extent, activities depending, respectively, on the acquisition of indirect knowledge and knowledge verification through practice. The third stage based on the two is self-reflecting. While reflecting on themselves, learners put their acquired knowledge and theories into practice. As a result, they have improved their indirect knowledge and more generally, expanded their existing knowledge reserve.

Self-reflecting is based on learning and experiencing and goes beyond. It not only improves one's cognitive ability, but also triggers one's unique understanding and feelings toward the world, inspiring them to form their own cognitive system and to see and explain things from a different perspective from others'. During self-reflection, one would find why the indirect knowledge they have learned has been stated in a certain way, why they would experience differently in certain situations and a lot more.

Self-reflection is, to some extent, a leap from intuition-based to abstract, higher level cognitive activity. As one of the stages of the transformation mechanism of innovative quality, its importance lies in the use of subjective consciousness to make an individual explanation about things. However, not everyone is able to self-reflect effectively. Only those who love thinking and are well guided in education may have the chance and make it a thinking habit.

2.1.3.4 Knowledge Construction

Based on self-reflection, knowledge construction is an activity where individuals first understand and explain things from a certain perspective using their unique cognitive and thinking skills, and then incorporate the result into their existing cognitive framework.

It has two aspects. On the one hand, knowledge construction requires using one's existing cognitive and thinking skills, gained based on self-reflection, to explain things and produce a cognitive result. On the other hand, the cognitive result from interaction with the external environment will be put back to one's existing cognitive framework. As such, knowledge construction is not a static

one-way activity; it is rather a process that is constant, repetitive, and under the individual's active control.

Due to their different performance in the aforementioned three stages, different individuals tend to have different results in this final stage, knowledge acquisition. That also explains why people may not have the same result in the same environment. Reasons can be found in the way the objective environment influences individuals differently, as well as individual differences in cognitive level, experiences, and self-reflection results. Therefore, they would eventually construct different modes of cognition and explanation of the world.

After successfully transforming the potential quality, there would eventually emerge innovative talents by showing their innovative personality, behavior, and effect. This process, together with the structure of basic quality of innovative talents, forms a three-stage, multidimensional model.

2.2 Entrepreneurial Competencies and Measurement

2.2.1 Entrepreneurial Competencies

Ability is a complex definition, including practical ability and potential ability. Generally speaking, the entrepreneurial ability is a psychological feature during the entrepreneurship process and a mental foundation for successfully achieving venture activities. For instance, the ability to identify entrepreneurial opportunities is one of the psychological conditions that ensure smooth venture activities. Entrepreneurial ability is the key driving factor, playing a significant role in the creation and growth of the business, and the success of entrepreneurship.

Various researches have been made from different perspectives on the essential factors constituting entrepreneurial abilities. For example, Rezaei-Zadeh thinks that entrepreneurial ability is comprised of four factors: creative thinking, leadership, motivation, and interpersonal communication ability. In Li and Feng's opinion, the entrepreneurial ability is composed of potential entrepreneurial ability, entrepreneurship skills, entrepreneurship knowledge. In their opinion, potential entrepreneurial ability involves the ability to identify opportunities, entrepreneurship quality, and previous experience. Y. M. Man deems that entrepreneurship ability consists of opportunity competencies, human competencies, analytical competencies, innovative competencies, operational competencies, organizational competencies, strategic competencies, commitment competencies, learning competencies, and personal strength competencies (Man et al. 2008).

In conclusion, entrepreneurial competencies are constituted by knowledge, experience, and skills.

2.2.1.1 Entrepreneurial Knowledge

As one of the elements that form entrepreneurial competencies and development foundation, entrepreneurship knowledge can be concluded into three categories:

specialized technical knowledge related to enterprise, operational and management knowledge related to the development of enterprise, and social interpersonal communication skills. Except for the approaches to start a business, entrepreneurs should also know how to manage an enterprise, to ensure sustainable development in the fiercely competitive market. During the process of starting a business and sustainable development, entrepreneurs should properly deal with the relationship between client, partners, government personnel, financial personnel, etc. Therefore, entrepreneurship should be equipped with specialized technical knowledge, as well as manage, finance, and law-related knowledge.

Currently, entrepreneurship education is the primary approach to acquire entrepreneurship-related knowledge for college students. By means of entrepreneurship education, college students cannot only thoroughly master theory knowledge but also improve practical knowledge and skills, which would largely enhance entrepreneurial intention and stimulate entrepreneurial activities. As a matter of fact, it has been proved by numerous researches that entrepreneurship education has impacted on the entrepreneurship intention. In W. B. Walstad's opinion, entrepreneurship education is one of the significant factors to help college students understand and cultivate an entrepreneurial attitude (Walstad 1997). In accordance with researches conducted by T. J. Bae, a remarkably positive correlation existed between entrepreneurship education and entrepreneurial intention (Bae et al. 2014). In terms of a survey conducted by investigating 494 college students, entrepreneurship education can enhance entrepreneurial intention remarkably (Zhang et al. 2014). Entrepreneurship education is the external driving force that provides knowledge relevant to the entrepreneur and increases entrepreneurial intention. In contrast, the interest of entrepreneurship is the internal driving force that can motivate entrepreneurial initiative to learn entrepreneurship knowledge harder and to lay a steady foundation for starting a business.

2.2.1.2 Entrepreneurial Experience

Experience is the basis of competencies, which is formed during the perceptual; cognizance process. The experience resulted from direct interactive activities between the human and the object, which can be subdivided into direct experience and indirect experience. On the basis of direct experience, perceptual cognizance could step up to rational knowledge by means of conceptual activity. Indirect experience is the approach to acknowledge objective things by other people's experiences. During the entrepreneurship process, college students could also possess the two kinds of experience, thus their own entrepreneurship experience and indirect entrepreneurship experience from families, friends, and other people. Depending on the relevant survey, students with direct entrepreneurship experience have remarkably higher entrepreneurship intentions than those who have no direct experience. Moreover, those students whose parents are running their own business tend to conduct entrepreneurship activities. All these results could clearly demonstrate entrepreneurship experience in entrepreneurship.

Although entrepreneurship experience is a part of the non-knowledge system, it is beneficial in helping people have deep comprehension of entrepreneurship.

Currently, prevalent problems existing in entrepreneurship education in HEIs “focus on theory instead of practice.” Therefore, entrepreneurship practice teaching received great attention by the HEIs. By setting up an entrepreneurship practice course and introducing practice tutors from enterprises, entrepreneurship education practicalness can be enhanced. Furthermore, college students can also gain experiences from failure, especially from others’ failed experiences, to explore the underlying reasons, draw lessons, and accumulate a wealth of experience.

2.2.1.3 Entrepreneurial Skills

Skills are manner and system of execution that can be acquired by practice. As a pattern of action, skills sometimes can be presented as operational mode, and sometimes be demonstrated as a mental mode.

Definition and component of entrepreneurship skills are discussed by researchers at home and abroad, but opinions and conclusions vary. For instance, in Xu Xiaoyun and Xu Jingsong’s opinion, entrepreneurship skills are formed under mind control and restrictions of innovation, which belong to action competencies to reflect the operational skill of the innovative subject, and emphasize the role of innovation in entrepreneurship skills. As for the component, European Parliament considers entrepreneurship skills as four factors, including creativity, initiative, and risk-taking, while Employment and Training Management Bureau of the United States Department of Labor believes that entrepreneurship skills involve entrepreneurial principles, innovation and invention, plan, and market. Both ideas are insufficient in specific theoretical perspectives and empirical research. Butler deems that entrepreneurship skills comprised of professional technologies and knowledge, marketing skills, organizational skill, decision-making skills, financial skill, customer service skill, HR management skill, and market-related skill. Branagan thinks entrepreneurship skills concern discernment and insight, relationship network, expression, self-improvement, brand promotion, negotiation tactics, adventurous characteristics, action plan, team spirit, comprehension about innovative technology, and how to make a profit from creative work and thoughts of higher commercial value. In terms of a survey conducted by Smith et al. 17 technologies are related to entrepreneurship skills, which can be further generalized as professional skill, management skill, entrepreneurship skill, personal maturity skill. Liu Yan holds the idea that self-employment of college students should be equipped with market investigation skill, self-cognitive skill, market development skill, enterprise management skill, risk coping skill, etc.

In line with previous correlative analysis, a great number of entrepreneurship competencies relevant researches haven’t a specific distinction among connotations of entrepreneurship ability, entrepreneurship skill, entrepreneurship experience, and entrepreneurship knowledge, which are complicated and disordered. Xu Xiaozhou et al. have made a new definition of entrepreneurship skills. They think entrepreneurship skills are not the specific knowledge related to entrepreneurship behaviors, nor abstract entrepreneurship competencies. Entrepreneurship skills are the steady pattern of perception and operation to promote the successful accomplishment of entrepreneurship activities by approaches such as education, training,

practice, and experience on the basis of existed entrepreneurship knowledge and entrepreneurial experience (Xu and Ye 2012). Entrepreneurship education in HEIs can cultivate students' entrepreneurship competencies on the basis of improving entrepreneurship skills. By means of factor analysis, researchers found the six-factor structure of entrepreneurship skills, including (1) self-management skill, such as introspection, positive quality formation, and responsibility bearing; (2) career planning skills, for instance, career planning skill, entrepreneurship planning skill, target management skill; (3) information choice and application skill, namely information of entrepreneurs, knowledge collection, and transformation skill; (4) enterprise management and strategic tactics, namely HR and finance management skill; (5) client management skill, namely the skill to observe, identify and manage customers' requirement; (6) interpersonal communication skills, the skill to communicate, and influence other people.

2.2.2 Measurement on Entrepreneurial Competencies

Among entrepreneurship competencies and relevant factors, measurement on entrepreneurship experience is relatively easier, which can be tested by several simple quizzes. For example, do your parents own enterprises? Up to now, have you engaged in any entrepreneurship activities? Nevertheless, entrepreneurship skills and knowledge needs to be conducted through a measuring scale.

2.2.2.1 The Pyramid Model of College Students' Entrepreneurial Skills

The "pyramid model" of entrepreneurial skill elements, compiled by Xu Xiaozhou et al. tries to measure the entrepreneurial capacity of college students. This model holds that the entrepreneurship skills of college students are hierarchical, consisting of basic skills and practical skills. Basic skills are also called tacit skills, including creativity, problem-solving ability, decision-making ability, and other skills; practical skills are also called explicit skills, including opportunity skills, resource integration skills, entrepreneurial management skills, and professional skills (as shown in Fig. 2.3).

1. College students' basic skills

The basic skills of college students are the premise for them to carry out entrepreneurial activities, and the skills that students must master in dealing with increasingly complex and uncertain environments, including creativity, problem-solving ability, and decision-making ability. Creativity is the most abundant potential of human resources, which refers to the ability to generate new ideas, discover and create new things. Owning creativity means that individuals have creative thinking and divergent thinking, and their actions are novel and original. Problem-solving ability means that individuals can

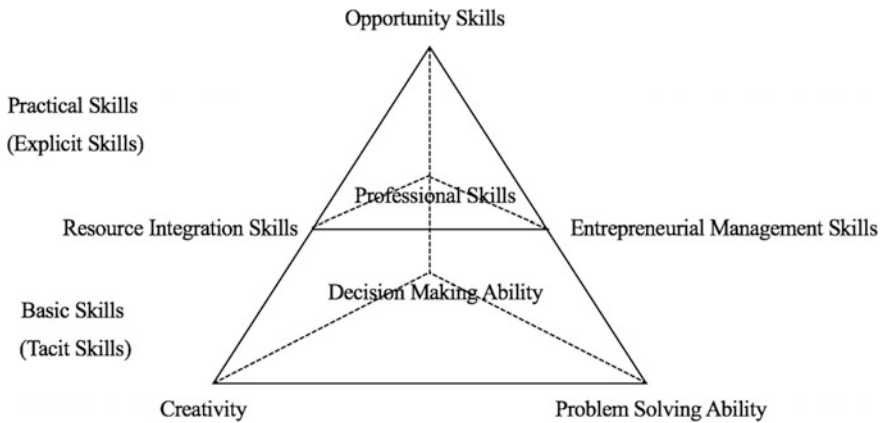


Fig. 2.3 The “pyramid model” of entrepreneurial skill elements

accurately grasp the relationship between things, find out the essential issues, and use various resources to solve them. Decision-making ability reflects the ability of entrepreneurs to make decisions sharply and decisively in complex situations.

2. College students’ practical skills

College students’ practical skills include opportunity skills, resource integration skills, entrepreneurial management skills, and professional skills

- (1) Opportunity skills. Opportunity skills are at the top of the pyramid, leading the direction of entrepreneurship. Professor Stevenson of Harvard Business School argues that entrepreneurship is a “spirit of pursuing opportunities regardless of the limitations of existing resources,” entrepreneurs can identify hidden opportunities from confusing, contradictory, and complex events and act before others. Based on the categories of value created and whether it is independent of an institution, Yusuf divides entrepreneurship into independent entrepreneurship and corporate intrapreneurship, grass-roots social entrepreneurship, and social intrapreneurship (Yusuf 2005). College students who master entrepreneurial skills can seek entrepreneurial opportunities in the economic field and create economic value through independent entrepreneurship and corporate intrapreneurship; College students can also seek entrepreneurship opportunities in the social field to solve social problems and create social value by establishing profit organizations or entrepreneurship in the public sector (see Fig. 2.4). Meanwhile, college students can also capture entrepreneurial opportunities from population changes, policy changes, and technological progress. According to research at home and abroad, the main skills related to opportunity identification and

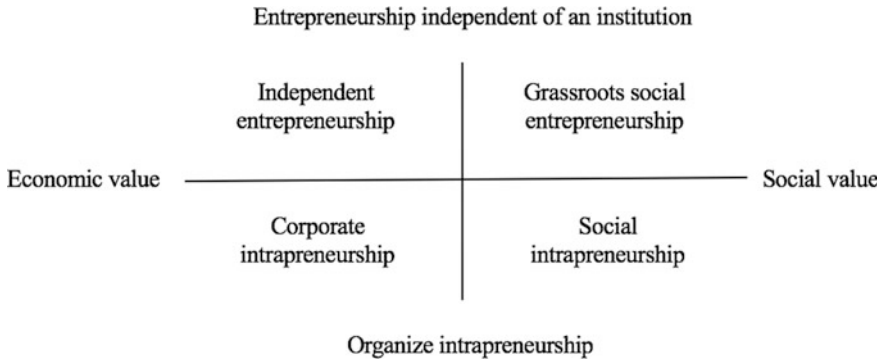


Fig. 2.4 Four types of entrepreneurship

creation include information search and acquisition skills, opportunity assessment skills, and creativity formation skills.

- (2) Resource integration skills. Resource is an indispensable supporting factor in the entrepreneurial process. The resources in the process of entrepreneurship mainly include human resources, capital resources, and social network resources. To fully integrate resources, entrepreneurs need to grasp team-building skills, fundraising skills, and relationship skills. Team-building skills require entrepreneurs to form an entrepreneurial team with a common entrepreneurial philosophy and vision, but with complementary backgrounds in terms of educational background and professional expertise. Leadership skills and coordination skills are the key skills in team-building process. Fundraising skills require entrepreneurs to master a variety of financing channels, and obtain entrepreneurial capital from the government, angel investors, venture capitalists, banks and other different paths, including persuasion, priority action, and other skills. Relationship skills mean that entrepreneurs have good interpersonal communication and negotiation skills, can help entrepreneurs to connect with different types of groups, and build a business network composed of government personnel, entrepreneurs, venture capitalists, professionals, and so on.
- (3) Entrepreneurial management skills. Entrepreneurship is a process of creating value through change. Therefore, entrepreneurial activities emphasize execution, which is a concrete operational process. Any creative ideas that stay at the level of theory or thinking are not entrepreneurship. Entrepreneurship focuses on value creation because entrepreneurs want to accomplish something in a better, faster, and more economical way (Mei 2010). Opportunity skills and resource integration skills are the skills necessary for the entrepreneurial preparation phase. The sign that entrepreneurial activities really enter the operational phase is the establishment of the organization. Due to the diversification of the types of entrepreneurial

- activities, founding organizations here include not only the founding of new organizations (for-profit or nonprofit), but also the found of new departments within the original organizations. The successful operation of the new organization requires a series of management skills, including human resource management, marketing, financial management, risk management, strategic management, and so on.
- (4) Professional skills. The group of college students is different from the general social group: they treat new things and new phenomena with an open mind, master specific professional knowledge and skills, and are good at learning. From the experience of foreign development, scientific and technological entrepreneurship and knowledge entrepreneurship with college students as the main body are important forces to promote the transformation of economic structure and to leverage social and economic progress. Professional skills are the core competitiveness of college students. The formation of professional skills can be based on the majors studied during the college or on their own interests. The more proficient college students are in a certain field of knowledge and skills, the easier they will succeed in entrepreneurship. For example, college students studying design can set up a design studio and start their own business with their design talents; students studying foreign language can set up language training institutions based on their own language advantages; students' science and engineering can commercialize a certain technological innovation in the laboratory and carry out entrepreneurial activities.

From the above, this study forms a “pyramid model” of entrepreneurial skill elements of college students as shown in Table 2.2 (Xu and Ye 2010).

Table 2.2 Entrepreneurial skill elements of college students

	Skills	Main indicators
Basic skills	Creativity	Creative thinking, divergent thinking
	Problem-solving ability	Grasp the essential relationship between things, put forward solutions, and execute
	Decision-making ability	Make a decision decisively
Practical skills	Opportunity skills	Information search and acquisition skills, opportunity assessment skills, creativity formation skills
	Resource integration skills	Team-building skills, fundraising skills, and relationship skills
	Entrepreneurial management skills	Organization founding skill, human resource management skill, marketing skill, financial management skill, risk management skill, strategic management skill
	Professional skills	Proficiency in knowledge and skills in a particular field of expertise and the commercial potential to understand a particular knowledge or skill

2.2.2.2 College Students Entrepreneurial Knowledge Scale

The college students’ entrepreneurial knowledge scale, utilized by Yang Jinzhan, National Yunlin University of Science and Technology, consists of nine items, and is counted by a 5-point scale. The verified analysis found that the identification degree of all the items reached a significantly high level. And the preliminary exploratory factor analysis shows that the total variance contribution rate of “entrepreneurial knowledge”, “customer and market knowledge”, “special interest” is 52.102%, with the coefficient accounting 0.819. Confirmatory factor analysis demonstrates that the data of the three models are well fitted, and the construct validity is ideal.

The following statements concern your perception of yourself in a variety of situations. There are no “right” or “wrong” answers, so select the number that most closely reflects you on each statement. Your task is to indicate the strength of your agreement with each statement, utilizing a scale in which 1 denotes strong disagreement, 5 denotes strong agreement, and 2, 3, and 4 represent intermediate judgments (Table 2.3).

1 = Strongly disagree; 2 = Disagree; 3 = Neither Disagree nor agree; 4 = Agree; 5 = Strongly Agree.

2.2.2.3 College Students Entrepreneurship Skills Scale

College Students Entrepreneurship skills Scale, compiled by Xu Xiaozhou et al. based on investigation and factor analysis.

The following statements concern your perception of yourself in a variety of situations. There are no “right” or “wrong” answers, so select the number that most closely reflects you on each statement. Take your time and consider each statement carefully. Once you have completed all questions click “Submit” at the bottom.

Table 2.3 College students entrepreneurial knowledge scale

No.	Item	1	2	3	4	5
1	I have learned relevant background knowledge about the field that I want to start a business in					
2	I have relevant work experience for the field that I want to start my business					
3	My friends or family are also engaged in industries related to the business					
4	I often learn about the business with my friends or family					
5	I know a lot about the new business market					
6	I know the troubles in the new business market					
7	I know how to meet customer needs in the new business market					
8	The new business I want to start is related to the curriculum I learned at school					
9	The new business I want to start is related to my own interests					

Table 2.4 College students entrepreneurship skills scale

No.	Item	1	2	3	4	5
1	Formation of positive quality					
2	Find out problems					
3	Introspect					
4	Shoulder responsibility					
5	Lessen pressure of failure					
6	Insistence					
7	Information integration					
8	Knowledge application					
9	Information selection					
10	Knowledge transformation					
11	Career planning					
12	Formation of an entrepreneurial plan					
13	Target management					
14	Enterprise management					
15	Human resources management					
16	Strategy					
17	Fundraising					
18	Requirement identification					
19	Client management					
20	Observation					
21	Social relationship network					
22	Interpersonal influence					
23	Interpersonal relationship					

Your task is to indicate the strength of your agreement with each statement, utilizing a scale in which 1 denotes strong disagreement, 5 denotes strong agreement, and 2, 3, and 4 represent intermediate judgments. In the boxes after each statement, click a number from 1 to 5 from the following scale (Table 2.4).

1 = Strongly disagree; 2 = Disagree; 3 = Neither Disagree nor agree; 4 = Agree; 5 = Strongly Agree.

2.3 Cognitive Quality and Measurement

2.3.1 Cognitive Quality of Entrepreneurs

At an early stage, entrepreneurship quality research was focused on the personality traits of entrepreneurs, while researchers have been starting to emphasize the

influence of subjective cognition to entrepreneurs. Entrepreneurs' Cognitive quality is reflected in three aspects: Entrepreneurial cognition, entrepreneurial self-efficacy, and entrepreneurship alertness.

2.3.1.1 Entrepreneurial Cognition

Entrepreneurial Self-cognition

Self-cognition can also be called self-awareness, which means an individual's observation and comprehension of his own mental and behavior situation, including self-reservation and self-evaluation. Self-reservation is tantamount to detect perception, thoughts, and intention. Self-evaluation is one of the significant factors for self-adjusting to judge and evaluate thoughts, expectations, behaviors and personality traits.

Entrepreneurial self-cognition means an internal perspective and identity on whether the individual can engage in venture activities. Self-cognition is an essential foundation for entrepreneurs' actions that have an impact on the actions through entrepreneurial knowledge, experience, and skills. It is obvious that the entrepreneur's self-cognition is a vital psychological quality for entrepreneurs.

Entrepreneurship Environmental Cognition

Entrepreneurship environment cognition reflects the internal perspective and identity on whether the circumstance of the entrepreneur is beneficial for entrepreneurship. Environment cognition mainly means the social environment, including resources, social capital, information, acceptance rate from families and society, interpersonal relationships, entrepreneurship policies, institutional environment. The influence of social capital on entrepreneurship behaviors gets mainly focuses on researchers.

Social capital means the connection between individuals and organizations: namely social network, reciprocity specifications, and corresponding trust, which are resources brought by position in the social structure. Recognition on social capital the entrepreneur owned would affect subsequent entrepreneurship behaviors. Sufficiently explore the beneficial value of social capital could improve success in venture activities. However, some researchers also find out that social capital may have negative effects on pursuing entrepreneurship opportunities, for the reason that some biases may hinder the formation of innovative thoughts in the social networks.

In addition, recognition of entrepreneurship policies and institutional environments would affect entrepreneurial behaviors. Lim et al. believe that policies, laws, and finance would have an impact on entrepreneurs' business arrangement and risk-taking willingness, while business arrangement obtains the biggest influence on innovation decisions. If entrepreneurs can recognize that economic management system and relevant procedures are simpler or more convenient debt financing approaches are provided by the banking system, they would demonstrate more prominent business arrangement and risk-taking willingness. It is obvious that a

complicated system is not suitable for entrepreneurship. It is obvious that less complex regulatory regimes demonstrate higher levels of venture arrangements and willingness scripts (Lim et al. 2010).

2.3.1.2 Entrepreneurial Self-efficacy

Self-efficacy

Self-efficacy was first put forward by behaviorist psychologist A. Bandura. In his opinion, self-efficacy refers to an individual's confidence in their ability to mobilize their motivation, cognitive resources, and courses of action in order to achieve high levels of performance. Self-efficacy in the field of work refers to an individual's confidence in their ability to mobilize their motivation, cognitive resources, and courses of action in order to achieve high levels of performance, which reflects the confidence level for success (Newman et al. 2014).

Self-efficacy possesses five features. Firstly, it is the key factor of behavior driver and a significant basis for human actions. Then, it can be regarded as an intermediary for acquiring various knowledge, technologies, experiences and succeeded behaviors. Thirdly, self-efficacy happens before activity, which reflects the anticipation about whether the activity can be carried out successfully. Moreover, it is subjective. Finally, as an aspect of main factors, self-efficacy is a development indicator instead of a static inherent property, self-judgment at an individual level made by various efficiency information during interactions between human and environment (Bian 2004).

Self-efficacy has drawn extensive attention once it was raised. At the early stage, researches mainly focused on its influence on academic performance and academic achievement of adolescence. In recent years, some researches started to focus on and explore self-efficacy's impact on entrepreneurship behaviors.

Embodiment of Self-efficacy in the Field of Entrepreneurship

On the basis of self-efficacy, entrepreneurial self-efficacy indicates the confidence in ability to attain high levels of performance, constituting entrepreneurship behavior drivers as a key element. Moreover, entrepreneurial self-efficacy's influence on entrepreneurship actions is also proved by a large amount of researches. Among numerous elements that affect entrepreneurial intention, self-efficacy at the individual level is a significant recognized variable that gets relatively high attention. In accordance with Ajzen's theory of planned behavior, Norris has constructed cognitive impact model, considering that individual entrepreneurial self-efficacy, anticipation value, and generalized belief would affect its entrepreneurial intention, while attitude, subjective standard, and perception at individual level play mediating roles (Krueger et al. 2000). Research conducted by S. S. Culbertson also testifies that entrepreneurial self-efficacy can enhance entrepreneurship at individual level (Culbertson et al. 2011). J. Sequeira et al. have constructed a entrepreneurship process model (Sequeira et al. 2007).

2.3.1.3 Entrepreneurial Alertness

Entrepreneurship alertness is described as the competency to identify entrepreneurship opportunities that are neglected by other people. Yang Jinzhan has set up a model that could affect entrepreneurial alertness by personality traits, social capital, and foregoing knowledge (Yang 2006). Tang et al. regard entrepreneurial alertness as a part of the entrepreneurship recolonization process, including information searching, forming connection and evaluation, and judgement.

Essentially, entrepreneurial alertness demonstrates an individual's attention and aspiration toward entrepreneurship opportunities. Entrepreneurial alertness can also be called commercial opportunities or market opportunities, indicating attracting, relatively enduring, and appropriate business activities space. Finally, it is presented as services and products that can create and increase value for customers and clients. Entrepreneurship opportunities are equipped with effectiveness, attraction, and durability, and are relied on products, services, and businesses that create or increase value. Mark Twain once said: "I can seldom identify an opportunity, sometimes when I see it, it has already slipped away." A number of entrepreneurs make achievements for them catching fleeting opportunities under certain times and backgrounds. For instance, many miners' are working with their knees on the ground, so their pants are usually broken on that part. However, there are many useless canvas tents in my area, so the founder of Levi Strauss & Co. Levi's came up with the idea to make jeans. This is how jeans came from. The creation of many entrepreneurship opportunities is initially came into being as problems. And some successful entrepreneurship models are built on the simplest problem in life.

Don't want to cook nor go to the restaurant: the takeout software "Are You Hungry" emerged.

The cup is too hot to hold: A heat-insulated cup sleeve came into being.

Don't want to go out for shopping: online shopping emerged.

Too difficult to call a taxi: taxi-hailing apps are born, such as Uber, Kuaidi, and Didi.

Narrow in communication: WeChat, Facebook, Twitter are created.

Turn "myth" into reality: VR are generated

.....

In the future, what are the entrepreneurial opportunities based on realistic issues?

- (1) Entrepreneurship opportunities brought by population aging. The number of aged people in China ranks first in the whole world. And the speed of population aging is also on the top. Under this certain historical background, a large amount of entrepreneurship opportunities are brought by healthcare services, household management service, commodities manufacturing, life insurance and financial management, characteristic tourism, and education for senior people.
- (2) Entrepreneurship opportunities during the development of the sport industry. In accordance with *Several Opinions of the State Council on Accelerating the Development of Sports Industry to Promote Sports Consumption* released by

the State Council on October 2014, “China is committed to primarily building sport industry with reasonable layout, perfect function, and complete categories. Sports products and services shall be further enriched, and the market mechanism should be constantly consummated, which are accompanied by the increasingly consumer demand. Other industries are highly developed. The sport industry in China has achieved over 5 trillion, becoming the significant force to promote persistent development of the economy and the society.” In combination with gender, female fitness and leisure industries are the main direction of entrepreneurship in the future.

2.3.2 Measurement on Cognitive Quality of Entrepreneurs

2.3.2.1 College Students Entrepreneurial Cognitive Scale

Based on the questionnaire used in research by Lai Minjuan, Yunlin University of Science and Technology, college students entrepreneurial cognitive scale was compiled.

The following statements concern your perception of yourself in a variety of situations. There are no “right” or “wrong” answers, so select the number that most closely reflects you on each statement. Your task is to indicate the strength of your agreement with each statement, utilizing a scale in which 1 denotes strong disagreement, 5 denotes strong agreement, and 2, 3, and 4 represent intermediate judgments. In the boxes after each statement, click a number from 1 to 5 from the following scale (Table 2.5):

1 = Strongly Disagree; 2 = Disagree; 3 = Neither Disagree Nor Agree; 4 = Agree; 5 = Strongly Agree.

2.3.2.2 College Students Entrepreneurial Self-efficacy Scale

Ever since self-efficacy was put forward, it has been considered as a single-dimensional definition, and has been measured by mono-factor tools. S. D. Barbosa et. They predicted it would be composed of several task-specific types of self-efficacy, including opportunity identification, self-efficacy relationship self-efficacy, managerial self-efficacy, and tolerance self-efficacy. They identified these four aspects by Factor Analysis Approach (Barbosa et al. 2007). This scale contains 13 items and adopts five-point scoring method.

The following statements concern your perception of yourself in a variety of situations. There are no “right” or “wrong” answers, so select the number that most closely reflects you on each statement (Table 2.6).

1 = Strongly Disagree; 2 = Disagree; 3 = Neither Disagree Nor Agree; 4 = Agree; 5 = Strongly Agree.

Table 2.5 College students entrepreneurial cognitive scale

No.	Item	1	2	3	4	5
1	Someone in my family has entrepreneurial experience that will benefit my future business					
2	The economic status of the family is an important factor in considering starting a business					
3	Families' support is good for my future business					
4	Learn entrepreneurship-related courses at school are beneficial for my future venture activities					
5	Entrepreneurship-related courses at school are conducive to my future business					
6	Participating in entrepreneurial-related activities will increase my motivation for starting a business					
7	The school's emphasis on entrepreneurship education will increase my willingness to start a business in the future					
8	The current unemployment situation in society will increase my entrepreneurial willingness					
9	The current abundant social capital is beneficial to increase my entrepreneurial willingness					
10	The current social and economic development is beneficial to entrepreneurship					
11	Social respect for the self-employed entrepreneurs is conducive to increasing my entrepreneurial will					
12	The current scientific and technological progress is beneficial to increase my entrepreneurial willingness					
13	The current development of information is beneficial to increase my entrepreneurial willingness					
14	Government counseling measures for entrepreneurship help increase my entrepreneurial willingness					
15	I have the competencies to succeed in starting a business					
16	There is no difficulty in achieving entrepreneurial success for me					
17	I have the ability to solve problems encountered during the startup process					
18	I can start my business easily					
19	I am full of confidence in my own business					
20	I can definitely cope with unexpected situations in the entrepreneurial process with my talent					
21	When I have troubles in venture activity, I can always find solutions					
22	If I make the necessary efforts, then venture activity is not difficult for me					
23	I can deal with entrepreneurial hardships calmly because I believe in my competencies to handle the issues					
24	Even with other people's objections, I can still achieve success					

Table 2.6 College students entrepreneurial self-efficacy scale

No.	Item	1	2	3	4	5
1	I am capable of judging good business opportunities					
2	I am capable of finding out good business opportunities					
3	I am capable of distinguishing between profitable and unprofitable business opportunities					
4	I am capable of building a good entrepreneurial relationship					
5	I am capable of obtaining venture capital from other people or institutions					
6	I am capable of handling various interpersonal relationships in the entrepreneurial process					
7	I am capable of managing the enterprise					
8	I am capable of managing the funds of a startup					
9	I am capable of managing the employees of a startup					
10	I am capable of managing various businesses and markets of startups					
11	With my competencies, I can cope with unexpected changes in the entrepreneurial process					
12	Even if I have troubles and pressures in the process of starting my business, I can find solutions					
13	When conflicts aroused in the entrepreneurial process, I have the ability to find a solution					

2.3.2.3 College Students Entrepreneurial Alertness Scale

The entrepreneurial alertness scale, compiled by Tang, is validated a 13-item alertness scale that captures three dimensions, namely scanning and search, association and connection, and evaluation and judgment (Tang et al. 2012).

The following statements concern your perception of yourself in a variety of situations. There are no “right” or “wrong” answers, so select the number that most closely reflects you on each statement (Table 2.7).

1 = Strongly Disagree; 2 = Disagree; 3 = Neither Disagree Nor Agree; 4 = Agree; 5 = Strongly Agree.

2.4 Formation of Entrepreneurial Quality

Entrepreneurial quality decides that entrepreneurs tend to put hope and ideas into practice. In the meantime, that entrepreneurial quality enables entrepreneurs to be more qualified to start a business and to be more competent to deal with complicated problems and various pressures during the entrepreneurship process. Under diversified social-cultural background, entrepreneurs at different ages would demonstrate various competencies and qualities. There is a huge difference between entrepreneurs in Information Age and under internet background in the aspect of

Table 2.7 College students entrepreneurial alertness scale

No.	Item
1	I have frequent interactions with others to acquire new information
2	I always keep an eye out for new business ideas when looking for information
3	I read news, magazines, or trade publications regularly to acquire new information
4	I browse the Internet every day
5	I am an avid information seeker
6	I am always actively looking for new information
7	I often find new combinations of people, materials, or products
8	I can find links between seemingly unrelated pieces of information
9	I often see connections between previously unconnected domains of information
10	I have a gut feeling for potential opportunities
11	I can distinguish between profitable opportunities and not-so-profitable opportunities
12	I have a knack for telling high-value opportunities apart from low-value opportunities.
13	When faced with multiple opportunities, I am able to select the good ones
14	I usually consider the information and ability needed for successful entrepreneurship
15	I usually think about how to succeed in entrepreneurship
16	I often consider the methods to improve my entrepreneurial competencies
17	I often think if my entrepreneurial conditions are sufficient
18	I usually consider how to make up for my deficiency in entrepreneurial conditions

entrepreneurial quality. Currently, due to the influence of subjective and objective conditions, the entrepreneurial quality of college students is not sufficient. HEIs should conduct systematic researches on personality traits, entrepreneurial competencies, and the cognitive quality, made customized curriculum in improving entrepreneurial quality, so that entrepreneurial quality needed for venturing activities can be formed during the entrepreneurship education process.

2.4.1 Influence Factor for Forming Entrepreneurial Quality

Entrepreneurship quality is composed of personality traits, entrepreneurship competencies, cognition, etc. In terms of the current social environment, entrepreneurship qualities formation would be affected by entrepreneur's experience, educational level, the degree of social opening, the activity of venture activities, and social culture's attitude toward entrepreneurship education, as well as entrepreneurs' families. The following part is centered on self-experience, educational level, and given times background.

Self-experiences. In terms of the growth experience of most entrepreneurs, entrepreneurs might have more "story" compared with a normal person, whose life contains much more accidental factors, or even mysterious colors. From their stories, personal life experience has a remarkable influence on the formation of entrepreneurship quality. A person with a comfortable life and fluent life experience

would have a relatively weak willingness to start a business. While a person, whose life is uncertain and is anxious to improve the current situation, is more willing to start a business. Besides, they have much more anti-frustration ability. Of course, compared with the general population, those who are born in entrepreneurial families would have more obvious entrepreneurship quality, even they don't have such specific "story".

Education level. In terms of the education level of entrepreneurs since the reform and opening up, there is no distinct connection between education level and entrepreneurship behavior. Under certain social and economic background, low educated people usually have better performance in personality traits, entrepreneurship competencies, and cognitive quality, and they obtain a high rate of being successful. Indeed, in the long-term objective system, entrepreneurship is no longer a very significant dominant goal but only a small part of education in the elementary education stage and even in higher education. Therefore, with the increasing years of schooling, the feature of talents in line with specific politic theory are more obvious, and the influence of certain culture in a country to the individual is much deeper, so that cultivation of entrepreneurial personality traits and educational mode would be affected accordingly. Certainly, it is closely related to the educational goals of the specified country. For instance, compared with educational mode under the influence of Western culture, education in China is thoroughly affected by traditional Confucian culture. Entrepreneurial personality traits and competencies aren't the primary cultivating goal in the education system in China, resulting in a huge discrepancy of entrepreneurial quality between the talents educated in China and in Europe and America. Definitely, the educational experience would have an impact on an individual's entrepreneurship quality in combination with the peculiar social experience, particular historical background of the entrepreneurs. During the mercantile years, the cultivation of entrepreneurship quality is strongly valued and vice versa. Each individual possesses underlying entrepreneurship quality that needs to be influenced and led by the external environment during the formation and performance stage. For example, in a feudal dynasty, commerce was treated as inferior work. And the whole educational system of training personality traits and competencies was centered on "benevolence" and "courtesy" brought by Confucianism, reflecting on the difficulty in forming entrepreneurial quality. Implementation of reform and opening up in China enables underlying entrepreneurship qualities to burst out from hundreds of thousands of individuals. Illegal entrepreneurial behavior under the former political conditions gained legal standing in society. And entrepreneurship behavior of the individual was encouraged. Since the reform and opening up, economic development and industrial reform and innovation were promoted by entrepreneurship quality and mindset after unyoking from political and economic constraint.

In short, the formation of entrepreneurship quality is a complicated process that is influenced by multiple factors. It's easy to conclude the influential factors of entrepreneurship quality and the elements that affect entrepreneurship. However, it's hard to construct a scientific mode to predict what kind of entrepreneurship quality one would possess.

2.4.2 Current Status and Features of Entrepreneurial Quality of College Student Entrepreneurs

College students are the main force for innovation and entrepreneurship in China with their distinctive knowledge structure and entrepreneurship quality. Current status and features of entrepreneurship quality of university student entrepreneurs are closely related to their entrepreneurship behavior, which is also one of the prerequisite factors for implementing entrepreneurship education in HEIs. In the light of constituent elements of entrepreneurship quality, some obvious problems have existed in university students, such as enthusiasm surpassing rationality, skills below knowledge, insufficiency in experience, and lacking in cooperative consciousness. These problems are inevitable outcomes under the educational conditions, and are the puzzle to be solved in entrepreneurship education in HEIs.

First of all, the achievement motivation of most university students' entrepreneurs demonstrates utilitarianism. Achievement motivation takes a significant position in personality traits that would affect or even decide the sustainability of entrepreneur behavior and tenacity in the face of hardships. In the aspect of entrepreneurship behaviors of university students, most of them are centered on the fields that get short-term response easily, such as internet commerce, containing less entrepreneurship projects supported by technology. Research and investigation show, the main driven force of college students choosing venture activities is built on external reasons such as high pressure in employment, uncertainty in career prospects. As a matter of fact, elementary education is effected by exam-oriented education, and higher education institutions are in the function transforming procedure. Entrepreneurial quality education for university students in China is scarce during the education process. Actually, before receiving higher education, most students haven't studied any knowledge and courses relevant to entrepreneurship. The way they get entrepreneurship is either successful venture examples or entrepreneurship education after entering in HEIs. In the meantime, after the expansion, students receiving higher education are also confronting with employment pressure, and huge disparity has existed between their payment anticipation and former diligence. Besides, entrepreneurship relevant policies and entrepreneurship boom are encouraging university students to start a business. Therefore, the main driven force that promotes university students to conduct venture activities is not self-achievement motivation, but an external factor.

Secondly, university student entrepreneurs possess the comparatively weak capacity in risk-bearing and emotion controlling. Currently, deficiency in entrepreneurship fund and imperfection in relevant capital support policies results in those initial funds of entrepreneurship are mainly from family and loans. Their risk-bearing competencies are extremely frail. Once the venture fails, they would face an uncontrollable position, so that they are to deal with hardships and frustrations. Moreover, the weak risk-bearing competencies enable unsound institutions, making entrepreneurs stuck in the capital trap. Taking online loans as an example, a large amount of venture communities have applied entrepreneurship capital from those institutions, but end up trapping into embarrassment due to

failure in venture activities, causing the whole family returning to poverty. To some degree, risk-taking and emotional controlling needed to be assured by certain insurance mechanisms to guarantee entrepreneurs' daily life and living bottom line. Without such a mechanism, huge risks exist in entrepreneurship behaviors for entrepreneurs adopting loans and family accumulations.

Moreover, innovative consciousness and cooperative competencies are comparatively deficient for university student entrepreneurs. As a whole, traditional culture in China doesn't encourage individuals to be particular nor innovative. Score-oriented educational mode erodes innovative ideas by various negative factors. To a large degree, cooperation is not requisite in the written examination, and innovation is not encouraged in recognition with standard answers. Therefore, although university teachers are confronted with high-grade students, they have to make compromises to the reality that this group shows comparatively weak innovation and creation. Innovation and cooperative competencies belong to the entrepreneurial trait, without which successful entrepreneurs seldom exist. We can imagine that university students nowadays are lacking in entrepreneurship quality that is hard to be cultivated.

In addition, problem-solving competencies of university student entrepreneurs are largely affected by the learning procedure of considering book knowledge as the main carrier and the assessment method regarding written examination results as the primary indicator. Most university students had access to entrepreneurship-related knowledge when they had enrolled in HEIs. Entrepreneurship behavior under the ivory tower is usually their first entrepreneurial practice, filled with tentativeness and uncertainty. University students get to know the society for the first time by means of entrepreneurial due to the fact that they are lack of commonsense in social-economic activities, business operation, and profound comprehension of the society, which are exactly one of the reasons for low success rate.

Entrepreneurship quality issues in China largely exist in other countries. Moreover, the deficiency in experience, knowledge, etc. can be remedied under the Internet conditions.

2.4.3 Formation Path of Entrepreneurial Quality for College Student Entrepreneurs

College student entrepreneurship is a unique group, with their distinctive learning experience and age character being advantages compared with any other entrepreneurs in the society. However, these underlying qualities should be transferred to reliable and stable entrepreneurship qualities through education and other approaches.

Primarily, systematically design the entrepreneurial education system. Formation of any quality needs long-term cultivation and corresponding education support system. Compared with any other entrepreneurship boom in HEIs, entrepreneurship education in primary education is still at the initial stage. There is a huge limitation of entrepreneurship education courses and influence. High pressure of

exam-oriented education makes it hard to implement entrepreneurship education in the elementary stage. Currently, it's difficult but worth trying educational reformation to popularize entrepreneurship education by setting up curriculum and to construct an assessment system relevant to entrepreneurship education courses from primary school to high school. Only in this way, entrepreneurship education can be more pertinent and productive. In terms of entrepreneurship education in HEIs, measures should be taken to strengthen entrepreneurship education curriculum, construct entrepreneurship practice base, reform entrepreneurship teaching faculties, and form a unified entrepreneurship education entity.

Secondly, construct a sound practice supportive system. Just as entrepreneurship education, the formation of entrepreneurship quality requires a sound practice supportive system. Apart from entrepreneurship education in school, a transition platform should be constructed to link school education with venture practice in enterprises. This transition platform is committed to letting students apply their knowledge into imitative practice, which can be led both by enterprises or schools. Students can fully experience various business activities during the entrepreneurship process, so that entrepreneurship education experience can be overall consummated, and entrepreneurial skills can be truly improved.

Thirdly, construct multiple evaluation criteria. Evaluation of higher entrepreneurship education should bring in industrial strength and break away from traditional evaluation mode on curriculum and teaching. Besides, multiple criteria should be built to separately evaluate knowledge, skills, and experience during learning of entrepreneurship. Only in this way, entrepreneurship quality can truly form.

Finally, stimulate personal entrepreneurship consciousness and motivation. External factors can function by internal motivation at the individual level. One significant goal of entrepreneurship education is not only let those who receive entrepreneurship education start a business, but also stimulate innovative consciousness of entrepreneurship education, cultivating an entrepreneurial mindset and break through competencies.

Review

1. Entrepreneurial qualities consist of personality traits, entrepreneurial competencies, and cognitive quality.
2. Personality traits of entrepreneurs are comprised of Need for Achievement, Internal Locus of Control, and Propensity to Take Risks, Consciousness on Problem-Solving, Willingness to Assert Oneself, Tolerance of Ambiguity, Emotional Stability, and Innovation Cooperation.
3. Entrepreneurial competencies are constituted by entrepreneurial knowledge, entrepreneurial experience, and entrepreneurial skills.
4. Cognitive qualities of entrepreneurs include entrepreneurial cognition, entrepreneurial self-efficacy, and entrepreneurial alertness.
5. Underlying qualities of university students need to be transferred into liable and stable entrepreneurial qualities by education and other approaches.

Think and Discuss

1. Do university student entrepreneurs possess special personality traits?
2. What kind of methods is applicable for university students to judge if they possess entrepreneurs' requisite qualities?
3. How does entrepreneurial self-cognition of college students form?
4. Do you need to learn entrepreneurial knowledge if you want to start a business after graduation? Can entrepreneurship be taught or be learned?

Prepare for Entrepreneurship Education

3

Lead

If you want to acquire entrepreneurial knowledge, you should continuously learn and summarize.

Learning Objective

1. Understand the definition of professional knowledge, and learn to accumulate it in practice.
2. Master management features of newly built enterprises, and basic financial knowledge of entrepreneurs.
3. Employ various marketing strategies on the basis of seeking market.
4. Comprehend legal and regulation knowledge during employment, marketing procedure to avoid unnecessary legal issues.

Introduction

Entrepreneurship can be described as a complicated social system. Relevant knowledge is of great importance for entrepreneurs to avoid bumping around. This chapter is going to introduce imperative basic knowledge for entrepreneurship including professional knowledge, management knowledge, financial knowledge, marketing knowledge, and entrepreneurship-related laws and regulations, laying a steady foundation for starting a business.

3.1 Basic Knowledge of Entrepreneurship

3.1.1 Professional Knowledge

3.1.1.1 Definition of Professional Knowledge

Case

Olson, the Inventor (Liu 2004)

Olson's father is an assiduous engineer who has deeply affected Olson. Ten-year-old Olson enjoys making "gadgets" in the basement of his home. He designed and set up a radio station in the basement, which was his first invention. During World War II, Olson joined the navy and officially received training in motor maintenance. Before long, he acquired proficiency in producing, operating and maintaining electric generator, electric motor, and a streamer ship, becoming an excellent technician. After retiring from the army, he enrolled in MIT to pursue education, where he got great grades and showed his talent in electronics, and engineering. In 1957, Olson started a Digital Equipment Corporation with his assistant, engaging in the production of microcomputer and semiconductor primed circuit board (PCB). At the initial stage of establishing the corporation, Olson ran around to raise funds and only got 70 thousand dollars from venture capital company in Boston. He was devoted to designing and manufacture, and finally created a practical and inexpensive microcomputer. His corporation was increasingly prosperous that demand would exceed supply soon. In the aspect of management, Olson requires that each senior staff shall be in charge of the development of a new product from the beginning to the end. This kind of combined operation method, from production to sales and profit, largely mobilized initiative of staff.

In accordance with the case, professional knowledge possessed by entrepreneurs would directly affect entrepreneurship. In a traditional sense, entrepreneurship activity must be equipped with professional knowledge of its domain. For instance, entrepreneurs in the information technology industry must possess professional knowledge in IT, so do entrepreneurs in international trade and accounts. There are two requirements for entrepreneurial knowledge: be extensive and be profound. Taking Bill Gates as an example, he is an outstanding programmer that is proficient and enthusiastic in electronic computer, contributing the most important factor for establishing Microsoft. Warren Buffet, known as the stock deity, excelled in financial and business management. He learned from famous investment manager Benjamin Graham, from whom he learned and laid a steady foundation for his development in the area of investment. Therefore, professional knowledge is a requisite for entrepreneurship, but opposite opinions also raised. For instance, Jack Ma, knowing nothing about Information Technology, has already built his own Internet empire. Besides, Shi Yuzhu was engaged in the health product industry that has no relation to his profession.

3.1.1.2 Access Channels to Professional Knowledge

Combination of In-school Learning and Off-campus Practice

Premeditated, systematic, and guided learning is the vital access to professional knowledge during the university period. Moreover, it is also feasible to acquire professional knowledge by learning courses of other disciplines, or extracurricular activities. However, professional knowledge in school is mainly discipline-based, which might not be transferred into entrepreneurial knowledge directly. Therefore, reasonable tentative experience before conducting entrepreneurship activities plays a significant role. And it's imperative to learn in practice and experience.

Applying Team Professional Knowledge

Entrepreneurship can be both personal behavior and group cooperative behavior. One entrepreneur doesn't need to master professional knowledge in all aspects. Newly built entrepreneurs can get rapid development through knowledge complementary to the entrepreneurial group.

Life-Long Learning

Along with the development of scientific technology and society, disciplines grow at a rapid speed, accompanied by fierce competition within diverse industries. Without effective improvement and concrete development, previous professional knowledge and skills are out of date. Glories of entrepreneurship are also temporary. Therefore, entrepreneurs should establish a life-long learning concept to learn from experience and to improve from practice, which is an objective requirement of learning professional knowledge and a fundamental guarantee of improving self-quality, seizing entrepreneurship opportunities, consolidating entrepreneurial outcomes, and realizing enterprises' development.

3.1.2 Management

Case

Liu Mingqi's Sichuan Cuisine Restaurant (Julian et al. 2008)

Liu Mingqi had worked in an administrative department in a textile mill. In 2013, he became one of the laid-off workers due to declining profit of the mill. Liu Mingqi, possessing an unyielding spirit, decided to start all over again. He found that a lot of people made much money in the catering industry that needs low technical content. So, he opened a small-sized Sichuan cuisine restaurant with more than 200 thousand Yuan. On the opening day, he invited many friends and relatives to celebrate. They were all pleased to say that they finally have a place to eat. The restaurant ran well at the initial stage with many friends consuming, and Liu worked

nearly every day at the restaurant. However, after 1 or 2 months, he couldn't bear the work intensity so that he handed over all the work to the chief and became a handover boss. He, respectfully addressed as General Manager Liu, either played cards or drunk with friends, quite enjoying his life. After half a year, he started to cast an account, only to find that the restaurant was in the red almost every month and held a lot of debt from friends. Ever since then, the restaurant sustained for another 2 months and went bankrupt.

Entrepreneurs need to master certain enterprise management knowledge, including basic management knowledge such as fundamental principles, organizational performance, manager's power and responsibilities, and senior management knowledge consisting of how to draw plans, how to effectively manage enterprises, how to effectively control cost, and how to achieve innovation.

The primary cause of Liu's failure result from improper management. The fatal error is that he didn't realize the necessity and specialty of management at the initial stage of entrepreneurship. Entrepreneurs usually neglect management at the initial stage of entrepreneurship due to the reason that enterprise in this stage is smallness in size, simplicity in the structure, singularity in the relationship, and clearness in the capital chain and logistics chain. Especially, entrepreneurs are easily becoming dizzy with temporary success. In accordance with the first *Report on Private Enterprise Development* released in 2005, 150 thousand private enterprises are built every year, with 100 thousand fading away every year. 60% private enterprises would go bankrupt within 5 years, and 85% enterprises vanished in 10 years. Moreover, the average life expectancy of private enterprises is just 2.9 years. Therefore, what are the specialties of management at the initial stage of entrepreneurship?

First of all, demand in the transactional management model. On account of cost and scale, enterprises are confronted with less manpower and unfamiliar skill of staff, so that division of labor is not so accurate. Therefore, managers have to go deep into details, handling problems in all aspects they meet during enterprise management. Entrepreneurs must conduct hands-on managing from purchasing to manufacturing, from financing to marketing.

Secondly, weak risk-taking competence. Newly built enterprises are relatively weak that they have neither abundant capital nor practical experience in confronting with risks. At the initial stage, enterprises should adopt survival-oriented management. Expanding development goals randomly, making hasty response to temporary market demand, and blindly pursuing earning good money and huge profits.

Thirdly, insufficiency in funds and high requirements in cash management. On the one hand, due to insufficient funds, newly built enterprises need to increase income and reduce expenditure, accelerating capital turnover, and controlling development rhythm. On the other hand, entrepreneurs can't blindly pursue the growth of profit and sales, neglecting cash management. Small-sized enterprises must give priority to cash flow management. Had any breakage in cash flow management, enterprises may not survive.

Fourthly, much endeavor is needed. At the initial stage of entrepreneurship, enterprises are confronted with a tough situation. Besides, there are always peak season and the slack season, climax and trough in business. During entrepreneurship, entrepreneurs need to devote much more funds and energy than common people. In this way, entrepreneurs can lead the team to work hard and enjoy entrepreneurial outcomes.

3.1.3 Financial Knowledge

3.1.3.1 Cost Accounting

Definition of Cost Accounting

Cost accounting means processing all practical financial information. Cost accounting is to calculate the cost of a specific object. Enterprises' scales are different from each other. The same is true of the business nature, and projects. Therefore, specific analysis on how to organize the cost accounting, and how to determine cost accounting object should base on specific issues.

Cost accounting of enterprises is a significant part of manufacturing, operating, and managing. Reasonable cost account is a benefit for saving cost, increasing profit, as well as improving manufacturing technology and efficiency.

Application of Cost Accounting Method

Tremendous difference in manufacturing form and management method leads to disparity in specific cost accounting. For instance, as a result of variation in scale, manufacturing organizing form, and technology features, cost accounting objects are diversified. Some enterprises are manufacturing finished products, while some produce all kinds of semi-manufactured goods. Some enterprises adopt mass production, and others manufacture single products or a one-piece production manner.

By means of long-term exploration, frequently used cost accounting methods have been explored, such as category costing method, batch costing method, and process costing method. If the products are manufactured in a one-step procedure and aren't required mass production, the cost can be calculated regarding product varieties as an object, which can be called a category costing method. Supposing that the products are produced by batch, each batch would be considered as an object, called batch accounting method. The process costing method is to calculate every semi-manufactured product and finished product in each procedure, on condition that product manufacture consisted of several steps, and products are produced in large amounts or in large volumes (Wu 2013). Entrepreneurs need to select the proper cost accounting method in accordance with the practical condition of their enterprises.

3.1.3.2 Accounts Receivable Management

Accounts receivable management means management of the whole process of receiving all loans. In credit sales, obligation rights are officially started from retailers providing products or services to purchasers and ended at actual receive payments or at dealing as non-performing loans. Accounts receivable management is an essential part of credit management, aiming at receiving loans adequately and promptly, reducing and avoiding credit risks.

Poor management on accounts receivable has an impact on the cash flow of enterprises, and even directly cause bankruptcy. The main reasons leading to management problems are as follows: (i) insufficient servery on credit condition of clients result in increasing accounts receivable; (ii) untimely analysis on time duration of accounts receivable causing an increase of enterprise's risks; (iii) methods and procedures to recall overdue receivables.

Case

Failure of Wang (Chen et al. 2007)

Wang has two new clients: one of them is a fancy restaurant and the other is chain supermarkets started by the richest man in the local area. The owner of the fancy restaurant found Wang and said: "please allow me to pay you in a month. We spent over 2 million in decorating. And since we only sell a fish in a dollar and give 50% discount, we can definitely make profits. How could we owe you?" Therefore, Wang trusted him. As for the chain market, Wang was more at ease, for it was owned by the richest merchant in the local area, so he didn't settle the loans in the first place. Two months later, Wang still hadn't received loans from the two customers.

In this case, the former client sells at very low price while cost a lot in material and decoration. It is impossible for him to pay for Wang immediately. The latter may accumulate funds by loans, let alone strictness in cash management in the market. Without analyzing the specific condition of the two clients is the primary reason for this situation.

For newly built enterprises, sales on account are unavoidable for the sake of adapting to the market, and stabilizing the marketing channel. Nevertheless, they have to be clear that sales on account would increase risks. Hence, accounts receivable management aims at playing a positive role of accounts receivable and limiting its negative effects, improving utilization benefit to the maximum degree.

The following points should be guaranteed for newly established enterprises:

- (i) Assuring a certain amount of profit, loans should be avoided as much as possible. Newly established enterprises are highly dependent on cash, lacking of which would lead the enterprises into a dangerous situation.
- (ii) Before selling on accounts, the client's credit, solvency, capital, mortgage, the economic situation must be investigated to evaluate possibilities of debts being repudiated, quantitatively analyzing losses caused by bad debts.
- (iii) Motivation of clients' paying in advance can be stimulated by providing a discount to cash payment and anticipated payment.

- (iv) Tracking accounts receivable to analyze how many clients can prepay loans, how many clients would defer payment, and how many loans are defaulted for a long time. For those loans defaulted for a long time, feasible debt-collecting policy and scheme shall be raised promptly to keep loss to a minimum.

3.1.4 Marketing

3.1.4.1 Seek Marketing

If the supply in the market is less than demand, any product can be sold. But along with gradually saturation of the market, the application of marketing strategies becomes important. Owing to the weakness of entrepreneurial enterprises and limitations in anti-setback capability, marketing needs to be precise and accurate. Entrepreneurs should make accurate market positioning to meet the true demands of consumers by providing reasonable products and perfect service.

Following the four steps, entrepreneurs can meet consumers' true demands.

- (i) Seeking consumers. Successful entrepreneurs can always find out consumers' demands, and business opportunities in the commonplace. What calls for special attention is that business opportunities are often restricted by location, time, etc.
- (ii) Bringing forward problem-solving plans. For instance, an electronic instrument plant, located in the south part of China, conducted a series surveys and found out that kindergarten, primary, and middle schools are urgently in need of a new type of electronic organ with better timbre than organ, more functions, portability, and easiness to maintenance. Therefore, the plant decided to enter this market. Obviously, the key issue is to determine whether this kind of electronic organ can be produced.
- (iii) Considering the economic efficiency of business opportunities. If the price of an electronic organ is well above the organ which is beyond the schools' capacity to afford, consumers may choose affordable ones despite the excellent function of an electronic organ.
- (iv) Judging substitutability of business opportunities. Some entrepreneurs found out opportunities and raised correspondent scheme. However, lacking consideration of peculiarity, economy, and speciality, entrepreneur, only striving to draw schemes by his own thought, would easily generate blind arrogant emotion that leads to failure of marketing positioning and be replaced by competitors. This step is usually neglected by many entrepreneurs.

3.1.4.2 Marketing Strategy

Generally speaking, marketing strategy is conducted through four dimensions, namely, products, prices, channels, and sales promotion.

Primarily, grasping product cycle. The product cycle means the process of launching, hot selling, decaying, and weeding out, which reflects both changes in consumers’ concept, preference, and acceptance, and competitive outcomes of different products. Table 3.1 shows the general model of consumers’ accepting of new products. Entrepreneurs design products in accordance with market demand to realize the transformation from products to commodities. The key to extending products’ life cycle is the consumers’ acceptance degree and satisfactory degree.

Secondly, determining reasonable prices. The imperative principles to fix the price of a product are survival and market competitiveness. For newly built enterprises, profit is the first principle, due to the reason that the money-burning model, price lower than cost, is unsustainable. Both explicit costs and implicit costs should be considered during setting the price. The market competitiveness of products would significantly impact market share. Therefore, price setting must take the competitiveness of similar products into consideration.

Case

TCL Products’ Strategy (Han 2007)

Why could TCL, previously communication equipment manufacturer and an uprising star in the TV market, surpass many other competitors? One of the significant reasons is that they have conducted abundant surveys. Outcomes show that domestic TV is under the size of 54 cm and has a simple function, cheap but low-graded. TV imported from abroad is equipped with a larger screen, above the size of 64 cm, costing more than 13 thousand Yuan that is too expensive to afford for common civilians. However, a large amount of city dwellers yearn for exclusive ultra-thin TV with high-definition images and picture-in-picture technology. Therefore, TCL raised a new product scheme: remove the least frequently used devices and functions to reduce the cost for bringing out multifunctional TV with a big screen at a moderate price. Consequently, TCL’s strategy of occupying the middle market achieves great success in an intensively competitive TV market, just like an onrushing dark horse.

Table 3.1 General model of consumers’ accepting new products (Li et al. 2007)

Stage	Accept the products at the initial stage		Most consumers accept the products		Few consumers accept the products at a later period
	Innovators	Early adopters	The majority at early stage	The majority at later period	Straggler
Percentage	2.5%	13.5%	34%	34%	16%

Table 3.2 Comparison among promotion methods (Han 2007)

Method	Advantage	Disadvantage
Personnel promotion	Flexible approach; in favor of depth communication; easy to arouse customer interests; promote transaction	High cost; narrow impact; difficult to manage effectively; hard to cultivate, and seek proper talents
Advertisement	Wide information coverage; easy to arouse customer interests; reusable; information can be artistic	Lack conviction; slow feedback; hard to adjust; difficult to complete the transaction quickly
Public relations	Wide impact; easy to be trusted by consumers; enduring effective	Hard to control spreading process; slow effect
Sales promotion	Huge attraction; capable of changing customers' purchasing habits	Easy to arouse suspicion; devalued

Thirdly, disentangling marketing channels. In general, marketing channels consist of four types:

- (i) zero-level channel: manufacturer → consumer;
- (ii) primary channel: manufacturer → retailer → consumer;
- (iii) secondary channel: manufacturer → wholesaler → retailer → consumer;
- (iv) tertiary channel: manufacturer → commercial agent → wholesaler → retailer → consumer. Innovative enterprises mainly adopt zero-level channel which is low in cost, quick in inventory turnover, and high control in product, but is decentralized in network and narrow in coverage.

Fourthly, expanding sales promotion channel. Sales promotion indicates that enterprises make customers acquaint with products by various effective methods to stimulate purchase desire, and finally buy the product. Sales promotion schemes include anti-seasonal selling,

Sales promotion can be realized by media advertising, outdoor advertising, posting banner, in-store display, shelves and freezers, product display, concessional sale at retail outlets, bundle sales, free drinks, clerk recommending, supermarket promotion, square promotion, etc. Table 3.2 lists the most frequently adopted promotion methods and their merits and demerits.

3.2 Laws and Regulations

3.2.1 Labor Legislation

Labor disputes often appear during the process of employing and dismissing, involving industrial injury compensation and economic compensation. As an entrepreneur, comprehension of relevant laws and regulations is beneficial for eliminating unnecessary troubles and defend legitimate rights and interests.

3.2.1.1 Recruitment

Recruitment discrimination has attracted increasing attention, among which geographical discrimination, gender discrimination, age discrimination, educational background, experience discrimination, etc., often appear. At present, large improvement of employers' legal awareness would lead to various unnecessary troubles to enterprises in the event of improper handling.

Case

Qi's Lawsuit

In June 2016, Qi participated in a recruitment exam for primary and secondary school teachers organized by Sports Office of Education department of Jin Xian County, Jiangxi province, and successfully passed the written test, and interview, but he was not recruited for failing physical examination owing to positive in HIV-1.

On November 26, 2012, Qi formally filed a lawsuit. In his opinion, in accordance with Employment Promotion Law of the People's Republic of China (hereinafter referred to as Employment Promotion Law), and Regulation on the Prevention and Treatment of HIV/AIDS, sports office of education department's behavior, deprived of his opportunity to be a teacher by certifying failure in physical examination for HIV-positive, violated the regulation: "No unit or individual shall discriminate against HIV-infected persons, and infringed legal right of equal employment." QI was based on Article 13 of the Employment Promotion Law: "When an employer recruits employees, it shall not refuse to recruit any person under the excuse that he is a carrier of an infectious disease. However, before a carrier of an infectious disease is confirmed upon medical test that he is cured or excluded from the possibility of spreading the disease, he shall not take up the jobs, in which it is likely to spread the disease and which are prohibited in laws and administrative regulations and by the health administrative department of the State Council."

After the prosecution, the People's Court of Jinxian County presided over mediating that both sides reached a mediation agreement on December 27, 2012. QI agreed to withdraw the lawsuit. In line with humanitarian and humanistic concern, the sports office of the education department of Jin Xian County compensated QI examination preparation cost of 3,000 Yuan, including registration fee, traffic expense, board and lodging expenses. In consideration of QI's practical difficulty, the sports office of education department would render 42,000 Yuan for financial assistance, which totally amounted to 45,000 Yuan.

During the recruitment process, employers should comprehend relevant laws and regulations, especially Employment Promotion Law, Labor Law of the People's Republic of China (hereinafter referred to as Labor Law), as well as industry standards and regulations. Then, possible discrimination or even illegal activities should be avoided. For instance, any differential treatment in view of nationality, religion, political view, social origin, gender, household registration, physical disabilities, physical health condition, age, height, language, etc., could be infringement behavior. Finally, employing unit should not lay off employees on the ground of illegal reasons such as gender discrimination, regional discrimination, etc.

3.2.1.2 The Tort Liability of Third Party

Industrial injury cases troubled employers a lot during enterprise operation. Due to improper handling of accidental industrial injury, some newly built enterprises got into trouble. In coping with tort liability of third-party cases, the following opinions can be referred.

- (i) In the daily production and operation processes, possible accidents should be considered in accordance with the enterprise and industry features. Correspondent precautionary measures should be taken accordingly, to reduce the accident rate to the minimum. In addition, employers can participate in industrial injury insurance and commercial insurance, as well as sign contracts with a third party in the relevant liability accident, reduce loss and risk brought by accident to the minimum.
- (ii) Once an accident occurs, employers should comply with the code of social law and actively participate in dealing with the accident, which is beneficial for acquiring a victim's understanding and is effective in preventing third parties (such as insurance companies) from transferring legal responsibility.
- (iii) During the process of industrial accident compensation, employers should have a clear comprehension of features and methods of various legal procedures. For instance, according to legal regulations, among all the industrial accident compensation, only the one dispute, asking an employer to pay for industrial accident compensation, belongs to a labor dispute. Dispute of claiming employment injury insurance agencies to pay for the compensation is a part of the administrative dispute, which is solved by administrative litigation. Besides, among the labor dispute, identification of injuring accidents may be involved that it can only be handled by filing a lawsuit for reidentification. In the aspect of relatively specialized legal issues, lawyers are needed to help and solve relevant problems.
- (iv) Industrial-injured staff can both claim employment injury insurance and civil tort compensation. Therefore, employers can't refuse to pay for compensation for the reason that injured staff can claim the third party to be responsible for tort compensation. The legal relationship of employment injury insurance compensation exists between workers and employers, while the legal relationship of tort liability is formed between injured staff and the infringing party. The two relationships are based on the same objective, but exist in two different legal relations, without mutual exclusivity. Hence, the employer still has to pay for food subsidies, nutrition fees, one-time disability benefits, one-time injury medical fees, lump-sum disability employment subsidy, paid leave salary, work-related injury appraisal fee, and work-related injury appraisal inspection fee, except medical care expenses that are paid before.

3.2.1.3 Dismiss Employees

Dismissing employees is a weighty topic both for enterprises and employees. Nevertheless, it is still an obligatory fact. In fierce market competition, enterprises'

goals can only be achieved by recruiting outstanding talents and obsolete disqualified staff. While improper handling of dismissing employees would lead to a labor dispute that adversely impacts the enterprise. Currently, there are three categories of illegal dismissal: insufficiency in factual basis, inaccuracy in legal basis, and unlawfulness in operation procedure, all of which are illegal actions that would bring huge risks to the operation and management of the enterprises.

Issues During Employees Dismissal

- (i) Employers shall not dismiss any employee during the probation period. In order to dismiss an employee during the probation period, employers must hold the principle of “not satisfying the recruitment requirements”. “Recruitment requirements” should firstly be confirmed, then employers should verify that the employer is not satisfied with the requirements in the meantime. This is the typical reason for improper dismissal for some enterprises. Employees with a strong consciousness of right protection are entitled to reclaim recover labor relations, which would result in a more embarrassing situation of management for the enterprises.
- (ii) Dismiss erring employees should be built on a factual and systematic basis. Employers can't fire all workers that violate discipline. Labor Law of the People's Republic of China stipulates: “The employer can revoke labor contracts when they seriously violate labor disciplines or the rules or regulations of the employer.” Hence, the definition of “seriously violates disciplines or the rules or regulations” is crucial to employers, which should be specifically regulated in an employee handbook or rules. Besides, the factual basis of an employee should be preserved. Employers can dismiss employees “when they cause great losses to the employer due to serious dereliction of duties or engagement in malpractices for selfish ends.” Definition and systematic basis may be clearly formulated as well. Moreover, the staffs, “When they are brought to hold criminal responsibilities in accordance with law,” can be fired by employers in no time.
- (iii) Employers should notify the fact of dismissing faultless employer in advance, and make economic compensation. The employer can revoke labor contracts should any one of the following cases occur: (1) The laborers can neither take up their original jobs nor any other kinds of new jobs assigned by the employer after completion of medical treatment for their illnesses or injuries not suffered during work; (2) The laborers are incompetent at their jobs and remain as so even after training or after readjusting the work posts; (3) No agreements on an alteration of labor contracts can be reached through consultation between and by the parties involved when major changes taking place in the objective conditions serving as the basis of the conclusion of these contracts prevent them being implemented. Employees should be notified, in written form, of dismissal in 30 days in advance and get economic compensation based on working years.

Economic Dismissal

Economic dismissal indicates that employers must cut down the number of the workforce during the period of legal consolidation when it comes to the brink of bankruptcy or when it runs deep into difficulties in business, to improve their current production and management situation. It is commonly used to overcome operational difficulties in a legal manner, which would involve in legitimate interests of laid-off workers. Therefore, for the purpose of guarantee a balance of legitimate interests between employers and workers, following lawful restrictions are made for economic dismissal: (i) the employer shall explain the situation to its trade union or all of its employees 30 days in advance and provide relevant materials about production and management; (ii) the employer shall put forward job-cutting plan; (iii) After listening to the opinions of the staff and union, the company modifies and consummates the plan; (iv) the employer has to report its job-cutting plan to the local human resources and social security department, seeking for the opinions of the staff and union and all of its employees and taking advises from labor administration department; (v) in case of releasing officially job-cutting plan, the company shall revoke labor contracts, make economic compensations in accordance with relevant state regulations, and issue laid-off worker certificate.

Specific Limits in Dismissing Employees

In accordance with Article 29 of Labor Law, for the sake of protecting the special populations, The employer shall not revoke labor contracts should any one of the following cases occur with its faultless laborers: (i) Those who are confirmed to have totally or partially lost their labor ability due to occupational diseases or work-related injuries; (ii) Those who are receiving treatment for their diseases or injuries during prescribed period of time; (iii) Women employees during pregnancy, puerperium, and nursing periods; (iv) Others cases stipulated by laws and administrative decrees. In other words, employees of the above situations cannot be dismissed except that they seriously violate labor disciplines or the rules or regulations.

Procedures of Dismissal Employees

When dismissing an employee, the trade union should be informed. In accordance with Article 21 of Trade Union Law of the People's Republic of China, when unilaterally canceling the labor contract with an employee, the enterprise shall notify the trade union of the reasons in advance, if the trade union regards that the enterprise has violated the laws, regulations and relevant contracts and requests that the case be reinvestigated and dealt with anew, the enterprise shall deliberate the views of the trade union and notify the trade union of the handling result in written form. With regard to the employer, the dismissal of an employee must need irrefutable evidence, sufficient basis, and legal procedure. In accordance with the law, the burden of proof in dismissing employee belongs to the employer, thus concrete evidence is the foundation for terminating the contract. On that basis, relevant laws

and administrative decrees are crucial to legal dismissal. Meanwhile, specific procedures are also significant, such as notifying the employee in advance in written form and inform the trade unit in advance. Taking preventive measures is the guarantee to prevent an employer from violating laws and regulations.

Case

Tort Case of Improper Dismissal

Mr. Feng worked at a decoration engineering co., ltd in Sheng Yang, China as the chief designer since May 2, 2003. On February 22, 2008, Feng submitted his resignation on account of arrears of wages. The company paid him till the submission day and stopped paying for endowment insurance on March 25, 2008. Feng formally resigned after signed confirmation of a leader in the company on April 7, 2008. In Feng's opinion, due to frequently arrears of wages, the company should make economic compensation in accordance with relevant laws and regulations. But the company didn't approve his request, so Feng filed a lawsuit.

In accordance with Labor Law, an employee is entitled to terminate the contract under the circumstance of delaying in payment of wages. And the employer shall pay laborers wage remuneration or to make up for economic losses, and may even pay compensation.

In this case, decoration company deducted and unjustified delayed in paying wages to FENG, therefore, making economic compensation to Feng is a must. Feng has worked for nearly five years from May 2003 to April 2008, so he shall be given economic compensation based on the number of years he has worked for the company and at the rate of one month's salary for each full year he worked. Thus, at Feng's final average salary of 4,573 Yuan, the company should pay for 5 months of wages as economic compensation. The first instance is judged that the decoration engineering co., ltd in Sheng Yang shall pay compensation to Feng, amounting to 22,865 Yuan, for terminating the contract.

3.2.2 Industrial and Commercial Registration

3.2.2.1 General Procedures for Enterprise Registration

General procedures for enterprise registration include: (i) Accepting the case. Applications that fail to meet the requirements will not be accepted and the applicants will be required to submit all relevant documents, certificates, and registration materials before their applications can be processed by the Industrial and Commercial Administrative Department. (ii) Investigation. Industrial and Commercial Administrative Department checks authenticity, legitimacy, and efficiency of provided materials, and verifies concerned registration matters and conditions that are required for starting up a company. (iii) Approving. Administrative departments of registration shall decide whether or not they will approve the registration upon their investigation and verification of the applications. (iv) Issuing

certificate. Upon the approval, the administrative departments shall issue the relevant Business license, notify the legal representative to receive it, and prepare a file on record of representative. (v) Issuing an announcement. Administrative departments shall issue an announcement of an approved business entity to the relevant registration department.

3.2.2.2 Materials of Enterprise Registration

Materials of Enterprise Registration include: (i) A written application for business registration; (ii) A certificate on the amount of operating funds; (iii) The appointment documents of the person in charge; (iv) qualification certificate of legal representative of the company; (v) a certificate on the use of business premises; (vi) Other relevant documents and certificates. If the business scope of a company involves an item that must be reported for approval before registration in accordance with any law, administrative regulation, or decision of the State Council, the company shall apply for documents of approval by the relevant department. More specific information can be consulted from local industrial and commercial administrative departments.

3.2.2.3 Enterprise Type

Companies shall undergo company registration for their formation at industrial and commercial administrative departments to get a business license. Entrepreneurs should well comprehend the *Regulation of the People's Republic of China on the Administration of the Registration of Enterprise Legal Persons*, *Regulation of the People's Republic of China on the Administration of Company Registration* etc. There should be an emphasis on that companies involving in some certain business scope should get approval before registration from relevant administrative departments. Due to the difference in enterprise location, laws, and regulations in local areas also differ. Therefore, it is a must for entrepreneurs to know about laws, regulations, and local decrees, which are conducive to select proper enterprise locations, enjoying preferential policies such as tax reduction, and avoiding unnecessary troubles. In accordance with *General Principles Of the Civil Law Of the People's Republic Of China*, *Company Law of the People's Republic of China*, *Partnership Enterprise Law of the People's Republic of China*, *Law of the People's Republic of China on Individual Proprietorship Enterprises*, and *Regulation on Individual Industrial and Commercial Households*, newly established enterprises are in the legal form of limited liability company, partnership enterprise, individual proprietorship enterprises, and Individual Industrial and Commercial Households. Due to various restrictions in laws, highness in cost, newly established enterprises are less tend to choose a limited liability company. Comparisons between different legal forms are shown in Table 3.3.

Table 3.3 Comparisons between different legal forms

Project	Partnership enterprise	Limited liability company	Individual proprietorship enterprises	Individual industrial and commercial households
Legal status	Non-enterprise Legal Persons	Enterprise Legal Persons	Non-enterprise Legal Persons	Non-enterprise Legal Persons
Legal form	Unlimited joint and several liabilities	Limited liability	Unlimited liability	Unlimited liability
Registered capital	Make Agreement	30,000 yuan	Declaration by investor	Non-minimum payment restriction
Capital contribution	Agreement: currency		Declaration by investor	Declaration by investor
Cost and difficulty in setting up enterprises	Low cost and easy to establish	High cost and comparatively easy to establish	Low cost and easy to establish	Low cost and the easiest one to establish
Property nature	Common shared by partners	Property right of the legal person	Privately owned by the investor	Owned by individual households
Transfer of capital	Unanimity	Agreed by more than half of the shareholders.	Inheritable	Consent by proprietor
Business entity	Cooperation by partners	Shareholders aren't always participating in the operation	Investors and principals	Individual operation and household management
Business decisions right	Decide by All Partners or obey the agreement	Shareholder meeting	Investor	Operator
Share profits and deficit	By agreement or by average	Investment proportion	Investor	Operator
Dissolution procedure	Logout	Logout and announce	Logout	Cancellation of registration
Post-dissolution obligations	Take responsibility within 5 years	N/A	Take responsibility within 5 years	Unlimited responsibility; debt must be paid off

3.2.3 Tax Regulations

Tax is the main source of national revenue, and one of the significant levers for achieving macroeconomic regulation and control, attaching great importance to economic and social development. By means of tax sharing reform in 1994 and gradually consummating in recent years, the tax system that is suitable for the demands of socialist market economy system has been initially established in China, playing a crucial role in guaranteeing fiscal avenue, strengthening macro-control, deepening reform, expanding opening-up, and facilitate sustainable, rapid, and sound development of national economy. Currently, there are totally 18 taxes in China, including value-added tax, consumption tax, sales tax, corporate income tax, income tax, resources tax, urban land use tax, property tax, city maintenance and construction tax, Cultivated land usage tax, land value increment tax, vehicle purchase tax, vehicle and vessel tax, Stamp duty, deed tax, tobacco tax, tariff, and vessel tonnage tax, which can be classified into seven categories in accordance with their natures and functions.

The first category is circulating tax, consisting of value-added tax, consumption tax, and sales tax, which is collected on the basis of sales income or operation income during manufacture, marketing, or service.

The second is called income tax, including, corporate income tax (applicable to State-owned enterprise, collectively owned enterprise, private enterprise, joint venture, joint-equity, etc.), individual income tax, etc. Income taxes are imposed in the light of profits or income of the manufacturer and operator.

Resource taxes are comprised of resource tax and urban land use tax, which are imposed on the people that engaged in resource development or used urban land, reflecting compensatory using of state-owned resources and regulating resource-based differential income of the taxpayer.

Taxes for specific purposes consist of city maintenance and construction tax, cultivated land usage tax, land value increment tax, which are set for regulating a given object for achieving specific aims.

The fifth is property tax, which is house property, etc.

Act taxes include vehicle purchase tax, vehicle and vessel tax, stamp duty, deed tax, tobacco tax, levying on specific actions.

The seventh category is a tariff, and vessel tonnage tax. Tariff is collected on commodities and cargoes that are imported and across China's border. And vessel tonnage tax is imposed on international navigation ships entering and departing on China's port.

Rate of taxation directly impacts on the emergence and profits of newly established enterprises. Therefore, a comprehensive understanding of relevant tax laws and policies before starting a business contributes to realizing maximization of profits. Main tax items and rate related to entrepreneurs are shown in Table 3.4 (Tables 3.5 and 3.6).

Table 3.4 Main taxes items and rate related to entrepreneurs

Taxes items	Taxpayer	Taxes rate	Tax authority
Value-added tax	Entities and individuals that sell goods or provide labor services of processing, repair or replacement or import, goods within the territory of the People's Republic of China	<p>(1) 17%, for taxpayers selling or importing goods, except as otherwise specified in items (2), (3) hereof;</p> <p>(2) 13%, for taxpayers selling or importing the following goods:</p> <ul style="list-style-type: none"> i. Grain and edible vegetable oil ii. Tap water, heating, cooling, hot water, coal gas, liquefied petroleum gas, natural gas, methane, and coal products for residential use; iii. Books, newspapers, magazines iv. Feed, fertilizer, pesticide, agricultural machinery, and agricultural films v. Other goods are specified by the state council <p>(3) zero, for taxpayers exporting goods, except as otherwise specified by the state council;</p> <p>(4) 17%, for taxpayers providing labor services of processing, repairing or replacement (hereinafter referred to as "labor services")</p>	State administration of taxation
Sales tax	Entities and individuals that provide labor services prescribed in Interim Regulation of the People's Republic of China on Business Tax, and the transfer of intangible assets or the sale of immovable within the territory of the People's Republic of China	<p>3% of the tax rate for the transportation industry</p> <p>3% of the tax rate for the construction industry</p> <p>5% of the tax rate for financial and insurance industry</p> <p>3% of the tax rate for postal and telecommunications industry</p> <p>3% of the tax rate for culture and sports industry</p>	

(continued)

Table 3.4 (continued)

Taxes items	Taxpayer	Taxes rate	Tax authority
		3% of the tax rate for tertiary industry 3% of the tax rate for transferring intangible assets 3% of the tax rate for selling immovable	
Enterprise income tax	Entities and other organizations (hereinafter referred to as enterprises) that obtain income within the territory of the People's Republic of China	25% of the Statutory rate as prescribed in <i>Enterprise Income Tax Law of the People's Republic of China</i> ; Foreign-funded enterprises shall enjoy the same treatment as Chinese-funded enterprises; 15% of rate for high-tech enterprises supported by the states; 20% of rate for small and micro business; 20% of the rate for nonresident enterprises	State administration of taxation
Individual income tax	Individuals who reside in China and Individuals who do not reside in China that obtained income	As is shown in Table 3.5 (Applicable to income from wages and salaries)	

Table 3.5 Individual income tax rate (applicable to income from wages and salaries)

Grade	Tax-inclusive grade	Tax-exclusive grade	Rate (%)	Quick deduction
1	Monthly income of 1,500 Yuan or less	Monthly income of 1,455 Yuan or less	3	0
2	That part of monthly income from 1,500 to 4,500 Yuan	That part of monthly income from 1,455 to 4,155 Yuan	10	105
3	That part of monthly income from 4,500 to 9,000 Yuan	That part of monthly income from 4,155 to 7,755 Yuan	20	555
4	That part of monthly income from 9,000 to 35,000 Yuan	That part of monthly income from 7,755 to 27,255 Yuan	25	4,055
5	That part of monthly income from 35,000 to 55,000 Yuan	That part of monthly income from 28,255 to 41,255 Yuan	30	2,775
6	That part of monthly income from 55,000 to 80,000 Yuan	That part of monthly income from 41,255 to 57,505 Yuan	35	5,055
7	That part of monthly income from 80,000 Yuan upwards	That part of monthly income from 57,500 Yuan upwards	45	13,505

Table 3.6 Individual income tax rate (applicable to income from manufacturing and management of privately owned business)

Grade	Tax-inclusive grade	Tax-exclusive Grade	Rate (%)	Quick deduction
1	Monthly income of 15,000 Yuan or less	Monthly income of 14,250 Yuan or less	5	0
2	That part of monthly income from 15,000 to 30,000 Yuan	That part of monthly income from 14,250 to 27,750 Yuan	10	750
3	That part of monthly income from 30,000 to 60,000 Yuan	That part of monthly income from 27,750 to 51,750 Yuan	20	3,750
4	That part of monthly income from 60,000 to 100,000 Yuan	That part of monthly income from 51,750 to 79,750 Yuan	30	9,750
5	That part of monthly income from 100,000 Yuan upwards	That part of monthly income from 79,750 Yuan upwards	35	14,750

3.2.4 Intellectual Property

3.2.4.1 Patent

What is a patent?

Patent right is an exclusive right for the patentee granted by state patent authorities (State Intellectual Property Office) to use his invention within a certain period.

Patent right could be characterized by proprietary, locality, and timeliness. Proprietary, also known as exclusiveness is the exclusive right of the patentee to produce, use, sell, authorize the right to sale and import products of the inventions. The same invention can only be granted for one patent right. Locality indicates that the patent right is only effective within the territory of the country that grants the correspondent patent right. Timeliness means that the patent right is available within the stipulated time period. At the expiry, patent right shall be terminated. If the patentee fails in paying the patent annual fee or declares to abandon the patent in advance, the patent right shall cease before the expiration of its duration.

Patent Infringement

In accordance with Article 60 in *Patent Law of the People’s Republic of China (2008 Amendment)* (hereinafter referred to as Patent Law), in the event that any exploitation of a patent without permission of the patentee, for the purpose of production and operation, is the infringement upon a patent right. In this regard, patent infringement in inventions and utility models means the behavior to manufacture, use, sell, authority the right to sell, and import patent products, or to directly acquire products for the purpose of business, without permission of the patentee. Patent infringement for design indicates the behavior of manufacture, sell, and import patented design products in the aim of business. Any patent

infringement, according to the severity of the circumstances, shall assume the following liability:

- (1) **Civil Liability.** The accesses to undertake civil responsibility are to cease infringement, make compensation, restore credibility, eliminate impact, confiscate products, interim measures before filing a lawsuit. in accordance with Article 66 in Patent Law, Where a patentee or interested party has evidence to prove that someone else is committing or is going to commit an infringement upon the patent right, and its (his) lawful rights and interests will be damaged and are difficult to be remedied if the said infringement is not stopped in time, it or he may, prior to initiating a lawsuit, apply to the people's court for taking such measures as ordering the stop of the relevant act.
- (2) **Administrative Liability.** Patent Law has regulated administrative liabilities violators shall undertake in the aspect of counterfeiting patents, disclosing state secrets, infringing legal rights of inventors or designers, and making falsification. For instance, Article 63 in Patent Law regulates: "Whoever counterfeits the patent of anyone else shall, in addition to bearing civil liabilities in accordance with the law, be ordered by the patent administrative department to make a correction and be announced by the patent administrative department; its or his illegal gains, if any, shall be confiscated, and it or he may be fined up to three times the illegal gains. If there is no illegal gain, it or he may be fined up to 200,000 Yuan. If any crime is constituted, it or he shall be subject to criminal liabilities according to law." Article 71 in Patent Law stipulates: "Whoever, in violation of the provisions of Article 20 of this Law, files in a foreign country an application for a patent, if it or he has divulged any state secret, he shall be subject to an administrative sanction by the entity where he works or by the competent authority at the higher level. If any crime is constituted, he shall be subject to criminal liabilities." Article 72 in Patent Law rules: "Where any person usurps the right of an inventor or designer to apply for a patent for a non-service invention, or usurps any other right or interest of an inventor or designer as prescribed in this Law, he shall be subject to an administrative sanction by the entity for which he works or by the competent authority at the higher level." and Article 74 in Patent Law provisions: "Where any staff member of a state organ for patent administration or of any other relevant state organ neglects his duties, abuses his powers, practices favoritism for himself or his relative, if any crime is constituted, he shall be subject to criminal liabilities according to law. If no crime is constituted, he shall be given an administrative sanction according to law."
- (3) **Criminal Liability.** Criminal liability violators of patent law provision, in terms of counterfeiting patents, disclosing state secrets, and making falsification, should take criminal responsibilities. Detailed regulations can be found in Articles 63, 71, 74 of Patent Law.

Application for Patent

Primarily, the inventor or designer shall have clearly understood whether the outcome belongs to service invention-creation or not. Service invention-creations are the inventive outcomes result from tasks designated by employers or utilizing material conditions of the employer. Service invention-creations can only be applied by employers. While non-service invention-creations, invented by personnel personal capacity, after finishing his duties and responsibilities that can be applied by the individual.

Requirements for application materials: Where an application for a patent for an invention is filed, a request, a description, and its abstract, and claims shall be submitted.

An application shall expressly specify the name of the invention, name of the inventor or designer, name and address of the applicant, and other matters. The invention shall be clearly and completely described. Claims shall state the requested patent protection scope in accordance with the specifications.

First-to-file principle: under the first-to-file principle in the Patent Law, where two or more applicants file applications for a patent for an identical invention, the patent shall be granted to the applicant who is the first to file an application.

Examination and Approval of Patent Applications: Where, after having received an application for patenting an invention, the patent administration department finds, upon preliminary examination, that the application is in conformity with the requirements of this Law, it shall publish the application promptly after the lapse of 18 full months from the date of application. Specific application procedures is shown in Fig. 3.1.

3.2.4.2 Trademark Rights

What is Trademark Rights?

Trademark rights are granted by the Trademark Office that enables the registrant to have the exclusive right to use the trademark, which is protected by law. A trademark registrant is legally to dominate registered trademark and prohibit from infringement, including the right to the exclusive use of the registered trademark, income tax, disposition right, trademark extension right, and the right to prohibit from infringement.

Trademark rights are granted by the state, where obtains only one authority to accept, exam, and issue the right. Trademark rights have the following characteristics: (1) Proprietary, also known as exclusiveness or monopoly right. (2) Locality, thus a trademark issued in a country will only be effective within its territory. (3) Timeliness. For example, the period of validity of a registered trademark shall be 10 years in China. A trademark registrant intending to continue to use the registered trademark upon expiry of the period of validity shall undergo the renewal formalities within 6 months before expiry.

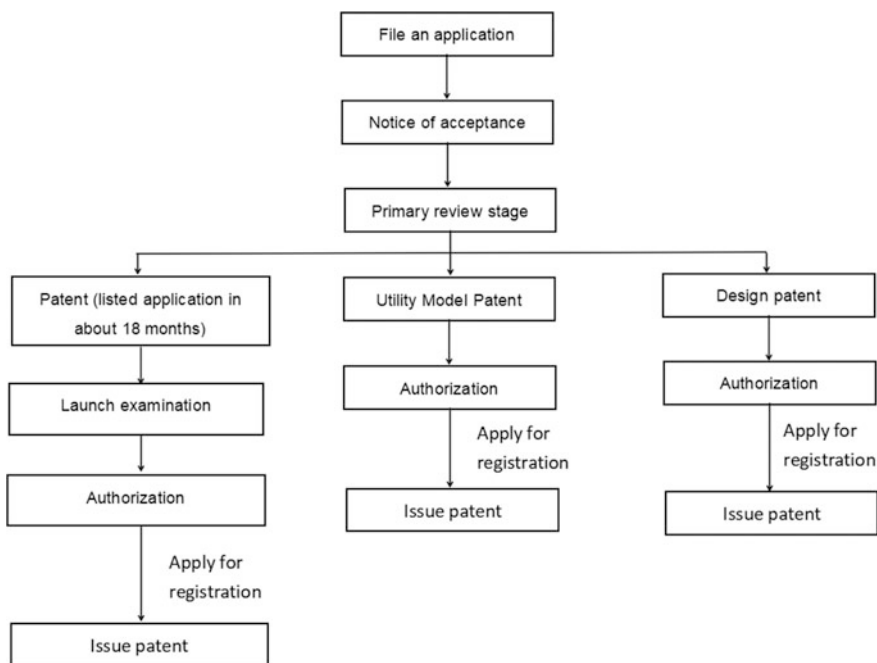


Fig. 3.1 Patent application procedures

Trademark Infringement

Article 57 of *Trademark Law of the People's Republic of China (2013 Amendment)* (hereinafter referred to as trademark law) regulates: “any of the following conduct shall be an infringement upon the right to exclusively use a registered trademark: (1) Using a trademark identical with a registered trademark on identical goods without being licensed by the trademark registrant. (2) Using a trademark similar to a registered trademark on identical goods or using a trademark identical with or similar to a registered trademark on similar goods, without being licensed by the trademark registrant, which may easily cause confusion. (3) Selling goods which infringe upon the right to exclusively use a registered trademark. (4) Forging or manufacturing without authorization the labels of a registered trademark of another party or selling the labels of a registered trademark forged or manufactured without authorization. (5) Replacing a registered trademark without the consent of the trademark registrant and putting the goods with a substituted trademark into the market. (6) Intentionally providing facilitation for infringement upon others' right to exclusively use a registered trademark or aiding others in committing infringement upon the right to exclusively use a registered trademark. (7) Otherwise causing damage to the right to exclusively use a registered trademark of others.”

Article 67 of Trademark Law provisions: “Where, without being licensed by the trademark registrant, a party uses a trademark identical with the registered trademark on identical goods, if any crime is constituted, the party shall be subject to criminal liability according to the law in addition to compensating the victim for losses. Where a party forges or manufactures without authorization the labels of a registered trademark of another party or sells the labels of a registered trademark forged or manufactured without authorization, if any crime is constituted, the party shall be subject to criminal liability according to the law in addition to compensating the victim for losses. Where a party knowingly sells goods on which a registered trademark is falsely used, if any crime is constituted, the party shall be subject to criminal liability according to the law in addition to compensating the victim for losses.”

Trademark Registration Procedures

(1) Register Preparation.

- (i) Selection of Registration Method. The first method is to manage trademark registration in the Trademark Office of the State Administration for Industry & Commerce of the country (Trademark Law of the People’s Republic of China allows Chinese citizens to directly apply for trademark registration at Trademark Office.) The other way is to entrust an experienced trademark agency, saving a lot of time and experience. Of course, relevant commission fees are necessary.
- (ii) Inquiry before Registration. Before applying for trademark registration, applicants may enquire about the titles of the trademark to avoid the same or similar title. It’s worth noticing that trademark inquiry is not a must (abide by the principle of voluntariness), but will largely lessen risks in trademark registration for better control. During the inquiry, some information can’t be searched because of statistical processing and application examination. Therefore, trademark inquiry has no legal validity and can’t be used as a legal basis. It’s of great significance to seek help from a professional trademark inquiry company or a trademark agency equipped with comprehensive inquiry capacity.
- (iii) Preparation for material of trademark application. Applicants shall prepare the complete trademark registration applications with the stamp of the company and personal signature. Any natural persons authorized by law to engage in business activities may file applications for trademark registration and shall submit copies of ID card. In case of filing an application for trademark registration in the name of an enterprise, a copy of the business license should be provided.

(2) Apply for Registration

Applicants for trademark registration must be enterprises, institutions, social organizations, individual industrialists or businessmen or partnerships of

individuals, or foreign nationals or foreign enterprises that have concluded an agreement with China, entered into an international treaty jointly with China, or been confined by other relevant certification documents. Enterprises which meet the aforesaid conditions may voluntarily file registration applications to Trademark Office.

- (i) File an application in accordance with the classification of commodities and services. Currently, Trademark Law in China has been implementing international classification that sorts over 10,000 commodities and services into 45 categories, among which 34 categories of commodities and 11 categories of services exist. When applying for trademark registration, categories in the classification table of commodities and services should be strictly abiding by. If an applicant intends to use the same trademark on goods in different classes, it or he shall submit applications for registration in accordance with the classification of goods, avoiding improper expansion of the scope of application in trademark right, and favoring examiners in approving and protecting trademark exclusive right.
- (ii) Confirmation of application dates. In China, where two or more trademark registration applicants apply for registration of identical or similar trademarks to be used on identical or similar goods, the trademark, the registration of which is applied first, shall be preliminarily approved and published. Once a dispute occurs, the application date would be a legal basis for registration.
- (iii) Trademark registration examination. Trademark registration examination is to examine, retrieve, analyze, compare, and investigate in accordance with the Trademark Law, to decide if the application is passed or failed.
- (iv) Preliminary examination announcement. Trademarks that are conformed to the relevant regulations in Trademark Law after the examination shall be announced in “trademark announcement”. If no opposition has been filed upon expiry of the publication period, 3 months from the date of publication, the registration shall be approved, a certificate of trademark registration shall be issued, and the registered trademark shall be published.
- (v) Trademark registration announcement. Trademark registration is a legal procedure, which was proposed by trademark registration applicants. After examination by the Trademark Office, a preliminary examination announcement shall be presented. If no opposition has been filed within 3 months, the trademark is taken effect and been protected by law, while the applicants are entitled to use the trademark exclusively. It takes about a year or a year and a half from filing an application to approve of registration.
- (vi) Expiry date of the registered trademark. The period of validity of a registered trademark shall be 10 years, commencing from the date of approval of registration. A trademark registrant intending to continue to

use the registered trademark upon expiry of the period of validity shall undergo the renewal formalities.

- (vii) Receive a Trademark Registration Certificate. In the case of approval of registration, the Trademark Office shall issue a certificate of trademark registration and publish the registered trademark. The Trademark Registration Certificate will be directly sent to them by mail.

Review

1. There are totally two views about entrepreneurial professional knowledge: traditional comprehension, thus “entrepreneurship must be equipped with relevant knowledge; and professional comprehension,” thus “seek business opportunities and profit point in the skilled professional knowledge.”
2. Financial knowledge involves cost calculation, accounts receivable management.
3. Taxes in China can be divided into seven categories in accordance with nature and function, including circulating tax, income tax, resource taxes, taxes for a specific purpose, act taxes, and tariff.
4. Patent right is an exclusive right for the patentee granted by state patent authorities (State Intellectual Property Office) to use his invention within a certain period.
5. Trademark rights are granted by the Trademark Office that enables the registrant to have the exclusive right to use the trademark, which is protected by law.

Think and Discuss

1. What is the relationship between professional knowledge and entrepreneurship knowledge?
2. How to master entrepreneurship knowledge?

Identify Entrepreneurial Opportunities

4

Lead

Opportunity is an entrepreneurial angel.

Learning Objective

1. Understand the essential characteristics and resources of entrepreneurial opportunities.
2. Master methods and procedures of recognizing entrepreneurial opportunities.
3. Comprehend the measures to assess entrepreneurial opportunities.

Introduction

A successful entrepreneurial activity is directly related to the accurate selection of entrepreneurial opportunities. What is the connotation of entrepreneurship? What is the source of entrepreneurial opportunities? How to assess the feasibility of entrepreneurial opportunities? These questions are crucial prior to and during the entrepreneurial process.

4.1 Overview of Entrepreneurship Opportunities

Entrepreneurship is a broad concept that is comprised of commercial entrepreneurship, social entrepreneurship, post-related entrepreneurship etc. Entrepreneurial opportunities widely exist in various entrepreneurial categories. In entrepreneurial practice, recognizing opportunities are the key factor in the venture process, which guides the entrepreneurs to conduct a series of entrepreneurial

activities, such as seeking, and developing opportunities, protecting competitiveness in the sustainable development of enterprises.

4.1.1 Definition of Entrepreneurship Opportunities

Entrepreneurial opportunities are a combination of entrepreneurship and opportunities. Opportunity is the effective approach to conduct an activity or the proper timing; while entrepreneurship is to meet and create new things, then take actions to turn opportunity into a feasible and valuable approach in creating business or enterprises. Therefore, entrepreneurship opportunity is a kind of appealing, comparatively enduring, and duly business activity space that is reflected in products and services bringing or adding value for customers and clients.

Entrepreneurship opportunities, also known as commercial opportunities or marketing opportunities, can be understood from the static aspect and dynamic aspect (Wang 2010). In the aspect of the static state, entrepreneurial opportunities reflect uncertain market requirements or underutilized resources or capacities that form a circumstance for creating new products, services, and requirements, and integrate resources in a creative way to meet markets' demand and create value. From a dynamic point of view, entrepreneurship opportunities are, during the formation of a new market, new product, or of the relationship of the two, to meet market demand and transfer value by integrating resources in a creative way, which is constantly discovering and creating process (Gasson 1982). Entrepreneurial opportunities are not only needed to be found by entrepreneurs, but also needed to be participated in, modified, and consistently created.

Meanwhile, there are also two understandings of entrepreneurial opportunities. One of them regards entrepreneurial opportunities as an underlying demand of customers that exist objectively. Therefore, recognizing entrepreneurial opportunities are to collect, deal with, and recognize information consciously. Entrepreneurs need to be equipped with distinguished information processing competence (Shaver et al. 1991). The other opinion reckons that entrepreneurial opportunities can be created. It is created on entrepreneurs' own initiatives to meet consumers' demands. They usually recognize opportunities by acquiring new information occasionally (Kaish et al. 1991).

4.1.2 Essential Characteristics of Entrepreneurial Opportunities

Entrepreneurial opportunities are characterized by four aspects, namely, attraction, durability, timeliness, and products and services tied to create or add value for users (Timmons 1998).

- (1) Attraction. Entrepreneurship opportunities can be reflected as an attraction to entrepreneurs, and a desired future state for customers. Without attraction, any activity, even with active form, is hard to arouse entrepreneurs’ interests.
- (2) Durability. Entrepreneurship opportunities would last for a while for the entrepreneurs to find, evaluate, and exploit. It is difficult to realize the process of value creation, if this kind of opportunity or activity couldn’t sustain.
- (3) Timeliness. Timeliness, thus seizing proper opportunities, is the process for realizing the creation of products or services. Entrepreneurial opportunities must be developed and utilized in the effective time period. Just as the old Chinese saying goes, “opportunity knocks but once”, seizing entrepreneurial opportunities in time is of great importance.
- (4) Products and services tied to create or add value for users. Entrepreneurial opportunity represent an originality, directly facing customers’ demands, meanwhile, it can be demonstrated in a certain product or service.

4.1.3 Types of Entrepreneurial Opportunities

On the basis of various standards, entrepreneurial opportunities can be divided into different types. In the aspect of circumstance change, entrepreneurial opportunities can be divided into technology-type opportunity, market-type opportunity, and policy-type opportunity, each of them has resulted from technology development, market change, and policy reformation.

In the aspect of development condition, Ardichvili divided entrepreneurial opportunities, according to a Matrix, into 4 types (Ardichvili et al. 2003).

Explored value and created value contribute to two dimensions in his matrix. The horizontal axis of this chart is explored value (thus underlying market value of opportunities), representing whether the potential value of entrepreneurial opportunities is clear or not. The longitudinal axis of this chart represents the capacity of entrepreneurs to create value, including human resources, financial competence, and other requisite tangible assets, which represent if entrepreneurs can effectively develop and exploit entrepreneurial opportunities (Fig. 4.1).

		VALUE SOUGHT	
		Unidentified	Identified
VALUE CREATION CAPABILITY	Undefined	"Dreams" I	Problem solving II
	Defined	Technology Transfer III	Business Formation IV

Fig. 4.1 Four types of entrepreneurship

As is shown in Fig. 4.1, in the first quadrant, the value of the opportunity is uncertainty, so does such competence of entrepreneurs. This kind of opportunity is defined as a “dream”. In the second quadrant, the value of opportunity is comparatively clear, but the competence to realize the ability is not certain yet, thus it is called “problem-solving”. In the third quadrant, the value of the opportunity is uncertainty while the competence to realize it has been settled, thus called technology transfer. In the fourth quadrant, the value of the opportunity and the corresponding ability has been confirmed, which is called “business formation”. By comparison, the lower right corner is filled with the highest possibility of entrepreneurship success, in which the top right corner contains fewer possibilities.

Besides, in terms of the formation process, entrepreneurship opportunities can be divided into four categories. Firstly, problem-type opportunity indicates the opportunities generated from unsolved problems in reality. Secondly, trend-type opportunities. It is generated from the market that was brought up by constantly changing circumstances. The key to seizing the problem-type opportunity is the mastering of timing. Thirdly, competition-type opportunity means that one could make use of demerits and gaps of competitors to make up for his deficiencies, and to turn them into his own career. Fourthly, the combination-type opportunity is to combine existing technologies, products, and services to realized new functions and values.

4.2 Resources of Entrepreneurship Opportunities

Along with the changing of the economic environment and technology conditions, there are more entrepreneurial practitioners and opportunities. Considering the resources of entrepreneurship is imperative in recognizing entrepreneurship opportunities. How do entrepreneurship opportunities appear? How to locate entrepreneurship opportunities? On the whole, there are three resources of entrepreneurship opportunities: seek problems, changes in social-economic development, and market requirements, as is illustrated in Fig. 4.2.

4.2.1 Seek Problems

Entrepreneurship opportunities, generated from unsolved problems in reality, need careful observation and discovering by entrepreneurs. Different types of problems would bring about entrepreneurship opportunities in various fields. For instance, troubles in the development of science and technology can promote technology-based entrepreneurship; inventions in the cultural system lead to cultural-based ventures; solving problems in market requirements may result in business start-ups. Former Director of the United States Department of Health and Human Services Mr. J. Gardner said, “We are continually faced with a series of great opportunities brilliantly disguised as insoluble problems.” In other words,

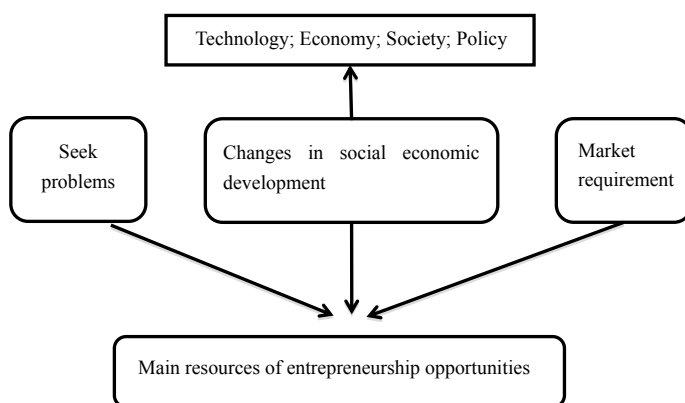


Fig. 4.2 Main resources of entrepreneurship opportunities

each problem is a chance that is tactfully covered. The key is to find the covered one. Entrepreneurs ponder problems in a different way, and then put forward reasonable solutions. No matter what type the entrepreneur is, he can come forward with some solutions during the thinking process.

Case

The Birth of Instant Noodles

After WWII, food in Japan became seriously inadequate. Ando Momofuku witnessed that dozens of people stand in a long line to have noodles in a Japanese Ramen Restaurant. So an idea came into being: how to make people enjoy noodles quickly? How to make a kind of instant noodles that can be eaten with pouring hot water?

In the spring of 1958, Ando built a 10 square meters' shanty as the laboratory for instant noodles in the backyard of his house. He found an old noodle making machine and bought a wok, flour, oil, etc., then he started to make instant noodles.

In his idea, people can enjoy the instant noodles as soon as hot water was poured. Therefore, he set up 5 goals: delicious in taste; can be long-term stored as household food; convenient and no need to cook; cheap; safe and sanitary. He used to cook with chicken in his backyard. One day, when Ando's mother-in-law was cooking, a dying chicken jumped all of a sudden that scared Ando's son Koki out of his wits. Since that time on, Koki quit eating chicken again. One day, Ando's mother-in-law put the chicken soup in the noodles, surprisingly, Koki liked the noodles so much. So, Ando decided to use chicken soup to make instant noodles. He said that, in retrospect, it is a reasonable choice. After entering the international market, instant noodles with chicken was accepted by every nation. In 1958, Ando marketed the first package of precooked chicken flavor instant noodles. In the same year, Ando founded Nissin Foods. In 1968, the flagship product of Nissin Foods

Table 4.1 Successful problem-based entrepreneurial examples

Entrepreneurs	Problems	Solutions	Enterprises
R. Claser	Can't play audio or video on the internet	Develop software to play audio and video	Real Networks
D. Flio	It's hard to find or collect favorite websites	Found network navigation to find and collect websites	Yahoo
A. Roddick	One can scarcely find a small package of cream or lotion for trial usage before buying the large bottle of commodities	Establish an enterprise that provides small package of bath products and skincare products	The Body Shop
E. Smith	Spare articles that can't be delivered in time	Built a new enterprise to help other companies deliver packages in time	FedEx

“Demae Itcho” came into being. In 1971, the Nissin invention of Cup Noodles swept around the world.

It’s not hard to find that entrepreneurship opportunities are closely linked to realistic problems. For instance, the disposable paper cup was invented for drinking water more conveniently. Chinese like to drink hot tea, so cup cushion emerged to insulate heat. Selecting of restaurant promoted the generation of Koubei and Dianping. It’s inconvenient to shop in the physical store, so the online shopping, saving time and reducing cost emerged. It is obvious that problems are always related to opportunities. In the process of seeking problems, opportunities can be found. Table 4.1 shows some successful entrepreneurial examples based on problems.

4.2.2 Development and Changes of Social Economy

Development of social economy brings entrepreneurship opportunities. Therefore, comprehensively mastering the changes in the social economy is beneficial in seeking business opportunities, mainly relating to technological enhancement, economic development, social movement, and policy adjustment.

Business Opportunities Brought by Technological Enhancement

New technology and inventions bring new products and services, which satisfy customers’ requirements in a better way. Technological improvement and social changes escalate the generation of technological opportunities. The business opportunities brought by technological enhancement are embodied in the following aspect. (i) New technologies replace old ones. When new technological breakthrough and technology emerge in the field and are able to replace some old technologies, entrepreneurship opportunities appear. For example, business opportunities brought by the Internet are on the basis of online shopping, social

platform, etc. (ii) New technologies accelerate the development of spare parts, bring new business opportunities to entrepreneurs. Taking the importance of spare parts industry as an example, it is estimated that each iPod needs \$3 for materials. And nearly \$1 of the cost is used to by spare parts. (iii) New technologies brought new problems, while new industries would be driven by dealing with the drawbacks of new technologies. Most of the time, the emergence of new technologies has pros and cons, thus, new benefits are accompanied by new challenges. In order to eliminate some drawbacks of new technologies, people would strive to develop and commercialize new technology. Consequently, new entrepreneurial opportunities are brought. For instance, entrepreneurs develop information filtering software aiming at reducing the negative influence of objectionable information brought by the Internet. Radiation problems of frequent usage of mobile phones and computers become a catalyst for anti-radiation products.

Business Opportunities Brought by Economic Development

Advancement of the social economy has changed the consumption capacity and requirement of customers, generating new entrepreneurial opportunities and markets accordingly. For instance, since the reform and opening-up, the income of Chinese residents have increased dramatically with the constant expansion of consumption space, promoting the development of relaxation, tourism, and transportation. Compared with the initial stages of reform and opening-up, it's hard to imagine the existence of an enormous leisure industry and the tourism industry. At that time, it's even trouble to solve the food and clothing problem. Even though the desire to enjoy leisure time and travel, the disposable income of an individual is not enough to support the consumption desire. Now it's different. Chinese have become the army of tourism domestic and abroad, boosting not only the development of tourism and transportation but also shopping consumption, including luxury consumption. These consumption spaces are expanded as the increasing of individual disposable income. At the initial stage of reform and opening-up, automobile consumption is deemed as a privilege of few people. However, it has become a mass consumption, promoting the progress of market adjacencies, including maintenance, parts, cleaning, ornaments, etc. and bringing a series of entrepreneurship opportunities. Therefore, the increase of individual disposable income would accelerate the changes in consumer group and consumption space, during which new entrepreneurial opportunities have emerged. This is the business opportunity brought by development and changes of the economy.

Business Opportunities Brought by Social Changes

Development of society also brings a range of diversification and problems, such as urbanization, demographic change, and globalization, which is the main resource for entrepreneurship opportunities. For instance, in 2000, the Chinese government officially announced that China has entered the aging society. In 2020, China will have more than 250 million people over the age of 60, constituting a new consumer group and bring new business opportunities accordingly. The trend of population

aging largely promotes the development of the health and endowment service industry, including healthcare services, the home service industry, commodity industry, finance industry, education industry, and tourism industry. The market scale of health services has risen from 133.5 billion in 2004 to 1170 billion in 2014. The growth rate during the 10 years accounts for 774%. Increasingly strengthening the concern about health at all ages has stimulated the movement of health industries, such as green food, health-preserving restaurant, health clubs, etc., accompanied by constantly expansion of physical training, physiological industry, mentality industry, nursing industry. Besides, the development of globalization and the opening of high-quality education resources have become the catalysts for the requirement of study abroad. Therefore, a series of entrepreneurship opportunities, providing services for studying abroad, are getting generated. China now has distinguished itself as the biggest source for overseas students. The overseas study market has been expanding and subdividing consistently.

Business Opportunities Brought by Policy Changes

Policies and laws are continuously amended and consummated along the time, among which the easement or tightening of policies would produce business opportunities. For instance, the demand for nongovernment-funded education is constantly increasing, therefore, the government has eased the policies to let private schools enter the education market, for the purpose of mobilizing various educational resources and providing multiple types of authorities. Furthermore, national policy inclination would also bring business opportunities. For example, implementation of energy-saving and emission-reducing limited the movement of resource-consuming enterprises and provide the possibility to New Energy Source industry. At the 3rd session of the 12th National People's Congress and Chinese People's Political Consultative Conference, Premier Li gave priority to the promotion of new energy vehicles in 2016, later favored subsidy policies on new energy vehicles are issued, facilitating the development of new energy vehicles industry. In accordance with data in the China Automotive Industry Association, production and sales volume in 2015, respectively, accounted for 340 thousand and 331 thousand, a rise of 3.3 times and 3.4 times on the previous year (NetEase 2016). Hence, entrepreneurship opportunities can be explored in policy orientation that can be regarded as the jumping-off place and cornerstone.

4.2.3 Market Demand

Rapid changes in the market lead to the existence of market voids that are exactly the opportunities for entrepreneurs. Entrepreneurship opportunities are existed in constantly changing market circumstances, changes of which must result in variation in market demand and structures. Market opportunities are normally generated from three conditions. The first is the extent of chance. Based on existent products and services, entrepreneurs develop new market or novel functions of products by

exploring customers' demands that are not yet satisfied. Then, underlying market opportunities are to be developed and design new products to satisfy ever-changing demands. Finally, derived market opportunities resulted in the evolution of social labor division, diversification of economic activities, and adjustment of industrial structure. The evolution of social labor division provides new space to entrepreneurial opportunities. Diversification of economic activities expanded innovative approaches for venture activities. And adjustment of industrial structure afforded new chances for starting businesses.

There are various market requirements during the development process of society, part of which are constant and prevalent, such as the catering industry. Diet is the premise to sustain life. If food is the only approach to intake energy, this industry would last forever. Besides, some special market demands have existed in prevalent needs. For example, the clothing industry is generally required by the public. Different types of people have a special need for clothes. Although big size shoes are needed by small a crowd of audiences, it has still got a rigid demand. Besides, in modern society, constant development of human intelligence stimulates the market for intelligence building products. Children and senior people are both in need of intellectual development. An emerging market has been catalyzed against the backdrop of intelligence weakness faced by senior people.

During the process of social development, diversified demand of the market has been bringing into a majority of market segments. Consumption refers to both in general form and in a specific population. How to grasp the consumption market is an important aspect of market research.

Above all, there are various sources of entrepreneurial opportunities, consisting of seeking problems, changes in social-economic development, and market demand. In view of those three sources, entrepreneurs should keep penetrating into market insight, keep in step with the development trend of the time. This is how they conduct sufficient market researches and seek favorable entrepreneurial opportunities.

4.3 Recognize Entrepreneurial Opportunities

Entrepreneurial opportunities recognition is a kind of art, as well as science. On the one hand, entrepreneurs must rely on intuition, which makes the recognition process an art. On the other hand, they also must depend on goal-directed behavior and analysis skills that make the process a science. Entrepreneurial opportunities identification is comprised of three phrases, namely perception, identification, and creation. Perception is to sense or recognize market demand and resources that aren't fully exploited. Identification is to seek coordination relationships between specific market demand and specialized resources in ways that explore specific fields or market space. Creation indicates to generate a brand-new cooperation between independent demand and resources, which are closely stuck to the matching between demand and resources but not limited to perception and creation.

Entrepreneurial process is initiated from seizing entrepreneurial opportunities. Entrepreneurs select the most favored opportunities among tens of thousands of creative ideas, and then consistently develop it till success. During this process, the potential expected value of opportunities and entrepreneur’s ability are judged and weighed. Entrepreneurs gradually have specific strategic positioning in entrepreneurial opportunities. This process is called entrepreneurial opportunities identification, also known as the opportunities development process, or opportunities planning process. Nevertheless, all kinds of obstacles during the entrepreneurship process would hide opportunities to discover problems. In that way, is there any method to break down barriers? Is there any method to seek entrepreneurial opportunities. To solve these questions, we should firstly understand influencing factors of entrepreneurial opportunities.

4.3.1 Influential Factors of Recognizing Entrepreneurial Opportunities

Essential quality of entrepreneurial opportunities largely decides entrepreneurs’ anticipation towards the future value of opportunities, while the personal quality of entrepreneurs, including previous experience, cognitive style, social network, and creativity, impact significantly on recognizing entrepreneurial opportunities (Fig. 4.3).

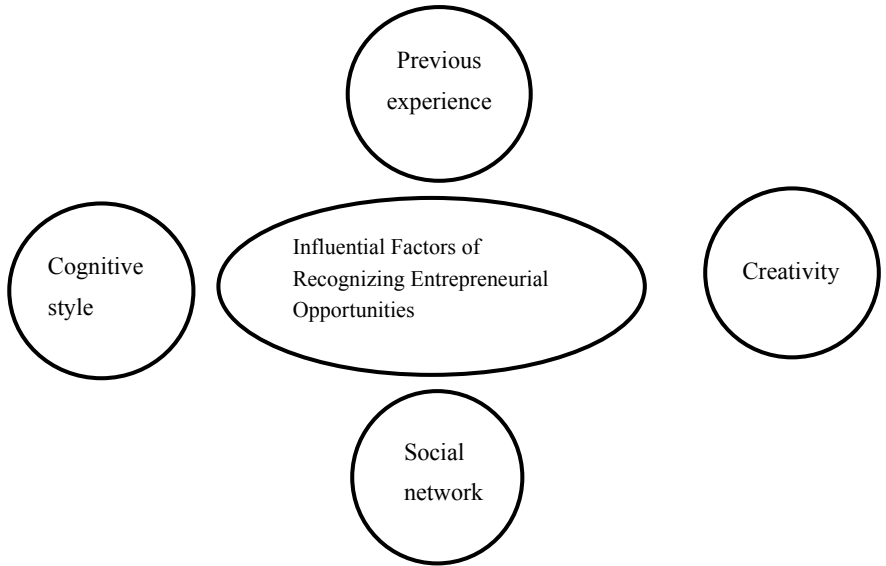


Fig. 4.3 Influential factors of recognizing entrepreneurial opportunities

Previous Experience

Previous experience or previous experience related knowledge means the individual to acquire information distinctive from specific themes, such as work experience, educational manners, etc.

Previous experience in specific industries is crucial for entrepreneurs to identify entrepreneurial opportunities, which is called corridor principle. Once the company is established, the corridor to entrepreneurial opportunities becomes clearly visible. Internal personnel of industries is easier to find new opportunities than outsiders. Experience during practice helps entrepreneurs to seek and seize opportunities. Emerging opportunities during the entrepreneurship process are not obtained by imagination but consistently found in practice. Entrepreneurs' experience and knowledge are essential references during the process of entrepreneurial opportunity identification to impact on estimating entrepreneurial opportunities.

Cognitive Style

Cognitive style, also known as cognitive manner, is the habituation showed during the cognitive process by the individual. It is mainly reflected in the attitude and expression manners in the sense, memory, and problem-solving process, which has been developed from childhood, featured by stability across the time, and consistency across the situation. Cognitive style would have an impact on the identification of entrepreneurial opportunities. Generally speaking, entrepreneurs are equipped with a comparatively stable innovative cognitive style, enable them to break the rules and actively stimulate thinking in ways that search for information, bear risks, and challenge impossible.

Social Network

A communicative and cooperative social network has been built between individuals and groups that are significant to entrepreneurship. The depth and scope affect the overall standard of entrepreneurs on identifying entrepreneurial opportunities. Social networks can bring valuable information that holds up entrepreneurial opportunities. Therefore, those who have constituted a large amount of social network (including political, economical, and cultural network) have much more advantages in recognizing opportunities, generate creations, and create values.

Creativity

Creativity is the capacity or specialty to generate newfangled and useful creations, which can capacitate a new object, thought, method, and market in various approaches. Identifying and seizing entrepreneurial opportunities is the process of repeatedly seeking and creating. Creativity plays a crucial role in producing creativity and seizing an opportunity.

In summary, the factors that affect identifying and seizing entrepreneurial opportunities include previous experience, cognitive style, social network, and creativity. Under the influence of those factors, how do entrepreneurs find

entrepreneurial opportunities? Some scholars believe that half of the opportunities are identified through social network, while the other half is recognized by entrepreneurs’ own consciousness. Remarkable disparities have existed between those opportunities in that the latter applied much more previous experience related knowledge. Opportunities for entrepreneurs’ consciousness are in a certain situation, where variations in technology, economy, politics, society, and population create the potential of new objects. Entrepreneurial opportunities can be introduced and applied through the creation of new products and services, exploration of the market, development of organizational pattern, usage of materials, and producing process.

4.3.2 Approaches to Recognize Entrepreneurial Opportunities

Identifying entrepreneurial opportunities requires entrepreneurs to gain inaccessible and valuable information, and to possess superior information processing capacity. During identifying entrepreneurial opportunities, it is mainly useful to apply systematic analysis, problem analysis, customer analysis, and cultivation of creative thinking (Fig. 4.4).

Systematic Analysis

Most entrepreneurial opportunities can be found through systematic analysis, which contains two aspects. The first is macro-environment analysis. Among the circumstance, much influence would generate on identifying and seizing entrepreneurial opportunities by the political environment, legal environment, technical environment, population environment, and transformation of circumstance. The

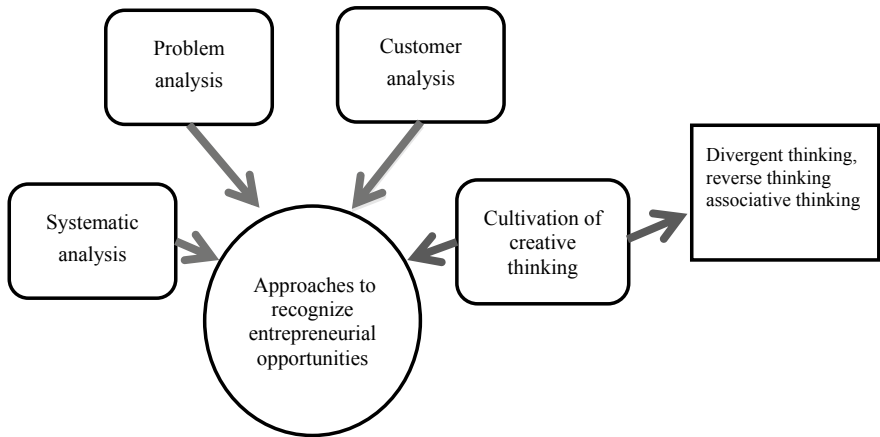


Fig. 4.4 Approaches to recognize entrepreneurial opportunities

second is the microenvironment analysis. Different entrepreneurship groups contain diversified microenvironment, including the customer group, competitors, suppliers, and retailers.

There is an insurmountable procedure no matter in macro-environment or in microenvironment, namely market research. Conduct market research to seek opportunities in both macro- and micro-environment is the universal approach and general law of identifying entrepreneurial opportunities.

Problem Analysis

Problem analysis is to chase down individuals' or groups' requirements and their problems. Sometimes, those are apparently to be found, while most of the time, those are implicative, uncertain, and covered up. During this course, customers' demands should be comprehensively understood for seeking approaches to satisfy them. Therefore, an effective and rewarding approach to solve problems is the foundation for entrepreneurs to identify opportunities.

Customer Analysis

Customer analysis indicates to seek entrepreneurial opportunities through customer's thoughts. Entrepreneurial opportunities can be acquired through investigates, researches, analysis, and sometimes, through customers' thoughts and requirements. As customers know exactly what they want, entrepreneurs should conduct analysis on customers and their advices to meet their requirements and obtain a new conception about products. This kind of analysis is simple, direct, and effective. Besides, customers tend to make suggestions for improvement when they use the products. It's a benefit to find out entrepreneurial opportunities by paying attention to customers' informal recommendations. To some extent, those approaches are more effective to solve problems and grasping entrepreneurial opportunities.

Cultivation of Creative Thinking

Creative thinking, known as innovative thinking, was proposed with respect to reproducible thinking, a kind of thinking of transferability. It means to think in the ways of memory and memory migration, solving new problems by previous thoughts and approaches. During the course of designing and developing, some new issues have been emerging that can't be solved by the previous approaches. Therefore, creative thinking is needed to break with established ways of logical thinking, seeking novel and practical problem-solving approaches in a unique way of thinking.

There are some basic features of creative thinking during the entrepreneurship process. Firstly, accessible means to embrace all problem-solving methods regardless of constraints and binding rules. Secondly, seeking a difference is to searching for new and distinct ways to settle a matter. Implicit indicates that the thinking pattern should be acquired by profound consideration and analysis. Hence, entrepreneurs should consider how to hold these thinking characteristics and seek

thinking training mode accordingly. The following three thinking mode can be used to cultivate creative thinking.

The first is divergent thinking. Basing on a fundamental starting point of applying current knowledge and experience, it is to find out a large amount of new information and more renewed possible answers, assumptions, and resolutions through various ways of thinking to reconstruct the information in memory and for the present. It is a kind of creative thinking that is reconstructed during the process of divergence, and seek solutions to new problems in reconstruction.

The second mode is reverse thinking. Along the opposite direction of development, entrepreneurs conduct reverse thinking on products, projects, or schemes, for the purpose of proposing new project designing or achieve a new creative way of thinking. Creative thinking covers all directions, while the relevant market return has two approaches: seeking more profits by all kinds of products and services; produce higher economic benefits by reducing cost. During the development course of an enterprise, making profit by saving money is called cost savings, which can produce high economic profits as well.

Case

One day, a rich Jewish walked into the advanced department of National City Bank of New York. Seeing this gentleman looked great and rich, the manager of the department was very hospitable, saying: "what can I do for you, sir?"

"I want to borrow some money."

"How much do you want?"

"1 dollar"

"Only 1 dollar?"

"Yes, only 1 dollar, may I borrow it?"

"Of course, people like you can borrow some money through guarantee."

"What about these for a guarantee?"

With these words, the Jewish picked out plenty of jewelry from his beautiful case. "These are jewelry worth half a million dollars. Are they enough?"

"Sure, but you want only 1 dollar?"

"Yes," the Jewish got the money and left.

The nearby bank president who was watching was confused. He couldn't understand why the Jewish borrowed only 1 dollar through jewelry worth half a million dollars. So he went over to him, said, "Sir, could you wait for a minute? I wonder why you borrowed only 1 dollar through jewelry worth half a million dollars? If you borrow 300,000 or 400,000, we'll consider it."

"Ah, let me explain. Before i came to your bank, I've asked several bursaries. Their rent fee for safety is too expensive. But your rent here is cheap, only 6 cents for 1 year."

That is to say, if this transaction occurs, Hard actually would make money by saving them. This story demonstrates the role of reverse thinking.

Finally, associative thinking is to connect the image of one thing with another to explore common or similar principle to solve the problem. Business opportunities

generated from associative thinking can also be found in daily life. For instance, a toy company in the U.S. drew inspiration from Dolly, the cloned sheep. As long as the child's photos and characteristic information are sent to the company, a toy doll which looks like the same as the child will be produced and is called "twin sisters". Peculiar creations bring up good business. This is to seek opportunities from the perspective of associative thinking.

4.3.3 The Process of Identifying Entrepreneurial Opportunities

Timmons believes that entrepreneurship is a dynamic process that contains three core elements, opportunity, resources, and team (Timmons 1998).

Entrepreneurship process is to match and balance three significant factors, among which, business opportunities are the core driving force, entrepreneurship group is the leader, and resources are the imperative guarantee. Business opportunities are fuzzy, and uncertain, which require fine creativity of the entrepreneurship group. Besides, the relationship between entrepreneurship group and business opportunities are affected by the other factors such as resources. Resources are external elements that affect entrepreneurship, including human capital resource, political environment, capital market resource, which demand entrepreneurs are equipped with powerful leadership to integrate resources. Communication is useful between business opportunities and resources. The nature of entrepreneurship is to create value by using opportunities, with entrepreneurship groups being the key organizational element, and resources being an indispensable supportive element (Fig. 4.5).

Identifying and opting for entrepreneurial opportunities is a dynamic process, with selection and evaluation penetrating entirely. Identifying and evaluating bridge the gap between fragmentary ideas and venture practices. In recent years, with the proposing of a large amount of opportunity identification mode, scholars divide the identification process into the following phrases (Fig. 4.6) (Lin et al. 2005).

Phrase 1: Opportunity Searching Entrepreneurs conduct researches on potential creations among the whole economic system. If any creation was conceived as an underlying business opportunity with development value, entrepreneurs would conduct the second phrase.

Phrase 2: Opportunity Recognition It is defined in a narrow sense to screen appropriate opportunities, which contain two procedures. To begin with, whether the opportunity is profitable or not should be evaluated in a broad sense through analysis of the general market environment and the industries, called the standardized recognition process. Then, specific entrepreneurs and investors should investigate the value of the opportunity, called customized recognizing phrase.

Phrase 3: Opportunity Evaluation In fact, it is to conduct "investigation of duties", including the market environment, competitors, financial indicators, constitutions of entrepreneurship team, etc. By means of opportunity evaluation, the entrepreneur would decide whether to establish an enterprise and attracting investment.

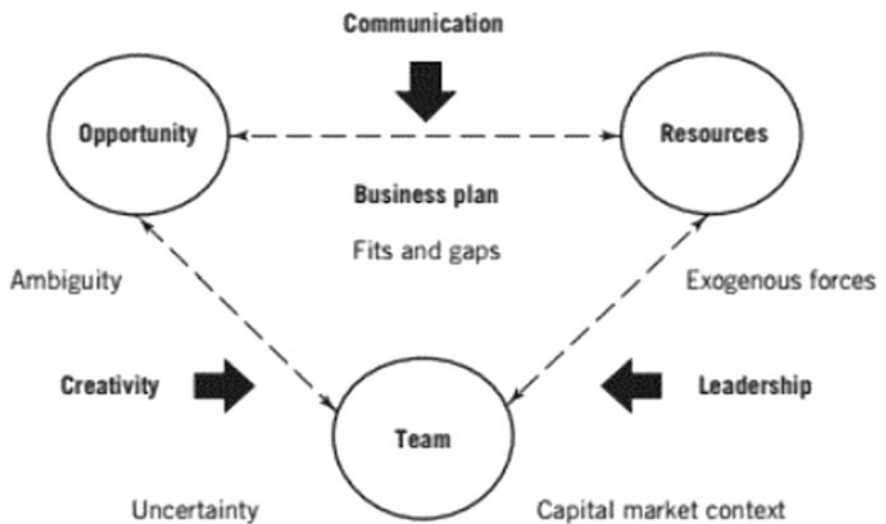


Fig. 4.5 The Timmons model of the entrepreneurial process

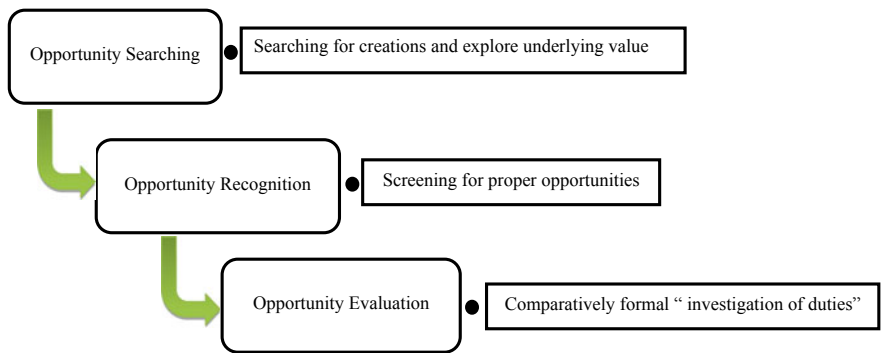


Fig. 4.6 Stages of identifying entrepreneurial opportunities

4.3.4 Principles to Recognize and Seize Entrepreneurial Opportunities

Opportunity is a combination of timing and environment. Just as the saying goes: “opportunity knocks but once.” Entrepreneurial opportunities are generated under a certain background that largely affects the existence of opportunity. Obviously, it is particularly significant to improve the capacity to recognize scarce and fleeting entrepreneurial opportunities.

Keep Abreast of the Times and Grasp the Pulse of the Times

Social surrounding constitutes the background of venture activities and is the cradle of entrepreneurial opportunities. Seizing entrepreneurial opportunities is to keep up with the times and make thoughts coincide with constantly developing the surrounding conditions, endeavor to get more favorable space for venture behaviors. Conforming to the march of times, entrepreneurs should be equipped with a positive and active conscious to combine venture activities and dynamic development of the environment. In the first place, the entrepreneurial environment should be recognized comprehensively, both in a theoretical level and practical level. Just as the saying goes, “knowledge comes from experience,” entrepreneurs should explore changing rules of the entrepreneurial environment in practice to lay a steady foundation for opportunities. Then, entrepreneurs should properly employ the surrounding conditions. Many opportunities and requirements have existed in entrepreneurial surroundings. In accordance with personal information, the entrepreneur can utilize various favorable factors to achieve his career in the market for surviving and developing. Finally, under the circumstance of unsatisfactory conditions, the entrepreneur can remold the surroundings or create a brand-new, adaptive surroundings based on his own will, conception, and approaches.

Actively Prepare and Wait for Chances

It's difficult to seize entrepreneurial opportunities for its elusiveness, contingency, and perishability. Entrepreneurs should arm themselves with knowledge and experience for adequate preparation so that they can seize entrepreneurial opportunities successfully. First of all, the theoretical knowledge base should be built, and the horizon should be broadened. Opportunity recognition largely relies on one's knowledge storage. Those with much more knowledge is more likely to stay ahead of recognizing potential opportunities. In addition, access to information should be expanded for constructing a giant informative communication network. The probability of finding entrepreneurial opportunities increases as the growth of related information. Finally, entrepreneurs should have the courage to practice, train the thoughts of transferring experience to the creation in practice.

Take the Initiative to Gain an Advantage

Seizing opportunity is a fierce battle with scarce resources, entrepreneurial opportunities, being the major point of market competition. In this battlefield, speed is the crucial factor. By playing the spirit of seizing every minute, entrepreneurs should try their best to gain an advantage, on account of that opportunity is probably less valuable as time moves forward. Whoever takes the opportunity would occupy market commanding height, stepping one step ahead of the competition. It's significant for entrepreneurs to foster awareness of “dare to be the pioneer”. In terms of liberating the thinking, and daring to blaze new trails, entrepreneurs are supposed to respond rapidly without hesitation to potential opportunities.

Be Unremitting to Foster Strengths and Circumvent Weakness

There are various entrepreneurial opportunities everywhere. The key is whether they are discovered or not. However, not all the opportunities are suitable for putting into practice. During the entrepreneurial process, one should both respond actively and courageously and try to avoid meaningless sacrifice to reduce failure. That needs entrepreneurs to fully exploit their advantages to seize controllable opportunities. Different types of opportunities demand inconsistent ability quality. After judging and weighing opportunities and personal ability, entrepreneurs choose suitable entrepreneurial opportunities and then conduct practice in the market. The entrepreneurial process is tough and filled with obstacles and failures. Persistence is of great importance for success. Once the goal is fixed, the entrepreneur should make unremitting efforts, rushing to the victory.

4.4 Evaluation of Entrepreneurial Opportunities

Upon completion of entrepreneurial opportunity recognition, entrepreneurship enters the evaluation procedure. For entrepreneurs, the evaluation of the market is similar to that of investment projects, which are crucial to the outcomes of investment. Moreover, evaluation is also beneficial for entrepreneurs to analyze whether the conception is valuable for developing into an enterprise or product. During evaluation, it's imperative to be systematic, scientific, practical, dynamic, and comparable.

Screening and confirming is extremely complicated. Every opportunity is full of risks, and not all of them could bring benefits. Recognition of entrepreneurial opportunities haven't been a successful venture activity that can be launched or succeeded. First of all, not all entrepreneurial opportunities are potential enough to cover the cost of seizing it. Then, now all opportunities are suitable for everyone. Entrepreneurial activities are the combination of entrepreneurs and opportunities. Entrepreneurs recognize and explore the opportunity, while the opportunity is also selecting and test the entrepreneurs. Only when these two aspects are well matched, venture activity occurs and achieves success.

Therefore, entrepreneurs must carry out scientific analysis and evaluation prior to utilizing the opportunity, and then they can make a correct decision. How to evaluate an entrepreneurial opportunity? What are the main evaluation elements?

4.4.1 Entrepreneurial Opportunity Evaluation Indicators

Timmons summarized a framework for evaluating entrepreneurial opportunities (Table 4.2) that involves 53 indicators in 8 categories (Jiang and Bai 2005). Although opportunity may not be fully consistent with this framework, in reality, it

still covers almost all the contents that need to be considered. Entrepreneurs can conduct rational recognition in accordance with this evaluation framework.

By utilizing Timmons entrepreneurial opportunity evaluation system, we can conduct multidimensional evaluation of entrepreneurial opportunities, and thoroughly seize the potential value of those opportunities. Moreover, these quantifiable standards could be an assistance in assessing entrepreneurial opportunities. By means of the systematic analytical framework, entrepreneurs can carry out a feasibility analysis, so as to reduce the possibility of wrong subjective choice, and to prop up the success.

4.4.2 Quantitative Analysis Method for Entrepreneurial Opportunity Evaluation

J. Burch has raised four quantitative analysis methods for entrepreneurial opportunity evaluation, namely standard score matrix, Westinghouse method, Hanan Potentionmeter method, and selective factor analysis.

4.4.2.1 Standard Score Matrix

Standard score matrix is to directly compare all the influencing factors to venture a success by analyzing the weighted average of each factor that are marked by expert groups (in three levels). Table 4.3 shows the main evaluation index. Actually, these indicators can be selected flexibly in practice.

4.4.2.2 Westinghouse Method

Westinghouse method is to compare the priority of entrepreneurial opportunities by means of calculation. The corresponding calculation formulas are as follows.

Priority of entrepreneurial opportunities = [Probability of technical success * Probability of business success * Average annual sales * (price-cost) * Investment life circle] / Total cost.

In this formula, probability of technical success and probability of business success are reflected in percentage (0–100%); Average annual sales is counted by the sold products; Cost is the unit product cost; Investment life circle indicates the predictable periods that can maintain the average annual sales; Total costs means all the investments, including R&D, design, manufacture, sales, etc. The one with higher priority is more likely to be succeeded.

For instance, an entrepreneurship opportunity has 80% of probability of technical success, 60% of probability of business success, 9 years of investment life circle, and 20000 annual sales volumes. Besides, it sells for 120 Yuan per unit, while each product costs 87 Yuan. R&D fee accounts for 50000 Yuan, design fee for 140000, manufacture fee for 230000, marketing fee for 50000 Yuan. Therefore, the result can be calculated by the formulas, namely the priority is 6. The bigger the result is, the higher the possibility of success could be.

Table 4.2 Timmons entrepreneurial opportunity evaluation framework

Main category	Indicator
Industry and market	1. Market is easy to be recognized and can bring sustained income
	2. Costumers are willing to pay for the products or services
	3. Products contain high added value
	4. Products have huge impact on the market
	5. The to-be-developed product has a long life
	6. The project is located in an emerging market with imperfect competition
	7. The market with large scale has the sales potential amounted to 10 million to 1 billion
	8. The market growth rate reached 30%–50% or even higher value
	9. Production capacity of existing manufacturers is almost reached saturation
	10. The product can take the leading status in the market within 5 years, reaching 20%
	11. The product obtains an advantage of low-cost supplier
Economic factors	1. The required time for reaching a break-even point is 1.5–2 years
	2. Break-even point will not increase gradually
	3. Rate of return on investment is over 15%
	4. The project is capable of acquiring financing
	5. Annual growth rate of sales volume is over 15%
	6. Benign cash flow that accounts for 20%–30% of sales volume, or even higher value
	7. Capable of acquiring long-lasting gross profit, and the gross profit margin should reach 40% or more
	8. Capable of acquiring long-lasting after-tax profit that should exceed 10%
	9. Low concentration assets
	10. Lacking in operating funds. And the demand is gradually increasing
	11. Research and development work has low requirements for funds
Gaining conditions	1. The added value brought by the project has a high strategic significance
	2. There is an existing or predictable exit method
	3. The capital market environment is favorable for realizing the flow of capital

(continued)

Table 4.2 (continued)

Main category	Indicator
Competitive advantage	1. Low fixed costs and variable costs
	2. High controlling over cost, price, and sales
	3. Have you obtained or can you obtain the protection of patent ownership?
	4. Lack of competitors and the competition is weak
	5. Have a patent or obtain some sort of exclusivity
	6. Have a well-developed network relationship that is easy to enter into contracts?
	7. Have outstanding key personnel and management teams
Management team	1. The entrepreneur team is a combination of excellent managers?
	2. Industrial and technical experience has reached the highest level in the industry?
	3. Management team achieve the highest level of integrity?
	4. Does the management team know what kind of knowledge they lack?
Critical defect	no critical defect
Personal standard of entrepreneurs	1. Personal goals are consistent with entrepreneurial activities
	2. Entrepreneurs can achieve success under the limited risk
	3. Entrepreneurs can accept salary reductions losses, etc.
	4. Entrepreneurs are eager to start a business rather than make a big profit
	5. Entrepreneurs can withstand proper risks
	6. Entrepreneurs are still in good condition under pressure?
Strategic differences between ideal and reality	1. The ideal is consistent with the reality
	2. The management team is already the best
	3. Good service concept in customer service management
	4. The careers are in keeping with the trend of the times
	5. The technology adopted is groundbreaking with no substitutes or competitors
	6. Flexible adaptability and quick trade-offs
	7. Always looking for new opportunities
	8. The price is almost the same as that of market leaders
	9. Accessible to sales channels

4.4.2.3 Hanan Potentionmeter Method

Hanan Potentionmeter method is a kind of questionnaire with preset options in terms of different conditions written by entrepreneurs. Therefore, the potential success index of specific entrepreneurship opportunities in a quick manner (Table 4.4). The marks range from -2 to $+2$. Higher total points indicate higher success potential. Generally speaking, the opportunity with more than 15 points is worth further planning.

Table 4.3 Standard score matrix

Criterion	Marks			
	Excellent	Good	Not bad	Weighted average
Operability				
Quality and maintainability				
Market Acceptance				
The competence to increase capital				
Return on investment				
Patent rights				
Market				
Simplicity of manufacture				
Growth potential				

Table 4.4 Potential success index of entrepreneurship opportunities

Index	Marks
Contributions to return on investment before tax	
Expected annual sales volume	
Expected growth phase in the life circle	
Expected duration from starting a business to the high growth of sales volume	
Payback period	
Potential to occupy the leading status	
Influence of business cycle	
Potential to set a high price for products	
Degree of difficulty or ease of accessing the market	
Time range of market test	
Requirements for sales personnel	

4.4.2.4 Baty's Selective Factor Analysis

Baty's selective factor analysis is to set 11 selective factors to estimate and evaluate entrepreneurial opportunities. If the opportunity only meets 6 or fewer factors, it might not be accessible. On the contrary, if the opportunity lives up to 7 or more factors, then it stands for much feasible. The factors are as follows (Table 4.5).

In addition to a variety of qualitative and quantitative evaluation methods, entrepreneurs should also conduct self-evaluation on the basis of entrepreneurial opportunities, including personal experience, social networks, and economic conditions. Personal experience consists of previous work and life experience, and whether the individual possesses adequate knowledge and skills to sustain the subsequent development of opportunities. In terms of the social network, entrepreneurs should put emphasis on whether your friends or acquaintances can provide necessary resources or other factors. The wider the network, the easier it is for individuals to seek entrepreneurial opportunities and grasp venture activities. In

Table 4.5 Baty's selective factor analysis

Selective factor	Yes or no
1. Is it just you that find the entrepreneurship opportunity in the current stages?	
2. Is the manufacturing cost of the initial products acceptable?	
3. Is the market development cost of initial products acceptable?	
4. Does the product obtain high-profit return?	
5. Can you predict the time when bringing products to the market and when break the even?	
6. Does the market have huge potential?	
7. Does the product belong to high-speed development or not?	
8. Is there any already existed consumer?	
9. Can you predict the cost of R&D and its duration?	
10. Is it a developing industry?	
11. Can financial circles understand your products and consumer's requirements?	

economic respect, entrepreneurs need to consider whether he can bear the opportunity cost, and whether the value potential of those opportunities can compensate for the loss within a certain period of time that is caused by quitting a job.

In short, entrepreneurship opportunity identification, the core and prerequisite of starting a business, always affects the success of venture activities. Identifying entrepreneurship opportunities is a process of perception, seeking, evaluation, and development that is constantly adjusted. Entrepreneurs should primarily analyze what factors have an impact on venture activities. At the same time, entrepreneurs should learn to seek opportunities through a variety of methods (such as system analysis, problem analysis, consumer analysis, and cultivating creative thinking, etc.) Once the opportunity emerges, entrepreneurs also need to carry out systematic feasibility analysis to avoid the choices made by subjective judgments.

Review

1. Entrepreneurial opportunities have four essential characteristics:
Attractiveness, persistence, timeliness, depends on products and services that can create or add value for consumers.
2. Main sources of entrepreneurial opportunities include: search for problems, social-economic development and changes, market demands. Among those sources, social-economic development and changes consist of technological change, economic development, social changes, and policy changes.
3. The factors that affect entrepreneurial opportunities identification cover previous experience, cognitive style, social networks, and creativity. The methods to identify entrepreneurial opportunities comprise of system analysis, problem analysis, consumer analysis, and creative thinking cultivation. The process of identifying entrepreneurial opportunities includes opportunity searching, opportunity identifying, and opportunity evaluation.

4. Quantitative analysis methods of evaluating entrepreneurial opportunities involve standard score matrix, Westinghouse method, Hanan Potentionmeter method, and selective factor analysis.

Think and Discuss

1. Based on your observations, select an industry or field that you consider existing with entrepreneurial opportunities and conduct analysis.
2. Please write a business opportunity feasibility analysis report, and invite the entrepreneurial team to evaluate its investment value.
3. What is the biggest problem for you to identify entrepreneurial opportunities?
4. Please look for and analyze existing or potential entrepreneurial opportunities in accordance with the surrounding environment of universities and the characteristics of the consumer group. Then, discuss and assess the opportunity in groups, so as to make the final decision.

Build an Entrepreneurship Team

5

Team with high performance is the magic weapon to success.

Learning Object

Understand connotation and component of the entrepreneurship team.

Comprehend types of entrepreneurship teams and characteristic of a team with high performance.

Master the building process and key issues of the entrepreneurship team.

Lead

Entrepreneurship team is one of the significant elements that affect venture activities. This chapter is to elaborate the basic knowledge for constituting an entrepreneurship team in terms of connotation and role of entrepreneurship team, component, types, formation, and operation. This chapter is meant to provide operational skills for forming an entrepreneurship team.

5.1 Introduction to Entrepreneurship Team

5.1.1 Entrepreneurship Team and Its Role

5.1.1.1 Connotation of Entrepreneurship Team

The word “team” can be divided into the following letters: “t” means together; “e” means everybody; “a” indicates achieving, and “m” means more. So, the connotation of “team” is that everybody works together to get more achievements. Lewis believes that the team is constituted by a group of people with the same goal who gets along well with each other and works hard for a highly qualified outcome. Katezenbach and Smith reckon that the team is formed by several people with

complementary skills, who identify with a common goal and work hard to make it in a pleasant circumstance (Tao 2005).

Entrepreneurship team is constituted by some entrepreneurs obtaining various complementary skills that form a community of shared interests to bear risks and share profits and finally achieves the same goal. Differentiating from the general community, disparities exist in goal, responsibility, cooperation, and skill (Fig. 5.1). For instance, a package tour is a group instead of a team as we discussed, while the soccer team contains the same meaning as we mentioned above. Compared with the group community, the key to form an entrepreneurship team is cooperation with each other to share both risks and profits. All the members in a team shared the same value and goal, with each one of them playing a diversified role.

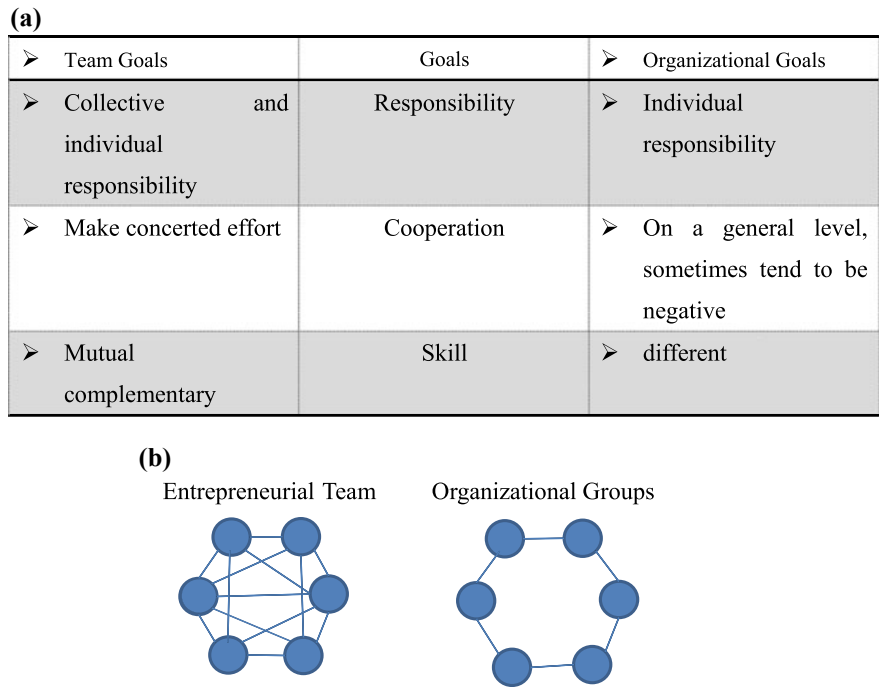


Fig. 5.1 Differences between entrepreneurial team and organizational groups

5.1.1.2 Role of an Entrepreneurship Team

A. Carnegie, a famous managerialist, once said: “if my employers were taken and my factory was left behind, the factory would be full of weeds soon; if my factory was taken, and all my employers were left behind, we will establish a better factory in the future.” During the process of entrepreneurial resources integration, how to value the importance between team and factory? It is obvious that A. Carnegie attaches more importance to the team, reckoning human resources is more vital.

The results of teamwork far surpass the sum of individuals' work. Each individual has a comparatively weak power. After they built up a team together, it would have unimaginable power. A famous educationalist Zhen Xiaocang said: “An individual's power is limited anyway. If properly matched, two people cooperated together would be powerful enough than the sum of the two people. Just as the saying goes: ‘If two people are of the same mind, their sharpness can cut through metal’. Teamwork's performance would rise in proportion with the adding of people, just like the relationship between arithmetic progression and geometrical progression” (Zheng 2009).

Case

The Story of Antelope, Lion, and Elephant

There are all kinds of animals in the African Grassland that form a food chain, with powerful animals eating the weak animals. For instance, antelope, feed on grass, were the food of lions, while the elephant is so much bigger and more powerful than the lion. Therefore, in the African Grassland, if antelopes are running, there must be a lion. And if lions were hiding, there must be elephants. However, if lions and elephants are running together, the ants' army is approaching. An ant is negligible, while numerous ants swarming together can generate unimaginable power. Besides, compared with flies and elephants, which one is more powerful? In fact, an elephant is likely to be killed by a cluster of flies. Therefore, the relationship between strong and weak is not easy to be explained by individuals.

Taking a review of the history of economic development and enterprise development, teamwork is remarkably displayed at home and abroad. Since the 1960s to 1970s, 61% of high-tech enterprises in some parts of the U.S. were established by teams with 2–3 people. It indicates that, at the initial stage of an enterprise, it would largely rely on several people instead of an individual. In accordance with the investigate about Chinese enterprise in 2003, the partnership venture takes up 60.5 percent (Zhang and Yang 2003). The start-up company was originally constituted by a small team, which would later develop into a comparatively stronger one. This team would subdivide into development team, market team, and production team. Finally, a team system would be built. This feature is also found in biological, educational, and economic fields.

Cohesion, cooperative spirit, and professional ethics can help start-ups tide over difficulties and develop at a fast speed. Moreover, complement, coordination, and balance beneficial in reducing managing risks, and improves management performance. The quality and experience of an entrepreneurial team are conducive to

helping start-ups to improve their competitiveness. To sum up, the entrepreneurial team's role can be reflected in four aspects, including integrating complementary skills and experience, being more flexible and sensitive for the change, being beneficial in strengthening organization and management, as well as being propitious to create pleasant, positive and healthy mental conditions.

5.1.2 Components of Entrepreneurial Teams

It's a necessity to consider the components of entrepreneurial opportunities for deciding whether the organizational community is an entrepreneurial team or not, involving in purpose, place, plan, power, and people (Fig. 5.2), namely 5 Ps.

5.1.2.1 Purpose

Each entrepreneurial team should have a fixed common goal. One without a goal is worthless that is hard to achieve success. In the management work of start-ups, team purpose is demonstrated in vision and strategy, which are the foundation of the development of start-ups.

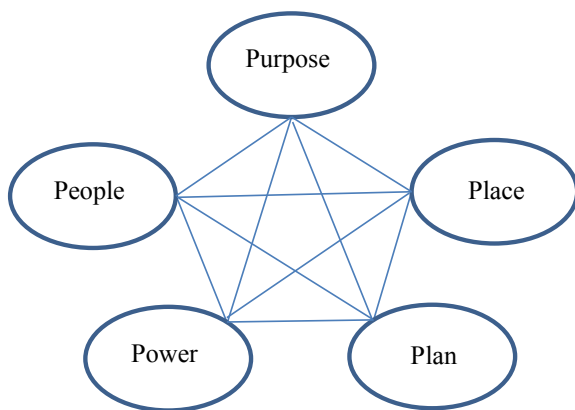
5.1.2.2 Place

The place means the position of an entrepreneurial team and entrepreneurs. The first one is to explain the position of the entrepreneurial team, such as the leaders, subordinates, and incentive mechanism. The latter demonstrates the roles of entrepreneurs, such as manager, plan maker, third-party management, etc. All of those can be reflected in the organizational form of entrepreneurial entity.

5.1.2.3 Plan

Once the responsibility and limits of authority are ascertained, they are supposed to be allocated to team members. Plans are needed to guide detailed performance at

Fig. 5.2 Components of entrepreneurial teams



work. Plans during the entrepreneurial process consist of long-term plans and short-term plans. Besides, types of plans are financial plans, marketing plans, production plans, etc.

5.1.2.4 Power

Power, indicating liability and authority, means the scope of work and degree of autonomy of decision. Leaders' power in an enterprise is closely related to the development status of its team and type of entrepreneurial entity. Generally speaking, the maturity of an entrepreneurial team is inversely proportional to the power of its leader. However, in the initial stage of the entrepreneurial team, leaders' power is comparatively concentrated.

5.1.2.5 People

People are the core to constitute a team. Every member should find out his role in the team. Human resource is the most active and important element. Therefore, it's imperative to fully mobilize resources and turn human resources into human capital. By means of fulfilling one's own work, different people work together to achieve the common goal of the team. The selection of people plays a vital part in team construction. It needs people to propose ideas, implement, coordinate, supervise, and evaluate in a team.

Purpose, place, plan, power, and people are closely related to each other, among which, people are the core for making goals and plans. Therefore, the selection of people is essential. Then, it's a necessity to determine the leader, organizational method, incentive mechanism, namely team placing. By comparison, individual placing elaborates roles, duties, and rights of every member. In a team, every plan has to be allocated to a certain person. An entrepreneurial team shared the common value, goal, and behavior principle, whose members bear common responsibilities and cooperate with complementarity to make contributions.

5.1.3 Types of Entrepreneurship Team

Entrepreneurship team can be classified in terms of various angles, such as organizational structure, operational mechanism, and venture types. From the aspect of organizational structure, the entrepreneurship team can be divided into three types, namely star team, net team, and virtual star team.

5.1.3.1 Star Team

There is always a pillar in a star team who leads the operation of the entrepreneurial team. The others are called supporters, just like stars surrounding the moon (Fig. 5.3). In this kind of team, the core leader generally has a specific plan as the basis for constructing a team. For instance, Apple Corporation is a star team, with Steve Jobs playing a vital leading role to cohere the team.

Star team has three merits, the first of which is stable, for the reason that all people's roles have already been ascertained at the initial stage. The second

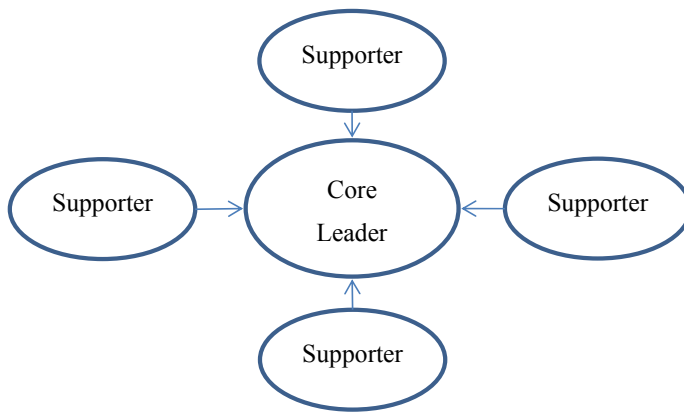


Fig. 5.3 Star team

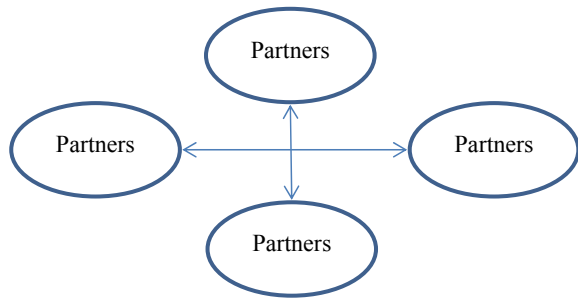
advantage is a tight organizational structure with a strong centripetal force. Star team is progressed centering on the core people. For example, in the book *Romance of the Three Kingdoms*, every team has a pillar with other people pledge loyalty to him. Cao Cao's, Liu Bei's, and Sun Quan's team possess a series of valiant generals that form a tripartite confrontation. As long as the core person is survived, success or failure wouldn't affect the existence of the team. Finally, the decisive procedure is relatively simple but possesses high organizational efficiency.

However, there are also demerits in the star team. To begin with, the concentration of rights leads to high decision-making mistakes. Then, the initiation and activity of team members are notoriously difficult to be fully exerted. Moreover, when a conflict emerges, lacking in recognition or opportunity to show values, supporters might quit or be absent-minded. Therefore, work-to-rule may occur in the whole organizational structure. If a serious conflict emerges, supporters would like to leave the team, impacting on the structure.

5.1.3.2 Net Team

Net team, also known as a communal entrepreneurial team, is organized spontaneously by a group of kindred spirits. In accordance with personal characteristics, members of the team place themselves spontaneously in the relationship of partners. In short, the structure of the net team is a consultative partner relationship. Members of this team may have a close relationship before venture activity, such as classmates, relatives, colleagues, friends, etc. They recognize one common entrepreneurial thought and start the activity once they reached a consensus.

Net team is featured by four merits. The first one is the close relationship between members. Owing to the common or similar interests, members of the team have intimate relations that make it easier to reach consensuses. Members are capable of playing their roles, respectively, and show their strong sense of belonging. Secondly, members share equal status in the team. Moreover, the team is

Fig. 5.4 Net team

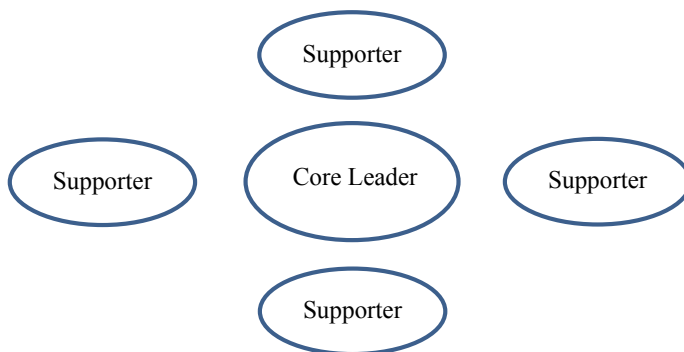
quite firm. For the reason that the team is built by people who shared common interests, the members are well cooperated and stay close with each other.

Defects of net team can be shown in four aspects: (1) the whole structure is loose without specific leader; (2) low efficiency in decision-making process, for collective bargaining needs much communications and discussions; (3) equal statuses between members lead to multiple leadership, impacting on execution; (4) if conflicts between the members can't be solved properly, the team is tend to break (Fig. 5.4).

5.1.3.3 Virtual Star Team

Virtual start team (Fig. 5.5) strikes a balance between the advantages and disadvantages of star team and net team. In star team, a core person was elected by the team, in charge of recruitment and implementation of plans. While in the virtual star team, the leader is the representing profits of the whole team. Therefore, his behavior should consider other members' opinions sufficiently.

In comparison, the good points of this team can be shown as follows. (1) "the representative" is prestigious to lead the team. (2) The pillar is elected by members of the team during the entrepreneurial process, which contributes to the integration and influence of the whole structure, avoiding the centralization of power and decentralized situation. At the same time, the defect of the virtual star team is the

**Fig. 5.5** Virtual star team

conflict between the authority of the representative and democracy of the team, because the representative must give sufficient consideration on team members’ opinions.

All in all, the three teams have their advantages. respectively. Star team has high efficiency. Net team is democratic. And virtual star team combines both superiors. The three the have their own inferiors. Star team has a high risk of decision-making, while that of the new team is rather low. The virtual star team is faced with a deficiency in leadership and authority.

5.1.4 Features of Entrepreneurial Team with High Performance

The fittest survive in society. Therefore, the only team with high performance can survive and develop in competition. There are seven characteristics in this kind of team: common entrepreneurial belief, feasible goal, persistent value pursuing, complementary skills, fine communication, high cohesion, proper profit distribution. These can be concluded into three aspects, namely top-level, middle-level, and outcome features (Fig. 5.6). Any insufficiency or weakness in any aspect would impact on the efficiency of the entrepreneurial team.

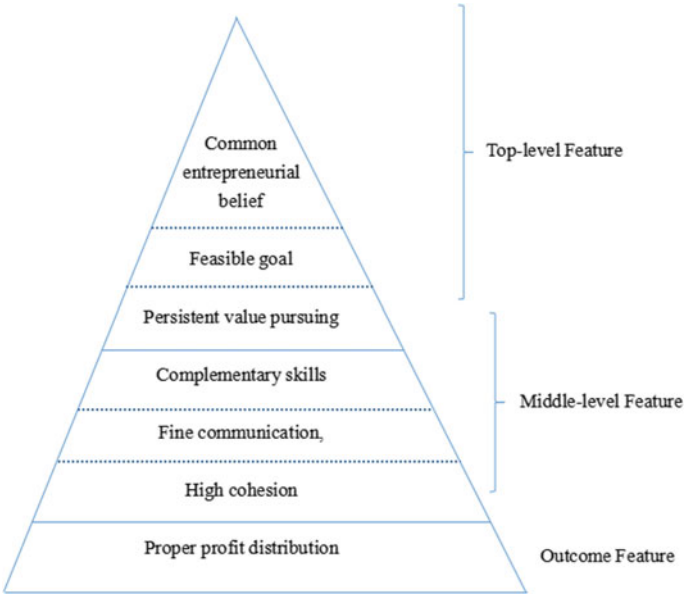


Fig. 5.6 Features of entrepreneurial team with high performance

5.1.4.1 Top-Level Feature

Top-level feature of the entrepreneurial team with high performance is demonstrated in the common belief, feasible goal, and persistent value pursuit, which is a significant problem in team building that constitutes the whole team culture. Belief, goal, and value lay the foundation for an entrepreneurial team, which also plays a sustainable influence in the latter period of venture activity.

Entrepreneurial belief decides the nature, tenet, and access to get profits, largely affecting the goal and criterion of behavior and member's work behavior and outcomes. In a sense, entrepreneurial belief is the baton of opportunity recognition, plan making, financing, etc. Although entrepreneurial belief is an abstracted term, it is the basic criterion for constructing a team. Entrepreneurial purpose, indicating the expected development status, must be specific and feasible. Actually, a lot of people have favorable conditions for starting a business, while their unrealistic goal makes the enterprise inability to survive. For instance, some people attach great importance to "face-saving project" that they expand their business blindly without considering their economic strength. Entrepreneurial purpose can be considered in the following aspects: the economical dimension (such as market share and profitability), social dimension, environmental dimension. Persistent value pursuit requires the team to be highly enthusiastic to venture activity, possess particular emotion, and remain undisturbed so that they can pursue common value unswervingly.

5.1.4.2 Middle-Level Feature

Middle-level features by complementary skill, fine communication, and a high sense of cohesion. Team members should form a complementary condition in skills, for completing various tasks successfully in the team. Skills of team members shouldn't be overlapped too much which leads to a rise in cost futilely.

Besides, team members should reach benign communication and a high sense of cohesion. Formation of a team might be based on consanguinity, school relations, career relations, or collective interests. And team members may be townsmen group, relatives, classmates, colleagues, etc. For those reasons, they pull together to work unitedly to make contributions to the development of an enterprise. However, with the expansion of an enterprise, a variety of obstacles and troubles emerge continuously. It's obvious that the team members would have diversified opinions in dealing with these troubles. If they can't reach unanimity, team members may blame or even split with each other. Team with high performance doesn't avoid disparate opinions, instead, it conducts sufficient communication and exchanges to reach a unanimous opinion.

5.1.4.3 Outcome Feature

Outcome feature of entrepreneurship is demonstrated in reward, involving proper profit distribution. The proper distribution mechanism is made for sharing the profit fairly and reasonably. Start-ups sometimes tend to neglect the distribution of profit, which results in team sluggishness. Therefore, a reasonable distribution mechanism is a significant guarantee of a high-performance team.

Profit distribution doesn't require equality, but it has to be reasonable, transparent, and fair. Normally, the core entrepreneur owns much more stock equity. However, it's reasonable if the core people create correspondent value and contribution. Equity distribution at the initial stage of venture activity is discordant with later contributions. Therefore, some people, having made prominent contributions, can't get respondent payment. Therefore, a team with high performance needs to make a fair and elastic profit distribution mechanism to remedy the unfair phenomenon mentioned above. For instance, start-ups can preserve a certain percentage of profits or stock equity to reward outstanding members that will make prominent contributions in the future.

5.2 Construction of Entrepreneurial Team

5.2.1 Basic Procedures of Entrepreneurial Team Construction

Team building is a very complicated process. Different types of entrepreneurial projects require a diversified team. And the building procedures are not alike. Generally speaking, basic procedures of building an entrepreneurial team can be considered in six aspects: setting clear purpose, drawing up plans, setting up institutions, segregation of duties, establishing systems, and dynamic reconciliation (Fig. 5.7).

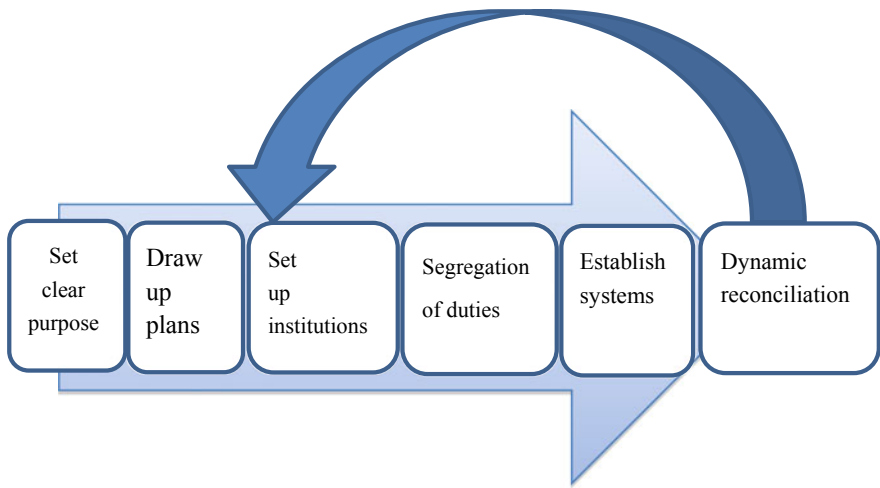


Fig. 5.7 Basic procedures of entrepreneurial team construction

5.2.1.1 Setting Clear Purposes

Setting clear purpose is the premier and base for building an entrepreneurial team. The overall purpose is for the enterprise to develop from nothing by means of completing technology, market, planning, organizing, and management at this stage. Once the overall purpose is settled, feasible and periodical subgoal should be made to manage the composition of members in the team. In other words, in line with purpose, selected team members should correspond to detailed goals.

5.2.1.2 Draw up a Plan

After the overall purpose and subgoal are settled, entrepreneurs should draw up a detailed plan to reach the goal. Taking the team as a whole, the entrepreneurial plan is made on the basis of decomposition on entrepreneurial purposes. It determines stage work breakdown in diversified phases. By means of achieving these stage works step by step, the overall purpose will be achieved eventually.

There are numerous kinds of entrepreneurial plans. In accordance with time, the entrepreneurial plan can be classified into a short-term plan, middle-term plan, and long-term plan. The close interconnection among them contributes to the development of venture activity. In the light of function, an entrepreneurial plan can be divided into a marketing plan, purchase plan, advertisement injecting plan, and technology gap overcoming plan. Judging by content, an entrepreneurial plan is composed of a specific plan and an ideological guiding plan. All types of plans should be scientific, and effective, and run through the management of start-ups in leadership, organization, cooperation, and control.

5.2.1.3 Set up Institutions

Setting up institutions require proper matching between purposes and plans. Different purposes and plans need a diversified institution to support. For instance, in dealing with short-term and temporary plans, the provisional institution is a good choice. The standing institution is an imperative aim at long-term plans. The nature and types of institutions should be considered. Besides, entrepreneurs also need to plan if these institutions remain independent or interconnected. In most cases, all institutions are cooperating with each other. However, don't rule out some separate institutions, differing from the normal organizational structure, owing to confidentiality or other reasons.

It is the matching rate between types, scopes, levels, and purposes that decide the sustainable competence of an enterprise. Appropriateness of an institution should be considered in particular. Pretty large team for small target results in overstaffing in an organization, and low efficiency. On the contrary, a small-scale institution is hard to fulfill giant targets, leading to the breakdown of venture activity.

5.2.1.4 Segregation of Duties

Segregation of duties guarantees the team members to implement plans and carry out work in a well-organized manner. It means to determine detailed responsibilities for every member. Overlapping of duties should be avoided, so is job vacancies. Many teams have failed due to unclear responsibilities. Moreover, internal

structures of start-ups are unstable so that they would conduct dynamic adjustment as the changing in circumstances. Therefore, the duties of team members need to be adjusted accordingly.

5.2.1.5 System Building

A system is the safeguard of the effective operation of enterprises. A reasonable system needs to contain the following features. (1) Dynamism. It needs to make a relevant adjustment with the development of enterprise and variations in influence factors, making the best use of the circumstances. (2) Motivation. Rewards to a member should match with his contributions. (3) Binding effect. The system is imperative in standardized management, requiring team members to abide by procedures and criteria. (4) Cultural property. Constraint force is not the only aim for the establishment of a system. A system-related enterprise culture is much more significant.

5.2.1.6 Dynamic Reconciliation

Things are constantly moved and evolved. This is true for any team. An entrepreneurial team with high performance is formed as the developing of start-ups. Some unreasonable issues in staff, system, and segregation of duties will be exposed to the operating of teams. Adjustment is imperative at that moment.

Dynamic reconciliation exists in purpose, plan, institution, duty, and system to distinct issues. Therefore, the leader in a team must consider the way to conduct dynamic reconciliation and unify kinds of factors, so as to have a refined momentum of strong competitiveness at the initial stage of team building.

5.2.2 Basic Principles for Building an Entrepreneurial Team

Four principles should be obeyed in building an entrepreneurial team, namely clear and reasonable in purpose, complementary in members' skills, leanness and high efficiency, as well as dynamic and openness.

To begin with, clear and reasonable purposes empower team members to find out a clear direction for striving. Meanwhile, only reasonable and feasible purposes can play a guiding role in practice.

Secondly, complementary members aim at bridging the gap between entrepreneurial purpose and personal competence. It's only when members' knowledge, skills, and experience complements each other that they will produce synergy effects, just like the formula of " $1+1>2$ ".

Thirdly, leanness and high efficiency. Keep Leaner under the premise of highly efficient operation to reduce cost and share rewards to the largest degree.

Finally, dynamic and openness. Venture activity is filled with uncertainty. There are members coming and going due to competence, notion, profit, and other reasons. Consequently, entrepreneurs should try to keep dynamic and open in building a team to attract the best-matched talents.

Case

Rules of the Wild Goose

Researches on wild geese flying in procession show that wild geese possess strong group consciousness, which demonstrates the importance of teamwork.

Firstly, as each wild geese flaps its wings, it creates favorable updraft conditions for its companion immediately following. This kind of teamwork raises 70% of flying efficiency than if each wild goose flew on its own.

Secondly, all the birds are willing to accept the requirements for group flying, and give assistance to build a formation. When a wild goose falls out of formation, it will soon be lagged behind. For fear of being alone, the bird will struggle to catch up with the team.

Thirdly, leadership in the team is shared by the members corporately. The head goose is leading the whole team. When it gets tired, it rotates back, and another goose flies point almost at the same time.

Fourthly, other wild geese honk constantly to encourage those upfront. If fierce competition existed in the team, it would be hard for them to encourage each other.

Finally, companions are always helping each other whether the teams' condition is good or not. When a goose gets sick or is wounded by gunshot, and falls out of the formation, two other geese fall out with the goose and follow it down to the ground. They stay here with the fallen goose until it is capable of flying or dies, unfortunately, and only then do they leave.

5.2.3 Influence Factors of Building an Entrepreneurial Team

Entrepreneurial team-building process and operational efficiency can be affected by various factors.

These factors are as follows.

The first factor is an entrepreneur, whose competence and notion would fundamentally determine whether, when, and who build the team. It is only when entrepreneurs realize the importance of teams in bridging the gap between his competence and entrepreneurial purposes that he may consider to build a team and make an accurate judgment on talents the enterprise needed.

Secondly, entrepreneurial opportunities. Faced with diversified opportunities, the entrepreneur would decide the exact procedures of building a team.

Thirdly, team purpose and value. Unified purpose and value are the premises of building an entrepreneurial team that would guarantee wholehearted cooperation and striving. In the absence of a unified value, the team member would disengage the team, resulting in the weakening of the team.

Fourthly, team member. Capabilities of all members decide whole strength and development potential of the entire team. Complementary in abilities of members is an essential condition for building a team, while mutual trust is the basis. Lack of trust would directly lead to obstacles in cooperation between team members.

Finally, the external environment. Survival and development of an entrepreneurial team is affected by society, economic environment, market, resources, etc. These external environments would indirectly impact on the building process of the entrepreneurial team at a macro level.

5.3 Key Issues in Operating of an Entrepreneurial Team

During the operation of the entrepreneurial team process, teamwork and member motivation need to get significant attention.

5.3.1 Teamwork

Building and operating an entrepreneurial team is a dynamic process. For the sake of playing team members' role sufficiently, entrepreneurs should, on the one hand, attach importance to the combination between similarity and complementarity in selecting team members; on the other hand, give priority to the differentiation of team member combination.

5.3.1.1 Combination Between Similarity and Complementarity

Members, sharing different duties, constitute the entrepreneurial team. Therefore, the combination between similarity and complementarity needs to be focused during the team operation.

Similarities of team members are propitious to fluent communication and form a harmonious interpersonal relationship. Hence, more entrepreneurs tend to select talents with the same growth background, education, experience, cognition. In this kind of community, members have various similarities, such as entrepreneurial motivation, outlook on life, values, etc., resulting in much more intention to cooperate. Actually, there are also defects in the similarity of team members, manifesting as a high degree of overlapping. It unites the team members but hinders the generation of innovative thoughts. Indeed, there are thoughts that one should resist the temptation of starting a business with a similar person, because overlapping of knowledge, experience, skills, social network leads to the limitation of resources.

It also means that the entrepreneurial team should focus on the complementarity of members. The difference is the precondition of complementarity, thus the disparity in education, professional knowledge, recognition, and way of thinking. For instance, in recognizing entrepreneurial opportunities, the team may conduct brainstorming about some thoughts, but it may end unsatisfactorily, for people with so many similarities having similar opinions. As a result, it is crucial to realize the rational collocation of team members to realize complementary in the aspect of recognition, task, specialty, and character (Table 5.1).

Table 5.1 Types of complementarity in team members

Cognition complementarity	Members with different cognitive style forms complementarity of merits
Task complementarity	Leaders can distribute complex and tough tasks to the operating department, forming a portfolio team with complementarity in merits
Specialty complementarity	Confronted with a task, diversified competence of team members is propitious to form a professional complementary team
Character complementarity	Members with different character are beneficial for harmonious operating of the team

Besides, the entrepreneur should also consider the character of team members, such as “mastermind”, “doer”, “diplomat”, “coordinator”. In general, core structural talents include leader, planner, researcher, seller, but supporting talents like financial staff and secretary are also required. Moreover, the balance should be struck in the allocation of talents. Assignment of responsibility and corresponding talents’ features in entrepreneurial team with high performance are showed in Fig. 5.8.

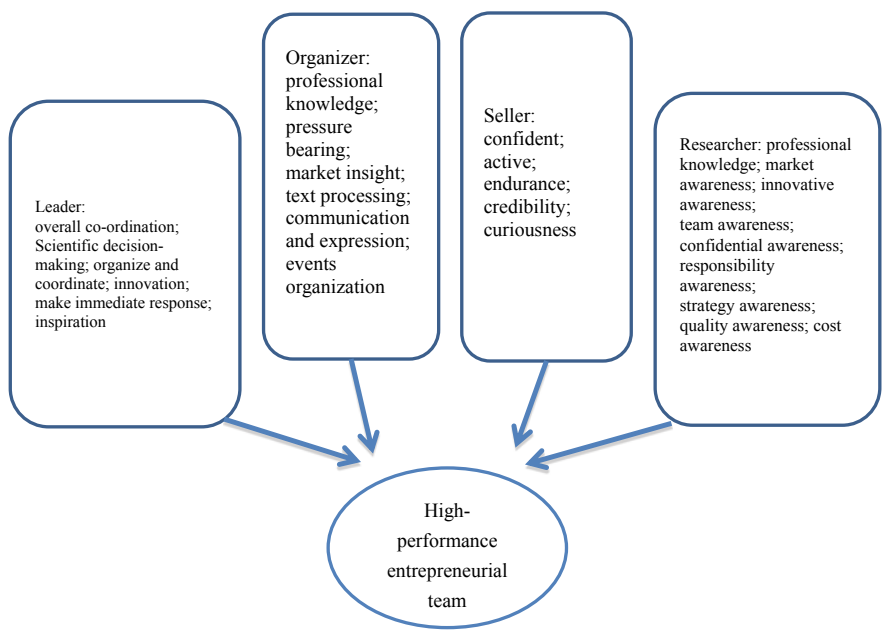


Fig. 5.8 Assignment of responsibility and corresponding features in the entrepreneurial team with high performance

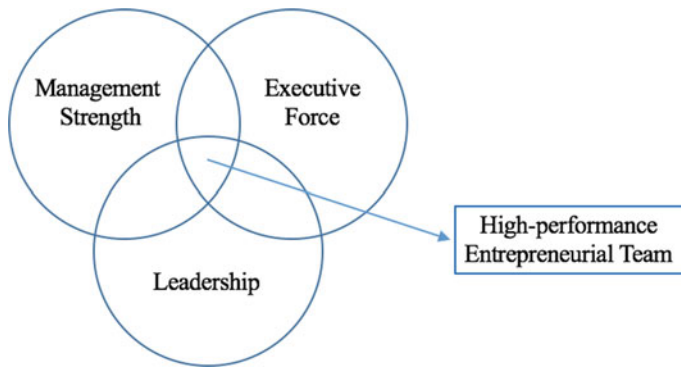


Fig. 5.9 Three “forces” in a high-performance entrepreneurial team

On the basis of balance between similarity, complementarity, and team members’ character, there are three higher requirements that cross each other, namely leadership, management strength, and executive force (Fig. 5.9).

5.3.1.2 Combination of Diversity at Each Entrepreneurial Stages

Successful start-ups would undergo several stages: seed stage (initial stage), development stage, and mature stage. In the seed stage, the importance of the technician is highlighted for the reason that innovation in technology is a major trend of start-ups. The people, holding the pivotal technology, take the core status. Team members conduct work to support these people or technology. As technology improves, the start-up moves into the development stage, where the technology market is regarded both as equally important, so are technicians and sales personnel. The market guarantees the implementation of technical outcomes. Entrepreneurship starts from the creation and ends up with practice. Only with use value, can technical products turn into commodities. Finally, the importance of management talents increases as start-ups accessing to the third period, namely mature stage. Management is a necessity in combining essential factors of production and management element in an optimized way.

5.3.2 Incentive Mechanism for Team Members

In the twenty-first century, economic pattern transit from an industrial economy to a knowledge economy. The enterprise, which owns and makes good use of outstanding talents, remains invincible in the market competition. Then, how to attract highly competent talents to establish an entrepreneurial team with high performance? One of the significant methods is to establish an effective incentive mechanism. Generally speaking, the main approaches to incentives include payment, emotion, career, circumstance, system, and culture.

5.3.2.1 Payment Incentive

Payment incentive primarily reflects the fairness of the distribution system in a team. If the team member feels to be recognized, and gets reasonable payment, he would continue to create value. The basic principle of incentive is distribution according to one's performance. It is of great importance to draw up and implement a competitive salary system and form a benign payment incentive mechanism.

In addition, enterprises need to actively participate in the reformation and revolution of the social welfare system. In accordance with relevant laws of the state, enterprises endeavor to establish a thorough welfare system based on their own conditions so as to solve the issues of concern and strengthen the sense of belonging, such as endowment insurance, unemployment insurance, and health insurance.

5.3.2.2 Emotion Incentive

Emotion incentive is to attract talents by emotional interaction in ways that stimulate team members' emotion to the enterprise, team, and leaders. Team members pursue not only economic rewards, but emotional rewards and existence value. Emotional rewards, mental strength formed after genuine and harmonious working together, are more efficient than attracting talents with career and salary. Qian Xuesen, known as "father of space technology" and "king of rocketry", gave up all munificent material payments and went back to China, on account of his patriotism and enthusiasm for serving our country. Start-ups need to support talent's work, care about their life, respect their dignity and satisfy their emotions. Connecting various talents by emotional bond enables them to feel the warmth of the company, so they would stay close to the company. Hence, emotion incentive is a vital method in incentive mechanisms.

5.3.2.3 Career Incentive

Career incentive indicates that the goal and prospects of the company are worth fighting and striving. Once team members have sense of career, responsibility, and duties, they would make use of their brilliance sufficiently and remain in the team. In this way, they attach more importance to career, achievements, and development prospects. When all team members have a firm belief in the prospect of the career and lofty social values, they would endeavor to realize personal goals and common purposes. Team members with career incentives don't give up their careers even if they enjoy comparatively lower payments or received unfair treatment.

5.3.2.4 Environment Incentive

Environment condition is also crucial to decide whether team members can work pleasantly. It attracts talents by improving the social environment, living environment, and interpersonal environment. Working in a harmonious and pleasant environment, team members tend to fully play their potential.

During team building, team leaders should consider what kind of circumstance is perfect for team members to bring their talents into full play. There are two issues to be reckoned with. Firstly, whether the current circumstance can consolidate the

team and retain talents? Then, which circumstance condition is better, compared with other teams. Taking the natural environment as an example, clean and well-arranged company is filled with positive and aspiring atmosphere, while the small, dark, and disorganized company makes the employee feel depressed. It is obvious that the former is more appropriate for improving working efficiency and strengthening job satisfaction degree.

5.3.2.5 System Incentive

System is the key for the entrepreneurial team to give full play to its creativity. System incentive attracts, pacifies, and stabilizes talents in terms of reforming and improving the personnel system and distribution system. In order to make good use of the system incentive, in the first place, it has to be of democracy. At the time of drawing up the system, leaders should negotiate with team members and absorb opinions widely, guaranteeing fairness and ration. Then, the system should be made scientifically to reflect industry rules, management principles, and development patterns. Finally, the system needs to be legal. All entrepreneurial teams exist under the legal system, therefore, they must coincide with laws, regulations, and relevant policy provisions. Only fully considering the three core issues, can the system play incentive role authentically.

5.3.2.6 Culture Incentive

Culture incentive is to exert the special function of enterprises' culture, stimulating team members to work for expected purposes. Culture incentive acts on spirits at a high level. Without exception, every successful team attaches great importance to value leading to culture, such as "martial arts culture" in Alibaba, "innovation and entrepreneurship" in Haier, "Ten projects" in Wanda Group.

Culture incentive is demonstrated in all aspects. It infiltrates into not only system, career, and environment, but also the development process of human. Entrepreneurial culture with incentive characteristics can mobilize enthusiasm and creativity.

Building an enterprise culture is not an easy thing. It represents the common criteria and belief of the enterprise in terms of forming benign interpersonal relationships, creating harmonies atmosphere, and creating a team spirit. The entrance has to commit to shaping enterprise culture to strengthen the cohesive force, and the centripetal force, guaranteeing the achievement of enterprises' purposes thereby.

Review

1. Component of the entrepreneurial team: purpose, place, plan, duty, member.
2. From the aspect of organizational structure, the entrepreneurial team can be divided into star team, net team, and virtual net team. They all have their advantages and disadvantages.
3. There are seven characteristics of an entrepreneurial team with high performance, common entrepreneurial belief, feasible entrepreneurial purpose,

persistent value pursuit, complementary skills, fine communication, highly cohesive force, and rational profit distribution.

4. Basic procedures to organize entrepreneurial team building include clear up purposes, draw up plans, set up institutions, segregation of duties, and establish a system, dynamic reconciliation.
5. There are two major issues needs to be focused: team combination and team member incentive system.

Thank and Discuss

1. How does entrepreneurial team adjust to the new conditions? Can you put up with some good advise?
2. How do you build an entrepreneurial team, if you tried to start a business?

Compose the Business Plan

6

Learning Objectives

1. Understand business plan and its role
2. Master a core structure of the business plan
3. Understand the principle to write a business plan

Lead

Entrepreneurial business plan is the market strategy to seek vision, purpose, and approaches of starting a business, as well as a stepping stone to investors. It is of great importance for a successful venture to comprehend the core elements, main structure, and writing strategy of business plans.

6.1 Entrepreneurial Business Plan and Its Role

There are two purposes of a business plan, the first of which is financing. A business plan is important to seek investment at the initial stage or middle stage of starting a business. Only a robust business plan can attract external investors' trust and further increase the possibility of investment. So it is imperative. The second purpose is taking a business plan as a development scheme. In fact, it is a necessity to have business plans at every stage of the enterprise, which is beneficial for capital operation and ascertaining the long-term development scheme and plan.

6.1.1 Connotation of Business Plan

Different people have various comprehensions about business plans. In fact, a business plan has its particular connotation. After exhaustive planning of venture activity, it systematically describes relevant external and internal elements. It is necessary to consider both external and internal elements to demonstrate the business plan in a certain mode of thinking and organization mode. There are many types of business plans, but the core elements can be summarized in “5 Cs”, namely Customer, Competitor, Capability, Capital, and Continuation (Fig. 6.1).

The first element is the customer. Normally speaking, some commodities and services have diffusely applicability, but identifying consumers group is conducive to conducting targeted market and consumer analysis. For instance, some products are designed for school-age children, some of them are for women, and some products are only suitable for middle-age or senior people.

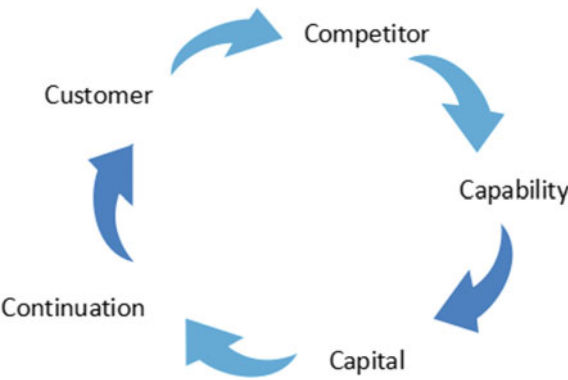
Secondly, there are two kinds of competitors. One of them is an existing peer competitor. For example, if college students want to provide food delivery, they should take Meituan and Baidu delivery services into consideration. On the other hand, there are also some potential competitors, such as delivery services of the dining hall. It is a must to conduct the analysis in the business plan about market share, profitability, growth space, leaders’ personality, comprehensively knowing themselves as well as the enemy.

Thirdly, capability emphasizes self-analysis of the entrepreneur, such as professional knowledge and skills, the competence of the team, team structure, management mechanism, strength, specificity, and cohesive power, etc.

The fourth element is the capital. It may be cash or other relevant properties. Meanwhile, entrepreneurs should also elaborate self-capitalized amount, capital acquisition approach, and available capital quota.

Finally, sustainability. Entrepreneurs must consider the future vision and must seek sustainable development.

Fig. 6.1 “5 Cs” core elements of a business plan



6.1.2 The Role of a Business Plan

Business plans have important functions such as guidance. For example, it can be used to guide entrepreneurial preparation and operation, helping entrepreneurs to clarify ideas and make correct judgments. As a vital intermediary for external publicity, it explains detailed information to relevant parties and strives for partners and investment. In addition, it can be used for specific venture loans. In summary, the business plan has the following prominent roles.

First, it increases the success rate of entrepreneurship. The business plan systematically analyzes the products, markets, finances, management, and teams, and guides entrepreneurs to carry out entrepreneurial activities in a planned manner, contributing to the improvement of the success rate. At present, the failure rate of college students' entrepreneurship stays at a high level for a large number of influencing factors. One of the important reasons is that the team didn't conduct a systematic and rational analysis of all the elements in the initial stage of starting a business.

There are some highlights in start-up teams' business plans, but lacking in analysis of internal factors leading to unpreparedness in practice.

Therefore, the first role of the business plan is to improve the success rate of entrepreneurship that is based on system analysis rather than blindly acting.

Second, it is employed for risk assessment and prevention. In a sense, the risks that may be encountered during the entrepreneurial process should be considered so as to avoid blind investment. In the business plan, a more objective evaluation of the opportunities and risks can improve risk prevention ability of start-ups, and enhance the competence to withstand risks. Insufficient risk assessment is a common problem in college students' business plans. Some of them often portray a prosperous future in the plan, but they tend to avoid talking about existing and potential risks.

In reality, even though many college students are fully prepared before starting a business, they may still inevitably encounter new risks and troubles, such as financial risk, policy issues, and market threshold. Therefore, they need to conduct a comprehensive assessment of all kinds of probable risks, so that they can take precautions.

Moreover, it helps to realize entrepreneurial financing. Capital is the indispensable element of building and operating an enterprise. Most of the investments are not made by entrepreneurs. So the business plan is of vital importance to get financial support for start-ups.

6.2 Core Structure and Writing Principle of the Business Plan

6.2.1 Core Structure the Business Plan

The business plan consists of three major parts: (1) the main part of the company or business; (2) related data, such as forecast for business volume, forecast and analysis of cost and profit, future funds needs, etc.; (3) supplementary documents, such as patent certificates, professional licenses or certificates, or letters of intent, letters of recommendation, etc. The core of a complete business plan contains eight components: executive summary, product or service, market and competitive analysis, product marketing strategy, corporate structure and strategic management, financial analysis, risk forecasting, and appendices.

(1) Executive Summary

There are three issues need to be paid special attention in writing an executive summary. Firstly, it needs to concentrate on the essence of the entire business plan, covering all the key points. Secondly, it requires to get straight to the point, such as what products or services the company provides, or how about the development prospects? Finally, the characteristics should be elaborated clearly, including the particular features of the entrepreneurial project or product, and the essential factors for being successful. Some plans are short of elaboration on the abstract summary. For example, it describes what the products produced by the company are, but does not analyze the differences between their products and similar products on the market. If there are already many similar products, or they are already out of date, it is unnecessary to repeat the same mistakes? Therefore, it's imperative to demonstrate the disparities of products and the necessary factors for a successful project.

The importance of executive summaries is self-evident, which puts demands on the generalization and refining ability of college students. In recent years, the emergence of the 60s "Elevator Speech" and other entrepreneurial challenges is to train college students in their ability to elaborate entrepreneurial projects in a limited time. The points listed below can be used as a reference for writing an executive summary.

- Summarize the company's investment highlights in one or two sentences.
- Introduce the products, services, and functions of the company in one or two sentences.
- Clearly describe the business model of the company in one or two sentences, namely how does the company make profits?
- Depict the industry, industry subdivision, market size, growth, driving factors and the prospect of your company in one or two sentences.
- Summarize the company's advantages compared with rivals in one or two sentences.
- Demonstrate forecasting of finance in the company by a table.

- State the expected financing amount and the main application of those assets in one or two sentences.
- Introduce the background of entrepreneurs and core management team and their notable success in one or two sentences.

6.2.2 Products or Services

There are five issues to be aware of, during the process of describing products or services: (1) Nature of the products and services needs to be introduced clearly; (2) Practical value of products or services has to be described explicitly; (3) What kind of problem does the product solve; (4) Is there any similar products or services on the market? If so, what’s the uniqueness of your products or services? What’s the merit of your products or services? (5) Intellectual property related problems should be illustrated. If the enterprise belongs to knowledge-based venture activity, then who owns the intellectual property? How to distribute profits in the future if property rights are not in the entrepreneur’s own hands.

The five aspects should be fully considered, analysis in the description of products and services. In addition, they need to be clearly demonstrated in written form (Fig. 6.2).

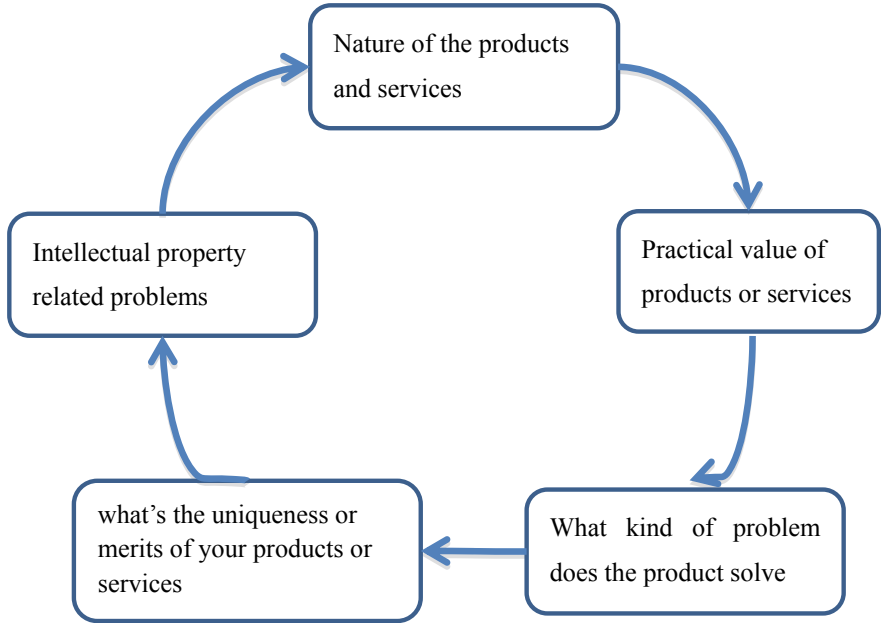


Fig. 6.2 Description procedures of products or services

6.2.3 Analysis of Market and Competitiveness

Business plan should attach importance to the market and competitiveness of the products. In order to master market opportunities and understand the merits and demerits of the products, entrepreneurs should conduct an objective analysis of the overall market environment, similar products, and market prospects. In analyzing the competitiveness of products, some entrepreneurs tend to make one-side exaggeration of advantages, lacking in the description of disadvantages, or even rarely mentioning. Investigations on existing and potential competitors are superficial that result in subjective identifying of products and reduction in the guidance of the business plan.

6.2.3.1 Market Analysis

There are several approaches to conducting market analysis.

- (1) PEST analysis model. It is applied to macro-environment, also known as the general environment. Macro-environment indicates all macro-factors that impact industries and enterprises, including political, economic, social, and technological factors.

Firstly, the analysis of the political environment covers the social system of a country, the nature of the ruling party, and the government's policies. Different countries have different social systems that have various restrictions and requirements for organizational activities. Entrepreneurs need to focus on the political environment faced by the products or services and whether they are supported by policies. For example, the policies for private education in different countries vary. *Non-state Education Promotion Law of the People's Republic of China* implemented on December 29, 2018 in China. College Students, starting businesses in the field of education and training, must pay close attention to the laws and regulations on for-profit private education and non-profit private education. In different periods, the policy's support for enterprise products is also diversified. In the process of China's economic development, there was certain policy support for resource consumption-type enterprises (such as coal) in the past. However, currently, as China has been vigorously advocating energy conservation and emission reduction, low-carbon, energy-saving, green, and environmental-friendly products gradually gained the government's favorable attention. In the process of product input, entrepreneurs must understand the overall policy environment. At the time, comprehensive and specific analysis of international and domestic policies, laws, and regulations must be taken in planning the sustainable development of products.

Secondly, economic environmental analysis is mainly at macro- and micro-levels. The macroeconomic environment refers to the overall economic environment of a country (region), such as the Gross National Product of the country (region), and the total national Income, local consumption, consumption structure, local economic policy, fiscal policy, consumption policy,

etc. Besides, the microeconomic environment mainly indicates the income level and consumption preference of residents. These factors directly determine the current and future market size of the company. For instance, the transition from the planned economy to the market economy in China has established new markets. Primarily, almost all industries were regulated by the plans and controlled by the government, and later became many fields. Later, opening to the market (except the fields related to national security or overall resources) has provided a huge room for the market economy. Moreover, it is also necessary to analyze the level of consumption, savings, and disposable income of residents, in the region where the enterprise is located. There is a distinct microeconomic environment in countries, towns, or cities, small cities or large cities. Therefore, whether the service and products can be offered by most people in the region needs to be seriously considered. For example, Haagen-Dazs ice cream generally established their markets in the first- and second-tier cities, rather than urban and rural areas.

Thirdly, social environment analysis involves in education and cultural level, population structure and mobility, values, aesthetic views, and consumption structure. Residents' education and cultural level will affect the hierarchy of needs.

Population structure and mobility can affect market stability. And residents' values have impacted their recognition of the goals and activities of the company or organization. Moreover, residents' aesthetic views affect their attitudes toward the content and manner of products or activities. In addition, changes in the social environment will also lead to variations in entrepreneurial opportunities and entrepreneurial fields. For example, China has stepped into the aging society, so the products and industries fitted for senior people are expanding constantly. China's early childhood education (ECE) market and milk powder market could benefit now that the Chinese government has comprehensively opened the two-child policy.

The fourth factor is the technical environment. In the technical environment analysis, entrepreneurs should not only investigate the development of technology directly related to the enterprise, but also keep abreast of the state's investment and support priorities for technology, technological developments trends, and total costs of research and development, speed of technology transfer and commercialization of technology, patents and its protection, etc. Technological change affects the development prospects of various industries, boosting new industries and forcing an old industry to accelerate into a recession in the meantime. For example, jet aircraft replaced propeller aircraft. Large-scale integrated circuit computers substituted ordinary electronic computers. The emergence and development of smartphones drastically reduced or even vanished the use of BB machines, fax machines, tape recorders, calculators, alarm clocks, etc. Therefore, under the background of technological change, it is imperative to analyze what kind of conditions will be faced after the products entering the market.

In short, when analyzing the market opportunities of products, it is necessary to carry out a macroanalysis from the aspects of political, economic, social, and technical, as well as the market prospects and the sustainability of the future markets.

- (2) Analysis of the basic market conditions requires to master the distribution, capacity, and development space in the market. In the analysis process, market segmentation and target market selection should be considered. Market segmentation is to break down the entire market into consumer groups based on consumer demand.

Taking the catering market as an example, there are different types of restaurants, targeting high-end consumer groups and those aiming at mass consumption. The distinction in consumer groups contributes to various choices of target markets, business processes, and management methods. In this process, no matter which industry or market one's choice is, he should give priority to the competition in the field of the market segment. Aiming at a certain industry, market segment researches analyze and predict the development prospects, based on industry status, industrial competition pattern, competitors' merits and demerits, enterprises' upstream and downstream businesses, status of the industry, market concentration, etc. And then, the selection of the target market is further studied. Analysis of market basic condition mainly focuses on product quality, geographical characteristics, population features, etc.

Product quality analysis means to analyze the quality of the target project. For example, disparities exist between disposable products and long-term products, so variations in costs are also presented. Although there are products in different target markets that look similar in style and appearance, materials and texture and workmanship may be disparate.

Analysis of geographical characteristics in designing the products relates to the regional features. Due to the dissimilarity in environment and climate, production requirements and transportation costs also vary. For instance, compared with the tropical area, the slip resistance of vehicles has to meet a higher standard in freezing areas. As a result, people have diversified requirements in terms of geographical characteristics.

Analysis on people's characteristics indicates to analyze gender, race, and age of the customers. Taking skincare products as an example, some of them are designed for kids, some of them are fitted for adults. Therefore, it is a must to carry on customized market selection to lock consumers' range.

6.2.3.2 Analysis of Competitiveness

Michael Porter's Five Forces Model was put forward in the 1980s. He believed that there are five forces that decide on competitive scale and the level of competition. These five forces model impacts the attractiveness of the industry and competitive strategy. It includes Rivalry of firms, Threat from new entrants, Threat of substitutes, Buyers' Power, Suppliers' Power (Fig. 6.3). This framework attaches to

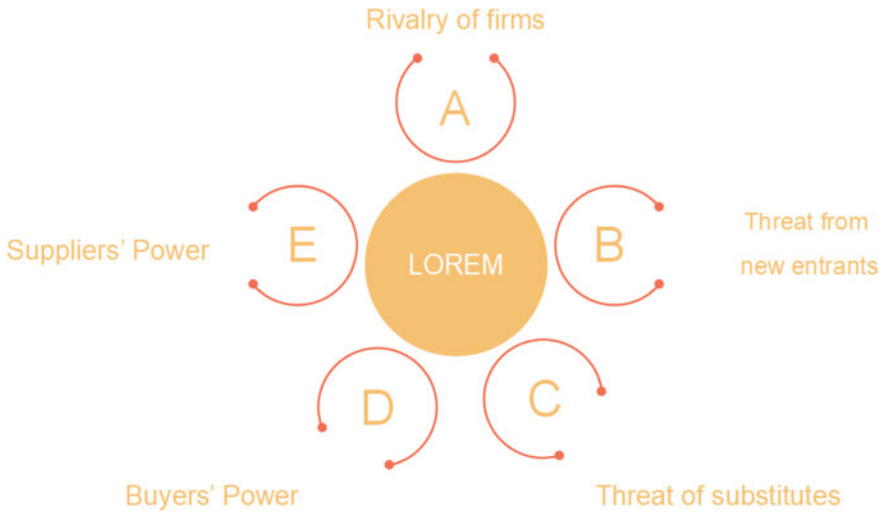


Fig. 6.3 Michael porter's five forces model

microanalysis of the External Environmental Analysis method, which is suitable for investigation on competitive strategy.

The first force is industry rivalry. In most of the industries, many enterprises are closely aligned with profits. As one part of the overall competitive strategy, it aims to gain more advantages than other competitors. Therefore, conflicts are generated with other enterprises, which constitute the current industry rivalry, reflecting on the price, advertisement, introduction, after-sales service, etc. In contrast with industry rivalry, the other four factors are often neglected.

Secondly, the threat of new entrants is easily overlooked in the business plan. As new entrants bringing new production capacity and new resources, they also compete with existing companies for raw materials and market share, resulting in lower profitability in the industry. The severity of the threat of new entrants depends on two factors: the barriers of entering into a new industry and the response of existing businesses. The possibility of a new venture entering into an industry depends on its subjective estimate about the potential benefits, the required cost, and the risk. This requires entrepreneurs to pay attention to the threat of new entrants, and relevant enterprise which is likely to step into this industry so that they can take precautions.

Thirdly, the threat of substitutes. Two companies compete with each other on account of the products they produce. This competition, derived from substitutes, affects the competitive strategies of existing companies in various forms. Competition may occur between substitutes in terms of price, quality, and convenience. Substitutes are a major competitor in the targeted market. The competitiveness is increasing with lower the price, better quality, and lower user's conversion cost.

This can be achieved by examining the sales growth rate of substitutes, the production capacity of manufacturers, and the expansion of profits.

Fourth, the bargaining power of customers. Price calculated by cost does not usually match the acceptable price of consumers. Buyers mainly affect the profitability of existing companies in the industry through price reduction. The bargaining power of customers lies mainly in the mastery of the market information, the quantity of effective demand, quantity and quality of substitutes, centralization degree of consumers.

Entrepreneurs sometimes idealize the price of a product and set the price calculated by cost. However, if the consumer's acceptable price is lower than the cost price, it means that the company would lose money or go bankrupt. In fact, there are numerous examples of high pricing in reality. Soaring price is not necessarily meaning a huge profit. This price may be reasonable with respect to its cost. Under this circumstance, consumers tend to choose substitutes.

The last one is the bargaining power of suppliers. Price strategy is directly is affected by the supply and demand party. Supplier enhances the competitiveness of enterprises and products by increasing the price of input factors and reducing the quality of unit values.

Bargaining power is remarkably enhanced if the input factor provided by the supplier occupies a large proportion in cost, production is of importance to customers, or the input factor seriously affects the quality of products.

Due to market changes, the cost may increase, directly leading to a higher cost of products. If an entrepreneur can't increase the products' price, it means that the profit margin is reduced or even lost. Insufficient of surplus value leads to failure in the venture.

As a consequence, Porter's Five Forces Framework makes it more reasonable and thorough in selecting a target market. Except for current rivals, entrepreneurs need to carry out profound and expansive research at all levels.

(1) Analysis of overall competitive advantage. SWOT analytical method is commonly used to conduct an analysis of overall competitive advantages. "S" stands for strength, "W" for weakness, "O" for opportunity, and "T" for threat. It is a classical approach, centering on the internal conditions of enterprises to find out advantages and disadvantages, as well as discovering external opportunities and threats. Then, core competitiveness is improved accordingly. The exact procedures of SWOT are as follows.

Firstly, it analyzes the advantages and disadvantages of the enterprise, namely the positive and negative factors during the development of enterprises, including products, team, market prospect, etc. When conducting analysis, entrepreneurs need to consider not only history and current status but also development issues in the future. No matter what industry the enterprise belongs, there are merits and demerits in its products, teams, and markets.

Secondly, it analyzes external opportunities and threats in the development process of the enterprise. It's true that in the development process, any enterprise is faced with the interactions internally and externally, representing

as demands in the internal and growth space in the external. In the mean time, the enterprises are also confronted with external threats and survival pressures. Opportunity and threats of external environment mean the favorable and unfavorable factors that directly affect the development of the company in objective ways.

After the chicken breaks out of the shells, faced by the external living environment, some of them grow smoothly, and some die on the vine. The same is true for start-ups, so entrepreneurs must attach great importance to external opportunities and development space, meanwhile, they should also analyze various external environmental factors. Taking controversial GM food as an example, some people think that it has no specific harm to human, and it's cheaper in production costs, leading to a lower selling price. While others reckon that it has serious unknown risks, so they are strongly against it entering into the market. Therefore, the issue of market acceptance also needs to be construed in competitive advantage analysis, avoiding suffering losses. Moreover, external opportunities and threats should be matched with the strengths and weaknesses within the enterprise to form a feasible strategy. If mismatching occurs between strengths and weaknesses within the company, entrepreneurs must be cautious or even give up the business plan. For instance, it is difficult for start-ups to succeed if they shared the same opportunities with mature enterprises, on account of lacking internal strengths, such as R&D foundation, funding support, etc.

Combination is also a necessity in conducting a SWOT analysis. There are multiple combination patterns, such as "SO" meaning a combination of strength and opportunity; "WO" indicating assembly of weakness and opportunity; "ST" referring to the group of strength and threat, and "WT" is the matching between weakness and threat. Strength-opportunity (SO) strategy is a growth-oriented ideal approach, combining internal advantages and external chances. It can be adopted when the company has a specific advantage and a favorable opportunity to exploit this advantage provided by the external environment. Weakness-opportunity (WO) Strategy is a kind of torsion strategy that compensates for internal inferiority by means of external opportunities, empowering enterprises to overcome their own shortcomings and to seek improvement. Strength-threat (ST) Strategy refers to the diversified method for companies to avoid or mitigate the influence, caused by external threats, by utilizing their own strengths. Weakness-threat (WT) strategy is a kind of defense strategy, aiming at reducing internal weakness to obviate external environmental threats (Fig. 6.4).

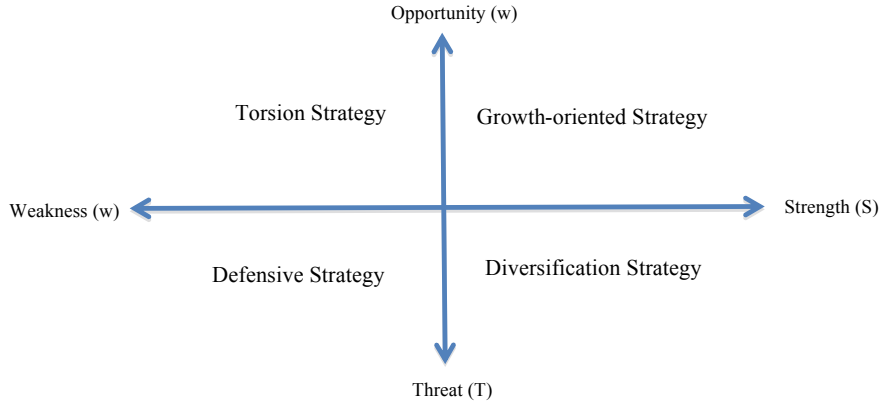


Fig. 6.4 SWOT strategic analysis

Case

SWOT Analysis of AiTao Intelligent Entertainment Co., Ltd

SWOT Analysis of AiTao Intelligent Entertainment Co., Ltd is demonstrated in Table 6.1.

“Playing with Ruby”, the first series products produced by AiTao Intelligent Entertainment Co., Ltd, was developed on the basis of EPIC (EQ-Pleasure-IQ-Character). Ruby car can move automatically along the black line on the track. Besides, matching with various items, it can form into rotary-type toy, circle-line type toy, and puzzle. In addition, there are several toys of the same series under development.

6.2.3.3 Marketing Strategy

Products marketing strategy consists of a series of tactics related to managing and sales, attempting to provide consumers with satisfying commodities or services, and then achieving the entrepreneurial purpose. Therefore, marketing strategy holds the key to turn products into commodities for gaining sales volume. It includes several types of tactics (Fig. 6.5).

Portfolio Strategy

Portfolio strategy refers to realize the enterprise’s purpose and satisfy customers’ demand by comprehensive consideration, combination, and employment of the controllable factors, including enterprise competence, external environment, market competition status, etc. The marketing mix is an important component of Portfolio strategy, integrating all the controllable marketing methods. The main purpose is to meet customers’ requirements. So, a large number of demands lead to multiple

Table 6.1 SWOT Analysis of AiTao Intelligent Entertainment Co., Ltd

Exterior interior	Strength	Weakness
	Products concepts of EPIC: intelligence, interaction, expansion, visualization R&D background, and strength Animation-supported toy	There are certain gaps compared with Rubi Yoyo and the most popular animation characters
Opportunity	SO	WO
<ul style="list-style-type: none">• Huge potential in the intelligent toy market• Rapid growth in the animation industry• Policy support in Jiangsu, Zhejiang, and Shanghai• Profound cultural background• Designing resources of Zhejiang University	<ul style="list-style-type: none">• Strengthening concept of EPIC, opening intelligent animation market and establishing brands by leveraging the perfect regional strength in Jiangsu, Zhejiang, and Shanghai at the initial stage of entrepreneurship• Reinforcing cooperation and exchanges with entrepreneurship center in Zhejiang University for optimizing designs consistently	<ul style="list-style-type: none">• Increasing brand awareness by promoting the products, and popularizing Rubi Yoyo• Building top-notch animation character by the successful operation of one or two toy series
Threat	ST	WT
<ul style="list-style-type: none">• Imitation of creation by competitors• Participating in the market by potential competitors• Similar cartoon derivative products are produced by large companies	<ul style="list-style-type: none">• Gathering talents to strengthen R&D, keeping toys of AiTao on the cutting edge• Consolidating expansion of the enterprise and improving brand switching costs to resist new entrants• Cooperating with enterprises integrated with animation and toys to fight for authorization, in order to avoid relevant conflicts• Protect core components of the product from imitation by applying for patents, such as “Rubi car”	The key to eliminate disadvantages and defend against threats is to develop new products with the market prospects. The aim is to find a promising market even without animation characters. In those ways, the toy series marketing wouldn’t be affected even though one or two toys are imitated. “Playing with Ruby” is exactly one of the examples

measures. Therefore, enterprises must master and integrate the basic measures, and giving full play of overall strength and effects.

Portfolio strategy can be considered in accordance with the nature, type, and functional characteristics of the product, including extended products and services, as well as auxiliary products and services. Customers will give thought to not only the products but also a series of services and supporting issues. Taking car purchasing as an example, customers would evaluate the car’s performance, price, as

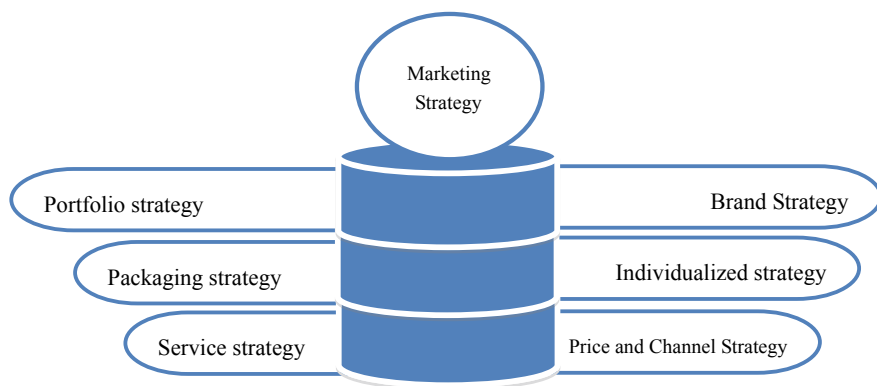


Fig. 6.5 Products marketing strategy

well as pay attention to after-sales services, such as the reliability and convenience of maintenance. Therefore, it is necessary to adopt a portfolio strategy to combine the main product and the by-product. For example, when a consumer purchases a car, he gets cushions, a reversing radar, etc., as presents. Although they seem to be freely included, actually they are counted into the overall cost of the car. Another example is the after-sale service purchase for buying a car, which not only solves the worry of consumers but also drives the car maintenance and repair service.

Packaging Strategy

Packaging is a solid foreground of product strategy, serving the function of identification, convenience, beautification, value-added and promotion. Packaging is technical and artistic, which is an inseparable part of the production process, aiming at demonstrating product features and style. Besides, the packaging of a product must match its value and quality. The shape, structure, and size of the package should be convenient for transportation, carrying, storage, and use. Finally, the packaging design should cater to consumers' preferences and comply with laws and regulations.

Packaging is also significant in the product sales process. For example, packaging strategy is applied to food, electronics, cultural products, cosmetics, etc., in the ways of brand packaging and appearance packaging. Exquisite, beautiful, and safe packaging are conducive to promoting product sales, by means of improving the products' level and prices. The optional packaging strategies include: (1) Similar packages, namely using similar pictures and colors on the packaging to impress customers and reduce the packaging cost; (2) grade packaging strategy, thus selecting different packaging according to product quality levels; (3) Complementary packaging strategy. That is to place interrelated products in different types and specifications in a package. (4) Gift packaging, namely attracting consumers by

gifts. Moreover, there are reuse packaging strategies, diversified container packaging strategies, etc.

Service Strategy

Service is a kind of invisible activity, providing the customers with senses of satisfaction. It is characterized by invisible, inseparable, variable, and non-storable. There are two types of services, the first of which is a service product. That means to meet the needs of the target consumers by the service itself, such as the catering industry, the telecommunications industry, the education industry, the medical and health industry, the tourism industry, etc. The other is the service function, indicating the extended service of products, such as the installation service provided by computer purchasing and training.

Different vendors and merchants of business chains have diversified channels and methods of service. Taking membership system as an example, consumers who purchase membership cards cannot only enjoy the membership price, but also enjoy membership services. Another example is that consumers' confidence in continuance intention for products can be enhanced by fixed-point and fixed-timed feedback, return visits, satisfaction evaluation, and listening to consumers' suggestions. In addition, producers often provide free on-site services, including on-site inspections and maintenance for goods that are inconvenient for transportation, such as air conditioners, refrigerators, and washing machines. Service strategy can adapt itself to the complexity of technical characteristics of products to safeguards consumers' interests, strive for repeated purchases, and improve the competitiveness of enterprises.

Brand Strategy

Brand strategy is a series of business management and marketing methods to generate brand accumulation. Diversified consumption demands and intentions are presented in ways of focusing on price, texture, or quality. In the case of products owning the same texture, quality, and performance, consumers will pay attention to the brand, reflecting the consumer's trust in the product and satisfaction of individualism. Therefore, in the business plan, the entire product strategy must be taken into consideration for brand building.

The core of the brand strategy is the maintenance and dissemination of thousands of brands. Nowadays, brand marketing methods are diverse. Compared with traditional brand marketing methods (television, newspapers, public relations, etc.), online brand marketing is gradually appreciated. However, an online brand marketing strategy gives priority to solve trust issues due to the virtuality of the Internet.

Individualized Strategy

Individualized strategy, also known as a differentiation strategy, can also be called "cutting the dress according to one's Fig." It is a new marketing approach of the enterprise that directly serves consumers and produces personalized products

according to certain requirements. The individualized strategy is the weapon for winning that focuses on product design innovation, service management, and integrated operational efficiency of enterprise resources to achieve market formation and fission development. Especially with the development of information technology, the importance of individualized marketing has become increasingly prominent. Different manufacturers and sellers provide customized services for different groups to meet individualized consumption needs. Various workgroups and home groups have different ways of demanding products. Therefore, products can be designed based on the characteristics and needs of a certain group.

Individualized marketing also reflects the company's attention to the customers and tries to satisfy people's needs. The new type of interaction between enterprises and markets is gradually established through personalized marketing. In addition, more humanized connections have been built by means of establishing personal databases and information files, to timely comprehend market trends and the real need for providing consumers with personalized sales and services. Enterprises could cater to customers' requirements for the products and make a reasonable adjustment, so as to enhance the enterprises' competitiveness.

Price and Channel Strategy

- (1) **Price Strategy.** The price strategy refers to selecting the best strategy that can attract consumers and achieve marketing combination through the estimation of consumers' demands and cost analysis. Consumers would make a comparison of prices among products which is an imperative factor in fixing the price. There are two elements needed to be focused on fixing the prices. The first one is cost, such as R&D cost, design costs, labor costs, material costs, capital costs, rent, etc. When formulating a business plan, the costs should be calculated in a comprehensive manner, otherwise, the company will lose money. For example, some enterprises fail to make a comprehensive assessment, resulting in a loss-making operation for the reason that the fixed price is close to the cost. It's not a sustainable marketing strategy. The second one is market positioning. When the cost of the product is settled, the profit margin is determined by market positioning to a large extent. After clearly targeting the consumer groups, companies must also pay attention to the amount of market share and the consumption capacity, so as to settle sales scheme.
- (2) **Channel Strategy.** Except for direct marketing, products can also be sold in the form of sales agents, this is so-called channel strategy. There are different types of agents in selling the same products, including first-class agents, second-level agents, and various types of division organization. Agents enjoy a lower price compared with the retail price, stimulating sales enthusiasm of the agents and supporting the sales of products in a certain area.
Currently, e-commerce is developing rapidly, Internet-based sales models, such as B2C (business to customer), C2C (customer to customer), have a strong impact on physical sales channels. The online sales model greatly

shortens the operating channels of the products and saves relevant expenses, leading to customers preferred a lower price.

There is also a special channel strategy in which manufacturers sell the products directly to consumers. It is the seamless connection between producers and consumers that empower the manufactures to design, produce, marketing customized products, on the basis of big data and the Internet, eliminating intermediate channels such as agents, online merchants, and physical stores. In particular, this particular channel strategy is gradually being applied to the design and production of some intelligent products, which bring a lot of influences to franchises.

Therefore, when formulating a product sales strategy, entrepreneurs need to take into account channel, such as agents, online sales, physical store sales, etc., in order to choose the most suitable marketing channel.

6.2.3.4 Company’s Structure and Strategy Management

How to present and analyze the management of enterprises in the business plan, including structural management and strategic management? What kind of management structure is more beneficial for companies in operation? At present, most companies employ the system of the board of directors, setting up a board of directors, president, and relevant departments (Fig. 6.6).

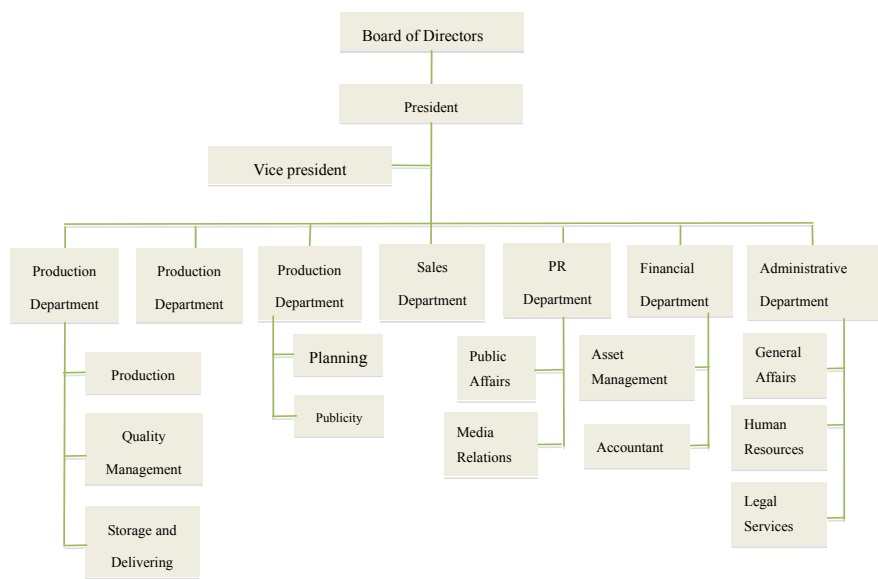


Fig. 6.6 Sketch map of companies structure

Production Department

The production department is responsible for transforming designs into products in physical form. Therefore, consumers purchase not only designs but also items worthy of use and resultant service. The production department conducts production and management on the basis of the previous product design drawings and plans. The management process of production links to quality, storage, and delivering. Producing products are a process of quality management. After that, storage and delivering managing is needed, namely storage and transportation management. Taking the food industry as an example, it is significant to focus on the way of storage that is conducive to the product's quality. The warranty period of food is affected by many factors. It can be influenced by controlling temperature and humidity, or employing chemical intervention. In addition, different products require diversified transportation methods. For example, it is true for the transportation of mechanical products, electronic products, and food. Therefore, systematic and chain-type control and management should be formed from product manufacturing to quality management, then to storage and transportation. The product's quality is the key, which is primarily decided by the production department.

R&D Department

A company's research and development capabilities represent its ability to innovate and determine its competitiveness in the market. Large-scale companies and branded companies often invest quite a lot of cost to researches and developments. For instance, Huawei, a very influential enterprise in China's national enterprises, has been focusing a lot of energy into developing. In addition, the R&D department closely interacts with the production department and the marketing department, to constantly updates products based on their feedback.

Marketing Department

The marketing department is an essential part of the marketing organization structure. It is responsible for bridging the psychological gap between products and consumers, and is a buffer zone for connecting products and sales processes. The marketing department is mainly in charge of planning how to bring products to the market from an overall perspective. In other words, the marketing department is responsible for pre-sales preparations, such as market planning and market analysis. This is the rational evaluating process before products entering the market.

Sales Department

The sales department is directly responsible for the transaction between the goods and consumers. It is a significant department to cater to market demand, whose core task is to deliver products to consumers and achieve the exchange between use value and value. The company attaches great importance to product sales, sales amount, and market share. Any failure occurs in the sales process will directly lead to bankruptcy.

Public Relations Department

The public relations department is a specialized functional organization for a certain goal to establish and maintain public relations. It represents the overall image of the company. The public relations department has to deal with a variety of relationships, such as the relationship with the media, to establish a corporate image through the media and to show the products. Consumers would purchase products because they trust the brand. Therefore, the public relations department should focus on how to shape the positive image of the company.

Financial Department

The finance department is the functional department that takes charge of financial management of the institution. The main function is to carry out asset purchase (investment), capital financing (financing), and management of cash flow (working capital) and profit distribution, under the overall goal of the enterprise. Financial management is an important part of company management, involving capital operation, asset management, accounting, etc. At the same time, all departments are interacted with and supported by the financial department.

Administrative Department

The administrative department is chiefly in charge of the company's human resources management, administrative affairs, and related legal affairs, including formulation and implementation of related systems, daily office affairs management, office items management, documents management, conference management, foreign affairs management, property equipment management, vehicle use and maintenance, safety and health work, etc. The ultimate goal of the administration's work is to make a closer relationship among the departments which enables the enterprise to form a stable entity with high operational speed. Besides, the enterprise should arouse employees' initiatives to the best of their ability by reasonable costs, improving working efficiency.

Another significant factor in enterprise management is strategic management that is essential for sustainable development, consisting of an overall strategy, step-by-step development strategy, long-term strategy, short-term strategy. Generally speaking, the board of directors is a solid groundwork for present conditions, value, and overall developing strategy, and generally developing ideas.

In the business plan, the enterprise shall conduct seriously thinking and a clear description for all aspects.

6.2.3.5 Financial Analysis

On the basis of accounting, report materials, and other relevant data, financial analysis refers to the financial management activity to analyze and evaluate the past and present related financing activities, investment activities, business activities, distribution activities, profitability, operational capabilities, solvency, and growth

capabilities by means of a series of specialized technologies and methods. It provides accurate information and evidence for those who want to understand the previous conditions, evaluate the status quo, and forecast the company's future, as well as make a correct judgment.

Financial analysis contributes a lot to the business plan. So how to present financial analysis in a business plan in a concise way? There are numerous financial analysis methods and analytical tools, which can be employed based on a certain purpose. The most frequently used method is to conduct a single-index and multi-indicator comprehensive analysis, centering on financial indicators. Then, in accordance with reference values, such as budget and goals, analysis is made by utilizing ratios, trends, structures, and factors analyzing approaches. Finally, all these information are demonstrated in statements and graphic reports. Financial analysis usually consists of three aspects. The first one is the initial investment and trend analysis. In the early stages of entrepreneurship, entrepreneurs must conduct this analysis in the process of turning ideas into practice. Initial investment generally includes venture capital, human resource investment, and financial asset investment, etc. In addition to focusing on the component of investment, entrepreneurs should also pay attention to investment trends, such as financial allocation, distribution of property inputs for equipment and sites, and financial expenditures related to product promotion. The second element is annual sales and anticipated profit. A perfect business plan generally estimates annual sales and conducts an analysis of profits accordingly. In this regard, entrepreneurs should carry out adequate market researches and investigate for similar products, for ensuring the accuracy of the estimates. Then, the third aspect refers to the profit and loss statement and balance sheet. All the physical assets and financial assets are undergoing losses increases and decreases. Profit and loss statements and balance sheets are usually made by people who are equipped with comprehensive financial knowledge.

6.2.3.6 Risk Prediction

Any risky event is generated by the combined effects of various external factors. Therefore, potentially destructive effects caused by these uncertain and random elements should be taken into account. Risk prediction holds the key to previous stage analysis, focusing on a series of possible risks during the venture process. These entrepreneurial risks are constituted by market risk, financial risk, legal and public affair risk (Fig. 6.7).

Market Risk

Market risk indicates the negative impacts in achieving established goals, which are caused by the uncertainty of the future market. These market factors may impact the business directly or indirectly by competitors, suppliers, or customers.

There are three aspects of market risks. To begin with, the lack of attraction in products or services that lead to poor sales and finally causes excessive inventory. If the whole chain was broken in this part, the rest of the venture process can't be

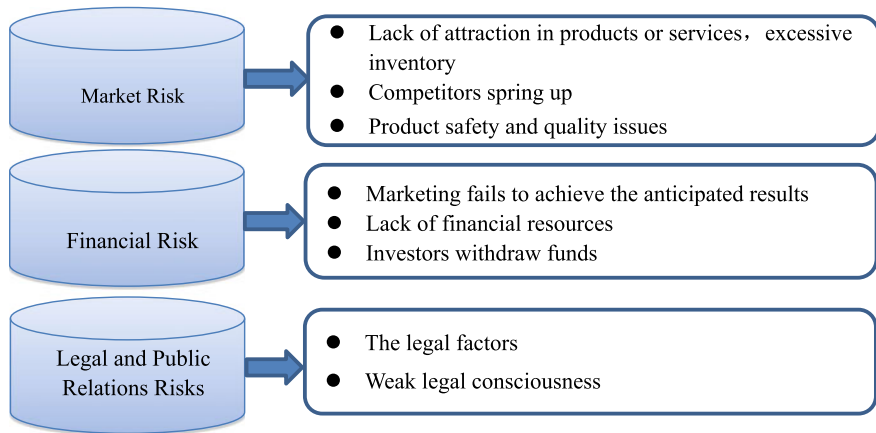


Fig. 6.7 Three potential risks in the entrepreneurship process

carried out, resulting in financial issues inevitably. The attractiveness of the product or service should be primarily assessed to make precautions in case any poor sales occurred. Then, competitors spring up, including existing competitors and potential competitors. Competition infuses energy and brings elimination at the same time. The last aspect is related to product safety and quality issues. In the market risk assessment, entrepreneurs should also consider whether the product poses a threat to the human and the environment, and whether the product quality meets the standards. For example, when it comes to food safety issues, the safety of raw materials, and the residual amount of chemical fertilizers and pesticides needs to be concerned. In terms of medicine safety issues, the physiological adaptation of different people should be seriously considered. When conducting a market risk assessment, enterprises must take into account product safety and quality issues in a comprehensive and multi-angle manner.

Financial Risk

Financial risk means that unreasonable financial structure and improper financing of the company may give rise to a loss in solvency and reduction in anticipated profits. Financial risk objectively exists that can't be eliminated completely. Therefore, entrepreneurs must take effective measures to reduce risk. Among all the types, there are three common financial risks. Firstly, marketing fails to achieve the anticipated results as a result of the sales process, or sales strategy. For example, low-price dumping is utilized to occupy the market at the initial stage, but the profit seems limited. Similar questions cause financial pressure in the later period of the venture. In addition, insufficient cash flow is risky. A certain amount of cash flow is imperative to support the enterprise. However, some companies have an unreasonable allocation of the funds, spending most of the idle cash in the raw material. So, without sufficient cash flow, the enterprise may be unable to sustain if any

funding gap occurs. Besides, some start-ups lack financial resources, and they barely have reserving fund. So they can't cope with any incident in the business. The third risk is that the investors withdraw funds. Investors have the right to withdraw funds if the venture capital is confronted by huge estimated risks. Therefore, a shortage of capital results in the tough operation of the business. All in all, in the business plans, it's obligatory to evaluate the marketing issues, lack of cash flow and withdrawal of venture capital.

Case

Ma Huateng's Entrepreneurship: From "Tencent on the ropes" to "Tencent, the invincible"

OICQ (the predecessor of QQ) was very popular since it's birth. And users were facing a remarkable increase. But commercially, OICQ didn't make money for a long time because of the free-to-play model. Growth of OICQ users had not only failed to bring in income for the company but had also increased its operational burden. At that time, Ma Huateng did not realize the commercial value of the users, nor did he realize the importance of financing. After a while, his investment was soon run out. Trapped by the funds, he borrowed money everywhere but got into trouble on all sides. At that time, he almost proposed the idea of "repaying the debts by shares" to each creditor, but no one wants to buy the shares of Tencent. Finally, some people suggest that Tencent should seek for venture capital investors.

In August 1999, the CPC Central Committee and the State Council convened a national technology innovation conference. After that, the Central Committee decided to set up a trading project in Shenzhen to promote the industrialization of high-tech achievements—China International Hi-Tech Fair (hereinafter referred to as "High-Tech Fair"). After knowing the news, Ma Huateng decided to bring OICQ to the High-Tech Fair. He held a 20-page business plan, modified for 66 times, to run through all the platforms at the High-Tech Fair, promoting QQ and Tencent at his utmost effort. In the end, American International Data Group and China's Hong Kong Yingke Corporation invested 1.1 million US\$, respectively, accounting for 20% of Tencent's shares. With these funds, Tencent has stepped into a brand new stage and ushered in a new situation. Subsequently, OICQ was renamed to QQ. In April 2000, QQ's registered users exceeded 5 million. In May, the number of simultaneous online users surmounted to 100 thousand for the first time. People's Daily also released short news for these achievements.

Legal and Public Relations Risks

Corporate legal risk refers to the risk of loss caused due to business activities that do not comply with legal requirements or external laws.

The legal risks are mainly derived from two aspects: firstly, the legal factors, such as incomplete legislation, unfair law enforcement, as well as dishonesty, breaching of contract, and fraud conducted by counterpart of contracts' etc.; secondly, weak legal consciousness, such as insufficient awareness of the legal environment, making decision without considering legal factors, or even deliberately

violating the law. In contrast, the proportion of risks caused by enterprises themselves is comparatively high, mainly resulting from the weak legal awareness and disparity between the ability to manage enterprises according to law and the changes in the legal environment. Legal risks are mainly manifested in six aspects: establishment and operation of enterprises, contract formation and implementation, mergers and acquisitions, intellectual property, human resources management, and financial taxation.

During the operating, enterprises would also encounter a variety of public relations issues, including internal and external problems. The internal problems are mainly caused by the contradiction of the entrepreneurial team, such as team disbandment, etc. The reasons include failure of the business, the improper planning of the project, and the disputes with the public. External issues include natural environment mutations, vicious market competition, unfavorable policy and system, as well as public misunderstandings.

6.2.3.7 Appendix

The appendix, seemingly unimportant, is actually a supporting material for the entire business plan which is beneficial in enhancing scientificity and credibility. The appendix should be reasonable, legal, and authentic, mainly consisting of four parts. The first element is market research. A feasible business plan should provide relevant materials to prove the credibility of the market research, and positioning, and the practicality of the whole business. Secondly, core data is one of the aspects. There is a Chinese idiom called “speak on good grounds”, in which the ground means data, including market data, capital data, and so on. All data related to the business plan should be reflected in the appendix. However, in the era of big data, core data is much more crucial, so it is necessary to carry out in-depth mining and analysis from multiple dimensions. The third element is the Patent Certificate. Any technical product must be equipped with a patent certificate and a certificate of patent ownership. Finally, cooperators or cooperation team certification must be listed. Some entrepreneurial teams are made up of various units or groups, who cooperate with each other in technology, capital, or market. This should also be reflected in the appendix.

6.2.4 The Principle of Compiling a Business Plan

Firstly, market orientation. Writing a business plan should be guided by the market. It also needs to be made in view of in-depth analysis of the market. Only products that are recognized by the market can be successfully brought on stream. College students' entrepreneurial plans are oriented to their personal interests or creativity instead of market orientation. A business plan without conducting market research or sufficient market research may lead to a high possibility of failure in business.

Secondly, coming straight to the point is imperative in writing the business plan. Some entrepreneurial contest participants can make their entrepreneurial ideas clear in the competition. However, ambiguities existed in their business plans, presenting as unobtrusive ideas, and too much description of the background. Therefore, in the business plan, entrepreneurs must do their best to get straight to the point.

Thirdly, clarity. Entrepreneurial plans should be perspicuous in idea and well organized in structure. Judging from the college student entrepreneurship competition, some entrepreneurial plans are well articulated while some are obscure and even unable to express their opinions and plans in a concise manner.

Fourthly, it should be objective. The opinions should be objective and exhaustive in expressing ideas, creations, and the feasibility of a business plan. How to avoid subjectivity? It requires investigation and analysis. The opinions and conclusions are derived from practice instead of imagination and theory. Therefore, it is necessary to write a business plan in a realistic way.

Fifthly, the business plan must be easy to understand. Some technical issues can be listed in the appendix. In fact, investors are more concerned with the value created by business plans rather than detailed technologies. Besides, some investors may be focused on the importance of social values. Therefore, business plan should be readable and acceptable with regard to the product concept and market forecasting.

The six principles are consistency. The business plan should be consistent in ideas, data, and methods, which cannot only endow credibility but also feasibility to the business plan. In addition, in presenting the plan, entrepreneurs should also maintain the consistency of the basic ideas and methods, revealing the maturity of the entire project.

Seventh, highlight the advantages. Business plan should clearly protrude the superiority in the team, technology, business model, and market, and it should also specifically demonstrate whether these merits can increase benefits in actual operation. Some investors have already owned a certain technology, so they pay more attention to the team. Therefore, their business plan should analyze prominently the team's advantage. Teams with similar composition should demonstrate better technologies, lower costs, or higher efficiency, etc. Teams equipped with similar technologies can give prominence to the characteristics of the marketing model. For example, the emergence of the online business is a change in the business model, bringing convenience and discounts to consumers, and easy to gain an edge among peers.

Eighth, step by step. Seeking quick success and instant benefits by indulging in exaggerations must be avoided by all means in the business plan. The success of a business can't be improvised by a mere command of the will. It varies with each individual and each industry. In practice, some college students aim at the moon in formulating their business plans, but their products resemble similar products, leading to the huge disparity between the sales volume and anticipated profits. This kind of business plan has no practical value.

In short, writing a business plan should follow the abovementioned eight basic principles. Besides, what are the challenges faced by entrepreneurship?

Which issue was neglected before? Which problems were difficult to solve? This systematic and profound analysis is crucial both for the business plan, and the success of the business.

Review

1. The core elements of entrepreneurial plans: customers, competitors, competences, capital, and sustainability.
2. The core structure of entrepreneurial plans: executive summary products or services, analysis of market and competitiveness, marketing strategy, enterprise structure and strategic management, financial analysis, risk prediction, and appendix.
3. Approaches to market analysis: PEST analysis model, analysis of market basic conditions, Porter's Five Forces analysis model, analysis of the overall competitive advantages.
4. Eight principles in writing entrepreneurial plans: market orientation, coming straight to the point, clarity, objectiveness, easy to understand, consistency, highlighting advantages, progressiveness.

Think and Discuss

1. Please analyze the main reason that leads to college students' failure in entrepreneurship.
2. What are the obstacles in your entrepreneurial plan? Is there any method to overcome these problems?

Planing Entrepreneurial Strategy

7

Learning Objective

1. Master the basic method and procedures of planning entrepreneurial strategy.
2. Understand the origin and approaches of constructing competitive advantages in market.
3. Understand the strategy selection of start-ups.
4. Master the main strategies of marketing.

Lead

Strategy is the wind indicator for starting a business.

7.1 Making Entrepreneurial Strategies

Enterprise strategy is the program of action and the directional position. A company without a strategy is like a ship absented of a rudder, rotating in the same place. The formulation and implementation of enterprise strategy affect long-term development. The primary issue in planning development tactics for an enterprise is to formulate strategic development plans. Similarly, entrepreneurial strategies take a more significant position in the development of start-ups.

7.1.1 The Role of Entrepreneurial Strategy

7.1.1.1 Conducive to Clarifying the Direction of the Venture

Strategy is the art of choosing “what to do”. It is the main subject discussed by strategy. Compared with mature enterprises, the resources, manpower, partners, customers, and other resources of start-ups are relatively scarce. Therefore, they should concentrate on their efforts. At the same time, in comparison with large enterprises, start-ups are less able to withstand risks. And any directional mistake will result in the broke of new ventures. From this point of view, start-ups need a clear direction and specific goals to lead the companies.

7.1.1.2 Conducive to Attracting External Resources

Differentiated from drawing investors’ attention by business plans, precise business strategy has a strong appeal for a potential franchisee, customers, and partners. An employee, who is willing to share the entrepreneurial risks, achieves his own life goal along with the development of the enterprise. Therefore, vision and clear development goals can bring more collaborators with common targets. IBM Company adopted this attractive name, “International Business Machines Corporation”, before its development. At the initial stage of SONY Corporation, Akio Morita used the international title, Sony.

Entrepreneurs need not only a business plan to show investors the future of the company but more importantly, they must have a specific enterprise strategy that is irreplaceable. This strategy can earn potential customers, partners, and excellent employees for the company.

7.1.1.3 Conducive to Formulating Management Policy

In a sense, the enterprise strategy is the premise of the entire enterprise to make decisions. J. Bezos, the founder of Amazon Bookstore, realized from the first day of the founding of the company that he entered an industry with fierce competition and the small gross margin space. Hence, the low-cost strategy has become the basic strategic choice of Amazon. Bezos introduces the strategic orientation to the daily management of the company and promotes frugality to support the low-cost enterprise strategy. All the desks in the company are made of recycled wood, the telephone directories are used as the base of the computer monitors, and the plastic milk tanks are used as file boxes. Employees of Amazon are graduates from top universities such as Princeton University, Dartmouth College, Harvard University, and Stanford University, but their basic salary are slightly lower than the market average. The higher the post of Amazon employees, the lower the wages compared with the market average. There is no short-term incentive plan, so the total compensation paid in cash is slightly lower than the market level. However, Amazon relies mainly on long-term incentives to attract high-quality employees by offering stock options. This approach is quite consistent with the company’s overall strategic thoughts. There is a prestigious theory in Amazon, called “flywheel theory”. Bezos

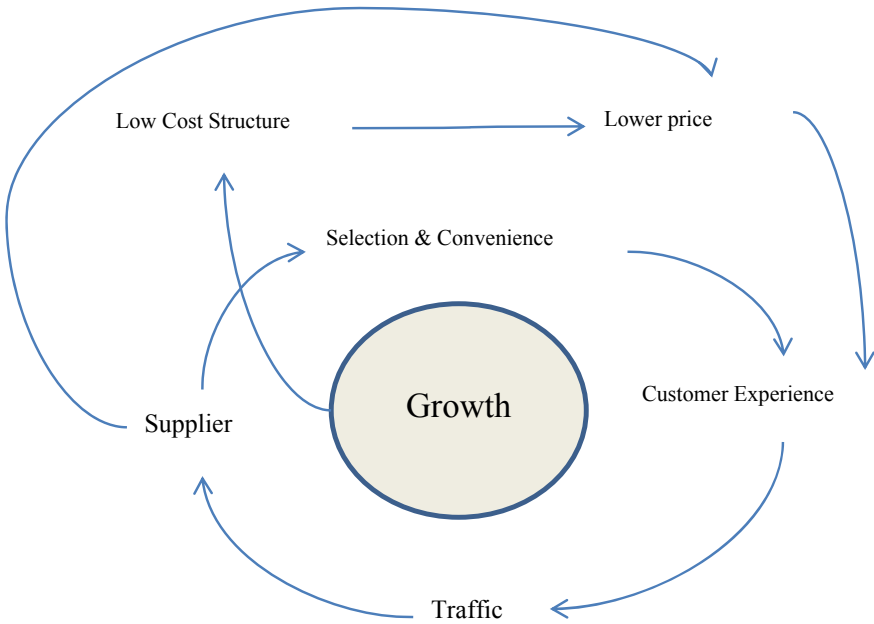


Fig. 7.1 Amazon “Flywheel Theory” (Yan 2016)

demonstrates Amazon’s operational logic in a picture, which gradually evolved into Amazon’s core operational thoughts, as shown in Fig. 7.1.

7.1.1.4 Conducive to Forming Comprehensive Operational Thoughts

Peter Drucker believes that the primary task of senior managers in a company is to consider three questions constantly: what kind of enterprise it is? What kind of enterprise it will be? What kind of enterprise should it be? The failure of many enterprises can be ascribed to the neglect of the three questions. Compared with the senior managers in large enterprises, entrepreneurs need to focus more on strategic elements, such as customers, external environment, etc. However, insufficient of imperative business experience and technology lead to incompleteness of operational thoughts.

During the creation period, some mysterious elements, including intuition, genius, and luck, can help entrepreneurs build the company, and realize financing. However, the sustainable operation of an enterprise must count on a complete, specific strategic plan. Incomplete strategic plan either result in breaking down of the enterprise or handing over corporate control right to other people.

Table 7.1 The positive effect of making a long-term plan on enterprises (Kuratko et al. 1995)

Merits	Recognition rate of high-performance start-ups	Recognition rate of low-performance start-ups
Cost savings	52	50
Allocate resources more efficiently	66	51
The competitive position has been improved	64	49
Real-time information	42	31
More accurate predictions	76	70
Higher staff morale	31	32
Improve the ability to explore alternative solutions	72	47
Reduce the sense of uncertainty	42	30
Faster decision-making process	49	46
Less cash flow issues	36	30
Sales revenue increase	65	50

7.1.1.5 Conducive to Improving Enterprise Performance

C. Orpen found that a benign long-term plan contributes to the improvement of enterprise performance by means of comparing start-ups with high performance and low performance. Besides, the former is more likely to recognize the positive effects of long-term plans in cost savings, accurate forecasts, and rapid decision-making (Table 7.1).

7.1.2 Methods and Procedures of Developing Entrepreneurial Strategy

7.1.2.1 Methods of Developing Entrepreneurial Strategy

At present, there are some relatively mature analysis technologies in the entrepreneurial strategic environment, such as “Jing Jiao Suo Suan” analysis method (means govern, take into account, seek, and calculate), SWOT analysis method, etc. These are commonly used by start-ups in making strategies.

“Jing Jiao Suo Suan” Analysis Method

Those who make great achievements must think before they act. The Art of War put forward five strategic environment analyzing model, including “be governed by five constant factors,” “to be taken into account in seven deliberations,” “know yourself as well as the enemy,” “understanding the weather and terrain,” and “seek to determine the conditions obtaining the field.” Sunzi believes that all decisions should be made on the basis of “Miao Suan” (strategic planning before the

campaign). Miao Suan is divided into three parts, namely “be governed by five constant factors,” “to be taken into account in seven deliberations,” and “seek to determine the conditions obtaining the field.” The entire procedure can be called “Jing Jiao Suo Suan” model, which provides essential, comprehensive and meticulous analysis on the strategic environment. Entrepreneurs can use the model for reference when drawing venture strategy.

- (1) “Be governed by five constant factors” (in Chinese, Jing Wu Shi). Sun Tzu said: “The art of war is of vital importance to the State. It is a matter of life and death, a road either to safety or to ruin. Hence it is a subject of inquiry which can on no account be neglected. The art of war, then, is governed by five constant factors, to be taken into account in one’s deliberations, when seeking to determine the conditions obtaining in the field. These are: The Moral Law; Heaven; Earth; The Commander; Method and discipline.” Entrepreneurial strategy formulation, referring to “be governed by five constant factors,” can form a model centered on “Tao,” known as the moral law (Fig. 7.2). As for entrepreneurship, “the moral law” reflects entrepreneurial goals, tenet, and business philosophy. It is the core principle of start-ups’ culture that lays a steady foundation for forming a strong cohesiveness in start-ups. “Heaven” gives expression to timing. That is to enter the market when new products are warmly welcomed, so as to avoid competition with the giants and seek market segment. “Earth” demonstrates external environmental resources. In other words, whether the particular external resources can be adapted to support entrepreneurship. For instance, venture projects will be conducted in the second- and third-tier cities in central and western regions or in Beijing, Shanghai, and Guangzhou. “The Commander” incarnates the quality of core members. In particular, whether the core team, consisting of CTO, CEO, and COO, possesses unified faiths, abundant experience, and perfect cooperation. “Discipline” shows the perfectness of internal organization and system in start-ups, such as incentive system, authorization system, reporting system, etc. When studying strategic environment, an entrepreneur should compare and analyze from the above five aspects, choosing the best strategy.

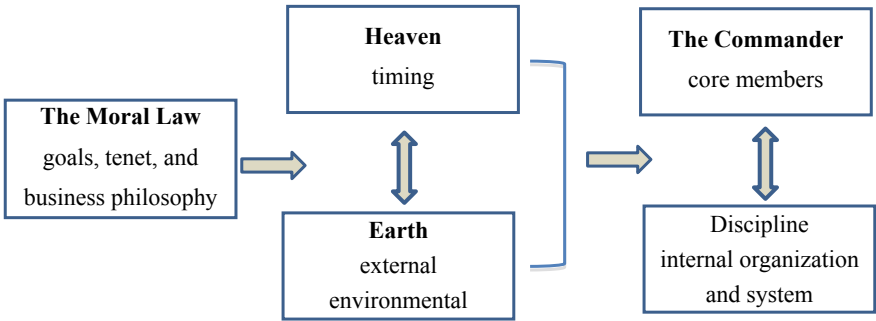


Fig. 7.2 “Be governed by five constant factors” strategic environment analysis model

- (2) “To be taken into account in seven deliberations” (in Chinese, Jiao Qi Ji). The art of war described: “Therefore, in your deliberations, when seeking to determine the military conditions, let them be made the basis of a comparison, in this wise:—Which of the two sovereigns is imbued with the Moral law? Which of the two generals has most ability? With whom lie the advantages derived from Heaven and Earth? On which side is discipline most rigorously enforced? Which army is stronger? On which side are officers and men more highly trained? In which army is there the greater constancy both in reward and punishment? By means of these seven considerations I can forecast victory or defeat.” The word “Jiao” means “compare”, and “Ji” is “calculate”. In terms of developing entrepreneurial strategy, “in your deliberations, when seeking to determine the military conditions, let them be made the basis of a comparison” is to compare and analyze the weight of relevant competitive factors of both sides, and the ratio of being a success. This quantitative comparison can be made from seven parts (Table 7.2).
- (3) “To be taken into account in seven deliberations” (in Chinese, Suo Qi Qing). This is a process of inference, which intends to see through false appearances, and seek for truth, so as to provide a reference for final strategic planning. By means of “Jing Jiao Suo Suan” Analysis Method, entrepreneurs can carry out analysis on the strategic environment, then organize members on this basis, invite some industry experts at the same time, to conduct comprehensive competitiveness analysis on entrepreneurial projects. The specific methods are as follows: on the basis of competitiveness strength, compare and give marks on the seven elements of both the enterprise and the competitor. The marks are from 0 to 4 (or 0–1, in a cursory way). If A and B equal in element i , namely $a_i = b_i = 2$ points; if $a_i > b_i$, then A accounts for 4 points, B for 0 points. The comprehensive competitiveness strength of both sides can be got by adding all the points separately (Table 7.3).

Table 7.2 Jiao Qi Ji—comparison of competitive elements

Seven stratagems	Analysis on enterprise competition
Which of the two sovereigns is imbued with the Moral law?	Corporate objectives and vision
Which of the two generals has the most ability?	Senior Manager and high-level technical personnel
With whom lie the advantages derived from Heaven and Earth?	Development timing and resources
On which side is discipline most rigorously enforced?	Enterprise structure, organizational management system, and operation system
Which army is stronger?	Equipment and technical resource allocation
On which side are officers and men more highly trained?	Quality and quantity of human resources
In which army is there the greater constancy both in reward and punishment?	Incentive system

Table 7.3 “Suo Qi Qing” weight grade method

	S1	S2	S3	S4	S5	S6	S7	Σsi
A								
B								

SWOT Analysis Method

During the development process, an enterprise should utilize environmental opportunities and internal advantages to the maximum, and reduce its own disadvantages and threat to the minimum. When the entrepreneur has an intention or a preliminary idea of one (or several) business, it is necessary to further investigate whether this (or these) opportunity is suitable for starting a business, and whether the enterprise can dominate the market. SWOT analysis method can be utilized.

SWOT, respectively, represent Strength, Weakness, Opportunity, and Threat. Strength and Weakness mainly give importance to the company’s technology level, economic strength, and comparison between competitors and potential competitors. While Opportunity and Threats stress much on the changes in the external environment (including political and economic environment, natural and social environment, etc.), and possible influences. The basic procedures of the SWOT analysis method is shown in Fig. 7.3.

On the basis of SWOT strategic portfolio analysis, there are four enterprise strategies for entrepreneurs to select: SO strategy, WO strategy, ST strategy, WT strategy (Table 7.4). SO strategy is the most ideal selection that combines entrepreneurs’ strength and favors opportunities provided by the environment.

7.1.2.2 Procedures of Making Entrepreneurial Strategy

Strategy making of the start-ups is generally divided into three aspects: comprehensive analysis of the enterprise, making strategic plans, evaluation of strategic plans.

Comprehensive Analysis of the Enterprise

Comprehensive analysis is a prerequisite for an enterprise to carry out strategic planning. Entrepreneurs can analyze the current situation of the enterprise by performance evaluation, industry analysis, analysis of the company’s internal environment and external environment.

Make a Strategic Plan

After comprehensively analyzing the internal and external development condition of the enterprise, the strategic planning of the enterprise will be put into practical use. This phase consists of five steps.

Step 1: Size up and predict the strategic environment. The analysis of the strategic environment can proceed from both micro and macro aspects. Micro-analysis is to seek for the operational characteristics of start-ups, that is to answer

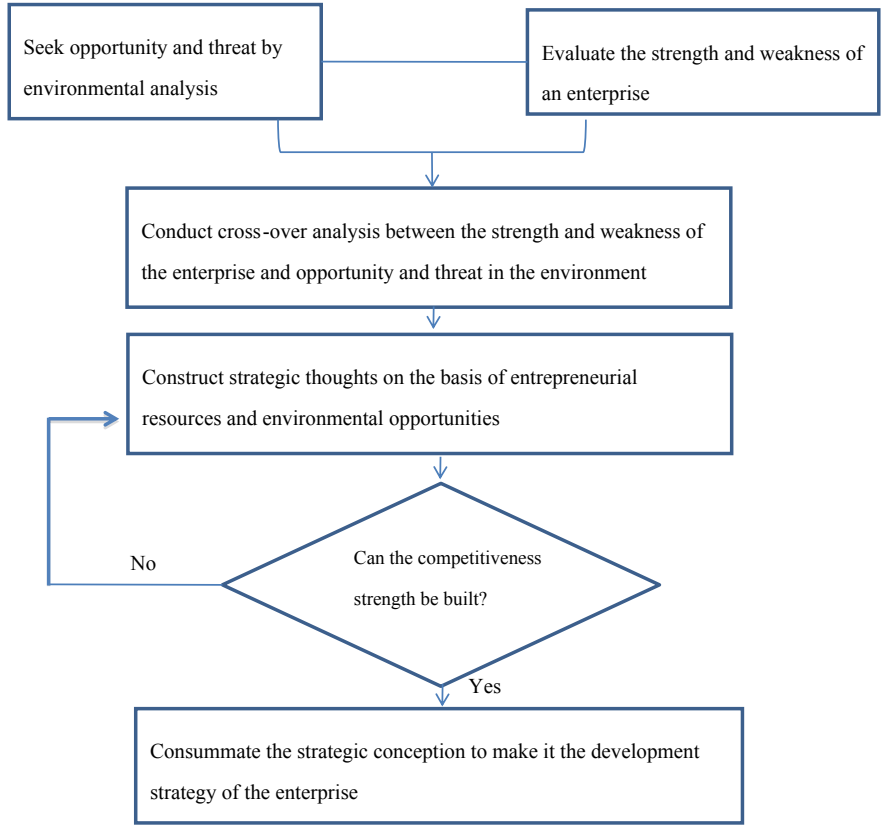


Fig. 7.3 SWOT analysis procedures

Table 7.4 SWOT strategic portfolio

External factors Internal factors	Interior strength	Interior weakness
External opportunities Such as good momentum in economic development, Issue of new policies, adjustment of industrial structure, emergence of new technologies	SO Strategy The most successful strategy portfolio, namely the opportunities by utilizing its own strength and fully employment of environment	WO Strategy Make use of the opportunity to overcome weakness
External threats Such as high market entry barriers, a bad economic environment, changes in industrial policies, market shrink, emergence of substitutes	ST Strategy Overcome external environmental threats by the strength	WT Strategy Giving up, attaching, or joint venture

the question: What do we want to do? Macro analysis is to analyze society, economy, politic, culture, technology and other fields. In other words, it is to help entrepreneurs have better comprehension of the changes that occur or will show in the future.

Step 2: set down quantitative strategic planning goals. The goals mentioned here are distinct from strategic purposes. The latter refers to the directional description about the innovation of the enterprise, how to innovate, and what is the anticipated achievement? However, strategic planning goals are the solid groundwork for realizing the strategic purpose, which is accessible, measurable, and feasible. For instance, there are some quantitative goals for strategic planning, such as how much market shares do the enterprise want? How much sales should be achieved? How much profit does the enterprise want to make? And when does it realize these goals?

Step 3: Identify priorities in the implementation of the strategy. The so-called key point is to determine the enterprise's mission, divide the department, and confirm the goals of key departments. In accordance with the level of strategy, a company's strategy can be divided into overall strategy (the highest level strategy), career strategy, sub-strategy, and tactics. The overall strategy refers to the planning and strategy for guiding the long-term development of the enterprise after a comprehensive analysis of the main factors such as market demand, competition status, resource supply, and its own strength, on the basis of in-depth investigation and researches on the internal and external environment. The focus of the business strategy is to implement the corporate mission, conduct an environmental analysis, and formulate the objectives of the secondary units and specific measures to achieve them. The sub-strategy is more detailed, focusing on carrying out and refining objectives, such as dividing them into development goals, quality objectives, technological progress goals, market objectives, employee quality objectives, management improvement goals, and efficiency goals. The priority of tactics is to segment the implementation phase of the refined objectives and draw corresponding plans, analyzing the risks that may be encountered, considering the possible variables, and proposing measures to deal with risks and variables at each stage.

Step 4: Make an action plan. After the priorities of the strategy implementation process are determined, it is necessary to refine the above decisions into operable action plans. The action plan must be made in stages, which are the guarantee to drive the strategic action plan in an orderly manner.

Step 5: Establish specific measures to implement the strategy. This is the pivotal issue in the implementation of the strategic plan. It indicates the approaches to put abstract strategies into life-some practice. For example, when formulating allocation plans for funds and other resources, it's necessary to select methods for measurement, investigation, and control at the same time. Finally, the selected schemes need to be presented in the document and submitted to the company for review and approval.

Assessment of Strategic Planning

The assessment of strategic planning is an extremely complex task. Because of the financial and energy constraints, start-ups can hardly make a comprehensive assessment of strategic planning. However, basic assessment is essential. Only by evaluating the strategic plan, can it be more scientific and operational.

Strategic planning assessment mainly involves in the background of the company, business opportunities, and operability of financial and planning. Background assessment mainly refers to the evaluation of the history and macro-environment, etc. Business opportunity assessment mainly includes whether the best opportunity is found, whether all opportunities and adverse risks are identified. Sometimes, the strategic goals look perfect, but it may end up failing if some risks are neglected. The financial assessment is to evaluate whether the company can provide reasonable financial guarantees and whether the financial information is clear and coherent. If it is a short-term strategic plan, it is even more imperative to write the financial situation in detail.

The assessment of the operability of enterprise strategic planning is extremely significant. Without practice, any well-written enterprise strategic plan is just paper wars. When assessing the operability of a company's strategic planning, entrepreneurs should consider whether there are implementation standards and control methods, whether it meets the requirements of the company's purposes; whether the company's strategic planning coincides with employees' attitudes, interests, and concepts; and whether the enterprise is equipped with defense capacity, etc.

7.1.3 Start-ups' Strategic Selection

Imitation Strategy

Imitation strategy means that the business model of start-ups is based on imitating the products or services provided by competitors. And it is a follow-up strategy model for start-ups which have no advantage over resources and endowments, to achieve leveraging and labor-saving development through learning and imitation. In line with the way of imitation and the degree of improvement, the imitation strategy is divided into two types: reactive imitation strategy and creative imitation strategy.

- (1) Reactive imitation strategy. This kind of imitator is usually traditional SMEs, which don't have much money for R&D. So they can only choose to imitate the products of mature companies in the market and even production management methods.

Reactive imitation strategies are sometimes the primary choice for venture teams. Human wisdom is limited so that new ideas are difficult to obtain. Besides, the limitation of resources and the environment makes it even harder

to achieve entrepreneurial ideas. Reactive imitation strategy can reduce the risk and R&D costs of the company.

However, there are also obvious drawbacks to the reactive imitation strategy. The enterprise chooses to imitate others rather than self-dependent innovation. If the enterprise can't build its own "DNA" in the initial stage and form its own business ideas, it can only be led by the imitation object. Once this method is copied by potential market entrants, new ventures will be threatened. Under normal circumstances, the reactive imitation strategy is only applied to the enterprise at the initial stage. After the business has been expanded to a certain extent, the enterprise should consider adjusting the business mode and forming a new business strategy.

- (2) Creative imitation strategy. It refers to finding out defects in products or services in emerging markets to obtain a successful strategic model by consummating products or services. Matsushita Yukisuke once said that the secret of his success can be summarized in: "I make improvements rather than innovation." This is a portrayal of this strategy. It is conducted on the condition that a new product is often contained with defects or disadvantages in product features, adaptations, or market positioning. It is precisely the defects of new products that new ventures can take advantage of the loopholes.

This kind of strategy requires a certain level of technology to improve products, and observant eyes to find consumers' dissatisfaction with existing products, so as to make purposeful improvements to the products, because "consumer dissatisfaction is the market opportunity." Nongfu Spring has adopted this strategy to a certain extent. Nongfu Springs was launched with a unique sportswear package and edible oil alike package. Although this is not the pioneer in the drinking water industry, it is deemed as "selling point" for the first time. This kind of creativity has made a great success. And the packaging of Nongfu Spring has become another priority to drive its brand building.

Creative imitation strategies are the most effective method in high-tech fields for the reason that high-tech innovators often centered on technology and products. The goal of a creative imitation strategy is to control the market, so it is best suited for the main products, crafts or services in the industry, such as laptops, watches, and so on.

Affiliating Positioning Strategy

Affiliating positioning is to attach the enterprise to famous brands. Through various methods, the new venture establishes an intrinsic connection with well-known brands in their peers, so that their products and brands can quickly enter the consumer's field of vision. There are generally three forms of affiliating positioning strategy.

- (1) Willing to be the second. Start-ups should clearly recognize the most prestigious brand in the industry, and admit that it takes second place. This strategy will leave a humble, sincere impression on consumers so that they believe the products are reliable and easy to remember.
- (2) Name-dropping. The start-ups recognize the brands that have achieved great success in the business. Although they are inferior in the brand, they can compete with those most popular and trusted brands in a certain region or in one aspect. For example, Ningcheng Laojiao, produced by Inner Mongolia, claims itself to be “Maotai beyond the Great Wall”.
- (3) Senior club. If a start-up can’t get the first place or attached as the second place, it should adopt this strategy and utilize the reputation of a senior group of brands with limited membership, emphasizing that they are a member of this high-level group so as to gain the recognition of consumers and improve their status and image. For example, the Chrysler Automobile Company claims to be one of the “three major automobile companies” in the United States and receives good results.

The affiliating positioning strategy is essentially a brand-building method, which is mainly used in the initial stage of the enterprise. When enterprises leave a “burn in” in the minds of consumers, they need to timely innovate in product, service, and channel, to achieve the transformation of the strategy and to meet the changing needs of consumers.

7.1.3.1 Differentiation Strategy

In order to distinct entrepreneurs’ products from competitors’ products and form distinctive characteristics, start-ups must adopt a differentiated strategy. The priority of this strategy is to create products, services, and corporate images that are considered unique by the industry and consumers. There are various ways to achieve differentiation, including product design, brand image, characteristics of technology and performance, distribution network, and consumer services.

The Nongfu Spring’s bottle cup is the most typical case of a differentiation strategy. Before the sports bottle cup was born. There were many manufacturers producing bottled water before the emergence of sporting bottle cup, but they all resembled similar.

The Nongfu Spring conducted a long-term market research and launched a sports-packed product. Getting rid of the previous method of rotating, the “sporting bottle cup” was used, namely opening a bottle directly by pulling it up. The bottle was decorated in a conspicuous red color and a photo of the landscape of Qiandao Lake. “purity of water, and bright red color” makes Nongfu Spring stand out among the brands of drinking water, catching the attention of consumers and winning the market.

Improve the Value/Feature Strategy

Start-ups that adopt the strategy of improving value/characteristics need to analyze the function of products or services in the industry, improve or reshape the value chain structure, establish a new image within the industry, and focus on improving consumer value.

In the economic sense, this strategy is to create a partial scarcity. That is to say, a start-up creates a differentiated competitive advantage for a product or service that is supply–demand balanced or oversupplied, creating the partial scarcity in a certain aspect of product performance or business process that is distinct from the competitors, so as to get excess profits.

P. Kotler, the father of modern marketing, proposed five ways to improve the value and achieve differentiation: product differentiation; service differentiation; personnel differentiation; channel differentiation; and image differentiation, as shown in Table 7.5.

Rule Changing Strategy

Another important method is the differentiation or innovation in business models, namely changing business rules. Many companies have chosen the strategy to change the rules at the beginning of their establishment. Toyota altered Ford’s mass production system and established the famous Toyota production system. Instead of imitating the operating methods of the competitors, Toyota established a distinct rule of the game, which not only changes the value chain of the enterprise, but also the value chain of the industry.

At the initial stage, Dell realized that it’s imperative to build a brand-new marketing model for the sake of rapid development in the PC (personal computer) industry, thus the direct sales model that later became the iconic strategy of Dell. This strategy has created a new PC industry marketing model. Judging from Dell, the strategy of changing market rules is to adopt a completely different approach to

Table 7.5 Kotler’s five methods to improve value

Product	Service	Personnel	Channel	Image
Feature	Booking	Competence	Coverage	Symbol
Function	Delivering	Qualification	Professionalization	Words and audition
Consistency	Installation	Modesty and courteousness	Performance	Media
Durability	Customer training	Honesty		Atmosphere
Reliability	Customer consultation	Credibility		Events
Maintainability	Maintenance	Take charge		
Style		Communication		
Design				

a certain part of a product or service, and combine other competencies, such as manufacturing and purchasing, so as to widen the gap with competitors as a whole. This strategy is more effective for traditional industries that have deep-rooted habits or industries that are arbitrarily divided by seller oligarchs. Because the typical business model has lost its flexibility, entrepreneurs are capable of creating a new business model and rules by taking advantage of the fact that start-ups have no historical burden and strong flexibility.

7.1.3.2 Focusing Strategy

Focusing strategy is to assemble limited human, financial, and material resources in one aspect on the basis of the competitive situation and the overall situation, striving to infiltrate and break through from a certain part, profession, and industry, so as to form and highlight the strength of the enterprise. It is an entrepreneurial strategy that avoids comprehensive attack and utilizes power averagely. It is also a competitive strategy for deep market development to obtain excess profits. There are four common focusing strategies.

Market Segmentation Strategy

The “circle theory”, proposed by Sony’s founder Akio Morita, means that there must be some gaps between countless big circles (referring to the sales market occupied by large enterprises) and small circles (referring to the sales market occupied by small enterprises). These gaps mean the opportunities that are not yet been taken. As long as seizing opportunities on time, entrepreneurs can form a joint sales network that connects these gaps, which will definitely exceed those big circle markets. New ventures have the strength of being flexible and adaptable. They are able to find all kinds of gaps in the market and “drill in” to form a unique competitive advantage. W. Meves, the management scientist in German, also believes that if a company uses all of its limited resources to solve a problem of a carefully selected customer group. Then the company can thrive and flourish.

Expertise Strategy

For start-ups, the focus strategy is often reflected in the adoption of expertise. The adopted expertise is usually an imperative element that can reduce the cost of the enterprise. Start-ups with unique technologies and products can gain and maintain control power in the field of expertise. For example, companies that provide circuits and lighting systems for the famous car brand have gained control power in the automotive aftermarket at the pioneering state.

In order to obtain and maintain control and leading position for start-ups that choose the expertise strategy, they must grasp the opportunity primarily and take immediate action when new industries, customers, markets, or trends are beginning to take shape. In the second place, the start-ups must possess unique technology that is difficult to imitate. Finally, they must continuously improve the technology to maintain a leading technological superiority.

Overall Cost Leadership Strategy

The overall cost leadership strategy refers to control costs through effective approaches so that the total cost of the enterprise is lower than that of the competitors, and even lower than the lowest cost in the industry. Therefore, the enterprise can obtain profits that are above the average. The low cost of products is capable of protecting against attacks from competitors, threatens from buyers, suppliers, and substitutes.

Galanx is a model for successfully adopting the overall cost leadership strategy. Galanz has been insisting on this strategy, since it started to manufacture microwave oven. In order to take the leading position in total cost, Galanz successively sold the Eider Down Factories and wool mills with an annual profit of 10 million Yuan, and then invested all the funds into the production of microwave ovens. In just five years, Galanz defeated all competitors and took first place in the world.

Concentrated Marketing Strategy

Concentrated Marketing Strategy means that the enterprise, focusing on a specific consumer group, uses certain marketing strategies to serve them, and establish a competitive advantage and market position. The core of the concentrated marketing strategy is to focus resources on specific consumer groups to gain a competitive advantage in local markets.

7.1.3.3 Low-Cost Strategy

Cost is the central point of a company in the production process, and the key point for attracting consumers to some extent. As for start-ups, the ultimate goal of a low-cost strategy is to capture market share. Therefore, start-ups can strive to build productive capacity that can reach the economies of scale, and work hard to reduce costs on the basis of existing experience. The abovementioned total cost leadership strategy is both a financial focus strategy and a low-cost strategy.

But in most cases, the low-cost strategy cannot be the only entrepreneurial strategy. In the initial stage, it's difficult for enterprises to meet the economic requirements, so they can only minimize costs in research and development, branding, marketing, etc. Therefore, this strategy is often carried out simultaneously with the implementation of other strategies.

7.2 Master Marketing Strategy

The marketing strategy is to systematically organize various business activities based on the needs of consumers, external quasi-market opportunities, internal strategic planning, resource status, etc. Moreover, it is utilized to satisfy consumers' needs, and achieve corporate goals through coordinated product strategy, price strategy, channel strategy, promotion strategy, etc. As a complex system, marketing

strategy plays a very crucial role as a link between enterprises and customers. The success of start-ups can be directly related to its marketing strategy. However, entrepreneurs should conduct market research, grasp the competitive situation, and formulate marketing plans prior to implement a specific marketing strategy.

7.2.1 Conduct Market Research

Even though the type of venture is determined, and the preparation is made sufficiently, it is still necessary to conduct a thorough investigation of the market environment. Market research is to carry out meticulous analysis on the market environment of the province, city, or even the block where the company is located, in accordance with the sales target and scope of the initial stage of the company's business.

7.2.1.1 Determine “Who Is the Consumer”

Consumers are the foundation of business development. The situation of consumers must be clarified primarily in the market research: Who is the consumer? What do they need? How do you meet their needs and make profits from them?

Investigating consumers there are generally two aspects involved in the investigation of consumers: consumer's demand survey and consumer's classification survey. For instance, the first investigation aims at the consumer's group, their satisfied products or services, etc. The latter focus on the number, characteristics, and distribution of consumers, to clarify the target consumers, and to master their detailed information. If the consumers are certain types of enterprises, entrepreneurs should understand the basic conditions of them, such as the purchase channel, procurement management mode, contact number, office address, the specific situation and scope of the business owner, the degree of demand for a certain product or service project, purchase habits and characteristics. If the consumer is an individual, entrepreneurs should know their approximate age range, gender, consumption characteristics, demand for a certain product and service, purchase motivation, purchase psychology, and usage habits. Mastering this information is beneficial for its targeted business.

7.2.1.2 Methods for Market Research

There are numerous ways to conduct market researches. In terms of scope of the investigation, the common market research methods can be divided into three types: market census, sample survey, and typical survey. In accordance with survey methods, it can be divided into a questionnaire survey, interview, field observation, expert consultation, test or trial marketing, and so on. The methods can be applied flexibly according to different survey topics and contents. For most first-time entrepreneurs, from a practical point of view, market research can be carried out in the following aspects.

- (1) Inspect the market in person. If you want to buy a restaurant, you can go to the scene to observe the passenger flow volume for a few days, and even work there for free for a few days to experience the commercial atmosphere of the restaurant.
- (2) Look up industry information, such as statistical yearbooks, business directories, and professional newspapers and magazines.
- (3) Communicate with industry specialists or entrepreneurs or seek advice from them.
- (4) Visit industry exhibitions, new product launches, and participate in industry association events.
- (5) Talk to some target consumers.
- (6) Listen to the advice of friends and families.

7.2.2 Grasp Competitive Situation

For the sake of grasping the competitive situation, it is necessary to collect specific data from competitors and analyze the competitors. Competitors mainly consist of current and potential competitors, who can be analyzed from the following aspects.

7.2.2.1 Market Share

Market share is usually calculated by the ratio between the company's sales volume and the market's overall capacity. The purpose of analyzing the overall market share of competitors is to clarify the position of the enterprise and competitors in the market—namely leaders, followers, or market participants. In addition, it is necessary to analyze the market share of competitors' market segmentation in order to clarify the strength and weaknesses of regions and products, providing a foundation for formulating a specific competitive strategy.

7.2.2.2 Financial Status

The analysis of financial status mainly includes profitability analysis, growth analysis, liability analysis, cost analysis, etc. Profitability analysis and growth analysis are mainly discussed.

(1) Profitability Analysis.

The indicator that is usually used for profitability is the profit margin. It is employed to estimate the profitability of the company by comparing the profit margin indicators between competitors and the company, and the average profit rate of the industry. At the same time, the composition of the profit rate must be analyzed in the aspect of main business cost rate, operating expense rate, management expense rate, and financial expense rate. This evaluates the indicators so as to take corresponding measures to improve the profitability of the company. For example, the operating expense ratio of the company is

much higher than that of the competitors, so a detailed analysis of the reason accounting for the condition is required. Operating expenses include salaries, logistics, advertising, promotion, etc. By analyzing these specific projects, entrepreneurs can identify gaps, and take corresponding measures to reduce operating expenses.

(2) Growth Analysis.

The main indicators of growth analysis involve in production and sales growth rate and profit growth rate. Growth analysis is utilized to make a comparative analysis between the growth rate of production and sales and the growth rate of profit. Generally speaking, the profit growth rate is higher than that of production and sales, indicating that the company develops in a sound momentum. However, under the current market conditions, the growth of production and sales is made by mergers and acquisitions. Therefore, the growth rate of production and sales often far exceeds the growth rate of profit. Consequently, in the analysis of corporate growth, the impact of acquisition and merger should be removed.

7.2.2.3 Capacity Utilization

Capacity utilization is a very vital indicator, especially for manufacturing companies. It is directly related to the production cost of the enterprise. Capacity utilization refers to the extent to which a company exerts its production capacity. Obviously, a high capacity utilization rate of a company means comparatively low fixed cost per unit product. The purpose of analyzing capacity utilization is to find out the gap between the competitors, and seeking the causes of the gap, so as to improve the business process, improve the capacity utilization rate, and reduce the production cost.

7.2.2.4 Learning and Innovation Competence

Only by continuously learning and innovating, can enterprises adapt to the changing market environment. Therefore, learning and innovation have become the core competitiveness of enterprises. Analytical indicators of learning and innovation competence include: the speed of producing new products, an important indicator to test the company's research and development capabilities; and the percentage of research funding in sales revenue, reflecting enterprises' degree of focus on technological innovation; innovation of sales channels, depending on the integration conditions of sales channels. Enterprises can gain more profits among the value chain by means of strengthening the management and innovation on sales channels, and controlling sales channels in a better way.

Through the analysis of competitors' learning and innovation competence, the gaps between learning and innovation are found so as to improve the corresponding ability of the company.

7.2.2.5 Leadership

The characteristics of the leader often determine the culture and values of an enterprise. Studying about the leaders of competitors is of great help in mastering the strategic trends and priorities of the company.

Analysis of competitors' leaders is mainly concentrated on their educational background, main experience, and performance, in order to comprehensively understand the personal quality of competitors and the changes that his quality has brought to the company.

7.2.3 Making Marketing Plans

Once the enterprise has mastered the information of customers and competitors, it can start to develop a marketing plan. Distinct from selling products or services to consumers, modern corporate marketing activities include the following basic elements. The first one is identifying and evaluating market opportunities. That is to say, the company seeks the dynamic balance between the external environment, internal conditions, and business objectives through macro- and microenvironmental analysis, marketing research, and forecasts, so that the enterprise can consciously use environmental opportunities, avoid possible market threats, and conduct market marketing activities in a timely manner. The second element is segmentation and selection of target markets, which means to divide and determine the market segmentation by seizing opportunities in accordance with the differences in consumer demand, for conducting product positioning in the suitable target market. In addition, developing a marketing portfolio and determining the market budget refers to formulate specific implementation plans and make marketing budgets in terms of the combination marketing elements (including products, prices, channels, promotions). The last element is to execute and control the marketing plan, which means to carry out the specific implementation, and control the execution process of the marketing plan to ensure its efficiency.

Start-ups must conduct an analysis to clarify the position of the enterprise in the market, comprehend the consumer group, and find out consumers' needs. In order to make these achievements, start-ups must break down the market into different consumer groups, then select one or several of them as target markets, and finally determine the position of products in the target market.

7.2.3.1 Market Segmentation

Confronted with diversified ever-changing market demand, it is impossible to even for the large companies to meet all the needs in the market. Therefore, enterprises can only segment the market into a number of submarkets in line with the different consumer groups, and choose the most suitable target market. Market segmentation refers to the classification process in which the enterprise divides the overall market into several submarkets through market researches in terms of consumers' demand and desires, purchasing behaviors, and purchasing habits. There are consumer groups with similar needs in any of these submarkets. Besides, consumers of

different submarkets have various demands for the same products. As a matter of fact, this shows that market segmentation is exactly the classifications of consumers.

7.2.3.2 Selection of Target Market

Upon the completion of market segmentation, the new enterprise must evaluate each market segment and select the most convenient and suitable field for the enterprise to enter, namely, the target market. A successful target market must be equipped with the following conditions: (1) a certain enterprise scale, meaning a certain amount of products' demands; (2) unmet demands, so that the enterprise will not be controlled by the competitor; (3) the ability to occupy the market, and certain strengths; (4) capable of bringing higher profits.

Start-ups must give priority to the following three relevant relations when selecting the market. To begin with, they must consider the relationship between immediate interests and long-term interests. Enterprises must not only meet the real market need but also focus on the potential market need in the future. The second is the relationship between concentration and dispersion. It's better for enterprises to choose at least two or three target markets to reduce the impact of market recession or competition. The third one is the link between stability and change. The target market should both emphasize the stability during a certain period and make adjustments and changes in a timely manner according to variations in market demand, production, and sales of enterprises.

After that, companies must work on strategies to capture this market aiming at their characteristics.

7.2.3.3 Market Positioning

The purpose of market positioning is to deepen consumers' perceptions of the companies and products, which is conducive to elevate the status of them. In every industry, there are always several optional positions for an enterprise. An excellent market position is to answer the following three questions clearly: Who are the target customers, what products and services should be provided to them, and how the products should be provided. Moreover, entrepreneurs should clarify the principles, strategies, and steps during market positioning.

(1) Product Positioning Principles

Product positioning is designed to establish an image or perception in the market—the product or service is distinctive. In order to gain a competitive advantage, product positioning should follow the following two principles: differentiation, creating competitive selling points; and consumer-orientation.

(2) Market Positioning Strategy

In order to empower consumers to think about the products of the company whenever is needed, there are some necessary elements when doing market positioning: do what others don't proceed, equipped with what others do not have; capable of doing what others can't do. Starting from the above ideas, there are several market positioning strategies for enterprises or products.

Firstly, the product differentiation positioning method. The products and services provided by any enterprise cannot be exactly the same, so the enterprise positioning can set about from the differences between products and services, to consider the significant characteristics of the products sold by the enterprise. Haier Group has carried out all-round after-sales service in the era of product homogenization, which has greatly drawn people's attention and laid Haier's leading position in the Chinese market.

Secondly, the main attributes/interest positioning method. Utilizing this method, it is necessary to study the importance of the value of the products provided in the target market. The values of a product are mostly composed of multiple levels. And various people have a diversified understanding. Motorola is the first entrant in the Chinese mobile phone market. In the 1990s, it occupied over 50% of market share, so Motorola insisted that function is the priorities for purchasing the home, in other words, the communication value of the mobile phone. Therefore, it didn't conduct further R&D about the appearance design of the products. As a latecomer to the market, Nokia attached great importance to the exploration of products' appearance while paying attention to the development of core products. Consequently, as Motorola was launching several products per year, Nokia can even release dozens of products in a year, greatly satisfying the psychology of Chinese mobile phone consumers to pursue fashion. Therefore, it became the main force of the Chinese mobile phone market at that time.

Moreover, the customer positioning method. By means of seeking the exact user or purchaser of the product, the enterprise can highlight the product image in the target market. Taking Goldlion as an example, its advertising commentary "Goldlion tie, man's world" has swept the whole country, making it the famous brands for Man's ware. The Wife's Pharmaceutical Industry has provided specialized medicines for women and has achieved great success.

Fourthly, utilizing the positioning method. It means that the enterprise makes a special market positioning by the service place or service time of its products. In the previous year, Kodak, positioning itself as "record the exciting moment", occupied the photographic film market in special occasions. However, Kodak's main competitor, Fuji, positioned itself in the travel market.

Fifth, the classification method. This is a commonly used method of positioning that is particularly effective both in the promotion of new products and widen the market of existing products. The remark "Seven up, Non-Coke" distinguishes seven up from all colas. Although competing with all colas, seven up has become the most influential soft drink except the "two colas' brands" due to the development of a new positioning.

Sixth, targeting specific competitors. This positioning method is directed at a particular competitor instead of a product category. The competition between Coca-Cola and Pepsi is very typical. Since the cola market is basically monopolized by Coca-Cola and Pepsi, they must adopt a mutually competitive positioning method. Coca-Cola's concept is "This is Coke", emphasizing that it is the inventor of Coke and authentic Coke. Pepsi Cola, on the other side, has

launched the concept of “Young People’s Choice”, for the reason that Coca-Cola’s long-term presence in the market, the aging of products and the older age of consumers.

Seventh, the strain-based repositioning method. Repositioning lays stresses on a point of view or idea that enables consumers to form a concept of the business in their minds. Taking General Motors as an example, in 1921, after A. P. Sloan became the chief executive officer of General Motors, he found that there are seven car brands competing in the mid-range market. He is so wise that he canceled two brands and repositioned the remaining brands, which led to great success. These five car brands have increased GM’s market share up to 50%.

(3) **The Procedures of Market Positioning**

In the actual operation process, the market positioning should combine the inherent characteristics, unique advantages, competitive advantages of the product with the characteristics and requirements of the target market. The specific steps are as follows.

Firstly, analyzing the products of the company and that of the competitors is the foundation of market positioning.

Secondly, find out the difference. It indicates to make a comparison between the products of the company and that of the competitors to analyze the differences in detail. During the marketing process, it is a must to “foster strength and circumvent weakness,” or even turns the demerit into merit. Sometimes, some products featured by the negative impact may bring about a positive effect.

Then, the main target markets are required to be listed, among which analysis of the demand characteristics, needs to be carried out.

Finally, combine the characteristics of the company’s products with the needs of the target market. Marketers must carefully analyze the relationship between product and target market characteristics to find out which of the most important needs of consumers are not satisfied with the products of the company.

7.2.4 Exert 4Ps Marketing Strategy

As for enterprises, there are some certain uncontrollable elements in the macro- and microenvironment. The first part is constituted by demographic factors, economic factors, political and legal factors, natural factors. And the latter consists of suppliers, competitors, consumers, and many other external factors. As a result, enterprises can only adapt to them. This requires the company to carry out a marketing portfolio to comprehensively employ the factors that can be controlled by itself, including product, price, place, and promotion (Fig. 7.4). This is the widely adopted 4Ps marketing strategy. In marketing, enterprises should primarily have products; then, develop competitive pricing strategies; besides, establish sales

Fig. 7.4 4Ps marketing strategy



channels to cover the whole product sales process including product transportation and warehousing; and finally, empower potential consumers to understand the value of products through promotion (Fig. 7.4).

7.2.4.1 Products

A product is anything that can be provided to the market to meet a person's need, including objects, services, places, thoughts, ideas, and so on. In accordance with modern marketing theory, products consist of core products, tangible products, and additional products. The core product refers to the basic utility and value that consumers pursue when purchasing a certain product. It is the thing that consumers really want to buy. Taking car purchasing as an example, consumers buy a car to meet the transportation demand that is exactly the basic utility and value of the car. A tangible product is the form of core products, usually demonstrated as the product quality, appearance, packaging, trademarks, brand, etc. Additional products are all auxiliary services and benefits provided for purchasing tangible products, including credit, free delivery and installation, after-sales service, etc.

Products Strategy Portfolio

The product portfolio is a combination of product lines and product projects offered by a company. The product portfolio includes three factors, namely, width, length, and degree of association, which are tied to the product line or product projects. The product line, also known as product categories, is a group of similar products that are closely related in terms of technology and structure. They have diversified specifications, style, or different grades, but they can meet similar demands. The number of products line an enterprise possessed reflects the product portfolio width. The larger the number is, the broader the product portfolio width. The product project refers to an individual product in each product line with different sizes, styles, and grades. The total number of enterprise product projects reflects the

length of the product portfolio. The interconnection among the usage, production conditions, marketing channels reflect the degree of correlation of the product portfolio. A high degree of correlation in a product line can enhance the enterprise reputation in a region or industry, consolidating its position in the market. In summary, different widths, lengths, and correlation contribute to various product combinations. Product portfolio strategy mainly constituted by the following content.

- (1) Expand the product portfolio strategy expands the width and length of the product portfolio. When the enterprise predicts that the product category sales may decline in the next period of time, they should add new product categories in the original product portfolio. If the enterprises want to improve the product characteristics, they can append new product project in the current product categories. In general, expanding the product portfolio enables enterprises to make full use of human, financial, and material resources to decentralize risk and improve competitiveness.
- (2) Lessen product portfolio strategy, meaning to reduce the width and length of the product portfolio. When the market downturn or tension in supplying raw materials, energy occurred, it's necessary to remove less profitable or non-profitable product categories and product projects from the portfolio, empowering enterprises to focus on the development of the product categories or product projects with high profit.
- (3) The product extension strategy, indicating to partially or completely change the original market positioning. This strategy involves in three specific methods, upward extension, downward extension and two-way extension. Upward extension indicates that enterprises decide to manufacture high-grade products instead of low-grade products. Enterprises, engaging in selling high-end products, having relatively weak competitors, or willing to manufacture more comprehensive product types, can use this method. Downward extension refers to the enterprise which produces high-grade products primarily decides to manufacture low-grade products. This method is available when the high-end product sales grow in a slow speed, void appears in low-grade market or competitors to high-end products show. Two-way extension means those enterprises, aiming at mid-range products market enterprises and obtaining certain advantages, decide to extend to the high-end and low-grade products, in order to expand the market.

Brand Strategy

A brand is constituted by its name, logo, and trademark. The brand name can be addressed in a language, such as Haier, Galanz, Changhong, etc. Brand is the part that can be recognized, but can't be directly called in any language, for example, the symbol, image and unique color or printing letter. A trademark is a sign of the commodity, generally consisting of the text, symbols, codes and marks.

Enterprises should employ the brand strategy in the most rational and effective manner in line with their own situation and market conditions. In general, brand strategies are shown as follows.

- (1) The establishment of brand strategy. Selection of brand needs to comply with the characteristics of the products. There are some special products to which consumers have no special requirements, such as electricity, mineral, water etc. It's totally unnecessary for them to use brands. Similarly, it's no need to establish brands for those simply manufactured goods and low-value consumption goods. On the contrary, most of the products, such as medicines and food are extremely in need of establishing brands.
- (2) Brand attribution strategy. With regard to the brands, enterprises have three choices: their own brand; middlemen's brand; partly using their own brands and the other utilizing middlemen's brand. For the sake of improving the visibility, the enterprise should create its own brand, and use it as much as possible.
- (3) Family brand strategy. This strategy refers to whether all products produced by the enterprise use the same brand or not. There are several alternative methods as follows.

The first method is individual brand strategy, which means that different products adopt various brands. It's conducive to separate the success and failure of a series product with the reputation of the enterprise, so as not to adversely impact on other products and the overall image of the enterprise. However, this strategy will spend a large amount of advertisement expenses. As a result, it's better for enterprises to build a sound corporate brand, and then driven the development of individual brands.

The second one is unified brand strategy, namely all series of products using the same brand. The strategy is beneficial to reduce the cost for promotion of new products, saving considerable advertising costs. Good reputation of business is a strong support for new products. So, the unified brand is the most convenient way to launch new products. The enterprises must strictly control the quality of all products, in order to maintain the brand reputation.

Thirdly, the brand classification strategy. This strategy indicates that diversified categories of products using different brands, which is available to distinct the technology and quality of different products.

The last method is the combination of enterprise's title and individual brand. In other words, all series of products are named different brands after the company's title.

- (4) Brand extension strategy. By means of this strategy, the enterprise launch new products or innovative products on the basis of existed brand that possesses a certain reputation. This is a cost-saving method to quickly open the market. The premise of implementing this strategy is that the brand has already enjoyed a higher reputation in the market, and accommodated by the extended products. For example, there are several shampoo brands under the Procter & Gamble's, such as PANTENE, Head and Shoulders, rejoice. Different kinds of

brands can meet dissimilar consumer groups' preference and attract more consumers, so as to improve the market share.

- (5) Brand innovation strategy. This strategy means that the enterprise sets up a new brand by merging or improving the original brand. There are two methods to innovate brand: gradual change and sudden change. Gradual change is to improve the brand in successive steps along with the development of the market so as to adapt to the diversification of consumers' psychology. This method can keep business reputation of the original brand in fewer costs. The latter abandons the original brand to establish a new one. This method can stimulate the interest of consumers, but requires a large amount of advertising costs for new brand's publicity.

Package Strategy

Package strategy means the packaging container and external decoration. Its function is to protect the product, promote sales, and increase the value of the goods. Making full use of the product packaging function, enterprises can select the following strategies.

- (1) Similar packaging strategy. It is to use similar patterns and colors on the packaging of all variety of products produced by the enterprise, demonstrating the common characteristics. This strategy has the strength that it's easy to improve reputation, expand influence, save the cost for packaging design and printing. In particular, newly launched products, utilizing this strategy, can enter the market with ease. This policy is suitable for products in a similar quality level. Otherwise, low quality products will adversely affect the sales of other products.
- (2) Different packaging strategy. In other words, all products are packaged in unique ways with different styles, colors and materials. It can avoid the unfavorable influence of a series of products, but largely increase the cost of the packaging design and new product promotion.
- (3) Relevant packaging strategy. It means to sell several related products in one packaging, such as sewing box, toolbox, which is convenient for consumers.
- (4) Reusable packaging or dual use packaging strategy. This kind of strategy affords the packages more function. For instance, the bottle of the beverage can be used as a cup. The biggest advantage of this strategy is that the empty package itself is an excellent advertisement, leading to repeated purchase.
- (5) Packaging by grades. This strategy divides commodities into several grades. Then, high quality products are wrapped with exquisite packaging, while ordinary products are in plain packaging. The packaging value is coinciding with the quality level of products, catering to the different level of purchasing power.
- (6) Gift packaging strategy is to namely give gift coupon or products inside or outside the packaging. At present, this strategy is commonly adopted in the market.

- (7) Change the packaging strategy. When the emergence of new materials, new technology or a product of poor sales packaging, the enterprise choose to change the packaging design, materials, or use new packaging due to the poor performance of the products in the market or emergence of new material and technologies in packaging, in order to attract consumers or expand consumer groups.

Product's Life Cycle

Time of the products sold on the market is limited. Any products will experience the cycle of from entering the market to be eliminated by the market, just like the biological life course, including birth, growth, maturity, and finally decay. This course is called the product life cycle. Distinct from service life of the products, also known as durability time, the product life cycle indicates the market life span. It is generally divided into the preparation period, start-up period, mature period and decline period (Fig. 7.5). Each stage has its distinct characteristics that directly affect corporate marketing strategies.

- (1) Preparation period. During this period, consumers barely know this new product, so only a few of the novelty pursuers may buy them. Therefore, sales grow in a slow speed. Besides, due to the deficiency in the production technology, mass production is nearly impossible in a short time. Therefore, high costs in production and marketing often result in losses. On accounting of these characteristics, enterprises should put the sales force directly into the most potential consumers, and make fittest marketing strategy in accordance with market acceptance. There are four strategies in this period.

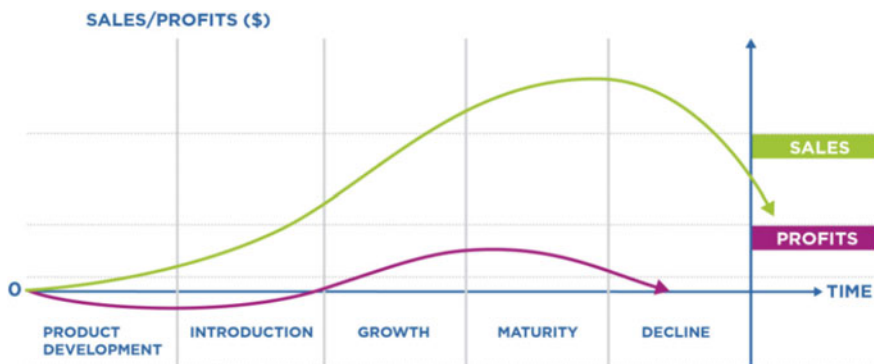


Fig. 7.5 Product Life Cycle. Stages of the Product Life Cycle (<https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-stages-of-the-product-life-cycle/>)

Firstly, rapid-skimming strategy. The enterprise managed to occupy the market rapidly with high priced products and high costs of promotion. This strategy is available on condition of potential market, distinctive products, and purchase power of the consumers.

Secondly, slow-skimming strategy. Enterprises tend to obtain more profits by selling products with high price, promoting in low costs. This strategy requires that the products have unique characteristics to fill the gaps in the market. Thirdly, rapid-penetration strategy. Enterprises improves market share with the fastest speed of market penetration by means of selling low-priced product and putting high promotional costs. This strategy is of highly competitiveness, but is risky and, less profitable.

Lastly, slow-penetration strategy. Enterprises sell products with low price, low cost of promotion, aiming at attracting customers with affordable price. This strategy is appropriate for products with large market size, a number of potential competitors, and consumers that are very sensitive to the price.

- (2) The start-up period. During this period, products have been recognized and accepted by consumers with the rapid expansion of the market, and prompt increase in sales. Profits of the enterprise growth significantly. However, at the same time, competitors have been joining the market successively, accompanied by the gradual increase of imitations. Therefore, the main marketing goal of companies at this stage is to maintain a high growth rate of sales and market share in the ways as follows: ① improve quality and increase varieties; ② seek for new market segmentation to develop new consumers; ③ shift advertising focus from the introduction of products to persuasion of consumers ④ expand the scale of production and reduce the price timely.
- (3) Mature period. This period, lasting for the longest time in the product life cycle, can be divided into an early stage, middle stage and late stage. In the early stage, although the product sales volume and profits are still moving upward, competitors are in a pretty aggressive form. In the medium term, even though the product sales volume and profits tend to be stable, the market is becoming saturated. Finally, at the late stage, consumers begin to buy other products as the declining of the sales volume and profits. Consequently, at the mature period, the primary marketing goal is to maintain the market share, prevent from encroachment of competitors, and extend this stage as far as possible. The enterprise should adopt a flexible marketing strategy. To begin with, the company should engage in the market improvement, seeking new market segmentation or simulate utilization frequency of the products. Then, enterprises should try to modify the products to meet different needs of consumers by improving the quality of products, features, style, packaging and service etc. Finally, enterprises need to ameliorate the combination of marketing portfolio to stimulate consumer demands, and extend the product maturity by means of adjusting the product, price, channel, and promotion.

- (4) The recession. During this period, the product sales volume and profits decline at a fast speed with the transformation of demands, intensification of competition, and reducing in product prices, as well as elimination of old products. Therefore, enterprises should seize up the situation to make a decision resolutely, to avoid “hasty retreat” or “hard to choose”. There are several methods for the enterprises. The first strategy is to maintain continuity, remaining the previous market segmentation and marketing portfolio until the products are completely exited of the market. Then, the strategy of concentration is to gradually reduce the R&D costs and advertising costs, so as to centralize enterprise capabilities and resources to produce and sell one or several products. Finally, the retreat strategy is to stop production immediately or gradually, for turning to produce new products.

New Products Development Strategy

New products can bring new value to the consumers, including the following four categories.

- (1) Brand-new products are manufactured with a new principle, new technology, and new craftwork.
- (2) Upgraded products, also known as innovative products, are improved by new technologies, new processes, new materials on the basis of the original products. The performance of the ungraded products is significantly improved.
- (3) Improved product is formed by ameliorating the performance, structure and function of the original product.
- (4) Generic products are produced by imitating the existing products.

With the rapid development of science and technology and acceleration of changes in consumer demands, product life cycle is shorter and shorter, accompanied by the increasingly difficulty in developing new products. Therefore, selection of strategy is particularly important in researching and developing new products. There are some commonly used strategies, shown as follows.

- (1) Demand Exploration. It means to collect information from daily life, scientific and technological documents, commodity exhibition and national policies and regulations, to explore consumer's demand, and then develop new products accordingly.
- (2) Function enhancing is used to endow new functions and features to the products by adopting new technologies and processes.
- (3) Product competitive strategy is composed of product innovation, product preemption, product merger, product upgrading, product consumption reduction and so on.
- (4) Resolve the risk. This strategy is to reduce investment risks through the existing processes and equipment, and lessen the risk of resource investment

by reasonable usage, and transfer risks through product purchase and sales contracts.

- (5) Joint development strategy. It can be realized by the combination of enterprises and research institutes, colleges and universities, as well as joint ventures among the same industry, or even the unity between cross-industry companies and enterprises.

7.2.4.2 Price

Price is the monetary expression of the value of a commodity. Once the product is identified, it must be priced. When fixing the prices, enterprises must know the cost of the product, consumers' acceptable prices and the price of the similar products.

Pricing Objective

In marketing activities, the pricing objectives are significantly different due to the disparity in the marketing environment, self-conditions and marketing objectives. Generally speaking, enterprises' pricing targets can be classified into survival goals, profit maximization goals, market share goals, accommodating competition targets, and stable price targets. Survival goal is designed to maintain enterprise survival. Profit maximization goal aims at pursuing the interests to the very best. Market share target is made with the purpose of achieving the maximum market share. Accommodating competition targets means that when both of the competitive parties are evenly matched, the price is made to adapt to the competition and maintain the status quo. Stable price target refers to seek a relatively stable price after the company has taken a large market share and leads the industry.

Pricing Method

The pricing methods are employed for achieving the pricing target that is divided into cost-oriented pricing, demand-oriented pricing, and competitive-oriented pricing, on account of the fundamental influence of cost, demand, and competition. Among these methods, the cost-oriented pricing method includes cost-plus pricing method, target-return pricing method, break-even pricing method, etc. Besides, the demand-oriented pricing method involves in reverse pricing method, cognitive value pricing method, etc. In addition, a competitive-oriented pricing method comprises the Going-rate pricing method, bid pricing method, etc. Some of the main methods are described below.

- (1) Cost-plus pricing method. It is used to fix the price in ways that the unit cost of product pluses a certain percentage of the price. The calculation formula is

$$\text{Product unit price} = \text{product unit cost} * (1 + \text{markup rate})$$

Markup rate is the percentage of expected profit to the unit cost of the product. Cost-plus pricing method is a commonly used pricing method, especially for the tertiary industry.

- (2) Reverse the pricing method. This method is to fix the price in accordance with consumers' acceptable price. In the first place, consumers' acceptable price was set as the retail price. Then, after subtracting the cost of goods in the circulation link, the balance of which is the manufactures price. Its calculation formula is

Manufactures price = marketable retail price – price parities between the wholesale and retail trades – purchase and sale price difference

or

Manufactures price = marketable retail price/[$(1 + \text{price parities between the wholesale and retail trades}) \times (1 + \text{purchase and sale price difference rate})$]

- (3) Going-rate pricing method. The method is to fix the price according to the average current price level of the industry. It is a comparatively stable pricing method that not only reduces the risk of price decisions but also leads to reliable profits most of the time.

Pricing Strategy

The price determined by the pricing method is the basic one. The company should utilize various pricing strategies to adjust the basic price in the light of the diversified and changing marketing portfolio, so as to achieve the price decision target in a better manner.

- (1) New product pricing strategy. There are three common pricing strategies for new products: the price of new products is intentionally set higher to obtain the maximum profit in the preparation period of the product lifecycle; the price of new products is set relatively low to attract a large number of consumers and improve market share; the price of new products is fixed between that of the above two strategies.
- (2) Discount pricing strategy is a pricing technique that offers buyers a certain discount on the foundation of the basic price. There are several frequently used discount methods. To begin with, cash discounts are designed to give a certain percentage of the price concessions for those who pay on the agreed date or pay in advance. The second quantity discount, which gives a certain percentage of discount to those who purchase large quantities of goods. Then, functional discounts provide a favorable price to middlemen who offer certain marketing functions (such as sales, promotion, warehousing, services, etc.) for enterprises. The last strategy is seasonal discounts, empowering consumers to purchase out-of-season goods at a discounted price.

- (3) Psychological pricing strategy is to fix the prices in allusion to different psychology conditions of consumers accordingly. It mainly includes mantissa pricing, integer pricing, reputation pricing, soliciting pricing, and tiered pricing. Among all those methods, the mantissa pricing strategy is used to intentionally set the price with a mantissa, for catering to enterprise psychology of pursuing favorable prices. This pricing strategy enables consumers to feel the cheapness in commodities, but also to think that the price is carefully calculated, so is true and reliable. Mantissa pricing strategy is especially applicable to the retail industry. Prestige pricing is to set an integer or a high price by taking advantage of brand-name admiring psychology. It not only allows consumers to feel the “you get what you pay,” but also allows them to get a sense of honor. Soliciting pricing strategy, namely, the bargain goods pricing, means that the enterprise cuts prices of minor commodities to attract customers, so as to drive the sales of other goods.
- (4) Differential pricing strategy. Differential pricing strategy is to adjust the basic prices in terms of the differences in product, consumer, geography, and time. Methods to revise the price include the following parts. By using the product differential pricing method, the enterprise set diversified prices to products in different models or forms. However, price differences are disproportionate compared with that of the costs. Customer-Segment Pricing means to provide distinct consumers with various prices for the same product. In addition, a geographically differentiated pricing method fixes disparate prices of the same product according to the geographical position of the consumer. Time differential pricing method sets prices on the basis of seasons, dates, and moments.

7.2.4.3 Channels

The channel covers the whole process of transportation and warehousing. The address of the company should be taken into consideration by the channels. For example, if you plan to open a retail store, it's very crucial to select a location that is close to the consumer. On the contrary, as for manufacturers, the most important thing is whether the raw materials needed for production can be easily obtained. Therefore, the factory or workshop should be located close to the raw material supplier. Moreover, distribution methods and transportation issues of the products are needed to be considered in Channels. The following parts mainly introduce the knowledge associated with distribution channels.

Definition and Types of Distribution Channel

After the production of the products and determination of the price, the products should be transferred to the consumers through certain sales channels. As the product moves from producer to consumer, distribution channels indicate all enterprises and individuals that acquire ownership of such products or assist in the transfer of ownership.

The distribution channels are divided into direct distribution channels and indirect distribution channels in accordance with the existence of intermediate links.

Direct distribution channel, also called zero-tier channel, means that the producer directly supplies products to the consumer. The main approaches include personnel promotion, opening enterprise-operated street outlet, joint distribution, direct marketing by mail, telephone ordering, online ordering, etc. It is characterized by direct communication between the supplier and demand sides with no intermediate link, which is conducive to reducing circulation costs, directly knowing market conditions, and facilitating the process of entering the market. Indirect distribution channel means that producers supply goods to consumers by intermediaries. The indirect distribution channel contains at least one intermediate links, involving in one-tier, two-tier, and three-tier channel. A one-tier channel means an intermediate link between producers and consumers. In the industrial market, this intermediate link is usually an exclusive agent or broker, while in the consumer market, it is usually a retailer. The two-tier channel indicates two intermediate links between the producer and the consumer, representing as wholesalers and retailers in the consumer goods market, and exclusive agents and wholesalers in the industrial market. The three-tier channel, a frequently used method in international trade, means three intermediate links, namely, agents, wholesalers, and retailers.

Designing of Distribution Channel

Distribution channels are designed to make decisions about the distribution channel model, the width of distribution channels, and the powers and responsibilities of channel members on the basis of products, markets, companies, and competitors.

- (1) Determine the model of the distribution channel, namely, the length of the distribution channel. Generally speaking, selling goods through an intermediate link is called a short channel, while through two or more intermediate links to sell goods is called a long channel. In order to design the distribution channel of an enterprise, the main factors affecting the sales channel must be primarily considered to decide the types of the channel, such as direct sales or intermediate links. If the intermediate link is selected, it is necessary to further decide the type and size of the middleman. The long channels are available on the condition of large market potential, less concentration of consumer distribution, durable goods, and frequent purchases. Short channels are more favorable to select on condition that producers and consumers are very close in distance, the distribution of consumers are relatively concentrated, and commodities with a small amount and high unit prices are affordable.
- (2) Determine the width of the distribution channel means to determine the amount of intermediaries. There are usually three strategies to choose from. The first one is extensive distribution, which means to choose a large number of middlemen to promote the products as widely as possible. It is generally applied to the distribution of daily necessities. Then, exclusive distribution indicates that the enterprise selects only one middleman in a certain area. This middleman cannot deal with other competitive commodities at the same time.

This strategy is suitable for valuable, high-priced or highly technical products. Besides, a selective distribution strategy is adopted by the enterprise to select several middlemen in a certain area to sell their products on commission. It is positioned between the other two strategies, which are wider than the exclusive distribution and money-saving compared with the extensive distribution. A selective distribution strategy is suitable for almost all types of products.

- (3) Stipulate the power and responsibilities of channel members. In the distribution channel, there the powers and responsibilities of producers and intermediaries must be clearly defined in the form of contracts, including the provisions of price discounts, quality assurance, price reduction guarantees, delivery and settlement conditions, as well as the provisions for providing service.

Management of Distribution Channel

Selection of channels can be evaluated from the aspects of economy, controllability, and adaptability, so as to determine the most suitable distribution channel. Once the channel is selected, the company must take several approaches to manage it. To begin with, the company should motivate channel members by means of providing affordable products, mass advertising, providing financial support and strengthening after-sales services. Then, the company should carry out an assessment about the channel members in the aspect of the completion status of sales quota, average inventory levels, payment status, consumer feedback, and development plans. Moreover, the enterprise needs to adjust the distribution channel partially in accordance with the changes in the market or performance of middleman or variations in corporate marketing objectives.

7.2.4.4 Promotion

In addition to marketable products, reasonable pricing, and best channels, an enterprise is also in need of appropriate promotion methods to timely transmit information about products and enterprises. Promotion refers to the persuasive communication activities and efforts made by the enterprise in marketing activities for the purpose of arousing consumers' interest, stimulating their desire to purchase, and promoting consumers' purchase behavior.

Promotion methods are usually classified into two categories: personnel promotion and non-personnel promotion. Personnel promotion is the activity to induce products directly by the personnel that are sent or entrusted by the company, promoting purchasing behavior. Non-personnel promotion indicates all the promotion methods apart from personnel promotion, mainly including advertising, sales promotion, and public relations. Advertisement is the publicity activities carried out by the company to promote products or services through certain Media. Sales promotion refers to the activities to encourage the purchase and sale of products or services of enterprises through various short-term incentives. Public

Table 7.6 Strength and weakness of diversified promotion methods

Promotion method	Strength	Weakness
Personnel promotion	Directly trigger purchasing desire; timely feedback	Narrow in coverage, and high in space
Advertisement	Wide promotion range, picturesque, labor-saving	Can't directly inspire customers to purchase
Sales promotion	Targeted, and attractive	May arouse doubts
Public relations	Wide influence, and trustworthy	Can't directly inspire customers to purchase

relations are series of activities to enhance the trust and support of all sectors of society and establish a good reputation and image of the company. Different promotion methods are featured with diversified strengths and weaknesses (Table 7.6).

Each promotion method possesses its own functions and effects. Therefore, in actual marketing activities, it is often necessary to combine various promotion methods, namely promotion portfolio. A reasonable combination of promotional methods need to be fully considered in the following factors.

- (1) Promotional goals. Promotional goals vary in periods and in market environments, leading to disparity in promotion portfolios. For example, in a certain period of time, Company A intends to sell products at a faster speed and expand market share, while Company B pursuing a corporate image in the market to eliminate public misunderstanding. Under the above-mentioned specific goals, Company A will use more sales promotion and advertising methods and Company B will take public relations as its core.
- (2) Nature of the product. The dissimilar nature of the product results in distinctive consumers and promotion portfolios. For instance, industrial products, especially production materials, are suitable for personnel promotion, with sales promotion and advertisement as the supplements, due to the technical and professional nature, as well as large purchased quantity. Taking daily consumer products as another example, it is best fitted for advertising promotion because of its wide market distribution, high frequency of purchase, variety, and strong substitution. Customers have less understanding of the performance and characteristics of the product, so focusing on advertising and supplementing by other methods is the most appropriate combination of promotion.
- (3) Product lifecycle. Corresponding promotional combinations is a must at each stage of the products' life cycle. In the preparation period, personnel promotion and advertising promotion are the mainstays, so that consumers could be more familiar with new products. At the initial stage and maturity stage, the promotion should aim at stimulating interests or even preferences of the products. Therefore, it is advisable to use advertising and public relations methods. In the recession period, sales promotion is mainly adopted with the commitment to enhancing the consumer's trust so as to use the products continuously.

- (4) Market characteristics. The size and type of the market have implications for the use of promotion methods. Generally speaking, the large-scale and wide-ranging market is applicable to advertising method. The small-scale and relatively concentrated market needs to take personnel sales as the priority. As for the dispersed consumer goods market with a large number of customers, it is advisable to adopt advertising, sales promotion and public relations methods. Moreover, personnel promotions should be mainly utilized for the industrial market with few purchasers, large purchasing quantity and high technology. For other markets, a reasonable combination of promotions should be used in accordance with product nature and consumer characteristics.
- (5) Promotional fee. Costs for each promotion fees vary as well. Enterprises must choose the most appropriate promotional portfolio in a combination with their own economic strength, and strive to realize the best promotional results with the least fees. How much money does the promotion have to cost? Entrepreneurs must carefully plan to make good use of the promotion funds. There are many ways to calculate the cost of promotion for experienced companies. As a result, the start-ups, lacking experience, can decide the promotion fee by estimating the daily operational expenses during a certain period of time depending on the amount of funds they hold. Nevertheless, it's unnecessary for those entrepreneurs who are the shortage of funds to invest too much in the promotion during the initial period.

Review

1. The role of the entrepreneurial strategy: clarify the direction of entrepreneurship; attract external resources; develop management policies; form a comprehensive business idea;
2. The method for formulating corporate strategic planning: "Jing Jiao Suo Suan" analysis, SWOT analysis.
Procedures to develop a strategic plan for the enterprise: comprehensively analyze the current situation of the enterprise, formulate strategic planning, and evaluate strategic planning.
3. The strategic model available for start-ups: imitation strategy, differentiation strategy, focus strategy, low-cost strategy.
4. The analysis of competitors mainly starts with market share, financial status, capacity utilization, learning and innovation capabilities, and leadership.
5. 4Ps marketing strategy, namely Product, Price, Place, Promotion.

Think and Discuss

1. Do you think if a small business needs long-range plans? Why do you think so?
2. You should interview the people who are starting a business to explore the strategic concepts, and make comparison with that mentioned in the article.

3. Supposing that you start a flower shop now, what kind of strategic goals would you set for it?
4. Which industry would you like to choose as the starting point for your business? What kind of market recognition do you know about this industry and what kind of marketing method do you plan to take? Why do you think so?
5. What is a brand? Please describe the brand you often buy. And please describe what comes into your mind when you hear or see the brand.

Avoid Entrepreneurial Risks

8

Learning Objectives

1. Understand the connotation, types, and origin of entrepreneurial risks.
2. Master the methods to recognize entrepreneurial risks.
3. Master the main approaches to control entrepreneurial risks.
4. Comprehend the venture exit manners.

Lead

Entrepreneurial risks accompany the whole venture process. Only by a clear recognition of entrepreneurial risks, can the risks be avoided efficiently. Entrepreneurs must have a sufficient understanding of the types of entrepreneurial risks, master the methods to identify entrepreneurial risks, for the purpose of avoiding them reasonably by means of risk management, and venture exit.

Remove the obstacles on the way to venture a success.

8.1 Introduction to Entrepreneurial Risks

In daily life, people are afraid that they can't avoid the frequently encountered risks. In fact, in economics, the word "risk" is a neutral word, instead of a terrifying definition. It is generally believed that the risk is the possibility of losing profit owing to the deviation between the actual result and the forecast. It might be influenced by various complex and variable factors under certain uncontrolled conditions. Once entrepreneurs have clearly mastered market opportunities and competition, the next step they should do is to assess the entrepreneurship risks. A standardized risk assessment is difficult to carry out. A good entrepreneur does

not mean that he could risk assessment experts. What is more important than a standardized assessment process is sufficient risk awareness. In other words, entrepreneurs should be able to analyze and recognize the potential risks behind each decision and choose the most appropriate way to dodge and control.

Case

Red Top red Top Official Merchant Hu Xueyan's Risk Coping Strategies

Hu Xueyan was a legendary figure in China during the late Qing Dynasty. Even though born in a poor family, he quickly became the richest businessman in China only in decades. Hu Xueyan, known as the Red Top Official Merchant, borrowed loans from foreign banks for the Qing government, helped Zuo Zongtang to prepare for the military and reconquered Xinjiang. Empress Dowager Cixi granted him the Imperial yellow jacket as a reward.

After Hu Xueyan's misrepresentation of loan interest was revealed, he was confronted with the danger of losing all his wealth within a short period of time. At that time, under the instigation of Li Hongzhang and other people, banks run occurred in many places at Hu Xueyan's private banks. Hu Xueyan faced huge risks if that condition cannot be controlled effectively. Moreover, Private banks and Hu Qingyu Chinese Pharmacy, which had been operating for many years, maybe destroyed. At this time, Hu Xueyan's can't cash all the deposits, and the family business was also at the edge of broken. At this critical juncture, Hu Xueyan adopted a series of strategies.

To begin with, Hu Xueyan made proper arrangements for his family. He gathered all his family members to tell them about the current situation, offered them the choices to decide whether to go or stay. He gave a sum of money to those leaving and then moved out of Hu Qingyu Chinese Pharmacy with the rest of the family members. After that, he classified the depositors into three levels, namely, the richest depositors, "middle class" depositors, and the poorest depositors. All the richest depositors were powerful and influential who may retaliate Hu on condition that they didn't get the cash. As for the poorest depositors, Hu can't bear to let their life savings disappear. Therefore, he cashed the check for those two types of depositors. With regard to those depositors in the middle part, they can still wait for a while due to the fact that those savings have no practical influences in a short period. Hu Xueyan met the depositor's need in steps, on the basis of classification and analysis of depositors, consideration about the status and needs of depositors. Besides, he also left himself enough time for dealing with the crisis. Finally, Hu Xueyan successfully survived the storm through his own wisdom.

8.1.1 Connotation of Entrepreneurial Risks

Entrepreneurial risk is the possibility of the economic loss of the entrepreneurs that are caused by venture capital investment. It is featured by objective, uncertain,

potential, duality of profit and loss, and measurable. As a probability, the risk doesn't directly have a negative impact on the entrepreneurial activity until it has evolved into a threat. Risk and return are generally proportional to each other, representing the improvement of profit probability as the increasing of the risk. Any company in operation would face certain risks every day. Risk is an objective existence that can be perceived and recognized. Entrepreneurs can judge and estimate the risk of entrepreneurship, so as to carry out effective risk management. Therefore, start-ups must find and confirm the potential risks, and formulate and implement various effective coping strategies. In these ways, start-ups can control the risk loss to the bearable minimum extent.

8.1.2 Types of Entrepreneurial Risks

Identifying the risks faced by companies is significant to achieve the company's strategic goals. Therefore, a wide variety of entrepreneurial risks must be scientifically classified by certain methods in order to identify, measure, and manage them.

8.1.2.1 Classify by the Content of Entrepreneurial Risk

In terms of the content of entrepreneurial risk, it can be divided into six categories: technical risk, market risk, management risk, economic risk, political risk, and production risk.

Technical Risk

Technical risk is the possibility of entrepreneurship failure that results from technical factors and their uncertainties. It consists of four aspects. The first one is the uncertainty of technical success. Any technical obstacle during the process from R&D to productization and industrialization may lead to a waste of all the previous efforts. Then, start-ups may be affected by the uncertainty of the technical prospect. At the birth period, the new technology is imperfect and rough. Technical experts and managers are not sure if the new technology can consummate quickly under the current conditions. Some well-functional technologies can't realize productization in production workshop, due to the restrictions in technical links, etc., causing entrepreneurial failure. The third aspect is the uncertainty of technological effect. It's difficult to determine the effect even though the high-tech products are successfully developed and produced. For example, some technologies are restricted for the reason that they have adverse influences, such as environmental pollution, and destroy the ecological environment. The last uncertainty is related to technological life. One of the important features of high-tech products is the short life cycle and fast upgrading. As the life cycle of high-tech products is getting shorter and shorter, entrepreneurs relying on high-tech products will suffer huge losses if they cannot quickly realize industrialization in the high-tech life cycle, recoup initial investment and make profits.

Market Risk

Market risk is related to the uncertainty of the market situation. It includes four aspects. Firstly, market capacity determines the total market value of the product. Many entrepreneurs often make subjective inferences based on survey data when doing business plans, which may lead to overestimation of the market demand. Then, market acceptance time also has an impact on the companies. It takes a certain process and time for a brand-new product to open the market. Insufficient financial resources to promote new products would largely lengthen the process of accepting the product, which will inevitably lead to poor product sales and product backlog. Therefore, there might be troubles in the capital turnover of start-ups. For example, the world-famous Bell Labs introduced image phones in the 1950s, but it was not until 20 years later that it was put into commercial applications. In another example, in 1959, IBM predicted that the Xerox 914 copier can only sell 5000 units in 10 years, thus rejecting the technical cooperation with Harold to develop the product. Out of expectation, copying technology rapidly developed. Harold Corporation (later renamed Xerox) sold 200,000 Xerox 914 copiers in 10 years. The third aspect is the market price. The cost of research and development of high-tech products is generally high. In order to make a high profit, the price of the product is generally fixed at a high level, which is difficult for the product to enter the market. Marketing strategy is the last aspect. The absence of a reasonable marketing strategy may lead to mistakes in price positioning, user selection, time to enter the market, market segmentation, etc. All these mistakes will pose great difficulties for high-tech products in market development, or even cause the entire failure.

Management Risk

Management risk is arising from poor management of start-ups. It is mainly determined by the quality of the manager, risk of decision-making, and the risk of the organization. To begin with, in-depth technical knowledge is not imperative for a good entrepreneur, but the following qualities are a must. Firstly, an entrepreneur should have a strong entrepreneurial spirit and innovative desire, and dare to break the rules. Secondly, he should obtain a strong desire for success, the spirit of adventure, dedication, and endurance. Thirdly, a keen sense of opportunity and superb decision-making level is conducive to discovering, grasping, and taking full advantage of the opportunities. The last quality is a strong sense of responsibility and self-confidence, which enables the entrepreneur to struggle in predicaments and rise out of the trough. One of the successful experiences of high-tech product innovation in developed countries is the excellent combination of technical experts, management experts, financial experts, and marketing experts, forming the overall advantage of enterprise management, thus laying a solid foundation for high-tech product innovation. The paternalistic management, dominated by the technology owner, often accompanied by issues in management level and management mode, give rise to entrepreneurial failure. Besides, in terms of risk in decision-making, there is a large amount of failure examples due to the wrong decision. Simon the economist once said: "Management is decision-making." Entrepreneurs must never

make decisions based on their own emotions or unrealistic personal preferences. Moreover, risk in an organization is usually caused by the unreasonable organizational structure of the start-up. Without corresponding adjustment of organizational structure, the rapid development of start-ups would usually encounter a crisis, mainly owing to the poor management system. Therefore, from the initial stage of entrepreneurship, entrepreneurs should attach importance to the design and adjustment of organizational structure, the selection and evaluation of human resources, the design of salary, and the learning and training of employees. Moreover, it is necessary to establish sound rules and regulations, as well as corporate culture.

Economic Risk

Economic risk is stirred up by large-scale fluctuations or adjustments in the macroeconomic environment. For example, when inflation occurs, the government generally adopts a financial policy of tightening monetary supply, bringing about rising in bank loan interest rates. For these reasons, loan costs increase and obtaining loans is much more difficult for start-ups, which would tighten or even halt “transformation” funds. At the same time, inflation in the market will drive the cost of materials and equipment used in the “transformation” process, so that the company has spent more than it received. If the funds come from venture capital companies at home and abroad, the fluctuation of the stock market and exchange rate caused by inflation will also cause certain financial risks.

In addition, start-ups also face political risks and production risks. Political risk is related to the war, and changes in international relations, state power, and policies. Production risk results from the process of small trial production to mass production of the product or service provided by a start-up.

8.1.2.2 Classify by Entrepreneurial Process

Generally speaking, entrepreneurial activities must go through four phases: identification and assessment opportunities; preparation and writing of entrepreneurial plans; identification and acquisition of entrepreneurial resources; and new venture management. Accordingly, entrepreneurial risks can be divided into the following four categories.

Firstly, identification and assessment opportunities. In the process of identifying and evaluating opportunities, various subjective and objective factors (such as insufficient information acquisition, inaccurate information, or inference deviation) contribute to the risk of the wrong direction at the beginning of the venture activity. In addition, the opportunity cost risk that is caused by quitting the original career is also one of the elements at this stage.

Secondly, the risk of entrepreneurial planning. Business plans, the foundation for entrepreneurial investors to decide whether to invest or not, have a specific impact on entrepreneurship. In addition, uncertainties and competences of planners would also bring risks to the entrepreneurial activities.

Thirdly, the risk of obtaining resources. Due to resource gaps, start-ups are unable to obtain the critical resources they need. Even if some resources are available, the cost is high, which brings certain risks to entrepreneurial activities.

Fourthly, management risk. This type of risk is constituted by management methods, the creation of corporate culture, and the formulation of corporate development strategies, etc.

8.1.3 The Resources of Entrepreneurial Risk

Entrepreneurial risks often stem from gaps in the following areas.

Firstly, the financing gap. Entrepreneurs can prove the feasibility of their ideas, but usually, they don't have enough funds to commercialize the ideas, thus bringing certain risks to the start-ups.

The studying the gap represents one of the resources. In fact, sometimes when an entrepreneur proves that a scientific breakthrough or technological breakthrough may lay the foundation for a commercial product, he simply meets his own satisfaction. However, this kind of idea may be unfeasible in the process of transforming the expected product into a commercial commodity, so it may take a large amount of costs, require complicated research work, or even spend several years. Therefore, entrepreneurial risk comes into being.

The third resource is gaps in information and trust. Information and trust gaps exist between technical experts and managers. That is to say, there are two different types of people in the process of entrepreneurship: technical experts and managers, who accept different education and have different expectations and expressions for entrepreneurship. Technical experts know what content is scientifically interesting, what is technically feasible, and what is simply not possible. Nevertheless, managers often have a better comprehension of the process of introducing new products into the market. However, when it comes to the technology of a specific project, they have to trust the technical experts. In other words, managers are taking risks with investment. In the absence of incomplete trust and ineffective communication between technical experts and managers, the gap will become bigger and pose greater risks.

Fourthly, the resource gap. The relationship between resources and entrepreneurs is like that between paints, brushes, and artists. Without the paint and the brush, the artist's idea can't be realized, so is entrepreneurship. Without the necessary resources, entrepreneurs will be unable to perform anything. In most cases, it's impossible for entrepreneurs to have access to all the resources they need, creating a resource gap. If entrepreneurs are unable to make up for the corresponding resource gap, they would suffer from either troubles in starting, or controlling by others in the entrepreneurial process.

The last aspect leading to entrepreneurial risk is the management gap, which means that entrepreneurs are not excellent entrepreneurs and not equipped with excellent management skills. The management gap mainly roots in two aspects. Primarily, entrepreneurs, utilizing new technology to start a business, maybe a

technical professional, but not necessarily possess professional management competence. Besides, entrepreneurs often have some fancy ideas, but he does not have excellent strategic planning skills or is not good at managing specific affairs.

8.2 Management and Controlling of Entrepreneurial Risk

There are both external and internal factors that cause of entrepreneurial risks. In accordance with a survey conducted by a German research institute, the main issue of new ventures is that they cannot detect the internal risks in time. And when the problem is discovered, it is often too late to take countermeasures. As the new venture is developing, seven kinds of risks would appear, namely, potential opening risk and cash risk in the first 3 years after the establishment; possible empowerment risks and leadership risks in the 3–7 years after the establishment; probable financial risks and pulse risks in 7–10 years; and management succession risks that may occur in 10 years after the establishment.

8.2.1 Entrepreneurial Risk Management

Entrepreneurial risk management is a process in which a new venture identifies, evaluates, and analyzes various risks, determines appropriate risk control methods, and implements accordingly. Then, management costs are to take place of uncertain risk costs so as to achieve the maximum realistic guarantee at the least economic cost. The core of entrepreneurial risk management is the identification and processing of entrepreneurial risks.

8.2.1.1 Methods to Recognize Entrepreneurial Risk

Risk identification is the process of systematically and continuously discovering risks and uncertainties through various methods prior to the occurrence of risk, through the overall condition of the development process of management activities and all procedures of enterprise management. Its mission is to recognize and understand the various risk factors that exist in the company and the possible severe consequences. Risk identification is a recurring task due to the constant changing of the environment and successively generating and movement of natural risks. Therefore, risk identification must be institutionalized. And a special risk management agency should be in place to implement the risk accountability system.

There are many ways to recognize venture risk, and each of them is not isolated or repulsive. Various ways can be adopted to identify risks from different levels and diversified angles. Actual operations should be applied flexibly according to specific situations.

Environmental Analysis Method

The environment is a significant factor affecting entrepreneurship, which is conducive to recognizing specific entrepreneurial risks. By analyzing the influences of internal and external environmental conditions on the business activities, we can find out the risk factors and the losses that the company may suffer. In the business environment analysis, entrepreneurs should focus on the characteristics of the relationship among entrepreneurial factors in the internal and external environment and its heterogeneity and stability. Any change in such a relationship and its stability indicates that the enterprise will face the risks and potential losses.

Decomposition Analysis Method

The decomposition analysis method is to break down complex, easily identified ones, so as to recognize possible entrepreneurial risks. Dividing entrepreneurship, the big system, into subsystems according to certain signs, enabling entrepreneurs to conduct risk analysis from different angles and levels. This is conducive to detect the source of risks.

Flowchart Analysis Method

The business activities of the enterprise can be shown in a series of flowcharts. By means of investigating and analyzing each link in the process, the analysis table of potential loss can be formed which can be adapted to determine the losses confronted by the enterprise and probable risks. All underlying losses in property, responsibility, and personnel, among all the business activities of every flowchart, can be analyzed in virtue of the table of potential loss, empowering enterprises to effectively identify risks and to take the corresponding countermeasures. It's especially useful to adopt the flowchart in relation to the recognition of the "bottleneck" risk during the whole production process.

Financial Statement Analysis Method

All the business activities must involve in financial issues, either in currency or in the property. Therefore, the risks can be sufficiently reflected through all financial matters. Financial statement analysis method analyzes fixed assets and current assets in accordance with the balance sheet, income statement, statement of financial position, and the property inventory, so as to seek the potential risks faced by enterprises.

8.2.1.2 Common Entrepreneurial Risks and the Management

In the first 3 years after the establishment, start-ups are most likely to suffer opening risk and cash risk. How could entrepreneurs manage the companies?

Opening Risk and Management

The risks, easily emerging in the opening stage, are called opening risk. It has two characteristics: (1) it is the earliest among all the risks; (2) it is the root of bankruptcy for many enterprises.

(1) The main causes.

- ① The operators make a hasty response to temporary demand appeared on the market. Or they tend to imitate blindly once other people earn a lot of money. Imitation is certainly important, but one-sided follow up is dangerous.
- ② In consideration of the cost, start-ups can't make a detailed division of labor, so their employees must be "generalist". But this is a rather difficult requirement to achieve. And the majority of entrepreneurs lack the ability of comprehensive management.
- ③ Without the necessary financial accounting management system, major decisions of enterprises may be short of credible evidence.
- ④ Hasty estimation or underestimate the capital needs of enterprises, especially the cash flow could lead to risks.
- ⑤ Wrong selection of equipment and technology also results in risks, either focusing on low prices, or emphasizing on high-end, advanced ones. However, the applicability of equipment and technology is not considered.
- ⑥ Indecisive, irresolute and hesitant.

(2) Management countermeasures.

- ① To do business in a familiar industry, which mainly refers to the entrepreneurs and entrepreneurial team that must be very familiar with the industry, including the level of technology, current market situation and prospect, competitive situation, etc.
- ② Making practical plans instead of blindly optimistic ones. Without an optimistic attitude, entrepreneurs are not able to start the business. Nevertheless, optimism should stem from a review about the reality that is usually not so simple. Therefore, the entrepreneur must take all factors into account, the more comprehensive the consideration is, the more thorough and careful the plan is.
- ③ The project proposals should be reviewed repeatedly.
- ④ In the prediction of the flow of funds, the income should be treated with caution, while the cost should be planned, allowing for unforeseen circumstances.
- ⑤ In general, 10% of the necessary funds should be set aside to cope with unexpected events. However, 10% of funds are only made by

experience. Entrepreneurs must conduct a meticulous study to decide the reserve funds.

- ⑥ Don't start a project reluctantly. Any problem needs to be dealt with in time.
- ⑦ Entrepreneurs need to investigate the industries that they will invest, focusing on the customers (including intermediaries and final clients to take their advice.)

Cash Risks and Management

(1) The main causes. Statistics show that the main reasons for cash risk are entrepreneur's decision-making mistakes.

- ① The first reason is that entrepreneurs pay too much attention to profit and sales growth, ignoring the cash management. It's perfectly justified to focus on profit and sales growth, but one-sided pursuit regardless of the necessary conditions may result in a cash crisis, and finally in declining of profit and sales.
- ② Excessive investment in fixed assets brings on precipitation of funds, which are a common mistake in science and technology R&D enterprises. In fact, many enterprises have the fantasy that "all the input must get output". They did not figure out that funds are not the only element in investment, especially the fixed assets.
- ③ Enterprise financing plans are often in the short term, lacking in follow-up work.
- ④ At the initial stage, start-ups are in shortage of capitals, but they still choose to start the business hastily.
- ⑤ Just focusing on what's right in front of the company; blind expansion; and poorly management.

(2) Management countermeasures.

- ① Entrepreneurs must pay sufficient attention to business risk, and avoid blind investment.
- ② Investment returns should be studied, including borrowed funds and owned funds. In the initial stage, the annual rate of funds return should be accounted for above 15%, so the risk will be smaller.
- ③ The relationship between profit ratio of sales and cash flow. Under the ideal condition of sales volume and profit rate, if the accounts receivable takes a large proportion of total sales revenue, cash risk and bad debts might appear.
- ④ The inventory of raw materials, finished products and commodities must be strictly controlled. And the turnover of current assets needs to be accelerated to ensure the required operating cash flow.

- ⑤ Entrepreneurs should restrain investment impulse and be careful to make investment decisions that are similar to expansion, diversified operation, etc. Investment may be conducted on the condition that there is a cash surplus.
- ⑥ Entrepreneurs must learn how to do the financial budget so as to carry out feasibility evaluation of enterprise development, preventing the occurrence of various cash risks.

8.2.2 Entrepreneurial Risk Control

The ubiquitous risk will inevitably bring losses to the enterprise. Therefore, the most effective way is to control the risk, or minimize the loss. Entrepreneurial risk control tries to reduce the losses, caused by the risks, to the minimum by means of various methods and measures. The frequently used methods include risk avoidance, risk transfer, loss control, and risk retention.

8.2.2.1 Risk Avoidance

This method is adopted to avoid all probable risks as much as possible, directly eliminating the loss. It involves two approaches: withdrawal at an early stage and gives up in halfway. These two methods are based on the cognition that the cost of bearing the risk or that of continuing to do so will greatly exceed the price to avoid the risk.

Withdrawal at the Early Stage

It is the most thorough method. For example, a chemical company had intended to carry out a new product test in a small town in the suburbs, but the plan may cause huge losses to the property of residents. Therefore, the company can buy insurance against this possibility. However, the premium is much higher than that of the company is willing to pay, so the company decided to cancel the trial, preventing itself from huge losses from property compensation.

Give up in Halfway

This method means when companies found a significant risk, they choose to terminate subsequent production and management behavior. For instance, a pharmaceutical company learned from the report that a certain medicine has serious side effects, so it stops the production immediately.

Risk avoidance is featured by simple, comprehensive, and thorough solutions, which can eliminate the risk sources and risk factors fundamentally and cut down the risk probability completely, so as to ensure the safe operation of the enterprise. This method is effective and widely used, usually for risks with a large degree of loss and high frequency, or other risks that the costs of control technology surpass the benefits.

8.2.2.2 Risk Transfer

Risk transfer means that some economic entities and individuals consciously transfer losses or relevant financial consequences to others in order to avoid bearing the risk of loss. The transfer of risk is constituted by insurance transfer and non-insurance transfer.

Insurance Transfer

Insurance transfer indicates that the enterprise transfers the risk to insurance companies by purchasing insurance fee. In this kind of transfer, the insurer has conditionally agreed to bear the entire financial burden caused by risks. In other words, the loss of financial consequences is shifted to the insurer. Insurance is capable of providing compensation and effectively spread the risk, but it is not a panacea. Insurance is generally applicable to the condition that no profit is made for the reason of loss in opportunities.

Non-insurance Transfer

The assignee of a non-insurance transfer is not the insurer. And most of the transfers are achieved by the terms in the contracts. Non-insurance transfer contract is issued for transferring the direct loss of property, financial consequences of losses, or transferring economic responsibility of the third person. There are also a small number of contracts aims to deal with physical injuries.

- (1) Transfer risk source. Loss of risk can be transferred partially to others by shifting the ownership or management right. For example, selling risk-taking property would directly divert the risks to the purchasers. And property leasing risk can be partially transferred from the owner to the people who rent it. In a construction project, the contractor can transfer the risk by subcontract.
- (2) Transfer risk through contract responsibility. Enterprise managers should establish the consciousness of risk transfer in entering into the contract, moving the underlying risk to others as much as possible. Risks are closely related and concentrated in view of the complicated issues in large enterprises such as broad coverage, cooperation, synchronous construction, comprehensive balance, showing a certain disaster chain, so a disastrous chain may appear among different types of risks. Therefore, entrepreneurs should notify the partner specifically in signing the relevant contract that insurance must be applied as a risk transfer tool.

8.2.2.3 Loss Control

Loss control refers to all the measures to contain the damage when the risk occurs or loss emerges. The main purpose of loss control is to reduce the possibilities or minimize losses. The main control method involves in loss prevention and loss reduction.

Table 8.1 Cases of loss prevention activities aiming at the risk factors

Risk factors	Loss prevention activities
Flood	Build a dam, and water resource management
Pollution	Implement regulations related to usage and treatment of pollutants
Radioactive materials	Build appropriate shielding facility
Smoke	Issue bans on smoke, confiscate smoke-causing compounds
Drunken driving	Prohibit drinking alcoholics, imposing bans, take into custody
Frozen sidewalk	Eradicate, sprinkle salt, heat up the sidewalk

Loss Prevention

Loss prevention is an active control technology prior to the occurrence of risks, which means to eliminate all factors causing the risk by means of taking various measures, for the purpose of reducing or avoiding losses. For example, in A. W. Jones’ opinion, it’s pretty difficult to predict the stock market risk, while on the contrary, it’s much easier to predict a company’s future. He believes that the risk of the stock market can be hedged by purchasing of a well-performing company, and selling an unpromising company at the same time. If the views toward the two companies are correct, then the entrepreneurs can make profits. By virtue of this concept, Jones created the first modern mode of the hedge fund in 1949, the strategy for which is called Bull and Bear Index.

Loss prevention activities need to focus on: ① eliminate or reduce the risk factors; ② change or improve the environment that might obtain risk factors; ③ restrain the interaction between risk factors and risk environment. Table 8.1 shows cases of loss prevention activities in allusion to the risk factors.

Judging from Table 8.1, all the loss prevention activities are designed dealing with specific factors. Only by finding the hidden dangerous factors and taking corresponding precautions, risk can be controlled and loss can be prevented.

Loss Reduction

Loss reduction is a post-risk control technology, attempting to minimize loss through a series of measures.

Distinct from loss prevention measures, the former is more concerned about the consequences of risk. A frequently used loss reduction method is called “remedy”. The situation that loses everything rarely occurs, so we can take remedial measures to minimize losses. For example, in a flooded material warehouse, some of the stored product can still be put into use through drying technology; farmland with a corps that is damaged by hail still stands a chance to get a harvest after rush-planting and replanting.

8.2.2.4 Risk Retention

Risk retention indicates that the enterprise bears the risk and relevant financial results instead of avoiding or transferring the risks. It is the most prevailing method out of economic efficiency. The method is mainly applied for the risk with low probability and fewer losses.

Retention behavior may be conducted consciously, or unconsciously; maybe in plans, or without a plan. Retention of risk is passive when risk handling preparation is not made on the condition that entrepreneurs are not aware of the risks, or underestimate the severity of potential losses. This will have an adverse effect on enterprises. Therefore, entrepreneurs must take the initiative to avoid passive risk retention. There are several conditions that enterprises adopting risk retention as risk control measures.

- (1) The risk is not insurable. For example, there are some catastrophe losses, such as earthquakes, floods, etc. In these cases, the enterprise is designed to bear risk retention.
- (2) Bear shared the loss with the insurance company. For example, the insurer regulates certain deductible insurance to compensate by the “first liability compensation method”, coinsurance, or retrospective insurance premium. As compensation, the insurer will transfer part of the premium, namely charging lower insurance premiums.
- (3) Enterprises can select retention to bear the risk voluntarily. Enterprises often consider the following factors: ① management for risk retention costs less than the additional premium of an insurance company; ② enterprises’ expected loss is lower than that of the insurance company; ③ the opportunity cost of retention is worth more than that of the insurance.

As the supplementary measure to risk transfer, risk retention occupied a unique effect on the use of funds. First of all, compared with insurance claims, risk retention reduces cumbersome procedures and saves time. Besides, the pre-reserved risk fund enables enterprises to get compensation promptly after the loss occurs. Secondly, risk retention cuts down necessary business expenses, including insurance premiums, commissions, management fees, etc. Moreover, the loss compensation funds accumulated in a long time can get some interest and even profits on condition that the enterprise can reasonably and flexibly use the funds before the loss generates. Finally, loss compensation funds can guarantee a stable profit of the enterprises. Once the loss occurs, the loss compensation fund can make up for the loss to avoid profit decline.

The risk retention has certain limitations in financing and expenditure, as well as application. The effectiveness of risk management in start-ups can be improved only by comparing, analyzing, balancing, and comprehensively employing all kinds of risk control methods on the basis of the internal and external environment and actual business.

8.3 Entrepreneurship Withdrawal Mechanism

The exit strategy is an important part of enterprise risk management, involving in industry exit, market exit, and equity exit. The key to remain invincible is to grasp the timing of exit and choose the exit pattern. Many entrepreneurs seldom consider exiting at the right time, at least they don't think about it in the foreseeable future. For example, traditional family businesses often focus on creating cash flow to sustain business operations. In their mind, "The boss is always accompanied by the existence of the company," so they don't need to think over exit strategy. In fact, in a rapidly changing market, we should firmly believe in a philosophy—"when you give birth to a girl, you will finally get her married." Similarly, when we start to invest in our business, we should think of our way out. It allows us to have clear comprehension of the end point and the bottom line for our entrepreneurial journey, enabling us to know the focus point of our efforts.

Case

Israeli High-tech Company's Average Exit Time Is Shortened

Kobi Rozengarten, the managing partner of Jerusalem Venture Partners (JVP) and Israel's top venture capital fund, said in an exclusive interview with Tencent Technology that Israel has a population of about 8 million but its local market is small. Therefore, the company has been targeting the global market since its establishment to satisfy the needs of the external market.

PricewaterhouseCoopers (PWC) released the "Israeli High-Tech Company Exit Report" in 2014, demonstrating that the exit transaction in Israel reached a record of USD 15 billion in 2013, with 18 companies making initial public offerings (IPOs). CyberArk Software, a network security company incubated by JVP, is a typical example of a successful IPO.

CyberArk is managed by Raffi Kesten, the management partner of JVP. When listed on NASDAQ in the US in 2013, JVP has already owned 45% of the shares. "We started to incubate CyberArk in 2004 and have been brewing for 10 years. The safety of this project has been steadily increasing in the first few years, but in a slow growth speed. Real exponential growth has occurred in recent years, bringing huge returns," Raffi revealed to Tencent Technology.

According to the statistics investigated by Dow Jones' research institutes, the speed of corporate exits is accelerating. In 2009, the average exit time of technology companies accounted for 8.59 years; in 2013, the average exit time was 5.5 years; up to the third quarter of 2014, the average exit time fell to 3.95 years.

Kobe shared that the exit time of JVP's latest project is less than 16 months. Playtika, an Israel Game Company, was acquired by US giant Caesars Entertainment and was withdrawn within 10 months. Elad Kushnir, Vice President of business development at the company, said that if a company is willing to pay you a high price, you will accept it, because this is Israel's genetic culture. Everyone pays attention to living in the moment, who knows what will happen tomorrow.

8.3.1 The Reason for Entrepreneurship Withdrawn

The reasons for the exit of entrepreneurship can be roughly divided into two aspects: the first one is “retire after winning merit,” the other is “forced to withdraw after failure in entrepreneurship.” The first situation mostly occurs in the entrepreneurial investor who regards the start-up enterprise as the investment target, so he will choose the appropriate time to withdraw after getting returns. The latter occurs mostly on independent entrepreneurs. The common reasons for the failure of an independent entrepreneur that leads to exit are as follows.

Firstly, fund management fault. Entrepreneurs underestimate the financial need in the process of entrepreneurship, contributing to a lack of financial budget, and the inability to use funds effectively in operations or production. This condition makes it difficult to create surpluses and lead to entrepreneurial failure.

At the beginning of the inception of the business, many people did not consider the importance of cash flow, so they start a business rashly before they had enough cash flow. In fact, if the business does not go well, entrepreneurs need to stick to it for a certain period of time, waiting for a favorable turn. However, a large amount of businesses have to close their doors in advance owing to insufficient cash flow. Therefore, if cash flow can't sustain the business for at least half a year, they'd better not start the business right now.

Secondly, inadequacy in market researches. Insufficiency in collecting, analyzing, and forecasting market information, entrepreneurs can't truly understand the demand of potential markets, miscalculate the market share of products, or scarcely know the situation of sales channels and competitors. Behaving on their own feelings would ultimately lead to entrepreneurial failure.

Thirdly, wrong business strategy. Wrong business strategy involves inappropriate corporate values, ineffective business management and sales strategies, and incorrect estimates of competitors. Confronting with these mistakes, entrepreneurs often lack experience and solutions to deal with them, which causes entrepreneurial failure in the end. Therefore, first-time entrepreneurs may suffer fatal consequences only by a wrong decision.

Fourthly, inconsiderate products update strategy. Products that are produced in response to the trend tend to have a short lifecycle, or even be eliminated promptly once the trend has passed. The product update strategy needs to take into account the length of the trend cycle. However, constantly chasing the trend and updating the product may cause “lose the wife and the soldiers.” For instance, entrepreneurs must find out that the life expectancy of popular products for young people is relatively short. Otherwise, it is very likely that the product will no longer be popular when it enters the market.

Fifthly, improper management. Due to the inadequate management experience, entrepreneurs often learn from mistakes, which would consume a lot of the company's resources, such as the improper use of people causes unnecessary internal friction. In addition, the hole in the financial system enables employees to have access to benefit themselves at the expense of companies' interests. Moreover, ignorance of safe production gives rise to major casualties and accidents, etc.

8.3.2 The Time of Entrepreneurial Withdrawal

There are also two conditions to decide the time to withdraw, thus the exit time after successful entrepreneurship and the exit timing after the failure of entrepreneurship.

8.3.2.1 Exit Time After Successful Entrepreneurship

According to the definition of the US venture capital community, the development of start-ups can be divided into five stages: seed period, start-up period, growth period, maturity period and recession period.

- (1) Seed period is also called the preparation period. At this period, the company, in the middle and late stages of research and development, only has laboratory samples rather than products. Besides, the company only bears technology risks and has no market risks. The funds of the company mainly come from entrepreneurs. Investments at this stage are often called seed funds. Investors are primarily government or risk-taking individual investors (angel investors).
- (2) During the start-up period, also known as the initial period, the company has produced initial products and began the market trial sales, accompanied by increasing market risk. The technical risk has declined, but still in a large degree.
- (3) The fourth stage is the growth period, also known as a developmental period. At this point, enterprises began to open up the market, with constantly decreasing technical risks and market risks, requiring a large amount of external equity financing to support.
- (4) The maturity period is also described as the profit period or the listing period. At this period, the company entered the stage of industrialization. The risk was basically eliminated. In addition, the company's stock began to be listed in the over-the-counter market or the GEM. The investment at this time is generally used for the final packaging before the company goes public, called the beautifying the fund.
- (5) The recession period, also known as the reorganization period, is inevitable during entrepreneurship. At this period, the company attempts to achieve the "second spring" of development by seeking technological breakthroughs, reorganizing the business model, or reassigning new functions and values to the product.

Exit of entrepreneurship concerns two types of subjects: the entrepreneur and the entrepreneurial investor. In terms of investment companies, it is generally accepted that venture capital should get involved in the seed or start-up period and exit at maturity period. Start-ups can roughly estimate which stage the company has developed based on the actions of the venture capital institution. In addition, the company can consider withdrawing from the business when it has entered the last phase of the maturity stage through sufficient researches. This is the best approach to realize withdrawal without getting any lose.

“Exit” refers to the withdrawal of investment institutions, but it doesn’t mean that entrepreneurs should abandon the existing enterprises. They need to promote industrial transformation and upgrading, namely enter a new round of entrepreneurship.

8.3.2.2 Exit Timing After the Failure of Venture Activity

It’s beneficial to reduce the cost of failure in entrepreneurship via choosing the right time and effective strategy. Successful entrepreneurial companies are similar in that they all create or grasp the “pain points”. As a result, they are warmly welcomed by the market and obtained financing support. Finally, they will be confronted with a high-stake acquisition. However, conditions for failure are diversified. For example, the funds are used up, while the products are not improved; it’s impossible to create a suitable business model; the enterprise cannot obtain sustained and stable income; the products don’t meet market demand and are lack of competitiveness, etc. Even though there are thousands of conditions leading to failure of entrepreneurship, it doesn’t appear overnight. Far-sighted entrepreneurs should have long smelled the failure. Therefore, it’s possible to opt-out the market at the safest time if entrepreneurs can observe the indicators that show the failure in advance, for more comprehensive preparation.

To begin with, your products have entered into a recession period when a large amount of similar products appear and occupy more influence and more users. On condition that your products cannot be readjusted to obtain a new value, you should consider giving them up. Secondly, the business has stopped growing or suffered weakly decline for a while, and its products are not improved after several revisions at this time, entrepreneurs are also required to make prudent decisions. Once the marginal cost is worth more than the expected marginal benefit, the entrepreneur must proceed with the exit process. Thirdly, the entrepreneur needs to reluctantly part with some projects when key bottlenecks (such as a technical barrier) cannot be resolved, the capital chain is broken, and no investors are willing to provide funds. In addition to voluntary withdraw projects that are poorly managed, loss-making, and irreversible, the entrepreneur also needs to take the initiative to withdraw projects that can barely maintain operations and have little room for profitability.

Time nodes, such as declining in profit, uncontrollable risk, and breaking in cash flow, are significant decision-making points for entrepreneurs. As the start-up developing smoothly, the risks are removed successively in the order of the R&D risks, manufacturing risks, market risks, financial risks, and management risks, accompanied by the greatly increasing of the income. Entrepreneurs should promote the development of enterprises by providing value-added services to consumers and implementing operational monitoring of enterprises, so as to dynamically have a comprehensive understanding of the profit and increment. However, when the situation is unfavorable, entrepreneurs must quit the business to minimize losses.

8.3.3 The Approaches to Entrepreneurship Withdrawal

8.3.3.1 Stock Listing

Stock listing refers to the legal act of listing on the Stock Exchanges after its approval for the issued shares. Stock listing is a “bridge” that connects stock issuance and stock transactions. In China, stocks are eligible for listing on the Stock Exchanges after they are publicly issued. Once upon the stock is listed, the company will receive a certain amount of capital investment.

Prior to going public, the start-up should have a whole picture of the stock market. There are many types of stock markets. The stock market is generally divided into domestic stock markets and overseas stock markets, depending on the locations. The domestic stock market refers to the mainland stock market, including the A-share market for domestic investors, the B-share market for foreign investors, and the SMEs board. Common overseas stock markets involve China’s Hong Kong stock market, Singapore stock market, the US stock market etc.

In accordance with the size of the listed companies, the amount of financing and the listing standards, the stock market can be split into the main board market and the second board market. The main board market, mostly meaning the traditional securities market (usually referred to as the A-share market), is the main place for the issuance, listing, and transaction of securities in a country or a region, which has comparatively high requirement on the issuer’s business period, share capital, profitability, and minimum market value. The listed companies are mostly large mature enterprises that have a large capital scale and stable profitability. The second board market (commonly known as the GEM) refers to the market for securities issuance, listing and transaction beyond the main board market. It usually refers to the emerging securities market, playing an auxiliary function in the capital market that specializes in SMEs, especially high-growth SMEs and high-tech companies.

Compared with the main board market, the listing standards and listing conditions of the second board market are relatively low. However, most of the companies listed on the second board market are in the growth stage, featuring variable operating conditions and profitability, higher growth, as well as greater risks. A notable feature of the second board market is the full circulation of shares. When the start-up grows to a certain extent, the venture capitalist will try to make the company publicly listed on a certain securities market to issue shares to the public, as a result, the company could recover the investment and realize the withdrawal process.

8.3.3.2 Sales of Shares

The period for a company to go public through stocks is relatively long. In addition, it takes some time for the venture capital to completely withdraw after the public issuing of stocks. Therefore, many entrepreneurial investors will adopt other exit approaches. Selling share is one of the significant methods adopted by start-ups or venture capitalists, which includes general acquisitions and second-phase acquisitions. A general acquisition refers to a venture capital institution that resells the shares of a venture company to another company, thereby completing the capital

exit, that is, the merger and acquisition of the company. The second phase of the acquisition refers to the venture capital institution reselling its shares to another similar institution, which takes over the second phase of investment. Then, capital withdrawal can be realized.

It's extremely feasible for the new ventures, in their early stage, to be merged and acquired by large or listed companies. China obtains a large number of large-scale enterprise groups and listed companies with strong strength. For example, mergers or acquisitions of start-ups with relatively advanced technology, on the one hand, can improve their technological capabilities or achieve industrial transformation; on the other hand, they can realize added value and reasonable income of the enterprises.

For entrepreneurial investors and limited partners, selling shares are also very attractive. Because this method can immediately withdraw cash or negotiable securities, so that they can completely exit from the start-ups. However, compared with public offerings, start-up management may not like this way, because once the company is acquired by a large one, it would lose its independence, and the management's power would be constrained.

In comparison with publicly issued shares, the main advantages of selling shares are: ① simple operation procedures, low cost, rapidity in capital recovery, low residual risks; ② strong flexibility and suitable for various venture enterprises with different scales and nature. The shortcomings of sales of share include: ① underestimation of value due to the small number of buyers, and the rate of return is significantly lower than that of the IPO; ② leaders in the company may lose their control after the acquisition.

After selling the stocks, the main approaches to unlock the value involve the following. ① Sell the stocks to get cash, which is the best way to obtain capital appreciation, namely, selling the company's equity to a third party in exchange for cash. ② Sell the stock in exchange for a negotiable instrument. Then, the seller is able to withdraw all the money gradually. In order to avoid poor bills, the assets of the buyer's enterprise should be used as a guarantee. ③ Exchange shares with other ones. ④ Sell assets for cash. ⑤ Sell assets for notes. ⑥ Sell assets for stocks. Entrepreneur or venture capitalists could choose one or a combination of several methods when selling shares.

8.3.3.3 Enterprise Repurchase

Enterprise Repurchase, also known as stock repurchase, share repurchase, or an entrepreneur repurchase, refers to the founder, management or employee of a venture company buys out the shares held by risk investors in the form of cash, notes, and other securities. Then, the shares would be written off or prorated to other shareholders of the venture company, so that venture investors to exit the market with achieving the investment income.

8.3.3.4 Bankruptcy Liquidation

SMEs have been faced with the temptation of high-risk and high-yield since the day they were born. What is behind the high-yield are the huge risk and the possibility

of failure. Judging from the statistics of the United States, the most mature country in venture capital development, 20%~30% of venture entrepreneurs supported by venture capitalists have completely failed; and 60% have suffered setbacks; only 5–10% of venture entrepreneurs can succeed (Chen 2001). Therefore, venture capitalists and entrepreneurs must have a clear understanding of possible investment failure and business failure, so as to be fully prepared. If confronted with failure, enterprises must be decisive to stop running in order to reduce losses. According to the relevant research, the investments exited in bankruptcy liquidation account for about 30% of the total venture capital investment, and the recovered funds account for about 64% of the investment amount (Chen 2001). Bankruptcy liquidation is painful for venture capitalists and entrepreneurs, but it is better than sustain the business painstakingly. As for some companies, especially those that have developed to a certain stage, “Dead” (cleaned up) is more precious than “living”, because land, buildings, machinery, and other capitals worth more in clean-up than they are in poorly performing businesses. The clean-up of enterprises can also empower venture capitalists or entrepreneurs to quickly withdraw from the troubles and to use the cleared funds for the development of other projects. Therefore, bankruptcy liquidation may be the reluctant move for entrepreneurs and venture capitalists, but it is also the only choice in the dilemma.

8.3.4 Factors Impacting on Entrepreneurial Withdrawal

First of all, the intention and degree of cooperation of the entrepreneurial team would influence entrepreneurial withdrawal. If the entrepreneurial team itself is seriously exclusive with conservative thinking and is unwilling to be acquired by others, great obstacles to the exit of equity would be brought, leading to an unsuccessful exit. On the contrary, if the entrepreneurial team is equipped with an open mind, forward-looking international vision, and dares to boldly introduce strategic investors and seek financing in the capital market, then the withdrawal of venture capitalists will be easier.

The second factor involves the company's growth, asset status, product technology contents, and future market demand. These are the basis for the successful exit of equity. Only when a company obtains good growth, large market capacity, and high technological content can it attract new investors.

Then, changes in the capital market demand are also influential. The exit of equity cannot be separated from the demand of the capital market. The capital market is under constant change. Entrepreneurial investors must constantly adapt to the needs and trends of the capital market during the process from investment, development to exit.

The last factor is the national policy. National policies on certain industries sometimes may become a key factor affecting equity exits. The policies in law, taxation, finance, etc., would generate a fundamental impact on the development of start-ups and have an unexpected effect on the changes in the equity of the entrepreneurial enterprise.

Entrepreneurship is a complicated process that would be affected by the market economy environment, the maturity of the capital market and the M&A market, the enterprise value evaluation system, and the credit system. Only by exerting positive factors in all aspects can we build a fair and free trading platform for the entrepreneurial exit, so that the investment of entrepreneurs and venture capitalists can be fully rewarded. In addition, they can find the confidence and joy of success.

Review

1. Venture risk refers to the possibility of financial loss of an entrepreneur brought by a venture capital investment. It is featured by objectivity, uncertainty, potential, duality of profit and loss, and measurability.
2. The core of entrepreneurial risk management is to recognize and process entrepreneurial risks. Methods for recognizing entrepreneurial risks include environmental analysis, decomposition analysis, flowchart analysis, and financial statement analysis.
3. Commonly used methods for entrepreneurial risk control include risk avoidance, transfer risk, loss control, and retention risk.
4. The reasons for the entrepreneurial exit involve in a misunderstanding of fund management, inadequate market research, wrong business strategy, poor product update strategy, and improper management. The main approaches to exiting venture capital are stock listing, sale of shares, corporate repurchase and bankruptcy liquidation.

Think and Discuss

1. What kind of risk do you think will be the biggest obstacle to your development in your future business? How will you avoid such risks?
2. Please find a failure case of starting a business by college students, analyze the reasons for failure together with your partners, and propose remedial measures.

Optimize Entrepreneurial Resources

9

Resources are the headstone to entrepreneurial success.

Learning Objectives

1. Understand the basic content of financial management.
2. Comprehend the six elements of enterprise finance.
3. Comprehend the basic contents of financial statements and commonly used financial analysis methods.
4. Comprehend the four layers of enterprise human resources management.
5. Master the approaches to payment design and incentive system.

Lead

Start-ups are hard to achieve success in the absence of financial resources and human resources. Centering on the core elements of “human” and “finance”, entrepreneurs must learn knowledge and skills about financial resources and human resources, master reasonable, sound, and effective resource management mode.

9.1 Enterprise Finance Management

Financial management is about the management of investments (acquisition of assets), financing (funding of capital) and working capital (cash flow in operations), and profit distribution. As an integral part of enterprise resource management, it organizes corporate finance activities and handles corporate financial relationships in accordance with financial regulations, principles, and financial management systems. Generally speaking, financial management in new ventures is relatively simple due to the scale. However, as an entrepreneur who wants to achieve success

in the future, you still need to learn some basic knowledge related to financial management, not only understanding financial statements and financial principles but also analyzing financial data, planning, and managing finances. Benign financial management ability enables entrepreneurs to timely discover problems in the business process, so as to better cope with risks and achieve steady development.

9.1.1 Basic Contents of Finance Management

Finance management mainly includes investment management, financing management, working capital management, and profit distribution management.

9.1.1.1 Investment Management

Investment management covers understanding the basic elements of investment evaluation, grasping investment opportunities, and controlling the scale of investment (Guo 1997).

Learn the Basic Elements of Investment Appraisal

The basic elements of investment appraisal are the foundation for analyzing and evaluating the investment plan and are the fundamental issues that should be considered when investing in the enterprise. Specifically, it is contributed by the following ten aspects.

- (1) Value-added elements mean the extent to which the original investment has increased over a period of time.
- (2) Capital preservation element is the ability to maintain its original value of the investment.
- (3) Risk element refers to the probability of suffering losses and the extent of possible losses.
- (4) Liquidity indicates the ability of an investment to rapidly convert into cash at a reasonable price.
- (5) Management difficulty demonstrates whether the business knowledge, management ability, and time and energy required for investment management are sufficient.
- (6) Tax concessions lie in the reduction and exemption of investment.
- (7) The impact of foreign investment on daily operations is the seventh element. For example, purchasing stocks of suppliers who provide the necessary materials is conducive to ensuring the source of raw materials for enterprises. In calculating this kind of investment income, the opportunity cost of the company's work stoppage should be included.
- (8) The expected cost of the investment covers the expenses of the entire process from the planning to fully recovering the investment.

- (9) The ability to raise funds means the competence of an enterprise to raise investment funds at a reasonable cost within a certain period of time.
- (10) Legal and social constraint on investment is also an important factor in investment.

Seize Investment Opportunities

Investment opportunities mean a good investment environment and timing constituted by a series of factors that are propitious to corporate investment. Whether we can grasp the investment opportunity or not directly determines if the outcomes of investment? Therefore, we must not seek success blindly and eagerly. To grasp the investment opportunities, we must firstly fully investigate the investment projects and make a correct evaluation of the internal and external environment. Then, we must specifically analyze the market shortage, market policies, monetary policy, and other information. Finally, decisions can be made based on those mentioned above.

Control the Investment Scale

When conducting investment, influential factors must be primarily analyzed. From the perspective of external conditions of the enterprise, it's needy to think about the government's investment policy, bank interest rates, market demand, and price levels. From the internal condition of the enterprise, it is necessary to contrast the preferences of decision-makers, the amount of capital owned by the enterprise, and the ability of the company to raise funds. The investment scale should be made in accordance with the actual condition and leave some room for adjustment. At the same time, the investment ratio of fixed assets and liquid assets needs to be properly set to avoid imbalance.

Case

Falling of the Iridium Corporation

In 1977, Motorola's Iridium mobile communication network was put into commercial operation and became the first communication network system that truly covered every corner of the world. As a result, the company's stock soared, and the stock price rose from \$20 per share at the time of issue to \$70 per share. Those who admire science and technology are particularly optimistic about the system. In 1998, US Popular Science magazine named it one of the best products in the world. At the end of the same year, it ranked the second among the top ten scientific and technological achievements evaluated by the academicians of the Chinese Academy of Sciences and Chinese Academy of Engineering.

The Iridium system not only adopts complex and advanced onboard processing and inter-satellite link technology that enables seamless communication on the ground, but also solves cross-board roaming between satellite networks and terrestrial cellular networks. This system has created a new era of personal

communication around the world, empowering humans to communicate with each other anywhere on the planet.

However, expensive Star Communications has suffered a cold reception in the market, with a maximum of 55,000 users. It is estimated that users must rise to 500,000, and then the company can make a profit. Due to huge research and development costs and system construction costs, the comet bears a heavy debt burden. The entire comet system costs more than \$5 billion and even the annual system maintenance expenses account for several hundred million dollars. In addition to the investment provided by Motorola, etc. and the funds raised by the issuance of stocks, this company also borrowed about \$3 billion in debt. Incredibly, the interest on debt per month was more than \$40 million. From the beginning, Iridium Corporation has been negotiating a debt restructuring with creditor groups made up by banks and bondholders, but the two parties ultimately failed to reach an agreement. On August 3, 1999, the creditor group filed an application for forcing the company's bankruptcy reorganization. In addition to the inability to pay \$90 million of bond interest due two days later, Iridium Corporation was forced to file for bankruptcy protection. On March 18, 2000, Iridium corporations went bankrupt with more than 4 billion US dollars of debts.

9.1.1.2 Financing Management

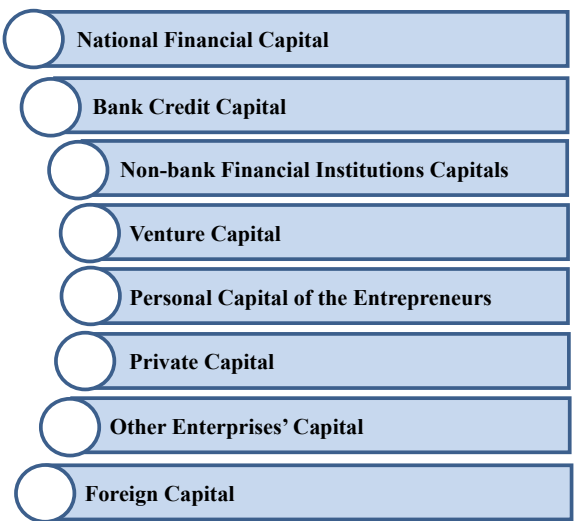
Entrepreneurship financing is the process by which entrepreneurs raise funds through different channels according to their business plans. The financing channel refers to the direction and channel of raising funds, reflecting the source and flow of capital. For start-ups, sufficient funds are a prerequisite for a series of business activities. Therefore, how to expand financing channels is crucial to the development of new ventures.

As a relatively independent action, financing would affect the performance of corporate financial management through the change of the capital structure. At present, the channels for entrepreneurs to raise funds mainly include the following (Fig. 9.1).

National Financial Capital

The government's SME support funds are one of the important sources of venture financing, including tax incentives, financial subsidies, and loan assistance. Tax incentives are the most direct form of financial assistance, involving in reducing tax rates, tax reduction and exemption, and increasing the tax threshold, as well as raising fixed assets depreciation rate. Financial subsidies are government financial assistance to SMEs, consisting of employment subsidies, R&D subsidies, and export subsidies. Loan assistance is composed of loan guarantees, discount loans, and government concessional loans. Many economically developed countries and regions adopt various financial means to support small and medium-sized enterprises. The most frequently used method is government-guaranteed loans. For

Fig. 9.1 Fundraising channel



example, the US Small Business Administration and the UK Small Business Loan Guarantee Program have provided strong financial support for SMEs.

Since the end of the 1980s, the Chinese government has implemented support policies for SME loans, and various ministries and commissions have set up special support funds accordingly. In 1999, the State Economic and Trade Commission issued the “*Guiding Opinions on Establishing a Pilot Program for SME Credit Guarantee System*” to actively promote financial institutions to provide guarantees for the development of SMEs. Since the establishment of SME development and management expenditure budget, supported by the central government, in 2003, the scale of budgetary funds has increased year by year, accompanied by the constant expansion of support. The central government has set up a number of special funds to assist the development of small and medium-sized enterprises, such as technology-based SME technology innovation fund, technology-based SME venture capital guidance fund, SME development special fund, SME credit guarantee fund, SME service system special subsidy fund, etc. Local governments set up local special funds on the basis of factual conditions.

Bank Credit Capital

Bank credit capital contains all kinds of funds obtained by enterprises through bank credit channels, including working capital loans, fixed assets loans, personal mortgage loans, bank acceptance bills, discounts and trade financing. Bank credit capital is the monetary capital accumulated and distributed by banks in the form of credit. On account of the principle of “profit, safety and liquidity,” bank credit capital is a significant source of funds for new ventures. According to statistics, 70% of China’s state-owned enterprises’ working capital and 30% of fixed funds

are obtained from bank deposits (Liu 2009). Entrepreneurs should actively utilize this channel to gain venture loans.

A business loan belongs to a special loan that is issued by the banks owing to the application, for venture activities, provided by an individual who has certain production and management capabilities or who is engaged in production and business activities. Eligible borrowers can receive different amounts of loans in line with their personal resource status and repayment ability. New ventures must be equipped with the following conditions to make loans from banks.

- ① Legality. The borrower must be an operating enterprise register and approved by the industrial and commercial administrative department, obtaining the business license.
- ② Independence. The borrower must be a self-governed and cost-effective enterprise that can sign up economic contracts independently. This is helpful to implement the creditor–debtor relationship and facilitate the bank to know the use of funds.
- ③ Possess a certain amount of owned funds. Self-owned funds are the foundation for an independent business operation, and its amount is the primary indicator of a company’s competency to withstand risks.

Entrepreneur’s loans must be approved by the bank, and must clearly state the “four characteristics”: the credibility, the feasibility of the fund activation plan, the guarantee for the source of repayment, and the reliability of the credit guarantee.

Banks gain key indicators of enterprises on the grounds of analysis of the previous financial statements (balance sheet and income statement), such as corporate profitability, asset–liability ratio, inventory turnover rate, entrepreneurial investment cost and its contribution to the enterprise. At the same time, the banks also want to evaluate the future market size, sales revenue, and profitability, for judging the repayment capacity. Therefore, entrepreneurs should show the blueprint for the development of enterprise and the positive effect. If the new enterprise market has a bright future, the bank will relax lending standards appropriately.

Nonbank Financial Institutions Capitals

Nonbank financial institutions are involved in venture capital is the “natural” subject. Nonbank financial institutions, including credit unions, trust companies, securities companies, insurance companies, financial leasing companies, money brokerage company, foreign nonbank financial institutions’ representative offices in China. In the existing nonbank financial institutions, insurance companies, leasing companies, financial companies, and security companies are not directly engaged in the venture capital business.

These nonbank financial institutions through underwriting securities, financial financing way of gathering funds, for entrepreneurs can directly provide funds or provide services for enterprise financing. Foreign nonbank financial institutions in the process of corporate finance have played an important role. In order to promote the development of nonbank financial institutions, the Chinese government

provides preferential policies for nonbank financial institutions, such as financial subsidies, tax incentives, to create opportunities for the rapid development of nonbank financial institutions.

Venture Capital

National Venture Capital Association (NVCA) defines risk investment as the equity investment that is offered by financiers to emerging enterprises with rapid development speed and great potential competitiveness. Venture capitalists not only invest funds, also use their experience and knowledge to help network managers operate the company in a better manner. Therefore, venture capital can be counted as a kind of participatory investment.

Venture capital occupies unique characteristics in the mode of investment and fundraising. Venture capital investment often aims at the unlisted emerging small and medium-sized enterprises, especially high-tech enterprises. In many countries, venture capital is well developed, with the established mode of operation. In the United States, about 80% of venture capital funds are invested in high-tech enterprises. The emerging enterprises focus on the development of innovative products which are difficult to raise funds from banks and stock market due to the uncertain market prospects, so they can only turn to venture capital for financial support.

The enterprises, supported by venture capital, usually have a much higher growth rate than ordinary similar enterprises. Investors would participate in new ventures in the form of shareholders, so as to reduce the risk. They would choose exit investment once they achieve the aim of value-adding. Therefore, as for start-ups, venture capital is favorable for debt-free and they don't need to worry about losing control.

Personal Capital of the Entrepreneurs

At the initial stage of entrepreneurship, many entrepreneurs have more or less wealth, but it may not be able to meet the needs of starting a business. Compared with the entrepreneurs owned external capital, entrepreneurs with an amount of individual capital cannot only save the time and energy in looking for investors but also start the business according to their own wishes.

In the start-up stage, entrepreneurs are hard to obtain funds from financial institutions due to the lack of economic efficiency of scale and credit reliability. Nevertheless, the amount of money required for many start-ups is relatively small, relatives and friends have become common sources of financing. Sometimes, instead of providing funds directly, relatives and friends provide guarantees, assisting entrepreneurs to get needed venture capital. However, risk also exists by means of raising funds through the entrepreneurs of relatives and friends. Failure in venture activities leads to threatens in the intimate relationship between entrepreneurs and borrowers. Besides, it's also possible that the borrowers would intervene in the operation of the enterprise.

Private Capital

Private capital is the current assets of private enterprises and family financial assets. Private venture investment is a direct and mainly adopted method of financing in the seed stage. China's capital market gathered a large number of private capital. Those investors not only have a large amount of money but also have business and management experience. Therefore, private capital is an effective combination of capital and experience. Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment, issued in 2010, points out that private investment is encouraged and guided to enter the fields of basic industries and infrastructure, construction of municipal public utilities and policy-based housing, and social undertakings.

Compared with professional risk investment institutions, private venture capital are simpler in operation procedure and faster in fundraising, and with a lower threshold. But many private investors in the investment tend to hold shares, prone to trigger conflict with entrepreneurs. Therefore, the two parties are in need of the written agreement of each other rights.

Other Enterprises' Capital

In the process of production and operation, there would often raise some temporarily idle funds. Some enterprises directly invest in new ventures, provide capital to support the transformation of technological achievements, or solely set up investment institutions (or associate with other social capitals), for the purpose of improving the efficiency of capital usage, expanding the business scope, and conducting strategic investment. This is also an important channel for new ventures, especially for intra-enterprise financing.

Foreign Capital

Foreign capital is provided by foreign investors in mainland China, Hong Kong, Macao, and Taiwan, which is an important source of funding for the overseas-funded enterprise. Since the reform and opening up, China has been introducing a large number of foreign investments, and gradually formed exclusively foreign-owned enterprises, Sino-foreign cooperative joint ventures, and Sino-foreign joint ventures. Since the 1990s, International Data Group, Walden International Investment Group, and other foreign financial institutions began to carry out venture capital in China. So far, foreign capital has become a significant source of China's venture capital. In addition, the good situation of China's economy and a stable market environment provides a favorable condition for China to further attract foreign capital.

9.1.1.3 Management of Working Capital

Working capital management is related to the enterprise current assets and current liabilities, which mainly aim at expanding the incremental cash flow. Only

incremental cash flow is of practical significance in calculating the net present value of investment projects.

Working capital management is one of the vital components of financial management for proper operating funds and is a must in maintaining the normal operation of an enterprise. According to a survey, 60% of the working time for a financial manager is used for working capital management. In order to realize the best operation, we must properly deal with current assets and current liabilities, thus how much capital should be invested in current assets and how does a corporate proceed to finance of current asset.

The essence of strengthening working capital management is to speed up the turnover rate of the cash, inventory, and accounts receivable, and shorten the occupying of the capital, reduce the cost of funds. Besides, it committed to solve the difficulties of short-term capital turnover by their own business reputation and improve the return rate on equity capital by utilizing financial leverage. In order to strengthen the effect of working capital management, the following methods can be taken.

- (1) Appropriate risk aversion. In order to realize bigger profits and sell more products, sell on credit is utilized, which would cause low efficiency in the management of accounts receivable to a certain extent. Lack of control in cash flow and credit sales of sales on credit and failure in timely payment collection may lead to the fact that book profits are higher than the actual funds, which is risky for enterprises. Therefore, enterprises should collect the accounts receivable timely so as to improve efficiency in the use of funds.
- (2) To reduce expenditure, and increase profits. The enterprise should draw up the budget for managing internal costs and other expenses. Meanwhile, the enterprise needs to increase profits in ways of strengthening management and reducing unnecessary expenditures.
- (3) To improve the efficiency of management. Scientific financial management system requires a feasible financial forecast to proceed with scientific predictions in the aspect of an investment, purchasing and sales, etc. This system is capable of reducing the risk of enterprises, improving enterprise efficiency, and is beneficial for enterprises to know the market in advance under the guidance of budget, reducing inventory risk.
- (4) Optimize the financial system. The internal management responsibility system in a company must be specified. For example, which department is in charge of collecting the accounts receivable must be clearly set. The establishment of the system and clarifying responsibility is conducive to improving the efficiency of working capital management.

9.1.1.4 Management of Profit Distribution

The profit distribution is to allocate the total sum of profit between enterprises and the state, projects, and investors in accordance with the national financial

regulations and the articles of incorporation. The following basic principles should be obeyed in distributing profits.

- (1) Distribute profits according to law. After-tax profit is a significant interest of enterprise owners, but the disposal and distribution of the interest must be strictly abide by the laws and regulations of the state. Legal provisions in *Company Law of the People's Republic of China* fully reflect the management and supervision on profit distribution. Enterprises must abide by the law to standardize the distribution program.
- (2) Equal attention should be paid to the distribution and accumulation. The enterprise should not only ensure sustainable reproduction, but also continue to expand reproduction, so it has to make a profit from business activities. The enterprise should properly handle the relationship between distribution and accumulation, to retain a portion of the net profit, which can enhance their ability to resist risks and improve the stability and safety of the business.
- (3) The principle of balancing the interests of all parties. Profit distribution should appropriately handle the relationship between the state, shareholder, creditor, and employee, which is crucial for the survival and development of enterprises. Enterprises should make overall planning and give all-round consideration in the distribution of profits to investors, maintaining the legitimate rights and interests of stakeholders.
- (4) The equivalence principle between investment and profits. The principle of equality and unity should be obeyed in distributing profits to investors on the basis of their investment ratio, realizing publicity, fairness, justice fundamentally, so as to protect the interests of investors.

9.1.2 Basic Process of Financial Management

Although financial management is a complex procedure, it still can be well proceeded as long as the following seven points are practically followed. Fiscal management must avoid any ambiguity (Zhu 1985).

Draw up the Financial System

The financial system is the basis of organizing financial work and implementing financial supervision. Besides, it is also the provision for the enterprise and all departments to conduct production and business activities, as well as the criterion to handle a financial relationship.

Conduct a Financial Forecast

The financial forecast requires improving the predictability of financial work and avoiding blindness to ensure the efficiency of production and business activities. Through the financial forecast, financial goals for all aspects of production and business activities are continuously achieved to make production and operating

activities develop along with the development of high yield, high quality, and high efficiency.

Make Financial Plans

Making financial plans on the basis of financial forecasting cannot only make further business objectives more specified, but also can provide the financial plan index with a more adequate basis, improving the scientific and practical plan.

Transact Financial Accounting

The business activities of enterprises and capital flows can be reflected in the accounting system. On the basis of the accounting information, the financial management must observe and understand the usual condition of funds to analyze and study the benefit and to examine and assess the corresponding legitimacy and effectiveness.

Organize Daily Management

Daily management is the main form of fiscal supervision, which is adopted by enterprises to strengthen supervision.

Implement Financial Analysis

Financial analysis is an important aspect of enterprise financial management. It mainly focuses on financial planning targets, to analyze the legitimacy of fund balance and the effectiveness of business activities, which means to guide the future through the analysis of the past. Financial analysis should be normalized and institutionalized.

Carry out Financial Inspection

In addition to the regular management and supervision, financial management also needs to conduct a regular financial inspection, so as to sum up the experience, disclosure loopholes, and weak links, and improve the consciousness of law abiding.

9.1.3 Six Essential Factors in Enterprise's Finance

Assets

Assets refer to the resources that are formed in the previous transaction or event, owned or controlled by the enterprises, and brought anticipated economic benefits, including all types of properties, creditor's rights, and other rights.

In accordance with the liquidity, the property can be classified into current assets and noncurrent assets. Current assets exist in the following aspects: assets that are liquidated, on sale or consumed during the normal operating cycle; obtained for the purpose of transaction; expected to liquidate within a year (including one year)

from the balance sheet date; cash or cash equivalent, which is subject to no limitation when it is used to exchange other assets or to pay off the liabilities as of the balance sheet date. Current assets incorporate cash in the treasury, bank deposits and other monetary funds, notes receivable, accounts receivable and prepayments, trading financial assets, inventory, etc. Noncurrent assets refer to those beyond current assets, including long-term equity investments, fixed assets, intangible assets, and projects under construction.

Liability

Liability is a present obligation arising from past transactions or events, which are expected to give rise to an outflow of economic benefits from the enterprise.

Liability can be divided into current liability and noncurrent liability on the basis of liquidity. Current liabilities cover the following situations: expected to repay within a normal business cycle; holding mainly for the purpose of the transaction; shall be repaid at maturity within one year as of the balance sheet date; or the enterprise does not have an unconditional right to defer payment beyond a year after the balance sheet date. It involves short-term loans, notes payable, accounts payable, accounts receivable, employee salary payable, taxes payable, payable interest, dividend payable, etc. Noncurrent liabilities cover the rest of the liabilities, including long-term loans payable, bonds and other long-term payable.

Owners' Equity

Owners' equity is the residual interest in the assets of an enterprise after deducting all its liabilities. Owners' equity is also known as shareholders'.

Owners' equity comprises capital contributed by owners, gains, and losses directly recognized in owners' equity, retained earnings, etc., demonstrating in the form of paid-up capital (or share capital), capital surplus (including capital premium or equity premium), surplus reserve and undistributed profit.

The capital invested by the owners covers enterprise registered capital (paid-in capital) or the amount of equity, the amount of invested capital that exceeds registered capital or equity capital, namely equity premium. This part of the investment capital is directly accounted into capital reserve in accordance with the enterprise accounting standards system in China and is reflected in the capital reserve project in the balance sheet.

Gains and losses directly recorded in the owner's equity indicate those outcomes that should not be included in the current profits and losses, will result in changes in the owner's equity and are irrelevant to the capital invested by the owners or the profits distributed to the owners.

Surplus reserve and undistributed profit is collectively called retained earnings.

Income

Income refers to the total inflow of economic benefits, formed in an enterprise's daily activities, which will result in an increase in owner's equity and has nothing to do with the owner's investment in capital.

In the light of the ranks of business operations, income is divided into main business income and other business income. The first one is brought by the main business of the enterprise. And other business income is realized by those other than the main business activities. In accordance with nature, income falls into profits from sales of goods, providing labor, and transferring the use of assets.

Expense

Expense is the total outflow of economic benefits that occurred in the enterprise's daily activities, and would result in a decrease in owner's equity and is not related to the distribution of profits to the owner.

The expense consists of production expenses and periodic expenses. Production expenses are connected with the daily production and operation activities of the enterprise, which can be classified into direct material expenses, direct labor costs and manufacturing expenses on the basis of their economic use. Production expenses shall be included in the production cost according to its actual occurrence. For the production costs incurred in the production of several kinds of products, the production costs should be counted in the relevant products in accordance with the benefit principle and appropriate methods and procedures. The period expenses are incurred by the enterprise in the current period that should be directly included in the current profit and loss instead of in the production cost, including management fees, sales expenses, and financial expenses.

Profit

Profit indicates the business performance achieved by the company during a certain accounting period. Under normal circumstances, profit means the performance of the company has been improving and the owner's equity of the enterprise will be increased. On the contrary, loss (namely, the profit is negative) means that the owner's equity of the enterprise will decrease, accompanied by the declining of the performance.

Profit is one of the indicators for evaluating the performance of the company's management, and it is also a significant reference for investors and other financial accounting report users to make decisions.

Profits comprise the net amount of income and the gains and losses that are directly recorded in the current period.

The net amount reflects the business performance of the daily activities of the company. Gains and losses that are directly recorded in the current period would eventually give neither rise to the changes in the owner's equity, which is irrelevant to neither the invested capitals nor distributed profits to the owners, reflecting the performance of daily activities. Enterprises should strictly distinguish between income and gains, expenses and losses, to fully demonstrate the business performance of the company.

9.1.4 Financial Statements and Financial Analysis

9.1.4.1 Financial Statement

The information, provided in the financial statements, is the principal basis for corporate decision-making. Therefore, reading financial statements is an essential skill for entrepreneurs. The financial statements mainly include balance sheets, profit and loss statements, profit distribution tables, and cash flow statements.

Balance Sheets

The balance sheet reflects the financial situation of the company in a specific period of time. The total assets in the balance sheet are equivalent to the total liabilities plus the total number of owners' equity. The figures must be correct and the information in each period must be related. The most important concept in accounting is "balance." That is to say, if the asset increased party is the borrower and the owner equity increased party is the credit party, the two parties are offset, namely realizing "balance". In the balance sheet, the borrower is placed on the left side, and the credit is on the right. Any transaction must be recorded on both sides at the same time to realize "balance". The principles are as follows: ① the increased assets are recorded on the left side, while the reduced assets are on the right; ② When the debt increases, it is recorded on the right side, when it reduces, it is on the left side. The balance sheet reveals what the company owns (corporate assets), who is the creditors of the company (corporate liabilities), how much is the net asset value (owner's equity). Each account on the balance sheet cannot be set the balances to zero at the beginning of each new fiscal year. In the balance sheet, assets are arranged in order of liquidity, while liabilities are ranged in a sequence of near-to-far due debt (Table 9.1).

Income Statement

The income statement reflects the business outcomes of the company during a specified accounting period. The purpose of drawing up the income statement is to faithfully report the income realized by the enterprise, the expenses incurred, and the amount of profits and losses that should be included in the current profit, as well as its structure, helping users analyze and evaluate the profitability and profit composition of the enterprise.

Enterprises should utilize a multistep income statement to compare income and expenses of different nature so as to obtain some intermediate profit data to help users understand the various sources of business results.

The income statement usually consists of two parts: the header and the body. The header should clearly list the name of the report, the name of the compiling unit, the accounting period covered by the financial statements, and the unit of RMB amount. The body of the income statement demonstrates the various items and calculation processes that form the operating results, as showed in Table 9.2.

Table 9.1 Balance sheet

Company name		Date	Unit		CNY
Assets	Ending balance	Beginning balance	Liabilities and owner's equity (or shareholders' equity)	Ending balance	Beginning balance
Current asset			Current liabilities		
Cash			Short-term loans		
The financial assets that are measured at fair value and shall be recorded in the profits and losses of the current period			The financial liabilities that are measured at fair value and shall be recorded in the profits and losses of the current period		
Notes receivable			Notes payable		
Accounts receivable			Accounts payable		
Accounts prepaid			Account collected in advance		
Interest receivable			Employee pay payable		
Dividend receivable			Tax payable		
Other receivables			Interest payable		
Inventories			Dividend payable		
Noncurrent assets due within one year			Dividends payable		
Other current assets			Other amounts payable		
Total current assets			Noncurrent liabilities due within one year		
Noncurrent assets			Other current liabilities		
Available-for-sale financial assets			Total current liability		
Held-to-maturity investment			Noncurrent liability		
Long-term receivables			Long-term loan		
Long-term equity investment			Bonds payable		
Investment properties			Long-term account payable		
Fixed assets			Account payable special funds		
Construction in process			Anticipation liabilities		
Engineering material			Deferred income		
Disposal of fixed assets			Deferred income tax liabilities		
Productive biological asset			Other Noncurrent Liabilities		

(continued)

Table 9.1 (continued)

Company name		Date	Unit		CNY
Assets	Ending balance	Beginning balance	Liabilities and owner's equity (or shareholders' equity)	Ending balance	Beginning balance
Oil and gas assets			Total noncurrent liabilities		
Intangible asset			Total liability		
Development expenditure			Owner's equity (or shareholders' equity)		
Business reputation			Capital reserve		
Long-term unamortized expenses			Reduce: treasury stock		
Deferred income tax assets			Other comprehensive income		
Other noncurrent assets			Surplus public accumulation		
Total noncurrent assets			Undistributed profit		
			Total owner's equity (or shareholders' equity)		
Total assets			Total liabilities and owner's equity (or shareholders' equity)		

Cash Flow Statement

The cash flow statement demonstrates the results of cash changes and the reasons for changes in financial conditions. It is a dynamic statement that reflects the cash flows of the company in various economic operations. The final result of the cash flow is to calculate the newly added net cash flow for the current period. In addition, the relationship between net income and cash balance can be presented by the cash flow statement. The cash balance doesn't always change positively in accordance with the company's profit and loss. It is generally considered that the net income supported by cash flow is of high quality; otherwise, vice versa. The cash flow statement can be used to show the cash flow of the company in the past year, to predict the cash flow of the company in the future, to evaluate the ability of the company to obtain and apply cash, and to determine the competence of the company to pay interest, dividends and debts due; as well as to indicate the changes of productive asset portfolio (Table 9.3).

Table 9.2 Income statement

Compiling unit	Date	Unit	CNY
Item		Income statement	Last term's amount
1. Revenue			
Reduce: operating costs			
Business tax and surcharges			
Selling expenses			
Management expenses			
Loss of asset impairment			
Plus: profits from changes in fair value (fill in the loss with “-”)			
Investment Income (fill in the loss with “-”)			
Including: income from investment in affiliated enterprises and joint ventures			
2. Operating profit			
Plus: Nonbusiness income			
Including: Gains from the disposal of noncurrent assets			
Reduce: Non-business Expenses			
Including: losses from Disposal of noncurrent Assets			
3. Total Profit (fill in total loss with “-”)			
Reduce: Income Tax Expenses			
4. Net Profit (fill in Net losses with “-”)			
5. NET of tax of other Comprehensive Income			
(1) Other comprehensive income that cannot be classified to profit or loss in the future			
① Changes arising from remeasurement of the net liabilities or net assets in the defined benefit plans			
② Share of other comprehensive income that cannot be reclassified to profit or loss in the future by the investee under the Equity Method			

(continued)

Table 9.2 (continued)

Compiling unit	Date	Unit	CNY
Item		Income statement	Last term's amount
.....			
(2) Other comprehensive income that can be reclassified to profit or loss in the future			
① Share of other comprehensive income that can be reclassified to profit or loss in the future by the investee under the Equity Method			
② Profits and losses from the changes in fair value available for sale			
③ Profit and Losses of held-to-maturity investment that is reclassified as financial assets available for sale			
④ The effective part of the cash flow's hedging Profit and Loss			
⑤ The differences arising from the translation of foreign currency financial statements			
.....			
6. Aggregate Comprehensive Income			
7. Earnings per share			
(1) Basic EPS			
(2) Diluted EPS			

9.1.4.2 Commonly Used Financial Analysis

Managers can analyze the development competence of a company on the basis of real financial statements.

Debt-paying Ability Analysis

Debt-paying ability serves as one of the symbols to show the financial status of a company. It is an important approach to measure whether a company is functioning properly and whether it can attract foreign funds. Debt-paying ability of a company can be reflected by the following indicators.

a. Current ratio

$$\text{Current ratio} = \text{current assets} / \text{current liabilities} * 100\%$$

Table 9.3 Cash flow statement

Compiling unit	Date	Unit	CNY
Item		Current amount	Last term amount
1. Cash flow from Operating Activities			
Cash from selling commodities or offering labor			
Refund of tax and fee received			
Other cash received related to operating activities			
Cash inflow Subtotal of operating activities			
Cash paid for commodities or labor			
Cash paid to and for the employees			
Taxes and fees paid			
Other cash paid related to operating activities			
Cash outflow Subtotal of operating activities			
Net Cash Flow from operating activities			
2. Cash Flow from Investment activities			
Cash from investment withdrawal			
Cash from investment income			
Net cash from disposing of fixed assets, intangible assets and other long-term ass			
Net cash from the disposal of the subsidiary corporation and other business entities			
Other cash received related to investing activities			
Cash inflow Subtotal of investment activities			
Cash paid for purchasing fixed assets, intangible assets, and other long-term assets			
Cash paid for investment activities			
Net cash received from the subsidiary corporation and other business entities			

(continued)

Table 9.3 (continued)

Compiling unit	Date	Unit	CNY
Item		Current amount	Last term amount
Cash paid for other investment-related activities			
Subtotal Cash outflow of investment activities			
Net Cash Flow from investment activities			
3. Cash Flow from Financing Activities			
Cash received from accepting investment			
Cash payments of borrowed amounts			
Other cash received related to financing activities			
Cash Inflow Subtotal of financing activities			
Cash paid for debt			
Cash paid for dividend, profit, or interest			
Other cash paid related to financing activities			
Cash outflow subtotal of Financing Activities			
Net Cash flow from financing activities			
4. Effect of foreign exchange rate changes on Cash			
5. Net increase in cash and cash equivalents			
Plus: cash and cash equivalents at the beginning of the period			
6. Cash and cash equivalents at the end of the period			

The current ratio indicates the relationship between the current assets and current liabilities. If current assets are greater than current liabilities, companies would have a strong ability to repay short-term debt. The comparatively ideal ratio is 2:1, or at least reaches 1:1.

b. Quick ratio.

$$\text{Quick ratio} = \text{quick assets} / \text{current liabilities} * 100\%$$

The quick ratio reveals the relations between the quick assets that are easily realized in the current assets of the enterprise and the current liabilities. Besides, it can also measure the authenticity of the current ratio. The ideal ratio is 1:1. The higher the ratio is, the stronger the company's debt-paying ability is, but it should not be less than 0.5:1.

c. Cash ratio

$$\text{Cash ratio} = (\text{cash} + \text{trading financial assets}) / \text{flow responsibility} \times 100\%$$

The cash ratio indicates how much cash in a company's current assets can be used to pay its debts. The higher the cash ratio is, the lower the risk of loss in current assets realization is, and the greater the possibility of short-term debt repayment is.

d. Asset-liability ratio (debt ratio)

$$\text{Asset - liability ratio} = \text{total liabilities} / \text{total assets} \times 100\%$$

The asset-liability rate reflects the proportion of liabilities in the total assets of the enterprise, which is adapted to measure the risk of the company's production and operation activities and the protection of liabilities of the company. The company's long-term debt-paying ability grows and the risk it bears decreases with the declining of the ratio.

Analysis of Operation Capacity

Turnover capacity demonstrates the turnover rate of the production and operation funds for the enterprise under the profit conditions, which can be assessed by the following indicators.

(1) Accounts Receivable Turnover ratio

$$\text{Accounts Receivable Turnover Rate} = \text{Net Sales Revenue} / \text{Average Accounts Receivable} \times 100\%$$

The account receivable turnover rate reflects the speed of the enterprise's accounts receivable turnover and the efficiency of the accounts receivable management. It is frequently used to test the tightness of the enterprise's application of the credit link sales business and to present the production and operation management status of the enterprise.

(2) Inventory turnover ratio

$$\text{Inventory turnover rate} = \text{cost} / \text{average inventory balance} * 100\%$$

The inventory turnover rate reflects the usage and utilization of the enterprise's inventory within a certain period of time. It is a comprehensive indicator for measuring and evaluating the management efficiency of purchasing inventory, production, and sales recovery.

(3) Current assets turnover ratio.

$$\text{Current assets turnover ratio} = \text{net sales income} / \text{average balance of current assets} * 100\%$$

The current asset turnover ratio is used to measure whether the products are marketable, whether the inventory quota is appropriate, and the speed at which the accounts receivable are returned.

(4) Fixed asset turnover ratio.

$$\text{Fixed asset turnover ratio} = \text{Net sales income} / \text{average balance of fixed assets} * 100\%$$

The fixed asset turnover rate demonstrates the value transfer and recovery speed of fixed assets. The larger the ratio, the higher the utilization rate of fixed assets is and the better the utilization effect is.

Profitability Analysis

The purpose of enterprise profitability analysis is to observe the income and profitability of the company in achieving a total goal in a certain period of time, which includes the following indicators.

(1) Capital profit margin

$$\text{Capital profit margin} = \text{total profit} / \text{total registered capital} * 100\%$$

The capital profit rate is a measure of the company's operating outcomes that reflect the level of profitability. The greater the ratio, the greater the profitability of the company is.

(2) Sales profit margin.

$$\text{Sales profit margin} = \text{total profit} / \text{product sales revenue} * 100\%$$

The sales profit rate reflects the proportion of profits realized by the company in sales revenue. The greater the ratio, the stronger the company's sales ability and the better the economic benefits.

(3) Cost profit margin

$$\text{Cost profit margin} = \text{total profit} / \text{total cost} * 100\%$$

Cost profit margin mirrors the profitability of the company after the product is sold, indicating the economic benefits achieved by the company in terms of cost reduction.

(4) Return on assets

$$\text{Return on assets} = (\text{net income after tax} + \text{interest expense}) / \text{average total assets} * 100\%$$

Return on assets is adopted to explicit the application efficiency of all economic resources.

Development capability Analysis

Enterprise development capability analysis is designed to explain the long-term expansion competence of the enterprise and its future production and operational strength. The main indicators for evaluating the company's development capabilities are as follows.

(1) The proportion of equity

$$\text{The proportion of equity} = \text{registered capital (share capital)} / \text{total share holders' equity}$$

The proportion of equity gives a presentation of the company's expansion competence.

(2) Fixed assets ratio

$$\text{Fixed assets ratio} = \text{total fixed assets} / \text{total assets}$$

Fixed assets ratio, reflecting the potential of production increasing of a company, is employed to measure the production capacity.

(3) Profit retention ratio

$$\text{Profit retention ratio} = (\text{after-tax profit} - \text{dividends payable}) / \text{after-tax profit}$$

Profit retention ratio indicator is used to measure the retention of the company's after-tax profits, showing the company's ability to expand and compensate. Expansion competence of the company grows with the increasing in the ratio.

(4) Reinvestment rate.

$$\text{Reinvestment rate} = (\text{after-tax profit} / \text{shareholder equity}) * [(\text{shareholder profit} - \text{dividend payment}) / \text{shareholder profit}]$$

The reinvestment rate indicates the growth ability of the company after running a business cycle. Greater reinvestment rate means more profit in the current period and stronger expansion capability in the future.

The above indicators reflect and evaluate the financial status and operating outcomes of the company from various angles and in different ways. Therefore, entrepreneurs should fully comprehend the connotation and role of each indicator, and consider the correlation among them, so as to make a correct and reasonable judgment on the production and operation of the enterprise.

9.2 Human Resources Management

9.2.1 Four Levels of Human Resources Management

Human resource management in enterprises can usually be divided into four levels: basic work, routine work, strategic work, and pioneering work.

9.2.1.1 Basic Work

Basic work mainly refers to the establishment of an infrastructure platform for the operation of human resources, which must be supported by a set of sound human resources management rules and regulations, and a set of standardized and effective operational processes. Establishing a standardized and effective human resources operation process, namely, the general human resource management system (Fig. 9.2), is a significant guarantee for practical managing.

9.2.1.2 Routine Work

Routine work is carried out on the infrastructure platform mentioned before, including human resource planning, employee recruitment, and management of file, contract, attendance, assessment, training, salary, benefits, dimission, etc. Most of the routine works, trivial and lacking creativity, are duplication of effort on the basis

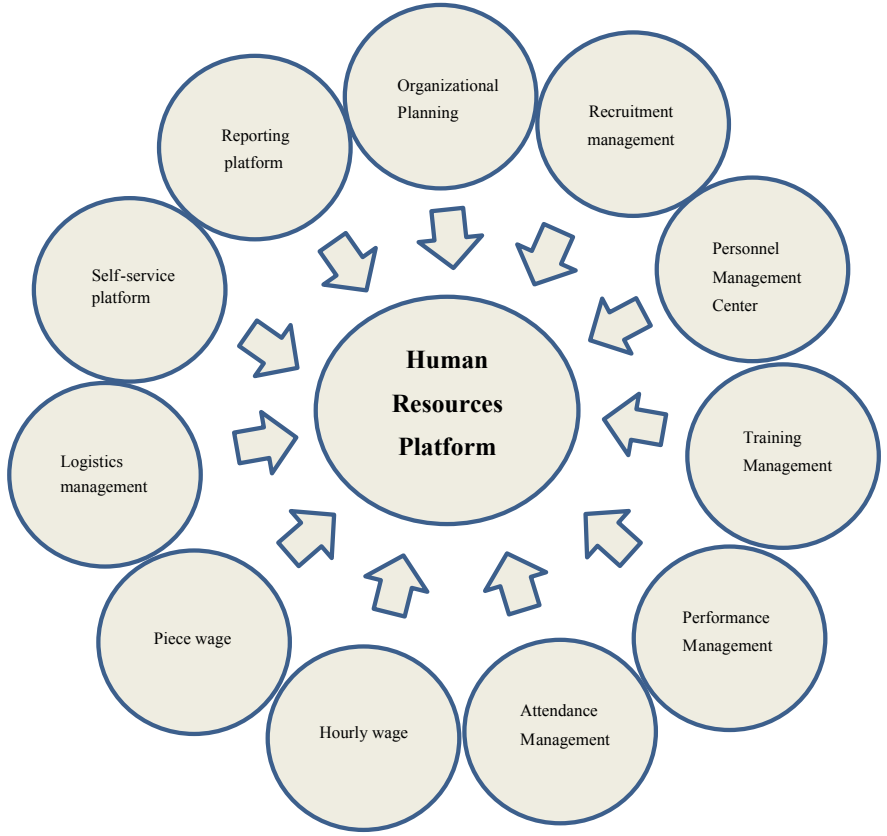


Fig. 9.2 Human resource management system

of experience. Although taking a lot of time, human resource management still cannot avoid these basic tasks. It has gradually become a trend to outsource human resource management to professional service companies or consultants since this part of the work can hardly affect the core value of the enterprise in essence. Human resource cost has always been regarded as a major cost center. In the initial stage of starting a business, outsourcing can reduce the high cost of human resource operation to a large extent. It is proceeded by subcontracting the continuous management responsibility of the human resources of the enterprise to the third-party service provider, which can be partially outsourced or wholly out-sourced. Any content that does not involve in corporate confidential information can basically be outsourced to third-party service providers so that companies can concentrate on production, operations, and so on.

9.2.1.3 Strategic Work

Strategic work requires human resource managers to proactively analyze and diagnose the status quo of human resources from the strategic height, so as to provide all kinds of valuable information to enterprise decision-makers accurately and timely, support the formation of corporate strategic goals, and develop specific human resources action plans for the realization of strategic objectives.

9.2.1.4 Pioneering Work

Pioneering work emphasizes that human resource management should provide value-added services to enterprises and provide support for relevant branches. The value of the human resources management department is achieved by improving the efficiency of employees and organizations. To improve the efficiency of employees and organizations, it is necessary to combine the corporate strategy and human resources strategy, focusing on how to create a good corporate culture, personalized career planning, and the compensation system and incentive system in line with the actual situation of the company, and paying special attention to in-depth development of human resources. In fact, the key to the success of talent attraction, utilization and training lies in creating a suitable environment for talented work and development, instead of daily management work. In order to create such environment, human resources managers need to spend more time and energy on the pioneering work. Enterprises must continuously strengthen the innovation of human resources management, adjust the mentality of employees, develop the creativity of employees, and enhance the cohesiveness of enterprises, as well as strengthen the cultural heritage of enterprises, so as to make enterprises full of vitality.

9.2.2 Compensation Planning and Design and Staff Training

9.2.2.1 Compensation Planning and Design

Designing of Compensation System

One of the vital issues faced by start-ups is how to design an employee compensation system. Generally speaking, the compensation design of start-ups should follow the following principles: high wages and low benefits, concise and practical, incentives system, and performance-based salary system.

The departments and positions in enterprises can be roughly divided into highly technically intensive and general business/service, which should be distinctive from each other in the compensation system. Technical talents are strongly needed in highly technically intensive departments and positions. Therefore, enterprises must consider long-term development goals in compensation designing. On this basis, the compensation system should adopt a flexible combination, such as giving stocks directly or paying high wages and welfare.

For general business/services departments and positions, a position-level salary grade system should be established at the initial stage to purposefully determine positions, staffs, grades, and salaries in accordance with job requirements and the actual ability of employees. In this way, employees would own specific personal positioning and development goals, so their positions are inextricably linked to salaries.

There are two aspects that should be considered in designing the compensation system (Chen et al. 2007): ① avoiding an extremely large salary gap. It means that payments between excellent employees and ordinary employees are greater than the difference in the works. Or there is a huge difference in salaries between employees who does the same work. The former is conducive to stabilize excellent employees, while the latter may cause dissatisfaction among them. ② Avoiding too small salary gap. It indicates that payments difference is less than that of the work, which will also provoke discontent.

The development of an enterprise requires employees' support, so they need to be motivated accordingly in accordance with their motivations or needs. Each business manager must primarily identify two basic issues: there is no same employee and employees have various needs at different stages.

Designing of Incentive System

The compensation system and incentive system is totally different from each other. In particular, start-ups must make a clear distinction, otherwise, the confusion between the two systems would largely impact on the enthusiasm of employees. Business managers need to endow an incentive to those who make outstanding contributions in the following approaches.

- (1) Money and material incentives. This type of incentive is mainly to give bonuses, stock options, insurance premiums paid by companies, or to give monetary rewards when making achievements. Financial incentives must be fair, which would affect the staff in emotion and attitude. Financial incentives are against egalitarianism because average distribution equals to no incentive. Therefore, employees' bonuses are mainly distributed in line with their individual performance.
- (2) Target incentives. The goals play the roles triggering, guidance, and incentives. In addition to the financial goals, employees have achievement goals and power goals, etc. Business managers should find out the faintly discernible goals of their employees, to help them draw up work plans, and to guide them to achieve their goals. When the goals are urgent to be realized, employees would have keen interest in the development of the company and have strong sense of responsibility for the work. In this way, they can finish their work consciously without being supervised. Target incentives would have powerful effects.
- (3) Respect-related incentives. Respect-related incentive, a basic method, serves as the catalyst to enhance employees' self-confidence. Mutual respect between the superior and the subordinate is a strong spiritual force, which contributes to

a harmonious relationship among staff and the formation of corporate team spirit and cohesiveness.

- (4) Participation-based incentives. Nowadays, employees own the needs and desires to participate in management. Providing all possible opportunities for employees to participate in management is an effective way to motivate them. Therefore, proper participating in management can both motivate employees and win valuable human resources for the success of the company. Employees' sense of belonging and identity would be enhanced through participation in management, besides, their self-esteem and self-fulfilling needs would be further satisfied.
- (5) Work-based incentives. In order to give full play to the enthusiasm of employees, business managers should consider how to make the work itself more intrinsic and challenging, so as to create opportunities for achieving self-realization. By means of work designing, enterprise managers could enrich and expand the work content, and create a favorable working environment. In addition, they can also provide a two-way selection between employees and positions to empower employees with certain choices for work.
- (6) Incentives in training and development opportunities. Along with the continually accelerating in knowledge update, the irrational knowledge structure and the aging of knowledge have become increasingly prominent. Although knowledge has been enriching and accumulating in practice, companies still need to provide employees with relevant incentives for further study and training to enrich their knowledge, develop their abilities, and meet the need of self-fulfilling.
- (7) Honor-and-promotion based incentives. Honor, lofty evaluation for individuals or groups, is an important approach to satisfy the needs of self-esteem and to inspire them to forge ahead. From the perspective of human motivation, everyone has the need for self-affirmation and glory. It is a good spiritual incentive to give honor awards to some excellent employees with outstanding performance. Even though honor-based incentives are cheap in cost, but they work well. Promotion-based incentives is an affirmation for employees with good performance and high quality. Enterprises should incorporate them into the dynamic management system of "prepared for both promotion and demotion."
- (8) Negative incentives. There is not only encouragement in incentives, but also many negative incentives. Negative incentives mainly adopt punishments, namely, mandatory and threatening control techniques, such as criticism, downgrades, fines, pay cuts, eliminations, etc., to create an unpleasant or stressful condition to negate certain behavior that does not meet the requirements.

In general, when formulating a compensation system on the basis of human resources planning, companies' managers should draw up both reasonable compensation system and matched incentive system. Only by mutual cooperation of the

two systems, employees' positive initiatives can be motivated to the largest extent and their work efficiency could be enhanced.

9.2.2.2 Staff Training

Almost all the famous successful companies have their own scientific training system. For instance, corporate universities and training centers exist in McDonald's, General Motors, Hewlett-Packard, Procter & Gamble, etc. And they have paid great prices to build their own rigorous, sound and scientific training system, which laid a good foundation for their development.

In general, corporate training needs to make the overall goal of the enterprise for its central task. It should be carried out with employees as the center, and with analysis of training needs, determination of the type of training and evaluation of training effect as the basic point. Employee-centered training is to establish a multilevel, multiform, multi-standard training system to improve their attitudes, knowledge, skills and behavior patterns.

Analysis of training needs is achieved through interviews and questionnaires, covering five aspects. Firstly, strategic analysis. It means to train, improve, explore, and employ excellent management talents and professionals based on the development strategy and goals of the enterprise. Secondly, task skills analysis is to compile job descriptions and job specifications, in combination with the establishment of work performance standards, to train and improve employees. Thirdly, performance analysis. This is to analyze the necessary knowledge and skills for achieving the desired performance, and the implementation results of the performance evaluation system, so as to find out the biases between employee behavior, attitude, job performance, and ideal goals, and to determine the training program. Fourthly, analysis of existing problems means to carry out training according to current problems in the enterprise. Finally, the analysis of the career development needs of employees is to carry out training on in accordance with the employee's career development plan, so that employees and the company could grow together.

Staff training can be divided into various types according to different standards. In light of the level of work, it can be divided into new employee training, grassroots staff training, grassroots manager training, middle manager training, and senior manager training. Each training should be equipped with diversified forms, such as on-the-job training, off-the-job training, self-development, workshops, seminars, job rotations, internal training courses, lectures, etc.

Staff training is evaluated to test the effectiveness of the training program, analyze the achievements of the training activities, and find out problems in the training process so as to improve or make new training plans.

"Staff training is expensive, while it costs much more in the absence of it." A win-win situation for employees and enterprises can be achieved only by establishing a scientific training system, formulating training plans and training programs on the grounds of demand analysis, reducing resources waste, and effectively developing human capital. Therefore, Entrepreneurs should pay more attention to

preemployment training. Comprehensive and meticulous preemployment training for employees is an effective guarantee for the successful opening of start-ups, and a good start for conducting systematic training in the future.

Case

OTIS: “Invest” the Future of Employees

As the world’s largest elevator company, Otis started to recruit on campus since 2003. With the rapid growth of China’s business, the number of newly recruited college students has been increasing at a rate of 100% per year. There are more than 400 newly recruited college students in 2005. In order to help these new employees adapt to the company’s business development as soon as possible, and enable them to be more stable in the initial stage of their careers, Otis has implemented a systematic new employee development training program to comprehensively cultivate the skills and qualities.

Otis new employee training is split into the following steps.

- Newly recruited college students from all over the country will primarily gather at the National Training Center of Tianjin Headquarters to participate in the 2-week induction training.
- Then, these highly motivated new employees are transferred to the branches and functional divisions.
- In order to provide continuous incentives and coaching to new employees, the training center in Otis edited monthly e-training journals to ceaselessly communicate their working methods and information relevant to self-motivation and development. In this way, Otis has been assisting new recruits to transfer from the role of students to staff.

Otis has been providing them with a variety of learning and development opportunities to help new employees adapt to the new environment as quickly as possible, and gain rapid growth. At the same time, Otis has been closely tracking and evaluating their work skills and performance for ensuring that they meet the company’s needs.

Otis believes that there are many reasons for employees to choose whether to stay or leave, among which loyalty a significant one. Therefore, companies must invest in their employees, namely investing in the future of their employees and helping them to realize their dreams. Consequently, Otis can attract the best employees. This is also the mystery of Otis’s advantage in market competition.

Review

1. Financial management mainly includes investment management, financing management, and profit distribution management.
2. The six elements of corporate finance: assets, liabilities, owner’s equity, income, expenses, profits.

3. The financial analysis is frequently used by enterprises consist of solvency analysis, operational capability analysis, profitability analysis, and development capability analysis. The financial statements of the company involve the balance sheet, income statement, and cash flow statement.
4. Human resource management can be divided into four levels, namely basic work, routine work, strategic work, and pioneering work.
5. Enterprises' incentives are generally comprised of money and material incentive, goal incentive, respect incentive, participation incentive, development opportunity incentive, honor and promotion incentive, etc.

Think and Discuss

1. Please conduct financial competence analysis for a Public Company.
2. How to retain employees with high performance.
3. What kind of compensation system is reasonable and competitive to enterprises?
4. What are the main assets and liability items in Balance Sheet?

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