

Entrepreneurial Motivation, Environmental Influences and Short- Term Orientation Among Chinese Digital Start-Ups

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Abstract

Contemporary Chinese digital start-up enterprises present new realities rarely seen in other countries with rapid growth over a very short period. An outcome of unique economic, institutional, and social factors, digital entrepreneurs in China typically pursue short-term goals, seeking to position their enterprises for sale shortly after the enterprise becomes barely viable. What accounts for this unique phenomenon? We present a number of factors influencing the digital start-ups development in China. We also offer potential implications regarding government policy on promoting start-up businesses.

China's digital economy is becoming a leading global force as a hub for the world's biggest internet companies. Currently, China is home to nine of the world's 20 biggest internet companies by market cap while the United States is home to eleven. Remarkably, five years ago, China had only two such

companies, while the United States had nine, according to a report from the McKinsey Global Institute.¹ Indeed, China is already the world's largest e-commerce market, accounting for more than 40 percent of the value of worldwide transactions. China has also become a major global force in mobile payments with 11 times the transaction value of that of the United States.² In China, the digital economy accounts for around 32 percent of national GDP with RMB 26 trillion in 2017, and its double-digit growth is likely to continue in the future, reshaping China's and world's economic landscape. In a nutshell, as the McKinsey Global Institute remarked, "China is already more digitalized than many observers appreciate and has the potential to set the world's digital frontier in coming decades."³

Most participants in China's dynamic digital economy are, not surprisingly, young entrepreneurial ventures that are highly alert, agile, and innovative. Consequently, China provides a unique and rich context to research digital entrepreneurship. The present article aims to provide some insights on the motivations, influential factors, and challenges of contemporary Chinese digital entrepreneurial ventures with six case studies (see Table 1 for the entrepreneurs' profiles and Table 2 for some of their key responses).

Table 1. Profiles of entrepreneurs studied

Entrepreneur 1	
<i>Age</i>	32
<i>Gender</i>	Male
<i>Education</i>	Bachelor's degree in Chinese literature & philosophy Master's degree in Teaching Chinese to foreigners
<i>Experience</i>	Teaching Chinese at Confucius Institute in Berlin for one year; Business consulting for 3 years; Developing start-up business for 5 years (2014-18).
<i>Operating Business</i>	CEO of a digital media start-up that brings classical Chinese literature from libraries and institutions to mass audiences via online services.
Entrepreneur 2	
<i>Age</i>	33
<i>Gender</i>	Male
<i>Education</i>	Bachelor's degree in Computers Master's degree in Information Technology (New York)
<i>Experience</i>	Senior engineer at EnergyHub (US) for 4 years (2009-13); Developing a number of start-up businesses in Beijing and Shanghai for 6 years (2013-18).
<i>Operating Business</i>	CEO and CTO of a number of digital start-ups that market sport and health related products and services.

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Entrepreneur 3

<i>Age</i>	34
<i>Gender</i>	Male
<i>Education</i>	Bachelor's degree in Computers (Singapore)
<i>Experience</i>	Web development manager in Singapore for 2 years; Developing start-up business for 9 years (2010-18)
<i>Operating Business</i>	Owner of a digital start-up that markets cosmetic products and services online.

Entrepreneur 4

<i>Age</i>	36
<i>Gender</i>	Female
<i>Education</i>	Bachelor's degree in Marketing
<i>Experience</i>	Working in branding and marketing at a traditional firm for more than 10 years; Working at an online retailer of 2 nd hand cars for 2 years; Developing a new digital education start-up since 2015 (4 years).
<i>Operating Business</i>	Co-founder and marketing manager of a digital start-up firm that provides services to students preparing for the national university entry examination.

Entrepreneur 5

<i>Age</i>	35
<i>Gender</i>	Male
<i>Education</i>	Bachelor's degree in Music
<i>Experience</i>	Working at Tencent as online classical music director, in charge of program design and marketing since 2005; Developing a new digital cartoon technology services start-up since 2013 (5 years).
<i>Operating Business</i>	Co-founder and manager of program design and marketing at a digital start-up firm that provides cartoon production technology to common people to produce their own cartoon movies.

Entrepreneur 6

<i>Age</i>	41
<i>Gender</i>	male
<i>Education</i>	Bachelor's degree in Information Technology MBA
<i>Experience</i>	Worked at several major IT companies such as Lenovo for more than 10 years; Developing a digital start-up that provides products for interior renovation since 2015 (3 years).
<i>Operating Business</i>	CEO of a digital start-up that provides products and services for interior renovation.

Table 2. Key responses

Entrepreneur 1	
<i>Motivation</i>	Related to education background and overseas experience: spreading culture via online/commercial platforms.
<i>Influential factors</i>	<ul style="list-style-type: none"> ▪ External investors: My investor is very reliable and is giving me freedom to choose what I want. There are many investors that are in for the short-term and a quick return. ▪ Business environment: People focus on value creation & making a quick profit; many struggle with creating scope. ▪ Government policy: Very good and provides great support, e.g., initial cash support, tax benefit, subsidized housing & office space.
<i>Challenges / Concerns</i>	Team performance & team management; Lack of cash flow.
Entrepreneur 2	
<i>Motivation</i>	Looking for opportunity to realize self-value; Returned to China for new opportunities, many of which were related to my education. At the same time, I was able to look after elderly parents.
<i>Influential factors</i>	<ul style="list-style-type: none"> ▪ External investors: The level of domestic investors is different; many of them are looking for a quick return and they are less professional than those in the US. ▪ Business environment: Everyone is very busy and has a lot of worry; many people rush to imitate; there is negative competition that focuses on the easy things; there is not enough of focus on developing a different technology; more coordination between the upstream and the downstream firms is required. ▪ Government policy: It is important to have a good support policy; we follow the policy closely; we also benefit from the incentives.
<i>Challenges / Concerns</i>	Different stages have different challenges; Overall concern is knowing different management areas and manage well; Always concerned about survival & expansion.
Entrepreneur 3	
<i>Motivation</i>	A digital start-up was relatively easy for me given my IT background; Wanted to run a new business to realize my good idea and meet user needs.
<i>Influential factors</i>	<ul style="list-style-type: none"> ▪ External investors: Most of them aim to get a quick return. Genuine ones support the business without much interference. Others could be problematic, some of them asking to sign a conditional contract regarding the return on their investment. ▪ Business environment: Many start-ups failed, but there are also many successful ones. Many young people are appreciative of the opportunity and want to do something valuable, such as realizing self-value, help solve social problems, or even change the world. ▪ Government policy: Governmental support is quite good, including the national fund for promoting innovation & city-based VC funds.

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	The good thing is that it allows beginners to try and learn from their mistakes.
<i>Challenges / Concerns</i>	I have many worries, including recruiting talented people and managing them well, as well as the competition present in the market.

Entrepreneur 4

<i>Motivation</i>	As a businesswoman, my motivation is to develop good education materials for young people. For myself, I want to have economic independence with my own career and income.
<i>Influential factors</i>	<ul style="list-style-type: none">▪ External investors: There are two types of investors: accounting oriented vs. strategic oriented. Strategic oriented ones want to build a business empire via strategic planning and benefiting others, but accounting oriented ones would be the majority looking for a short-term return on a large investment.▪ Business environment: More than 90% are worried about all kinds of problems and feel great pressure.▪ Government policy: Policy could be seen as a double-edged sword: it can promote the right businesses with good support; but it also can lead to blindly rushing into a new start-up with the purpose of gaining policy benefits without substance.
<i>Challenges / Concerns</i>	Coping with pressure is the first challenge, leading the team effectively is another one, and developing a good idea for a new product is the third one.

Entrepreneur 5

<i>Motivation</i>	I don't want to be a salaryman and I want to have my own business.
<i>Influential factors</i>	<ul style="list-style-type: none">▪ External investors and business environment: In our business area (movies and TV production), many investors require us to sign conditional contracts to protect their investments.▪ Government policy: Policy creates new opportunities but the overall situation is not good for the small players.
<i>Challenges / Concerns</i>	More concerned with the competition on the market and creating enough business flow, namely value and volume.

Entrepreneur 6

<i>Motivation</i>	I want to develop things that belong to me and that I can manage from the beginning to the end.
<i>Influential factors</i>	<ul style="list-style-type: none">▪ External investors: Good investors know the digital business well and can provide good advice; others may just follow the policy and rush into this business for a quick return - these are the majority of the investors.▪ Business environment: Many young people get into start-ups in order to realize self-value, but the reality is very hard, and many are not prepared well with a determined mentality▪ Government policy: Government provides great support, and official experts' project evaluations can help build the reputation of the start-up and generate good results. There are a lot of good policies but these

	have not been fully utilized. Sometimes one needs good connections in order to receive these special benefits.
<i>Challenges / Concerns</i>	Many challenges and worries, e.g., identifying customers, and achieving a high growth rate in a short time.

What are the motivations?

Personal motivation is a very important driving factor in developing digital start-up ventures.^{4,5} Among the six entrepreneurs, we observed a variety of motives, personal values, education background, and previous work experience. For example, Entrepreneur 1 claimed that “education background and overseas experience of spreading Chinese cultural education via online/commercial platform” motivated him to develop his new digital media business promoting Chinese classical literature. Others indicated different combinations, such as Entrepreneur 2 who claimed he was “looking for opportunities to realize self-value after overseas studies and linking new opportunities in China with [his] education background” to develop a digital business that markets sport and health related products and services.

Some Entrepreneurs focused more on previous work experience, such as Entrepreneur 3 who had an IT background and wished to manage a new business to realize his novel ideas and meet customer needs. Many Entrepreneurs also expressed their desire to be their own boss. For example, Entrepreneur 5 stated “I don’t want to be a salaryman and [I] want to have my own business.” Entrepreneur 6 insisted that: “I want to develop things [that] belong to me [and that] I can manage from the beginning to the end.”

Gender differences are important among start-ups⁶ and these also appeared with the claim made by Entrepreneur 4: “As a businesswoman, my motivation is to develop good educational materials for young people. For myself, I want to have economic independence with my own career and income.”

What are the influential factors?

Based on the interviews with the six entrepreneurs, three main themes regarding influential factors emerge, namely the role of external investors and their behavior, the overall business environment, and the government policy.

External investors are a crucial part of the development of a digital start-up business.⁷ According to our respondents, there are some supportive and reliable investors as well as less professional and devious ones. For example, Entrepreneur 1 found a very good investor and said: “My investor is very reliable and gives me freedom to choose what I want.” However, the majority pointed out a number of negative aspects of investors, including “Many investors look for multiple returns in a short period and change investment

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areas quickly [depending on] the current attractive new topic and theme;” and “genuine ones support the business without much interference. Others could be problematic, some of them asking to sign a conditional contract regarding the return on their investment.” (Entrepreneur 3).

There are differences among the external investors as suggested by Entrepreneur 4: “Strategic oriented ones want to build a business empire via strategic planning and benefiting others, but accounting oriented ones would be the majority looking for a short-term return on a large investment.”

In terms of the overall business environment for start-ups, there are both positive and negative elements according to the responding entrepreneurs. Regarding positive aspects, Entrepreneur 1 claimed “it is very good with focus on creating value, innovation, and [a] unique product and service.” Others were more cautious, such as Entrepreneur 2 who pointed out: “The current trend is short-term driven for quick return. Many believe that they should sell out as soon as possible.” Entrepreneur 3 was also concerned about the increasing bubble in this business: “There are a lot of bubbles in digital business, similar to the real estate sector and stock market in China. Many of them want to develop quickly and then sell out to big players.”

Rushing into a start-up business is seen as one of the key problems leading to bubbles, as Entrepreneur 6 added: “The slogan of ‘we are in the era of innovation’ leads many young people to rush into start-up businesses, but many could get burned and pay a heavy penalty” Entrepreneur 5 emphasized the problem of control by big players: “The monopoly controlled by a number of big players makes it difficult for others to grow substantially.” Entrepreneur 3 had a similar view with a certain degree of optimism: “The overall situation has changed from madness to more rationality, in particular among investors.”

As for the existing start-up entrepreneurs, there is a common view on short-term driven ventures. Entrepreneur 1 commented: “People focus on value creation and making quick profit, but many struggle with creating scope.” Entrepreneur 4 claimed “More than 90% are worried about all kinds of problems and feel great pressure,” and Entrepreneur 5 stated “Most people try to speed up but have a lot of worries.” However, Entrepreneur 6 was more sympathetic by saying that “Many young people get into start-ups in order to realize self-value, but the reality is very hard, and many are not prepared well with a determined mentality.”

Government policies have been an important driving force for digital start-up development in China.⁸ As discussed earlier, since 2014, the Chinese government has encouraged citizens to participate in “mass Entrepreneurship and innovation” by providing tax incentives and start-up funds. Later, the government unveiled the concept of “Internet Plus” to

integrate digital technology with traditional manufacturing and consumer industries. Favorable conditions and financial support enabled digital start-up entrepreneurs to flourish in a very short period.

Among our interviewees, most held a positive view on government policy. For example, Entrepreneur 1 praised the policy as being “Very good and provides great support, e.g., initial cash support, tax benefit, subsidized housing and office space.” Entrepreneur 3 added: “Governmental support is quite good, including the national fund for promoting innovation and city-based VC funds” and “The good thing is that it allows beginners to try and learn from their mistakes.” Other entrepreneurs were more cautious about the impact of government policy. Entrepreneur 4 pointed out: “Policy could be seen as a double-edged sword: it can promote the right businesses with good support; but it also can lead to blindly rushing into a new start-up with the purpose of gaining policy benefits without substance.” Some held even more critical views regarding government policy with comments such as: “There are a lot of good policies but these have not been fully utilized. Sometimes one needs good connections in order to receive these special benefits” (Entrepreneur 6).

These comments indicate that political connections with officials are important for entrepreneurs to maximize benefits. Therefore, the reality demonstrates that policy is one thing, but effective and transparent implementation is another. Given the Chinese government has provided many helpful policy initiatives, digital start-ups have developed quickly. However, there are areas requiring further attention and improvement to achieve better policy outcomes.

What are the challenges and concerns?

Digital start-up entrepreneurs face many challenges in their daily business operations and major concerns are associated with their internal management as well as external competition. Several entrepreneurs expressed anxiety over team performance and HR management as well as lack of cash flow. Other concerns were related to knowledge and technology management such as developing new ideas and products, ability to recruit appropriate talent, and gaining new knowledge.

Externally, developing new markets, coping with market competition, being able to create enough business flow with value and volume through quick market expansion,^{9,10} were seen as the major challenges among the majority of these entrepreneurs. Some people identified specific concerns such as “identify[ing] my customers and achieve[ing] high growth in a short time” (Entrepreneur 6).

Overall, the digital start-up Entrepreneurs do worry whether they have enough cash flow, talented people, efficient management systems (including HR), innovative ideas, technology and products, and overall competitiveness in the market. There is sense of “overwhelming daily pressure on the entrepreneurs, and many will give up quickly, and those capable business leaders must be able to cope with it,” as Entrepreneur 1 remarked during the interview.

In addition, many digital Entrepreneurs identified the difficulty of having a long-term plan in the digital business given the rapid market change from time to time and heavy competition between players. Regarding the issue of possibly being taken-over by big players, many interviewees responded that they were not worried or were even willing to have big players take over their business. Some pointed out that their businesses were not very easy for big players to ‘swallow’. Entrepreneur 4 claimed: “We are not worried about big players paying attention to us given we are good in terms of technology and high intellectual input. We cannot be easily taken over.”

With regard to the others, being taken over by big players was viewed as a good business outcome as indicated Entrepreneur 1: “I am happy if a big competitor wants to take it for a good price.” Many other shared this view, such as Entrepreneur 3, Entrepreneur 5 and Entrepreneur 6, believed that “A firm being taken over by big player when it becomes competitive enough is a basic principle in this e-business nowadays.”

Some Entrepreneurs considered it a long-term successful outcome if their firms became strong and competitive enough through their own know-how, brand, technology and capital, to be transformed into public stock companies; as Entrepreneur 2 put it, this would be “another way out.”

Overall, there are essentially four outcomes for the digital start-ups: 1) die quickly; 2) continue the business as a start-up and attempt to survive; 3) be taken over by other players, particularly big ones; and 4) be transformed into a public stock company.

With regard to confronting challenges for future development, the six entrepreneurs identified a variety of issues, such as “future direction and cost control,” “defining our end-user,” “coping with negative competition such as irregular pricing with unqualified services in the market,” “developing strong teams and managing business expansion,” and “develop new and successful business models which are different from others.” From these comments we can see the major challenges are associated with development direction, new business models, capable human resources, cost control, and managing growth well internally and identifying customers and coping with negative market competition externally.

Conclusion

Based on the research outcomes, we can see there are many challenging issues confronting policy makers, external investors, individual start-up entrepreneurs as well as the public as a whole. So far, the major issue is related to the phenomenon of short-termism of digital start-ups. As we discussed earlier, there are several factors leading to such an outcome.

One of the major differences between Chinese and the U.S. Silicon Valley digital start-ups is that the former were based on a money-making business model and the latter were based on a technological-driven business model. Due to lack of intellectual property protection, Chinese digital start-ups lack commitment to develop new technology in the long run because they are worried about being copied by other players and easily losing money. The only way for them in the short-term is to package their business with little input in innovative research and make money quickly.

On the other hand, given the limited investment channels and areas in China, the so-called 'hot money' rushes into business areas that can bring a quick return, such as the real estate sector and the stock market. Digital start-ups have been treated as another area for 'hot money' to move into where it can expect a quick return. Therefore, external investors and their agents have been driving short-termism in this sector. Big players use their financial resources to take over successful start-ups and eliminate competition, adding further to the high concentration and monopoly in this sector. The media sometimes also encourages such moves by publishing the so-called "successful stories" of certain start-ups being taken over in a short-time, but never mentions the failures. All of this drive short-termism and must be addressed by policy makers and business leaders accordingly.

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