



A Study on the Relationship Between Entrepreneurial Environment and Entrepreneurial Activities—Take Entrepreneurial Activities of Returned Overseas Students in Zhongguancun as a Example

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Abstract

In recent years, the entrepreneurial activities of returned overseas students in Zhongguancun are very active, and Zhongguancun seems to have become the largest gathering place of returned overseas entrepreneurs. This paper will explore the relationship between the overseas entrepreneurs' entrepreneurial activities and Zhongguancun's entrepreneurial environment, and explore the factors pulling potential entrepreneurs to be real entrepreneurs. Zhongguancun has established a series of service systems including the procedures for returned overseas students to found a business, processes, capitals to operate business, taxation, and other measures to help companies grow. It has also established returned overseas students pioneer parks to encourage the cooperation between companies with universities. Zhongguancun's entrepreneurial environment promotes the returned overseas entrepreneurs' entrepreneurial activities, and on the other hand, the returned overseas entrepreneurs' companies further improve the internationalization and free entrepreneurial environment of Zhongguancun, achieving a virtuous circle.

Key words: Entrepreneurial environment; Entrepreneur; Zhongguancun; Entrepreneurial activity

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INTRODUCTION

According to the *2015 Chinese Returnees' Development Report*, the total number of Chinese overseas students in 2014 has reached 459.8 thousand. From 1978 to 2014, the number of Chinese overseas students has accumulated to be 3.5184 million. From 2012, the number of Chinese returned overseas students began to skyrocket, and it's expected that in 2015 the figure will exceed 500 thousand. Zhongguancun has now established 33 returned overseas students pioneer parks, and has had more than 15,000 returnees engaged in entrepreneurship and scientific research, including more than 3,000 companies founded by returnees. It shows that for the past 10 years, the number of returnees who started a business in Zhongguancun grew rapidly. The Zhongguancun returned overseas students entrepreneurial service system has received a total of more than 50,000 returnees, out of whom there are more than 150 visiting groups composed by over 10 people; there are averagely 20 visitors and 2 returned overseas entrepreneurs' companies registered every working day (Beijing Daily, July 3, 2015).

Up to now, the total number of companies listed home and abroad in Zhongguancun has reached 150, with a total IPO financing nearly 1,300 billion yuan. In the 24 US Nasdaq-listed companies in Zhongguancun, a half have been founded by returnees. In the GEM listed companies nationwide, 19 are in Zhongguancun, forming the "Zhongguancun sector" (Beijing Daily, July 3, 2015). Such a remarkable result has caused attention from the academia and business circles, so how do the returned overseas students start businesses in Zhongguancun? The economist William D. Bygrave (1996) holds that entrepreneurship includes three elements-human, environment and society. From a macro perspective, "society", while containing "external environment", can stimulate the willingness of individuals' self-realization with the external environment. In China's

economic environment, the studies on the relationship between mainland entrepreneurs and environment are basically a blank, especially in empirical research. This study will take the returned overseas entrepreneurs in Zhongguancun as the objects, explore Zhongguancun's entrepreneurial environment and returned overseas students' entrepreneurial activities, hoping to get a new understanding on the relationship between external entrepreneurial environment and entrepreneurs' entrepreneurial activities.

1. ZHONGGUANCUN'S ENTREPRENEURIAL ENVIRONMENT AND ENTREPRENEURS' ENTREPRENEURSHIP

With the increasingly fierce economic competitions in China, small and medium-sized technological enterprises with no business resources but high risks will be very hard to get started and grow rapidly. However, if there is a favorable external environment, the establishment, survival and growth of small and medium-sized technological enterprises are likely to be greatly improved.

1.1 Relationship Between Entrepreneurial Environment and Entrepreneurs' Entrepreneurship

The Japanese economist Matsuda (1997) points out that entrepreneurship is closely related with external environment. He believes that with the arrival of information technologies, software development, global competition and constantly changing business environment, the entrepreneurs who choose to start a business to realize dream will come forth in large numbers. Entrepreneurship cannot be separated from external environments, including social environment, entrepreneurial environment, international environment, business environment and entrepreneurs' living environment.

Smilor and Feaser (1991) have discussed the existence of the would-be entrepreneurs. They believe that there are some environmental factors which can push or pull entrepreneurs' entrepreneurial motivation, namely, there are some factors which can push or pull the would-be entrepreneurs to be real entrepreneurs.¹ Living level, regional culture, transportation, other regional characteristics and role model are the environments related with the push / pull factors. When potential entrepreneurs make a business decision, they will be affected by external macro environment, laws, regulations, local cultures and many other factors (Gu, 2005).

Hornaday and Tieken (1983) point out that with the development of high technologies and increasingly

¹Negative reasons such as dissatisfaction to current job or unemployment (push). Positive reasons such as the pursuits for personal value, market opportunity and desire for money or other things, etc. (pull).

intensified industrial competitions, higher educational experience will become a necessary condition for technology-based entrepreneurs. Most potential entrepreneurs come from the place where research and development talents get together. Universities or research institutions have more professional students and teachers compared to other places, which become an indispensable reserve resource for technological park, so the reserve army for potential entrepreneurs is more in technological park than in other places. Kenney and Burg (2000) emphasize the importance of "human and environment", advocating to establish support systems to commercialize personal ideas. They call these systems as "the second economy".

As mentioned earlier, Zhongguancun, as China's Silicon Valley, has the absolute knowledge advantage and skill resources. The returned overseas students master advanced technologies, management experience and overseas entrepreneurial experience, so they have the qualities to be potential entrepreneurs. On the other hand, China's huge potential market and overseas students' love to the motherland have become the factors pulling them to start businesses back in China, but there are also entrepreneurial risks such as entrepreneurial experience, "reverse culture clash" and other problems. If we can provide some entrepreneurial framework conditions including government policies, social norms, infrastructures and other pull factors, the returnees with potential entrepreneur qualities are very likely to be real entrepreneurs.

1.2 Zhongguancun's Entrepreneurial Environment

Zhongguancun Science and Technology Park is known as China's "Silicon Valley", which was originated from the "Zhongguancun Electronic Street" in the early 1980s. In May 1988, the State Council approved the establishment of Beijing New Technology Industry Development Experimental Zone (the predecessor of Zhongguancun Science and Technology Park). Since then Zhongguancun has become China's first high-tech park. After 20 years of development, Zhongguancun has gathered nearly 20,000 high-tech enterprises represented by Lenovo and Baidu, and has formed a high-tech industrial cluster engaged in R & D and services in electronic information, energy and environmental protection, biomedicine, advanced manufacturing, new materials and aerospace, forming a distinctive developmental pattern of "one zone with many parks".

Zhongguancun owns nearly 41 colleges and universities represented by Peking University and Tsinghua University, 206 national (municipal) research institutes represented by Chinese Academy of Sciences and Chinese Academy of Engineering; it owns 67 national key laboratories, 27 national engineering research centers and 28 national engineering research centers; it owns 26 college scientific parks and 34 returnees pioneer parks. It can be said that Zhongguancun has become the area with

the most intensive scientific, educational, intellectual and human resources.

1.3 Returnee Entrepreneurship Support System

At the start-up, returnees usually own leading-edge technologies but struggle with the insufficient understanding in registration fund, personnel recruitment and market environment. The government has created pull factors to help returnees' enterprises solve problems and promote potential entrepreneurs to be real entrepreneurs. Zhongguancun has built a support system for returnees, which in particular consists of four parts.

1.3.1 Overseas Liaison Office

Zhongguancun has set up the overseas liaison offices to receive and introduce high-level overseas talents. Zhongguancun has established 7 overseas liaison offices in Silicon Valley, Washington, London, Toronto, Tokyo, Munich and Amsterdam, which provide policy advice and liaison service for overseas students and enhance the attractiveness to high-level overseas talents. Every year an average of about 5,000 returned overseas students visit Zhongguancun, and about 1,000 of them choose to start businesses there.

In 2011, the central government launched the *2011 Beijing Program Concerning the Introduction of High-Level Overseas Talents*, focusing on introducing and gathering high-level overseas creative talents based on Zhongguancun talents zone. Up to now, there are 29 talents from Zhongguancun selected into the "One Thousand Talents Program" of the central government, out of whom 27 people are entrepreneurial talents, accounting for 17.6% of the national total, ranking the first in China. 69 people from Zhongguancun have been identified as Beijing's high-level overseas talents, accounting for 78.4% of the total Beijing talents (Beijing Daily, July 3, 2015).

1.3.2 Support Service Policy

A large part of entrepreneurs of high-tech enterprises are technology-based entrepreneurs, whose entrepreneurial experience is little. Even for those management-based entrepreneurs with an overseas entrepreneurial experience, due to long living in foreign countries and unfamiliarity with China's social environments and working processes, etc., they are easy to fall into the plight of discomfort. For student entrepreneurs, Zhongguancun has set up special pioneer parks to provide services for student entrepreneurs.

Firstly, tax benefits and financial support policies. According to *Zhongguancun Science and Technology Park Guide for Student Entrepreneurs* and *Beijing Entrepreneurship Service Guide for Returnees*, all returnees' enterprises settled in the pioneer park shall enjoy free use of 60 square meters incubation space for the first year, enjoy 30% of the rent for the same area for the second year, and enjoy 60% of the rent for the third year; all enterprises settled in the park shall enjoy the corporate income tax policy of "three exemptions

and three reductions"²; the enterprises shall enjoy a full government subsidy in business tax for the first three years; the enterprise shall enjoy a full government subsidy in local tax of VAT for the first three years. These mean that in the research and developmental stage, returnees' enterprises can save substantially in rent investment, which extends the use cycle of their start-up capitals and reduces start-up costs for those technology-based and management-based entrepreneurs.

High-tech companies need a lot of money in research and development, and lack of fund has become the biggest barrier for those technology-based and management-based returnee entrepreneurs. According to statistics, nearly a half of the returnees' enterprises in Zhongguancun have financing difficulties, with an average funding deficiency of about 1.6 million yuan, and the entrepreneurs are difficult to start up a business entirely based on the personal fund. In order to encourage overseas students to come back and ease their financial pressures in entrepreneurship, the Chinese government developed the *Returned Overseas Students' Scientific Research Start-up Capital Administration Regulation* in 1990, providing free financial supports for emerging enterprises, and returnee entrepreneurs can apply for an up to 100,000 yuan support fund. Zhongguancun Returnee Pioneer Park has set up the "Returned Overseas Student Fund" to provide 100,000 to 300,000 yuan support fund to each returnee's enterprise meeting the conditions. Meanwhile, with the recommendation of the pioneer park and guarantee of bonding companies, returnees' enterprises can apply for up to 1 million yuan loan from bank, with 100% to 50% government subsidy in loan interest.

Secondly, supports in enterprise registration formality and growth. The pioneer park has set up the enterprise registration windows to shorten business registration time from two months to one week. It holds excellent project promotion meetings regularly, commonly known as the "three-three meetings", namely, holds a promotion meeting in the third Wednesday afternoon each month to introduce three promising returnees' projects to banks and venture capital institutions. Zhongguancun returnee enterprise excellent project promotion meetings have built a good platform for corporate financing, accelerated the progress of returnee enterprises' financing, demonstrated excellent business projects, and let the society know more about returnees' enterprises in Zhongguancun.

Finally, favorable policies for returnees' life. In addition to cause, the main factors which influence overseas students to return are living issues, such as "household registration" and "children's education". For returned students' concerns in social environment, in May 2000 Beijing municipal government issued the *Beijing City's Several Provisions to*

²Two exemptions and three reductions: Qualified enterprises shall enjoy income tax exemption for the first two years, and enjoy a half income tax from the third year to fifth year.

Encourage Returned Overseas Students to Start Businesses and Live in Beijing, pointing out that returnees shall enjoy “freedom of movement” in terms of household registration, namely, no matter where their household registrations are before go abroad and no matter they work for short-term or long-term in Beijing, they are free to come and go; the returnees can register their business by Chinese passport directly, and their registration capitals shall be accepted in accordance with the minimum standard; after pay tax in accordance law, the returnees can use all their legitimate income made by entrepreneurship or work in Zhongguancun to buy foreign currencies or remit abroad.

1.3.3 Returned Students Pioneer Park (Business Incubator)

Business incubator means that in a centralized space, management, fund and a variety of support measures shall be offered for emerging high-tech achievements or high-tech enterprises in the initial stages to promote their growth by exchanges and cooperation. Business incubator was originated in the United States in the 1950s, which has played a significant role in promoting the development of high-tech industries, nurturing small and medium sized technological enterprises and revitalizing regional economies.

In 1987 China’s first returned students incubator was in Wuhan East Lake High-tech Entrepreneurship Service Center. Currently China has established a number of local business incubators, not just business incubator, but also professional technology incubator and international business incubator. Returnee incubator is one of them. Returned students pioneer park has been designed to provide incentives for the entrepreneurs returning from abroad. Service center shall provide facilities, funds and a variety of supports for returnee entrepreneurs, involving company’s management, legal guidance for intellectual property, tax relief, children’s education and other services in all aspects of work and life.

1.3.4 Cooperation Between Returnees’ Enterprises and Universities

The surrounding universities and research institutions of Zhongguancun are important resources, and the returnees’ enterprises needs external partners and university’s strong research and development capabilities to achieve a win-win situation. Zhongguancun Administrative Committee has associated with Peking University, Tsinghua University, Beijing University of Aeronautics and Astronautics, Beijing University of Science and Technology, Beijing Institute of Technology, Beijing University of Posts and Telecommunications and other famous universities to jointly establish 14 returnee pioneer parks. The returnees’ enterprises have integrated the campus cultures of universities and entrepreneurial cultures of Zhongguancun to form a resource sharing system. The returnee pioneer park jointly established by Zhongguancun and universities is rooted in the knowledge and wisdom of universities, operates in the international

market opened by the park and provides a vast world for the returnees. The returnees can carry out independent researches and development in the park, act as visiting professors by getting on the platform in universities, and invite teachers and students to join their research projects.

2. ROLE OF THE RETURNEES’ ENTERPRISES IN IMPROVING THE ENTREPRENEURIAL ENVIRONMENT OF ZHONGGUANCUN

Firstly, entrepreneurship and development of the returnees promotes the internationalization of Zhongguancun. The successful returnees’ entrepreneurs have become the strong impetuses and role models to other entrepreneurs and overseas students who have not yet returned. From the academic point of view, the people with a master degree or higher educational qualification account for 75.79% of the total returned students, which is 7 times the proportion of master degree holders in the total workers in Zhongguancun. The returnees have brought not only advanced foreign technologies, but also scientific management ideas and thinking ways. With the increase of returned overseas students, Zhongguancun’s R& D capabilities and technological innovation capabilities have been greatly improved, and international cooperation has been more frequent.

Secondly, business failures often occur in Zhongguancun, but new enterprises constantly come into being. From the end of 2010 to 2013, there remain 1221 returnees’ enterprises in Zhongguancun, but more than 5000 returnees’ enterprises have been founded accumulatively, showing that the survival rate of returnees’ enterprises is less than 24%. However, the entrepreneurs who start businesses again account for 30% of the total. The indefatigable entrepreneurship is a key factor in achieving business success, which also creates a positive business climate of “encouraging entrepreneurship and tolerating failure” in Zhongguancun.

With the gradual increase of returnees’ enterprises, Zhongguancun has become the largest gathering place for Chinese returnees’ employment and entrepreneurship, which has formed an international, positive and free entrepreneurial atmosphere, improved the human cultural entrepreneurial environment, and achieved a virtuous cycle.

CONCLUSION

Based on the analysis of the returnee entrepreneurs’ entrepreneurial activities and Zhongguancun’s entrepreneurial environment, this article takes an empirical study on the relationship between external business environment and entrepreneurial spirit. It is noteworthy that role models play an important role in promoting and stimulating returned overseas students’ entrepreneurship. To cope with the characteristics of the entrepreneurs in Zhongguancun and

overcome the “reverse cultural conflict”, Zhongguancun has established the returnees pioneer park to serve returnee entrepreneurs, and set up a complete service system, including registration procedures, processes, financial support and taxation to help new enterprises grow and develop. It also encourages returnee enterprises to cooperate with universities to promote success. The business environment of Zhongguancun has promoted returnee entrepreneurs’ entrepreneurial activities, on the other hand, returnees’ enterprises have further improved the international, positive and free entrepreneurial environment of Zhongguancun, achieving a virtuous circle.

This article discusses the returnee entrepreneurs’ entrepreneurial activities in Zhongguancun and Zhongguancun’s entrepreneurial environment. In order to make an in-depth analysis on the relationship between entrepreneurial environment and entrepreneurial activities, we still need to vertically investigate the entrepreneurs’ growth environments, and laterally investigate the social and cultural environment outside Zhongguancun.

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