Fundraising in Different Business Ecosystems: 
Entreprenuersial Leaders’ perspectives in USA, France and China.

Master Leadership and Management in International Context

Authors: Jian Yang & Johan Rocher

Subject: Master thesis

Semester: Spring 2012

Examiner: Dr. Prof. Philippe Daudi

Tutor: Prof. Max Mikael Björling

Linnaeus University
School of Business and Economics
Abstract:

Both developing and developed countries have witnessed the very heart position of small business in the contribution of economic growth and job creation. Nevertheless, the appetite for funds of new enterprises is still not satisfied nowadays, which limits the further blossom of entrepreneurship. Concerning about this problem, our research tries to investigate and describe financing sources of companies in seed/early stage and understand the implications of entrepreneurial leadership in the process of fundraising. Besides, this study involves three business ecosystems: America, France and China in the international context.

Following the grounded theory as the researching path, this thesis is considered as a combination of realistic research about financing sources and interpretative research about entrepreneurial leadership. The study is based upon secondary data, which are widely gathered from USA, France and China. In order to achieve in-depth perspectives, empirical explorations are conducted mainly through example studies and face-to-face dialogues with experts including an entrepreneur, a consultant in relation with investors, a bank manager and a project manager.

A comprehensive understanding is realized as a result of this research:

- American business ecosystem proves its leading position in fundraising support for bootstrap-step companies. As to French ecosystem, it is evolving and represents various particularities regarding regulations, structural mentalities and policies. The Chinese one is fairly different due to the affection of the Communism regime but also the particularly important role of network in doing business.
• Entrepreneurial leadership is helpful in fundraising process. And enactment of leadership is quite different due to diverse culture and financing sources. Through the thesis, we interpret how entrepreneurial leadership could be helpful for fundraising in each business ecosystem.

• Beyond academic sphere, this research reveals significant benefits and potentials for bridging fund flow among three business ecosystems. It shows a big entrepreneurial opportunity for people who have knowledge and network to break cultural boundaries and construct this “bridge”.

In no wise this study aims at explaining or prescribing. By studying each ecosystem for entrepreneurial leaders, we hope to establish an understanding of this topic that could be further examined.

**Key Words:**

Fundraising, Bootstrap step, Leadership, Entrepreneurial leadership, Business ecosystem.
Acknowledgement:

We would like to address our sincere recognition for the contribution of all individuals providing guidelines, advices, value-added and supports in this research. Special thanks for the framework supplied by the master program “Leadership and Management in International Context” and all the classmates. We would like to thank Dr. Prof. Philippe Daudi, not only for the amazing framework he built up with the program, but also for the precious advices, feedbacks, and learning he gave us. We also orient our particular thanks toward Prof. MaxMikael Björling, tutor of our project. On top of the literature support he furnished us, he widely contributed to structure our project with important guidance. Dr.Prof. Björn Bjerke and Dr. Lundgren, whose feedbacks, advices and report analysis brought value and wealth into the study, deserve also our greatest gratitude.

We highly appreciate our conversation with Julie Robles, Yang Shangpin, Gao Xiaojing and Lu whose precious testimonials enhanced the research and brought a lot of value. We address them our greatest acknowledgments for their availability, the content of their talking, and the sharing of their knowledge.

An added and deserved thank to Therese Johansson for her constant smile and her administrative support. We would like also to expand this acknowledgement to all these entrepreneurial leaders that might feel concerned about this topic.

The last outstretch will concern all of our friends, relatives and family. We are grateful because, without them, this long and effortful process would not have been so enjoying.

Contents

CHAPTER 1: PREFACE ............................................................................................................................. 8
Case 1: .................................................................................................................................................. 8
Case 2: .................................................................................................................................................. 10

CHAPTER 2: Introduction ....................................................................................................................... 13

CHAPTER 3: A Framework for Explaining or Understanding ................................................................. 17
1. The Bootstrap step: ............................................................................................................................. 17
2. The business ecosystem: .................................................................................................................... 19
3. Fundraising origins, sources and mechanisms: ................................................................................ 26
   3.1. The concept of equity issuance: .................................................................................................. 28
   3.2. Investors’ motivation: .................................................................................................................. 32
   3.3. Liabilities, long term and short term debt: .................................................................................. 36
4. ENTREPRENEUR AS A LEADER: .................................................................................................. 39

CHAPTER 4: Methodology ....................................................................................................................... 49
1. Researching Path: Grounded Theory (Abduction) ............................................................................. 49
2. Methodological Stance ....................................................................................................................... 52
3. Qualitative Approach ......................................................................................................................... 53
4. Face-to-face Research: Dialogues Instead of Interviews and Conversations ......................... 55
5. Case Study ......................................................................................................................................... 57
6. Generating Knowledge and the Theory of Discourse .................................................................... 58

CHAPTER 5: The American Ecosystem .................................................................................................. 61
1. Angels investors ................................................................................................................................. 62
2. Government, Small business administration, federal and regional sponsored programs ............. 64
3. Commercial Banks and borrowing needs ......................................................................................... 67
4. Venture Capitalists ............................................................................................................................ 70
5. Common understanding regarding firm’s value in USA ............................................................... 72

CHAPTER 6: The French Ecosystem ....................................................................................................... 75
1. Angel investors ................................................................................................................................. 77
2. Government supports and sponsored programs .............................................................................. 80
2.1. The system ISF-PME of 2007 and the Finance law of 2011: ........................................ 80
2.2. Oséo: ........................................................................................................... 82
2.3. JEI (young innovative company) and CIR (credit-tax research): ......................... 82
3. Venture Capitalists ..................................................................................... 83
4. Banks and borrowing needs ....................................................................... 87
5. Some cultural particularities ....................................................................... 87
CHAPTER 7: The Chinese Ecosystem .................................................................. 89
1. State-owned Commercial Banks ................................................................. 90
2. Private Lending ............................................................................................ 94
4. Angels and Venture Capital ...................................................................... 101
5. Pawnshops and Small Loan Companies .................................................... 105
6. Internal Fundraising .................................................................................. 107
CHAPTER 8: Results and analysis ................................................................... 110
1. Results ....................................................................................................... 110
2. Analysis ..................................................................................................... 113
CHAPTER 9: Conclusion ................................................................................ 123
REFERENCES ................................................................................................. 125
Table of Figures

Figure 1 Overview of the research object .......................................................... 15
Figure 2 Business Ecosystem ........................................................................... 20
Figure 3 Simplified balance sheet .................................................................. 27
Figure 4 Equity ................................................................................................. 28
Figure 5 Long term liabilities .......................................................................... 36
Figure 6 Current liabilities ................................................................................ 37
Figure 7 The Five Components of Emotional Intelligence At Work ............. 46
Figure 8 Researching Path .............................................................................. 50
Figure 9 Methodological Stance ................................................................. 52
Figure 10 Determinant of a firm’s capitalization rate .................................. 73
Figure 11 Selection of capitalization rates ................................................. 74
Figure 12 Five conceptual pairs in two different business development situations ................................................................. 76
Figure 13 Angels and deals per year ............................................................. 78
Figure 14 Nine level of human relation ...................................................... 94
Figure 15 Private lending cases recorded by courts .................................. 96
Figure 16 Small Business Supporting Policies 2012 .................................. 108
Figure 17 Sources of funding and level of relevant involvement .......... 110
Figure 18 Stakeholders’ attitudes, fundraising and entrepreneurship .... 112
Figure 19 Business opportunity comes from a number of factors .......... 113
Figure 20 Our entrepreneurial leadership understanding of Goleman’s Emotional Intelligence ................................................................. 116
Figure 21 Sense making leadership as a determinant of the capitalization rate ................................................................. 118
Figure 22 ‘The individual’ in two different parts of world ....................... 120
Figure 23 Leadership in the Chinese Business Ecosystem ..................... 120
Figure 24 Importance of entrepreneurial leadership traits ..................... 122
CHAPTER 1: PREFACE

To provide an overview of our following statement, we would like to illustrate the object we strive to emphasize.

Entrepreneurs are faced with several barriers to raise funds in USA, China and France. Based upon the business area they belong to, upon various stages of companies’ growth and upon different ways of financing ("love money", debt, equity and so on) that could exist, problems they encounter to get cash might be different. Entrepreneurs’ leadership skills appear to be substantial in the process of successful fundraising.

In the following, there are two illustrations which are helpful to understand our forthcoming research. The first one is a created case generally explaining the necessity to raise funds for an entrepreneur’s startup. And the second case is from the financing practice of Baidu, now the biggest Chinese searching website, in its seed and early stages.

Case 1:
Let’s assume that one entrepreneur, M.X, started his company up last year in the digital sector.

The small startup, this entrepreneur created in 2011, needs long term capital to cover and finance long term activities such as intensive Research-Development and Marketing. For one year, the innovation required an effortful and cognitive processing.

Thanks to the engineer and the designer, assuming both friends of the entrepreneur, the company is close to finish the “beta step” of a new “e-service” (based on an algorithm meta-heuristic integral type cheated). In addition to that, this company intends to reach the launching of this “beta version” on the digital market and it is relatively difficult to fund monitoring and setting up costs.
However, like in most cases, the internal source of capital has run out. The young entrepreneur has no more cash and needs financings to reach the new decisive and critical step (especially to pay advertising/display providers and search engine costs with Google and its “key words matrix”). He has already used the free cash generated by his internal source of funding (equity mostly nurtured by the so called “love money”) and short term sources (public micro-loans, bank overdraft, sales generated by few consulting activities). This entrepreneur, due to the situation, forecasts to file for bankruptcy and close the startup in 6 month if he does not find new cash flow to finance the activity. The “Cherry on the cake” is that banks refuse to lend him long-term loan arguing that he does not have already users for his new e-service.

Believing in his product, M.X decides to follow advices from his network to issue equity and open the ownership to new external investors. Much more than the consequence of required capital, this situation refers to the survival of this startup in which he spent already a lot of time, effort, money and so on.

It is very common to see startup and small businesses dying for lack of cash to finance their current operations. Aware of this challenge, the young entrepreneur sends an “elevator pitch”, an executive summary (including the business model and a business plan) to several private equity funds and business angels’ foundations.

This case shows the necessary, but also difficult, fundraising process encountered by a project leader. The answer mechanism of these funds’ providers represents already an issue. The ability they have to feed startups is limited. The path that might follow angel investors and venture capitalists is not the same. Transactions costs, which are related to potential future agreement, have also to be taken into
account. At least, this case summarizes the impact of the ongoing credit crunch on small businesses traduced by banks’ risk aversion.

**Case 2:**
The biggest Chinese searching sites in the world: Baidu was founded by Li Hongyan in 2000. Before that, Li worked in America as an excellent programmer in the area of searching engine. Since 1996, he had been looking for the opportunity to set up his own searching-service company in the digital world in China. Not until 1999 when he found computers in every office, email address in almost all business cards and logo of “.com” on t-shirts around every corner in China, did he recognize that the opportunity was coming. Although he created an advanced technology and an innovative business model, he was still unable to form his own searching company, due to the lack of funds.

First things, in 1999 Li started with searching private investors. He chose to go to the USA instead of China to raise money for his forthcoming business. He knocked doors of potential investors in San Francisco one by one and finally received the first biggest check in his life: $1.2 million. Afterwards, it was not only the attractive Chinese market with massive potentials and advanced technology Li owned, that attracted investors. It was also, or even more importantly, the determination and enthusiasm about the career Li has shown that encouraged investors to make this investment, which even exceeded the amount Li asked by $0.2 million.

This was the first fund Li raised for Baidu. We can hardly imagine the birth of the currently internet giant company without this fundraising. Then Baidu developed fast as soon as it was launched. In the spring of the next year, Li was considering about the “second fund round” for the long-term operations. He turned to many different channels: debt and equity both in China and the USA. $10 million arrived smoothly in
September 2000, which supported the venture of Baidu in the following several years. It is not until 2005 that this new searching site began to make profits. That is to say, in the first whole four years, cash this new company needed, to exist and develop, relied totally on fundraisings. Such a situation is definitely not rare in new business, especially in digital world.

Entrepreneurial leadership is decisive in the process of raising money. In consideration of Baidu, it would be impossible for Li to convince investors without the determination, enthusiasm and leadership he showed. What’s more, different business ecosystems also make difference between success and failure of financing. It should be noticed that Li went to America to lead a fundraising in the first time. It was because of the immature Chinese business ecosystem. Around 1999, there were few investors in China and the sources of funding were quiet limited. State-owned commercial banks were almost the only way to raise money. As to those banks, following risk aversion principles, they seldom permit loan to new companies without any customers/users yet. This amounts to saying that it was almost impossible for entrepreneurs to sell business ideas to investors in China back in that time. However, the USA business ecosystem was totally different. It was open and encouraged innovations. Eventually, circumstances in China became better and Baidu got remarkable proof of development in 4 years. That was why Li conducted his second fundraising both in China and America.

This case exactly illustrates one point of our research. Entrepreneurs would rarely escape from fundraising for new business in the start-up stage. Considering significant effects on successful financing, both entrepreneurial leadership and the business ecosystems should be taken into account in the process of raising money. It is positive to
consider both domestic and abroad business ecosystems and choose the best one for financing. Here could be found the value of our research regarding the three relevant business ecosystems.
CHAPTER 2: Introduction

Previous cases demonstrate what kind of issue our forthcoming work deals with. We saw previously how difficult and important it is to direct successfully fundraising for start-up companies. In this research, we discuss what traits of entrepreneurial leadership allows raising money successfully. More precisely, We intend to focus on “company’s bootstrap step” in three business ecosystems: USA, France and China.

Usually, entrepreneurs act as leaders of their own companies in the key “company’s bootstrap step” since they build up and lead the business project from the seed. In this “bootstrap step”, companies are started up and most of them still belong to small and medium enterprises (SMEs). We decided to call this step as such (bootstrap) due to the common french interpretation under the label of “phase d’amorçage”. We were also inspired by the comparison with ‘bootstrap program’ used ‘to boot’ a computer.

Nowadays, these SMEs play an incredibly important role in society development. In developed countries, such as the USA, the United Kingdom and Japan, the proportions of SMEs in GDP exceed 90 percentages (Zhang & Liang 2011). In 2009 in China, SMEs also contributed 60 percent of GDP (Wabei 2009). With innovation and endeavors, entrepreneurs drive job creation, develop new technology and satisfy customers’ needs. The economist David Birch (1981) published an article claiming that employment was created in the process of companies’ creation, not in mature companies (which tended to reduce it). This point is confirmed by more recent research of the economists John Haltiwanger, Ron Jarmin and Javier (2010). Therefore, it could be important to research how entrepreneurs can lead their new companies (SMEs) from launching to success.
Among all the obstacles entrepreneurs will meet in the way of leading new companies, financing is one of the most essential factors especially in the “bootstrap step”. In China, the average life of SMEs is only 2.9 years and 30 percent of SMEs bankrupt every year, and among all these dead SMEs, 62% are caused by failing fundraising (Zhang & Liang 2011). In America, the small business financing market surpasses $170 billion per year, but it is still not sufficient to satisfy the capital demands of entrepreneurs and their cash-starving businesses (Deceglie 2000, p. 45). Scarborough, Zimmerer, and Wilson (2008, p. 463) claimed that “Today, the challenge of attracting capital to start or to expend a business remains. Most entrepreneurs, especially those in less glamorous industries or those just starting out, face difficulty finding outside sources of financing.” According to the same authors (2009, p. 487), “choosing the right sources of capital for a business can be just as important as choosing the right form of ownership or the right location”.

How to deal with this challenge is the question that every entrepreneur needs to think about. As leaders in their own companies, entrepreneurs have to think about how to get financial supports and lead their companies to optimal capital structures through the fundraising process. Our research will try to offer information and descriptions for entrepreneurs regarding this issue.

As we can see in previous cases, business ecosystems have to be taken into account in the process of fundraising. Laws, regulations, financing instruments, culture and so on are different. What’s more, today the world is highly connected and it is better for entrepreneurs to consider about the global financing markets rather than just domestic markets to find the optimal way of fundraising. For example, in April 2012, Chinese government, through the head of Chinese central bank Zhou
Xiaochuan, just decided to facilitate investment abroad (Zhou, 2012). Therefore it is valuable to make research in three main kinds of business ecosystems in the world: USA (shareholder capitalism), France (stakeholder capitalism) and China (government-regulated capitalism).

We strive to find out the significant role of leadership in searching for capital to launch companies. Scarborough, Zimmerer, and Wilson (2008) suggested that creativity of entrepreneurs counts in financing. Entrepreneurs should be comprehensively prepared before approaching lenders or investors and might need to show leadership. We believe that entrepreneurial leadership is different depending on business ecosystems. Raising money implies cultural and typical leadership traits to convince and attract every relevant stakeholder in the nurturing process of the startup. We can imagine that just due to big difference of culture between America France and China, entrepreneurs are required different leadership for financing. We devote ourselves to figure out what traits of entrepreneurial leadership skills are looked-for to raise money successfully in three business ecosystems. The overview of our research object can be seen in the following figure (Figure 1).

*Figure 1 Overview of the research object*
Owing to what has been mentioned, the statement will strive to answer to what could be the main and core research’s questions:

- What are specific sources of financing and relevant policies, regulations and habits based upon business ecosystems?
- How could entrepreneurial leadership be helpful to raise money for bootstrap-step companies in the three ecosystems?

The research could be interesting for entrepreneurs to raise money for their business, especially in the bootstrap stage, from a threefold overview: USA, France and China.

By no means must our projected findings aim at giving solutions, forecasting, or prescriptions. The purpose is mainly to give different fundraising approach and relevant entrepreneurial leadership traits considering cultural differences. Thereby our statement will be focused on different cultural ecosystem support, tips and leadership regarding the way of raising money. At least, we will strive to provide an overall understanding but also descriptions. The report must neither prescribe nor explain.
CHAPTER 3: A Framework for Understanding

It would have been somewhat risky to start the research without defining clearly main concepts and objects to conceptualize. That’s why the following framework is established before the methodology part.

1. The Bootstrap step:

In the startup stage, the early stage and even in the expansion stage, entrepreneurs need to get cash in order to finance their activities. No matter what is the business area (USA, France or China), our stage’s definition will be based on the stages of development classifications used in the reliable “MoneyTree Report” (PricewaterhouseCoopers, 2011) as follows:

❖ **Seed/Start-Up Stage:**

It is the initial stage. The company has a concept or product under development, but it is probably not fully operational. This stage is usually in company’s existence less than 18 months.

❖ **Early Stage:**

The company has a product or service in testing or pilot production. In some cases, the product may be commercially available. The company may or may not be generating revenues. This stage is usually in business less than three years.

❖ **Expansion Stage:**

Here, product or service is in production and commercially available. The company demonstrates significant revenue growth, but may or may not be showing a profit. This is usually in business more than three years.
Later Stage:

Product or service is widely available. Company is generating on-going revenue; probably positive cash flow. It is more likely to be, but not necessarily profitable. It may include operating divisions’ spin-offs of existing private companies.

In our study, we will integrate the previous mentioned seed/startup stage and early stage as components of what we will call the “company’s bootstrap step”. We are pleased to use the PricewaterhouseCoopers’ “MoneyTree Report” due to the reliability of data provided by Thomson Reuters which is very useful for the forthcoming statement. In many cases entrepreneurs need to raise funds even before their companies are created due to lack of money to convert idea into tangible project. Therefore, we will also include this period to the “company’s bootstrap step”.

Van Auken (2005) wrote an interesting article comparing the usage of bootstrap financing among technology-based firms and non-technology-based firms. However, this article deals with a sector-approach. Instead of explaining variations and differences of entrepreneurship’s financing and usages upon sectors, we rather aim at using the time as a significant item of comparison. By time, we mean the “bootstrap step”. No matter what are the industries (or sector) entrepreneurs belong to, we thought it was valuable to orient our forthcoming work on this key step of entrepreneurship. This is a key step wherein raising cash represents an issue. This is also a step wherein entrepreneurs should develop real leadership skills in order to attract and “nurture” with funds their small business. That’s why we will accord a high importance on this “time variable” usually targeting business less than three years.
This conception of a company’s bootstrap step will be highly included in the analysis. Our analysis will sometimes allude to a biological approach related to the business ecosystem notion. Thus, on top of the seed and early stage, our perception of this “bootstrap step” will also include the embryonic stage metaphor.

2. The business ecosystem:

We decided to define environmental forces under the ‘business ecosystem’ label due to an inspiration provided by investors’ technical jargon in France. The role of an entrepreneur is a creator who should lead a nurturing process. The company starting up is like a biological cell evolving in an ecosystem referring to a business area such as USA, China or France. In this concept, by providing ideas, identities, functional models, time and energy and so on, the entrepreneur contributes nurturing this cell. Other entities such as investors, banks, governments, and so on in the business ecosystem, also have impacts on the growth of the cell. This cell becomes progressively an organic system coevolving with others in a specific ecosystem. As every organic entity, organizations like young businesses are not independent and need resources to grow or maintain itself alive. Because of the similarity, we apply the metaphor of “nurturing process” in an ecosystem to describe and explain the fundraising process for a new company. Some mechanisms occurred and entrepreneurs’ perspectives could easily be blurred by what we intend to refer as a business ecosystem.

The following scheme represents a short draft related to the previous mentioned ecosystem metaphor (Figure2).
If we look at the figure 2, this might be considered as a hurricane or a messy vortex. And that’s why we state this metaphor of ecosystem: to express the whole complexity that might occur in front of the project leader.

However, what is a business ecosystem? We chose the word “ecosystem” from ecology as a metaphor because of the similarity between the natural processes of nurturing a seed (or a cell) and the fundraising process of developing a new company (seed stage). According to Chapin and some of his co-workers (Chapin et al., 2002, p.380), “a natural ecosystem is a biological system consisting of all the living organism or biotic components in a particular area and the nonliving or abiotic components with which the organisms interact, such as air, mineral
soil water and sunlight”. The key characteristic is interactions. Growth from a seed to a mature plant is never independent. It relies on the ecosystem to which it belongs. In common with natural ecosystems, business ecosystems are also about the network and interactions among entities, such as incubators, investors, banks, government, customers, and suppliers and so on. James F. Moore (1996, p26) defined “business ecosystem” as “An economic community supported by a foundation of interacting organizations and individuals—the organisms of the business world. The economic community produces goods and services of value to customers, who are themselves members of the ecosystem. The member organisms also include suppliers, lead producers, competitors, and other stakeholders. Over time, they coevolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments, and to find mutually supportive roles.”

Like seeds (or cells) in nature, growth of new companies is also strongly connected with other entities in a business ecosystem. We enumerate all the main stakeholders in the draft (Figure2). These stakeholders, whose roles are so important to explain each business ecosystem context, will be deeply integrated in a significant pattern describing differences between USA, China and France. As creators and leaders of their new business, entrepreneurs lead the “nurturing process”, which means bringing the company from fledgling to maturity. This process contains plenty of activities, saying human resource management, Research-Development, production, quality control, cash flow management, fundraising and so on.
In our research, we mainly focus on the fundraising aspect. According to Zimmerer and Scarborough (2008, p. 464), “the money is out there; the key is knowing where to look”. They also stated that “choosing the right sources of capital for a business can be just as important as choosing the right form of ownership or the right location.” Thus, entrepreneurs will try to find out and keep sufficient injections of funds and lead their companies to an optimal capital structure.

In the above business ecosystem scheme, governments and federal entities include the American government and congress (related to federal’s states budgetary), the Chinese and French governments. They govern small business legislation and relevant regulations such as tax reliefs, public loans, fiscal settings and also innovation underlying process. Besides, there are also some specific government-supported programs serving for entrepreneurs and SMEs. In USA, we can see Federally Sponsored Programs, Small Business Administration, and State and Local Development Programs. In China, there is China Association of Small and Medium Enterprises. In France, the 2007’s TEPA-law happened to be the main support through important tax reliefs encouraging wealthier people to invest in small business.

Banks are another essential factor in a business ecosystem. Central Banks, including Federal Reserve System (USA), European Central Bank (France) and People’s Bank of China, can also be considered as government entities. They are in charge of leading monetary policies. Commercial banks are in the very heart position of the financial market for small business, providing the greatest number and various loans to small companies. For example, in USA, according to one U.S. Small Business Administration’s study (2001, p. 3), “67 percent of all small business that borrow from traditional sources get financing from banks”. As to Chinese SMEs, the average proportion of bank loan in
external financing is up to 58% (People’s Bank of China, Branch of Shanghai, 2010). As regards French bank, they still shy away providing loans mentioning capital structure difficulties with the current “European debt crisis”.

We also consider investors in this business ecosystem. They are friends and relatives, angels, venture capitalists, various private equity funds and public investors from IPO. Those investors provide equities and other liabilities. Usually they become shareholders of new companies and even coach in the management process. Each of them focuses on different stages of companies. As entrepreneurs lead the process of “nurturing”, different traits of investors must be taken into account.

Suppliers and customers could affect start-up companies’ short-term funds through accounts payable and receivable. For instance in 2010 China, 40% short-term funds of SMEs come from suppliers’ and cooperators’ commercial credit (People’s Bank of China, Shanghai Branch, 2010).

All of these entities and their interactions shape business ecosystems. Natural ecosystem’s size usually embraces a limited, defined area (Chapin et al., 2002; Schulze et al., 2005). It is the same with business ecosystems. Because of differences of economic systems, policies, economic development level and cultures, Chinese, French and American business ecosystems are not the same. As the head of People’s Bank of China said, “China is a relatively closed economy” (Zhou, 2012). Despite huge trade in the world, Chinese companies and individuals are hard to make foreign investment. Foreign capital is also restricted in some industries. That’s why the study may assume that Angels and venture capitals are less developed in China than other ecosystems studied. Commercial banks are still the main source of financing for SMEs. However, unofficial market of credit takes
important position. People’s Bank of China considered this market to 2400 billion yuan (285 billion euros) in late March 2010, representing 5.6% of total loans market in China. Unlike Chinese business ecosystem, USA has the most developed and free investing environment. Almost all the financing instruments can be found in. And innovations in fundraising keep emerging. It’s full of legendaries about successful financing for new businesses. Entrepreneurs could convince investor even with business ideas, which is seldom happened in China as we mentioned in the CASE 2. But it’s also volatile. As Tomas W. Zimmerer and his colleagues (2008, p.463) put it, “Capital markets rise and fall with the stock market, overall economic conditions, and investors’ fortunes. These swells and troughs in the availability of capital make the search for financing look like a wild roller coaster ride.” French economy is considered as a complex system with a lot of regulation but also an antagonism between small and large businesses. Compared with shareholder capitalism in USA, France is stakeholder capitalism and China is a relatively closed and highly state-controlled economy. These three countries represent three different kind business ecosystems.

As for secondary data necessary to the ecosystem research, the statement will follow meaningful surveys and investigations such as the NFIB small business economic trends (Dunkelberg & Wade, 2012), the Halo report (Dickey, Walsh & Sanwal, 2011), the report of Financing Small Business (William, J & Dennis, Jr. 2011) and the MoneyTree report (PricewaterhouseCoopers, 2011) for the American ecosystem. These secondary data make sense in the forthcoming statement by providing a snapshot over small business trends and investors (angels and venture capitalists). The reliability of data gathered is high. The first (NFIB Research Foundation) has collected Small Business
Economic Trends Data with Quarterly surveys since 1973 and monthly surveys since 1986. The sample is drawn from the membership files of the National Federation of Independent Business. The second is provided by the Angel Resource Institute (closely aligned with the national Angel Capital Association) co-working with the CB Insights and the SVB Financial Group. The last-mentioned one, the MoneyTree Report, is made by PricewaterhouseCoopers with data provided by Thomson Reuters. As concerns regulation, the USA’s government is supplying useful support such as the Small Business Administration website.

In France, The NISES (National Institute for statistics and Economic Studies, or “INSEE”) monitors a huge database of information. Some of them will be meaningful for the study. As for other institution support, the ‘government small business website’ looks much more like a journal or magazine rather than an entrepreneurship support. We will use likewise files gathered by the national angel investors’ federation called France Angel. This association made updated report concerning those significant actors of the study. The Capital Investors’ French Association has published studies and investigations, from Grant Thornton (2011), which we will use also to generate an interpretation of key actors of the ecosystem: Venture capitalists. The research intends to mention French Venture capital contribution for companies in bootstrap step.

Regarding Chinese business ecosystem, we also resort to different sources. Chinese government reports, like the ‘China Financial Market Development Report’ (The people’s bank of China, 2011), offers official statistic research. Also various websites concerning financing and small business are in our frame of reference, for example, ‘National Development and Reform Commission’ is full of policies, ‘VC in China’
provides information about Chinese venture capitals, and ‘Chinese Banking Regulatory Commission’ is about commercial banks. Domestic and international companies, like Yahoo, Sohu and Bloomberg, also make constant study of fundraising which could be helpful. Furthermore, analyses from books, such as ‘the present situation of SMEs’ fundraising in China’ (Zhang & Liang 2011), are another secondary data sources.

3. Fundraising origins, sources and mechanisms:

In this step, the entrepreneur’s activity, depending materially on fixed and current assets, cannot be sustained by cash flow from operations. Here, operating and commercial engines have no anteriority. ‘Vital organs’, to stay in the biological metaphor, are not enough developed to create an independency. More likely, companies are not generating revenues in bootstrap step. Then, issue appears to finance needs of operational assets for new companies. It could concern funds necessary to finance a warehouse’s acquisition for a new grocery store, funds necessary to acquire a local or to pay firsts relevant rent, funds necessary to purchase computers, desks or important offices supplies, it could also be funds to pay first suppliers, first employees or the new marketing policy. On top of classical issues, which young companies are facing up to, entrepreneurs have to balance the business engine. Setting up the balancing point between assets and liabilities is targeted by the fundraiser in need. Liabilities and shareholding, like ‘blood for organic systems with muscles and organs’, are providing those funds and cash necessary to nurture and finance business activities. For the entrepreneur, starting a business implies considering the following and simplified balance sheet (Figure 3):
A classical entrepreneurs’ issue could be the capital financing process, for lack of banking support, to finance the research-development step or the marginal cost of the first customer acquisition for example. Due to an observed ongoing credit crunch for small business almost all over the world, raising the cash for a new company venture is an entrepreneurial challenge. According to Scarborough, Wilson and Zimmerer (2009, p.487), “entrepreneurs, especially those in less glamorous industries or those just starting out, soon discover the difficulty of finding outside source of financing. Many banks shy away from making loans to starts-up, venture capitalists are looking for ever-larger deals, private investors have grown cautious, and making a public stock offering remains a viable option for only a handful of promising companies with good track records and fast growth futures”. They stated that “choosing the right sources of capital for a business can be just as important as choosing the right form of ownership or the right location”. A list of different sources of funding, common for the American, the Chinese and the French area is drawn in the figure 4.
below. Sources, which are itemized in the equity, will influence the form of ownership.

**Figure 4: Equity**

![Owners Funds – Capital (List of possible sources of funding):](image)

Equity can integrate both internal and external resources. Our understanding of what is the “Love Money”, which takes firstly part of internal sources, will include above-mentioned personal savings plus friends and relatives. A question, that could be solve by the forthcoming work, would be to check if potential investors such as those mentioned, as external source of funding, have different behaviors and habits upon their localization either in USA, China or France.

3.1. The concept of equity issuance:

Equity issuance is also a long and effortful process that lets appear a dilution effect for entrepreneurs or project leader. In case of accepted request, the “terms sheet” understanding usually requires an effortful learning process for young entrepreneurs. This is important to mention it in the conceptual framework to emphasize responsibilities that might be taken by an entrepreneurial leader. To illustrate this point, we
decided to look back in the CASE 1 of the preface whose following is below:

“Three month after sending funds applications, M.X gets an answer (an eternity in the digital world!). One of these foundations accepts to receive the young entrepreneur. After three meetings, some investors (angels) are decided to finance his company. They think he has an exceptional behavior, a lot of knowledge and a strong personality to lead the business. Moreover the company’s innovation is a solution that has them seduced.

After an intense negotiation regarding the term sheet, the young entrepreneur, with friends’ advices, succeed to fix the value of your company at “€650 000 pre-money” (before the issuance). This is an attractive valorization for new investors (they can expect a high capital gain), then they decide to provide €300 000 into the company in compensation of 31.58% of the equity. To maintain M.X involved, they decide to create share purchase warrants with what used to be called “share buy-back”. They even expect to attract new investors later by issuing convertible bonds.”
The relevant term sheet below shows agreements between M.X and investors:

**TERMS SHEET**

The amount of equity at the beginning was fixed at 20 000€, integrally liberated, and divided into 20 000 shares of 1€ of face value.

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Number of share</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>M.X (entrepreneur)</td>
<td>10 500</td>
<td>52.50 %</td>
</tr>
<tr>
<td>The engineer</td>
<td>4800</td>
<td>24 %</td>
</tr>
<tr>
<td>The designer</td>
<td>4000</td>
<td>20 %</td>
</tr>
<tr>
<td>The half-time salesman</td>
<td>700</td>
<td>3.5 %</td>
</tr>
<tr>
<td>Total</td>
<td>20 000</td>
<td>100 %</td>
</tr>
</tbody>
</table>

- Investment realized: **300 000€**
- Investors: Business angels and a private equity fund
- Form: Equity issuance
- Payment: In cash within the subscription
- Company value pre-money: **650 000€** ¹ (negotiated)
- Company value post money: **950 000€** ² (650 000+ 300 000)
- Equity issuance (Increasing of capital): +**300 000€** for an investor’s equity share of 31.58% (300 000/950 000)

\[
\text{Number of new shares (X): } \frac{X}{\text{(number of share at the beginning } + X)}
\]

\[
\text{Percentage of new shares hold by new investors:}
\]

¹ Capitalization of the company before the equity issuance. The startup cap at this stage follows a logic of negotiation. The entrepreneur, M.X, has to evaluate startup’s assets. The degree of research development, the team, the innovation and everything that had been developed by the small company should be integrated.

² Capitalization of the company after the equity issuance.
Fundraising in Different Business Ecosystems: Entrepreneurial Leaders’ perspectives in USA, France and China.

Jian Yang & Johan Rocher

\[
\frac{X}{(20\ 000 + X)} = 0.3158 \Leftrightarrow X = 0.3158 \ (X+20\ 000) \Leftrightarrow X = 9230
\]

**Price per share:** \(300\ 000 / 9230 = 32.50\ €\) \((1\ €\ of\ face\ value\ and\ 31.50\ of\ issuance\ premium)\)

**Assessing post-increasing:**

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Number of share</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>You (entrepreneur)</td>
<td>10 500</td>
<td>35.92 %</td>
</tr>
<tr>
<td>Daniel (Engineer)</td>
<td>4800</td>
<td>16.42 %</td>
</tr>
<tr>
<td>Fabien (designer)</td>
<td>4000</td>
<td>13.68 %</td>
</tr>
<tr>
<td>Francesco (half-time</td>
<td>700</td>
<td>2.40 %</td>
</tr>
<tr>
<td>salesman)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>**New investors (all</td>
<td>**9230</td>
<td>**31.58 %</td>
</tr>
<tr>
<td>included)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>29230</td>
<td>100.00 %</td>
</tr>
</tbody>
</table>

The amount of equity is now 29 230 € assessed in 29 230 shares of 1€ (face value).

Case of issuance premium incorporation with a second equity increasing to appreciate the face value and increase the company’s market cap:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity step 1</td>
<td>29 230</td>
</tr>
<tr>
<td>Issuance premium ((9230 \times 31.50))</td>
<td>290 745</td>
</tr>
<tr>
<td>Incorporation fraction of issuance premium ((24.34%))</td>
<td>70 770</td>
</tr>
<tr>
<td>Issuance premium after incorporation</td>
<td>219 975</td>
</tr>
</tbody>
</table>

Then the equity (step 2) will become 100 000 € assessed in 29 230 shares with a nominal value of 3.42 €.

On top of running against a timer to save his company from the bankruptcy, convincing investors, and finding new sources of funds, the young entrepreneurs, M.X, has to understand terms and analyze
what it deals with. The previous-showed terms sheet illustrates an obvious dilution effect. Into the bargain, based upon the business ecosystem this startup belongs to, the explaining calculations in red are not necessary to be written in the agreement. The theoretical analysis had to mention this illustration to emphasize this complex, long and effortful process of fundraising.

Determining efficiently the pre-money value of the company is clearly a matter of leadership. Leading theses negotiations with investors implies to know-how sell himself and the company as a whole asset. For the entrepreneur, the higher the capitalization is the better. Indeed, it allows boosting the face value of shares. Thereby, the entrepreneur, and also pioneers investors (those who take the more risks) might expect a high compensation in case of capital withdrawal later. That’s why the project leader, M.X in the previous case, has to embody the project, its value and defend it within negotiation part. Clearly, project leaders have to inspire confidence to perfect the project through the capital structure.

In the previous case, the term sheet illustrates a snapshot of the equity structure through the first company’s fundraising process. It doesn’t illustrate the use of the cash raised. Notwithstanding, it has to be mentioned that a fundraising with private equity brings about other concepts such as rounds and habits.

3.2. Investors’ motivation:

Their motivation is an important variable that might differ upon the company’s stage, into the bootstrap step, and not only upon the ecosystem.
Angels investors:

Following the previous illustration of Case 1, trust and experience are other assets than business angels can offer, in addition to their investments in first rounds of equity issuance. Typically, business angels come as a minority in the shareholder capital. The company founder is still a majority at least till the second round. The second round concerns essentially the moment, wherein the second fundraising is appearing due to cash depletion occurrence.

During the studied bootstrap step, the valuation of the company is usually growing. There are several reasons. This might be related to the idea’s (or concept) maturity level. Other variables come into play to promote and appreciate the company value. It might be the detention of any patent, a singular know-how (e.g. skills in certain frameworks and languages codes), a team with technical and managerial skills, a specific technology or a particular database (suppliers, customers, users ...). Anyway, there are no specific rules because the valuation is primarily a matter for negotiation between the project founder and new shareholders. The project founder will tend to “overvalue” his project with a “pre-money value” as high as possible whereas new investors will try to low this pre-money value. Generally, investors, such as angels and pioneers, feel reluctant to invest in a high capitalized company because perspectives, especially gain in capital withdrawal are lower. Thus multiples are inferior and the risk is less remunerated.

It should be emphasized in the theoretical framework that business angels are the actors in the financing chain who take the more risks. They are grouped in network and are physical investors. Angel investors could be experts, consultants, managers, or even executives who try to orient differently their savings.

---

3 For instance: PHP, HTML5, Ruby on Rails
They invest few times after the birth of the company. Even if networks forged with incubators and nurseries allow some business angels to know the potential of some embryonic projects, their investments are realized with the lowest visibility and the most delicate projection. These two parameters reinforce the uncertainty that increases the risk factor multiplies. The investment ticket amount is impacted from this hence a lower fundraising quantity at this stage.

- **Venture capitalists:**

Venture capitalists generally intervene later after the “seed funding round” which is much safer than those observed previously. Their ‘investments’ tickets’ are generally higher but the relevant sharing is proportionally lower. These investors, organized in corporate funds, generally take between 20% and 40% of the equity shareholding. They use to intervene at the end of the bootstrap step when the business model has already been deeply analyzed and prepared by the project leader, previous investors and other stakeholders.

Venture capitalists may have different purposes based upon the manner of financing their funds. Venture capital funds, depending on private equity source, invest the money of third party, often raised in the bond market, coming from capital withdrawal and relevant earnings, coming from previous transfers of equity investments, or financial services of stock-savings providing by certain bankers to businesses and households. It is precisely these features into availability that lead them to adopt more prudential policies than an angel investor who invests his or her own money. Venture capitalist funds supporting entrepreneurship use also complex long term-liabilities such as convertible bonds to alleviate risk with transfer triggers. These corporations use to get significant control over company management. Targeting the shareholder return performance, venture
capitalists accord a high importance to asset management to optimize their portfolios. That’s why their involvement and motivations may differ from angel investors.

- **Other funds:**

Some other sources of funding may come from different mechanism of financing. For instance, it is the case of funds using small business regulation to propose attractive compensation for savers. Depositors just have to put their deposits and savings into these ‘mutual funds’. Tax reliefs and other savings system related to pension or even employee’s corporate savings can be used as leverage for specific funds that invest in enterprises that are eligible for.

There exists plenty private equity investors using other mechanisms such as debt or Mezzanine leverage but these institutions intervene beyond the company’s bootstrap step. The graph (PrivCo’s Knowledge Bank Terms & Definitions) below represents investors’ intervention upon the company’s life cycle:
3.3. Liabilities, long term and short term debt:

As for other external resources, we can divide long term liabilities from current liabilities. The following intends to nurture the theoretical framework regarding liabilities and especially debts.

- Long term liabilities:

Sometimes envisioning the capital structure can be difficult for entrepreneurs due to blurred use of hybrid instrument such as convertible bonds. Also it is a fact that it is quite difficult today to borrow money to finance the “bootstrapping”. However, it is still possible to get a loan in case of strong business model presentation or even in case of specific sector. It is also possible to alleviate opportunity costs through capital leasing. Banks are more confident toward industry using tangible assets with a physical offering. Mainly because projections are easier but also because it is safer to warrant loans against tangible fixed assets like plant, machine or real estate. An illustration (David Harper, figure 5) of the twofold structure of long-term liabilities is provided below:

*Figure 5: Long term liabilities*

<table>
<thead>
<tr>
<th>Type</th>
<th>Long-term liability</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing Liabilities</td>
<td>Notes payable</td>
<td>Debt issued to a single investor.</td>
</tr>
<tr>
<td></td>
<td>Bonds payable</td>
<td>Debt issued to general public or group of investors.</td>
</tr>
<tr>
<td></td>
<td>Convertible bond</td>
<td>Debt with a feature that allows bondholders to redeem their bonds for common shares. Or, bonds issued in combination with warrants to purchase stock.</td>
</tr>
<tr>
<td>Operating Liabilities</td>
<td>Capital lease obligations</td>
<td>Contract to pay rent for the use of plant, property or equipment—with which the company bears some risk as if it owned the asset.</td>
</tr>
<tr>
<td></td>
<td>Postretirement benefit obligations</td>
<td>Retirement benefits payable under pension plan.</td>
</tr>
<tr>
<td></td>
<td>Other accrued expenses</td>
<td>Includes deferred income tax or contingent obligations (e.g., lawsuits that have not been settled).</td>
</tr>
</tbody>
</table>
Short term liabilities:

It is also possible to get cash through short-terms debt. More flexible, current liabilities concern essentially debt ending before one year. It is considered healthier to finance current assets such as accounts receivable with current liabilities. Financing current assets with long term loans would be considered as toxic. Using debt to finance operating cash may be legitimated in the short run due to the result of negative operating cash flow. However it cannot be sustained forever due to costly bank overdrafts and accrued expenses.

It might be useful for entrepreneurial leader to know why debt is cheaper than equity. Indeed, debtors, or lenders, have what is called a prior claim if the company files for bankruptcy. It means that debt is safer than equity that’s why debt warrants a lower return, fixed by interest rate, to investors. In other words, this source of funding generates an interest rate lower than the expected shareholders’ return on equity.

Into the bargain, interests paid are tax deductible in USA, France and also China. It ineluctably generates cash for the company. Debts are also famous (especially long-term ones) for the leverage that might be
created due to the capital structure. At least, this source of financing contributes to reduce the weighted average cost of capital. An entrepreneur, who is leading a company without debt, is running what David Harper calls a “sub-optimal structure”.

To illustrate this statement, let’s assume that a French entrepreneur built up a company generating €2500 of Earnings Before Interests and Taxes (EBIT). Based upon the assumption that this company has no debt, owes taxes at the regular French tax rate (33%) and has issued 90 common shares with a price of €100, Earnings per share would represent €19 (see left-hand column below):

<table>
<thead>
<tr>
<th></th>
<th>No leverage</th>
<th>Leverage (other capital structure with debt issuance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term debt</td>
<td>€ 0</td>
<td>€ 1 000</td>
</tr>
<tr>
<td>Number of common shares</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>Price per Share (assume P/E=100)</td>
<td>€ 100</td>
<td>€ 100</td>
</tr>
<tr>
<td>Equity Market Cap (Price per quantity)</td>
<td>€ 9 000</td>
<td>€ 8 000</td>
</tr>
<tr>
<td>Total capital</td>
<td>€ 9 000</td>
<td>€ 9 000</td>
</tr>
<tr>
<td>Debt to equity</td>
<td>0.00%</td>
<td>12.50%</td>
</tr>
<tr>
<td>Debt to total capital</td>
<td>0.00%</td>
<td>11.11%</td>
</tr>
<tr>
<td>Earnings Before Interests and Taxes (EBIT)</td>
<td>€ 2 500</td>
<td>€ 2 500</td>
</tr>
<tr>
<td>Interest expense (Debt x 10%)</td>
<td>0</td>
<td>€ 100</td>
</tr>
<tr>
<td>Pretax earnings</td>
<td>€ 2 500</td>
<td>€ 2 400</td>
</tr>
<tr>
<td>Tax rate (33% in France)</td>
<td>833,333,333</td>
<td>800</td>
</tr>
<tr>
<td>Aftertax earnings</td>
<td>€ 1 667</td>
<td>€ 1 600</td>
</tr>
<tr>
<td>Earnings Per Share</td>
<td>€ 19</td>
<td>€ 20</td>
</tr>
</tbody>
</table>

The above right-hand side shows another capital structure that might be led by the entrepreneur. With the same operating outcome represented by the EBIT, this combination proved that debt is creating more earnings for owners, who used to be company’s creators in the bootstrap step.
Unfortunately for entrepreneurial leaders, some other business ecosystems’ components, such as banks, are not so generous in providing these cheap financings. For example, in China the interest of loans SMEs get from commercial banks usually is 20%~40% higher than base rate (Orient Security, 2012). With the addition of other transaction fees, the comprehensive bank-financing cost can be as high as 15% (STCN, 2011). The current credit crunch for small businesses, all over the world, affects the indebtedness’ leverage for companies in bootstrap step.

Harper, who occasionally conducts in-depth research on small cap technology companies, asserts that “the greater the investment in fixed assets (plant, property & equipment), the greater the average use of debt. This is because banks prefer to make loans against fixed assets rather than intangibles”. On grounds of these facts, Harper maintains that “rapidly growing startups and early stage companies, for instance, often favor equity over debt because their shareholders will forgo dividend payments in favor of future price returns because these companies are growth stocks”.

4. ENTREPRENEUR AS A LEADER:

According to Census Bureau surveys (2007), small business represents 99.7 percent of all employer firms. This amounts to saying that employment is created thanks to startup and companies’ creation. The role played by entrepreneurship contributes to boost every economy. Entrepreneurship is an element widely included into field of research regarding business creation, small business and also leadership.

The Small Business Job act is an example of answer to the question: How to get more entrepreneurship? By constructing better supports
and providing more relevant signals, the Obama’s government adopted a concrete project.

To answer the question “who is an entrepreneur?” several authors have already given a definition in the field of research. Schumpeter (1911) asserted that an entrepreneur is an innovator. More precisely, he pointed out that this innovative dynamic (through the creative destruction mechanism) from the entrepreneur is emphasized by the way of combining different factors such as processes, human resources, capital, information, and research-development. Staying in the classical school of entrepreneurship, Cantillon (1755), focused on entrepreneurial function (not the entrepreneurial person), was a precursor to describe the entrepreneur as a risk-bearer. Particularly, this function was underlined by the depiction of the farmer merchant trying to sell his crops in villages through entrepreneurs. Say (1834) stated that an entrepreneur is a business-builder. Based upon their definitions, entrepreneurs emerge from the population on demand, and become leaders because they perceive opportunities available and are well-positioned to take advantage of them.

According to Davidsson (2003), there are, in principle, three different ways to define entrepreneurs:

- Using those skills characterizing entrepreneurs
- Using those processes and events which are part of entrepreneurship
- Using those results that entrepreneurship lead to

While most definitions are a mix of these three, Bjerke (2007) claimed that it is impossible to limit the understanding of an entrepreneur to a specific character. He also added that there are not any applicable or
useful road on which entrepreneur will succeed. Bjerke found out a pattern wherein the “entrepreneurially/managerially growing firm” life-cycle coincides with the correlation between our bootstrap step definition and fundraisings process. Rounds of investments are combined with the relevant conceptualization curve. This conceptualization, in which entrepreneurship coincides with leadership, explains switching related to the growth of the firm. That’s why our understanding will deal with leadership.

Kirzner (1973) developed an interesting approach of the entrepreneur using “characterizing skills” mentioned in the first Davidsson’s defining principle. According to him the entrepreneur, supposed to be able to identify new opportunities, he is alert, creative and opportunist.

From the research point of view, the word “opportunist” is particularly interesting because it was widely introduced in the twentieth century in several fields composing the surrounding of entrepreneurship field. This word, which could be interpreted as an assumption, as a characteristic, as a personal function, as an element of an answer significantly linked with the decision making process in an organization, has been introduced and approved in strategy, in management, accountancy, institutionalism, marketing and even the economy. Due to a lack of credible assumptions regarding economic agent behavior in neoclassical theory, Williamson (1975) combined opportunism and bounded rationality in the theory of transaction cost. Then opportunity costs appeared in several fields, linked to entrepreneurship like economics and finance, as psychological and material barrier to the enterprising behavior. Term sheet and other agreements with investors take time and drain a lot of energy. There represent typically what we might call transaction costs. The statement may clearly assume that these costs might differ from a business
ecosystem to another and that their reductions belong to “leaderly” choice.

Leading ones idea into a concrete value creating scheme is critical and belongs to the leadership field. Hofer and Schulz (1999) propose a strong analysis regarding entrepreneurial leadership. They underline that in all “organization leadership is significantly important due to human beings presence. Leadership is necessary to coordinate and motivate human activities”. By implementing a “vision” of the future, leadership must be taken as “an essential component of the change process” necessary for the effective entrepreneur and intrapreneur corporate. This set of characteristics is mixed in what Schulz and Hofer call “entrepreneurial leadership”. Adapting the capital structure, including all relevant steps, is highly significant in this change process referred in the research framework.

According to Miao Shu-juan and LI Xue-ling (2007), entrepreneur goal is to create successful business and a significant realizable value for the company. According to them, it is necessary to fit entrepreneurs’ goals with appropriate capital structure. Creating value by acquiring capital strategically, with the arrival of private investors, can be very useful to implement firm´s strategy and finance strategic activities sometime very costly (Marketing, research/development, monitoring fix costs, investments in tangible assets and specific assets). Not only for that, people, who trust in the company and who invest in, are in the same “ship” with the entrepreneur. Network, level of involvement, and counseling can be provided by new board members with a new synergy. It seems important to generate this trust in order to get network, involvement and advices. All of these items are variables allowing entrepreneurial leaders raising the money in an easier way. From the start-up’s birth to its survival, it is above all the trust provided by the
Fundraising in Different Business Ecosystems: Entrepreneurial Leaders’ perspectives in USA, France and China. Jian Yang & Johan Rocher

Investor that is the best contribution to the entrepreneur’s mind. Entrepreneurs as leader might have these skills to find out this intangible advantage. Bennis and Nanus (2003) articulate their statements over an interesting concept-title “leading the others, managing yourself” including four key strategies. By emphasizing “leading the others, managing yourself”, Bennis and Nanus are more concerned about what leaders do to motivate and to create a culture of respect, trust and caring. They assert that generating and sustaining trust is the “central ingredient” in leadership. The main ideas outlined are described by the four following strategies:

- **Attention through vision.**
  The frame will relate it to concepts, ideas and projects

- **Meaning through communication.**
  Our framework could not forget to mention the relevant way to present a project with an efficient business plan, executive summary containing a catching elevator pitch and a reliable business model.

- **Trust through positioning.**
  Our understanding regarding entrepreneur choice of positioning appears to be necessary to generate trust from angel investors fund managers.

- **Deployment of self.**
  This deployment of the entrepreneur self happens to be a bridge, as an involvement variable or as a project embodiment, to connect his own framework to the leadership he embodies.

Ladkin and Taylor (2009) underlined that a “leader may authentically be experiencing fear and uncertainty, as well as excitement and hope in the face of organizational catastrophe”. The case, in which a
fundraising is failed or mostly not realized, may let occur an organizational catastrophe. This catastrophe might arise due to the lack of free cash flow necessary to run the business and implement core skills (to recruit an engineer, a programmer, a manager...) and, at least, to sustain the company alive. The work of Ladkin and Taylor on paradoxical aspect of authentic leadership emphasized that a leader in such situation must deal with a balancing and a resolution by “enacting one’s true self”. The following understanding of a fundraising case refers directly to the article of Ladkin and Taylor. Authenticity appears to warrant trustworthiness from investors’ point of view. Thus, the entrepreneurial leader should balance how he “might express something of the complexity” with his “competing emotional and bodily reactions in a way which is experienced as ‘leaderly’ for those looking for guidance” (potential investors) “in those situations” (meeting to clarify the business idea, the business model and the reliability of the project).

On top of “true self enactment”, there are many obligations related to entrepreneur-investor and entrepreneur-self-state relationships. If there are not respected these obligations compose a decreasing function of entrepreneurship especially regarding potential investors and the willingness to start up a business. Entrepreneurs will find many obstacles to start the business. Based upon the area (USA, China, and France), project leaders have to fulfill plenty of administration sheets and to face to bureaucracy. As duty, they try to develop a supply that generates value for customers and users. Products/services should fit to an identified need. Added to that, some sectors, such as the digital world, are very requiring, especially due to users volatility. Several head of projects can spend years to develop a technology or a service, with effortful process. This technology or
service might not be necessary adopted by the market or not enough supported for lack of financial followers and other partners. Then it is not surprising to see some entrepreneurs who become angry with people who always try to challenge their ideas and effortful researches. Besides, the founder has to guess and build an attractive business model which creates value for each stakeholder and make them involve as much as possible with strategic partnership. The supply should be structured. In addition to that, setting and implementing a business model require extensive and effortful cognitive processing... This is a real time-consuming challenge for the entrepreneurial leader to mix all of these obligations. Thereby the level of fear and non-satisfaction, and relevant expressions, might change among the three studied business ecosystem.

Investors in charge of studying some projects look at entrepreneurs’ technical skills, but also in managerial skills to make sure that the head of project would have the willingness to run the business and implement successfully his strategy. In every business ecosystem, leadership of those who show this positive combination might more likely be rewarded.

According to Pierre Vilpoux (2011), it is better to have two founders to bring up an innovative project rather than one. It lets place to fundamental positive factors such as abilities to listen, to adapt, to exchange and the necessity of questioning and challenging each other. Plenty of technical entrepreneurs failed in running and implement their business model for lack of entrepreneurial leadership and managerial skills.

The framework will link this to the “skills approach” with the skill-based model developed by Schulz and Hofer. Through the contingency theory model, Hofer has already improved the so famous
Andrew’s model SWOT by identifying strategy as an endogenous setting depending on independent variables composing the SWOT matrix.

Hofer and Schulz go further in the strategy analysis; they use the term skill-based theory to combine the three theoretical improvements of Andrew’s model (Contingency theory model, the five forces and the resource based theory). They assert that “successful entrepreneurship is as much about developing and managing skills as it is about developing and managing products or services” hence the importance of leadership.

Daniel Goleman (1998) combined leadership with emotional intelligence. Goleman defined and summarized the five components of emotional intelligence in the following table.

**Figure 7 The five components of emotional intelligence at work**

<table>
<thead>
<tr>
<th>The Five Components of Emotional Intelligence at Work</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
</tr>
<tr>
<td>Self-Awareness</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Self-Regulation</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Motivation</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Empathy</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Social Skill</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The research understanding will consider the previous table as a basic assumption about what could perfect “leaders’ hallmarks” at work. The study tried to bridge the Goleman’s understanding into the frame of reference related to entrepreneurial leaders in company’s bootstrap step. In no wise must the statement neglect that relevant components of
emotional intelligence may differ upon the entrepreneurial leader localization. For instance, it is possible to assume that self-regulation might be higher in China thanks to Buddhism impregnation in people socialization. Nevertheless, assumptions are not debated here.

Emotional intelligence concept of Goleman is connected to the theory of cognitive leadership. Beyond the emotional intelligence, the business conception seems to be imperative in this theory. The business conception of the founder expresses what kind of business she (the entrepreneur) wants to pursue and how she wants to do it (Scheer, 2009, p.3). In Scheer’s emphasis, the theory of cognitive leadership argues that a firm founder can solve motivation and coordination problems by conveying entrepreneur’s business conception to his employees. The following statement will perceive investors through the above assumption in which employees may be considered as followers.

Scheer asserts this kind of leadership is called “cognitive leadership” because the conveyance of business conception it is argued mainly depends on cognitive processes. It is true that the business conception of the firm founder, called “cognitive leader”, might be perceived differently by investors. The potential fundraiser could not be a cognitive leader if the business conception he conveys does not fit with fund providers’ frame of reference.

Following the theory of cognitive leadership, the adoption of business conception by followers (the forthcoming research will assume there are investors and fund suppliers) thus influences their cognitive agendas in such way that incoming information is processed from the business conception perspective and decisions are made conforming to it (Scheer, 2009, p.4). Thereby entrepreneur could lead a fundraising successfully in becoming a cognitive leader. Bridging one’s own business conception with investors’ frame of reference appears to be
necessary in USA, in France as well as in China. The research will try to find out what cues are more significant upon the ecosystem belonging.
CHAPTER 4: Methodology

1. Researching Path: Grounded Theory (Abduction)

There are three differentiating levels of research: Deduction, Induction and Abduction (Grounded Theory). Deduction starts from empirical level to theoretical level, and induction is the opposite. Our research follows the third one—abduction which also is called grounded theory.

Grounded theory is a method to “inductively generate theory through qualitative analysis of qualitative and/or quantitative data.” (Glaser, 1992, p. 20) It is a systematic methodology. “The requisite conceptual skills for doing grounded theory are to absorb the data as data, to be able to step back or distance oneself from it, and then to abstractly conceptualize the data” (Glaser, 1992, p. 33). Most books on method has been concerned “how accurate facts can be obtained” and how to verify and test theories rigorously (Glaser & Strauss, 1967, p. 66).

Unlike these previous methodology, grounded theory focus on the prior step of discovering theories systematically from data on relevant areas. The research yields a theoretical formulation or conceptual hypotheses. That is all, testing and verification is the job of other methods.

However, there is dispute about grounded theory between two originators: Barney G. Glaser and Anselm I. Strauss. They couldn’t agree on how to apply grounded theory, which resulted in a split between Straussian and Glaserian paradigms. According to Glaser, grounded theory emphasizes induction or emergency and a clear frame of stages, while Strauss is more interested in systematic approach.

Strauss points out that the principle of grounded theory is neither deduction nor induction, but a combination of both: abduction. This leads to a researching practice that data collection, data analysis and theory constructions are not considered as distinct and isolated, but as
different steps to be repeated until explanations of researching phenomenon are reached. In our research, we are in favor of Straussian approach.

The researching path is illustrated in the following figure 7.

*Figure 8 Researching Path.*

When we came up with our researching topic “fundraising in different ecosystems: entrepreneurial leaders’ perspectives in USA, France and China”, we had barely clear idea about what theory or conclusions may come out from this research. We do not hope to justify or falsify any hypothesis. We expect discovery of understanding about fundraising and entrepreneurial leadership in different ecosystems.

(1) Therefore, we started with data gathering through document analysis and literature review. We resorted to kinds of sources, such as official and unofficial website, books and news, to understand and describe financing status on bootstrap step and relative entrepreneurial leadership in three business ecosystems.

(2) By analyzing data we gathered, some theories or hypotheses are proposed.
Fundraising in Different Business Ecosystems: Entrepreneurial Leaders’ perspectives in USA, France and China.

Jian Yang & Johan Rocher

First, the following work will intend to identify each ecosystem. It aims implicitly at describing what kind of capitalism these ecosystems show. It implies also to analyze if the ecosystem’s influence is enhanced by actors’ behavior and actors’ policies (such as tax reliefs, public lending support, investment dynamics, and willingness of potential debtors and so on).

Second, we will evaluate trend of selected options used by entrepreneurs and small business’ leaders in their ecosystems. These options might be different upon the business area. Here we will try to itemize what are preferred sources of funding for entrepreneurs such as those below:

- short-term or long-term lending support from bank (debt)
- Equity issuance with angels investors or private equity funds (equity)
- Issuing corporate bonds (hybrid instrument, into long-term liabilities items, that can blurred the entrepreneurs vision)

Finally, the study analyzes actions. It might concerns what entrepreneurs used to do but also what kind of leadership can be find in different business ecosystems. Not to mention that, through entrepreneurs, the study intends to combine both company’s bootstrap step and small business but also the concept of leadership.

(3) In the following, empirical realities are looked into. Because we are from China and France, it would not be a problem to have dialogues with entrepreneurs in these two business ecosystems. As for USA, we chose to study real examples of fundraising in the bootstrap step. With this empirical researching, we try to further understanding of proposed theories. Finally, we will try to perfect our theories—understanding and description of fundraising in three
ecosystems from entrepreneurial perspectives—by combing and analysis of data from case studies, dialogues, document analysis and literature review. Of course, as the figure 8 shows, this is a repeated researching circle.

2. Methodological Stance

From the perspective of “Methodological stances”, our thesis is a realist research and also interpretative ethnographic research. See Figure 9.

Figure 9: Methodological Stance

<table>
<thead>
<tr>
<th>Realist Research</th>
<th>Interpretative Ethnographic Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In three different ecosystems enhanced by tax reliefs, lending support, investment dynamics...) identify and evaluate options (short-term/long-term lending support from bank, Equity increasing, issuing bonds...) for actions (entrepreneurial behavior).</td>
<td>Dialogic structures. (France, China, USA) Participant observations. (Entrepreneurs) Deal with complexity. (between fundraising and entrepreneurial leadership in three ecosystems)</td>
</tr>
</tbody>
</table>

Source: Colin Fisher (2004, p. 34)

The Moore’s definition (Moore, 1996) of business ecosystem happened to be very useful to launch the analysis of data. Nevertheless, the work will analyze differently this definition. The Moore’s business ecosystem definition implies the implication of agents, especially companies holding leadership roles, as both endogenous and exogenous variables influenced by, and influencing, this whole ecosystem. Here, the ecosystem is also both an exogenous and endogenous variable following real biological assumptions with interaction shaping the whole context. The forthcoming work will be oriented toward a different direction.

To put it differently, the research will follow a different path in order to make sense for readers. To make a significant comparison and explain our understandings, we assimilate American, Chinese and French ecosystems as an exogenous variable.
For each one, we will try to demonstrate entrepreneurs’ perspectives to raise money or perspectives of capital structure’s adaptation. At least, we will try to offer a comparison proving that each ecosystem influence entrepreneurs perspectives differently. Through this positive relationship, we expect to make sense and provide some interesting findings out.

However, it was controversial to establish our study belonging to positivism. Although a great part of work includes gathering facts, systematizing facts, measuring and observing facts, a high part of interpretation will contribute to further findings. The ideology and philosophy we hold has important effects on our methodological stance, which will be explained in detail in the part of “Generating knowledge and the theory of discourse”.

3. Qualitative Approach

Qualitative and quantitative studies are two kinds of researching approach. Qualitative is a method of investigation applied in many different academic authorities, traditionally in the social science, but also in market study and further contexts (Norman & Lincoln 2005). This approach is usually used to congregate a deep understanding of human behavior and find the reasons leading to such behavior, which is often earned by in-depth face-to-face research (interviews) (Fisher, C 2007). Qualitative researchers may follow different methods to collect data: Participant Observation, Non-participant Observation, Field Notes, Reflexive Journals, Structured Interview, Semi-structured Interview, Unstructured Interview, and Analysis of document and materials (Marshall & Rossman 2010).

In social science, quantitative research focuses on the empirical exploration of social phenomena. It systematically relies on statistical, mathematical and computational techniques. The process of
quantitative measurement is essential to these studies for the reason that it provides the elemental correlation between empirical observation and mathematical expression (Lisa, 2008). Quantitative data are this kind of data that are in any numerical form such as statistics, percentages and so on. Employing this approach, researchers usually have clear ideas or hypothesis which they want to test, prove or falsify; hence the process is strongly result-oriented (Quinn 2002).

In social science, particularly in sociology, social anthropology and psychology, there is dispute about the use of quantitative and qualitative approaches. With particular schools of thought, some disciplines favor one type of method and pour scorn on to the other one. However, the trend is to combine these two research methods, which refer to as “mixed-methods research” (Diriwächter & Valsiner 2006). And quantitative method plays an important role in sociology. According to a comprehensive analysis of 1274 articles published in the top two American sociology journals between 1935 and 2005, roughly two thirds used quantitative method (Hunter & Leahey 2008). In the conventional view, qualitative approach yields information which is only limited on the particular studied cases and any more generalization is only hypotheses. Quantitative approach then can be applied to seek empirical support for such propositions (Moballeghi & Moghaddam 2008). However, this view has been disputed by Bent Flyvbjerg (2006). He argues that it may be also possible to use qualitative method and case study research for generalizing particular studied cases and testing hypotheses (Flyvbjerg 2006 2011).

As to our thesis, we prefer qualitative approach. This is a research that connects fundraising and entrepreneurial leadership. Financing will definitely refer to numerical data gathering and analysis. We want to find out patterns of fundraising through figures, especially the sources
of financing, in different business ecosystems. Despite of large numbers of numerical data, it still belongs to qualitative approach. We do not make statistics by ourselves or constructing any formula to reflect realities. Instead, we use official and unofficial secondary data to do qualitative analysis. As Glaser (1992) mentioned in his book “Basics of Grounded Theory Analysis”, qualitative approach may be completed with data coming quantitatively or qualitatively or in some combination. What’s more, our thesis is not only realist research, but also interpretative research.

Finally we will try to figure out what kind of leadership is needed for successful fundraising in the bootstrap step depending on ecosystems. It means we are going to describe, understand and interpret behaviors of leaders in the specific financing contexts. This study can be resorted to face-to-face research, reflexive journals and analysis of document and materials, which undoubtedly belong to qualitative research.

4. Face-to-face Research: Dialogues Instead of Interviews and Conversations

The face-to-face research is of great importance in social sciences today. It is estimated that 90 percent of all social science studies employ face-to-face research of some kind (Briggs, 1986). Face-to-face research is like the window of researchers on the world (Hyman et al. 1975). According to Bjerke (2007), there are three different kinds of face-to-face interviews: interviews, conversations and dialogues. These three groups are related more or less, but they are still different.

As for interviews, Bjerke (2007, p. 4) pointed out that its purpose “is to collect data of an objective kind” and then “get a true picture of the objective reality”. An interview is a transmission process of objective information from respondent to interviewer. Therefore, there is a basic
assumption here that an objective reality does exist. Researchers need to avoid influencing the interview in any distorting way. As to conversations, the main purpose is to get subjective data, which are people’s personal feelings, opinions and reflections of the reality. The researcher’s task is to make people in the conversation open themselves and convey their real thoughts and feelings. Dialogues are employed to “understand the meaning and the significances in other people’s language and cultural worlds” (Bjerke 2007, p. 4). Unlike interviews and conversations in which respondents already have the knowledge and feelings, in dialogues researchers and participants interact to co-create meanings and significances. The task of researchers is to direct the dialogue in a certain direction based on researching problems. Aside from being just an actor like other contributors in the dialogue; researchers also play the role of observer, which can be called an observactor (Arbnor & Bjerke 1997).

Considering this theory about face-to-face research, we are willing to mainly conduct dialogues instead of interviews and conversations in our research. As we have some network both in China and France, face-to-face research will be only in Chinese and French business ecosystems. Here we do not consider about “Interviews”, because in this step we hope not just to gather accurate information of an objective kind—to dig up a mirror reflection of the objective reality (Bjerke, 2007). We intend to have thorough interactions with entrepreneurs. This face-to-face research will be put in the end of our research. By then, we will already have a lot of knowledge and theories about our researching topic. Some of them are even out of the awareness of entrepreneurs. Thus we expect more than just getting answers from entrepreneurs. The purpose of this face-to-face research is to co-create meanings and knowledge by combining theories we obtained and experts’ practical
experience in the process of interactions. Besides, our study is in the context of three different business ecosystems. We are trying to understand the meaning, which is the relation between fundraising and entrepreneurial leadership, in such cross-culture worlds. And “the co-actors’ language and culture” is exactly emphasized in dialogues. That’s why we choose the more interactive way: Dialogues. However, as Bjorn Bjerke claimed, each face-to-face method is related. It is helpful to get entrepreneurs’ “reflection of subjective reality”, which means personal feelings and relevant opinions on the bootstrap step in different ecosystems. Thus, our “dialogues” inevitably have some characteristics of “conversations”. In our research, we got the luck to converse with following experts from our respective countries:

- Julie Robles, Innovation Consultant at Adelit Consulting.
- Yang Shangpin, Co-Founder at Yanala Knitting Corporation.
- Gao Xiaojing, Customer Manager at Bank of Communications.
- Lu Yang, Project Manager in a new established IT company (which asked to be anonymous).

5. Case Study
We employ the researching method of case study in our report. The three cases we chose are fundraising from entrepreneurial perspectives respectively in American ecosystem (as a reference), French ecosystem and Chinese ecosystem. There are two kinds of case studies: a traditional system study and a hermeneutics study. We choose the latter. It is a system view in application in order to understand (Arbnor & Bjerke 1997). Social knowledge is received in circulation between the general and the particular. As Professor Daudi (1986, P. 121) asserts, “there is a fundamental paradox in the study of social systems: what we know about social systems depends on the methods we use for studying these; our methods, on the other hand, depend on what we know about
social systems”. He points out that in order to carry out research, we need a better method. At the same time, in order to find this method, we need at the point of departure to know a great deal about the social interactions. In the same way, in order to get a general theory, we plan to study particular situations; however, at the same time, we need the general theory to help us understand particular situations. That is why before we get into the research of three business ecosystems we make plenty of literature review and methodology studies.

6. Generating Knowledge and the Theory of Discourse

Professor Daudi (1986) talks about his understanding of methodology. He found out the relations between methodology and philosophy or epistemology, which gives us a new and insightful view to consider the methodology in our own research. He claims that “matters concerning method have an ideological meaning. A philosophy of life, or an outlook on life, must come to light”, and there exists “the relation between the method which one chooses to work with and the overall philosophical reflections from which the method is derived” (Daudi 1986, pp. 114-117). Thus we reflect our own ideology and philosophy that we believe in, when we try to think about and articulate our researching methodology. Just like what Bourdieu (1979) and Foucault (1966) stated, the way that the research may be conducted is somehow determined by “the researcher’s conscious assumption of a standpoint in relation to the philosophy”. We realize that reflecting on the ideology and philosophy helps us understand not only the methodology but also three different business ecosystems, because philosophy also shapes the cultural environment (Bourdieu, 1984. Foucault, 1970).

According to Nietzsche (1886, p. 315), there are no facts, only interpretations. When this famous German philosopher stated that “it is precisely facts that do not exist, only interpretations”, it reminds us
that research’ findings would make sense only with a high part of interpretation. To interpret the USA’s ecosystem, the methodology could refer also to famous Weber’s proposal (1905), related to economic sociology field or religion sociology, in the book “The Protestant Ethic and the Spirit of Capitalism” (Weber, 1905).

As for France, historically a Christian country, the Church was separated from the State after the Revolution of 1789. Even if interest rate mechanism is similar, the republican conception of religion impregnated business relationship differently if we compared to United States.

In China, the impact of religions on most Chinese people is quiet limited. Instead, the development of philosophy in the last 2000 years decisively influenced Chinese ideology. Confucian has have the deepest effects. The core ideology of Confucian could be summarized in one Chinese word “仁”, which literally means “two people” (The Analects of Confucius, 2006). It reflects that the Confucian focus on the relationship between people. Chinese generally believe the righteous of thinking by “standing in others’ shoes”. One of the greatest Chinese philosophers Mencius advocated that “care others’ parents and children just like caring your own parents and children”. Another School of philosophy Taoism proposed “忘我”, which means totally forgetting yourself and trying to understand the world as if you are someone else. However, no matter how much we can forget one self and try to stand in others’ shoes, we finally think and judge based upon our own knowledge and experience. The knowledge and experience acts like the tools we use to understand both our own situations and others’ situations. In other words, we understand by interpreting situations and behaviors. The essential thing about interpretation here is taking into accounts other people’s situations and knowledge. Influenced by Nietzsche and Confucian, we
considered interpretation as an essential role in our research as we mentioned in our methodological stance.

The more we think about the relation between philosophy and methodology, the further we realize that the set of values we hold inevitably will be melt into the process of research, no matter in the researching question or the methodology. Readers could find both Chinese tracks and French tracks in our paper since we are from these two nations. Instead of striving to erase personalities in the text, we learn to stay consciously in it, as Daudi (1986) suggests in the previous-mentioned article. This could create problems but also opportunities. We have conflicts due to different backgrounds, which seem as problems. However, after arguing, meaningful discoveries always come. “The method plays a decisive role in determining whether one will be able to grasp meaningful dimensions of reality or whether one will merely reproducing one’s own and the existing cultural prejudices” (Daudi 1986, p. 117). We keep who we are in this cross cultural and national cooperation in spite of arguments and conflicts. This method helps us “grasp meaningful dimensions of reality”.

It is also important for us to find a way in which we could adequately communicate our understanding to people when we write our papers. Daudi (1986) gives out three different levels to solve this concern in his article “Generating Knowledge and the Theory of Discourse”: first, by choosing a narrative construction for the case description; second, by showing how our way of working during process of data-gathering is directly related to a specific epistemological perspective; finally, attempt clearly the dimensions of action and interaction in the interpretation of the course of events. We try to follow these levels in our text.
CHAPTER 5: The American Ecosystem

We decide to start the statement with the USA’s business area. As a pillar of the capitalism emergency, USA is a significant example of an area in which the capital is easily accessible. Weber (1905) pointed out the capitalism emergency as a result of ethical and psychological causes rather than a technical or even economical cause. He asserted that the main issue of modern capitalism expansion is not the one resulting from capital origins; it is the one resulting of capitalist spirit development. The sociologist described the modern capitalism as a secular impregnation from religious thought over the trade spirit. He found out the significant impact of protestant thought, especially Puritanism, over capitalist society such as USA.

Talking about money openly is not a taboo in this western country. The notion of property is significantly nurtured through the private equity development we mentioned previously. There is a wide understanding claiming the American society as a “shareholder capitalism” society.

Within the United States, finance became central not just to business, but to the broader culture (Davis, 2009). Davis (2009, p. 318) asserted that “more than half of American families invested in the stock market by the turn of the century, and financial news became ubiquitous, as the Wall Street Journal grew to become the largest circulation newspaper in the country. College and retirement savings were overwhelmingly dependent on returns in the stock market, while access to mortgage financing came to depend on the goodwill of global investors”.

The United States is a multicultural society. It is home to various ethnic groups, traditions and values. Individualism, rather than determinism,
is widely considered as the American consistent ideological principle. The notion of “American dream” is well known. By and large, Americans believe that anyone who works hard and follows rules will succeed. Scholars Ehrenreich and Barbara (1989) pointed out that Americans in general consider working and being fruitful with high regard; being busy and working extensively could also serve as the ways to attain admiration. Influenced by these ideologies, American investors, such as angels and venture capitals, are more likely to believe entrepreneurs who have good business plan, leadership and work hard. The capital is relatively easily accessible for these entrepreneurs in USA. Combined to this, innovation dynamic is nurtured by an interesting incubators’ assessment all over the country. Dynamic business centers attractive for startups are underlying this ecosystem.

1. Angels investors

Thus Angels investors group are disseminated all over this country representing 309 millions of people. The following map, provided by the Halo Report (2011), illustrated an important regional involvement of angels throughout USA:
As regards regional activities of “bootstrapping investment”, California is still leading and leads in both deals and dollars for 2011. Notwithstanding, 79% of angel group investments occurred outside of California. Beyond this, 70% of the total dollars in 2011 deals were invested outside of California. Except for the Great Plains, this map shows an interesting repartition of those ecosystem’s actors all over the country. This depiction illustrates also the multitude of activities’ areas, either for business development and innovation centers for entrepreneurial leaders. Although it is a wide territory, the American ecosystem does not put geographic boundaries with “business sanctification” areas.

As to sector activity, health care and internet account for 58% of 2011 angel group investment deals and 60% of healthcare deals belonged to medical device and equipment companies, which is showed in the following figure from Halo Report. And healthcare dominates the share of 2011 angle funding dollars.
Nevertheless, apart from healthcare and internet, other sectors also attract large funds from angels. They combine for 42% of total deals and 33.4% of funding dollars. Industrial and other, which are not necessary high-tech sectors, respectively take proportions of 8% and 15% in deals. It means that angels’ investment exist in almost all industries, even actively in low-tech categories.

This ecosystem shows a significant activity from these angels, who are main actors in the “seed funding round” of companies in bootstrap step. As we can see in the following figure, the median size of angel and angel group syndicate rounds was $ 700 000 in 2011:

![Median Angel Round Size is $700K in 2011.](image)

The median round size of 2011 increased by 40% compared to the $ 500 000 reported median round size in 2010. This evolution could be interpreted as an uptrend resulting from the Small Business Job Act of 2010 submitted by the American government.

2. Government, Small business administration, federal and regional sponsored programs

In June 2010, American parliament ratified the “Small Business Jobs Tax Relief Act of 2010”. This act, modifying the “Internal Revenue Code”, aims at supporting small business funding. This includes important tax reliefs rewarding physical investors (angels), who, despite uncertainty concerning startup projects, invest their money in these
small businesses. Tax reliefs adopted are very attractive for angels: tax exemption for all capital gains (it was 75% of relief before) realized by a physical person upon the sale or trade of SMEs' shares, for shares acquired between March 15, 2010 and January 1, 2012. SMEs targeted would be those with assets less than $50 million. This mechanism would aim at helping SMEs to raise capital for the long term.

On top of measures adopted, the US small business administration website is providing tips and clarifying formal application to raise fund. This government’s website even advises how to claim startup costs tax deduction and how much it could be deducted for entrepreneurs (SBA 2012):

“If you started your business in 2011, had startup costs of $50,000 or less, and incurred startup and/or organizational expenses after October 22, 2004, you can deduct up to $5,000 in business startup costs on your 2011 tax return. If those startup costs exceed $50,000, the $5,000 first-year deduction is reduced dollar-for-dollar by the amount your expenses exceeded $50,000. Furthermore, if your start-up expenses exceed $55,000 or more, you won’t be able to claim the $5,000 deduction for the first year.

For example, if start-up costs are $51,000, the deduction is reduced to $4,000. If start-up costs are $55,000 or more, the $5,000 deduction is completely phased out”.

Deduction systems provided by public institutions such as the US SBA are useful to preserve money. It would allow the fundraiser leader to diminish previsions regarding cash burn rate. Thereby it would appear as less risky for investors to inject their money into company with a lower forecasted “burn rate”.
Federal assistance to small businesses is historically embedded in the American ecosystem. It was primarily developed through the following-mentioned agencies of Small Business Administration.

- **Small Business Administration loans**
Guaranty loans are made by private lenders, such as commercial banks. Up to a certain extent, the SBA guarantees 90 percent of such loans. This guarantee decreases in proportion to the relevant amount. Loans can be provided directly by the SBA. This form of lending is available only if the entrepreneurial leader has been unable to obtain the guaranty loan. Generally these loans are limited to a maximum amount (more information on the SBA’s website: [www.sba.gov](http://www.sba.gov)).

- **Small Business Investment Companies (SBICs):**
In 1958, American Congress passed the SBIC act. This act is licensed and regulated by the SBA. It concerns privately owned capital banks and SBICs, whose goal is to make long term loans and/or equity capital to small businesses. Convertible bonds are usually outstretched by these organizations. Individuals, investing in SBICs, can deduct from their ordinary incomes any capital loss related to these investments, with no ceiling. This is to stimulate investments in SBICs by reducing the cost of post-tax capital losses against capital losses in other types of investment.

Since its inception in 1958, the SBIC program has provided $57.2 billion in the form of long-term debt or equity to more than 107,000 SMEs. 11 new SBICs were authorized during fiscal year 2009. The existing SBICs 315 in 42 states have $16.8 billion of capital (8.6 billion raised from the private sector, 8.2 billion obtained from the SBA). They invested $1.9 billion in 1481 over 2009 companies. It could be interesting to underline that 28% of these investments have been granted to companies less than two years of existence. That is to say
companies in bootstrap steps can likely take profit of this ecosystem’s actor.

- **Small Business Innovative Research (SBIR) program:**

Created in 1993 with $1.4 billion of support, this program aims at financing small firms that plan to change laboratory research into marketable products. The program is based more on the likelihood that a firm will provide a product of general interest than the potential profitability of a venture.

In addition to the federal assistance, state and local governments are becoming increasingly involved in funding new businesses. Longenecker, Moore and Petty (1997, p274) reminded that California was one of the first states to create a business industrial development corporation to lend money to new businesses. They pointed out that Minnesota has provided $50 million to create “Minnesota technology”, a source of financing for new companies located in the state. Massachusetts, Pennsylvania and Maryland are among the states that have designated funding for local startups. For instance, they mentioned that Maryland in cooperation with three public-employee pension funds (mutual funds that invest the retirement savings of state employees) has committed over $19 million to a venture trust.

USA’s institutions are underlying the ecosystem. They nurture innovative and entrepreneurial dynamics with a significant support. American project leaders might have this in mind to boost the establishment of their ideas.

3. **Commercial Banks and borrowing needs**

As for borrowing needs, The NFIB (Dennis 2011, p. 6) asserted the inability to obtain credit was associated with low credit scores, a greater number of mortgages outstanding, fewer unencumbered assets and a
greater number of purposes for which the money was to be used (by these entrepreneurial leaders). Location in states hit hardest by the housing bubble, a primary financial institution with $100 billion or more in assets, and negative employment growth over the last three years were also associated with poorer credit outcomes. The NFIB figured out that poor small business sales were correlated with unemployment rate. Therefore small business administration has seen its area of intervention increasing since 2010.

According to the same survey provided by the NFIB (Dennis 2011, p. 6), poor sales and uncertainty continue to be greater problems for significantly more small business owners than access to credit. Still, a majority of owners able to judge think credit is more difficult to obtain today than one year ago. Small banks of the American ecosystem seem to be better partner in the nurturing process for entrepreneurial leader. In January 2011, the NFIB reminded that small business owners receive better treatment satisfying their credit needs from small banks than banks with $100 billion or more in assets.

The surprising outcome of this NFIB’s survey (850 firms) is that only 3 percent of small employers attempted to raise equity capital in 2010. This could belong to the complexity to look for an Angel.

Buss (1993) report the experience of an entrepreneur in search of business angel in Milwaukee. We thought it made sense to mention this experience in order to connect it to leadership:

“So I called investment bankers I knew: The head of a local foundation. The president of a small-business-investment corporation. The head of a bank. The head of the venture-capital arm of the area’s biggest utility. The chief of a publicly held concern known for buying and selling companies. An insurance-company CEO who is active in the community.
The business schools of area universities. The local Service Corps of Retired Executives, a Small Business Administration program.

I ended up with a few leads. One was a huge local law firm where a handful of lawyers pool their capital and invest in clients' ventures. Another was an engineering professor who made a fortune consulting. There were a handful of members of old money Milwaukee families who do some investing. I heard about a couple of investing groups. One was Wisconsin Venture Network, which invites entrepreneurs each month to make pitches to a group of investors. The second, the Adventurers, is an 8-year-old networking group of about 20 lawyers, bankers, consultants, and investors who meet to discuss ventures and acquisitions.

It's difficult to track these people," says Doug Pavek, president of a local investment firm and head of the Adventurers. "They'll sneak up on an investment without telling you. They know what happens if they get identified: They get so many calls that that's all they would do all day long" (Buss 1993, p. 34).

Based upon this testimony, the fundraiser has to lead a huge tracking work to identify where could be found sources of funding. One of the main difficulties then appears to bridge the investors’ frame of reference, thanks to “sensemaking” pitches, with the project framed by the entrepreneurial leader. Even if the previous witness depends on the American ecosystem context of the years 1990, understanding the investor’s perspectives seems to belong to leadership skills. The entrepreneurial leader should have this ability to convey the business conception. In USA, cues such as self-confidence, the ability to show-off or to present a project, are important to cross this bridge leading to investors’ frame of reference. If we refer to Hollywood movie production, American mentality tends to accord more importance to what can
visually attract and keep the intention. That’s why communication and speeches are important skills in this ecosystem.

4. Venture Capitalists

In spite of later intervention from venture capitalists, there exists venture backed companies that might be in the bootstrap step. The Moneytree Report (PricewaterhouseCoopers, 2011) from the first quarter of 2011 provides interesting information that can be found in this chart of investments by stage of company development:

According to the report, Seed and Early stage investments increased in the first quarter of 2011, rising 11 percent to $1.9 billion. Seed/Early stage deals accounted for 45 percent of total deal volume in the first quarter, compared to the fourth quarter when it accounted for 46 percent of all deals. The average Seed deal in the first quarter of January was $2.2 million, down from $2.8 million in the fourth quarter and is the smallest average deal size for Seed stage investments since the fourth quarter of 2005. It is still significant whether we make the comparison with Seed angels’ deal size. The average for early stage deal was $6.4 million in Q1, up from $4.8 million in the prior quarter, which is quite consequent.
Although these figures don’t emphasize the level of risk taken by Venture capitalists (lower than angel investors), their involvement in the ecosystem is still quite important. They invest also in different sectors. Nevertheless, it seems like Venture capitalists funds dig deeper business models and concepts that angels investors have already trust. Indeed, investments by industry follow the trend developed by angels:

According to the report, Software industry received the highest level of funding for all industries with $ 1.1 billion invested during the first quarter of 2011. In terms of dollars invested, the Biotechnology sector was in third place, rising six percent from the prior quarter to $ 784 million in the first quarter of 2011. As for medical services and equipment, ranked fourth, this sector raised anyway $ 602 million in the first quarter of 2011. The Clean Technology sector, which crosses
traditional MoneyTree industries and comprises alternative energy, pollution and recycling, power supplies and conservation, has raised over the fourth quarter $1.0 billion. Media and entertainment as well as IT services are also quite attractive to pay investors’ attention. This overview provides a short snapshot regarding the American ecosystem. A significant part of companies, in bootstrap steps or not, raising funds with venture capitalist industry, belongs to technology-based sectors. It would not be a mistake to describe this as an ecosystem in favor of innovative and technologies companies. American investors, who are deeply involved in the nurturing process of the seed company, tend to allocate their resources towards these strategic and value-added industries.

5. Common understanding regarding firm’s value in USA

Due to culture of seed investments, American investors were pioneers in developing business valuations systems. The earnings-based valuation is, with the cash flow valuation, the most common approach for companies in bootstrap step. The valuation of these firms is not determined by replacement or historical costs or by market comparables. Moreover, intangibles assets such as the team, the concept, or the idea are difficult to valuate materially. According to Longenecker, Moore and Petty (1997, p57), in case of earnings-based valuation, the value of the firm is based on its ability to produce future income or profits. Even if there several manners in valuing company based on its earnings, the main conception n is generally the same: Determine normalized earnings (those that have been adjusted for unusual item) first and then divide this amount by a capitalization rate:

\[
\text{Firm’s value} = \frac{\text{Normalized earnings}}{\text{Capitalization rate}}
\]
The appropriate is based on the riskiness of the earnings and the expected growth. Longenecker, Moore and Petty described this relationship as follows:

- The more (less) risky the business, the higher (lower) the capitalization rate to be used, and as a consequence, the lower (higher) the firm’s value.
- The higher (lower) the projected growth rate in future earnings, the lower (higher) the capitalization rate to be used and, therefore, the higher (lower) the firm’s value.

The subsequent figure (Figure 10) illustrates the relevant relationship that statement intends to connect with an entrepreneurial leadership approach.

*Figure 10: Determinant of a firm’s capitalization rate.*

In practice, capitalization rate, including the risk premium, depends on rules of thumb such as those recorded in the following table (Figure 11).
**Figure 11: Selection of capitalization rates**

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Risk Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Established Business with strong trade position, are well financed, have depth in management, whose past earnings have been stable and whose future is highly predictable</td>
<td>6-10%</td>
</tr>
<tr>
<td>2</td>
<td>Established business in a more competitive industry that are well financed, have depth in management, have stable past earnings and whose future is fairly predictable</td>
<td>11-15%</td>
</tr>
<tr>
<td>3</td>
<td>Businesses in a highly competitive industry that require capital to enter, no management depth, element of risk high, although past record may be good</td>
<td>16-20%</td>
</tr>
<tr>
<td>4</td>
<td>Small businesses that depend upon the special skill of one or two people. Larger established businesses that are highly cyclical in nature. In both cases, future earnings may be expected to deviate widely from projections</td>
<td>21-25%</td>
</tr>
<tr>
<td>5</td>
<td>Small one-man businesses of personal services nature, where the transferability of the income stream is in question</td>
<td>26-30%</td>
</tr>
</tbody>
</table>

Even if the risk premium scale of the previous table could be modified (it was establish before startups’ bubbles), the entrepreneurial leader might have in mind these categories. Although unpopular, the cash flow-based valuation might be more reliable from American investors’ perspectives. The net present value resulting from this approach is more significant to anticipate the potentiality of generating cash inflow for a company in bootstrap step. The common understanding of the Net Present Value follows the formula below:

\[
NPV = -I + \sum_{t=1}^{N} \frac{FCF_t}{(1 + \text{Rate})^t}
\]

Where:
- \( NPV \) = Net Present Value
- \( I \) = Initial Investment
- \( FCF_t \) = Free Cash Flow at time \( t \)
- \( N \) = Number of time periods
- \( \text{Rate} \) = Discount Rate
CHAPTER 6: The French Ecosystem

With almost 45% of tax over GDP, the French ecosystem represents an example of shareholder capitalism. Close to the Swedish model of taxes (not the distribution one), the government intervenes much more than in USA.

Nevertheless the French ecosystem demonstrates a wide dichotomy between small business and large business. This is a legacy resulting from French history wherein tall state-owned companies (especially those requiring huge infrastructures such as firms in energy, automobile and weapon industry, transport and telecommunication sectors) progressively switched to private ownership. Firms dealing with distribution, banking, multimedia, and telecommunication complete this range of sectors, in which large company have already established trust and holdings. In this ecosystem, competition and innovation seem more impacted by large firm’s presence. Innovative dynamic suffers from Oligopolies in previous mentioned sectors. Large companies tend to adopt a managerial behavior rather than innovative and explorative behavior proper to entrepreneurial leaders.

Robles and Tranchier (2011) pointed out that French ecosystem lacks the culture of failure. In France, education system trains good pupils and students that will become good employees. If this tends to form great managers, this process forbids errors. Any mistake means exclusion or sanction in this learning process. Nobody has interest to take risk and to fail.

Not merely directed against innovation and entrepreneurship needs, this credence inducts a behavior not helpful to raise cash: the entrepreneurial leader might get hurt by this ecosystem aspect.
This reveals the obvious antagonism, between leaders and managers, impacting the French ecosystem. Bjerke (2007, 111) underlines this concept through two perspectives with each relevant item: Business development in order to grow and Business development in order to innovate:

*Figure 12: Five conceptual pairs in two different business development situations*

<table>
<thead>
<tr>
<th>Business development in order to grow</th>
<th>Business development in order to innovate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>Learning</td>
</tr>
<tr>
<td>Systems</td>
<td>Social Units</td>
</tr>
<tr>
<td>Capital</td>
<td>Entrepreneurs</td>
</tr>
<tr>
<td><strong>Managers</strong></td>
<td><strong>Leaders</strong></td>
</tr>
<tr>
<td>Models</td>
<td>Creative language</td>
</tr>
</tbody>
</table>

Although projected growth might be an entrepreneurial leaders’ motivation to raise funds, project leaders in bootstrap step, for most of them, are positioned in the right-hand side. In addition to previous items could be mentioned the opposition between large business and small business in the French ecosystem.

The French ecosystem shows this trend enhancing large company situation, wherein management tends to take over creative and entrepreneurial leadership. This favor, especially in matter of fundraising with banks, is quite handicapping for bootstrap-stage companies.

According to Robles and Tranchier (2011, p 33), the morality is more present in entrepreneurship than large companies’ world. This morality represents an essential point to build the trust required by entrepreneurs to find funds. Trust has a significant impact over
relations. Even though there are business relations, ethic takes an important place.

If several spin-offs materialize entrepreneurial ventures for some managers, most of them results from large companies’ willingness to alleviate their balance sheets and to cut costs related to relevant assets. For instance, this was experienced by Didier Tranchier (now owner, board member, co-founder in several startups) and Bernard Lorig (owner of an incubation firm, board member and also investor in several businesses) while they were working for the huge French telecom company “France telecom”. The previous mentioned lack of ethic was perceived by Lorig when he was director of the spinoff process. According to him, although it created employment and entrepreneurial ventures, this was a pretext of staff’s downsizing. Then both decided to become independent and highly contributed to the ecosystem development especially in digital and innovative sectors. They created “IT Angels”: the French business angel network specialized in internet and telecom companies.

1. Angel investors

Angel investors’ activities were not by now popular and expanded at the end of years 1990 in France. However since 2000, the contribution of these physical investors highly contributed to develop the ecosystem surrounding bootstrap-step companies and startups.

If the number of deals leveled off over the last decade, the number of business angels increased considerably (Figure 13).
In the same period in France, angels started to regroup themselves massively through networks increasing investments capabilities bootstrap-step companies. France Angels pointed out that the number of networks increased by 126% from 2005 to 2009 (from 30 networks in 2005 to 68 in 2009). In 2011, 4000 business angels are counted into 82 networks that financed 327 projects. Although the stagnating number coexists with the uptrend the relevant amount invested improved significantly from 2005 to 2011.

In 2005, the whole amount invested by angels reached $20.8 million (France Angels, 2005). This amount increased by 68% to reach $35 million in 2008 (France Angels publications, 2011). Annual angels’ investments reached its top at $57.8 million in 2011.

These ecosystems’ actors highly put into the economy their contributions since the co-investment with other funds (regional and governmental funds, venture capitalists funds, and “ISF” holdings) attained $144.45 million of financing.
The mean round size is about $455,800 and 25% of these rounds concern the second, the third or the fourth round. But we are still far away from the mean round size in the USA’s ecosystem ($700,000). Moreover, the French ecosystem seems to be centralized around Paris’ Area that regroups 40% of financed companies (France Angels publications, 2011). If the geographic territory is smaller than USA or China, geographic restrictions appear to face to entrepreneurs. Starting an entrepreneurial venture in France doesn’t give so much geographic opportunities to raise funds. 69% of financed companies were located in Paris and the south-east part of France (Figure n°). Whether Paris, Lyon, and Marseille look dynamic, entrepreneurial leaders are less likely supported elsewhere by angels. Project leaders willing to raise fund have to deal with this particularity. The following map shows clearly this “business sanctification” area.

**Geographical repartition: Percentage of Businesses financed**
Nevertheless, innovation structures and business centers, nurturing in intangible assets seed-stage companies, are present all over the country. Incubators are settled in each studying town, supporting entrepreneurship and also innovative dynamics. Like in the USA’s ecosystem, some sectors are more promising and researched by angel investors. In 2011, healthcare and biotechnology, “cleantech” energy, internet and telecom concentrated 68% of the whole amount invested by angels. As to services/distribution and industries, angels’ investment respectively represent 17% and 8% (France Angels publications, 2011). This tantamount to saying an entrepreneurial leader would more likely get financing if his company would be located around Paris and deal with promising sectors. At least, angels activities keep the energy flowing and contribute to boost the French ecosystem. The way to orient individuals’ savings and assets into small business becomes more and more popular. As said by France Angels (2011), over the last five years, Angels have funded nearly 1500 bootstrap-step companies for a total of $260.38 million. This observed uptrend is also enhanced by the tax exemption device introduced by the French government in 2007.

2. Government supports and sponsored programs

2.1. The system ISF-PME of 2007 and the Finance law of 2011:

In 2007, the French government set up a law implementing tax exemption for people investing in small business. Tax reliefs regard individuals that invest in small business. This law, called TEPA, allows reducing income taxes and also wealth taxes for individuals. The finance law of 2011 modified some settings. Today fiscal advantages are those below:
- 50% of investments in SMEs are deductible from the ISF (wealth tax) with an annual deduction cap set at € 45,000 (France Angels requires a cap of € 100,000).

- One device allows a deduction of 22% of sums invested in the Income Tax with a maximum annual deduction of € 18,000 (cap demanded by France Angels to € 200,000).

- The PEA (Stock-oriented savings) provides interesting parameters for tax exemption. It allows acquiring several kinds of titles: stocks, shares in investment companies with variable capital, shares in eligible mutual funds, warrants, investment certificates, shares of LLCs, and shares of companies subject to Tax Corporation. Closing of the PEA before 5 years begets a taxation of capital gains (19% since 2011) with social security contributions. The closing after 5 years exempts from tax on capital gains (social taxes remain), after 8 years other benefits are possible.

To begin with this law, we could say that the fluidity of investment has stalled. In order to make the tax exemption for investment working, there is an obligation to retain shares within 5 years for angels and eligible funds (because it’s possible to get these fiscal advantages indirectly by subscribing in funds investing in relevant eligible SMEs). This measure has shown its efficiency and entrepreneurial leaders took profit of this ecosystem regulation to get financings. Nonetheless, in 2011, the first wealth tax bracket (from almost $1 million of assets... now the first tax bracket starts from $1.68 million) was deleted. It concerned several French angels and it contributed to reduce the utility to orient efficiently assets of “wealth” people. In our interview with her, Julie Robles, innovation consultant close to angel investors and fundraising processes, claims that “this law of 2011 really restricts these benefits provided by the previous law of 2007”.
Although some blurry parameters occurred with this government initiative, it highly sustained this uptrend for private equity in the French ecosystem.

2.2. Oséo:

OSEO is a public company (mission of general interest with private operation) which finances the growth of SMEs: innovation, investment, co-investment, participative loans, international development and transmission. With a network of 1000 professionals comprised in 37 regional offices, OSEO is present throughout the whole French ecosystem. Funds are mainly staffed by the use of financial markets (not taxes) at optimal conditions (triple-A rating of the institution) to share financial risk with contractors, banks and venture capitalists.

Since 2006, OSEO has provided to young innovative companies 1000 Equity loans boot.

Thanks to loans without collateral, neither personal guarantee, these “bootstrapping” devices facilitates the entry in equity and allows investors to finalize companies’ innovative project.

The Ministry of Economy, Finance and Industry has relied on Oséo to implement the SMEs recovery plan of 2008 and facilitate business access to credit and bank bailouts treasuries. This support ended in December 2010.

2.3. JEI (young innovative company) and CIR (credit-tax research):

According to Robles and Tranchier (2011, p.39), Research-development represents generally more than 15% of costs, and sometimes up to 80%.

To finance this crucial expense, the state provides two help mechanism very useful: JEI and CIR.

The first one was create in 2004 and revised in 2008 as well as in 2010. To be eligible the entrepreneurial leader has to orient 15% of his
“bootstrapping” cost in R&D. This status allows reducing social taxes on seekers’ employees and it prevents to pay income taxes. Robles and Tranchier underlined that this system has known a large success in France, and it is now copied in Europe. Although the 2011 finance law destabilized the ecosystem by reducing SMEs support (after boosting it in 2004 and 2007), France is among one of these countries the most favorable to the setting up of R&D’s activities (Robles & Tranchier, 2011, p.40).

As to the “Credit-tax research” (CIR), its purpose is to alleviate R&D costs. It was created in 1983. Between 30% and 50% of R&D expenses can be deducted from taxes. It might be interesting for the entrepreneurial leader to know how itemize his expenses in order to record a maximum amount in the R&D part. In France, optimizing tax reliefs might be a valuable skills belonging to the entrepreneurial leader. But this requires a well-informed network and an efficient information system, that’s why our work might classify this skill into the leadership field of entrepreneurs.

The French ecosystem totally differs from the American one. The capitalism is present differently. In matter of regulation, the French ecosystem collects more taxes and the support to each stakeholder is more significant. However, it seems that, in matter of private equity and bootstrapping support, the French government tried in the last decade to supply step by step more leverages for entrepreneurial venture support.

3. Venture Capitalists

Merger and acquisition by large companies’ or relevant funds are likely one of the main capital withdrawal perspective for those entrepreneurs who succeed in their seed and early stages. Otherwise, venture
capitalists funds nurturing the private equity dynamic may occur to support attractive business model developed by bootstrap-step companies.

Even if some “bootstrapping funds” exist in France, Venture capitalists behave like those in USA. Called the “Capital-risque” (Capital-risk) industry, French angels investors prefer call these corporation VCs rather since they use to intervene later and thus take less risks. VCs intervene after angels seed rounds. Robles and Tranchier explained that VCs like to enter into the equity when the turnover shows an interesting growth’s curve, when the number of customers or clicked pages increase, or, at least, when promising partnership are signed up (2011, p.43).

According to a Grant Thornton’s report (Activité du capital-investissement, 2011), amounts invested by VCs leveled off between 2010 and 2011 with respectively $784 million in 2010 and $773.6 million in 2011. This report made for the AFIC (French association for capital investors) mentioned that number of companies in which venture capital funds invested decreased by 19%.

Julie Robles explains us that “after ten years, venture capitalists are globally not profitable in France, and that might explain why they have less and less money to invest”.

While the number of venture-backed companies passed from 458 in 2010 to 371, Development and Transmission capital with LBO (acquisition by banking indebtedness leverage) are the main responsible in the investment recovery in France.
As we can see, the VC financing of bootstrap-step companies or those that innovate is in danger ("Retail funds" decreased their amounts invested by 37%). Moreover, the study shows that VCs forecast to allocate fewer funds to "retails funds" using interesting tax reliefs process for bootstrap-step businesses. Indeed VCs, capital development and LBO would tend to orient capitals raised toward other structure such FCPR (less disposed to propose tax reliefs which means investments in every kind of stake). Into the bargain, VCs are raising less and less money.

Concerning geographical investment in the ecosystem, the “business sanctification” observed with angels is almost the same with capital investment.
Venture capital funds adopt a managerial attitude when they invest. They might have a profitability obligation with their portfolio due to origins of capitals raised: banks, insurances, retirement’s funds, physical persons and “family office”. Number of venture-backed companies will likely get reduced in 2012.

Robles and Tranchier (2011, p 45) asserted that the reluctance of VCs and this lack of funds would get corrected if the French ecosystem would have enough “success stories” to tale to financial investors. Nevertheless, in our conversation, Julie Robles explains that the French ecosystem evolved thanks to some “success stories” such as Meetic or Priceminister or Free. Entrepreneurial leaders of those successful startup companies earned a lot and tend to re-invest through corporate funds to stimulate the ecosystem.
Julie Robles underlined the number of enterprises funds that play a more and more significant role. A role she judged “really different than Venture capital”. This “acceleration” tends to propose a renewal for entrepreneurial leaders. Large businesses, with efficient cash flow management, are starting to nurture their own corporate funds to avoid the lack of innovative dynamic inside their managerial structure. “Renault (automobile) or Orange (Telecom) with Publicis” adopts this policy thus presenting a financial alternative in the French ecosystem.

4. Banks and borrowing needs

For companies in seed and early stage, commercial banks present a lack of support. Due to the debt crisis and their exposition to sovereign debts, French banks are more worried about alleviate their balance sheets and reach a break-even rather than offering interesting credit perspectives for project leaders. In spite of being costly and reluctant to most of project venture, these organizations support more likely industries and projects including tangible assets that might be converted into warrantees and collaterals. In France, banks tend to valuate positively entrepreneurs presenting strong managerial documents and financial plan. Market research and cash flow management is highly appreciated. Forecasting revenues, expenses, capital requirements and adapting relevant ratios, might represent a managerial function positively linked to entrepreneurial leadership in France.

5. Some cultural particularities

If the situation is better than before regarding the overall ecosystem, French entrepreneurs have to struggle against habits and mentalities. Robles and Tranchier (2011) expressed the deficit of recognition, or even the hostility, entrepreneurs or entrepreneurial success are facing.
The authors compared France and USA in matter of entrepreneurship perception. In USA, building a company is fulfilling and appreciated. In France entrepreneurs must instead confront skepticism and negative anticipation of their surroundings. Then facing against a majority induces the occurrence of atypical personalities in the French entrepreneurship.
CHAPTER 7: The Chinese Ecosystem

Commerce was restrained for more than 2000 years in Chinese history. Since first feudal dynasty Qin was established in 221BC, ‘advocating agriculture and restraining commerce’ had been one of the core policies of successive empires (Simaqian 1982), which were finally ended in 1921. And Confucianism was interpreted deliberately to serve for government by emperors. All of these had far-reaching influence on Chinese traditional culture of ‘commerce discrimination and politician worship’. Market economy system was not founded until 1978 after planned economy dominated China for 20 years. Thus, entrepreneurship is just appreciated in recent years in Chinese business ecosystem.

Chinese financial market is highly regulated by government. According to the ‘China Financial Market Development Report’ (The people’s bank of China 2011), state-owned commercial banks are still the largest funds suppliers. 80% of the total capital supporting Chinese economy growth is from commercial banks (Lu 2012). Foreign capital is rigorously limited in Chinese business ecosystem. Recently china’s policy makers agreed to further open its financial market by letting foreign companies raise their stakes in joint security ventures to as much as 49% from 33%. Nevertheless, as Hong Jinping, the senior analyst at China Merchants Securities Co., revealed, ‘the new rules won’t change the landscape of China’s brokerage industry, which is dominated by over 100 local firms and where local political connections are important’ (Bloomberg 2012). While the famous economist Adam Smith brought up the metaphor ‘invisible hand’ in the book ‘The Wealth of Nations’ to describe the self-regulating nature of market economy.
(Sullivan & Sheffrin 2003), the intervention of the ‘visible hand’, government, is strongly powerful in Chinese business ecosystem.

Fundraising situation is not optimistic for bootstrap-step companies in China. By 2012, the number of small and medium enterprises has exceeded 100 million accounting for 90 of total number of companies. They contributed 60% of GDP and in particular, small businesses provide 73% of jobs. Despite all these significant roles small businesses play, 80% of them are in short of funds and 30% extremely lack of finances (Chen 2011). China Academy of Social Science (2008) revealed that only 1% small business entrepreneurs were contented about financing environment. In such a tough circumstance, entrepreneurial leadership becomes one of the key factors leading to successful fundraising in Chinese business ecosystem.

1. State-owned Commercial Banks

As the very heart of financial market, state-owned commercial banks turn out to be the first choice of small businesses’ external fundraising source after burning out their own savings. An investigation about SMEs’ financing situation in China, which was conducted by the Standard Chartered Bank and China Academy of Social Science (2008), shows that 94% of small businesses will consider state-owned commercial banks as the priority concerning fundraising. In contrast, banks prefer to shy away from companies in bootstrap step. Currently, most of commercial banks raised their interest rate of loans to small business 30%-50% from the benchmark rate (Cao 2012). Loans from some commercial banks cost totally as much as 13% (Qiu 2012). According to the Central Conference of Economy (2011), plenty of banks charge a variety of additional transaction cost including management fee, consultant fee, commitment fee and insurance. Some banks even
require entrepreneurs to spend certain percent of loans on banks’ financial products. These provisions certainly increase total cost of financing for small business. Besides expensive costs, banks have strict constraints for start-up companies. Only these entrepreneurs that can offer real estate as mortgage have chance to get loans. Among all the loans from commercial banks, only 1% flew into bootstrap-step companies (Cao, 2012). During the investigation of the ‘National Association of Industry and Commerce’, above 90% of SMEs claimed that they have difficulties to get commercial loans (Liang, 2012).

Nevertheless, network helps entrepreneurs get cash from commercial banks. With the numbered funds investing in core business, most of bootstrap-step companies can hardly offer real estate as collaterals. At this desperate moment, a friend who is willing to be the warrantor could save the cash flow of fledging business. That means this friend provides his or her own possession to be the collateral (secured loans). This is all about trust. Building and maintaining trustful network is definitely a powerful skill of leadership (Boje 2001). Chinese is mentally influenced by the philosophy of Confucianism, which emphasize morality highly in relationship between people (Tan 2006). Entrepreneurial leaders who are well known for honesty and authenticity could get support from real friends. Ladkin and Taylor (2009) explained the importance of authentic leadership and advocated enacting ‘true self’, which seems also factual in Chinese business ecosystem. Network of trustful friends needs to be renewed constantly so that sustainability comes. A research about ‘network leadership in action’ has been conducted by Networked Learning Community. It revealed that ‘a network leader will plan for sustainability from the very earliest days of establishing a network. ...this means thinking ahead about how the network will survive’ (Networked Learning Community 2010, p. 3). Furthermore, this
network isn’t just good for secured loans. People connected in it help each other keep cash flow. For example, company A has to pay back commercial loans on May 1st and company B’s matures on Jun 1st. Probably on May 1t Company A doesn’t have the capacity to repay the debt, otherwise the cash flow would dry up. At this time, company B will transfer its cash reserve to company A as help. After paying back on time, company A earns credits from banks and is able to get another loan. Then before June 1st, B will get cash transferring from A to deal with its liabilities. In this mutual way, entrepreneurs get themselves through cash crisis together via their network. The value of such network is significant for bootstrap-step enterprises. Lead others by leading one self. It would be notably beneficial for entrepreneurial leaders in Chinese business ecosystem to lead themselves to reliable and faithful network of friends.

In order to improve small business’s financing situation, the China Banking Regulatory Commission (CBRC) (2011) made an announcement called ‘Notice about Commercial Banks supporting Small Business’ in 2011. This announcement referred to a new bond “Bond for Small Business”. This bond is issued by commercial banks and money raised from this bond can only be loaned to small business which asks for less than 5 million CNY (about 792,500 USD). Since then, lots of commercial banks have applied to issue this kind of new bond, and the funds have exceeded 300 billion CNY (about 47.56 billion USD) (Financial Daily 2012). ‘Bond for Small Business’ fortunately provides another source of fundraising for entrepreneurs.

In addition, in November 2011 ‘SME collection bond’ was issued first time. This is a way of direct fundraising for small and medium enterprises. Direct financing via bonds for small business is uncommon
in China due to big risk. Creatively, risk drops down when a collection of SMEs issue bonds together. Meanwhile, commercial banks are brokers of this bond, which also benefits contacts between small business and the monopoly. By now, five collection bonds have been issued and offered 1.389 billion Yuan for 25 SMEs (People’s Bank of China, 2011). ‘SME collection bond’ is an exploration of supporting entrepreneurship.

Considering monopolizing status of state-owned commercial banks in Chinese financial market, dealing with bank managers goes into the portfolio of entrepreneurial leadership. Keeping positive connection would be necessary. During our research, we consulted Gao, a customer manager of the Bank of Communication, one of the biggest state-owned commercial bank in China. Gao told us that they are reluctant to authorize loans to small business in spite of the constant applying, because the cost is the same with offering loans to big enterprises, but profits are much lower and risk is much higher. However, ‘if we know the entrepreneur well, the deal is quite possible’, she said, ‘not just because of his or her good reputation of credit which of course comes first, but also the willing not to embarrass our ‘guanxi’.’ ‘Guanxi’ is a special relationship in Chinese business ecosystem. It could also be seen as a kind of social interacting process between two people (Fan 2003). It is developed from person to person, increasing individual connections, and whole Chinese society comprises intricate personal contacts (Fei 2007). ‘Guanxi’ seems like human resources that help people achieve economical and political benefits. In this case, ‘guanxi’ acts as the door to the process of application, evaluation and authorization of commercial loans. Opening this ‘door’ would be helpful for entrepreneurial leaders. Here the ‘guanxi’ is different from the trustful network of business friends we mentioned before. The theory of
‘nine level of human relation’ (Mbalib Encyclopedia) shows the difference.

\[ \text{Figure 14 Nine level of human relation} \]

<table>
<thead>
<tr>
<th>Human Relation Level</th>
<th>Psychic Distance</th>
<th>Human Relation Level</th>
<th>Psychic Distance</th>
<th>Human Relation Level</th>
<th>Psychic Distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>+4</td>
<td>Chum</td>
<td>+1</td>
<td>Happy cooperation</td>
<td>-2</td>
<td>Constrasting feeling</td>
</tr>
<tr>
<td>+3</td>
<td>Close friends</td>
<td>0</td>
<td>No interaction</td>
<td>-3</td>
<td>Revenge</td>
</tr>
<tr>
<td>+2</td>
<td>Active interaction</td>
<td>-1</td>
<td>Unpleasure</td>
<td>-4</td>
<td>Hateness</td>
</tr>
</tbody>
</table>

As to the trustful network where intimate business friends support each other despite risk, the level of +4 or +3 could be preferred to maintain. ‘Guanxi’ with bank managers at least stays on the level of +2 or +1 where people are glad to cooperate. The skills of building and sustaining ‘guanxi’ could largely increase entrepreneurs’ leadership power to lead their bootstrap-step companies into an optimistic financial situation. Besides access to commercial loans, positive ‘guanxi’ with bank managers will relatively decrease the approval time, which means earlier allocation of money. Sometimes it is a matter of death or life of bootstrap-step companies’ cash flow. According to the research of Standard Charter Bank (2008) in the mainland of China, ‘too long approval time’ is voted by entrepreneurs as the main reason causing difficulties of applying for commercial loans.

2. Private Lending

‘50,000 CHY with interest rate 1.6%’ Hu Suliang sighed with relief, ‘It only took one week from applying to get the loan. The interest rate is quite reasonable.’ Hu is a 24-year-old entrepreneur who set up his tech-company one year ago. Recently, his start-up business was lack of cash urgently. The person lending money to Hu, Zhu, was not acquainted with Hu. ‘Bank rate is too low’ Zhu said. Thanks to the new established
Fundraising in Different Business Ecosystems:
Entrepreneurial Leaders’ perspectives in USA, France and China.  
Jian Yang & Johan Rocher

government agency ‘Private Lending Service Center’, these two met together. This is a small but significant case in Chinese financing market.

Private lending means debt occurring among citizens or between citizens and corporations (Baidu Encyclopedia). Private capital is sufficient in China. Just in Wenzhou, a small city in the east of China, private capital is as much as 600 billion CHY (about 94.8 billion USD) (Yahoo Finance 2012). People with idle cash always seek investment. The demand for funds of small business is also tremendous. As we mentioned before, commercial banks as the main-stream financial institution are not so supportive to small business. Thus, private lending is prosperous in China. For those entrepreneurs who cannot get commercial loans from banks, private lending becomes their savers.

It even grows to be the main alternative of commercial loans for companies in bootstrap step. According to the research of National Association of Industry and Commerce (2012), about 90% of small businesses never have any contacts with financial institutions. Statistics of SMEs Information Net (2012) showed that nearly 62.3% of private and family companies raised funds from private lending in the last three years. However, it is until 2012 that this financial instrument is organized by medium organizations of government. Before, private lending with huge capital had to happen privately. Interest rate is not
allowed to be more than quadruple commercial loans’. The new established agency ‘Private Lending Service Center’ offers a legal and transparent platform for private lenders and entrepreneurs under monitoring. Both short-term and long-term liabilities are available. There is no doubt that private lending has become one of the most crucial external fundraising sources for bootstrap-step companies and will continue playing its significant roles in Chinese business ecosystem.

The agency ‘Private Lending Service Center’ bridges the information gap between entrepreneurs and private investors, but at present it is just a financial experiment restricted in Wenzhou municipality. For most entrepreneurs in other areas of China have to lead this fundraising process on their own, which could be a challenge of leadership.

*Figure 15: Private lending cases recorded by courts in the town of Xiangzhu, Zhejiang Province, China.*

<table>
<thead>
<tr>
<th>Year</th>
<th>Civil and commercial cases</th>
<th>Private lending cases</th>
<th>The proportion (%)</th>
<th>Money involved (million Yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>328</td>
<td>116</td>
<td>35.37</td>
<td>1.75</td>
</tr>
<tr>
<td>2010</td>
<td>427</td>
<td>182</td>
<td>42.62</td>
<td>2.70</td>
</tr>
<tr>
<td>2011</td>
<td>388</td>
<td>189</td>
<td>48.71</td>
<td>3.82</td>
</tr>
</tbody>
</table>

Source: Yongkang People Court, 2012

Xiangzhu is a small village in Zhejiang Province located in the southeast of China. The private lending situation there could be seen as an epitome of the whole China. The table above shows that economical cases related with private lending took large proportion of all the civil and commercial cases, and the percentage kept growing in the last three years. It alerts that private lending may be a ‘cake’ for entrepreneurs but also could be a severe ‘trap’. We can see this point through the following famous case in China: Wu Ying case.
Wu Ying, a 28 years old entrepreneur who created a business myth, was sentenced to death on December 18th 2009. What changed this once glorious female entrepreneur’s fate?

This case arousing wide attention happened in Donyang, a municipality in Zhejiang province where private lending is very active. In 2000 Wu started her business career by opening a beauty salon which was progressive at that time and attracted a large number of customers. As a Chinese entrepreneur, she knew well about the importance of ‘guanxi’. After several years, Wu built a wide network including both business people and government officials, and also finished her primitive accumulation of capital. In 2005, Wu sensed the prospects of entertainment industry. A club was opened. Her innovation of service stimulated this business. Meanwhile, it burned out her cash quickly. At this time, popular private lending happening around attracted her attention. Thanks to the network she built before, cash from private lenders soon arrived. By now, Wu was well known as a successful female entrepreneur. However, after a bite of the ‘cake’, this young and progressive entrepreneur couldn’t stop. She considered this convenient fundraising source as a huge opportunity to realize her ambitious. Providing much higher interest rate than deposit, Wu raised 0.47 billion Yuan in only 9 months. Her business empire named ‘Bense’ was soon built. It referred to trading, advertisement, hotel, internet, wedding service, and logistics and so on. Companying this enormous ‘empire’, risk was also huge. Once the revenue of business went down which actually happened, it’s impossible to pay back such high interest. The only way to sustain cash flow was to borrow more money. The interest rate became unbelievably high as much as 50% per quarter or even 400% per year. Debt became a snow ball out of control just rolling bigger and bigger until killed companies and the entrepreneur herself. Finally, 0.77
billion Yuan borrowing was in the balance sheet. Global financial crisis in 2008 triggered the collapse of the myth.

This case was not alone. Lots of entrepreneurs lost in the ‘cake’ and destroyed their bootstrap-step companies. Some of them, like Wu, employed private lending as the main source of investments in fixed assets. Overconfidence made them lead companies into various industries which they were not good at. Some entrepreneurs even ignored increasing business they had spent a lot of time and energy on and turned into brokers of usury. ‘Cake’ attracts to a ‘trap’. In the face of a pool of funds, how is an entrepreneur still able to keep on the right track of leading their companies? The answer is much about self-leadership, which is an activity that occurs inside a person. Self-leadership aims at improving mental power and helping understand who we are as people (Hackman & Johnson 2009), that is to say self-awareness.

Self-awareness is a vital leadership skill (Teresa 2011). In the process of private lending, it looks like indispensable for entrepreneurial leaders. Self-awareness refers to how aware you are of your ‘personality traits, values and strengths’ as well as your capability to observe your ‘actions, feelings and beliefs’ (Fincher 2009). Without conscious of self, you can hardly get accurate and valuable ideas of your strengths and weakness, which in turn most likely says you cannot intent on improving your weakness, for example hiring someone to make up for it. We can see how entrepreneurial leaders lose ability to observe the huge risk of crazy borrowing and lead companies into industries wherein they are weak because of lacking self-awareness.

A large body of research has found that even a small amount of power leads most people to lose the controls that ‘make them behave and play nice’ (Teresa 2011). Dr. Robert Sutton (2010) calls this phenomenon
‘asshole poisoning’. The funds spring from private lending provides additional power for entrepreneurs. Many of them forget themselves. Understanding of self-leadership is particularly important. Chinese philosophy Confucianism also advocates that self improving, managing and leading are the first things that ambitious people need pursue (Yang 2010).

How to increase self-leadership? Ficher (2009) suggests three ways: practicing reflection, opening to feedback from others and learning from various types of assessments. Tsengtzu, a founder of Chinese Confucianism, promote self-reflection three times a day (The Analects of Confucius, 2006).

3. SME Technology Innovation Fund—Government sponsored Program

SME Technology Innovation Fund (STIF) was founded in 1999 and it is the first central government sponsored SME-supporting project. This innovation fund focuses on helping technologically innovative companies in the seed stage, that is to say the initial period of ‘bootstrap step’. It has intent on stimulating entrepreneurship. ‘We are responsible of cultivating seeds, and when the seeds grow to small trees, commercial loans and venture capital will come to take care of them’, as senior executive of STIF Ding said (Ma, 2008). It resembles ‘angels’ without any profitable intention.

STIF offers entrepreneurial business the first ‘pot of gold’, but usually fledging companies have difficulties of sustenance without continuous fund support, especially in the bootstrap step when entrepreneurs still wait for revenue. Thus, STIF also functions in leading other financial institutions to support bootstrap step. Companies and funds, like investment companies, incubators and venture capital, will get
advantages from STIF if they invest bootstrap-step companies, like tax reduction.

STIF is a non-profit organization. More than 80% of total funds are free of charge and others comes with very low interest rate or share (Ma, 2008), which make it better for entrepreneurs than angels and venture capitals. STIF is an ideal way for entrepreneurial leaders to get fundraising.

As we mentioned, this perfect fundraising is strictly limited in companies that innovate technologies and applying procedure is complicated. In order to be qualified, how an entrepreneur presents his or her start-up becomes critical. Some sub-programs of STIF need certification from relative government offices. Constructive network may offer a precious opportunity and help you out in an emergency. Lu Yang, a project manager of a new IT company supported this point in our interview with her as following records shows.

_Lu Yang a project manager in a new established IT company. Her company planned to apply for STIF. Lu needed a certification from Commercial Bureau, but following the normal procedure would take too long. She keenly detected that the government office was capable to speed it up. All she needed was the authorization from the secretary who she barely knew, which usually means ‘no way’. At this time, she thought of a friend in her network that was acquainted with the secretary. Through the friend’s introduction, Lu walked directly into secretary’s office and got the precious chance to show significance and prospects of her company’s start-up innovation. Finally, the secretary was convinced. ‘Network could be very helpful’ Lu said, ‘and also making people believe the prospects of your new technology is essential.’_
Project proposal is the main way to present start-up companies. This document work has to be done by close cooperation of different departments. It’s a test of entrepreneurs’ leadership to make this group work closely. There are three decisive factors of successful application: innovation, market prospect of the innovation and financial position (Wang 2010). How to write them down in a persuasive way is critical and could be a challenge. What’s more, first impression of the proposal is very important. With all the applications from the whole country, judges will not have much time for each document. Thus, making sense here is not just about what is written, but also about the appearance, organization and structure.

4. Angels and Venture Capital

Angels and venture capital are rising in China. ‘Following OEM and low-price manufacturing, China is stepping into the time of innovation, and angels will play a more and more significant role as motivators’ (Lee 2012). The concepts of angels’ investment and venture capital came from America, so these investors in Chinese business ecosystem have similar features with them in American business ecosystem. Most of venture investments in China come from funds established by international companies and investment banks (VCinChina 2011). In the last 30 years, internet industry was the favorite of angels and VC in China. Among the top-ten venture capitals in China listed by Forbes (2008), all of them hunt entrepreneurs occupied in internet software and hardware. According to the forum of angels and VC organized by Brain Storm (2009), the future of angels and venture capitals would mainly be new energy developing and utilization in China. Entrepreneurial leaders dedicating in this new industry have easier access to investment, but others are not so attractive.
As entrepreneurial leaders of bootstrap step company, how to attract venture capital in Chinese business ecosystem? In order to answer this question, we widely searched for and analyzed experience and suggestions shared by senior venture investors through internet.

*Gobi Partner is a Chinese venture capital company that is located in Shanghai and invests on technological innovation project on the bootstrap step. It manages a fund of technology and digital media.*

Xu Yi (2008), a director of Gobi Partner, says that the first thing is to make a file of the business plan. In the file, entrepreneurs need define what they do, what the business opportunity is, what solutions are, how to implement strategies and what entrepreneurs can do. It is a matter of making sense. VCs have focus on different industrial spheres and different investing stage. Before taking an action, entrepreneurs need to do homework to learn about VCs and screen potential ones. ‘Entrepreneurial leaders must be honest. Integrity attracts the favor of VC’, Xu said. Funds are only one part of success, and the key is to build a complimentary, stable and executive team with the same ambitious which is another element VCs are looking for. Integrity and team building ability is seen as critical leadership.

*Sequoia Capital is one of the biggest venture capitals in the world. It used to invest many global icons including Apple, Yahoo, Google, Oracle, and Cisco and so on. Its market value exceeds 10% of total value in NASDAQ. More than 500 companies received its investment; 200 realized IPO and 100 were acquired or merged.*

Zhou Kui (2008), director and partner of Sequoia China Fund, points out that the competition between Chinese VCs and foreign VCs will become fiercer and fiercer. VCs investing Chinese start-ups mainly
Fundraising in Different Business Ecosystems:
Entrepreneurial Leaders’ perspectives in USA, France and China.
Jian Yang & Johan Rocher

concern about three questions: market, business model and team. Excellent teams entrepreneurs build are very attractive to VCs. “Betting on track is better than betting on racers” Zhou said. Venture capitals are glad to get involved in such companies that find an increasing market with potential for change. It shows the significance of a leader’s ability of finding opportunities.

From an international perspective, Black and Gilson (1998) pointed out that one of the main factors that cause the VC industry to differ from country to country is the underlying structure of the country’s capital market: whether it is bank-centered or stock-market centered. Stock-market centered countries typically have many banks that are small relative to large corporations. The stock markets in these countries tend to be well developed and corporate governance functions tend to be conducted via cross-holdings and interchanging board memberships among the corporations. Bank-centered countries, on the other hand, tend to have fewer but larger banks that make significant investments in the corporate sector and consequently play a central corporate governance role. In contrast to the US capital market, which is largely stock-market centered, the Chinese capital market is by and large bank-centered while the French one seems to be a mix with an oligopoly in the banking sector.

For Bruton and Ahlstrom (2003), obtaining accurate and reliable information is still a problem for VCs today. While the Chinese government has implemented some regulatory reforms to bring the Chinese accounting system up to Western standards and make information better accessible, the Chinese capital markets still lack transparency. China’s two most prominent stock exchanges in Shanghai and Shenzhen are still in their infancy, making it difficult for venture capitalists to exit their investments (Pukthuanthong and
Walker, 2007, p711). Beyond financial markets, gaining access to present and reliable information about the firm is almost impossible unless close personal ties with the firm’s management exist and are continuously cultivated (Pukthuanthong & Walker, 2007, p. 725). Pukthuanthong and Walker (2007, p725) pointed out that even the board of directors typically has limited power and control as Chinese managers tend to be reluctant to disclose information to anyone they do not know well. According to them, in the Chinese ecosystem, relationship and harmony with and within organizations is frequently favored over information disclosure and shareholder rights. “Guanxi” comes first.

Venture capital investments in the West typically have an equity component, that is, they are either made in the form of an equity infusion or involve debt instruments and preferred shares that are convertible into common shares at a fixed price in the future. In contrast, venture capital firms in China tend to use loans to provide funding. As a result, a proper and objective equity valuation system has not yet been developed (Sood, 2004).

Nevertheless, according to the Hong Kong based Asian Venture Capital Journal, VC investments in China amounted to approximately US$1.17 billion in 2005. The same journal figures out that Chinese companies attracted $6 billion in venture capital funding in 2011, up 8% year-on-year, and putting the country at near parity with Europe, which saw commitments of $6.1 billion. In a comparison with the two previous observed ecosystems, the research will still qualify venture capital and private equity in a low level of involvement for bootstrap step companies. If recent amounts recorded for VCs in China are more and more consequent, it’s still far away behind those recorded in USA
and China is demographically more developed with more entrepreneurial venture.

5. Pawnshops and Small Loan Companies

Pawnshops, which have been existed in China for 1800 years, were a traditional way of financing for individuals. In the history, poor people usually resorted to Pawnshop to get cash for emergencies. Nowadays due to the difficulties of fundraising for SMEs in China, this ancient source has stepped into the view of entrepreneurs.

A pawnshop is an organization that offers secured loans to people and enterprises. Collaterals, which could be either entrepreneurs’ private properties or companies’ assets, are obligatory. The main difference between a pawnshop and a commercial bank is that a pawnshop is not allowed to absorb deposits. Entrepreneurs can trade idle assets with pawnshops for some cash. Before maturity, they are able to get their mortgage back by repaying the loan and interests. Otherwise, pawnshops get the ownership of collaterals. In China, the time of maturity is just several months at most, thus loans from pawnshops belong to short-term liabilities which require high interest.

Today pawnshops play more and more important roles in fundraising for entrepreneurs in China. According to The Commerce Department of China, there have been 4433 pawnshops by 2010 in China and the industrial capital has mounted to 58.4 billion CNY (about 9.3 billion USD). The number of pawnshops and amount of industrial capital has climbed respectively by 2.3 times and 5.1 times in last three years. Among all the pawnshop loans, more than 70% went to small and new business (SME. GOV 2012).

Considering Chinese business ecosystem, advantages of pawnshops are quite attractive for small business. First of all, the threshold is relatively low. Chinese commercial banks consider credits as the
decisive indicator to issue a loan or not. And they favor big enterprises with lower risk and higher profits. By contrast, pawnshops lay stress on collaterals with little concerns about debtors’ credits. As long as collaterals are legal and worthy, cash will be offered. As for companies in bootstrap step, few of them have credit records. Thus, pawnshops seem like suitable financing sources for entrepreneurs. Second, the range of collaterals is broad. Both movable properties and real estate, whose value varies from several hundred to millions, can be mortgaged. No matter what kind of idle assets entrepreneurs have, they all can be utilized. Third, the procedure is simple and fast. In contrast with cumbersome and long approval cycle in commercial banks, pawnshops provide loans in short time. Businesses in bootstrap step are constantly in the need of short-term cash which usually is in small amount but urgent. Pawnshops satisfy these demands better than commercial banks. Furthermore, pawnshops never oversee the use of loans while commercial banks’ loans can only be employed in specific ways written on the contracts. In the last, time of maturity is much shorter than it is in commercial banks and can be ended whenever entrepreneurs pay back. Concerning short-term cash demands, the fundraising cost of pawnshops usually is lower.

In spite of all these advantages, it is better for entrepreneurs to consider pawnshops as a financing source only for short-term and emergent cash, not for long-term capital, because of the highly expensive interest rate. Comprehensive interest rate can be as high as 2.4 percent per month (SME.GOV 2012).

Small loan companies literally refer to these financial institutions that offer relatively small amount of funds for companies. On the one hand, like commercial banks, small loan companies need mortgage from entrepreneurs and the use of loans is specialized. On the other hand,
the procedures are simple and fast as pawnshops do. Entrepreneurs are able to get cash in the same day when they apply. The problem is that interest rate is at least two times commercial loans’ interest. It is also just appropriate for emergency of cash flow. According to the ‘Report of small loan companies’ statistics in 2011’ issued by Central Bank, there were 4282 small loan companies around China and loans amounted to 391.5 billion Yuan by the end of 2011. Small loan companies can be seen popularly these years with increasing funds demand from small business in China.

6. Internal Fundraising

In Chinese business ecosystem, internal fundraising mainly refers to the management of accounts receivable and accounts payable. In our dialogue with Yang Shangpin, he told us that cooperation with companies in your supply chain, especially for young companies, was very beneficial for getting through cash crisis. In order to attract customers and keep long-term relationship, start-up companies usually allow buyers, who are in their downstream of supply chain, to receive products or service and pay later. It creates accounts receivable. When urgent demand of funds happens, such as repaying loans, entrepreneurs could bring forward accounts receivable. Sometimes they negotiate with customers to get payments even before deals happen. As reward, price will be discounted. Also postponement of paying for suppliers (accounts payable) creates liabilities that retain cash inside. This kind of collaboration is popular in Chinese business ecosystem. ‘Financing environment is not so upbeat for small business. Entrepreneurs have to hug together to overcome difficulties’, Yang said. How well this partnership work depends on entrepreneurial leaders’ ability, like communication and empathy.
Chinese government also is trying to improve the business ecosystem for entrepreneurs. A series of supporting policies were issues as the following shows (figure 16).

*Figure 16: Small Business Supporting Policies 2012.*

<table>
<thead>
<tr>
<th>Small Business Supporting Policies Issued in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Reduction</td>
</tr>
<tr>
<td>Fund Supporting</td>
</tr>
<tr>
<td>Investment Guidance</td>
</tr>
</tbody>
</table>


In France, the income tax rate of standard small business can go up to 33%. After these policies are issued, the burden of tax will be much lighter for bootstrap-step companies in the Chinese business ecosystem.

Therefore, concerning fundraising for bootstrap-step companies, Chinese business ecosystem could be summarized to two key words: ‘tough’ and ‘developing’.

1. State-owned commercial banks monopolize the financial market. 90% of small businesses choose commercial loans as the priority of fundraising because of relatively low interest rate, but only 10% will get approved finally. Commercial loans for small business seldom lasted more than one year. State-owned commercial banks still favor big enterprises and shy away from supporting bootstrap-step companies.

2. Private lending plays a critical role in fundraising of bootstrap-step
companies. It is the main alternative of commercial loans. However, lacking of monitoring and transparent market, usury appears with private lending, which could destroys start-up business.

(3) Small loan companies and pawnshops provide short-term debt with high interest rate. The funds are appropriate for solving cash flow emergency.

(4) Angles and venture capitals are rising. They helpfully stimulate entrepreneurship. Their most investments flow to sphere of internet and new energy developing. Large numbers of Chinese new business in traditional industries hardly access to these investors.

(5) Fundraising cost is high. In general, financing cost of small business is two times (or even more) higher than the cost big companies pay.

(6) Meanwhile, government tries to support entrepreneurs. Central Bank authorized commercial banks to issue ‘bond for small businesses. ‘SME collection bond’ was created. The government sponsored program (STIF) helps technological innovation start-ups raise fund in the seed stage. Building transparent financial market of private lending is also in the trial from 2012.
CHAPTER 8: Results and analysis

1. Results

In a nutshell, we decided to list up and summarize simply the involvement level regarding each source of funding in the three ecosystems. We would like to emphasize that here are the main differences between each ecosystem. We decided to skip the source of funding related to IPOs. It concerns generally very fast growing firms (fast growth of users’ database or order backlog) in development stage with a successful business model. We have in mind the example of LinkedIn, the second World Wide Web social network. In 2011, the IPO allows LinkedIn to reach a market cap of $10 billion in only one day! By this occasion, Reid Hoffman brought some cash for his company: He earned $5.2 million of dollars by selling only 1% of his shares...

Even if relevant funds raised are huge and not comparable to what has been studied in the research, it regards few startups and small business that are not particularly in bootstrap step.

Figure 17: Sources of funding and level of relevant involvement.

<table>
<thead>
<tr>
<th>Sources of funding and level of involvement for companies in bootstrap step</th>
<th>USA’s Ecosystem</th>
<th>France’s Ecosystem</th>
<th>China’s Ecosystem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends &amp; Relatives: &quot;Love Money&quot;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pawnshops</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private lending</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government support &amp; sponsored Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Angels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venture Capitalist Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise Funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow management alternatives: Accounts payable (Due with suppliers) Accounts Receivable (Due of customer)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Present with a high level of involvement  
Growing  
Declining

With a low level of involvement OR inexistent
US’ ecosystem is very suitable for entrepreneurs. The shareholder capitalism enhances the fundraising framework for bootstrap step companies. Results confirm our choices to maintain this American study case as an ecosystem of reference.

In comparison, the French ecosystem is like stakeholder capitalism where tax burden might represent a handicap to raise cash. Although the level of taxes for small business is even higher than in China, some tips and tax reliefs appeared in the last decade. Progressively the volume of funds available increased and, as said by Robles and Tranchier (2011, p46), if USA constitutes the more attractive market, it is in France that bootstrap step companies take profit of better R&D activities conditions as well as for public support program than for excellent formation established.

Generally in China, it is hard for companies in bootstrap step to find long-term stable funds. Not only long-term debts are of difficulties, but also equity investments are especially limited. The fundraising situation of these young enterprises in Chinese business ecosystem is improving but still tough currently. However, the ecosystem progressively opens its boundaries to foreign investments. Although venture capital industry has a low level of involvement, it is still increasing and Chinese ecosystem interacts widely with the American one to raise funds.

One result that could not find oppositions is that observed ecosystems are interacting each other and the sun can shine over each flower or each seeds well positioned all over the landscape. For instance, “Angel Investment Network” (http://www.investmentnetwork.cn) is a digital hub trying to develop partnership and connect foreign angel investors with Chinese entrepreneurs. By now, California and south-west of America are very attractive and lot of French startups, small businesses, and large companies’ subsidiaries are setup there. In the
meantime, American VCs and US’ private equity structures don’t limit their investments to the American territory. French startups, such as OLX and Freshplanet, and Chinese internet startups, such as Baidu and Taobao, raised already equity funds from American investors. Now, the Chinese government even encourages domestic investors to devote to European and US’ companies.

Regarding domestic ecosystem, we tried to figure out and summarize the stakeholders’ attitudes towards entrepreneurship and bootstrap step companies. Each ecosystem provides a typical approach concerning relevant fundraising process and mentalities.

*Figure 18: Stakeholders’ attitudes, fundraising and entrepreneurship.*

As we figured out, there is no surprise considering American ecosystem and its positive public mentality toward entrepreneurship. This ecosystem is a reference in terms of equity suppliers. As for long-term debt, bootstrap-step companies still have difficulties. Banks prefer shying away from young projects in all three ecosystems. Short-term debtors including private lenders and pawnshops are much more
popular in China since long-term investors are reluctant to fund young business. France and China share the same cultural skepticism on entrepreneurship.

Based upon these ecosystems’ snapshot, we strive to provide in the following analysis the implications of leadership in the fundraising process.

2. Analysis

According to Kirzner (1973), entrepreneurs are supposed to be able to identify new opportunities; they are alert, creative and opportunists. The ability of finding potential opportunities also helps raise funds. Venture capitals and angels consider promising market as the first condition when they make the choice of investment. Our analysis considers that entrepreneurs are more accessible to funds if they identify or even create a business sphere with bright further, which requires the ability of finding opportunities. Bjorn Bjerke (2007) considers sensing business opportunity as entrepreneurial leadership. Leaders of start-ups may discover or even create a further business opportunity. According to Baron and Shane (2000 p.10), ‘the opportunity is the result of a number of factors’ as the figure 19 shows.

**Figure 19: Business opportunity comes from a number of factors.**

Source: Baron and Shane (2000 p.10)
Development of new market could be achieved by innovating new technology, like Apple, and new business model, like Amazon and Alibaba. And a market with bright future attracts the flow of funds. How to define the market to which his or her new business belongs is exactly entrepreneurial leaders’ consideration in the bootstrap step.

Schulz and Hoffer (1999) proposed an insightful definition of what is an entrepreneurial leader. Entrepreneur and “intrapreneur”, coordination of human activities, vision of the future, with a leadership as a component of the change process, are composing a range of characteristics that fit perfectly with the nurturing process of the seed. It fits also with internal issues regarding the innovative and explorative trend in large structures. Thus an entrepreneurial leader could act in bootstrap step company based upon a project, an idea or an interesting concept. This entrepreneurial leader might also be a creator coming from a spin-off process and becoming a large actor of his own ecosystem. For instance, this is the case of Bernard Lorig and Didier Tranchier, who are highly involved in the French startup ecosystem.

In USA, France or China, the necessary bond between the source of funding and the fundraiser seems to be the trust. The leadership literature field is unified around the necessity of generating trust. Bennis and Nanus (2003) highlight the concept of trust through positioning and the deployment of self. Julie Robles, working with several investors in France, reminded us that “more than money, we bring trust to entrepreneurs […] Beyond the business plan, we check the market”. By market, the positioning is clearly defined. The entrepreneur has to be “100% in his project and must not accumulate tasks related to another job to generate trust”, she said. Then the deployment of self is represented through an inference “100%” in the project. In each observed ecosystem, deployment of oneself may not
forget the necessity for the entrepreneurial leader to enact as authentic. In the nurturing process of the seed, authenticity, within interactions with each ecosystem’s actor, is a value-added to express specificities of a “unique” project. Works of Ladkin and Taylor (2009) are providing beautiful and coherent guidelines to express an authentic leadership by “enacting one’s true self”. As we highlighted in the chapter 3, the reliability of their statement is perfectly reliable and suitable with the process of seeking for funds. During a speech with a potential investors or lenders, balancing the competing bodily and emotional reactions can be very useful and therefore we also oriented our research to emotional intelligence concepts.

We wanted to discuss about the emotional intelligence of Goleman (1998). The following table (Figure 20) intends to explain our understanding of it. In this analysis we strive to connect entrepreneurial leaders’ emotional intelligence with “seed and early funding round”.
The theory of cognitive leadership presents some reliable aspects. Scheer (2009) pointed out the significant role of business conception.

<table>
<thead>
<tr>
<th>Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-Efficacy</td>
<td>The ability to succeed in certain endeavors</td>
</tr>
<tr>
<td>Self-Awareness</td>
<td>The ability to recognize and understand your own emotions and thoughts</td>
</tr>
<tr>
<td>Self-Regulation</td>
<td>The ability to control the trimming edge of emotional expression</td>
</tr>
<tr>
<td>Empathy</td>
<td>The ability to understand and share the feelings of others</td>
</tr>
<tr>
<td>Resilience</td>
<td>The ability to handle setbacks and come back stronger</td>
</tr>
<tr>
<td>Empowerment</td>
<td>The ability to encourage and support others</td>
</tr>
<tr>
<td>Motivation</td>
<td>The ability to set goals and work towards them</td>
</tr>
<tr>
<td>Mindfulness</td>
<td>The ability to focus on the present moment</td>
</tr>
<tr>
<td>Emotional Intelligence</td>
<td>The ability to understand and manage emotions</td>
</tr>
</tbody>
</table>

Figure 20: Our entrepreneurial leadership understanding of Goleman’s Emotional Intelligence.
conveyance. Conveying business conception successfully means also crossing the bridge that lead into investors’ frame of reference.

In society, such as USA and France (with a private equity industry significantly developed), investors want, at the most basic level, to maximize return on investment through cash flow expected. Not to mention the willingness to minimize personal risk exposure. Making sense for the fundraiser, to lead a request with investors, might optimize the deal. The purchase price of business shares is determined by negotiation between buyer and seller. Even though the calculated value may not be the price eventually paid for the company in bootstrap step, it gives the buyer an estimated value for the price’s negotiation. Typically in USA and France, the buyer tries to purchase startup’s share for something less than the full estimated price. As for the seller, he will try to get more than that value. In this position, the entrepreneurial leader will have to make sense and be convincing in order to drain investors’ willingness. Intangible assets are always emphasized by entrepreneurial leaders in France and USA. It explains why business angels invest more in key sectors such as technology-based firm where intangible assets are the main source of value negotiation. Commonly, the difference between a random entrepreneur and an entrepreneurial leader might be located in this ability to make sense in project presentation.

We tried to connect this specific “Sensemaking skill” of the entrepreneurial leader willing to raise money. For this, we built up a model based on what Longenecker, Moore and Petty (1997, p57) have already explained.

Thereby, the research extracts from this upshot the subsequent figure based on the Figure 21 previous mentioned:
Figure 21: Sensemaking leadership as a determinant of the capitalization rate.

No matter what is the sector in the French or American ecosystem, a company in seed and early stage will intend to proceed like in this figure. Conversely, it seems like only the entrepreneur or manager, with relevant leadership skills, might reach his expected firm value. Buyer and seller, both, know that each part will burden in its side within negotiation. This is typically known in the USA ecosystem where the private equity trade is a part of the culture. That’s why the research understands that the project leader might have sufficient cognitive resources (after the long ongoing process to apply for funds) in order to extract his business conception and convey this one, coherently, into investors’ frames of references.

In this concept, we did not mention Chinese entrepreneurial leaders because of the low private equity involvement in the relevant ecosystem. More than a lower involvement, it is a matter of cultural difference. After decades of Communist rules and the strategy of building ‘made in China’ brand, China’s accounting standards are primarily designed to assist firms in production planning and not so much in asset valuation.

Scheer (2009 p3) argues that cognitive leadership help entrepreneurs motivate and coordinate employees by conveying business conception.
In Chinese ecosystem, it is popular that employees become private lenders of entrepreneurs in the bootstrap step. Instead of articulating their business conception, entrepreneurs realize that their reputation of integrity is a more decisive element for Chinese employees to offer their sayings. We had a dialogue with Yang Shangpin, who is an entrepreneur and was a senior manager in two private companies in the east of China. He has 30 years of experience in Chinese business ecosystem. Yang supported this point in the dialogue by saying that “thanks to entrepreneurs’ good reputation, private lenders are willing to provide their investment and entrepreneurs’ network can be expanded and maintained”.

Schumpeter (1911) asserts that entrepreneurs are innovators who combine different factors such as processes, human resources, capital, information, and research-development. Network comprises combinations of human resources, which is very important for fundraising in all three ecosystems, especially in Chinese business ecosystem. Positive relationship with state-owned commercial bank managers and government helps small business in the financing process. We learned in the dialogue with Yang that entrepreneurs are not supposed to be alone in China. Trustful network of business friends is necessary. Entrepreneurs could get courage from these friends and support each other to survive in difficult financing situation. “Network! It’s all about network. I can never stress this point more, no matter you like it or not”, Yang said. It is a challenge of entrepreneurial leadership to build and maintaining network.

Bjerke (2007 p.65) said that Chinese society does not perceive individuals as western people do, but as people “whose very existence also comprises relationship to others” (Figure22).
Fundraising in Different Business Ecosystems: Entrepreneurial Leaders’ perspectives in USA, France and China.

Jian Yang & Johan Rocher

Figure 22: ‘The individual’ in two different parts of world (Bjerke 2007 p.66)

The Western world is founded on individuals, Japanese society is established upon groups and Chinese society is built on relationships (Liang, 1974, p.95). Network is, among other things, of great importance for any people to start new business ventures in Chinese business ecosystem. Chinese are seen as natural networkers.

Figure 23: Leadership in the Chinese Business Ecosystem.

We summarize entrepreneurial leadership for fundraising of bootstrap-step companies in Chinese ecosystem in the above figure. We can see the significance of network. ‘Positive relationship with bank managers and government’ and ‘trustful network of business friends’ refers directly to network building. A good reputation of integrity underlies the sustainability of entrepreneurial network.
When we asked Julie Robles what are the main leadership skills to raise funds she answered: “For me leadership in this context is about to be able to convince, to build a team, to attract and motivate people, to get people taking risks with you”. Pierre Vilpoux (2011) underlined it is better to have two founders to bring up an innovative project rather than one. In accordance with him Julie Robles explained that “the team... The team with 2 or 3 members with complementary skills with, for example, one commercial and one engineer, is the more valuable entrepreneurial traits with the trust”. Regarding suggestions for entrepreneurial leaders, she told us “Sure it’s good to be ambitious” for example when a high projected business growth presented, “try to be attractive but realistic... to be realistic it is important”.

After studying entrepreneurial leadership skills in accordance with each ecosystem, we figured out entrepreneurial leadership traits to raise fund in China and France. According to the research methodology, the American ecosystem was a study case of reference helping to layout the discovery path. In the figure 21, we didn’t mention these traits for the American entrepreneurial leader, for lack of objectivity and necessary empirical examples. However, this figure represents our common understanding with a cultural cross-checking process for China and France.
Although innovation happens to be in the core frame of research for most of investors, we did not implement the item “Innovative” in the previous hexagon. We do consider innovation as a result of cognitive researches and implementations that are not linked necessary with the process of leading a fundraising. Aware of the innovation key place, the analysis reflects on as a result of an entrepreneurial venture and not as an entrepreneurial leadership trait that might show an entrepreneur.
CHAPTER 9: Conclusion

We introduce our research with the two following questions. Far away to supply an exact answer, we strive to highlight in this conclusion some elements of response.

- What are specific sources of financing and relevant policies, regulations and habits based upon business ecosystems?
- How could entrepreneurial leadership be helpful for fundraising of bootstrap-step companies in the three ecosystems?

We point out in the previous chapter the main results of the research concerning the first issue raised. For lack of objectivity, of course several findings may be discussed. Hopefully, we succeed to provide a significant range of characteristics for each ecosystem. We just considered this research as an interesting threefold overview supervised by a work made in an international context.

To sum up, the American ecosystem proved that it is leading the concept of fundraising support. Based upon shareholder capitalism, we commonly agree to point out the material and cultural entrepreneurship support. As to the French ecosystem, properly belonging to stakeholder capitalism, it is evolving and it presents a plethora of particularities regarding the regulation, structural mentalities and policies. Finally, the Chinese one is totally different due to the affection of the Communism regime but also this unique cultural legacy emphasizing the role of ‘Guanxi’ in doing business.

Concerning the second issue, we try to understand how leadership could help entrepreneurs to raise funds in the bootstrap step in three ecosystems. In accordance with experts and all of research elements, we give our own interpretations. Present and useful to optimize and lead a fundraising, we pointed out the utility of entrepreneurial
leadership. We found that enactment of leadership is quite different in each business ecosystem due to diverse culture and financing sources. By no means could we say that what we figured out, about leadership in the process of financing, is able to be a formula for every entrepreneur who wants to start business in USA, France or China. Rather, we do think this area could be studied in a further way. As long as readers could get some inspirations from our research, the aim of this study is achieved.

Beyond an academic liability and a need for achievement, we do believe this work might add value to overpass the gap between a financial area and a cultural, an emotional as well as a cognitive approach.

Once again, in no wise this study aims at explaining or prescribing. By studying each ecosystem for entrepreneurial leaders, we tried to establish an understanding of this topic that could be further examined.

We also believe this work might reveal the significant benefits and potentials of bridging fund flow among three business ecosystems. The access between cash-hungry business in bootstrap step and investors is able to be broadened. As to these people who have the knowledge and network to break cultural boundaries and construct this ‘bridge’, there is a huge entrepreneurial opportunity out there. And opportunity, in an international context, is exactly what motivated us to deal with this topic.
REFERENCES


Buss, D 1993, ‘Heaven Help Us’, *Nation’s Business*, vol. 8, no. 11, p.34.


Fei, XT 2007, Village in China, Shanghai People Press, Shanghai, China.


Fisher, C 2004, Researching and Writing a Dissertation for Business Students, Prentice Hall, New Jersey, p. 34.


Fundraising in Different Business Ecosystems: Entrepreneurial Leaders’ perspectives in USA, France and China. Jian Yang & Johan Rocher


Longenecker, J, Moore, C, Petty, J, Palich, L 2005, Small business Management, an entrepreneurial emphasis, South-Western College Pub, USA.


Fundraising in Different Business Ecosystems:
Entrepreneurial Leaders’ perspectives in USA, France and China.  
Jian Yang & Johan Rocher

International conference on management science and engineering, 5-7 October, 2006, ICMSE, Lille.


Nietzsche, F 1886, Unpublished Notebooks, Summer 1886 – Fall 1887, KSA 12, p315.

Nietzsche, F 1887, Zur Genealogie der Moral, C. G. Naumann, Germany.


Robles, J & Tranchier, D 2011, *What if tonight you try to conquest the world?*, Lulu, 3101 Hillsborough Street Raleigh, USA, pp.31-33.


Fundraising in Different Business Ecosystems: Entrepreneurial Leaders’ perspectives in USA, France and China.

Jian Yang & Johan Rocher


Zhang, CY & Liang, Y 2011, *The present situation of SMEs’ fundraising in China*, Mechanical industry publisher, Beijing.


Linnaeus University – a firm focus on quality and competence

On 1 January 2010 Vaxjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterized by high quality and a competitive portfolio of skills.

Linnaeus University is a modern, international university with the emphasis on the desire of knowledge, creative thinking and practical innovations. For us, the focus is on proximity to our students, but also on the world around us and the future ahead.