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>>> **Lina Marrugo-Salas**  
Universidad Tecnológica de Bolívar,  
Colombia, [lmarrugo@curmvirtual.edu.co](mailto:lmarrugo@curmvirtual.edu.co)

>>> **James Manuel Perez-Moron**  
Universidad Tecnológica de Bolívar,  
Colombia, [jperez@utb.edu.co](mailto:jperez@utb.edu.co)

>>> **Verónica Tordecilla-Acevedo**  
Universidad Tecnológica de Bolívar,  
Colombia  
[vtordecilla@utb.edu.co](mailto:vtordecilla@utb.edu.co)

# Unicorns aren't fairytale, China is their valley

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**Los Unicornios no son cuentos de hadas, China es su Valle**

## Abstract

The purpose of this paper is to present an overview of the Chinese cities where unicorn firms are proliferating as well as the sectors they are concentrated in. Unicorn firms are privately held startup companies with a valuation over one billion US dollars. In 2018, 260 unicorn firms exist worldwide, 76 live in China meanwhile the United States of America has 121, a front where the trade war between the two global superpowers is also being fought. China has had remarkable progress on this matter. In 2009 only two Chinese unicorns existed, now China's unicorn firms represent nearly 30% of the total unicorns, from 2017 to 2018, 16 new unicorns have arisen.

The authors tracked 76 Chinese unicorn firms, their valuation, performance, the date they joined the unicorn club, their industry and their investors. This study found that Chinese Unicorns are mostly concentrated in the following sectors: 15 firms in e-commerce/Marketplace, six firms in Ed Tech, six in Fintech all the other categories have either one or two firms in the list. From top down, these are the Chinese cities with more unicorn firms: Beijing, Shanghai, Hangzhou, Shenzhen, Guangzhou, Nanjing, Suzhou, and Tianjin. Hong Kong, Macao and Taiwan still don't have unicorn firms in their territories.

## Keywords

Unicorn firms, China, startups, unicorns, business

## Resumen

El propósito de este artículo es presentar una visión general de las ciudades chinas donde proliferan las empresas unicornio, así como los sectores en los que se concentran. Las empresas unicornio son empresas privadas de reciente creación con una valoración de más de mil millones de dólares estadounidenses. En 2018 se cuentan 260 empresas unicornio en todo el mundo, 76 están ubicadas en China, mientras que Estados Unidos de América tiene 121, un frente donde también se libra la guerra comercial entre las dos superpotencias mundiales. China ha tenido un progreso notable en este asunto. En 2009 solo existían dos unicornios chinos, ahora las empresas unicornio de China representan casi 30% del total en el mundo. Entre 2017 y 2018 han surgido 16 nuevos unicornios.

Se rastrearon 76 unicornios chinos, su valoración, rendimiento, la fecha en que se unieron al club de unicornios, su industria e inversores. Se encontró que los unicornios chinos se concentran principalmente en los siguientes sectores: 15 empresas en *e-commerce / marketplace*, seis empresas en Ed Tech, seis en Fintech, todas las demás categorías tienen una o dos firmas en la lista. De mayor a menor, estas son las ciudades chinas con más firmas de unicornios: Beijing, Shanghai, Hangzhou, Shenzhen, Guangzhou, Nanjing, Suzhou y Tianjin. Hong Kong, Macao y Taiwán todavía no tienen empresas unicornio en sus territorios.

## Palabras clave

Empresas Unicornio, China, startups, unicornios, negocios.

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## Introduction

Unicorns have fascinated everybody since the dawn of time. Prehistoric artists painted them on cave walls and they have inspired some of the world's greatest writers and artists. Unicorns are also considered among the most mystical and magical beasts from the beginning of time (Alexander, 2015). For Parker (2007) in Chinese mythology the unicorn is also known as Qilin (Chinese: 麒麟) or Kirin which appearance meant either the birth of a significant ruler and has a chronology in China from Neolithic Period (circa 6000 – 1600 B.C.E) up to Qing Dynasty (Manchu) 1644 – 1911 C.E.

In the Chinese culture, unicorns are also considered one of the four sacred beasts, a guardian of the earth. Chen (2012) also investigated foundational aspects of Chinese culture, including the legendary unicorn and its legacy to this day. The existence of unicorns has always been an exciting and controversial topic. Caillois & Scott (1982) found their existence to be a myth as well as other authors like Reimer (1997) and Paul-Choudhury (2009). Cheng (2012) argued that Chinese unicorns were actually a female goat. Surprisingly, unicorns do exist and nowadays gallop in multiple countries worldwide, especially China and the United States. China is a fertile land for unicorn firms or startups (any tech startup company that reaches a \$1 billion USD market value through private or public investment), something extremely rare and magical-like a unicorn, term first coined by Lee (2013).<sup>23</sup> Startups, defined as a “temporary organization formed to search for a repeatable and scalable business model” (Blank & Dorf, 2013). Likewise, Decacorn and Hectocorn are other terms used to describe firms valued over \$10 billion and \$100 billion respectively.

In terms of their number and size, Chinese unicorn firms are second, only to those in Silicon Valley (Chien, 2018). Unicorns are often linked to technology and might even inspire a new pillar of anthropology, digital anthropology, to study technological and social interactions and their impact on society (Au-Yong-Oliveira et al, 2018). Most innovative startups are closely related to or even fully dependent on technology “tech-startups” (Kopera et al, 2018).

For Alon-Beck (2018) the increase of unicorn firms also highlights the importance of knowledgeable employees, as their knowledge contributes to the firm's intangible assets. The capabilities developed by new technology ventures as they innovate and create products for market positively impact the success of internationalization efforts (Knight & Cavusgil, 2004). For Stayton and Mangematin (2016) the role of speed and the respective rhythms of venture creation, product launch, and internationalization remain in shadow. It also suggests ways to attract, engage and retain talent, by offering equity and facilitating liquidity opportunities.

De Massis, et al., (2016) have identified four main characteristics that the Unicorns have in common explaining the great success of these type of companies, size, led by serial entrepreneurs, financed by VC firms, and narrowly focused. Wiklund et al (2009) creates a model to explain the complex and dynamic nature of small business survival and growth. It identifies entrepreneurial orientation of the firm, the external environment, resources of the firm, and growth attitudes of entrepreneurs as the key dimensions that explain the growth of small business. For Krishna et al (2014) from an external environment perspective, factors such as the industry structure, product-market mix, the regulatory environment, human capital and financial capital environment are the principal drivers influencing the survival of high-tech startups. Access to capital is one of the most important challenges facing entrepreneurs in technology startups (Denis, 2004; Shane and Stuart, 2002).

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23 The term unicorn was first used in the article "Welcome to the Unicorn Club: Learning from Billion-Dollar Startups". Available at <https://techcrunch.com/2013/11/02/welcome-to-the-unicorn-club/>.

For Urbinati, et al (2018) these Unicorns have created incredibly fast diffusion processes and SMEs need to survive and become more competitive in the global market and have built very successful businesses and offer their products or services in a wide range of markets, such as energy, automotive, infrastructure, as well as the mobile phone market or the transportation one (Cinar et al, 2018).

## Unicorn firms

As of 2018, 46 firms have reached unicorn status (CBInsights, 2018), 19 from the US and 17 from China. When reviewing China's performance we see a sensational grow, in 2014 China only had eight unicorn firms now it has 56. See figure 1 with the top ten unicorns worldwide where China has four firms: Didi Chuxing, China Internet Plus Holding (Meituan Dianping), Toutiao (Bytedance) and Lu.com.

**Table 1. Top ten worldwide unicorns**

Company	Valuation (\$Billion USD)	Country
Uber	USD 68	United States
Didi Chuxing	USD 56	China
China Internet Plus Holding (Meituan Dianping)	USD 30	China
Airbnb	USD 29.30	United States
SpaceX	USD 21.50	United States
Palantir Technologies	USD 20	United States
WeWork	USD 20	United States
Toutiao (Bytedance)	USD 20	China
Lu.com	USD 18.50	China
JUUL Labs	USD 15	United States

Source: Author's own elaboration based on the Global Unicorn club (CBInsights, 2018).

Chinese unicorns are unfamiliar for the majority of people who live out of China, for instance, Bitmain Technologies in Blockchain, DJI Innovations in Hardware or Lianjia (Homelink) in e-commerce, the Chinese marketplace itself is enough to provide enough worldwide to these firms.

For Pan & Yang (2018) the strong co-location of startups and financial resources is significant in China, since the top financial centers, Beijing, Shanghai, and Shenzhen, are also the centers of entrepreneurial activities in China as well. In regards to locational factors for Unicorns, Zeng and Dornberger (2009) state "the proximity to suppliers and customers was essential for the development of the high-tech startups in a particular area". Also the contact and exchange with research and development (R&D) institutions seem to be more important for the development of high-tech firms (Asheim and Isaksen, 1996; Komar, 2003). The geographical relationship between startups and financial resources is crucial. (Bruton and Ahlstrom 2003; Zhang 2011) Startups from high-tech sectors are extremely concentrated in a limited number of large cities such as Beijing, Shanghai, and Shenzhen (Pan & Yang, 2018).



**Table 2. Top 10 startup cities**

City	Number of all startups	Proportion of the country
Beijing	755	14.86
Shanghai	435	8.56
Shenzhen	291	5.73
Suzhou	230	4.53
Hangzhou	154	3.03
Wuhan	145	2.85
Guangzhou	144	2.83
Wuxi	104	2.05
Chengdu	95	1.87
Nanjing	92	1.81
<b>Total</b>	<b>2445</b>	<b>48.12</b>

Source: Author's own elaboration based on Pan & Yang (2018).

There are also other factors that explain why China is becoming a valley for unicorn firms. Industrial agglomeration and the immigrant culture have a positive correlation with unicorn firm's development, as well as the perceived performance of the local institutions and local business service providers (Dornberger & Zeng 2009).

For Smallbone and Welter (2012) China's growth was the open-door Policy. Yang pointed out that in order for entrepreneurs to succeed in China, they need to do well both in making profits and also in lowering socio-political risk, for example, by alliances with the local government (Yang, 2004). It is also highlighted the importance of *guanxi* (special relationships in current Chinese business environment) that helps entrepreneurs build informal social interactions in Chinese business environment (Zhou, 2012, p.30). McManums et. al. (2012) suggested implementing an entrepreneurial marketing approach for Chinese companies to gain competitive advantages. Ding and Li (2015) discussed the pros and cons of Chinese government programs and initiatives on incentivizing Innovations.

Martha et. al. (2013) compared the innovative ability of the central region of Hubei and Hunan provinces and three leading cities in China (Beijing, Shanghai, and Guangdong) by using different indicators of innovation. In general, cities spent more on R&D, employed more from top universities in China and generated larger number of patents for both internal and overseas markets. In contrast to the three leading cities, the number of patent applications from Hubei and Hunan was lower. According to Cinar and Hienkel (2018), other key factors that heavily support the proliferation of unicorn firms in China is the solid knowledge and skills of how to start a business and knowing someone who has already started a business, universities and training schools take action on entrepreneurship education. Chinese entrepreneurs don't have fear of failure when starting a business in China; they have the lowest fear to fail-index among other similar countries. (Anwar ul Haq et al., 2014).

Another important factor that has helped to disseminate unicorn firms has been an increasing large numbers of Chinese people returning to the country after obtaining their higher education abroad, mainly in developed countries, to grasp improved career opportunities, with many choosing to become entrepreneurs (Xinhua News Net, 2013). Wang and Bao (2015) argue that "reunion with family or friends," and/or "life is more comfortable and steady in China" as their main reasons for returning and

creating business in China. Bao et al (2016) state that “more economic opportunities” and “having a comparative advantage in a professional field” have also been a critical factor for Chinese to return home and start companies. Wadhwa (2008) has shown the most important factors drawing both Chinese and Indians home are career opportunities, family ties and quality of life.

Chinese Unicorns are concentrated in the following sectors: 15 firms in e-Commerce/Marketplace, 6 firms in Ed Tech, 6 in Fintech all the other categories have either one or two firms in the list (see table 3 for all the Chinese Unicorns). Chinese government with its technology policies to finance high-tech products will keep increasing the unicorn firm ecosystem and it’s already paying off. Technology will continue to be the focus for investors due to their better returns.

## Conclusions

In 2018, 260 unicorn firms exist worldwide, 76 live in China meanwhile the United States of America has 121, a front where the trade war between the two global superpowers is also being fought. China has had remarkable progress on this matter. In 2009 only two Chinese unicorns existed, now China’s unicorn firms represent nearly 30% of the total unicorns, from 2017 to 2018 16 new unicorns have arisen. In terms of industry, Chinese Unicorns are mostly concentrated in the following sectors: 15 firms in e-commerce/marketplace, six firms in Ed Tech, six in Fintech all the other categories have either one or two firms in the list. From top down, these are the Chinese cities with more unicorn firms: Beijing, Shanghai, Hangzhou, Shenzhen, Guangzhou, Nanjing, Suzhou, and Tianjin. Hong Kong, Macao, and Taiwan still don’t have unicorn firms in their territories.

China is a giant that will be on top of the global unicorn firm’s list if it continues creating new unicorn firms every three days. China offers a unique and fertile land to keep on promoting and expanding the unicorns through the whole ecosystem, governmental support, and access to capital, education, innovation, and talented/skilled entrepreneurs. Global investors are and will be more open to invest in Chinese unicorn firms due to the high return on investments as well as the market segment ready to buy their products and services.

The Chinese government is providing favorable policies for entrepreneurship, such as supplying the infrastructure, financial liquidity, and education at secondary and tertiary levels. Chinese government also should sustain and if possible increase efforts on social media to promote more innovation and entrepreneurship through all China.



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