This is the best of times for entrepreneurs. Technologies such as the mobile Internet, big data and cloud computing have presented startups with ubiquitous business opportunities to surpass existing giants; supportive government policies have helped create numerous incubators and “innovation parks” across the country. On the capital market, the red-hot Chinext and New Third Board have pushed the financial prospect of startups to historical high.

Undoubtedly, China has entered the new age of “entrepreneurship by all”. During the first six months of 2014, over 9000 tech companies were created in Zhongguancun (China’s Silicon Valley), 1.5 times the 2013 figure. As Robin Lee, founder of Baidu, said that all kinds of venture capitalists are camping at coffee houses near to Baidu’s campus, trying to persuade Baidu employees to start their own businesses.

However, there are three hidden risks behind the startup frenzy. It is time that we cool our minds and think about the essence of entrepreneurship. At the end of the day, if this “entrepreneurship by all” movement will not bring about mass innovation, it is no more than a meaningless vanity fair.

Can entrepreneurship be truly popularized?

Renowned economist Joseph Alois Schumpeter defined entrepreneurship as having five aspects. First, the spirit of innovation; second, the desire to succeed; third, the willingness to take risks and the ability to find pleasure in hardships; forth, smartness and reason; fifth, being career-minded. So the success of entrepreneurship depends on meeting very high standards. But the current movement seems to greatly popularize an elite activity, which isn't supposed to be everybody's game. The prosperous startup scene might just be a mirage if it's not supported by true entrepreneurship.

According to the "2013 Analysis Report on the Lifetime of Domestic Enterprises" by the State Administration of Industry and Commerce, nearly half of enterprises failed in the first 5 years, among which 9.5% failed in the third year, the highest failure rate.

More recent data conveyed a similar message. itjuzi.com, an IT research firm, after collecting publicly released information, found that for startups, the percentage of securing angel investment, series A, series B, series C and series D rounds of funding is 49.8%, 50.6%, 13.4%, 4.8% and 1% respectively. This means that only a tiny portion of startups will survive the elimination. So it is possible that “entrepreneurship by all” today would result in “unemployment for all” tomorrow.

The reason why so many people are so determined to start their own businesses is partly because of a greenhouse built on top of government stimulus and hot money, where they face much lower costs and risks in the short term. Therefore many who didn’t plan to start a business or are not suitable to do so have all been tempted to jump on the bandwagon.

The homogenization of business models

Chinese entrepreneurs are very good at identifying the “next big thing”; but in some space, the opportunity is so lucrative that it could draw too much competition. This sometimes translates into a vicious cycle—the hotter the space is, the faster you will die in there.

For example, after the initial success of Groupon, more than 6,000 similar websites emerged in China, of which only 3.5% survived the competition. It was not until the end of 2013 that Meituan.com, a leading player in this field in China, started to yield minor profits.

Another example of oversupply is in the space of internet finance. According to the “2014 Report on P2P Lending” by research firm CECRC, there were over 1,761 P2P platforms by the end of last year, while a daily average of 76,500 people participated in P2P lending in 2014. This means that there were only 43.44 users on each platform everyday.

Large quantity of homogeneous products will inevitably result in enormous waste of social resources. And the lack of differentiation in product quality and user experience could mean that the competition is only going to end up in a vicious cycle of price wars.

The lack of professional managers

The ideal outcome of entrepreneurship and innovation is the establishment of great and lasting companies. However, the current startup trend may deepen the shortage of professional managers in China, which is essential to the long-term development of successful businesses.

It is not uncommon that many mid-level executives would leave their employers to set up their own businesses. Incomplete statistics shows that over 400 entrepreneurs are formerly employees of 11 major internet companies, including Alibaba, Tencent and Baidu. And the number is still increasing.

According a recent survey by Penguin Intelligence, a research group under Tencent, 51.9% of marketing specialists, 51.4% of managers，48% of technicians, 46.8% of senior executives and 41.1% of administrative staff have ideas to start their own businesses. This startup trend has spread widely across all professions and career levels.

It is common knowledge that there is a shortage of high-quality professional managers in Chinese companies. While the reasons behind the situation are complicated, a noteworthy one is that everyone wants to be a boss. However, there are more than enough bosses in China. What's not enough is the managerial talents who can devote themselves to their employers and bring into full play their capacities. Without them, few startups will eventually succeed as great companies in the future. .

To sum up, we are not trying to argue against the promotion of entrepreneurship to the public—in fact, we earnestly hope for a group of outstanding startups to emerge in China. However, startups don't always represent innovation; to spur real innovation, we need to be less eager in seeking quick benefits. Otherwise, we might end up with a lot of naked swimmers when the tide goes out.